

**AGENDA MANAGEMENT SHEET**

<b>Name of Committee</b>	<b>The Cabinet</b>		
<b>Date of Committee</b>	<b>26<sup>th</sup> May 2005</b>		
<b>Report Title</b>	<b>School Funding Consultation</b>		
<b>Summary</b>	The report summarises the key issues arising from the Department for Education and Skills' consultation document entitled "Consultation on New School Funding Arrangements from 2006/07" and outlines a response to the consultation.		
<b>For further information please contact:</b>	<table><tr><td>John Betts Financial Services Manager Tel: 01926 738417 johnbetts@warwickshire.gov.uk</td><td>Jeff Mann Director of Resources Tel: 01926 412238 jeffmann@warwickshire.gov.uk</td></tr></table>	John Betts Financial Services Manager Tel: 01926 738417 johnbetts@warwickshire.gov.uk	Jeff Mann Director of Resources Tel: 01926 412238 jeffmann@warwickshire.gov.uk
John Betts Financial Services Manager Tel: 01926 738417 johnbetts@warwickshire.gov.uk	Jeff Mann Director of Resources Tel: 01926 412238 jeffmann@warwickshire.gov.uk		
<b>Would the recommended decision be contrary to the Budget and Policy Framework? [please identify relevant plan/budget provision]</b>	No		
<b>Background papers</b>	<ul style="list-style-type: none"><li>▪ Consultation on New School Funding Arrangements from 2006/07 (<i>DfES, 2005</i>)</li><li>▪ Local Government Association on Proposals to Implement Three Year Budgets for Schools (<i>LGA, February 2005</i>)</li><li>▪ Three Year Revenue and Capital Settlements – A Draft Response to the Government's Consultation Paper (<i>Cabinet, 24<sup>th</sup> February 2005</i>)</li><li>▪ House of Commons Education and Skills Committee Report on Public Expenditure (<i>HC 168</i>)</li><li>▪ Education Bill – England Provisions (<i>The Education Network, 25<sup>th</sup> February 2005</i>)</li><li>▪ New School Funding Arrangements, 2006/07 (<i>The Education Network, 4<sup>th</sup> March 2005</i>)</li><li>▪ Education Funding: The impact and effectiveness of measures to stabilise school funding (<i>Audit Commission, 2004</i>)</li></ul>		

**CONSULTATION ALREADY UNDERTAKEN:-**

Details to be specified

- Other Committees  .....
- Local Member(s)  .....
- Other Elected Members  Cllr John Burton – *“noted”*  
Cllr Richard Grant – *“agree for consideration by Cabinet”*  
Cllr Tim Naylor – *“agreed for consideration”*  
Cllr Jerry Roodhouse  
Cllr June Tandy
- Cabinet Member  .....
- Chief Executive  .....
- Legal  Jane Pollard / Richard Freeth – *“fine”*
- Finance  .....
- Other Chief Officers  .....
- District Councils  .....
- Health Authority  .....
- Police  .....
- Other Bodies/Individuals  Schools Forum 26.4.05

**FINAL DECISION**

**YES**

**SUGGESTED NEXT STEPS:**

Details to be specified

- Further consideration by this Committee  .....
- To Council  .....
- To Cabinet  .....
- To an O & S Committee  .....
- To an Area Committee  .....
- Further Consultation  .....

**The Cabinet – 26<sup>th</sup> May 2005**  
**School Funding Consultation**

**Joint Report of the County Education Officer  
and County Treasurer**

**Recommendation:**

That Cabinet retrospectively approve a response to the DfES publication *Consultation on New School Funding Arrangements from 2006/07*, based on a series of concerns expressed in paragraphs 2.4, 3.3 and 4.4 of this joint report.

**1. Background**

- 1.1 The Department for Education & Skills (DfES) have published a consultation document on the future of school funding<sup>1</sup>. This report summarises the proposals and identifies the likely impact on the authority and its schools.
- 1.2 The consultation builds on the DfES policy stance held since the “school funding crisis” of 2003. Although the alleged crisis has since largely been discredited<sup>2</sup>, the DfES have sought greater control over local decisions on education funding. The consultation follows this logic through by removing education funding from local authority control and replacing it with a dedicated grant from the DfES. There are also a number of proposals designed to improve the stability of school funding.
- 1.3 The rest of this report follows the structure of the consultation document in outlining the major implications nationally and for Warwickshire of the following issues:
  - The Dedicated Schools Grant
  - Three-Year Budgets for Schools
  - Distribution of Resources from Authorities to Schools
  - The Single Standards Grant
  - Strategic Financial Management, Planning and Efficiency.

<sup>1</sup> Consultation on New School Funding Arrangements from 2006/07 (DfES, published 17<sup>th</sup> February 2005).

<sup>2</sup> The Audit Commission reach this conclusion in “Education Funding – The Impact and Effectiveness of Measures to Stabilise School Funding” (2004).

- 1.4 The consultation document asks for views on a series of issues. It raises a series of other issues of great interest to Warwickshire schools and the County Council. The deadline for a response to the DfES is 13<sup>th</sup> May, which prevents a formal consultation with Cabinet. A response, based on the issues raised in this report, has been sent from the County Education Officer and a copy is attached as **Appendix A** together with a covering letter. This report identifies some questions for the DfES that were included in the response to the consultation.
- 1.5 The Schools Forum has also considered this issue and has made a separate response to the DfES based largely on the concerns raised in this report.

## **2. Dedicated Schools Grant**

- 2.1 The Dedicated Schools Grant (DSG) is designed to directly replace funding currently received by the authority via the Education Formula Spending Share (FSS). It will be a ring-fenced grant. This effectively centralises school funding. The DSG will be based initially on local authorities' total current revenue spending on Schools Block items, but will eventually taper away to match the Formula Spending Share (FSS). The local schools formula will remain in place.
- 2.2 The DfES have not produced any exemplifications, but this approach appears to be controversial for two reasons. Firstly, in aggregate authorities spend £200 million more than FSS on schools, so the DfES will be removing from the local government finance system £200 million more than they saw fit to fund. Secondly, Warwickshire currently spends £4.7 million (or 2.1%) over FSS<sup>3</sup>. In future, spending on Warwickshire schools funded by the DfES will decrease in relative terms until it is in line with the notional schools spending figure, represented by FSS. The authority can still choose to target additional funding to schools.
- 2.3 The DfES say the changes will “ensure that there is no adverse impact on the rest of local government arising from the creation of the Dedicated Schools Grant”<sup>4</sup>. However, the Office for the Deputy Prime Minister (ODPM) has not yet made its proposals known. For authorities, such as Warwickshire, that presently spend above FSS, the creation of the new grant may reduce their FSS by less than their reduction in costs, giving the authority a windfall gain in budgeting terms. However, this depends on the precise mechanism adopted by the ODPM and DfES to withdraw the funding for the DSG from the overall local government finance system.
- 2.4 It has been a policy of the County Council to support the return of business rates to local authority control. One of the knock-on effects of these proposals is that such a return would no longer be possible. The DSG nationally would

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<sup>3</sup> The 2005/06 figure has not yet been finalised, pending completion of the section 52 statement, but it is expected to be around the same proportion. The analysis comes from the Chartered Institute of Finance & Accountancy (CIPFA).

<sup>4</sup> Para. 88 of the full consultation report.

be so big that it would require virtually all of the current Revenue Support Grant, provided for all services, to fund it. The only other source of funding for the DSG would be business rates. Some business rates would have to fund the DSG and the rest would be needed to equalise for the differences in needs and resources for all authorities across all other services – a function of Revenue Support Grant currently. Effectively business rates would become part of general taxation.

- 2.5 This process is likely to result in considerable uncertainty (at least in the short term) regarding the resource forecasting for the authority. It is not possible to forecast accurately the resources available to the authority until we know the mechanisms for calculating DSG and the rest of the resources available to local government.
- 2.6 The DfES need to respond to the following questions:
- What evidence is there that Formula Spending Shares should be used as an accurate target for actual spending in individual authorities?
  - Will Warwickshire schools be better off or worse off under these proposals?
  - Is the approach equitable, given that authorities that have traditionally “underspent” on education will now receive above average funding increases?
  - Has the DfES modelled the impact on all other local government services?

### **3. Three-Year Budgets for Schools**

- 3.1 The Government propose three-year financial settlements for schools. This is a sensible proposal in providing greater certainty and stability. The principles of medium-term budgeting are readily accepted. It should encourage a more strategic use of resources to raise standards in schools. However, the DfES want budgets to be updated for pupil numbers and they are also considering a shift to academic year budgeting. Therefore, this is not really three-year budgeting. Schools will still need to account on a financial year, which will increase bureaucracy.
- 3.2 The idea of an academic year budget may seem initially appealing, but schools are probably unaware of the complexity of these new proposals. Schools could end up reporting on a financial year basis even though this was not aligned with their funding or they could report twice each year (on academic and financial years). It is far from clear whether the DfES proposals are any improvement on the financial data that Warwickshire schools currently get from the County.
- 3.3 The DfES need to respond to the following questions:

- How will DfES ensure that adequate funding is available to the County Council to guarantee three-year budgets (Given uncertainty over pupil numbers)?
- What is the evidence base that funding schools on an academic year basis will contribute to raising standards in schools?

#### 4. Distribution from Authorities to Schools

- 4.1 The DfES propose to continue its rule regarding centrally retained education expenditure. The rule states that central spending cannot increase at a rate greater than schools' delegated budgets increase. This cap covers budgets for areas such as early years and out-of-county placements for special needs pupils. The authority will need to set these budgets three years in advance and any variation would have to be approved by the Schools Forum. This places a burden on the Forum and removes democratic accountability from the most vulnerable of children and distorts accountability.
- 4.2 The DfES intend to maintain a minimum funding guarantee (MFG) for all schools, despite the Audit Commission's conclusion that it represents an inefficient use of resources<sup>5</sup>. Serious doubt is cast on the efficacy and equity of a funding "protection" mechanism which is now spread over 51% of schools and is actually being largely allocated to growing schools rather than those with pupil decline. The table below shows the impact on Warwickshire schools for 2005/06:

	<b>Distributed by MFG</b>	<b>Number of Schools</b>	<b>Percentage of Schools</b>
Infant	£139,786	17	46%
Junior	£168,641	16	52%
Primary	£734,717	77	56%
Secondary	£251,440	13	35%
All Schools	£1,294,584	123	51%

- 4.3 The DfES are also consulting on data changes within the local schools formula (for example, for business rates or free school meals), to minimise any further fluctuations in funding. There is merit in this approach, but there will always be a tension between schools that request additional funding every time there is a change in local circumstances and other schools that would prefer a degree of consistency irrespective of fluctuations in data.
- 4.4 The DfES propose transferring Teachers' Pay Reform Grant (TPRG) from special grant into general funding. It is probable that TPRG will be added to the national DSG. If this occurs Warwickshire schools are likely to lose out,

<sup>5</sup> Audit Commission "Education Funding – The Impact and Effectiveness of Measures to Stabilise School Funding" (2004).

because the authority receives a below average national “share” of Formula Spending Share (or Dedicated Schools Grant).

4.5 The DfES need to respond to the following questions:

- Why have the DfES ignored the conclusion of the Audit Commission that the minimum-funding guarantee is inefficient?
- Can the DfES guarantee that Warwickshire will receive sufficient resources to fund fully the minimum-funding guarantee (given that the County will probably be on the funding floor)?
- Will the DfES clarify the legal accountability surrounding the funding of special needs pupils, given the ring-fenced nature of the Dedicated Schools Grant and the role of the Schools Forum?
- When will the DfES produce exemplifications indicating the redistribution of funding (including teachers’ pay reform grant) and its impact on Warwickshire and its schools?

## **5. Single Standards Grant**

5.1 The DfES propose to streamline most grants (particularly Standards Fund grants) directed at schools. They also propose redistributing the Schools Standards Grant on a less “lumpy” basis<sup>6</sup>. In addition they propose removing the need for matched funding for Standards Fund grant, although this will not depend on actual take-up rates. They will continue to cash freeze LEA grants.

5.2 The proposal to reduce funding streams is welcome. This should simplify schools’ financial planning and monitoring. The proposal to change the distribution of the existing Schools Standards Grant is also welcomed, as the current eligibility rules create “cliff edge” funding. There is a concern that the distribution of the Single Standards Grant nationally on a basis that includes a weighting for deprivation may be detrimental to the authority. It is disappointing that the DfES continue to cash freeze grants for LEA activities, which hinders the development of partnerships and cross-county collaborative working.

## **6. Strategic Financial Management**

6.1 The DfES ask whether the financial management standard they have recently introduced should be compulsory (possibly just for secondary schools). The DfES also confirm that schools are unlikely to be asked to demonstrate Gershon efficiency savings, other than by using existing data. They refer to the new Centres of Procurement Performance (CPP), which are expected to help reduce authorities and schools’ purchasing costs.

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<sup>6</sup> The current grant works on a banded pupil basis, so the gain or loss of one pupil can have a substantial impact on the funding of a school.

- 6.2 The financial management standard is a useful toolkit for some schools to address some financial issues, but should not be compulsory, because the authority already has its own Financial Standing Orders and Regulations for its schools.

## **7. Conclusions**

- 7.1 The consultation document covers a wide range of financial issues. Implementation of the proposals could have a profound impact on schools and more generally on the overall funding of the authority. There is a need for much more detail from the DfES and also from the Office of the Deputy Prime Minister (ODPM) before we can take a balanced view on the proposals. The consultation document asks a series of very detailed questions on the minutiae of the proposed implementation. The more general questions posed in this report (in paragraphs 2.4, 3.3 and 4.4) have been used as the basis of a covering response to the consultation.
- 7.2 It is unlikely that the proposals can be implemented and monitored at a local level from within existing resources. The preparation of three-year budgets will require new skills, additional staff and improvements to information technology to prepare associated commitments and forecast pupils and costs. This will be compounded if financial year and academic year budgets and closedown procedures are required. Auditing and monitoring requirements associated with the new grant and associated autonomy of schools (particularly related to strategic financial management needs) will also consume additional resources. The additional complexity of a redistribution of national and local funding and the likely consequential impact on individual school budgets will all place greater pressure on financial support and control and this will not be offset, in the short-term, by reductions in funding streams. However, it will not be possible to quantify these pressures until more details of the implementation are known.

ERIC WOOD  
County Education Officer

22 Northgate Street  
Warwick

DAVE CLARKE  
County Treasurer

Shire Hall  
Warwick

12<sup>th</sup> May 2005



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09 May 2005

Dear Sir,

### **Consultation on New School Funding Arrangements From 2006-07**

Please find attached a completed consultation response form on behalf of Warwickshire County Council. I also want to highlight the following points to you, which are not covered by the questions posed in the consultation documentation.

#### **Dedicated Schools Grant**

The key issue for the authority is the extent to which the proposals will reduce overall funding to Warwickshire schools, relative to the current position. My officers' interpretation of the consultation is that the Dedicated Schools Grant (DSG) is designed to directly replace funding currently received by the authority via the Education Formula Spending Share (FSS). The DSG will be based initially on local authorities' total spending on Schools Block items, but will eventually taper away to match FSS. Warwickshire spent £4.7 million (or 2.1%) over FSS in 2004/05. Exemplifications have not yet been shared with LEAs, but it appears that this differential between the DfES and the authority's assessment of the need to spend on Warwickshire schools will be lost (to other authorities). Therefore, the authority and its schools would like a response to the following questions, to understand the rationale behind the DfES's decisions:

- What evidence is there that Formula Spending Shares should be used as an accurate target for actual spending in individual authorities?
- Will Warwickshire schools be better off or worse off under these proposals?

- Is the approach equitable, given that authorities that have traditionally “underspent” on education will now receive above average funding increases (at the expense of authorities like Warwickshire)?

### **Three-Year Budgets & Academic Year Financing**

The proposal to introduce three-year budgeting is sensible and should provide greater certainty and stability. However, if budgets are updated for (unknown) pupil numbers this is not really three-year budgeting, as there will be too much uncertainty. Our schools are generally in favour of academic year funding but they do not want to report twice each year (on academic and financial years). We are concerned that the consultation document hopelessly under-estimates the time and cost of producing final accounts. As we are likely to be an authority on the funding “floor” we are also unclear how DfES can guarantee sufficient funding to meet the minimum funding guarantee and pressure on central budgets. Therefore, we would like answers to the following questions to provide reassurance on adequate funding levels and evidence-based policy making:

- How will DfES ensure that adequate funding is available to the County Council to guarantee three-year budgets (Given uncertainty over pupil numbers)?
- What is the evidence base that funding schools on an academic year basis will contribute to raising standards in schools?

### **Distribution from Authorities to Schools**

The authority remains concerned that that the cap on central spending continues. This cap covers out-of-county placements for special needs pupils and places a burden on the Schools Forum (to approve spending) and removes democratic accountability for the most vulnerable of children. The split of accountabilities between funding (from the DfES), decision-making (the Schools Forum) and the local authority (legally accountable) muddles the situation and runs counter to the Children Act. It would be helpful for DfES to explain how their proposals are designed to improve outcomes for these pupils.

The authority is disappointed that DfES choose to maintain a minimum funding guarantee (MFG) for all schools. In Warwickshire the funding “protection” mechanism is now spread over 51% of schools and is being largely allocated to growing schools rather than those with pupil decline, which reinforces the Audit Commission’s conclusion that it represents an inefficient use of resources.

We also have concerns that as the Teachers’ Pay Reform Grant (TPRG) is transferred from special grant into general funding Warwickshire schools will lose out, because the authority receives a below average national “share” of Formula Spending Share (or Dedicated Schools Grant). Therefore, to forewarn schools of the likely funding challenges they will face from 2006/07 onwards we would like DfES to answer the following:

- Why have the DfES ignored the conclusion of the Audit Commission that the minimum-funding guarantee is inefficient?
- Will the DfES clarify the legal accountability surrounding the funding of special needs pupils, given the ring-fenced nature of the Dedicated Schools Grant and the role of the Schools Forum?
- When will the DfES produce exemplifications indicating the redistribution of funding (including teachers' pay reform grant) and its impact on Warwickshire and its schools?

The consultation raises some fundamental issues about the future of school funding and its impact on the education and well-being of all children that aren't reflected in the detailed, technical questions raised in the consultation response form. I hope that this letter will go some way towards shaping the eventual implementation so that all Warwickshire's pupils benefit from this change in funding.

Yours faithfully,

**Eric Wood**  
**County Education Officer**



## Consultation on new school funding arrangements from 2006-07

Consultation Response Form

**The closing date for this consultation is: 13 May 2005**  
**Your comments must reach us by that date.**

department for

**education and skills**

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The information you send to us may need to be passed to colleagues within the Department for Education and Skills and/or published in a summary of responses received in response to this consultation. We will assume that you are content for us to do this, and that if you are replying by e-mail, your consent overrides any confidentiality disclaimer that is generated by your organisation's IT system, unless you specifically include a request to the contrary in the main text of your submission to us.

The Department may, in accordance with the Code of Practice on Access to Government Information, make available on public request, individual consultation responses. This will extend to your comments unless you inform us that you wish them to remain confidential.

Please tick if you want us to keep your response confidential.

Name County Education Officer  
Organisation (if applicable) Warwickshire County Council  
Address: Education Department  
22 Northgate Street  
Warwick  
CV34 4SP

If your enquiry is related to the policy content of the consultation you can contact:

e-mail: [SchoolFunding.Questions@dfes.gsi.gov.uk](mailto:SchoolFunding.Questions@dfes.gsi.gov.uk)

If you have a query relating to the consultation process you can contact the Consultation Unit on: Telephone: 01928 794888; or Fax: 01928 794 311

e-mail: [consultation.unit@dfes.gsi.gov.uk](mailto:consultation.unit@dfes.gsi.gov.uk)

Please tick one of the boxes that best describes you as a respondent

<input checked="" type="checkbox"/> Local Authority	<input type="checkbox"/> Schools Forum	<input type="checkbox"/> Teacher Union
<input type="checkbox"/> Governor Association	<input type="checkbox"/> Headteacher Association	<input type="checkbox"/> School
<input type="checkbox"/> Headteacher	<input type="checkbox"/> Bursar	<input type="checkbox"/> Governor
<input type="checkbox"/> Teacher	<input type="checkbox"/> Parent	<input type="checkbox"/> Other

Please specify:

### Three year budgets for schools - financial framework

1 Do you agree that it would be helpful to schools to receive forward budget information for at least two academic years as well as at least two financial years to aid forward planning? (*Paragraphs 18-21 in the full consultation document; 15-17 in the summary*)

<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Neither agree nor disagree
<input checked="" type="checkbox"/> Disagree	<input type="checkbox"/> Strongly disagree	

Comments:

The principles of medium term budgeting are readily accepted. It should encourage a more strategic use of resources in raising standards in schools. However, it is difficult to see how some of the detailed proposals from DfES can contribute towards this laudable goal.

Forward budget information for schools will only be helpful if it is guaranteed in absolute £s per pupil - initially to the local authority so that it can then guarantee its schools funding increases. This will need to be directly linked to a single collection of data per annum (for example, a single pupil count) and also sufficient lead-in time for schools to plan. So, for example, it is suggested that financial budgets would need to be communicated to schools very early in the financial year in order to provide adequate financial planning time for the academic year. In effect, this is what happens already.

Giving schools two sorts of financial data for financial planning purposes in the same year (irrespective of whether it is an academic year or a financial year) will only be confusing. It will also be expensive, both to schools (if they formally have to produce two budgets per year) and to local authorities in the production of two sets of budget data. The latter is especially important, given that DfES have made no efforts to ring fence LEA funding.

2 Are there other ways in which either DfES or local authorities could help to extend schools' ability to plan ahead effectively?

Comments:

As noted above, the key is the degree of certainty with which schools can financially plan. If the number of funding streams can be reduced and also funding levels can be guaranteed (complete with greater flexibility concerning the use and application of grants) then this would give schools the opportunity to manage over a greater timeframe with a degree of certainty. There is also a need for advance notification of data underpinning the calculation of the Dedicated Schools Grant (for the LEA) in order that schools can be given time to plan prior to the start of any academic year.

3 Which funding year would be the most helpful for giving schools funding information for the academic year: August to July or September to August? (*Paragraph 22 in the full consultation document; 19-20 in the summary*)

August to July

September to August

Comments:

This question presupposes that funding on an academic year is preferable to a financial year. Schools in Warwickshire have generally indicated a preference for academic year budgets, subject to the caveats given in question 2 above. However, the LEA still awaits a cogent argument to justify this stance from DfES. The major funding decisions taken by schools revolve around staffing decisions and these are aligned with terms (with most decisions taking place with effect from September). If funding is not known until September then this would be too late for schools to take any action on their staffing structures until mid-way through the academic year. The considerable advantage of having school budgets known by March is that this gives a suitable period of time for schools to take staffing decisions in time for the start of the Autumn term. Therefore, for academic budgeting to work there is a need for final funding decisions to be taken by DfES and notified to LEAs by March / April at the latest. As long as this occurs there is little difference between an August or September start.

4 Do you agree that the approach of having funding increases in September, with funding allocations aligned to the academic year, is sensible? (*Paragraphs 25-28 in the full consultation document; 22-24 in the summary*)

Strongly agree

Agree

Neither agree nor disagree

Disagree

Strongly disagree

Comments:

See comment on Question 3 above – this approach will only make sense if there is sufficient lead-in time for schools to be notified of their exact funding position in order to make any appropriate changes to staffing structures to deliver the desired curriculum in the school.



5 Do you think that the benefits of accounting on an academic year as well as a financial year basis outweigh the extra costs involved? (*Paragraphs 29-33 in the full consultation document; 26 in the summary*)

<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Neither agree nor disagree
<input type="checkbox"/> Disagree	<input checked="" type="checkbox"/> Strongly disagree	

Comments:

No.

The DfES only seem to have taken into account the costs of accounting on an academic year from the perspective of the school (and even then only from the direct additional burden based on school staff – there is no mention of additional pressures put on school Governors – who would have to approve two sets of budgets and two sets of final accounts, with little value added to the process). As noted in the response to Question 3, academic year accounting will not improve staff-related financial planning decisions, unless there is sufficient time given for schools to financially plan effectively. There is no account taken of the additional burden placed on LEA staff resulting from a doubling up of workload. In addition, all staff involved in the provision of support services sold to schools would need to provide additional information twice a year (on internal debtors / creditors). There is also an issue around the ability of current I.T. financial systems to deal with two closedowns in any one 12-month period. The DfES do not seem to have taken on board the huge additional workload of drawing up final accounts outside that of the school. Warwickshire estimates that the cost is at least triple that cited in the consultation document.

6 Do you have any further comments on the proposals to give schools three year budgets aligned to the academic year?

Comments:

Warwickshire does not currently adjust for updated pupils in-year. We make a retrospective adjustment in the following financial year (termed the “pupil adjustment”). The rationale here is that schools have maximum time to amend spending priorities. In-year budget adjustments may produce further short-term funding uncertainty for schools. If the change is positive schools will tend to place this in reserves. If the change is negative this may require a mid-year reduction in academic staff, which could have a detrimental impact on standards. A single budget that does not change at least gives the school certainty over financial and service planning.

The proposals do not give schools any guarantees of funding, so this is not real three year budgeting. The Comprehensive Spending Review means that at best there will be indications of two-year budgets (as the financial year of

the CSR clashes with academic year accounting). Pupil numbers continue to drive school budgets and as long as these vary annually there will be turbulence in the system that makes it difficult to financially plan. Any indication of future financial plans (at a global level) will only, at best, give a broad indication to Headteachers and Governors. This consultation raises expectations in schools that will not be met.

### The new Dedicated Schools Grant

7 Do you agree that allocations of Dedicated Schools Grant should be adjusted in response to changes in pupil numbers, rather than being based on the initial pupil numbers used, without updates? (*Paragraph 57 in the full consultation document; 34 in the summary*)

<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input checked="" type="checkbox"/> Neither agree nor disagree
<input type="checkbox"/> Disagree	<input type="checkbox"/> Strongly disagree	

Comments:

This is entirely dependent on the DfES views of stability within the overall funding system. A freeze on pupil numbers at school level and at LEA level would produce a degree of certainty into the process. However, it does present a problem in terms of resources following pupils, which is a longstanding factor in school funding. It would be helpful to allow LEAs that use a mixture of actual and forecast pupil numbers in their local formulae to continue with this approach. Schools in Warwickshire have found this helpful. However, it is most confusing if funding streams are continually being changes and updated *within* the financial (or academic) year, as it is difficult to adjust financial plans that have already been set in place. Early experience of changes in funding streams in LSC funding for sixth forms was that it created immense concern, confusion and bureaucracy for schools.

8 Should allocations of Dedicated Schools Grant continue to use lagged pupil numbers or move to up-to-date actual pupil numbers? (*Paragraphs 58-62 in the full consultation document; 35 in the summary*)

<input type="checkbox"/> Lagged pupil numbers	<input checked="" type="checkbox"/> Actual pupil numbers
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Comments:

If pupil numbers are to be used to continually update funding streams then it is suggested that the most up-to-date available data is used, as this follows the general policy that data should (as best as possible) reflect the current financial pressures facing the school (and the LEA).

9 If allocations of Dedicated Schools Grant use up-to-date actual pupil numbers, should we continue to use lagged pupil numbers for authorities with falling rolls? (*Paragraph 67 in the full consultation document; 36 in the summary*)

Use lagged pupil numbers for schools with falling rolls

Use actual pupil numbers for schools with falling rolls

Comments:

If there is going to be a degree of consistency and equity in the system then all schools and LEAs need to be treated in the same way. To do otherwise would bring the system into greater disrepute.

10 Given that pupil numbers will be updated, will it be helpful to fix the unit of resource for the funding distributed to local authorities for the three year period? (*Paragraphs 63-64 in the full consultation document; 37 in the summary*)

Strongly agree

Agree

Neither agree nor disagree

Disagree

Strongly disagree

Comments:

It would certainly be helpful to at least fix a *minimum* unit of resource for the funding distributed to local authorities for the three-year period. This would allow authorities to give schools an indication of a minimum guaranteed budget, even if it was subject to shifts in schools' pupil numbers and potential changes in pressures on non-delegated budgets. If the DfES fails to do this it makes it difficult to ensure that sufficient resources will be received by authorities like Warwickshire, who will be on the funding "floor", to fund the minimum funding guarantee.

11 Do you agree that the non-pupil data indicators should be frozen for the three year period based on an average of the latest actuals? (*Paragraphs 65-66 in the full consultation document; 38 in the summary*)

- |  |  |   |
|--|--|---|
| <input type="checkbox"/> Strongly agree      | <input type="checkbox"/> Agree             | <input type="checkbox"/> Neither agree nor disagree |
| <input checked="" type="checkbox"/> Disagree | <input type="checkbox"/> Strongly disagree |   |

Comments:

This is dependent on decisions taken on changing data within the national and local formulae. Question 10 appears to imply that pupil number data will be updated anyway. Pupil number data drives the majority of funding for schools. Therefore, there would seem to be little logic in allowing pupil data to change every year but to then freeze non-pupil data. Added to this, changes to pupil data at the margins can have little impact on overall costs of the school (as long as it does not lead to changes in whole classes). However, changes in non-pupil data can reflect immediate changes in running expense pressures in schools – such as changes to premises or changes in business rate bills. Therefore, it would seem perverse to dissuade the local formula from reflecting these changes.

12 How do you think the floor increase should be funded: solely through a ceiling, or through a damping block as well? (*Paragraph 77 in the full consultation document; 40 in the summary*)

- |                                       |  |
|---------------------------------------|--|
| <input type="checkbox"/> Ceiling only | <input checked="" type="checkbox"/> Ceiling plus damping block |
|---------------------------------------|--|

Comments:

The County Council opposes the very principle of the Dedicated Schools Grant, because it removes funding and accountability from the local area and current proposals to ensure that DSG will reflect, over time, the Schools Formula Spending Share will substantially dis-benefit Warwickshire schools (as the County currently spends over FSS on schools). This is covered in more detail in the response to Question 15.

However, assuming that DfES intend to press ahead with this, schools in authorities such as Warwickshire that have invested heavily in education by spending more than the DfES' measure of the need to spend should be protected as much as possible and for as long as possible. The impact of the redistribution of resources, previously funded by the local taxpayer in Warwickshire, should be minimised so that its inevitable detrimental impact on standards in Warwickshire schools is also minimised.

13 Should there be a cash floor, as well as one on a per pupil basis, built into the system to protect authorities with rapidly falling rolls? (*Paragraph 79 in the full consultation document; 41 in the summary*)

Per pupil floor only

Per pupil floor and cash floor

Comments:

It would seem perverse to reduce funding from authorities who have previously chosen to spend above the Schools Formula Spending Share and provide them with only minimum protection on the funding “floor” whilst providing two lots of protection funding to authorities with falling rolls. This would appear to go against the whole ethos of Fair Funding and local management of schools – that funding follows the pupil.

14 Do you have views on what transitional arrangements are needed to ensure that there is no adverse impact on the rest of the local government finance system when DSG is introduced in 2006-07? (*Paragraphs 86-94 in the full consultation document; 43 in the summary*)

Comments:

There is clearly a need to ensure that other local government services do not suffer a loss of funding as a result of the introduction of the DSG. In particular, there must be no reduction in funding to those other services that contribute towards the Children Act agenda (in particular, to children’s social services). The DfES needs to be able to demonstrate where it will obtain the funding to bridge the gap between current local government spending on the Schools Block and Schools FSS – which in 2004/05 amounted to a difference of £200 million. Council tax rates should not be affected by this transfer of resources.

It has been a policy of this County Council (and the Local Government Association) to support the return of business rates to local authority control. One of the knock-on effects of these proposals is that such a return would no longer be possible. The DSG nationally would be so big that it would require virtually all of the current Revenue Support Grant, provided for all services, to fund it. The only other source of funding for the DSG would be business rates. Some business rates would have to fund the DSG and the rest would be needed to equalise for the differences in needs and resources for all authorities across all other services – a function of Revenue Support Grant currently. Effectively business rates would become part of general taxation. Therefore, the DfES proposals currently are a “double whammy” – authorities lose effective control over the funding of school services and they also lose the potential to re-integrate local business rates. Any plan to implement the DSG must take this into account.

15 Do you have any further comments on the proposals for the Dedicated Schools Grant?

Comments:

The consultation indicates an intention to use basically the same formula for distributing DSG as it does for FSS at present. However, it will also update the population *sparsity* information (from the 1991 Census), replace the Working Families Tax Credit measure and consider the case for a top-up for pupil mobility. These all have the potential to shift substantial resources around the local government finance system (and hence impact on Warwickshire schools). However, it is not possible to predict how this may look until we see the datasets that DfES propose using. It is disappointing that there is not yet a single exemplification of these proposals.

Revenue Support Grant has, to date, been unhypothecated i.e. it is a single "block grant" and is meant to cover all County services. The local authority has discretion to spend as it sees fit across its services. This is in acknowledgement of the principle of local democracy and assigning accountability as well as a recognition that the statistics used in the FSS formula *may* reasonably measure the *relative* need for general grant amongst large multi-purpose authorities, but may be insufficiently precise to determine the actual operational cost of a particular local service (police, fire, school, social, environmental, housing etc.) in a certain part of the country. This has, hitherto, been the responsibility of local government. The Dedicated Schools Grant overthrows these established principles of many decades promulgated by ODPM and the Treasury and involves immense amounts of public money.

Only 2 years ago Ministers described the previous SSA system as "discredited" and Warwickshire benefited from the move to the FSS methodology. For government funding to move, within a 2 year period, from a system, which was supposed to benefit Warwickshire to one that dis-benefits it relative to other LEAs and may endanger schools' improvement plans appears very peculiar.

The House of Commons Select Committee observed, "Given that the settlement for 2003-04 was distributed using a new funding formula, it is remarkable that within eighteen months the whole rationale for that original change, that the funding system needed to be fairer and more redistributive, has been abandoned in favour of a highly pragmatic near flat-rate system, with three year budgets being introduced in 2006". This change has led to the loss of LEAs' ability to make any executive decisions about schools' funding in their areas and will, we believe, inevitably lead to far greater involvement of the DfES in day-to-day management of the school system.

Whereas the DfES is seeking to achieve "stability" through this new national approach and the maintenance of a minimum guarantee per pupil within the local schools' financing formula, in Warwickshire it looks like the stability of unfairness and a very blunt instrument which will distribute resources nationally and locally in an ineffective way. This is a view supported by the Audit Commission in its report of the 2003/04 funding "crisis".

There is no proper evidential basis for saying that change is merited, and no way of being confident that the changed system will adequately address any problems that exist.

### Three year school budgets: the distribution of funding from local authorities to schools

16 Do you agree that the split in the Schools Budget between the Individual Schools Budget and the central items set at the beginning of a three year funding period could subsequently be varied with the agreement of the Schools Forum if circumstances changed? (*Paragraph 101 in the full consultation document; 50 in the summary*)

Strongly agree       Agree       Neither agree nor disagree  
 Disagree       Strongly disagree

Comments:

Central items within the Schools Budget are much more volatile than in the rest of the local school funding system. For example, increases in the number and type of children with statemented needs lead to cost pressures, especially when an individual placement can cost in excess of £100,000 in an independent special school. It is simply not possible to predict a child with such needs moving into the County boundary. Therefore, there must be a need for flexibility here. There is also a great deal of uncertainty raised by this issue. If DfES now retain the “purse strings” then who is ultimately responsible for ensuring the adequate educational provision for such pupils? A separation between the funding of this service and the legal responsibility is not helpful. This also places a great burden on the Schools Forum. It shifts important decisions on the relative priorities of funding (of the most vulnerable of children) away from the democratic process. It would be helpful for DfES to clarify legal responsibilities here and to explain how this relates to the flow of resources.

17 Would you prefer a Minimum Funding Guarantee that continues to be set at or above cost pressures, or a lower value that would allow changes in a local authority’s formula to flow through more rapidly? (*Paragraph 102 in the full consultation document; 53 in the summary*)

At or above cost pressures       Lower than cost pressures

Comments:

There is a very real risk that in authorities such as Warwickshire, that will face reduced funding in the shift towards the level of FSS, that the MFG is simply unaffordable. Therefore, if it is to be retained at all then it should be set at a minimal level.

The Warwickshire school financing formula has always had a protection mechanism built into it since the beginning of LMS in 1990. This was formulated for schools suffering more than a 4% cash loss in budget, mainly caused by a fall in pupil numbers. The effect of this pupil protection factor in the formula was to add cash to the school's budget so that the cash reduction was no more than 4% of the previous year's budget.

Serious doubt have to be cast on the efficacy and equity of a funding "protection" mechanism which is now spread over 51% of Warwickshire schools and is being largely allocated to growing schools rather than those with pupil decline.

It is also difficult to understand why DfES have not addressed the criticism levelled by the Audit Commission (in the document "Education Funding – The Impact and Effectiveness of Measures to Stabilise School Funding" (2004)) that the minimum funding guarantee represents an inefficient use of resources.

18 Do you agree that local authorities should be allowed to change their formulae once three year budgets have been set, under exceptional circumstances and with the agreement of their Schools Forum? (*Paragraph 116 in the full consultation document; 63 in the summary*)

Strongly agree

Agree

Neither agree nor disagree

Disagree

Strongly disagree

Comments:

Agreed that the formulae should only be changed after consultation with the Schools Forum.



19 Which do you think is more important: a system which allows schools to predict their future budget with more certainty, but is less responsive to changes in circumstances; or a system which allows all relevant data to be updated in the final budget? (*Paragraph 117 in the full consultation document; 64 in the summary*)

More certain but less responsive to change

Less certain but more responsive to change

Comments:

There are merits to both arguments and perhaps the decision is best left to Local Education Authorities, in conjunction with their Schools Forum. However, on balance greater certainty of resources at school level should encourage a more strategic use of resources in raising standards in schools. Of course, this would be dependent on accurate data and guarantees of overall funding levels from DfES, as outlined in responses to Questions 1,2 and 6.

20 Do you agree that it would be sensible to have more predictable arrangements for updating the budget for the forthcoming year, and less predictable but more responsive arrangements for the years further away? (*Paragraphs 118-119 in the full consultation document; 65 in the summary*)

Strongly agree

Agree

Neither agree nor disagree

Disagree

Strongly disagree

Comments:

See comments in response to Question 19 above.

21 Which of the following three options do you think local authorities should use to update the indicative budget? (*Paragraphs 120-129 in the full consultation document; 67-73 in the summary*)

a) pupil number changes applied to AWPU's only

b) pupil number and non-pupil data

c) an approach to be decided locally

Comments:

Clearly it is irrational to transfer decision-making powers to Schools Forums for activities such as determining spending limits on central items of expenditure, the operation of the minimum funding guarantee and a veto over the introduction of local formula changes without also giving the Schools Forum the opportunity to at least consider the most appropriate mechanism for updating the indicative budget. Therefore, it would be sensible for local authorities to have the freedom to decide a local approach appropriate to local circumstances in conjunction with schools and the Schools Forum.

22 Do you agree that funding for named SEN pupils should not be included in school budget forecasts for future years? (*Paragraph 121 in the full consultation document; 74 in the summary*)

Strongly agree

Agree

Neither agree nor disagree

Disagree

Strongly disagree

Comments:

As noted earlier, the key to effective financial management in schools is the degree of certainty and advanced notice of guaranteed funding and this depends primarily on a guaranteed Dedicated Schools Grant (irrespective of changes to data) and a guaranteed fixed unit of resource over a three year period from DfES to the LEA. The precise detail of inclusions and exclusions within school budget forecasts for future years is only a side issue here. If the pupil is likely to be in the same school for three years and is unlikely to have a material change to his or her stated need then there seems no good reason to *exclude* this data from any forecast. Of greater importance is the need for local authorities to have sufficient flexibility within the overall DSG and the local schools formula to respond effectively to changes in unavoidable budget pressures facing all schools such as changes to business rates.

23 Which is the best approach to avoiding turbulence when Teachers' Pay Grants are included in mainstream funding? (*Paragraphs 134-139 in the full consultation document; 76 in the summary*)

a) Allowing the funding to flow through an authority's formula and letting the Minimum Funding Guarantee moderate any turbulence

b) Allowing an authority to include a factor in their formula to continue the current distribution

c) Allowing an authority the flexibility to take an approach between options a) and b)

Comments:

Over a period of time the Teachers' Pay Grants need to be fed into overall education funding at a national level (via the DSG) and at the local level (via the local schools formula). However, to minimise any unnecessary turbulence in the system this needs to be introduced in a phased manner (either through floors and ceilings or some sort of tapering) at a national level. Local authorities should then also have the freedom and flexibility to use a temporary local factor (should they choose to do so).

24 Do you have any general comments on the approach local authorities might take to giving schools three year budgets?

Comments:

Spending pressures on centrally-retained items fall on the authority, yet funds to meet these pressures cannot be diverted from schools' allocations unless the Schools Forum agrees. Savings cannot be diverted from the Schools Budget at all, even though they could be invested in other education services to deliver on the outcomes outlined in the Children Act. This is unfair, inequitable and uneconomic.

### The new Single Standards Grant

25 Do you agree that we should retain a small number of grants to offer targeted support and for activities that require support on a continuing basis? (*Paragraph 154 in the full consultation document; 83 in the summary*)

Strongly agree

Agree

Neither agree nor disagree

Disagree

Strongly disagree

Comments:

The number of targeted grants needs to be kept to a minimum and any accompanying audit / reporting regimes should also be “light touch”. If the support is genuinely to be on a “continuing basis” then it should be incorporated into mainstream funding.

The DfES needs to bear in mind that each grant needs to be initially administered by the LEA, but no additional funding has been forthcoming. Indeed Standards Fund grants for LEAs have been either cash frozen or stopped. The DfES should complete an impact assessment (as other government departments do for regulatory and environmental frameworks) for each new grant to ascertain the additional burden placed on LEAs in administering, supporting and monitoring these grants.

26 Could any more of the existing targeted grants be made part of the amalgamated grant? (*Annex E in the full consultation document; Annex B in the summary*)

Yes

No

If yes, please list which other grants could be part of the amalgamated grant:

The authority has no strong views on the list of targeted grants.

27 Do you agree that we should opt for stability in the first two years of the amalgamated grant, by aggregating current Standards Fund grants without formula changes for that period? (*Paragraphs 152-153 in the full consultation document; 86-87 in the summary*)

Strongly agree

Agree

Neither agree nor disagree

Disagree

Strongly disagree

Comments:

We agree that a degree of stability would be helpful to schools (and central LEA services) here, particularly given the likely impact of the DSG on Warwickshire. Schools also have concerns that any subsequent shift to distribute Standards Fund grant and School Standards Grant (in part) to authorities by a measure of deprivation will further disadvantage them.

28 Do you agree that we should move the existing School Standards Grant to a lump sum and per pupil basis during the transitional phase, with suitable damping arrangements to ensure stability? (*Paragraphs 156-157 in the full consultation document; 88 in the summary*)

<input type="checkbox"/> Strongly agree	<input checked="" type="checkbox"/> Agree	<input type="checkbox"/> Neither agree nor disagree
<input type="checkbox"/> Disagree	<input type="checkbox"/> Strongly disagree	

Comments:

None.

29 Do you agree that the Standards Fund and the School Standards Grant should be brought together into a Single Standards Grant from 2008, using a formula that is pupil led and has a per school element to protect small schools, and a deprivation measure? (*Paragraph 160a in the full consultation document; 89-90 in the summary*)

<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Neither agree nor disagree
<input checked="" type="checkbox"/> Disagree	<input type="checkbox"/> Strongly disagree	

Comments:

The mechanism to protect small schools is sensible. However, the authority is currently of the view that any attempt to measure relative deprivation at a national level tends to dis-benefit authorities such as Warwickshire, where considerable pockets of severe deprivation exist, but there is an “averaging” effect across the county that has the effect of disguising this. The DSG should already take into account areas of deprivation and the Single Standards Grant is intended “to promote innovation and support national strategies” – which should have a similar impact on all authorities irrespective of measures of deprivation.

30 Do you agree that we should allow schools to agree, through their Schools Forum, to local authorities increasing the level of holdback for coordination and collaboration purposes by top-slicing the new Single Standards Grant? (*Paragraph 162 in the full consultation document; 91 in the summary*)

<input checked="" type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Neither agree nor disagree
<input type="checkbox"/> Disagree	<input type="checkbox"/> Strongly disagree	

Comments:

LEA support services to schools have already suffered through the removal or cash freeze on Standards Fund grants and ultimately this has had a detrimental impact on schools. Giving Schools Forums the flexibility to agree to increase the level of holdback for coordination and collaboration purposes should allow for the increased effectiveness in the use of these resources. It is one of the few opportunities within this consultation to potentially contribute towards the Children Act agenda.

31 Do you have any further comments on the proposals for the new Single Standards Grant?

Comments:

No.

### **Strategic Financial Management and Planning**

32 Do you think that the Financial Management Standard should become compulsory? (*Paragraphs 176-177 in the full consultation document; 100 in the summary*)

<input type="checkbox"/> Strongly agree	<input type="checkbox"/> Agree	<input type="checkbox"/> Neither agree nor disagree
<input type="checkbox"/> Disagree	<input checked="" type="checkbox"/> Strongly disagree	

Comments:

No – although the Financial Management Standard is a very helpful tool for schools to improve their use of resources it is too wide-ranging and comprehensive to be applicable to all schools. It would overwhelm some small primary schools. It is suggested that perhaps larger schools (perhaps all secondary schools or schools with a budget in excess of £x million) should meet the Financial Management Standard (or some other equivalent measure) or perhaps those schools in receipt of schools in financial difficulties resources or those with licensed deficits.

33 How could the Financial Management Standard and Toolkit and Schools Financial Benchmarking website be improved for users? (*Paragraphs 176-177 in the full consultation document; 100 in the summary*)

Comments:

The toolkit and website have a comprehensive coverage of issues, which is helpful, but perhaps the “front pages” could be simplified to provide an introduction or key messages for schools and more of the information could be “back-loaded” for those school users that want to delve in to the data / information in more detail.

34 What sort of procurement deals and arrangements would be most suitable for schools? (*Paragraphs 195-203 in the full consultation document; 102-103 in the summary*)

Comments:

Warwickshire has set up a Board to develop a single brand identity and accelerate the service improvement agenda of the in-house services it currently offers to schools. A Schools Representative Group, consisting of Headteachers and Governors, supports this. The process is working well and we would not want to introduce any mandatory procurement deals and arrangements that could undermine this good working relationship. The creation of generic courses to assist schools in developing their capacity for procurement would be beneficial, as would a database of potential services and specifications that schools may want to consider as part of their procurement decision-making process.

35 In what other ways can schools become more productive and efficient in the use of their resources?

Comments:

None.

Thank you for taking the time to let us have your views. We do not intend to acknowledge individual responses unless you place an 'X' in the box below.

Please acknowledge this reply

Here at the Department for Education and Skills we carry out our research on many different topics and consultations. As your views are valuable to us, would it be alright if we were to contact you again from time to time either for research or to send through consultation documents?

Yes

No

### **How to respond and further information**

The consultation response form is available at [www.dfes.gov.uk/consultations/](http://www.dfes.gov.uk/consultations/). You can complete this on-line, or download it and post it to us. Copies of the form are also enclosed with printed copies of this consultation document and the separate summary document.

If you are responding on-line, select the "Respond on-line" option at the beginning of the consultation webpage: [www.dfes.gov.uk/consultations/](http://www.dfes.gov.uk/consultations/).

If you prefer you can send completed response form to Department for Education and Skills, Consultation Unit, Area 2A, Castle View House, East Lane, Runcorn, Cheshire, WA7 2GJ

Or fax it to 01928 794248

Or send it by e-mail to: [SchoolFunding.Consultation@dfes.gsi.gov.uk](mailto:SchoolFunding.Consultation@dfes.gsi.gov.uk)

### **If you have any questions about the proposals or would like to know more**

If you would like to ask us about any aspect of the proposed funding arrangements, please e-mail the School Funding Team at [Schoolfunding.Questions@dfes.gsi.gov.uk](mailto:Schoolfunding.Questions@dfes.gsi.gov.uk) or call us on 020 7925 6706. You can also visit the school funding area on TeacherNet where we will keep a list of Frequently Asked Questions up to date and post any additional information that becomes available during the consultation period. The address is [www.teachernet.gov.uk/management/schoolfunding/](http://www.teachernet.gov.uk/management/schoolfunding/).

### **Additional Copies**

Copies of the document can be requested from: DfES Publications, PO Box 5050, Sherwood Park, Annesley, Nottingham, NG15 0DG

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