

Report to: **Cabinet**

Date: **19 April 2005**

By: **Director of Children's Services and Deputy Chief Executive and Director of Corporate Resources**

Title of report: **New school funding arrangements from 2006/07**

Purpose of report: (i) **To report on the Government's proposals for changes to the funding arrangements for schools to operate from the 2006/07 financial year and their wider impact; and**
(ii) **To consider the draft response to the consultation document.**

RECOMMENDATION

The Cabinet is asked to:

- a) consider the draft response to the consultation document and agree its submission to the Department for Education and Skills; and**
- b) note the potential wider implications of the school proposals on the balance of funding of local authorities.**

1. Financial Appraisal

1.1 The Government's proposals for changing the revenue funding arrangements for schools will have a major impact on the overall balance of funding of local authorities. The Schools' Budget will no longer be funded through the general local government system but in future solely through a new ring-fenced specific grant.

This would have the following impact (2005/06 figures):

	Existing Funding Arrangements		Proposed Funding Arrangements	
	£m	%	£m	%
Schools Spending	222		222	
Less new specific grant (Dedicated Schools Grant)	-		219	
	<u>222</u>		<u>3</u>	
Spending on other Council services	268		268	
Net spend	490	100%	271	100%
Less Formula Grant	296	60%	77	28%
= Council Tax	194	40%	194	72%

1.2 Key issues flowing from this are:

- The immediate impact is on net spending (ie after specific grants), not the total or gross spending (which would remain the same).
- A complete shift of a sum equal to schools' Formula Spending Share (FSS) (£219m) from Formula Grant to the new specific grant.

- A reversal of the current position where formula grant forms the bulk of Council funding – this change would have a major impact on the gearing effect and mean that changes in spending would be more reasonably reflected in changes to Council Tax. The gearing would reduce from 2.5 to 1.4.
- It would recognise the current passporting position through the ringfenced specific grant for schools.
- The remaining, smaller, formula grant would be visibly related to “non-schools” services and changes in the Government’s contribution to those services would be more visible to the taxpayer.
- Whilst the new schools grant would continue to rise sufficiently to meet the schools funding guarantee it is unclear if and how any floor arrangements would continue for the remaining formula grant. This is a major risk.
- The implications extend well beyond schools and it is not at all clear if or how these proposals link with other key funding issues such as the Lyons review into Local Government Funding, 3 year settlements and the revaluation of properties due to be used from 1 April 2007. The interaction between these is critical and a major concern will be the transitional arrangements to be put in place by the Government to ensure there are no adverse effects flowing from the combination of these reviews. A copy of the Council’s response to the Office of the Deputy Prime Minister (ODPM) consultation on 3 year funding for Local Authorities is attached as Appendix B.

1.3 Whilst the certainty of 3 year funding both for schools and the County Council as a whole would benefit financial planning, the current starting point where both schools and general funding are reliant on floor protection is not the ideal starting point. 3 year funding will reduce the opportunities to change (improve) our position.

1.4 As always, there is considerable risk and uncertainty until detailed proposals are made but it is already clear that the proposals will require substantial additional officer time to implement and manage each year. It is not possible at this stage to quantify this in revenue budget terms.

1.5 It is important for the Council to use the proposed changes as an opportunity to lobby for those aspects which might benefit the County Council as well as lobbying against those aspects which continue to have a detrimental impact.

2. Supporting Information

2.1 The Government’s Five Year Strategy for Children and Learners included an undertaking to introduce three year budgets for schools. Proposals have been published for consultation on how this will be delivered and the deadline for responses is 13 May 2005.

2.2 The changes fall into three broad areas set out below. A summary of the proposed changes highlighting issues of concern for the County Council is attached as Appendix A.

- (i) A change in the way central government provides funding for schools to local authorities:
- Funding for the Schools’ Budget (ie schools’ delegated budgets plus centrally managed areas such as special educational needs and early years) will transfer from general local government system to a new ring-fenced specific grant known as the Dedicated Schools’ Grant (DSG). The 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.
 - Local authorities will continue to distribute funding to schools through their local formulae.

- (ii) Three year budgets for schools aligned to the academic year:
- Schools will be given three year budgets incorporating a guaranteed minimum increase in per pupil funding every year. This is intended to provide greater certainty and predictability in their funding and enable more effective, longer term financial planning and management.
 - The provision of budgets on an academic year basis will align financial planning with key decisions on staffing and curriculum (although see paragraph 3.1 below).
- (iii) Streamlining of current standards-related Department for Education and Skills (DfES) specific grants to schools:
- A new Single Standards Grant will bring together the current schools' Standards Fund Grant and Schools' Standards Grant. Schools will have complete discretion over use of the new grant.
 - The Single Standards Grant will be distributed through a new formula to be introduced in two stages and with transitional protection arrangements to provide stability of funding.

2.3 The school proposals are very complex and, while providing a degree of medium term certainty for schools and local authorities, could reduce flexibility, distort the linkage between resources and need and lead to delays in reflecting changes in circumstances in schools' funding. A draft response to the specific consultation questions is attached as Appendix C.

2.4 School Forums have been invited to comment directly to the DfES on the proposals. The Chair of the East Sussex Schools' Forum will be co-ordinating a response on behalf of the Forum and if this available in time an oral report will be made to this Cabinet meeting.

3 Conclusion and reason for recommendations

3.1 The County Council has promoted medium term planning in schools for a number of years and the provision of funding allocations over the medium term would facilitate this process. Schools are well used to different academic and financial years and adding a "further" financial year will unnecessarily over complicate the issue. The basic principle of the proposals is welcomed although some of the detailed issues promote stability at the expense of local flexibility and these concerns are reflected in the proposed County Council response.

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Background documents: DfES consultation document on new school funding arrangements from 2006/07