

# EDUCATION GOVERNANCE

## FAIR FUNDING TO ACHIEVE EXCELLENCE AND EQUITY IN EDUCATION

### A consultation



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**EDUCATION GOVERNANCE**  
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**AND EQUITY IN EDUCATION**  
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## FOREWORD BY THE DEPUTY FIRST MINISTER AND CABINET SECRETARY FOR EDUCATION AND SKILLS



Improving the education and life chances of our children and young people is the defining mission of this Government. Our vision for education is to close the unacceptable gap in attainment between our most and least disadvantaged children and to raise attainment for all.

I believe that decisions about a child's learning should be made as close to that child as possible, and that decisions about a child's needs and how to meet them should be made by those around the child. This is a vision of empowerment and devolution – devolution from local authorities to schools – to include teachers, headteachers, parents and communities – and devolution from a national to a local or a regional level.

The Government's plans for realising this vision are set out in *Education Governance: Next Steps – Empowering Our Teachers, Parents and Communities to Deliver Excellence and Equity for Our Children*, published alongside this consultation. That paper sets out how we will ensure that Scotland's education system allows children to achieve their full potential, whatever their strengths and background. However, we are clear that, in order to deliver this transformational change, our education system must be underpinned by fair and transparent funding that puts schools at the heart of decision-making. The way we fund schools needs to recognise the crucial role of the school and support the collaborative and flexible culture we are seeking to develop.

Education represents the single largest component of local authority spending, with 45% of local authority budgets directed towards the provision and delivery of education, and gross expenditure totalling around £5 billion per year.

In its 2014 report, *School Education*, the Accounts Commission suggested that it is *how* local authorities decide to spend their education budget, rather than the overall level of spending, which has most impact on attainment levels. Importantly, that report also concluded that the impact of funding on attainment could be more significant if it was targeted at those schools and pupils where the need to improve attainment was greatest.

How we fund education in Scotland has an important role to play in helping to achieve our aims. Through this consultation, I want to hear your views on how we can best use the resources we have available to deliver the best possible outcomes for all our children and young people.

A handwritten signature in black ink, appearing to read 'John Swinney'. The signature is fluid and cursive, with a long horizontal stroke at the end.

**John Swinney MSP**  
**Deputy First Minister and**  
**Cabinet Secretary for Education and Skills**

## ABOUT THIS CONSULTATION

This consultation seeks views on the Scottish Government's future approach to school funding.

The consultation invites views on the way education is currently funded in Scotland, the purpose of developing a new, more consistent approach to school funding, and the principles that should underpin any changes. It also sets out and seeks views on possible future approaches.

This consultation does not advocate a preferred Scottish Government approach. We want to hear your views as we develop options further.

### Responding to this consultation

We are inviting responses to this consultation by **Friday 13 October 2017**. Please respond using the Scottish Government's consultation platform, Citizen Space. You can view and respond to the consultation online at: <https://consult.scotland.gov.uk/empowering-schools/education-governance-fair-funding>. You can save and return to your responses while the consultation is still open. Please ensure that consultation responses are submitted before the closing date of **Friday 13 October**.

If you are unable to respond online, please complete the Respondent Information Form (see 'Handling your Response' below) and send to:

email: [FairFunding@gov.scot](mailto:FairFunding@gov.scot)

or write to us at:

Empowering Schools Unit  
Scottish Government  
2A – South  
Victoria Quay  
Edinburgh  
EH6 6QQ

### Handling your response

If you respond using Citizen Space (<http://consult.scotland.gov.uk/>), you will be directed to the Respondent Information Form. Please indicate how you wish your response to be handled and, in particular, whether you are happy for your response to be published.

If you are unable to respond via Citizen Space, please complete and return the Respondent Information Form included in this document. If you ask for your response not to be published, we will regard it as confidential, and we will treat it accordingly.

All respondents should be aware that the Scottish Government is subject to the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

### Next steps

Where respondents have given permission for their response to be made public, and after we have checked that they contain no potentially defamatory material, responses will be made available to the public at <http://consult.scotland.gov.uk>. If you use Citizen Space to respond, you will receive a copy of your response via email.

Following the closing date, all responses will be analysed and considered, along with other available evidence, to help us shape future proposals for the funding of Scotland's schools.

## EXECUTIVE SUMMARY

This consultation seeks views on the Scottish Government's future approach to school funding.

*Education Governance: Next Steps – Empowering Our Teachers, Parents and Communities to Deliver Excellence and Equity for Our Children (Next Steps)*<sup>1</sup>, published alongside this consultation, sets out our vision for a school and teacher-led system, where decisions about learning and teaching rest at school level. The way schools are funded needs to support that vision.

The consultation invites views on: the way school education is currently funded in Scotland, including early years provision within school settings; the purpose of developing a new, more consistent approach to school funding; and the principles that should underpin any changes. It also sets out and seeks views on possible future funding approaches to support our vision of excellence and equity for all children and young people across Scottish education.

**Chapter 1** sets out why we are reviewing school funding, and the scope of this consultation.

Effective governance needs to be supported by a fair and transparent funding system that puts children and young people at the heart of decision-making. It is right that, as part of our whole-system governance review, we ask whether current practice could be improved, and funding more targeted to where it is needed the most.

As set out in *Next Steps*, the Scottish Government does not intend to develop a fixed national funding formula. There is little direct evidence at present about the role and success of funding formulas in driving improved educational outcomes. In addition, moving towards a national funding formula could introduce unacceptable instability and inflexibility to education funding.

Funding can have an important role to play in achieving positive outcomes and supporting equity. The development of a fair, more consistent, transparent and targeted method of allocating funding could provide a way to address current equity issues within the system.

This consultation seeks views on two possible approaches to achieving that aim.

**Chapter 2** describes the current system of funding for schools. While there are a series of defined and publicly available methodologies for allocating money from the Scottish Government to local authorities, largely through the local government finance settlement, there is no single transparent approach to allocating money from local authority to education, and then to school level.

Education represents the largest single part of local government spending, accounting for around 45% of general fund net revenue expenditure in 2015-16. Total gross expenditure on education was £4.9 billion, with over two-thirds of primary, secondary and special school expenditure on staffing, (53% spent on teachers and 15% on non-teaching staff). Support services account for 4% and 'all other expenditure' the remaining 28%.

This chapter also describes the original aims of, and current practice in relation to, Devolved School Management in Scotland.

<sup>1</sup> Scottish Government (2017) *Education Governance: Next Steps – Empowering Our Teachers, Parents and Communities to Deliver Excellence and Equity for Our Children*  
<http://www.gov.scot/Topics/Education/thegovernancereview>

**Chapter 3** considers the challenges presented by the way schools are currently funded, and concludes that the current system of funding schools falls some way short of meeting the Scottish Government's aims and principles for any future approach to funding. This chapter highlights, in particular the following issues, and seeks views on how funding could be better targeted to support excellence and equity for all:

- wide variation in the amount of spending per pupil between local authorities;
- relatively little targeting of funding on the basis of particular needs;
- considerable variation between local authorities in the influence headteachers have on spending decisions; and
- lack of transparency regarding the method of calculation and level of school budgets.

In light of these issues, and to reflect the vision of a school and teacher-led system set out in *Next Steps*, **Chapter 4** describes and seeks views on two possible approaches to funding in the future.

*Next Steps* sets out the Scottish Government's intention to legislate to create a Headteachers' Charter which will define across Scotland headteacher leadership responsibilities. The Charter could incorporate within it a standardised Scotland-wide approach to funding allocation, devolving the maximum amount of funding to schools.

An alternative approach – or one that could be used in conjunction with the approach set out above – would be to build on the approach currently being taken in relation to Pupil Equity Funding. Under this approach, more funding would be targeted directly to schools in relation to specific need factors.

The consultation also seeks views on the support, accountability and reporting mechanisms that should underpin greater devolution of responsibility for funding decisions to headteachers.

## Conclusion

This consultation is your opportunity to shape how schools are funded in Scotland. The deadline for responses is **Friday 13 October 2017**.

## INTRODUCTION

Improving the education and life chances of our children and young people is the defining mission of this Government.

The National Improvement Framework set out the Scottish Government's vision for excellence and equity for all children and young people across Scottish education:

- **Excellence through raising attainment:** ensuring that every child achieves the highest standards in literacy and numeracy, set out within Curriculum for Excellence levels, and the right range of skills, qualifications and achievements to allow them to succeed; and
- **Achieving equity:** ensuring every child has the same opportunity to succeed, with a particular focus on closing the poverty related attainment gap.

Scotland has a good education system which is delivering well for a great many young people in Scotland. In 2016 the number of Advanced Higher passes reached a record high, while the number of Higher passes was second only to the 2015 record<sup>2</sup>. A record proportion of young people from Scotland's most deprived communities went into a positive initial destination in 2015-16 – 88.7%, up from 83.9% in 2011-12<sup>3</sup>.

While current evidence shows our system has many strengths, there are areas where we must improve performance. The majority of young people are performing well, but the current system is not maximising education outcomes for all, with the circumstances of a child's life still having a disproportionate impact on their chance of success. The Scottish Survey of Literacy and Numeracy (SSLN) data published in May 2017<sup>4</sup> showed the size of the deprivation related performance gap in literacy has not changed since 2012 and, coupled with the Programme for International Student Assessment (PISA) statistics published in December 2016<sup>5</sup>, makes the case for education reform clear.

This Government has been taking strong and decisive action to address the weaknesses in the system by providing teachers and schools with the tools they need to deliver excellence and equity for all children and young people across Scottish Education. This action includes the Scottish Attainment Challenge funding, which is a key part of our work focussed on tackling the poverty related attainment gap. Over the lifetime of this Parliament, we will target £750 million at the children, schools and communities most in need, with £120 million per annum going directly to schools. We have listened to teachers and have significantly streamlined the volume of advice regarding the Curriculum for Excellence. Through changes to the National Qualifications, we are reducing bureaucracy and workload by reducing the burden of assessment, both on teachers and on young people. We are also increasing investment and support in the early years through the significant expansion of early learning and childcare.

2 SQA (2016) *Attainment Statistics (August)*. [https://www.sqa.org.uk/sqa/files\\_ccc/2016-sqa-attainment-summary.pdf](https://www.sqa.org.uk/sqa/files_ccc/2016-sqa-attainment-summary.pdf)

3 Scottish Government (2016) *Summary statistics for attainment, leaver destinations and healthy living*, No.6: 2016 Edition. <http://www.gov.scot/Publications/2016/06/4523>

4 Scottish Government (2017 c) *Scottish Survey of Literacy and Numeracy 2016 (Literacy)* <http://www.gov.scot/Publications/2017/05/7872>

5 Scottish Government (2015) *Programme for International Student Assessment (PISA) 2015: Highlights from Scotland's Results* <http://www.gov.scot/Resource/0051/00511095.pdf>

We have an unwavering focus on improving Scotland's education system for every child and we will continue to make the changes necessary to strengthen Scottish education. This consultation forms part of our review of education governance and is central to our aim of empowering our teachers, schools and communities to deliver the necessary changes in our education system. *Education Governance: Next Steps - Empowering Our Teachers, Parents and Communities to Deliver Excellence and Equity for Our Children*<sup>6</sup>, published alongside this consultation, sets out how we will reform Scottish Education to realise our ambition of excellence and equity for all.

With current education spending worth £4.9 billion in 2015-16, it is clear that now is the right time to ask whether the current funding system could be improved and whether resources are being directed to where they are needed most.

The consultation invites views on how schools are funded and how the current equity issues within the system could be addressed to support our vision of excellence and equity for all children and young people across Scotland.

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<sup>6</sup> Scottish Government (2017) *Education Governance: Next Steps - Empowering Our Teachers, Parents, and Communities to Deliver Excellence and Equity for Our Children*  
<http://www.gov.scot/Topics/Education/thegovernancereview>

# 1. WHY REVIEW SCHOOL FUNDING?

## 1.1 The Governance Review

The Scottish Government's Education Governance Review *Empowering Teachers, Parents and Communities to Achieve Excellence and Equity in education: A Governance Review*<sup>7</sup> was launched in September 2016. It sought views on the way education in Scotland should be run, and the principles that should inform our approach to fair funding for schools. Putting the relationship between pupils and teachers at its heart, its aim was to systematically consider and question how each part of the education system – from early learning and childcare provision, through to secondary school education – can support our vision of excellence and equity in education.

Following 16 weeks of engagement and consultation, the Governance Review closed on 6 January 2017. Over 1,000 parents, teachers, members of the public and organisations submitted formal written responses to the consultation and almost 700 people took part in the public engagement sessions across Scotland. All of those responses have been analysed, and are published alongside *Next Steps* and this consultation. In addition, we asked Children in Scotland, Young Scot and the Scottish Youth Parliament to ensure that the voices of children and young people were heard. In parallel with the Governance Review, the National Parent Forum undertook a review of the Scottish Schools Parental Involvement Act 2006. We have also drawn on evidence from the Organisation for Economic Co-operation and Development (OECD), the International Council of Education Advisers (ICEA) and international evidence to inform the way forward.

A consultation on the expansion of Early Learning and Childcare (ELC) ran between October 2016 and January 2017. This covered a range of key policy areas, including funding models. The Scottish Government set out its response to the ELC consultation on 23 March 2017 in *A Blueprint for 2020: The Expansion of Early Learning and Childcare in Scotland 2017-18 Action Plan*<sup>8</sup>.

## 1.2 Education Governance: Next Steps – Empowering Our Teachers, Parents and Communities to Deliver Excellence and Equity for Our Children

The Scottish Government believes that teachers and practitioners are best placed to work with communities and parents to drive educational improvement. The organising system of education must be focussed on providing the best framework for them to do so. That framework must in turn be supported by building capacity for improvement in the system, a culture of leadership and collaboration and strong accountability.

Grouped around five main themes, *Next Steps* sets out specific proposals for reform in order to create an education system that:

- is centred around children and young people;
- is school and teacher-led;
- focusses on the quality of teaching and learning;
- supports leadership; and
- has a relentless focus on improvement.

<sup>7</sup> Scottish Government (2016) *Empowering Teachers, Parents and Communities to Achieve Excellence and Equity in education: A Governance Review* <http://www.gov.scot/Publications/2016/09/1251>

<sup>8</sup> Scottish Government (2017) *A Blueprint for 2020: The Expansion of Early Learning and Childcare in Scotland 2017-18 Action Plan* <http://www.gov.scot/Publications/2017/03/8937>

### 1.3 Fair Funding

Effective governance needs to be supported by a fair and transparent funding system that puts children and young people at the heart of decision-making.

It is right that, as part of this whole-system review, we also ask whether current practice could be improved, and allocation more targeted to need, so that every child receives the teaching, support and guidance they require, regardless of their circumstances, the school they attend, or the local authority they live in.

*Next Steps* discusses three possible approaches to funding in the future to support our vision for a school and teacher-led system, and to bring greater consistency, transparency and fairness to school funding, including the development of a fixed national funding formula.

While many education systems have moved in recent years towards decentralisation of funding in this way, there is little direct evidence at present about the role and success of funding formulas in driving improved educational outcomes. In addition, moving towards a national funding formula could introduce unacceptable instability and inflexibility to education funding. *Next Steps* makes it clear that local authorities will remain democratically accountable for the provision of early learning and childcare and for schools. They will focus on delivering world class educational support services, and their role will be key in supporting headteachers and schools to drive improvements and deliver better outcomes for children. The vast majority of the funding for school education will continue to be channelled through local authorities, and they will continue to have a role in ensuring that public resources allocated for the delivery of education in Scotland are properly accounted for. The Scottish Government does not therefore intend to develop a fixed national funding formula.

However, there is some evidence that the approach taken to funding *can* help improve educational outcomes. The Accounts Commission report *School Education (2014)*<sup>9</sup> stated that “*Evidence from our literature review suggests that it is how councils decide to spend their education budget rather than the overall level of spend which has most impact on attainment levels. The literature also suggests the impact of funding on attainment could be more significant if it was targeted at those schools and pupils where the need to improve attainment was greatest.*” A Centre for Economic Performance paper also found that “*increases in resourcing are usually more effective for disadvantaged pupils and/or schools*”<sup>10</sup>.

Funding can have an important role to play in achieving positive outcomes and supporting both horizontal equity – where there is equal treatment of similar pupils and/or schools, no matter where they are in Scotland – and vertical equity – whereby pupils or schools are treated differently, according to their differing characteristics and learning needs.

The development of a fair, more consistent, transparent and targeted method of allocating funding could provide a way to address current equity issues within the system and ensure that resource goes where it is needed most.

This consultation seeks views on two possible approaches to meeting those aims.

9 Accounts Commission (2014) *School Education*  
[http://www.audit-scotland.gov.uk/uploads/docs/report/2014/nr\\_140619\\_school\\_education.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2014/nr_140619_school_education.pdf)

10 Gibbons, S and McNally, S (2013) *The Effects of Resources Across School Phases: A Summary of Recent Evidence*, Centre for Economic Performance Discussion Paper No. 1226

## 1.4 Scope of consultation

This consultation focusses and seeks views on how we can ensure that operational funding for early years and school-age education at a **school level** is allocated fairly and to best effect. The following areas of school funding are therefore within scope:

- teacher costs;
- non-teaching staff costs, for example, teaching support or school administration staff; and
- all other school-related discretionary expenditure, for example books, materials, etc.

Some areas of expenditure cannot easily be assessed or allocated at individual school level, for reasons of complexity and accountability, and historically have been considered to be more effectively managed centrally (e.g. at an education authority level). They are therefore outwith the immediate scope of this consultation, although consultees are invited to offer views on what areas of school expenditure should or should not be managed at headteacher level (Question 4). At present, the areas generally dealt with centrally include the following:

- all capital expenditure, including any Public-Private Partnership (PPP)/Private Finance Initiative (PFI) costs;
- school building maintenance costs;
- IT services and their associated costs;
- utilities costs;
- central support services, such as Educational Psychologists;
- school meal services;
- school transport;
- some aspects of costs relating to Additional Support Needs;
- costs associated with early years provision outside school settings;
- other children's services, for example care services; and
- clothing grants and similar allowances.

The consultation sets out how education is currently funded, the benefits, limitations and implications of that approach, and the opportunities for developing a funding model fit for the future.

## 2. CURRENT SYSTEM OF FUNDING

### 2.1 Overview

School funding is complex and currently lacks transparency.

While there are a series of defined and publicly available methodologies for allocating money from the Scottish Government to local authorities, largely through the local government finance settlement, there is no single or transparent approach to allocating money from local authority to education and then to school level.

This makes it difficult to establish a fully comprehensive picture of how school level budgets are determined. However, what is clear is that there is a great deal of variation across Scotland.

### 2.2 Education funding in Scotland

#### 2.2.1 Role of Local Authorities in delivering education

*Next Steps* sets out the changing role of national and local government to support the devolution of powers to school level.

Currently, local authorities have statutory duties both in relation to the delivery of education and in how they spend public funds. Legal responsibilities for delivering education currently sit largely with local authorities, who are responsible for school education and early learning and childcare provision in their area. Under the Education (Scotland) Act 1980, they are required to deliver 'adequate and efficient' education. Under the Local Government in Scotland Act 2003, they are bound by a number of duties in relation to securing best value and accountability for expenditure. They also have a range of other legislative duties which impact on the allocation decisions they take, for example in relation to additional support for learning.

#### 2.2.2 Scottish Government funding

The bulk of the money local authorities spend on school education and early learning and childcare provision is funded through the General Revenue Grant from the Scottish Government, which forms part of the overall local government settlement.

Central Government funding for education – and most other local authority services – is allocated to individual local authorities using a distribution formula and a series of needs-based indicators. While most of the indicators used to assess need in education relate to population bandings or pupil numbers, some relate to more specific 'need' factors, such as measures of deprivation and 'rurality'.

Funding allocations to local authorities through this route are not budgets or spending targets. The vast majority of money provided for education through the local government settlement is not ring-fenced, and it is for individual local authorities to determine how much funding should be allocated to education and then to individual schools and centrally managed education services. That assessment – generally set out in the local authority's Devolved School Management Scheme (DSM) – is made on the basis of local needs and priorities, but also reflecting statutory obligations and agreed national priorities. Further information about DSM is set out in section 2.3.

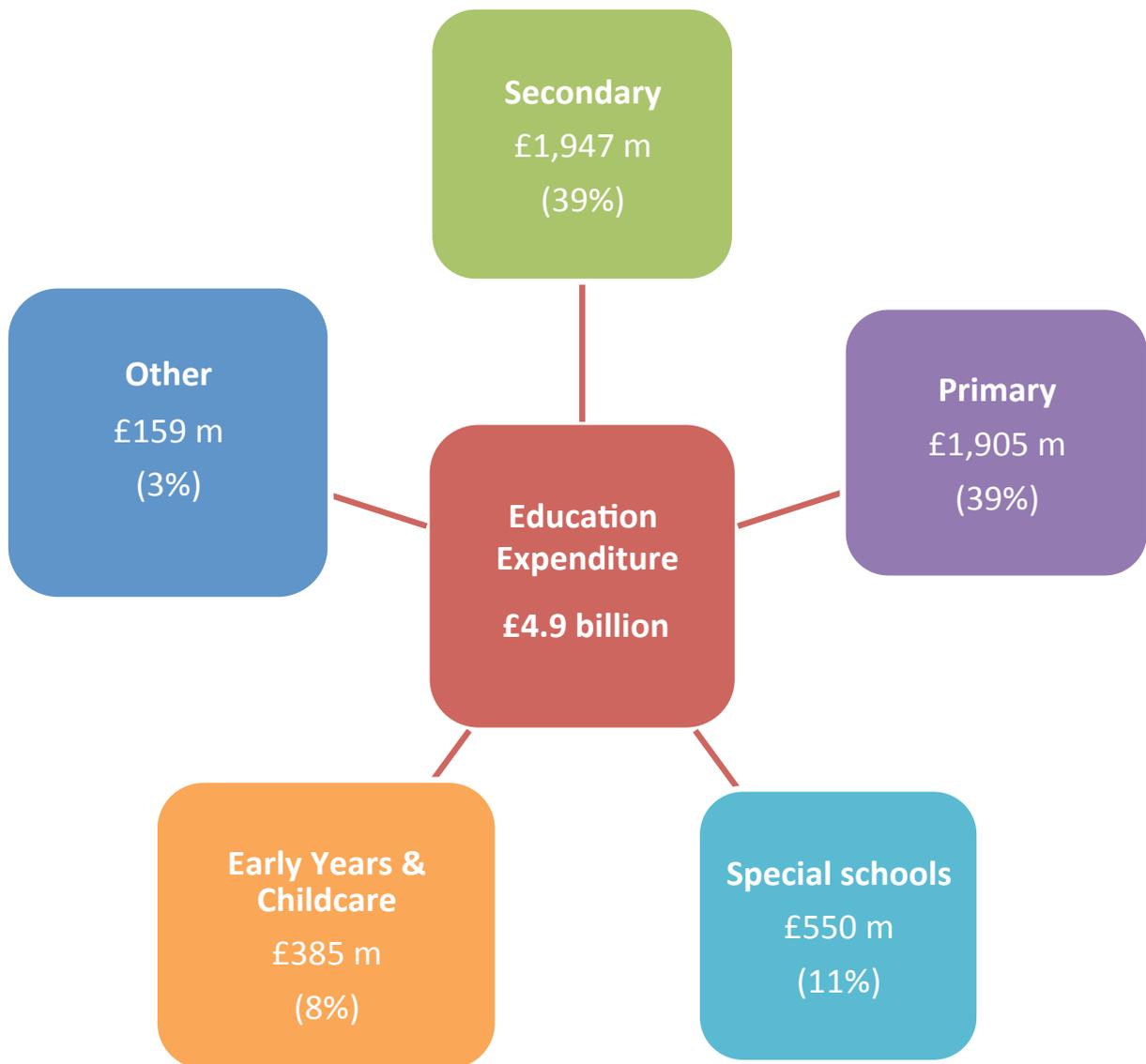
Local authorities and schools also receive funding to support specific education initiatives or needs, for example to support teacher numbers, teacher pay or closing the attainment gap.

This system leads to a wide variation in both the level and method of allocation of schools funding across Scotland.

### 2.2.3 Current spending on education by Local Authorities

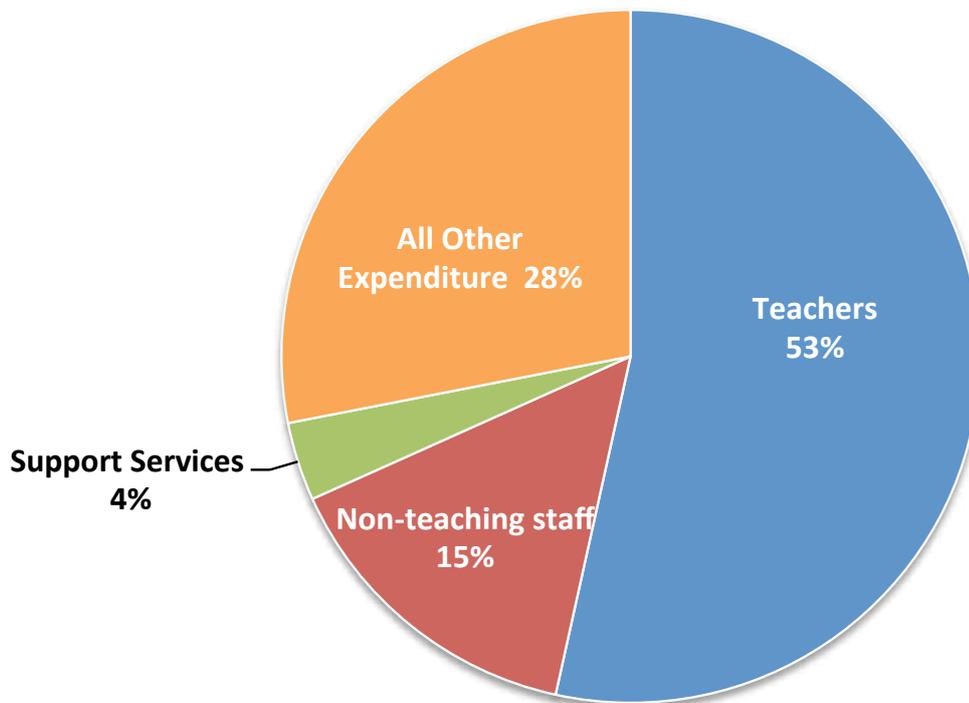
Education represents the largest single part of local government spending, accounting for £4.9 billion of gross expenditure in 2015-16. Nearly 90% of this was spent on primary, secondary and special schools. 8% of education spending was on early learning and childcare.

#### 2015-16 Education Expenditure by Sector



Over two-thirds of spending on primary, secondary and special education is on staffing, with 53% spent on teachers and 15% on non-teaching staff, support services accounting for 4% and 'all other expenditure' accounting for 28% (this includes building maintenance costs, utilities, school meals and transport). These proportions have remained relatively stable in recent years.

**2015-16 School Expenditure by Type of Cost**



Estimated capital expenditure on education by local authorities totalled £653 million in 2015-16, 26% of total local authority capital expenditure. The bulk of this expenditure was on primary and secondary education.

#### **2.2.4 Scottish Attainment Challenge funding**

It is important that funding goes to where it is needed the most. Allocating ring-fenced funding directly to schools has therefore become a key part of the Scottish Government's work focussed on tackling the poverty related attainment gap.

In Spring 2016, the Scottish Government extended the Scottish Attainment Challenge to commit a total of £750 million over the lifetime of this Parliament to tackle the attainment gap, targeting resources at the children, schools and communities most in need through:

**Pupil Equity Funding**, available for headteachers to use for additional staffing or resources that they consider will help to raise attainment. In 2017-18, this funding is directly provided to schools in Scotland at a rate of £1,200 for each pupil in P1 to S3 known to be eligible for free school meals. 95% of schools in Scotland currently benefit from this funding. Headteachers are free to decide how to make best use of this funding. As with all current education funding, the scheme is administered by local authorities, who enter into a grant agreement with the Scottish Government, setting out how much funding each school will receive. Headteachers are accountable to their local authority for the use of the funding, which they will report on through current reporting mechanisms. These reports will be publicly available so that parents can understand how this funding is being used in their school.

**Attainment Scotland funding**, providing targeted support for children and young people in greatest need through the Challenge Authorities and Schools Programme, as well as funding a number of national programmes, including staffing supply and capacity, professional learning and school leadership. This includes working with nine Challenge Authorities with the greatest concentration of primary age children living in Scottish Index of Multiple Deprivation (SIMD) 1 and 2 areas to implement authority wide improvement plans, based on initiatives to improve literacy, numeracy and health and wellbeing.

### 2.2.5 Early Learning and Childcare (ELC)

Funding for Early Learning and Childcare is currently included within the General Revenue Grant provided as part of the local government settlement.

Local authorities then decide how best to allocate this resource in order to meet their statutory duties. This includes their statutory duty to ensure that funded Early Learning and Childcare entitlement is available to all eligible children in their area.

The Children and Young People (Scotland) Act 2014 increased the funded entitlement from 475 hours per year to 600 hours per year for all three and four year olds, and eligible two year olds. Local authorities can deliver the entitlement through their own nurseries and provision, or contract with providers in the private and third sectors.

In 2015-16 local authority revenue expenditure on Early Learning and Childcare was around £385 million, accounting for around 7.8% of total local authority expenditure on education.

This figure is expected to rise year on year over the period to 2019-20 as additional funding was provided to local authorities to support delivery of the provisions in the Children and Young People (Scotland) Act 2014, including expansion of funded entitlement from 475 to 600 hours, extension of entitlement to eligible two-year-olds and increased flexibility. However, analysis presented in the *Financial Review of Early Learning and Childcare in Scotland*<sup>11</sup>, published in September 2016, indicates that so far not all of the resources allocated to local authorities to support the delivery of the 2014 Act have been spent on ELC.

The Scottish Government is committed to almost doubling the funded entitlement to 1,140 hours per year by 2020. In October 2016, we set out our vision for the expansion as part of *A Blueprint for 2020* consultation. That consultation sought views on the key policy aspects of the expansion, including potential funding models.

The Minister for Childcare and Early Years set out the Scottish Government's response to the consultation in *A Blueprint for 2020: The Expansion of Early Learning and Childcare in Scotland*<sup>12</sup>. This includes a new 'Funding Follows the Child' approach which will be introduced alongside the expanded entitlement in 2020.

This approach will ensure that funding for ELC directly supports eligible children and their families, ensure financially sustainable provision and deliver Fair Work practices across all sectors. It will underpin a more progressive and provider-neutral service model which allows parents to access a greater choice of high-quality settings and removes barriers which can make it difficult for private and third sector providers to offer the funded entitlement. The details of the new model will be developed jointly with local authorities through a Service Models Working Group, due to report by the end of March 2018.

11 Scottish Government (2016) *Financial Review of Early Learning and Childcare in Scotland: the current landscape*, <http://www.gov.scot/Resource/0050/00506148.pdf>

12 Scottish Government (2017) *A Blueprint for 2020: The Expansion of Early Learning and Childcare in Scotland 2017-18 Action Plan* <http://www.gov.scot/Publications/2017/03/8937>

## 2.2.6 Additional Support Needs

As part of general spending on education, local authorities also provide significant resource to support pupils with additional support needs. Of the £4.9 billion spent on education in 2015-16, £584 million (12% of total education spend) was on additional support for learning, an increase of £5 million on 2014-15.

In addition, the Scottish Government provides £11.3m of funding to 10 specific services dedicated to providing specialist additional support. These include: seven grant-aided special schools; Enquire, the national advice and information service for parents and carers on additional support for learning; CALL Scotland, which provides adaptations and assistive technology support for pupils with complex additional support needs; and the Scottish Sensory Centre, which provides training to teachers and other staff in supporting pupils with hearing and visual impairment.

The Scottish Government is currently considering whether the focus on building capacity of services as part of the Doran Review (a strategic review of learning practices for children and young people with complex additional support needs) could be aligned with the regional models of service delivery for children and young people with additional support needs. In its report<sup>13</sup> on implementation of the Education (Additional Support for Learning) (Scotland) Act 2004 in May 2017, the Education and Skills Committee called for a financial review and for annual reporting on implementation of the Act. Ministers are already required to collect and publish information on implementation, including the cost of provision of additional support for learning.

## 2.3 Devolved School Management

### 2.3.1 Aims

Under the Standards in Scotland's Schools etc. Act 2000, every education authority is required to have a Devolved School Management (DSM) Scheme and to delegate to headteachers the preparation of school improvement plans. DSM schemes set out the functions and control over a portion of the local authority's education budget that is delegated to individual schools and headteachers. The education authority is free to decide to which schools the scheme should apply, i.e. it does not have to apply to all schools.

DSM was introduced in 1993 to enhance and improve the management of resources at school level. The guidelines produced at that time required local authorities to devolve 80% of school budgets to headteachers, with the twin aims of improving local decision-making and providing more flexibility to headteachers in responding to the needs of individual schools. The guidelines were revised in 2006, with a recommendation that local authorities increase the level of devolved budgets to 90%. That advice reflected the principle that everything that could be devolved should be devolved, except for certain areas of expenditure that were not considered suitable for devolution (for example, expenditure that was centrally funded, such as capital expenditure, including all PPP/PFI costs; school meals; school milk).

Further revised guidelines, introduced in 2012, were focussed less on the percentage of budget devolved, and based on a number of key principles grouped into the four main themes of: subsidiarity and empowerment; partnership working; accountability and responsibility; and local flexibility.

<sup>13</sup> Scottish Parliament Education & Skills Committee (2017) *How is Additional Support for Learning working in practice, 6th Report*, [http://www.parliament.scot/S5\\_Education/Reports/ASN\\_6th\\_Report\\_2017.pdf](http://www.parliament.scot/S5_Education/Reports/ASN_6th_Report_2017.pdf)

### 2.3.2 Current practice

While practice varies widely, DSM schemes in general are often very technical, providing only a partial view of the process by which funding is allocated to schools.

In addition to the areas of spending that have always been dealt with centrally, the portion of the budget delegated to headteachers appears to have reduced in recent years. Some local authorities now control elements of spend which were previously delegated.

Latest Scottish Government data from the Local Financial Return suggests that around a third of education expenditure is 'centrally managed'. However, the range reported by local authorities is wide and may not fully reflect actual experience, given the likely inconsistencies in the way spending is recorded.

However, national requirements, such as the Scottish Government's commitment to maintaining the pupil teacher ratio, and local requirements, such as local authority control over the staff employed by the authority and school management structures, mean that, in practice, headteachers appear to have direct control over only a very small proportion of their budgets.

It is clear that DSM schemes are not currently fulfilling their aims and full potential to empower headteachers in their spending decisions.

**Chapter 3** considers the challenges presented by the way schools are currently funded, and the principles that will underpin our future approach to funding.

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#### Question 1

- (a) What are the **advantages** of the current system of funding schools?
- (b) What are the **disadvantages** of the current system of funding schools?

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#### Question 2

- (a) What are the benefits to headteachers of the current Devolved School Management schemes?
- (b) What are the barriers that headteachers currently face in exercising their responsibilities under Devolved School Management? How could these barriers be removed?

## 3. AIMS AND PRINCIPLES: THE CASE FOR CHANGE

### 3.1 Fair funding principles

The Governance Review consultation proposed that any future approach to funding should:

- **Support excellence and equity** - ensuring every child and young person has the same opportunity to succeed
- **Be fair** - placing the needs of all children and young people at the centre
- **Be simple, transparent and predictable** - ensuring the costs of delivering education can be easily understood and explained and that schools are able to manage and plan ahead with certainty
- **Deliver value for money** - ensuring that every penny spent is used effectively

Responses to the Governance Review were generally supportive of these principles and the principle more generally of supporting excellence and equity through funding. There was some concern about an overly formulaic approach to funding, but support for greater flexibility over funding and budgetary control, for example, in relation to procurement.

A number of other points were made in response to the consultation, for example the need for adaptability to local circumstances and situations, affordability, and the need to ensure that Getting it Right for Every Child (GIRFEC) principles are taken into account in the provision of local services. Some respondents were also concerned that there could be a tension between achieving simplicity and fairness and about the inclusion of value for money as a guiding principle.

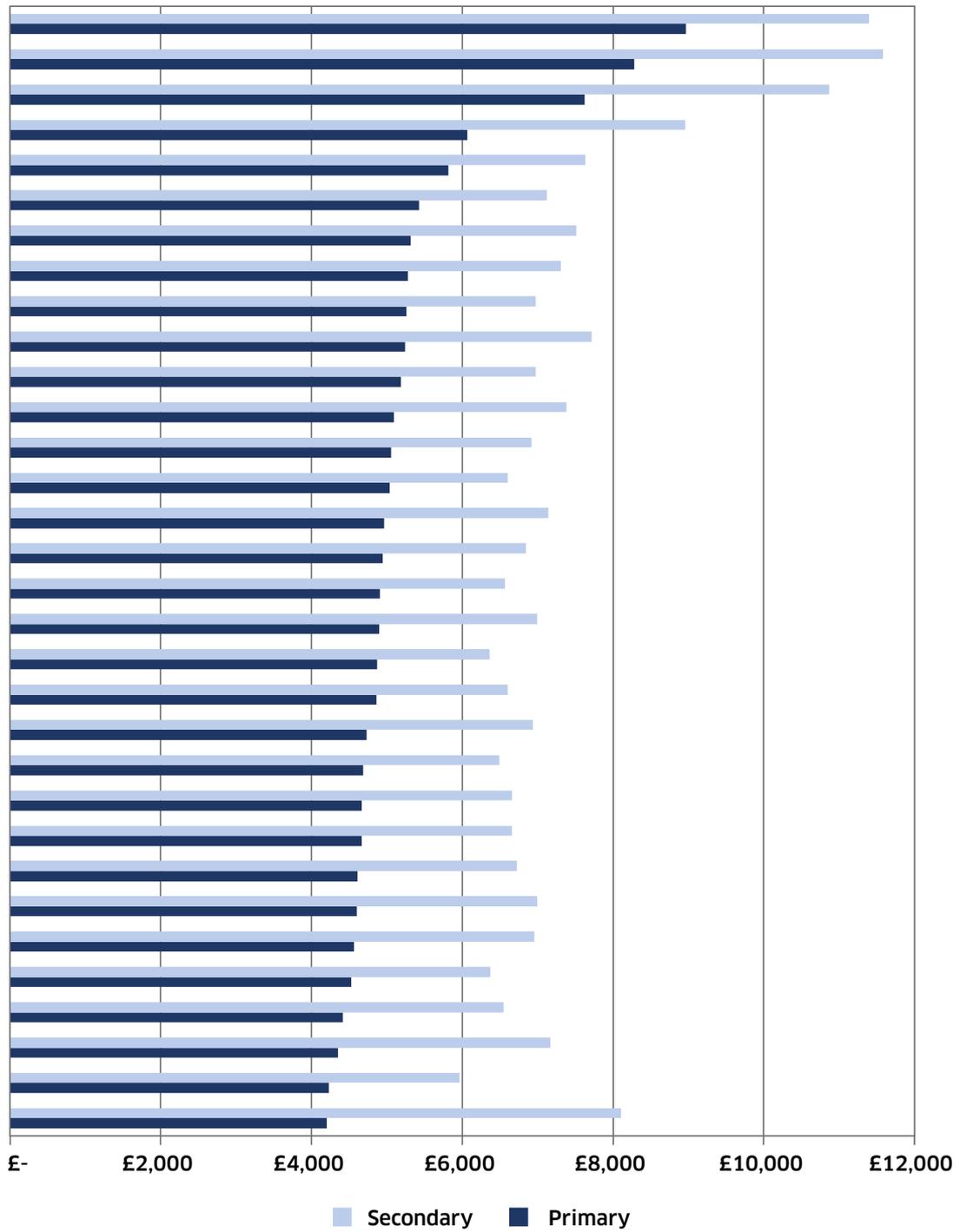
The Scottish Government believes that the current system of funding schools falls some way short of meeting these principles.

#### 3.1.1 Supporting excellence and equity; fairness

Because the allocation of funding in schools is - for the most part - a matter for local authorities, there is wide variation in the amount of spending per pupil between authorities. We recognise that national policy initiatives, in particular the commitment to maintain the pupil teacher ratio, have restricted the extent of this variation to a degree (given that staffing costs generally account for almost 70% of spending) but the available evidence shows that it continues to exist.

For example, Scottish Government figures show that, in 2015-16, the average spend per pupil in Scotland was £4,877 in primary and £6,920 in secondary. However, per pupil spending in primary ranges from £4,200 in one central local authority to £8,968 in one of the island authorities.

### Gross Revenue Expenditure per Pupil, by Local Authority, 2015-16



The Accounts Commission in its 2014 report on *School Education in Scotland*<sup>14</sup>, found those authorities with more island or rural areas generally spend more per pupil, for a number of reasons, including:

- the lower than average number of pupils in each school;
- the greater population dispersion and therefore distances that pupils have to travel;
- the greater number of primary schools required, leading to higher maintenance and running costs; and
- the difficulty of recruiting permanent and supply teaching staff without offering financial inducements.

That greater need is reflected in the share of funding islands and rural areas receive through the needs-based formulas within the local government settlement.

However, even among urban authorities, there are still large differences in spending per pupil, with those differences mainly influenced by how much is spent on teachers, and the composition of the teaching workforce, which will in part be influenced by the need to maintain the pupil teacher ratio.

This variation suggests that pupils or schools with similar characteristics in different local authority areas may attract very different levels of funding. That is significant given the OECD and Accounts Commission's findings that there is variation in attainment and achievement levels between local authorities and that some schools and local authorities achieve better attainment levels than others with similar socio-economic profiles<sup>15</sup>, and the Accounts Commission's finding that the positive impact of funding on attainment could be more significant if it was targeted at those schools and pupils where the need to improve attainment was greatest<sup>16</sup>.

However, local authority Devolved School Management Schemes suggest that the majority of education funding is allocated to schools by reference to pupil numbers or the number of teachers required to support the pupil roll, with relatively little funding allocated on the basis of additional needs-based factors such as deprivation, which we know can impact on an individual pupil's likely attainment.

There is also substantial variation in the content and operation of Devolved School Management schemes across Scotland, and in the proportion of education spending allocated for central purposes or delegated to schools. This suggests that there is considerable variation between local authorities in the influence that headteachers have on decisions about spending, and the flexibility they have within the budgets devolved to them.

If we are to create a more equitable system, where we can be sure that funding reflects need and schools are at the heart of decision-making, this variation in approach and outcome across Scotland must be addressed.

14 Accounts Commission (2014) *School Education*  
[http://www.audit-scotland.gov.uk/uploads/docs/report/2014/nr\\_140619\\_school\\_education.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2014/nr_140619_school_education.pdf)

15 OECD (2015) *Improving Schools In Scotland: An OECD Perspective*  
<http://www.oecd.org/education/school/Improving-Schools-in-Scotland-An-OECD-Perspective.pdf>

16 Accounts Commission (2014) *School Education*  
[http://www.audit-scotland.gov.uk/uploads/docs/report/2014/nr\\_140619\\_school\\_education.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2014/nr_140619_school_education.pdf)

### 3.1.2 Simplicity, transparency and predictability

The system for allocating funding to schools is complex, opaque, and varies widely between local authorities. While the local government settlement uses a series of defined methodologies for allocating money to local authorities which take account of a wide number of needs-based factors, there is little transparency over the method of allocating funds from local authorities to education, and then to individual schools.

There appears to be substantial variation in how local authorities spend and allocate their education budget, and how they record that spending. Those differences make it difficult for teachers and parents to understand what level of funding their school receives and why, and for local authorities to understand the differences between them and other local authorities. Addressing these issues is important, given the Accounts Commission's findings that *'to ensure services are being provided as efficiently as possible, councils must fully understand the factors influencing their spend per pupil, and how this compares to other councils'*<sup>17</sup> and that it is how local authorities decide to spend their education budget – rather than the overall spend – which has the most impact on attainment levels.

Because of the range of factors that need to be taken into account in funding individual schools, and the services supporting it, no approach to funding can ever be truly simple. Similarly, the specific amount of money that a school will receive in the future can never be entirely predicted, as that will depend on a number of factors, including the local authority's available budget. Nevertheless, these principles are important if we are to fully understand the impact of different spending decisions. The Scottish Government believes that a new approach to funding could go some way towards ensuring greater simplicity, transparency and predictability.

### 3.1.3 Delivering value for money

Funding must support how education is organised and the Scottish Government's focus on a school and teacher-led system which puts children and young people at the heart of education policy and practice.

While some respondents to the Governance Review expressed some concerns about the inclusion of value for money as a key principle, it is an important driver in ensuring that funding is fair. Value for money is not about cutting costs, but about maximising the impact of each pound spent to improve the outcomes for all children in Scottish education; ensuring the optimal use of resources to achieve the best outcomes, and that our schools are spending effectively. Lack of transparency, variation and the relatively small amounts of funding allocated on the basis of more complex additional need factors, such as rurality or deprivation, means that we cannot currently be sure that funding is being directed to where it is needed most.

The Scottish Government proposes that these principles should be reflected in any future approach to funding.

## Question 3

How can funding for schools be best targeted to support excellence and equity for all?

<sup>17</sup> Accounts Commission (2014) *School Education*  
[http://www.audit-scotland.gov.uk/uploads/docs/report/2014/nr\\_140619\\_school\\_education.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2014/nr_140619_school_education.pdf)

## 4. FAIR FUNDING: FUTURE APPROACH

The Scottish Government proposes to introduce a new approach to funding for schools which meets the principles set out in Chapter 3, reflects the ambitious reforms set out in *Next Steps*, and supports improved outcomes for all our young people.

*Next Steps* sets out specific proposals for reform in order to create an education system that:

- is centred around children and young people;
- is school and teacher-led;
- focusses on the quality of teaching and learning;
- supports leadership; and
- has a relentless focus on improvement.

School funding needs to reflect and support the greater devolution of responsibility to headteachers described in that paper.

As set out in Chapter 1, the Scottish Government does not intend to develop a fixed national funding formula.

However, school funding needs to be more transparent and better targeted to need, and to reflect the new, enhanced role of headteachers. This chapter therefore seeks views on two possible approaches to achieving those aims: by enshrining a national approach to the devolution of funding within the new Headteachers' Charter; and/or through increased targeting of elements of funding, building on the Pupil Equity Funding approach.

### 4.1 Enshrining a national approach to the devolution of funding within the new 'Headteachers' Charter'

#### Headteachers' Charter

*Next Steps* sets out the Scottish Government's intention to legislate to create a Headteachers' Charter which will be developed in partnership with the profession. The intention is to invest in the leadership of schools and support empowered headteachers to raise attainment and close the attainment gap, within a strong national framework.

Headteachers will:

- be the leaders of learning in their schools;
- be supported through a revolutionised offer of support and improvement;
- be responsible for raising attainment and closing the poverty-related attainment gap;
- deliver quality and improvement at school level;
- select and manage the teachers and staff in their school;
- decide on school management and staffing structure, including business managers;
- decide on curriculum content and offer;
- work with partners, including local authority support staff and others, to meet learners' additional support needs at school level;
- collaborate for school improvement at school, cluster and regional level;
- lead self-evaluation and improvement of school performance;
- monitor school progress and reporting; and
- manage defined and greater proportions of school funding.

## Fair Funding

In addition to devolving the maximum amount of funding to schools, the Charter could also provide for a Scotland-wide approach to funding allocation, incorporating within it a standardised approach to school funding.

Building on existing best practice, such an approach could retain flexibility in decision-making to reflect local circumstances, while mandating and bringing consistency and transparency across Scotland to:

- the proportion of funding to be allocated directly to schools;
- the proportion of funding to be allocated to particular areas of spending;
- the way in which funding responsibilities are held and shared between schools, local authorities, regional improvement collaboratives and others;
- the decisions that local authorities take in allocating funding to schools, by bringing consistency to the formulas they use and the factors they take into account in allocating budgets, reflecting need and overarching policy aims;
- the financial role and responsibilities of headteachers; and
- the training and support headteachers can expect to receive from local authorities and regional improvement collaboratives.

## Implementation

As all local authorities are currently obliged to have a Devolved School Management scheme, this approach would be unlikely to require the development of any new bespoke delivery mechanisms, although there may be some administrative impacts in some local authorities if the changes are a significant departure from current practice.

*Next Steps* makes it clear that we will transform the level of clear, practical support for headteachers at a regional level to ensure they have all of the help and advice they need to improve the curriculum, learning, teaching and assessment. Similarly, substantially increased devolution of funding responsibility would need to be accompanied by increased support to headteachers, for example, a greater role for business managers and potentially new financial procedures. The Scottish Government would ensure that headteachers have the support necessary to enable them to have the skills and confidence to grasp the opportunities that such a change would bring. This approach would potentially also require the development of new accountability mechanisms and some transitional arrangements to ensure smooth transition to a new system.

A thorough process would be undertaken to agree the content of a Scotland-wide approach to devolving funding to headteachers. That would be taken forward by the Scottish Government, in conjunction with teachers and local government partners.

## Benefits

A consistent, national approach to funding through the Headteachers' Charter could achieve a fair and more transparent allocation of resources by ensuring funds are allocated in an optimum and consistent way, based on need, and in accordance with overarching policy aims. It could support more empowered schools, but headteachers would have to have the ability to choose the staffing mix and management structure within their schools, which could have implications for the national pupil teacher ratio. This potential implication for national government is acknowledged in *Next Steps*. We will discuss with partners, including professional associations and parents, how we develop the right balance between national priorities and local flexibility as we move to a more empowered system.

This approach could provide clarity over the way that local authorities fund schools, by providing for minimum spending levels in certain areas of the budget, based on a formula,

and could help to promote greater stability in funding, allowing headteachers to plan for the longer term. It would use a familiar method of doing so as its basis (DSM), ensuring the retention of flexibility to meet local circumstances.

Such an approach fits well with the Accounts Commission's finding that it is how local authorities decide to spend their education budget that has most impact on attainment levels. A Headteachers' Charter could mandate some elements of spend, based on proven examples of what works.

This approach would promote equity within local authorities by ensuring the funding was allocated on a fair basis, and between authorities, by ensuring minimum spends as a proportion of budget. Without some direction on the amount of funding to be allocated to education, however, it would be difficult to achieve 'horizontal' equity, whereby similar schools in different local authorities receive similar amounts of funding. Care would also have to be taken to ensure that, in ensuring consistency and transparency, headteachers and schools were not constrained or disadvantaged.

#### Question 4

- (a) What elements of school spending should headteachers be responsible for managing and why?
- (b) What elements of school spending should headteachers **not** be responsible for managing and why?
- (c) What elements of school spending are not suitable for inclusion in a standardised, Scotland-wide approach and why?

## 4.2 Increased targeting of elements of funding, building on the approach taken to Pupil Equity Funding (PEF)

### Overview

An alternative approach – or one that could be used in conjunction with the approach set out above – would be to build on the approach currently being taken in relation to Pupil Equity Funding. Under this approach, more funding would be targeted directly to schools in relation to specific need factors known to impact on performance and outcomes.

The current system for funding schools would be largely retained with this approach, but a greater proportion of funding would be allocated in this way, directly to schools, and potentially also school clusters and regional improvement collaboratives, to support particular needs and policy aims. As with the PEF approach, the headteacher would be responsible for decisions on spending, within national guidance, but overall accountability would be likely to remain with the local authority, through which the funding would be directed.

The PEF is currently allocated on the basis of known entitlement to Free School Meals. Under this approach, funding could be allocated on a formulaic basis dependent on the purpose for which it was being provided. It could take into account a wider range of factors aligned with policy goals in addition to deprivation, and could be adapted flexibly to support particular parts of the education system or particular policy aims and priorities.

## Implementation

This approach could build on delivery mechanisms, procedures, principles and evaluation which are already or currently being put in place through the PEF (set out in 2.2.4). However, allocating a larger amount of funding in this way would require a thorough review to: identify various aspects of need and how they are currently met in Scotland; develop and agree methodologies for measuring and distributing funding; develop clear guidance for schools; and to develop and maintain monitoring and accountability measures reflecting governance arrangements. That review would be taken forward by the Scottish Government, in conjunction with teachers and local government partners.

Substantially increased devolution of funding responsibility would need to be accompanied by increased support to headteachers, for example, a greater role for business managers and new financial procedures. Depending on the proportion of funding allocated directly to headteachers, this approach might also require the development of potentially new accountability mechanisms.

## Benefits

Aligning more funding with particular need or policy aims in this way could provide better targeting of resources towards those pupils who are in greatest need, regardless of which local authority they reside in. In this respect, it could do much to address the consequences of apparent variations in the current system and achieve value for money. This approach also aligns well with a Centre for Economic Performance finding that increases in resourcing are usually more effective for disadvantaged pupils and/or schools<sup>18</sup>.

This approach would also strengthen school and teacher leadership by allowing teachers greater control over resources, and would improve the transparency of a greater proportion of school funding. However, it is considerably more limited in scope than the Headteachers' Charter approach, which would ensure maximum devolution of funding responsibility to headteachers.

### Question 5

- (a) What would be the **advantages** of an approach where the current system of funding schools is largely retained, but with a greater proportion of funding allocated directly to:
1. Schools;
  2. Clusters; or
  3. Regional Improvement Collaboratives?
- (b) What would be the **disadvantages** of an approach where the current system of funding schools is largely retained, but with a greater proportion of funding allocated directly to:
1. Schools;
  2. Clusters; or
  3. Regional Improvement Collaboratives?

<sup>18</sup> Gibbons, S and McNally, S (2013) *The Effects of Resources Across School Phases: A Summary of Recent Evidence*, Centre for Economic Performance Discussion Paper No. 1226

### **Question 6**

The Scottish Government's education governance reforms will empower headteachers to make more decisions about resources at their school. What support will headteachers require to enable them to fulfil these responsibilities effectively?

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### **Question 7**

What factors should be taken into account in devising accountability and reporting measures to support greater responsibility for funding decisions at school level?

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### **Question 8**

Do you have any other comments about fair funding for schools?

## SUMMARY OF QUESTIONS AND RESPONDENT INFORMATION FORM

### Question 1

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**Education Governance:  
Fair Funding to Achieve Excellence and Equity in Education – A Consultation**

**RESPONDENT INFORMATION FORM**

**Please Note** this form **must** be completed and returned with your response.

Are you responding as an individual or an organisation?

- Individual  
 Organisation

Full name or organisation's name

Phone number

Address

Postcode

Email

The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

- Publish response with name  
 Publish response only (without name)  
 Do not publish response

**Information for organisations:**

The option 'Publish response only (without name)' is available for individual respondents only. If this option is selected, the organisation name will still be published.

If you choose the option 'Do not publish response', your organisation name may still be listed as having responded to the consultation in, for example, the analysis report.

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

- Yes  
 No



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