



House of Commons
Education and Skills Committee

**Public Expenditure on
Education and Skills:
Government Response
to the Committee's
Second Report of
Session 2005–06**

**Fourth Special Report of Session
2005–06**

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The Education and Skills Committee

The Education and Skills Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Education and Skills and its associated public bodies.

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The current staff of the Committee are David Lloyd (Clerk), Rhiannon Hollis, (Second Clerk), Libby Aston (Committee Specialist), Nerys Roberts (Committee Specialist), Lisa Wrobel (Committee Assistant), James Alexander (Committee Assistant), Susan Ramsay (Committee Secretary) and John Kittle (Senior Officer Clerk).

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Fourth Special Report

1. The Committee published its Second Report of Session 2005–06 (*Public Expenditure on Education and Skills*)¹ on 9 March 2006. The Government's response was received on 15 May 2006, and is published as Appendix 1 to this Report.

Appendix 1

Public Expenditure on Education and Skills: Government Response to the Committee's Second Report of Session 2005–06

The Select Committee's conclusions and recommendations are in bold text. The Government's response is in plain text.

Some of the conclusions and recommendations have been grouped for the purposes of the response

Education spending trends

1. The Government sets great store by stability of funding; it needs to ensure that budget holders across the education sector are aware that funding will not rise at a significant rate over the next spending review period and beyond. (Paragraph 8)

3. The Government has already accepted that spending increases will be more modest in the years ahead. The DfES needs to be explicit in stating that growth in expenditure on education and skills will slow down significantly in the coming period. For schools that may mean growth of 2–3% a year in cash terms compared to 5–7% growth in recent years. (Paragraph 15)

We have seen unprecedented levels of growth in funding in the education sector since 1997. The Government is committed to increasing the share of national income devoted to education over the lifetime of this parliament and in the recent Budget the Chancellor announced the Government's longer term aim for levels of revenue and capital funding for schools.

The Government is currently undertaking a Comprehensive Spending Review (CSR) to set priorities and spending plans for 2008–11 which is due to report in summer 2007. As part of the preparatory phase of the CSR, the Department is undertaking a value for money exercise to look at how we deliver better outcomes for the resource we put in, make efficiency savings and improve value for money across all sectors.

The overall spending limit for the CSR will be set by the Chancellor. Ahead of this, we cannot say what the rates of growth in funding will be for any particular area. We know that whatever the outcome of the CSR in terms of levels of growth, schools will need to

¹ Second Report from the Education and Skills Committee, Session 2005–06, *Public Expenditure on Education and Skills*, HC 479.

continue to provide value for money in securing vital outcomes for pupils, parents and society.

The Government has taken great steps to ensure stability of funding, including unprecedented investment in education, the introduction of multi-year budgets for schools and an emphasis on the importance of leadership and management. These and other measures continue to build capacity within the sector to manage and deliver within the resources available to it and to deploy these resources in the most cost effective way.

Education expenditure, by sector, in real terms

2. The lower level of growth in investment in higher education compared to schools and further education is a concern if the intention is to maintain world class higher education in this country, including the recruitment and retention of high quality staff. (Paragraph 10)

As the report states, the growth in funding per student in higher education (HE) has been lower than that in schools and further education. However, total expenditure on HE has risen significantly over this period. The 5% real-terms funding growth per student from 2000–01 to 2005–06 has been achieved while increasing the number of publicly funded full-time equivalent students by around 140,000 or just over 13%.

Reform of HE funding in the academic year 2006–07 will bring much needed additional revenue to higher education. Government expenditure on loans for variable fees and other student support will enable institutions to charge up to £3,000 per year without deterring entrants to higher education on financial grounds. Under steady state conditions, the additional income from variable fees is expected to be around £1.35 billion. This compares to planned HEFCE teaching funds of £4.57 billion in 2006–07 and income from the existing standard tuition fees of around £0.9 billion (both public and private).

4. As the school population falls over the next few years while the post-16 population rises the case for the 16–19 phase becoming the main priority will become increasingly hard to ignore. (Paragraph 16)

The Government's overall spending plans for all education phases for 2008–09 to 2010–11 will be determined in the context of the CSR. The impact of demographic changes will be taken into account in the CSR.

Schools' funding: new proposals

5. We would welcome far greater clarity from the Government about the precise objectives of the schools' funding arrangements for 2006–07 and, more particularly, when a new system comes into operation from 2008–09. (Paragraph 22)

Jacqui Smith's statement to Parliament of 21 July 2005 (HC Deb, col 128WS) set out the purpose of the new school funding arrangements: to guarantee delivery of the Government's commitment to increase spending on schools in every local authority area, to provide schools with the tools to take a strategic approach to their financial planning, to reduce bureaucracy, to ensure stability and to enable schools to focus on raising standards for all pupils.

The Committee expressed concern about how the new school funding arrangements would support the expansion of popular schools, the creation of new schools, and the closure of unsuccessful schools. The previous system of school funding relied on pupil numbers that were, in the case of primary schools, 18 months out-of-date. The Dedicated Schools Grant (DSG) is an improvement on this. It uses pupil numbers from the January preceding the financial year for which funding is allocated: so the 2006–07 allocations of DSG use January 2006 pupil numbers; and the 2007–08 allocations of DSG use January 2007 pupil numbers. Changes in the pupil numbers within a local authority area (whether the result of opening, closing or new schools) will therefore be more rapidly reflected in local authority level allocations of DSG.

As the Secretary of State made clear in her evidence to the Committee, the great majority of school funding follows pupils. So when a school expands it will receive additional funding in the financial year after the pupils join the school roll, whether or not other schools in the same local authority are losing pupil numbers and receiving cash protection to ameliorate the impact on their overall budget. Where a school is expanding significantly in a planned way, its maintaining authority is required to make an addition to its budget for the period before the additional pupil numbers are counted for funding purposes; and the authority also has discretion to make funding additions where unplanned pupil increases cause financial pressures on a school. Authorities are also required to make appropriate funding available to new schools.

So far as the system of school funding from 2008–09 is concerned, the terms of reference for the review of School funding arrangements were issued on 6 April and can be found from the links on <http://www.teachernet.gov.uk/management/schoolfunding/>. The key principles that we think should underpin the new system are:

- recurrent funding for schools should be distributed in a way which is equitable and makes the best use of available resources to raise standards in every area;
- there should be appropriate recognition of the costs of educating particular groups of pupils (eg those from more deprived backgrounds) and of costs which affect particular groups of schools (eg higher staff costs or costs associated with sparsity);
- any distributional change at either local authority or school level should be accompanied by appropriate transitional arrangements, to ensure stability;
- local authorities in discussion with their Schools Forums should continue to be responsible for decisions on the distribution of recurrent funding at local level, subject to a nationally regulated framework as now;
- local authorities and schools should be notified of all funding streams for three years ahead (subject to the Spending Review cycle), to enable them to plan ahead with confidence and make best use of their resources. Recurrent funding should be linked to actual pupil numbers: beyond that, changes to schools' budgets within a three-year cycle due to other data changes should be kept to a minimum;
- as a general principle, all new recurrent funding should go into schools' general budgets to be used for the purposes of the school, with ring-fencing of specific grants only in exceptional circumstances; and

- the school funding arrangements should be as transparent and easy for schools to understand as possible, with the number of separate funding streams kept to the minimum necessary.

6. We expect to be consulted at an early stage on the Government's plans for the new schools funding system. (Paragraph 24)

We have offered national partners the opportunity to comment by 31 May on the issues set out in the terms of reference for the review of school funding; we would welcome the Committee's views on these issues too. We also intend to consult formally on a package of detailed proposals, probably early in 2007. We would welcome the Committee's views at this time too.

7. We expect the Government to take both transience and the provision of extra funding for individual pupils from disadvantaged backgrounds into account in developing the new formula. (Paragraph 25)

The funding mechanism for DSG will distribute funding for personalisation to all local authorities, not just to those with high levels of deprivation, as suggested in the Committee's report. Moreover, the formula used by the Government to distribute funds under the previous system (Schools Formula Spending Shares) has always taken account of all deprived pupils, not just those in deprived areas. But we agree with the Committee that this funding needs actually to reach deprived schools and pupils: local authorities need to make further progress in targeting the funding for pupils from disadvantaged backgrounds that they receive through Dedicated Schools Grant; and local authorities need also to take account of the link between transience and outcomes in relation to pupils from disadvantaged backgrounds.

That is why, as part of the follow-up action to the joint report from the Department and HM Treasury *Child Poverty: Fair Funding for Schools* we are asking local authorities to take a number of steps:

- to review their current arrangements for funding schools for the costs of deprivation;
- to send the Department details of their policy and practice in this area; and
- to send the Department details of how they have allocated the funding for personalisation within the Dedicated Schools Grant allocations for 2006–07 and 2007–08.

In addition, the Department will be:

- issuing guidance on the available indicators for deprivation, and the pros and cons of using them;
- monitoring progress towards local funding formulae for 2008–11 that target deprivation adequately, through its Children's Services Improvement Advisers;
- considering what further action is required to achieve local consensus on the way forward where such progress is not being made; and

- giving consideration, as part of the review of the operation of the new school funding arrangements, to ways in which the allocation process might be used to require authorities to target deprivation.

The Committee will also have noted that in the Budget on 22 March, the Chancellor announced an addition to the School Standards Grant (SSG) of £220 million in 2006–07 and £365 million in 2007–08 for personalised learning, with a strong emphasis on higher levels of additional funding for the most deprived schools.

Efficiency savings

8. The two main ways in which the DfES is aiming to secure these efficiency savings, which will come largely from schools, is through more productive use of teachers' time and through more co-ordinated procurement of goods and services. Despite reassurances from Sir David Normington and the Secretary of State, we are sceptical about whether it will in fact be possible for £4.3 billion to be found in this way. (Paragraph 29)

The efficiency target of £4.3 billion for education is a significant challenge but the Department is confident of meeting it. Many of the component programmes are already well under way and there is a robust programme structure to monitor the gains and make sure that remedial action can be taken where necessary.

9. The Committee believes it is imperative that the Department can provide concrete examples of where schools (and other institutions) have achieved efficiencies that have produced new resources to be used for productive purposes. We will expect to see examples of such outcomes in the next two years. (Paragraph 30)

We already have case studies and examples of how schools and other frontline institutions are benefiting from the initiatives that are delivering our efficiency gains and many of these are already in the public domain on the websites of the Training and Development Agency for Schools —www.tda.gov.uk/remodelling.aspx and on the British Educational Communications and Technology Agency website—www.becta.org.uk/corporate/display.cfm?section=21&id=2442.

One example of work that is in hand concerns school transport which has been identified as a key issue for schools and local authorities. The annual cost of home to school transport is estimated to be £850 million in 2005–06 and is increasing at an average annual rate of seven to ten % which many authorities view as not sustainable.

The Department's Centre for Procurement Performance (CPP) initial transport project is working with Departmental policy colleagues and the North West Regional Centre of Excellence, taking this work forward under their remit of developing a National Transport Framework for local government, and more specifically the 'The Journey to School' element.

Projects being developed as part of the 2006–07 activities will include the development of a collaborative procurement framework for schools own transport. This will allow schools a better element of choice and value when they are making decisions about local transport

arrangements. To compliment this CPP is also looking at regional or sub regional pilots to develop local collaborative transport hubs.

Underlying the work of CPP is the principle that organisations remain in control of their budgets at all times, and any money saved through better procurement can be reinvested. CPP will not mandate to schools. Their remit is to advise and enable the sector to make more intelligent procurement decisions and provide the sector with the necessary skills and information to do so.

The Department will continue to look to identify concrete examples to illustrate what has been achieved at the frontline. We agree that this will be key in demonstrating the real benefits that have been brought about through the implementation of the initiatives.

10. Given that the increase in expenditure on education is declining, we are concerned that too much reliance is being placed on future savings which may be difficult to achieve. The extent to which these savings are transparent will be crucial. Unless the savings that the Department is saying that it will be able to make are real savings which will fund activity, it may find itself struggling to maintain its funding across the sector. (Paragraph 33)

Our efficiency initiatives are not about taking money away from the frontline, rather they are about helping the frontline to realise maximum outcomes from the resource it is allocated. As our efficiency programme stems, in the main, from initiatives designed to improve the quality of provision, we are confident that the realisation of our efficiency target will in turn improve outcomes for children and learners.

11. We consider that there is a real danger that efficiency savings will be claimed but that evidence to verify those savings will not be available. (Paragraph 34)

The efficiencies are based upon rigorous modelling and the Efficiency Technical Note has been agreed with the Treasury and scrutinised by the National Audit Office and the Audit Commission to determine whether it clearly sets out methods of assessment and to identify where targeted gains appear unfeasible or particularly high risk. We have drawn upon robust data sets using independent evidence wherever possible and have clear audit trails to track data through collection processing and reporting. We have done this in the context of minimising burdens and bureaucracy on the frontline and have sought to use data that is already gathered wherever possible.

12. When the process is complete, we ask the DfES to provide us with comparisons of staff numbers and functions pre- and post-restructuring, including any outsourcing from the Department to other agencies and expenditure on consultants. This should provide evidence of the Department's move to a smaller, more strategically focused role. (Paragraph 35)

The Department will continue to provide information on its progress to meeting the efficiency target including through the Autumn Performance Report and the Departmental Report. The Department will be pleased to provide the Committee with any material it needs to understand how the Department is changing to meet its future role.

We are currently well ahead of the agreed trajectory in terms of headcount, relocation and monetary value of efficiency gains expected. We have met the vast majority of programme milestones. We met our 2006 target for headcount reductions ahead of schedule. More details of the number of staff in the Department are in the 2006 Departmental Report, published on 16 May.