

**Response to Consultation on New School Funding Arrangements from 2006-07**

**Answers to specific questions**

**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?*

The County Council has for a number of years asked its schools to produce three year budget plans to improve medium term financial planning and provides appropriate models to support this initiative. The production of two or three year funding allocations will provide a greater degree of certainty to the process and is welcomed.

There is, however, no evidence to indicate that our schools have experienced significant difficulties receiving funding on only a financial year basis. They are well used to the concept of 5/12ths/7/12ths funding and the introduction of academic year budgets alongside financial years seems to be an unnecessary complication. Our schools' experience of sixth form funding suggests that providing two sets of figures can and does lead to confusion with the local authority having to act as the interpreter.

The benefits of providing academic year budgets should be clearly demonstrated to outweigh the additional complexities and costs involved with running a dual system.

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

Issues commonly mentioned by our schools as hampering their ability to plan are the complexity of and frequent changes to the funding arrangements, particularly with the numerous funding streams and the timing of allocations. The uncertainty around the continuation of some grants adds to schools' difficulties. The proposals to subsume one specific grant into the DSG and bring others together in a single grant will help although the overall package is still complex. Probably the most effective help would be for a substantial period of stability in the funding arrangements.

*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?*

If funding is to be given on an academic year basis it would be most helpful to use September to August. As the consultation documents points out, this aligns with the pattern of teachers' contract and the implementation date of their pay increase. Most primary and special schools close completely during August with many support staff on term-time only contracts. To use August as a quiet month to close the accounts and preparatory planning work would require a change in these arrangements and could cause difficulties for staff with childcare responsibilities.

*4. Do you agree that the approach of having funding increases in September, with funding allocations aligned to the academic year, is sensible?*

If funding is to be aligned to the academic year then it would be helpful for significant changes to funding and for major cost increases to be effective from the start of the period. If this alignment did not take place schools would have to make adjustments across academic years which would offset the benefits claimed for moving to an academic year structure.

*5. Do you think the benefits of accounting on an academic year as well as a financial year basis outweigh the extra costs involved?*

The estimated costs quoted for the extra work in closing accounts on an academic year basis only take account of work in schools including local authority staff visits. No consideration appears to have been given to work required by the local authority or the ability of financial systems to hold two sets of accounts in a CFR format and the cost of any changes that may be required to achieve this. The difficulties and cost of such a move are likely to be significantly greater than indicated in the consultation paper.

This proposal also needs to take account of changes in the Comprehensive Performance Assessment. In future authorities that aim to achieve a high rating in the corporate assessment will have to produce quarterly income and expenditure accounts and balance sheets (ie close the accounts on a quarterly basis). The academic year change could mean schools undertaking five closing exercises a year!

Schools would meet their costs from the guaranteed increase in budget shares but additional local authority costs would fall on the LEA Budget where increases in the LEA FSS have been at a much lower rate than SFSS. This will add to the pressures on local authorities' central costs.

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

The continual reference to three year budgets is misleading because the proposals will only provide three academic year budgets every other year with two year budgets in between. The final five months of the last academic year will also be provisional pending agreement of the next Spending Review round. It is important to be very clear about this point in all documentation to schools to avoid raising expectations that will not be met.

### **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 initial pupil numbers used, without updates?*

The County Council agrees that the DSG should always reflect the most up-to-date data available to ensure local authorities are funding on the basis of need. The possibility that historical or forecast pupil numbers be fixed for three years would introduce an unacceptable level of approximation into the system and would be a retrograde step.

*8. Should allocations of Dedicated Schools grant continue to use lagged pupil numbers or move to up-to-date pupil numbers?*

As mentioned above, this authority believes the most up-to-date data should be used in a funding system. The current system has a built in dislocation between the data used for funding local authorities and the data used for distributing this funding to schools. In situations of rapidly increasing rolls this could give rise to budget problems. There is no case for continuing with lagged data.

*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?*

Using lagged data would provide some protection for authorities with falling roles but would introduce another complexity into what will be a very complex system. It also raises issues

about the transition when authorities move from a position of falling rolls to rising rolls and changing from lagged to up-to-date data. It would be better to use a common count for data for all authorities and provide protection for those with falling rolls through other means such as a cash floor increase.

*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?*

The fixing of the unit of resource for the basic per pupil entitlement would be helpful by removing one of the current variables from the system. However, the proposal to include area cost, sparsity and additional educational needs top ups in one fixed amount per pupil will mean that changes in formula data for these areas will not be reflected in an authority's funding during this period. This introduces a significant degree of estimation into the system and is not supported.

This authority believes a greater degree of certainty could be better achieved by increasing the basic per pupil entitlement and reducing the funding allocated through top ups.

*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?*

As mentioned above, this authority believes the latest available up-to-date data should be used and does not support freezing of non-pupil data indicators for any period or on any basis.

*12. How do you think the floor increase should be funded: solely through a ceiling, or through a damping block as well?*

As a matter of principle this authority believes that authorities should not be penalised by having to support floor arrangements.

*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?*

This authority supports the permanence of floor arrangements to provide a degree of stability and allow the effects of changes in funding to happen in a planned and controlled way. Floors should reflect changes in both elements of the funding formula (ie data and unit of resource) and therefore the inclusion of a cash floor in addition to a per pupil basis is supported.

*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?*

Our response to the ODPM consultation on three year settlements for the rest of the local government finance system highlighted the counter productive nature of separate consultations on that review, this one on schools' budgets and the Lyons Review. The effects of all these need to be considered together so that transitional arrangements for one do not have unforeseen consequences on transitional arrangements for others.

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

No further comments to add to the above.

## **Distribution of funding 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 change?*

The ability to vary the split between the ISB and central items is an essential flexibility if local authorities are to be able to respond to unforeseen changes in demand. Around 70% of our centrally managed Schools' Budget relates to demand led areas such as support to pupils with special educational needs including placements at independent schools and early years. It is extremely difficult accurately to forecast such demands for three years ahead and if the ISB/central split had to be fixed for this period an understandably cautious approach would inevitably be adopted, potentially tying up resources until the actual spend was known over the three years.

*17. Would you prefer a Minimum Funding Guarantee that continues to be above cost pressures, or a lower value that would allow changes in a local authority's formula to flow through more rapidly?*

The level of the minimum funding guarantee should depend on what it is intended to achieve and the overall increase in funding through the DSG. Is it a device for ensuring that a school's funding is maintained at a similar level in real terms or to ensure any above inflation increases in funding are passed on to schools?

The MFG does distort the normal fluctuations in funding flowing from a local authority's formula. A school losing under the formula is protected but the increase for a gaining school reduces the amount it receives from MFG. This authority believes that the consequences of its schools' funding formula should be allowed to operate as intended and therefore that the MFG should be set at a level sufficient to cover cost pressures.

A lower minimum funding guarantee will mean a higher amount of 'headroom' which of course has to be distributed across schools. If the local authority formula is allowed to function as intended it provides the opportunity to target the headroom on local priorities, in consultation with our Schools' Forum, rather than an across the board distribution.

*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?*

A local authority formula is meant to reflect local needs and circumstances but the proposals to fix formulae for three years ahead severely constrain an authority's ability to respond quickly to changing circumstances or implement new approaches in a prompt manner. For example, any changes to operate from the 2007/08 financial year would have to be developed, consulted on and agreed by about January 2006.

This authority does not support the idea of a fixed three year formula but if this is implemented then flexibility to make changes under exceptional circumstances should be allowed. It would be important that a definition of exceptional does not unreasonably constrain local authorities and it is suggested that this is at the discretion of a local authority in agreement with its 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?*

As a matter of principle this authority believes that a system that is responsive to changes in circumstances is more important than providing greater certainty for the medium term. The point has already been made in responses to questions earlier in the paper that funding should be related to need and the various proposals to fix elements of the system for two or three years distort this link.

*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?*

No. Logically if the principle of linking funding to need is accepted then there is no justification for taking a differential approach in updating future years' budgets.

*21. Which of the following three options do you think local authorities should use to update the indicative budget:*

- a. pupil number changes applied to AWPUs only;*
- b. pupil numbers and non-pupil data; or*
- c. an approach to be decided locally?*

One of the fundamental principles since the introduction of local management in schools has been that schools are funded for their actual number of registered pupils. Where estimated pupil numbers are used an adjustment has to be made either in year or the following year to correct any difference from the actual number. This authority has also adopted this approach with non-pupil led factors so that funding follows actual data. If the funding formula is to operate as intended it is important that decisions on what indicative data is updated should be taken locally and therefore option c is supported.

*22. Do you agree that funding for named SEN pupils should not be included in school forecasts for future years?*

Yes. Experience in our schools shows the incidence of the number and type (attracting very different levels of funding) can fluctuate substantially between years and the ability to adjust for this must be part of any funding system.

*23. Which is the best approach to avoiding turbulence when Teachers' pay Grants are included in mainstream funding?*

- a. allowing 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; or*
- c. allowing an authority the flexibility to take an approach between the two options above?*

The mainstreaming of this specific grant is a logical step in rationalising funding arrangements and the ultimate aim should be to distribute this through an authority's formula. However, the minimum funding guarantee is too blunt an instrument to moderate any redistribution as the effects could be distorted by other factors. Therefore, option c is preferred to allow a more flexible approach to transitional arrangements.

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

If the final decisions on the new system place stability and certainty for individual school's funding ahead of local flexibility this would call into question the long term viability of local authorities' existing local formulae. These formulae would not be able to operate as intended

with the effects of changing circumstances deferred for up to three years. In this situation there seems little to be gained from maintaining sensitive but relatively complex formulae. If the longer term intention is to simplify local formulae this should be made explicit in the consultation.

### **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?*

Certain types of activities are more appropriately funded through targeted specific grants and this approach is supported. However, there needs to be clear criteria developed as to when targeted grants should be used and there should be a presumption that the number and value of such grants will remain small. It is important that the use of specific grants is carefully controlled to prevent the type of expansion seen in previous years and losing the benefits of the proposed rationalisation.

*26. Could any more of the existing targeted grants be made part of the amalgamated grant?*

The existing targeted grants are allocated to schools on very clear, focused criteria that could not be adequately replicated through the proposed single grant formula of a flat rate, pupil numbers and deprivation weighting. Therefore, no further grants are suggested for inclusion in the amalgamated grant.

*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?*

Although a measure of stability is helpful for schools' financial planning they will have to move to the new distribution formula eventually and in the absence of detailed modelling it is not clear what benefit this two year freeze of existing allocations will have. This simply delays the full implementation of the change and an earlier move to the new formula with perhaps a longer transition period might be easier for schools to manage.

It is very disappointing that once again the local authority retained element of the grant is to be frozen in cash terms. Much of this retained funding is spent on staffing to support standards in schools and a further two year cash freeze on top of the freeze for the current and last year means the level of local authority activity in this area has to reduce.

*28. Do you agree that we should move the existing Schools Standards Grant to a lump sum and per pupil basis during the transitional phase, with suitable damping arrangements to ensure stability?*

The existing Schools' Standards Grant banded formula is inequitable. The potential 'cliff edge' loss of funding arising from falling rolls has only been avoided by the introduction of a minimum cash increase but this means that schools with the same number of pupils can receive different amounts of grant.

The introduction of a fairer distribution is supported but the move to a new formula for two years is inconsistent with treatment of Standards Fund Grants and appears to add unnecessarily to the complexity of the funding arrangements. A logical approach would be to continue with the current basis of allocation (2005/06 amounts plus percentage uplift) until the move to a single grant.

29. *Do you agree that the Standards Fund and Schools Standards Grant should be brought into a Single Standards Grant from 2008, using a formula that is pupil lead and has a per school element to protect small schools and a deprivation measure?*

Rationalisation of specific grant funding would help remove some of the current complexity for schools and local authorities and therefore a single grant is welcomed. The proposed formula elements of a flat rate, pupil numbers and deprivation factors seem to be the appropriate building blocks although judgement will have to be reserved until detailed models are available. The work should also look at how any proposed formula relates to that for the DSG and whether there is any scope for further rationalisation.

However, there is a concern that standards related funding might not be used for the intended purpose but simply be used to support budgets in a situation where pupil numbers are expected to fall in both primary and secondary phases for the foreseeable future.

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?*

This proposal is supported as it will provide flexibility for schools and local authorities to organise activities in the most cost effective way without introducing unnecessary bureaucracy.

31. *Do you have any further comment on the proposals for the new Single Standards Grant?*

The proposals for the new single grant appear to start from the assumption that the current balance between specific grants and the funding through DSG should be retained apart from the Teachers' Pay Grant. As mentioned in the response to Question 29 consideration ought to be given as to whether parts of the new single grant could be allocated through the DSG without causing a major redistribution between local authorities and schools.

### **Strategic financial management, planning and efficiency**

32. *Do you think that the Financial Management Standard should become compulsory?*

This authority is not in favour of making the Standard compulsory for schools. To be effective compulsion would have to be supported by some kind of inspection or audit arrangements. This raises concerns about the implications for Section 151 officers with potential confusion and uncertainty over roles and responsibilities as well as the additional costs of yet another inspection.

33. *How could the Financial Management Standard and Toolkit and Schools Financial Benchmarking website be improved for users?*

This question is probably best answered by schools as they are the main target audience.

34. *What sort of deals and arrangements would be most suitable for schools?*

Inclusion of this question in the consultation exercise is curious given the work currently going on through the Centre of Procurement Performance and the Regional Centres of Excellence. There is a grave danger of duplicating collection of data and the appropriate Centres of Excellence should be the one point of contact for schools and local authorities. There is also the separate study of insurance arrangements being undertaken by the DfES Value for Money Unit and clearly a co-ordinated approach on all procurement issues is essential.

The type of deals and arrangements most suitable for schools would include the commonly required goods and service sourced through consortia arrangements and electronic catalogues. There would also be potential for regional or even national service contracts brokered by the CPP or Centres of Excellence.

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

The consultation document makes reference to the range of developments to improve the management of resources in schools. If these are implemented in schools they should lead to a substantial improvement in the efficient use of resources. It is important not to overload schools with too many new initiatives and it would be appropriate to review the impact of current developments before introducing new ones.