

Annex C: Area Cost Adjustment (ACA)

1. This annex provides a detailed explanation of how we have developed the area cost adjustment that we are proposing is used to ensure that the allocation of additional funding reflects differences in area labour market costs.

2. The hybrid area cost adjustment would be applied to each minimum funding level so that in each local authority area, the minimum funding level reflects any disproportionate differences in labour market costs.

A Hybrid ACA – how does this work?

3. The hybrid ACA has a teachers' pay element and a non-teaching staff element and we describe how both have been calculated below. Both elements are combined to provide an overall adjustment for each local authority and we describe how we do this and how the adjustment has been calculated for an example authority.

Teachers' pay element

4. There are four regional pay bands for teachers: Inner London, Outer London, the Fringe and the Rest of England. We do not think it is right to use the average pay for each of these four pay band areas, because in each, average teacher pay will be influenced by the way in which the local authorities in those areas are currently funded. So we have used the following method:

- From the most recent published School Workforce Census (autumn 2012), we have looked at each teacher's¹ basic pay² and calculated how far that teacher was up the pay ranges for their regional pay band. For example, a classroom teacher in the Rest of England with basic pay of £21,588 in autumn 2012 is at the bottom of the main pay range for the Rest of England, which extends from £21,588 to £31,552.
- We then calculated what the same teacher's pay would be if he or she were in an equivalent position on the pay ranges for the other pay bands. For example if that teacher were at the bottom of the main pay range in Inner London (which runs from £27,000 to £36,387) they would have a basic salary of £27,000.
- We have repeated this for every teacher and every regional pay band.
- For each regional pay band, we calculated the notional average basic pay as if all teachers in England were in that pay band. For example, to calculate the average

¹ All grades of teachers were included in the calculation, including the leadership group.

² 'Basic pay' refers to the pay spines and pay scales defined in the [School Teachers' Pay and Conditions Document 2012](#) (which was in force at the time when the data was collected). Basic pay excludes items such as allowances for additional responsibilities.

pay in Inner London, we included not only the teachers in Inner London, but also teachers elsewhere, with their pay converted to Inner London rates. In this example, a classroom teacher in the Rest of England whose basic pay is £21,588 would be treated as having a notional basic salary of £27,000, purely for the purpose of calculating the Inner London average. The notional average basic pay for Inner London comes out at £41,388 and for the Rest of England £34,790. These notional amounts are purely for the ACA calculation and are not the actual regional averages.

- The adjustment for Inner London is the ratio of the two, 1.1897.

5. The average basic pay for each band, and the adjustment factors, are shown in figure C1 below.

Figure C1: Notional average basic pay and adjustment factors for teachers' regional pay bands.

	Inner London	Outer London	Fringe	Rest of England
Notional average basic pay for ACA calculation	£41,388	£38,256	£35,827	£34,790
Adjustment factor	1.1897	1.0996	1.0298	1.0000

Non-teaching staff element

6. The non-teaching staff element of the ACA is based on the Department for Communities and Local Government's (DCLG) labour cost adjustment (LCA), a general labour market (GLM) measure that is used to allocate funds to local authorities.

7. DCLG's LCA is based on regression analysis³ of pay data from the Annual Survey of Hours and Earnings⁴. The regression controls for variables such as age, gender, occupation, industry and public/private sector. The output is LCAs for 55 areas of England⁵.

8. DCLG has set a lower limit, to reflect the fact that national pay scales for public sector employees will not completely reflect the local labour market. The effect of the lower limit is that the 23 'cheapest' areas have their LCAs raised to the value of the threshold area, West Sussex Non-Fringe.

³ Further information on [DCLG's LCA methodology](#) can be found on the CLG website.

⁴ Further information on the [Annual Survey of Hours and Earnings](#) can be found on the Office for National Statistics website.

⁵ Some local authorities fall into more than one ACA area. For example, Kent is divided into Fringe and Non-Fringe ACA areas. In these cases, a weighted average ACA for the local authorities could be calculated on the basis of the number of pupils in each area.

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Hybrid ACA

10. We have used recently published data on local authority expenditure on education (section 251⁶) to calculate the proportion of total school funding that was spent on (1) expenses related to employing **teachers** (the teacher proportion – 54.4%) and (2) expenses relating to employing **non-teaching staff** (the non-teaching staff proportion – 27.4%). The remaining 18.2% of expenditure was on non-staff costs. These splits have been calculated by apportioning the cost lines according to figure C2 on the following page.

⁶ The most recent [Section 251 data](#) (Apprenticeships, Skills, Children and Learning Act 2009) can be found on the Department's website.

Figure C2: Assumed apportionment of spending between teachers, non-teaching staff and non-pay

Spending by schools	Teachers	Non-teaching staff	Non-Pay	Excluded	Total	References to notes below
Teaching staff (E01)	100%				100%	
Supply teaching staff (E02)	100%				100%	
Education support staff (E03)		100%			100%	
Premises staff (E04)		100%			100%	
Administrative & clerical staff (E05)		100%			100%	
Catering Staff (E06)		100%			100%	
Cost of other staff (E07)		100%			100%	
Indirect employee expenses (E08)	69%	31%			100%	Note 1
Development and training (E09)	69%	31%			100%	Note 1
Supply teacher insurance (E10)	100%				100%	
Staff related insurance (E11)	69%	31%			100%	Note 1
Building maintenance and improvement (E12)		35%	65%		100%	Note 2
Grounds maintenance and improvement (E13)		35%	65%		100%	Note 2
Cleaning and caretaking (E14)		65%	35%		100%	Note 2
Water and sewerage (E15)			100%		100%	
Energy (E16)			100%		100%	
Rates (E17)			100%		100%	
Other occupation costs (E18)			100%		100%	
Learning resources (not ICT) (E19)			100%		100%	
ICT learning resources (E20)			100%		100%	
Examination fees (E21)			100%		100%	
Administrative supplies (E22)			100%		100%	
Other insurance premiums (E23)			100%		100%	
Special facilities (E24)			100%		100%	
Catering supplies (E25)			100%		100%	
Agency supply teaching staff (E26)	100%				100%	
Bought-in professional services - curriculum (E27)		40%	60%		100%	Note 2
Bought-in professional services - other (E28)		40%	60%		100%	Note 2
Loan interest (E29)			100%		100%	
Community focused extended school staff (E31)				100%	100%	Note 3
Community focused extended school costs (E32)				100%	100%	Note 3

Notes

1. Divided between teachers and other staff in the same proportions as E01, E02, E03, E04, E05, E06 and E07 combined.
2. Based on assumptions derived from a sample of company accounts of firms contracted by local authorities to supply these services.
3. Excluded, as not part of the school budget.

11. Figure C2 produces a ratio of Teachers' Pay to Other Pay and Non-Pay expenditure of 54%:27%:18%⁷. In other words, of the expenditure on labour, 66% was spent on teachers and 34% was spent on non-teaching staff. Therefore, for a combined ACA the teacher pay band data will take a weighting of 66% and the general labour market (GLM) will carry a 34% weighting.

12. This approach provides a solution to the geography mismatch between the GLM geographies and the teachers' regional pay bands, as those authorities who are in Outer London but who pay their teachers at Inner London rates have this reflected in the teachers' pay section of the ACA. The hybrid ACA for each local authority, based on the combination of the teaching and non-teaching staff pay data, in the ratios described above, is shown in figure C3.

Example calculation

13. Ealing is in the Inner London teacher pay band, and it has a Labour Cost Adjustment of 1.1671 for non-teaching staff. The ACA for Ealing is calculated as follows:

Example – The area cost adjustment for Ealing

$$\begin{aligned} \text{ACA} &= 1 + \text{teacher proportion} * (\text{teacher cost adjustment} - 1) \\ &\quad + \text{non-teaching staff proportion} * (\text{LCA} - 1) \\ &= 1 + 54.4\% * (1.1897 - 1) + 27.4\% * (1.1671 - 1) \\ &= 1.1489 \end{aligned}$$

Area cost adjustment figures by local authority

14. Figure C3 provides the adjustments we are proposing for each local authority. Using the methodology above, the ACA for a local authority area is greater than 1 if either the teacher pay element or the non-teaching staff pay element of the hybrid ACA is greater than 1. The teacher pay element is greater than 1 if all or part of the local authority is in the Fringe, Outer London or Inner London teachers' pay bands. The non-teaching staff pay element is greater than 1 if the GLM labour costs are greater than a

⁷ More precisely, the proportions are 54.4% : 27.4% : 18.2%.

lower limit that has been set by the Department for Communities and Local Government to be equivalent to the West-Sussex Non-Fringe GLM labour cost adjustment⁸.

15. Authorities that are partly in the Fringe teachers' pay band and partly in the Rest of England teachers' pay band appear twice in figure C3, as 'Fringe' and 'Non-Fringe'.

Table of area cost adjustment by local authority

Figure C3: Area cost adjustment by local authority

Local Authority	Teachers' regional pay band	Teacher cost adjustment	Non-teaching staff element (LCA)	Hybrid ACA
Barking and Dagenham	IL	1.1897	1.1081	1.1328
Barnet	OL	1.0996	1.1671	1.1000
Barnsley	Rest	1.0000	1.0000	1.0000
Bath and North East Somerset	Rest	1.0000	1.0528	1.0145
Bedford	Rest	1.0000	1.0566	1.0155
Bexley	OL	1.0996	1.1081	1.0838
Birmingham	Rest	1.0000	1.0122	1.0033
Blackburn with Darwen	Rest	1.0000	1.0000	1.0000
Blackpool	Rest	1.0000	1.0000	1.0000
Bolton	Rest	1.0000	1.0197	1.0054
Bournemouth	Rest	1.0000	1.0000	1.0000
Bracknell Forest	Fringe	1.0298	1.1484	1.0569
Bradford	Rest	1.0000	1.0006	1.0002
Brent	IL	1.1897	1.1671	1.1489
Brighton and Hove	Rest	1.0000	1.0061	1.0017
Bristol, City of	Rest	1.0000	1.0528	1.0145
Bromley	OL	1.0996	1.1081	1.0838
Buckinghamshire Fringe	Fringe	1.0298	1.1114	1.0467
Buckinghamshire Non-Fringe	Rest	1.0000	1.1036	1.0284
Bury	Rest	1.0000	1.0197	1.0054
Calderdale	Rest	1.0000	1.0006	1.0002
Cambridgeshire	Rest	1.0000	1.0464	1.0127
Camden	IL	1.1897	1.3034	1.1863
Central Bedfordshire	Rest	1.0000	1.0566	1.0155
Cheshire East	Rest	1.0000	1.0131	1.0036
Cheshire West and Chester	Rest	1.0000	1.0131	1.0036
City of London	IL	1.1897	1.5771	1.2613
Cornwall	Rest	1.0000	1.0000	1.0000

⁸Further information on the methodology for [DCLG's area cost adjustment](#) can be found on the DCLG website.

Local Authority	Teachers' regional pay band	Teacher cost adjustment	Non-teaching staff element (LCA)	Hybrid ACA
County Durham	Rest	1.0000	1.0000	1.0000
Coventry	Rest	1.0000	1.0122	1.0033
Croydon	OL	1.0996	1.1081	1.0838
Cumbria	Rest	1.0000	1.0000	1.0000
Darlington	Rest	1.0000	1.0000	1.0000
Derby	Rest	1.0000	1.0000	1.0000
Derbyshire	Rest	1.0000	1.0000	1.0000
Devon	Rest	1.0000	1.0000	1.0000
Doncaster	Rest	1.0000	1.0000	1.0000
Dorset	Rest	1.0000	1.0000	1.0000
Dudley	Rest	1.0000	1.0122	1.0033
Ealing	IL	1.1897	1.1671	1.1489
East Riding of Yorkshire	Rest	1.0000	1.0000	1.0000
East Sussex	Rest	1.0000	1.0061	1.0017
Enfield	OL	1.0996	1.1081	1.0838
Essex Fringe	Fringe	1.0298	1.0783	1.0377
Essex non-Fringe	Rest	1.0000	1.0128	1.0035
Gateshead	Rest	1.0000	1.0000	1.0000
Gloucestershire	Rest	1.0000	1.0227	1.0062
Greenwich	IL	1.1897	1.3034	1.1863
Hackney	IL	1.1897	1.3034	1.1863
Halton	Rest	1.0000	1.0131	1.0036
Hammersmith and Fulham	IL	1.1897	1.3034	1.1863
Hampshire	Rest	1.0000	1.0512	1.0140
Haringey	IL	1.1897	1.1081	1.1328
Harrow	OL	1.0996	1.1671	1.1000
Hartlepool	Rest	1.0000	1.0000	1.0000
Havering	OL	1.0996	1.1081	1.0838
Herefordshire	Rest	1.0000	1.0000	1.0000
Hertfordshire Fringe	Fringe	1.0298	1.1114	1.0467
Hertfordshire Non-Fringe	Rest	1.0000	1.0566	1.0155
Hillingdon	OL	1.0996	1.1671	1.1000
Hounslow	OL	1.0996	1.1671	1.1000
Isle of Wight	Rest	1.0000	1.0512	1.0140
Isles of Scilly	Rest	1.0000	1.0000	1.0000
Islington	IL	1.1897	1.3034	1.1863
Kensington and Chelsea	IL	1.1897	1.3034	1.1863
Kent Fringe	Fringe	1.0298	1.0783	1.0377
Kent non-Fringe	Rest	1.0000	1.0026	1.0007
Kingston upon Hull, City of	Rest	1.0000	1.0000	1.0000
Kingston upon Thames	OL	1.0996	1.1671	1.1000
Kirklees	Rest	1.0000	1.0006	1.0002

Local Authority	Teachers' regional pay band	Teacher cost adjustment	Non-teaching staff element (LCA)	Hybrid ACA
Knowsley	Rest	1.0000	1.0040	1.0011
Lambeth	IL	1.1897	1.3034	1.1863
Lancashire	Rest	1.0000	1.0000	1.0000
Leeds	Rest	1.0000	1.0006	1.0002
Leicester	Rest	1.0000	1.0000	1.0000
Leicestershire	Rest	1.0000	1.0000	1.0000
Lewisham	IL	1.1897	1.3034	1.1863
Lincolnshire	Rest	1.0000	1.0000	1.0000
Liverpool	Rest	1.0000	1.0040	1.0011
Luton	Rest	1.0000	1.0566	1.0155
Manchester	Rest	1.0000	1.0197	1.0054
Medway	Rest	1.0000	1.0026	1.0007
Merton	IL	1.1897	1.1671	1.1489
Middlesbrough	Rest	1.0000	1.0000	1.0000
Milton Keynes	Rest	1.0000	1.1036	1.0284
Newcastle upon Tyne	Rest	1.0000	1.0000	1.0000
Newham	IL	1.1897	1.1081	1.1328
Norfolk	Rest	1.0000	1.0000	1.0000
North East Lincolnshire	Rest	1.0000	1.0000	1.0000
North Lincolnshire	Rest	1.0000	1.0000	1.0000
North Somerset	Rest	1.0000	1.0528	1.0145
North Tyneside	Rest	1.0000	1.0000	1.0000
North Yorkshire	Rest	1.0000	1.0000	1.0000
Northamptonshire	Rest	1.0000	1.0119	1.0033
Northumberland	Rest	1.0000	1.0000	1.0000
Nottingham	Rest	1.0000	1.0100	1.0027
Nottinghamshire	Rest	1.0000	1.0100	1.0027
Oldham	Rest	1.0000	1.0197	1.0054
Oxfordshire	Rest	1.0000	1.0802	1.0220
Peterborough	Rest	1.0000	1.0464	1.0127
Plymouth	Rest	1.0000	1.0000	1.0000
Poole	Rest	1.0000	1.0000	1.0000
Portsmouth	Rest	1.0000	1.0512	1.0140
Reading	Rest	1.0000	1.1255	1.0344
Redbridge	OL	1.0996	1.1081	1.0838
Redcar and Cleveland	Rest	1.0000	1.0000	1.0000
Richmond upon Thames	OL	1.0996	1.1671	1.1000
Rochdale	Rest	1.0000	1.0197	1.0054
Rotherham	Rest	1.0000	1.0000	1.0000
Rutland	Rest	1.0000	1.0000	1.0000
Salford	Rest	1.0000	1.0197	1.0054
Sandwell	Rest	1.0000	1.0122	1.0033

Local Authority	Teachers' regional pay band	Teacher cost adjustment	Non-teaching staff element (LCA)	Hybrid ACA
Sefton	Rest	1.0000	1.0040	1.0011
Sheffield	Rest	1.0000	1.0000	1.0000
Shropshire	Rest	1.0000	1.0000	1.0000
Slough	Fringe	1.0298	1.1484	1.0569
Solihull	Rest	1.0000	1.0122	1.0033
Somerset	Rest	1.0000	1.0000	1.0000
South Gloucestershire	Rest	1.0000	1.0528	1.0145
South Tyneside	Rest	1.0000	1.0000	1.0000
Southampton	Rest	1.0000	1.0512	1.0140
Southend-on-Sea	Rest	1.0000	1.0128	1.0035
Southwark	IL	1.1897	1.3034	1.1863
St. Helens	Rest	1.0000	1.0040	1.0011
Staffordshire	Rest	1.0000	1.0000	1.0000
Stockport	Rest	1.0000	1.0197	1.0054
Stockton-on-Tees	Rest	1.0000	1.0000	1.0000
Stoke-on-Trent	Rest	1.0000	1.0000	1.0000
Suffolk	Rest	1.0000	1.0001	1.0000
Sunderland	Rest	1.0000	1.0000	1.0000
Surrey	Fringe	1.0298	1.1484	1.0569
Sutton	OL	1.0996	1.1671	1.1000
Swindon	Rest	1.0000	1.0259	1.0071
Tameside	Rest	1.0000	1.0197	1.0054
Telford and Wrekin	Rest	1.0000	1.0000	1.0000
Thurrock	Rest	1.0000	1.0783	1.0215
Torbay	Rest	1.0000	1.0000	1.0000
Tower Hamlets	IL	1.1897	1.3034	1.1863
Trafford	Rest	1.0000	1.0197	1.0054
Wakefield	Rest	1.0000	1.0006	1.0002
Walsall	Rest	1.0000	1.0122	1.0033
Waltham Forest	OL	1.0996	1.1081	1.0838
Wandsworth	IL	1.1897	1.3034	1.1863
Warrington	Rest	1.0000	1.0131	1.0036
Warwickshire	Rest	1.0000	1.0253	1.0069
West Berkshire	Rest	1.0000	1.1255	1.0344
West Sussex Fringe	Fringe	1.0298	1.1484	1.0569
West Sussex Non-Fringe	Rest	1.0000	1.0000	1.0000
Westminster	IL	1.1897	1.3034	1.1863
Wigan	Rest	1.0000	1.0197	1.0054
Wiltshire	Rest	1.0000	1.0259	1.0071
Windsor and Maidenhead	Fringe	1.0298	1.1484	1.0569
Wirral	Rest	1.0000	1.0040	1.0011
Wokingham	Rest	1.0000	1.1255	1.0344

Local Authority	Teachers' regional pay band	Teacher cost adjustment	Non-teaching staff element (LCA)	Hybrid ACA
Wolverhampton	Rest	1.0000	1.0122	1.0033
Worcestershire	Rest	1.0000	1.0000	1.0000
York	Rest	1.0000	1.0000	1.0000