



Leicester
City Council

WARDS AFFECTED
All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

**OSMB
Cabinet**

**12th February 2009
16th February 2009**

Local Schools Funding Formula: Proposals for Change in 2009-10

Report of the Interim Corporate Director of Children's Services

1. Purpose of Report

- 1.1 The purpose of this report is to seek approval to make changes to the current schools funding formula in 2009-10 to target deprivation funding allocations within the Dedicated Schools Grant (DSG) more effectively. In doing so, suitable safeguards would be put in place to support potentially vulnerable schools during a transition period. In addition there is a proposal to provide interim safeguards for schools that form part of Phase 1 of the Building Schools for the Future programme based upon eligibility criteria to be developed (including affordability), pending a detailed examination of the premises element of the funding methodology during 2009-10.

2. Summary

- 2.1 These proposals are informed by the outcome of the consultation that was carried out with schools in the Autumn Term regarding funding for the period 2009 to 2011. The Department for Children, Schools and Families require the Local Authority to consider deprivation funding, demonstrate how it is distributed and make this transparent in the funding formula for each of the years in the current funding round. This report details proposals to re-focus the distribution of funds provided to primary and secondary schools through the Dedicated Schools Grant to support pupils from deprived backgrounds. This inevitably results in a change in the distribution of funds that are provided to schools as funds are re-directed to meet their intended purpose.
- 2.2 Each school has been individually contacted and made aware as to how this change would impact upon them, if agreed. A copy of this report will also be made available on the Schools' Extranet. The implementation of these proposals includes a range of safe-guards to reduce the impact on schools that lose funding, and also to support any such schools that are under particular pressure to raise academic standards. These safe-guards include a phased implementation timetable, protection provided by the minimum funding guarantee, the availability of funds to support schools in exceptional financial difficulties and the provision of financial guidance and support. In addition Standards Funds may be applied to support schools and schools are

being encouraged to utilise surplus balances to support any change in their budget share. Officers will review the position again following the allocation in April 2009 and consider other measures to support schools which faced funding reductions as part of the formula change.

- 2.3 Special schools are not included in the proposals as their funding is substantially different to mainstream schools; in particular it is already based largely on the assessed individual needs of the pupils.
- 2.4 The DSG is a ring-fenced grant provided to councils by the Government, to fund schools and certain other costs related to schools and education.

3. Recommendations

3.1 Schools Forum (see 4.17) and OSMB are asked to make any observations to Cabinet.

3.2 Cabinet is recommended to:

- a. Note that DCSF has advised that £26.2m of the 2008/09 DSG funding (13.9% of the total) is earmarked to target deprivation;
- b. Note that 65% (equivalent to £17.1m in 2008/09) of this is currently distributed through a range of measures considered by the DCSF as being appropriate to meet the needs of deprivation;
- c. Approve the proposed revised formula for distributing the remaining 35% (equivalent to £9.1m in 2008/09) of “deprivation support funding” to primary and secondary schools, using the following apportionment method and safeguards detailed at 2.2 and summarised in 4.14:
 - 60% through an Index of Multiple Deprivation element;
 - 20% through Free School Meals entitlement, as in the current distribution method;
 - 10% through a Tax Credit element; and
 - 10% through a formula based upon prior educational attainment.
- d. Note the intention to set aside contingency funding for BSF Phase 1 schools to access in 2009-10; and
- e. Note the on-going review of the local schools funding formula and that further reports will be presented at appropriate stages.

4. Report

4.1 *One Leicester* is the title of the ambitious strategy that forms the foundation for the changes Leicester City Council and its partners want to see in Leicester over the next 25 years. A key aspect of this strategy is a priority to invest in our children and Leicester City Council and its partners are dedicated to making a real difference for

pupils, parents, students, teachers, support staff and the community. Putting education at the heart of our city will help improve opportunities for everyone and achieve our ambition to be the best city in the region and the UK. To support this, a fundamental review has been commissioned to ensure that the funds provided for learning in schools through the Dedicated Schools Grant (which amounts to almost £189m in 2008-09) are appropriately targeted to meet need, to support learning and to assist in raising attainment levels.

- 4.2 Funding for schools is provided by the Department for Children, Schools and Families (DCSF) through the Dedicated Schools Grant. Included within the grant is an element which is earmarked to target deprivation. In 2008-09 this amounts to £26.2 million, or 13.9% of the total Dedicated Schools Grant. Of this, approximately £17.1m is distributed through a range of measures that are considered by the DCSF as being appropriate to meet the needs of deprivation (Social Deprivation, Special Education Needs, Personalised Learning, Free School Meal Provision and Turbulence). The remainder of £9.1m is partially allocated through the main funding allocations to schools (the Average Weighted Pupil Unit – AWPU), and partly through an allocation based upon the number of pupils that claim Free School Meals. This balance is termed “Deprivation Support Funding” and can be attributed to secondary schools (£5.6 million) and primary schools (£3.5 million).
- 4.3 Free school meals as a proxy does not capture all cases of deprivation; there can be a stigma attached to claiming free meals, there is a lower level of registration for free school meals in secondary schools, some communities have a culture of eating at home and this measure does not capture pupils from deprived backgrounds whereby they either elect to eat at home or have a dislike of school meals. Considering the overall levels of deprivation in Leicester, and the incidence of admissions from outside a school’s catchment area, it is likely that all schools have some element of deprivation, which any classroom teacher would encounter on a daily basis, and it is important that schools receive funds on an equitable basis to help address this.
- 4.4 The Department for Children, Schools and Families are undertaking a national review of school funding and how the funding provided to local authorities to assist deprived pupils actually reaches those pupils. As part of this review Local Authorities are required to consider this funding, demonstrate how it is distributed and make this transparent in the funding formula for each of the years in the current funding round. The current methodology has been reviewed with Children’s Services Advisors at the DCSF and the Council has demonstrated that a substantial proportion of the funding provided for deprivation is distributed using measures that are considered appropriate by the DCSF. There is an expectation that the majority of authorities will show a movement of funding so that more of the funding provided is directly targeted to support deprived pupils. There is also a focus on this as part of the development of new national funding arrangements for local authorities which will be introduced from 2011 onwards. This report details proposals that will ensure that by 2010-11, 100% of funding provided for deprived pupils will be distributed using a methodology acceptable to the DCSF.
- 4.5 A Funding Review Group was established, comprising of governors, headteachers, a school business manager, a union representative and CYPS officers, to undertake a fundamental review of the funding formula for schools.

- 4.6 The Funding Review Group has undertaken an extensive research process to examine measures that could be used to distribute funds in the Dedicated Schools Grant that are earmarked to support deprivation, taking account of government policy, alternative schemes and sources of data that may be used to allocate resources. A good deal of academic and other work has been focused on the measurement of deprivation. This work often uses measures which are designed solely to identify pupils or areas with high degrees of deprivation. Indicators based on entitlement to Free School Meals (FSM) or other low income benefits (Tax Credits) are useful in identifying the most deprived group, but cannot discriminate degrees of deprivation within or outside that group. There may, for example, be schools serving areas with predominantly low income families just above the benefit level where the level of FSM entitlement understates the needs of the pupils. Similarly measures (like the Index of Multiple Deprivation - IMD) which are aimed primarily at identifying the most deprived areas may be less good at measuring differences above this level.
- 4.7 After detailed consideration a proposal was developed by the Funding Review Group based around a basket of measures to achieve a balanced approach, which has a core based around the IMD, with additional factors designed to address the most deprived groups. This proposal comprises of a distribution based around the IMD (60%), FSM (20%), Tax Credits (10%) and Prior attainment (10%). Each of these factors and the basis for distribution is explained in more detail in **Appendix 1**. CYPs issued a consultation document in September 2008 which outlined proposals based around this to change the way deprivation funding was allocated to schools in 2009/10 and highlighted a range of broader issues that it wished to address for changes to the funding formula from April 2010 onwards. Although the level of response was relatively low, there was a broad level of support for this proposal.
- 4.8 The change in funding for each school that would result from the proposed new arrangements reflects the difference between an allocation based upon the current methodology (based around the AWPU and Free School Meals) and the new methodology described in the preceding paragraph. The overall impact would be cost neutral once fully implemented, but there would be a change in the distribution amongst schools. It is proposed to implement the new formula from September 2009, meaning a part-year effect for schools in the 2009/10 financial year.
- 4.9 It is also proposed to provide transitional support through the Minimum Funding Guarantee (MFG). The intention of the MFG is to provide schools with stability of funding: it does this by guaranteeing all schools a minimum percentage increase in their funding per pupil from one year to the next in their school's delegated budget. The guarantee is set nationally and is 2.1% in each of 2009/10 and 2010/11. This protection results in an estimated maximum transitional cost of £69,107 in 2009-10 and £155,000 in 2010-11. This would be funded from headroom within the Dedicated Schools Grant. The Minimum Funding Guarantee impacts upon the change for 23 primary schools and 2 secondary schools. The continuation of protection through the Minimum Funding Guarantee is subject to government policy.

- 4.10 Schools are also able to apply for additional financial support in exceptional circumstances and will be expected to use any surplus balances to help support any change in their budget share.
- 4.11 The range of schools that gain or lose budget share in 2009/10 after application of the MFG is detailed in Table 1. In primary schools there is a balance between schools that gain funding and those that lose funding. The change is more marked in secondary schools.

Table 1 *Year 1 Impact (Sept 09- Mar 10) :
Number of schools*

	<i>Budget Gains</i>	<i>No Impact</i>	<i>Budget Reductions</i>
Primary schools	34	17	30
Secondary schools	5	2	10

The range of change in the budget allocation proposed in 2009-10 is detailed in Table 2. The initial impact in primary schools ranges from a gain in the annual budget of £24,411 in 2009-10 (2.05% of the school's budget) to a loss of funding of £14,565 (1.56%). This compares to secondary schools where the initial impact in 2009-10 ranges from a gain in the annual budget of £39,184 (0.94%) to a loss of funding of £20,944 (0.56%).

Table 2 *Year 1 Impact (Sept 09 – Mar 10) :
Range of Change in Budget allocation*

	<i>Highest Gain £000</i>	<i>Highest Reduction £000</i>
Primary schools	24	14
Secondary schools	39	21

Some of the changes would become progressively greater in future years as the transitional impact of the MFG reduces. The range of change in a full year is detailed in Table 3, which is indicative of the potential degree of change in 2010-11. The full year impact in 2010-11 in primary schools ranges from a gain in the annual budget of £41,848 (3.52% of the school's budget) to a loss of funding of £24,968 (2.67%). This compares to secondary schools where the full year in 2010-11 impact ranges from a gain in the annual budget of £67,173 (1.6%) to a loss of funding of £26,288 (0.71%).

Table 3 *Full Year Impact (2010 - 2011) :
Range of Change in Budget allocation*

	<i>Highest Gain £000</i>	<i>Highest Reduction £000</i>
Primary schools	42	25
Secondary schools	67	26

4.12 The impact upon individual schools is detailed in **Appendix 2a** (primary schools) and **Appendix 2b** (secondary schools). These proposals will increase the budget share in many schools where there is deprivation and the need for additional funding. Of the sixteen primary schools that fall below the floor targets in relation to the 2007 SAT results, nine of these primary schools attract additional funds through the new methodology as detailed in Table 4 below:-

Table 4 *Primary schools that fall below floor targets (2007 results) :
Analysis of number of schools that gain*

£	<i>Impact Year one</i>	<i>Impact Year two</i>
0-5000	4	4
5001-10000	3	0
10001-15000	2	1
15001-20000	0	4

- 4.13 The remaining seven primary schools that fall below the floor targets in 2007 lose funding, although only two schools lose funding exceeding £10,000, and only one of these has limited reserves.
- 4.14 Assuming that the proposals are agreed, schools that are affected particularly adversely will be individually contacted so that support and guidance can be provided, as required.
- 4.15 Although a school may be struggling to reach the required academic standards, the reason for this may not always be connected to the level of finances provided but instead may relate to the way funds are being deployed or non-financial management issues. However, there is a need to be sensitive to the needs of a school in this situation and the approach being proposed reflects this by providing transitional support through the Minimum Funding Guarantee (4.9); implementing the change on a phased basis (4.8); providing support to schools in exceptional financial difficulties (4.10), and providing support and guidance to individual schools (4.14). In addition Standards Funds may be applied to support schools and schools are being encouraged to utilise surplus balances to support any change in their budget share.

- 4.16 As part of the funding formula, schools are currently provided with funding to support a range of premises related factors. As secondary schools become part of the Building Schools for the Future (BSF) programme they will assume financial commitments for the costs of running their school in a different way to how premises and related costs are currently incurred. It is intended to create a BSF contingency in the 2009-10 schools budget which could be applied by exception based upon eligibility criteria (including affordability) as the phase 1 schools begin to occupy the BSF buildings. More permanent arrangements through the funding formula are envisaged for 2010-11 onwards and will be developed and consulted upon over the coming months.
- 4.17 An earlier draft of this report was considered by Schools Forum on 4 December 2008, which excluded the information provided in Appendix 2a and 2b detailing the impact upon individual schools. Support was given for a change in the way funds for deprivation were distributed and for the new method proposed. Schools Forum noted that the impact of the proposals had been considered in detail by the Funding Review Group. Reservations were made, however, due to an inability to ascertain the impact upon individual schools, although it was recognised that there were safeguards in place to support schools where the new distribution method was less favourable than the current distribution method based upon Free School Meals.

5. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

5.1. Financial Implications

This report is concerned throughout with financial implications, focusing on the distribution to schools of the deprivation element of the Dedicated Schools Grant. - Colin Sharpe, Head of Finance and Efficiency, CYPS, ext. 29 7750.

5.2 Legal Implications

This report has no direct legal implications. The report notes that consultation has been undertaken with schools and other partners, and was placed before Schools Forum in December. This complies with the obligations imposed by the School Finance Regulation 2008. - Kamal Adatia, Barrister, Resources, ext. 29 7044.

5.3 Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting information
Equal Opportunities	Yes	Entire report
Policy	Yes	Para 3
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	No	

6. Risk Assessment Matrix

Risk	Likelihood L/M/H	Severity Impact L/M/H	Control Actions (if necessary/appropriate)
Reductions in a school's budget share creates financial difficulties	L	M	Careful pre-planning and liaison with schools. Provision of support through MFG, a phased approach, availability of school balances and support for schools in financial difficulty.
Changes to the budget plan impacts upon achievement in some schools	L	M	Schools are given advance notice to enable them to prepare and to make adjustments. Safety financial nets and school balances mitigates against this risk.

7. Background Papers – Local Government Act 1972

Not applicable

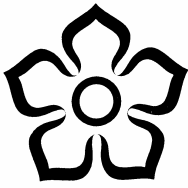
8. Consultations

007/08 : Funding Review Dedicated Schools Grant – September 2008

9. Report Author

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Key Decision	No
Reason	N/A
Appeared in Forward Plan	N/A
Executive or Council Decision	Executive (Cabinet)



Leicester
City Council

**Children and Young People's Services
Dedicated Schools Grant: Proposals for Change 2009-10**

Appendix 1

Deprivation Support Funding: Background to Proposed Measures

1. Index of Multiple Deprivation 2007 (IMD)

- 1.1 The English Indices of Deprivation 2007 (ID 2007) are the Government's official measure of multiple deprivation at small area level. The 2007 Indices update information provided in the IMD 2004. The IMD 2007 provides a relative ranking of areas across England according to their level of deprivation. Accordingly it is proposed that 60% of the Deprivation Support Funding is targeted at pupils using this measure.
- 1.2 The Index of Multiple Deprivation 2007 (IMD 2007) is based on the small area geography known as Lower Super Output Areas (LSOAs). LSOAs have between 1000 and 3000 people living in them with an average population of 1500 people. In most cases, these are smaller than wards, thus allowing the identification of small pockets of deprivation.
- 1.3 The Index of Multiple Deprivation 2007 combines a number of indicators, chosen to cover a range of economic, social and housing issues, into a single deprivation score for each small area in England. This allows each area to be ranked relative to one another according to their level of deprivation.
- 1.4 The Index has been constructed by the Social Disadvantage Research Centre at the University of Oxford. The IMD 2007 was constructed by combining the seven transformed domain scores, using the following weights:
- Income (22.5%);
 - Employment (22.5%);
 - Health Deprivation and Disability (13.5%);
 - Education, Skills and Training (13.5%);
 - Barriers to Housing and Services (9.3%);
 - Crime (9.3%);
 - Living Environment (9.3%).
- 1.5 The index for each pupil's home postcode is used to give a weighted score, and then an average score per pupil is determined for each school. This uses pupil data at January 2008. Further information may be found at:
- <http://www.communities.gov.uk/communities/neighbourhoodrenewal/deprivation/deprivation07/>.
- 1.6 To take account of the relative variations in the average score per pupil for each school a banding system has been developed, which allocates a weighting to each pupil. The Index of Multiple Deprivation weightings for Leicester City Schools range between 15.57

and 70.08, with a median score of 34.5. The proposed banding system incorporates a weighting ranging from 1.00 to 3.25 as detailed in Table 1.

Table 1 - IMD Banding System

IMD School Score	Weighting
0.00 to 19.99	1.00
20.00 to 24.99	1.25
25.00 to 29.99	1.50
30.00 to 34.99	1.75
35.00 to 39.99	2.00
40.00 to 44.99	2.25
45.00 to 49.99	2.50
50.00 to 54.99	2.75
55.00 to 59.99	3.00
60.00 +	3.25

2. **Free School Meals**

- 2.1 Free School Meals (FSM) is the most common factor currently used in funding formulae as a measure of social deprivation in local authorities. This factor is easy to collect and is a simple basis upon which to allocate funds. As it is present in the existing methodology it is also a leveller in ensuring that there is some stability in the funding. Accordingly it is proposed that 20% of the Deprivation Support Funding is targeted at pupils using this measure.
- 2.2 FSM can be useful in identifying the most deprived group, but cannot discriminate degrees of deprivation within or outside that group. There may, for example, be schools serving areas with predominantly low-income families, just above the benefit level where the level of FSM entitlement understates the needs of the pupils. In addition, many families whose children are entitled to Free School Meals do not claim them, thus depriving these children of their entitlement, and depriving their school additional funding based on FSM eligibility.
- 2.3 The data used is based on numbers on roll in the January prior to the commencement of the financial year.

3. **Tax Credit Data**

- 3.1 This is a new indicator that has been introduced to distribute funding for deprivation by the DCSF. The DCSF believes that the new indicator can provide both a more up to date alternative to the measures of income deprivation used in the Schools Formula Spending Shares (SFSS), and better reflect deprivation in an authority's schools rather than its resident population. The DCSF intend to use Tax Credit data, which can be used to highlight deprivation at a number of levels and can represent the characteristics of the pupils who attend schools in each local authority rather than are resident there, in new distributions of funding that require a deprivation indicator. However, the DCSF are currently unsure as to whether they will continue to maintain and develop this measure. Accordingly it is proposed that 10% of the Deprivation Support Funding is targeted at pupils using this measure.

3.2 The DCSF describe this new indicator as having considerable benefits as it is:-

- Plausible and comprehensible;
- Beyond the influence of local authorities;
- Publicly available to all;
- Not highly correlated with other variables used in a composite indicator;
- Child and school based, so as to reflect movements across local authority boundaries;
- Adaptable to changes in local government boundaries or structure.

Further information may be found at:

<http://www.teachernet.gov.uk/docbank/index.cfm?id=12225>

3.3 The proposed banding system incorporates a weighting ranging from 1.00 to 2.00 as detailed in Table 2.

Table 2 – Tax Credit Banding System

Tax Credit School Score	Weighting
up to 40.00	1.00
40.00 to 49.99	1.10
50.00 to 59.99	1.2
60.00 to 69.99	1.5
70.00 to 79.99	1.8
80.00 +	2.0

4. **Prior attainment Data**

4.1 Research undertaken by the DCSF shows that there is a clear linkage between prior educational attainment and deprivation, although this is not 100% associated with deprivation. Accordingly it is proposed that 10% of the Deprivation Support Funding is targeted at pupils using this measure.

4.2 In acknowledgement of the importance of addressing shortfalls in attainment, and the need to assist those in most need, the Funding Review Group developed a methodology based upon the lowest performing pupils based upon an assessment of their academic results at the point they began at each level of their education. It is proposed that in each case the funds will be distributed based upon the number of the cohort that fall in the lowest 20% performing in the Local Authority in the past three academic years.

4.3 The following data sets are proposed as the foundation for this:-

- Primary Schools - Foundation entry into Key Stage one
- Junior Schools - Key Stage one results
- Secondary Schools - Key Stage two entry statistics