

SIGOMA RESPONSE TO THE REVIEW OF NEW RECURRENT FUNDING ARRANGEMENTS FOR SCHOOLS' TERMS OF REFERENCE

Response Date: 31.5.06 if possible

SIGOMA is a special interest group of 46 Municipal authorities located outside London and is a recognised special interest group within the LGA. Its membership comprises 35 metropolitan districts and 11 major unitary authorities, which meet its membership criteria. The combined population of SIGOMA authorities amounts to over a quarter of the population of England and its member authorities account for over 25% of English local government expenditure.

Our response is based on consultation with our members, drawing directly on members' experience of education finance; our thoughts on the issues set out in the review's Terms of Reference are given below.

The Dedicated Schools Grant

1. *In relation to the Dedicated Schools Grant, we propose to consider:*

- *whether to continue with a distribution methodology which starts from a baseline of existing DSG allocations, adds a basic increase and then allocates funds according to Ministerial priorities, as in 2006-08; move to a formula-based approach; or some combination of the two;*
- *within any formula-based element, the balance between formula factors and the relevant indicators for each factor;*
- *if appropriate, priorities for distributing headroom within a methodology which starts from existing DSG allocations (as above), and the appropriate distribution methodology for each element;*
- *what transitional protection is needed if we move to a new approach to distribution;*
- *whether any changes are needed to the scope of the DSG or the conditions of grant.*

Throughout the submission made to DfES in September 2005, SIGOMA voiced strong concerns relating to the proposal to implement the Modified Distribution Method (MDM) for DSG.

Whilst we welcome this review and the opportunity to comment on its terms of reference, we are still of the opinion that the methodology employed to determine funding allocations in this transitional period (2006/07 to 2007/08) undermines the principles of fairness and equalisation, and the ability of local authorities to deliver local priorities.

It is our belief that the distribution of resources should be based on a full assessment of relative need, rather than being based on past spend with a minimum increase per pupil and an additional allocation aligned to political priorities. We fail to see how the current arrangement can adequately distribute funds to those authorities with a high level of demand on their services (who probably have both falling populations and pupil rolls) and respond to changes in relative need - and we are also concerned that deprivation indicators have become of even less significance in the transitional scheme being applied over this two year period.

Indeed, if we focus on the five key priorities identified by government and used to allocate the

headroom existing between the baseline uplifted for per pupil funding and the DSG quantum, it is clear that the designated indicator for deprivation (taken to be the number of children in families on income support) is incorporated into only two – and as such is responsible for allocating only 18.7% (£77m) of the total resources that are available for distribution in accordance with key priorities in 2006/07 (£412m). This limited use is a backward step, especially so given that previous methodology used to provide schools funding used an abundance of relative need indicators, of which deprivation played a significant part.

An additional comment relating to the above is that any resource allocation methodology based on political preferences could lead to a degree of volatility when policy (and the resulting funding distribution) varies from one period to the next. Such fluctuation in resources would then have to be managed by the LEA through its own funding allocation formula, and so the consequences of any significant change in policy would be felt directly by schools.

We are also aware that the Area Cost Adjustment (ACA) plays a significant part in the allocation of DSG for 2006/07 to 2007/08; in particular, ACA is used in determining grant allocation for the ministerial priorities mentioned above, whilst already being included in the DSG baseline (partially based on the 2005/06 SFSS and so already including the adjustment factor). We re-iterate our previous argument in relation to the ACA - in some areas the ACA appears to be over-compensatory, and we are concerned at its considerable use in this current methodology. We therefore welcome the impending review of the ACA and its geography, alluded to by the then ODPM in 2005, but would ask DfES to be fully involved in the related discussions.

Given the arguments above, we believe that from 2008/09 onwards DfES should move to a wholly formula-based approach, possibly incorporating those needs indicators previously used in the sub-blocks of the Education FSS. In moving to such a system, however, DfES must ensure that the basic amount of funding per pupil generated is at least sufficient to meet the common level of underlying need had across all authorities, before then utilising any other criteria to allocate additional funding to those with a relatively more intense demand for resources.

We would support the introduction of some transitional period to assist authorities in adapting to the new funding regime suggested above – however, this protection should only be afforded in the short-term as to do otherwise would slow the pace of change in moving towards more equitable allocations based on relative need.

Ring-fenced Grants:

SIGOMA has always strongly opposed the ring-fencing of funds and has continually stated that education resources should continue to be incorporated into the general grant distribution system, not side-lined for specific use. However, given that DfES did not choose to rescind its decision on the modified distribution method and the funding of schools, we have had no alternative but to accept the scope associated with a special grant such as DSG. Yet we would like to point out that just a widening of the grant criteria to allow the funding of certain activities will not guarantee the delivery of all of those initiatives; there must be sufficient resources available to all schools to meet the very demanding agenda in respect of Children's Centres, extended schools activities and the 14-19 curriculum changes.

On a final note, we support the DfES's commitment to keep formal grant conditions to a minimum, as well as the announcement that local authorities should be allowed to combine funding from the centrally retained part of the Schools Budget with budgets of other local authority services and other agencies so as to support the delivery of 'Every Child Matters' (provided their School Forum agrees).

Specific grants

2. *In relation to specific grants, we propose to consider:*

- *whether any specific grants should be merged with the DSG from 2008-09, and if so which; and the distributional implications and transitional arrangements needed;*
- *if neither is merged into the DSG, the scope for merging the School Development Grant and School Standards Grant into a single standards grant, the distribution of any such grant and any transitional arrangements needed; and*
- *the scope for merging or ending any further specific grants, and the distributional implications and transitional arrangements needed.*

SIGOMA *generally* takes the view that the DfES should aim to include all funding within DSG so that decisions regarding resource distribution can be made locally; this is especially so when there is no specific criteria attached to grant funding, as is the case with the School Standards Grant (SSG). Also, there can be a considerable amount of bureaucracy and effort involved at both national and local level in the administration of funding streams, and so some form of rationalisation would be of significant benefit, helping focus resources on tasks that add value to the objectives that are trying to be achieved.

The SSG, which is based on a new and largely pupil led formula, could be easily incorporated into the DSG thereby enabling schools to spend funds from their newly enhanced delegated budget on community facilities in support of extended services.

The Schools Development Grant (SDG), however, may be more difficult to integrate. This grant has already had subsumed within it a further nine grants from 2006/07 onwards, and we continue to be concerned that future funding allocations of the SDG are based on an incremental across-the-board increase rather than an independent assessment of the needs of each individual LEA and its schools in accordance with the objectives of each of the constituent funding streams.

In particular, SIGOMA has anxieties surrounding the distribution of deprivation funding; the latter used to be allocated via the Leadership Incentive Grant, and eligibility was based on a school's level of free school meals entitlements. Yet as a result of the withdrawal of this grant, schools now receive (via the SDG) a flat lump sum funding allocation that has no bearing on the relative deprivation being experienced. For this reason, we would ask that DfES look more closely at funding for deprived schools, and establish a methodology more fairly able to allocate funding to those with the greatest needs (and possibly offer protection where funding allocations are particularly sensitive to changes in deprivation indicators).

Also, and rather than using a crude indicator such as 'eligibility for free schools meals', we would ask that DfES investigate the possibilities for using the Index of Multiple Deprivation (IMD) 2004.

As is always the case, we would wish to see the modelling of all scenarios under consideration by the DfES, so as to be fully aware of possible changes in grant allocations and the re-distributive effects between local authorities.

Deprivation funding at school level

3. *As part of the review process we will take forward the programme of work set out in the action statement published alongside the Deprivation Funding Review on 7 December 2005. This will include in particular:*

- *a technical review of deprivation indicators; and*
- *the collation and analysis of the deprivation statements which local authorities are required to produce by 5 May 2006.*

4. *We also propose to consider whether further action is needed to ensure that local authorities recognise the costs of dealing with deprivation in their local funding formulae. The impact on schools of any changes in the way funding was distributed would need careful assessment.*

SIGOMA is pleased that DfES has commissioned a technical review of deprivation indicators, the report to be published late Spring 2006. We welcome the review making a systematic and comprehensive assessment of the advantages and disadvantages of various approaches to measuring deprivation for the purposes of allocating school funding and as stated in earlier paragraphs, we would ask for some detailed consideration to be given to the many indicators that are used in the Index of Multiple Deprivation (IMD) 2004.

However, we are concerned at the statement above which states that the DfES will consider whether ‘further action is needed’ to ensure LEAs have an allocations formula capable of awarding a level of funding appropriate to meet the deprivation needs of schools. Whilst DfES may be able to offer guidance to LEAs, we believe that it is the latter who are best able to allocate resources to meet their schools’ needs and so we would resist any detailed prescription governing the adjustments to be made to an LEAs’ formulae.

Minimum funding guarantee

5. *In relation to the minimum funding guarantee, we propose to consider:*

- *whether or not there should continue to be a nationally determined MFG, and if so the level at which it should be set (in particular whether it should continue to cover average cost pressures, or should be set at a lower level which gives greater scope for redistribution between schools); and*
- *assuming the MFG continues, whether any changes are needed to the detailed operation of the guarantee.*

SIGOMA supports the continued use of a nationally guaranteed MFG – we believe that there should be a minimum percentage increase in funding, but with the proviso that there is sufficient headroom remaining to enable monies to be targeted to those pupils in those areas most in need.

If, as a result of its review, the government determines that the MFG should continue then we would ask that government considers (and produces scenarios) whereby the MFG is set at a level lower than average cost pressures – this methodology would facilitate an increased scope for redistribution of funding between schools (and as such would enable any changes made to a local authority’s formula to flow through more rapidly). SIGOMA supported this change in its

response to the consultation on new school funding arrangements (submission date: 13th May 2005) and would welcome a renewed consideration by the DfES.

We would also ask that the government consider how to continue to adequately fund schools with rapidly falling rolls. Establishments in this situation reach a point where they have a level of fixed costs that cannot be reduced any further, despite a continued decline in the number of pupils being taught – and whilst their authorities easily receive the minimum per pupil increase in funding, at the same time they can receive a significantly smaller percentage increase in DSG than those other LEAs who receive an increase in their grant to bring them up the MFG. We would hope government seeks to design a formula that can specifically accommodate schools of this nature, if the MFG mechanism is to be used in any future funding methodology.

Academic year budgets

6. *Ministers have made clear that they have no plans to introduce academic year accounting for schools. However, we propose to look again at the issue of academic year budgeting (which essentially means presenting schools' budget allocations on an academic year as well as a financial year basis). In particular we propose to consider:*

- *the benefits, costs and practical implications for schools and local authorities of moving to academic year budgets in the context of multi-year settlements; and*
- *if the benefits appear worthwhile in principle, the implications of moving to academic year budgeting for the distribution of the DSG and specific grants, for the setting of schools' budgets by local authorities, and for the allocation across years of the Department's Comprehensive Spending Review settlement for schools.*

As stated in our response to the consultation on New School Funding Arrangements from 2006/07 (submission date: 13th May 2005), SIGOMA **does not** favour the introduction of funding on an academic year basis - we are of the opinion that academic year budgeting will cause confusion and a significant amount of extra work. In addition, there will be other costs - for example, IT and software packages such as SIMS that are currently aligned to financial years and so will have to be reprogrammed to enable them to operate over dual periods. Primary schools, particularly smaller schools, have limited support staff and the extra burden and complexity introduced by the proposal may be difficult to manage. We therefore ask DfES to pay particular attention to this issue throughout its review, or ideally remove it from these terms of reference.

If DfES does insist on implementing academic year budgeting, then we would prefer September to August as the designated budget period. This period aligns with teachers pay awards and incremental advances on the pay spine and also mirrors the 17-month accounting period that currently exists for the Standards Fund. However, DfES will also need to consider how two significant costs, non-teaching staff pay and rates that are subject to April adjustments, can be accommodated within academic year budgeting. Again, illustrations and models would be welcomed.

Finally, if academic year budgets were to be introduced, then this would constitute a new burden on authorities and schools, and would need to be properly funded.

Operation of multi-year budgets

7. *We propose to look at the detailed operation of the new school funding arrangements (particularly multi-year budgets) at local authority level in 2006-08 and make recommendations for, and implement, any changes needed for 2008 and beyond. We will consider, in particular:*

- *to what extent multi-year budgets delivered greater predictability for schools, and whether and how this could be enhanced: in particular whether the balance between central prescription and local flexibility in the current regulations is right;*
- *whether any changes are needed to the operation of the central expenditure limit;*
- *the scope for ensuring that schools are aware of key pressures – particularly teachers' pay – across the same time period for which they are given budget allocations;*
- *whether any changes are needed to the regulations governing pupil counts – in particular whether and when to move to using a September pupil count, which would enable budgets to be finalised earlier;*
- *the incentives on schools to under or over-spend their budgets; and*
- *any other changes needed to the School Finance Regulations or the guidance governing local authority schemes – in particular what changes would be needed if Ministers decided to move to academic year budgeting.*

SIGOMA believes that three-year budgets for schools are essential to the effective planning and management of resources, providing greater certainty of funding.

However, the accuracy of the multi-year budget information will be dependent upon the certainty or otherwise with which cost and demand changes can be predicted. There is a significant problem, highlighted by the Audit Commission, arising from the lack of information provided to local authorities by schools for effective budgeting and financial monitoring purposes. Accurate forecasting of say, changes in non-pupil data will be an essential task under the new system. If authorities are to carry out this task effectively schools need to have additional statutory requirements under the DSG arrangements to ensure that they provide sufficient information to local authorities, on a timely basis.

The effect of late funding or cost announcements that are made by government on the effectiveness of multi-year budgets also needs to be examined. To illustrate:

- DSG announced in December provides only a couple of months for analysis and decisions to be taken on the affordability of options with far reaching implications for a multi-year period. As a result many LEAs found producing two years worth of school budgets and S52 statements to the same deadline of 31st March 2006, could not be achieved. With three years worth of budgets imminent, such a target appears even less realistic.
- By May 2006, DfES had proposed an increase in the employers' contribution rate for Teachers Pensions and an increase in the Schools Standard Grant, all within just the first two months of the multi-year period.

As to pupil count data, we believe it is preferable to move to a September count because using

data from this period will enable firm allocations to be awarded at a much earlier date than present, as well as prior to the start of the financial year – this should go at least some way to helping LEAs finalise the schools budgets by the required date.

It should be noted that the robustness of pupil count data could impact on the likelihood of school under or over spending; initially schools may be cautious as regards the accuracy of their pupil projections, and so may be liable to spend below budget allocation and generate balances (or add to those they already hold). As part of the review, SIGOMA would particularly welcome a consideration of schools' balances, which continue to represent a significant amount on a national level. Schools should be encouraged to spend the funds held, and given that greater certainty will now be provided by multi-year budgets, then there is potentially less of a need for their large balances to be held.

Finally, the SIGOMA view on the Central Expenditure Limit (CEL) is that it should be removed in the light of the new role of the Schools Forum; the latter should approve total central expenditure, according to local circumstance, without having to concentrate on a potentially anomalous breach of regulations.

Schools Forums

8. *We propose to review the effectiveness of Schools Forums in delivering the school funding arrangements for 2006-08, and consider:*

- *whether the remit of Schools Forums remains right, including in particular whether they should be given a role in considering capital funding issues;*
- *whether Forums should be given any further decision-making powers, or whether any of those already granted should be amended or removed;*
- *whether any further changes are needed to the rules governing Forums' constitution or proceedings, or to the Department's Good Practice Guide;*
- *what further advice and guidance should be provided to Forums, including whether there is scope to ensure that all Forums have access to independent advice.*

The areas where Schools Forums have powers have been identified by Ministers as those where there will be specific local circumstances which will require local discretion and a locally determined solution, rather than national prescription. SIGOMA fully supports this decision, as we believe that those operating at ground level need the flexibility to be able to respond effectively to issues prevalent in their locality.

However, Schools Forums have not previously had powers to approve local authority proposals and so we would ask government to provide details and demonstrate the type of support it is to provide so as to enable these bodies to take on their new responsibilities effectively. Here we also believe it is important that DfES re-iterates the boundaries to the powers of Schools Forums ie: that Schools Forums can only exercise their powers in relation to proposals put forward by their local authority - Schools Forums will not have any powers to initiate proposals.

One concern that we do have related to the suggestion that the Schools Forums should consider capital funding issues. Authorities have to make strategic decisions on the use of limited capital resources and there is a danger that taking all proposals past a forum would distort strategic

priorities and slow down programmes that are already prone to slippage. In addition, consideration needs to be given to how capital funding can be managed in an area with a large number of diocesan authorities, which interact with the forum and have their own priorities in relation to capital spend.

An Additional Comment

Whilst we welcome the opportunity to comment on these terms of reference, we are concerned that any future dialogue with stakeholders may follow the route taken by the School Funding Implementation Group (SFIG); our experience is that this body did not operate openly, with local government special interest groups (SIGs) such as ourselves being denied access to the papers taken forward to meetings. We would ask that, in future, DfES ensures all SIGs are forwarded all agenda papers on relevant education matters and that SFIG operates in a similar matter to Settlement Working Group (SWG) which facilitates a fully informed open discussion between central government and local authority representatives.