

New School Funding Arrangements from 2006/07

This paper provides a summary of the Government's main proposals for introducing three year revenue budgets for schools and highlights issues of concern for the County Council. There are no proposals to change funding arrangements for capital.

Overview

The Schools' Budget (which covers funding delegated to schools plus centrally managed pupil related items such as special educational needs support services, placements in independent special schools and early years) will no longer be funded through general local government funding (via the Schools' Formula Spending Share) and Council Tax but through a new ring-fenced specific grant known as the Dedicated Schools' Grant (DSG). The DSG will incorporate the current Teachers' Pay Grant.

The Dedicated Schools' Grant will be allocated for two or three years at a time and will be provided on both a financial and an academic year basis. The provision of budgets on an academic year basis is intended to align financial planning with key decisions on staffing and curriculum.

Local authorities will continue to distribute funding to schools through their local formulae and schools will be given two or three year budgets incorporating a guaranteed minimum increase in per pupil funding each year.

A new Single Standards Grant will bring together the current schools' Standards Fund Grant and Schools' Standards Grant. Schools will have complete discretion over its use.

The Single Standards Grant will be distributed through a new formula introduced in two stages and with transitional protection arrangements to provide stability of funding.

Financial Framework

Allocations of the DSG will be linked to the Government's Spending Review cycle. This two year cycle sets the national public expenditure totals for the next three years. The third year of each cycle forms the first year of the next Spending Review.

In the first year of a Spending Review cycle allocations of DSG and therefore schools' budgets can be set for three years ahead but in the second year allocations can only be set for two years.

To align school budgets with academic years DSG will be allocated in blocks of five months (April to August) and seven months (September to March). This will require the DfES to provide allocations for five months beyond the end of the Spending Review cycle which would be provisional subject to confirmation once the next Spending Review settlement was agreed.

To facilitate the move to academic year planning increases in funding would take effect from September rather than April. This reflects the implementation of teachers' pay increases which is the major cost pressure for schools.

Schools must continue to produce financial year accounts to meet statutory requirements. However, to synchronise financial benchmarking with academic benchmarking the DfES is proposing that schools should also produce accounts on an academic year basis.

Dedicated Schools' Budget

This will cover the same elements of funding as the current Schools' Formula Spending Share (SFSS) and the grant will be ring-fenced so that the current passporting arrangements will no longer be required.

The Teachers' Pay Grant will form part of the DSG for 2006/07 as part of the rationalisation of funding streams. In future LEAs will receive 100% grant for all specific grants and therefore the current match funding element for some Standards Fund Grants will be removed from the DSG.

The distribution of DSG will be based on the current SFSS formula. The historical pupil numbers used in the SFSS (eg for 2005/06 primary age pupils January 2004 count and secondary September 2004 count) will be replaced by actual pupil numbers in the academic year in question. The DSG allocations will initially be based on forecast pupil numbers and updated later to reflect actual pupil numbers using the single January count, eg

Funding period April to August 2006 – funding based on January 2006 head count
Funding period September 2006 to August 2007 – January 2007 head count
Funding period September 2007 to August 2008 – January 2008 head count

Historic pupil number data provides a degree of temporary protection for authorities with falling rolls and the move to current data would effectively reflect two years of falling rolls in one year's funding. Lagged data might continue to be used for authorities with falling rolls.

Under the SFSS system the unit of resource per pupil is calculated from the overall national funding available and the total number of pupils. In future the unit of resource will be announced for all three years and fixed. The non-pupil data indicators (additional education needs and area cost adjustment) in the formula will also be fixed for the three year period.

Transitional protection will be provided for local authorities that have spent more than their SFSS allocation as well as dealing with distributional changes from the 2003/04 formula changes that are still feeding through the system. A floor and ceiling mechanism similar to the one operating within the current SFSS will provide a minimum and maximum increase per pupil on the previous year's baseline. The long term effect will be to move the DSG towards an authority's national formula allocation and therefore historical spending decisions would eventually cease to have an impact on school budgets.

In addition to the floors and ceilings arrangement based on per pupil increases consideration is being given to including a cash floor to protect authorities with falling rolls.

The DSG will have an impact on funding for other local government services and transitional arrangements will be needed to ensure that no authority receives an unmanageable change in the amount of central government resources for non-school services. The Office of the Deputy Prime Minister will be undertaking a separate consultation on this issue.

Distribution of funding from local authorities to schools

Local authorities will continue to set a Schools' Budget covering funding delegated to schools and centrally managed items. This will be funded from the DSG, LSC grant for sixth forms and any additional funding an authority makes available from wider resources. The LEA Budget will continue as a separate budget funded through the current FSS system.

Local authorities will also continue to devise and implement their own funding formulae but decisions have to be made for the three year period on:

- (i) the split of the Schools' Budget between the amounts delegated to schools and the centrally managed element
- (ii) the allocation to each school including how the formula should be structured
- (iii) the data within the formula which should be updated each year.

Regulations currently limit the increase in the centrally retained part of the Schools' Budget which cannot grow at a faster rate than schools' delegated budgets without the Secretary of State's approval. This limitation will remain under the new arrangements except that the Schools' Forum would be able to agree to exceed the limit and also subsequently vary the split between schools and central items in response to changing circumstances.

The DfES will set the level of the minimum funding guarantee (MFG) for schools for the same period as budgets are notified.

Local authorities' school funding formulae are considerably more complex than the SFSS formula. Although a minimum of 75% of the funding has to be allocated by pupil numbers a wide variety of other factors are used. Local authorities will need to specify in advance the data associated with each formula factor and the value of those factors for each of the three years. There is then the issue of what data and values should be updated in subsequent years.

The DfES is proposing that three year budgets should be updated for pupil numbers changes. Three options have been identified for other factors although it is recognised that there must be annual updates of some categories under all options, eg number and type of statements of special educational needs, actual cost of rates. The options are:

- (i) update only the data for age weighted pupil units. Data and values for all other factors would be fixed for the three year period. This will provide more predictable budgets for schools but be less responsive to changing circumstances.
- (ii) update non-pupil data as well as pupil numbers. This could apply to some or all of the non-pupil factors. This would reflect changes in schools' needs but means less certainty over the total funding for a school. To avoid the risk of exceeding an authority's total DSG under this option the value of each factor could be scaled upwards or downwards to fit the available funding.
- (iii) local decisions on update of data in consultation with the Schools Forum but within limits set by the DfES (eg a permitted list of adjustments).

Changes to a local authority's funding formula will have to be agreed much further in advance. Local authorities would not be allowed to introduce formula changes for a given year after they had set a three year budget covering that period. Therefore, the deadline for formula changes would be as follows:

Financial Year Budgets	Academic Year Budgets	Deadline for formula changes
2006/07 and 2007/08	2006/07 and 2007/08	January 2006
2008/09 and 2009/10	2008/09 and 2009/10	January 2007
2010/11 and 2011/12	2010/11 and 2011/12	January 2009

The Teachers' Pay Grant funds threshold payments and provides a contribution towards further progression on the upper pay spine and leadership group performance pay. This will be added to the DSG and will need to be incorporated into the local funding formula for distribution to schools.

New Single Standards Grant

Specific grant funding to support school improvement activities and national priorities will be retained. However, most Standards Fund grants, the School Standards Grant and grants managed through partnerships (eg Excellence in Cities and Behaviour Improvement Programme) will be combined into a new Single Standards Grant. Schools would have complete discretion over its use. Some targeted grants would continue to be allocated to local authorities outside of the single grant.

There will be a two stage transition to the new grant:

- (i) Stage one covers 2006/07 and 2007/08. Schools will receive the same Standards Fund allocations as in 2005/06 increased by a given percentage. The Schools' Standards Grant current formula will be changed from a banded flat rate to a flat rate and per pupil elements with transition arrangements to ensure stability. Grants managed through partnerships would continue to be devolved to individual schools conditional on the service being provided.

Any LEA retained element would be limited to the same cash figure, ie no increase for inflation.

- (ii) In stage two schools would move onto a new single formula from April 2008 incorporating cash based floors and ceilings to provide stability. The formula will be based on a flat rate per school plus an amount per pupil with a weighting for relative deprivation. The formula would also reflect additional funding for schools taking on additional roles and responsibilities, eg specialist schools and training schools.

Currently some specific grants require match funding by local authorities which comes from their general funding delivered through the SFSS. It is proposed to make the schools' specific grants 100% funded and the matched funding element will be transferred from the DSG.

Strategic Financial Management and Planning

There have been a number of national developments over the last two years to improve the management of financial resources:

- (i) the Consistent Financial Reporting framework (facilitates benchmarking)
- (ii) the Financial Management in Schools programme developed by the National College for School Leadership and KPMG
- (iii) launch of a schools' financial benchmarking website
- (iv) launch of a new Financial Management Standard and Toolkit for schools' self-evaluation and training.

Consideration is being given to making the Financial Management Standard a compulsory requirement.

Issues of Concern

- (a) The proposals are very complex with two or three year figures to be presented on an academic year and financial year basis and updated annually for data changes to a greater or less degree depending on the options finally chosen. It is by no means clear how much certainty and stability the proposals will add for individual schools' funding. There must be a danger of making the current system even more confusing for schools with no significant gain for medium term financial planning.

- (b) There is no firm evidence that schools will find academic year budgets easier to use. Sixth form funding is already allocated by the Learning and Skills Council in both financial and academic year formats and our experience shows that schools find this confusing with the local authority having to act as the interpreter. It needs to be demonstrated that the benefits of providing academic year figures clearly outweigh the additional complexity before proceeding with this aspect of the proposals.
- (c) The costs estimated for producing academic year accounts concentrate only on the schools' aspect and do not take account of LEA central costs and the potential impact on financial systems, eg are they capable of holding accounts on two different years and what changes will be required to accommodate this?
- (d) Implementing the proposals and providing ongoing support to schools will involve a substantial increase in the work of departmental finance staff. There is no mention of any additional resources from the government to cover these extra ongoing costs.
- (e) The DfES consultation paper and the recent one from the Office of the Deputy Prime Minister on three year settlements for local authorities mention the need for transitional protection from the effects of both sets of changes. The effect of the Lyons Review on the balance of funding also needs to be factored into the transitional arrangements. However, detailed proposals have not yet been issued and there is a concern over the risk to funding for services other than schools.
- (f) Local authorities' own funding formulae for allocating resources to schools will remain. However there are major concerns that proposals to provide an element of medium term stability for schools can only be achieved at the expense of losing local flexibility. The potential loss of flexibility falls into three categories:
 - (i) The Schools' Budget will need to be split between centrally managed items and funding to be delegated to schools for the three year period. The central items are mainly demand led and will be very difficult to forecast accurately over this period. The DfES is proposing the split can be varied with the approval of the Schools' Forum and this flexibility is welcomed.
 - (ii) There are proposals to fix the formula for the period of the two or three year budgets. This means that amendment to the formula to reflect changing circumstances or new initiatives could have to be planned, modelled, consulted on and agreed more than two years in advance of implementation. Local authorities might be allowed to make changes in exceptional circumstances with the agreement of their Schools' Forum. While this would be helpful there are concerns about what would be accepted as exceptional.
 - (iii) The options for updating annually the variety of data used in the formula range from only pupil numbers plus SEN statements and rates to local decisions within a permitted list. Data that is not updated annually will have to be forecast for three years ahead with all the inaccuracies that will entail. This will distort the link between funding and the basis of need as set out in our formula.
- (g) If the DfES opts for greater stability and certainty for individual schools' funding at the expense of local flexibility this must call into question the longer term viability of a local formula. At the very least there would seem to be little point in maintaining a sensitive but complex formula that would not be allowed to operate as intended.
- (h) There will inevitably be winners and losers as far as schools are concerned under the changes. The minimum funding guarantee will moderate the losses but reductions

through the normal operation of the funding formula will take time to appear in schools' budgets.

- (i) The proposals for the new Single Standards Grant raise concerns about local authorities' ability to influence the standards agenda in schools and how to ensure schools will use the funding for the intended purposes rather than simply to support a falling rolls budget.

During the two year transition period to a new grant formula schools' allocations of Standards Fund grants will be based on 2005/06 allocations plus a percentage uplift. This is the same system as introduced for some grants from 2004/05 so a large element of schools' grant funding will be based on cash amounts allocated in 2003/04. The element of grant retained by a local authority will be frozen in cash terms as it has been in the last two financial years. This will have a substantial impact on the level of support that can be provided to schools over the period.

- (j) The proposal to introduce a new formula for Schools' Standards Grant for two years pending its incorporation into the new single grant is inconsistent with the proposals on Standards Fund Grant. There seems no point in introducing a new formula for just one grant for two years when further major changes will take place from 2008. This merely introduces more turbulence into the system which is the opposite of the stated intention.