

## **Review of DSG Distribution Formula: Terms of Reference**

### **Introduction**

1. Jim Knight's statement<sup>1</sup> to Parliament of 25 June 2007 set out the main decisions on the shape of the school funding system for the years 2008-11, after the consultation on school, early years and 14-16 funding that took place in the spring. It also announced a review of the formula used to distribute DSG to local authorities. This note sets out the terms of reference for the review.

### **Aim and Objectives of the Review**

2. The aim of the review is to consider the development of a single transparent formula for the distribution of DSG, which distributes resources in line with relative need, recognising the different costs of educating particular groups of pupils and providing education in different areas.

3. The guiding principles by which the review will be conducted are that: the funding system should support schools and local authorities to raise the educational achievement of all children and young people and to narrow the gap in educational achievement between all children, including those from low income and disadvantaged backgrounds. The resultant distribution formula for DSG should be based on the principles of transparency, simplicity and stability.

4. The review will also need to consider the interaction of DSG with other funding streams for schools and children's services from central Government to local authorities, and the changing role of schools and the importance of their working with other local services in aligning local activities and resources behind jointly agreed priorities.

5. The review team will need to have regard to the following developments in its work:

- a. the establishment of the Department for Children, Schools and Families as the lead government department for all children's issues and the implementation of the Children's Plan;
- b. the long term aim that per pupil funding for schools should match the level of support available to children at independent day schools;
- c. the future funding arrangements for schools and services for children and young adults up to the age of 19;
- d. as we move towards the target of 400 academies, the position in local authorities where all or the great majority of secondary schools are not maintained by the local authority;
- e. the local landscape – Children's Trust arrangements, and Local Area Agreements;
- f. the review of how School Forums fit into the wider context of arrangements for Children's Trusts and the Every Child Matters agenda;

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<sup>1</sup> [www.teachernet.gov.uk/schoolfunding2008to11/](http://www.teachernet.gov.uk/schoolfunding2008to11/)

- g. whether and how we should further increase the flexibility of the use of the DSG and the centrally retained part of their Schools Budget with funding from other local authority budgets to support the delivery of ECM outcomes, and the role of the schools forum in agreeing to such arrangements.
  - h. the interaction between revenue and capital funding.
6. The detailed issues the review team will consider are:
- a. How the basic unit of funding per pupil in the system should be calculated: either top down as now; or through an activity or needs led analysis, paralleling and drawing on the work many authorities have done in this area.
  - b. Additional educational needs (AEN): what sorts of pupils are affected; what indicators are best used to distribute money for these pupils; whether in the context of the personalisation agenda it is possible to attach money more directly to deprived pupils, for example, as they move round the system.
  - c. The scope for introducing incentives within the funding system, for example to improve pupil progression.
  - d. High cost pupils: reviewing the previous work on distribution of funding for these pupils (mainly low incidence SEN).
  - e. Area Costs: whether DSG should continue to use the ACA factors from the wider LG finance system, or whether we should derive a measure specific to schools, and if so how that should be calculated.
  - f. Sparsity: we will need to consider whether there is evidence that there should be a change before we have revised data from the 2011 Census.
  - g. Pupil count for DSG, where the choice is between January and autumn. The latter would need all pupils to be counted during the autumn, and since there is a long lead time for changes to the various censuses, this issue is one of the first the review will need to consider.
  - h. Transition: any new formula will lead to distributional changes amongst authorities; partly because authorities' current DSG allocations reflect in part their 2005-06 spend, but also because of new data and shifting patterns of deprivation and area costs. There will be a need for robust transitional measures when the new formula is introduced.
  - i. Academies: how these should be funded as we move towards the target of 400 academies, with particular reference to the position of those local authorities where the great majority of secondary schools will be academies, where there will also be issues for the local formula.
  - j. Early years: whether experience from the programme of change for 2008-11 results in implications for DSG distribution from 2011-12.
  - k. 14-19 funding: the impact of the decision to route all 16-19 funding through local authorities, and whether there is scope for working towards

a common 14-19 funding system.

- l. Specific grants: what scope there is for further streamlining, and in particular whether SDG and SSG could be mainstreamed into DSG.
- m. The impact on revenue funding of capital projects, through prudential borrowing funded from DSG for spend to save projects and the costs of PFI and rising costs of maintaining modernised schools.
- n. Surplus places, falling rolls and fixed costs;
- o. How the new formula will impact on local authorities' funding of schools, including the interaction of the national formula with local funding formulas, the distribution of deprivation funding to schools and pupils and how the minimum funding guarantee should operate in future.

### **Working methods**

7. The review will be conducted in public, with papers and minutes of the proceedings were published on the DCSF website. A formula review sub group with representation from a range of stakeholders will be convened, which will report to Ministers. The Department will work with the School Funding Implementation Group (SFIG) on the implementation of proposals from the review.

8. Stakeholders beyond the formula review sub group will be encouraged to submit papers to the group, as and when particular topics are under consideration, and to attend meetings of the group to present their papers and take part in the discussion of them.

### **Outline Timetable**

9. We propose the following timetable for the review:

July 2007	Launch review
End October 2007	Deadline for comments on terms of reference
Nov-Dec 2007	DCSF analyse responses
Jan 2008	Start review <ul style="list-style-type: none"><li>o Launch website</li><li>o Publish detailed timeline</li></ul>
Feb 2008	Formula Review Group begins work
Jan 08-Sept 09	Development phase
Oct-Dec 09	Develop consultation proposals
Jan-Mar 10	Consultation
Apr-Jun 2010	Build up to decisions
July 2010	Ministers announce broad decisions

Oct 2010

School funding settlement for 2011-12 onwards.

Given the timescales for the transfer of 16-19 funding to local authorities, we propose to prioritise work on aligning 14-16 funding with 16-19 funding as the first stage of the review and to consult on this in autumn 2008.

Full details of the review may be found at [www.teachernet.gov.uk/dsgformulareview/](http://www.teachernet.gov.uk/dsgformulareview/).  
To contact the review team, please email us at [schoolfunding.dsgformulareview@dcf.gsi.gov.uk](mailto:schoolfunding.dsgformulareview@dcf.gsi.gov.uk).

**Department for Children, Schools and Families**  
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