

Commission on the Delivery of Rural Education

Appendix to the Commission's Report (also published on 19 April 2013)

The following paper, referred to in paragraph 101 of the Commission's Report, is part of the Commission's deliberations on resources for rural education.

Tripartite Finance Paper

Purpose

1. The purpose of this report is to provide Members of the Commission with an understanding as to how the current local government grant distribution methodology works, and in particular any impact that school closures may have on the local government financial settlement.
2. This paper has been jointly prepared by COSLA and the Scottish Government, with support from the Scottish Rural Schools Network (SRSN).
3. Whilst it is important for the Commission to understand any potential impact which any school closure may have on the overall local government settlement, the Commission should be mindful that there is a clear understanding between Scottish and Local Government that any local decisions resulting in a rural school closure should be focussed on improving the educational benefit and outcomes for the local community, and should not be taken as a means of maximising the potential resources which are generated through the local government settlement.

Distribution of Funding to Local Government

4. The total revenue funding provided by central government is distributed to Scotland's 32 Councils using a 'relative needs based' grant distribution system which has been developed over a number of years between central and local government. In total around £11bn per annum is provided to Local Government through the local government settlement.
5. The main purposes of the current distribution approach is to:
 - Provide a stable and equitable allocation of revenue and capital grant between Scotland's 32 Councils;
 - Reflect individual local characteristics and expenditure needs, including any changes over time, such as population movements;
 - Provide Councils with certainty to plan their future spending and investment.



6. It should be noted that not all of these aims are always compatible, for example pressure to reflect changes in individual Council circumstances must be balanced against the need for stability to allow for Councils to plan for their expenditure and service provision. Ultimately the distribution system allocates resources from a fixed pot of money, and any changes in individual council's circumstances and adjustments therefore impact on all Councils.

Grant Aided Expenditure

7. In simple terms, GAE (Grant Aided Expenditure) is the system by which the total resources from Central Government are allocated equitably across Councils.
Members of the Commission should be aware that individual service GAEs are not and never have been budgets, spending guidelines or targets. They are simply an allocation methodology which is designed to allocate the available resources on the basis of relative need.
8. There are a large number of individual GAE lines (94 in total), which are split across a number of service areas, each having their own 'needs based' methodology. Individual GAE lines are allocated between local authorities using 'needs based' indicators which are agreed by both Scottish and Local Government. These indicators can vary in number and type but can include data such as: population, pupil numbers or deprivation. The GAE methodology is based on a combination of primary and secondary indicators, with the primary indicators considered to reflect the most significant element which determines the expenditure of the specific service. Demand and cost factors which are outwith local authority control and offer a plausible explanation for inter-authority variation are utilised as secondary indicators.
9. Until 2007/08 individual service level GAEs were updated to reflect Ministerial priorities in terms of their overall spending commitments. Whilst GAEs are still used as part of the overall distribution system, since the Spending Review 2007, there has been no update to specific service level GAE lines, with the exception of Police GAE, and specific service GAE totals have been frozen at the same levels since 2007/08. Any changes to central resources which have been provided since then have been distributed to Councils based on individual Councils share of total GAE, and in 2012/13 this amounted to around £840m of net additional funding allocated using total GAE shares. Although the service level GAE totals have not changed the needs based indicators, including any secondary indicators, have been updated at every Spending Review to reflect changes in individual local authority's needs.
10. Individual Councils are allocated their overall resources as part of their block central grant, and it is up to each local authority to determine a budget to allow for services to be delivered based on local needs and priorities, whilst fulfilling its statutory obligations. Given this, there is a clear distinction to be made between how central resources are allocated to authorities as part of the agreed distribution process, and then the local decision making process around how resources are allocated to deliver specific services within each authority.
11. Nonetheless, decisions about provision of services can affect the funding received through the GAE mechanism, and this is particularly true in the case of the rural schools secondary indicator as set out in more detail below.

Impact of Small Schools within GAE calculations

12. Just over £9bn is allocated to Councils based on specific GAE calculations, and around £4.3bn is allocated towards Education based GAEs. Specifically in terms of GAEs affecting rural schools, the main impact is the GAE provision for Primary School Teaching Staff. This GAE distributes around £903m of provision to Councils and is distributed based on the number of primary school pupils in each local authority. The distribution is then adjusted by a secondary indicator to take into account the percentage of pupils in small rural schools (less than 70 pupils) to reflect the greater cost of providing education in smaller schools. This adjustment redistributes the provision between all authorities within the same all-Scotland total.
13. The secondary indicator calculation for small rural schools is based on a co-efficient calculated for each settlement, from a regression analysis of local authority expenditure per primary school pupil against the percentage of pupils in small schools. It takes into account changes of average expenditure per unit of primary school pupils and is averaged with the co-efficient from the previous settlement to increase stability.
14. For any given year or local authority the amount per pupil in a school of less than 70 pupils can be calculated. In the current year the size of the impact of changes in pupil numbers range in value across local authorities from around £2,600 to £2,900 per pupil in qualifying schools. If the number of qualifying pupils increases or decreases, the gain or loss to any Council would be the number of pupils multiplied by this value, whatever actions other Councils had taken in relation to their own rural primary school provision.
15. The overall value of the secondary indicator to a Council depends upon the number of qualifying pupils. For a given settlement this number is calculated as a two year average. Consequently the effect of changes to the number of qualifying pupils will take a number of years to be reflected fully in a Council's revenue grant allocation.
16. Actions taken during a particular settlement do not have any retrospective effect, but will affect future settlements. As explained above, the GAE mechanism is designed to provide a stable and predictable basis for determining likely future resources.
17. Since this is a re-distribution mechanism, any reduction in the total value of the secondary indicator is re-distributed to all other Councils in proportion to their total number of primary pupils
18. There is a clear understanding between the Scottish Government and Local Government that the focus for Councils should be on improving the educational benefit and outcomes for the local community, and Councils should not base any policy decisions on the potential to maximise resources through the local government finance settlement. However, school closure proposals usually include revenue savings estimates, which propose a redeployment of resources to achieve a predicted educational benefit for the local community, and if the operation of the funding mechanism means that the change will result in a future reduction in financial resources available to the Council, this can be calculated and a complete picture of the financial impact on the Council would include understanding that impact.

19. It is also important that individual GAEs are not considered in isolation of the whole local government settlement as there is a 'floor' stabilising mechanism built into the system which guarantees a minimum increase to all 32 local authorities (when there is an overall increase in the level of the local government finance settlement) and a guaranteed maximum decrease when overall funding levels decrease. Traditionally around 4 or 5 Councils are supported by the floor in each year of a settlement. Historically, since the introduction of the floor, only a single Council has received support from the floor in every settlement. In all other areas, the closure of rural schools would normally impact on the Revenue Grant received. To place this further in context, since the introduction of the flooring mechanism it has been rare for mainland rural authorities to be in receipt of support from the floor. (Local authorities who do not gain from the floor contribute to it, but this is a relatively minor amount, calculated by SRSN to be typically around 0.3% of the relevant local authority total revenue allocation.)

Conclusions

20. The local government distribution system has been developed over a number of years through consultation between central and local government, and includes GAE assessments as a means of distributing the available revenue funding to local authorities on the basis of relative need.
21. GAE lines have never been used as a specified budget, spending guidelines or targets for Councils to then allocate to their local services but rather are a means of distributing the overall level of resources to be made available.
22. Since 2007/08, service level GAEs have effectively been frozen at 2007/08 levels but all needs-based indicators have been updated at each Spending Review, with additional resources allocated on the basis of individual Councils' share of GAE.
23. Any specific adjustment which changes the GAE allocations across Councils cannot be considered in isolation of the entire settlement. Given the allocation system is based on relative need and distributes to Councils within a fixed pot of resources, any specific change in one authority will impact on the overall resources across all 32 Councils.
24. A 'floor' stabilising mechanism is built into the distribution system to allow for an element of stability for councils within the overall financial settlement
25. There is a clear understanding between Scottish Government and Local Government that while it is possible to identify the real loss in revenue grant that would stem from the closure of a specific qualifying school within the settlement, the focus must remain on the outcomes for the communities. Decisions on school estate changes must be based on educational benefit, not income maximisation under the local government distribution formula. However, in considering revenue savings around school closure proposals, a complete picture of the financial impact on the Council would include taking into account the impact on the operation of the Council's local government finance settlement allocation.

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