



meeting CABINET

date 7 December 2005

agenda item number

REPORT OF THE DIRECTOR OF EDUCATION

The New School Funding Arrangements

Purpose of report

1. This report is intended to provide a briefing for councillors on the new national arrangements for school funding which are to be introduced from April 2006. Cabinet is asked to consider the membership of the Schools Forum which is also affected by the government's proposals.

Information and advice

Background

2. The changes in the way schools will be funded from April 2006 are significant and alter the balance of responsibilities between local and central government. From next year, the DfES will provide the funding for schools directly. There will in future be multi-year cycles for school funding. The first funding period will be for two years and thereafter there will be three year funding periods. The next two financial years, 2006/07 and 2007/08, are, therefore, seen as a transitional or bedding in period. The DfES has made it clear that other more radical changes may be implemented from 2008.
3. The statutory framework for the new arrangements is provided by the Education Act 2005. The government consulted on the detailed implementation issues between February and May 2005 and decisions were announced in July 2005. Since July there has been a further round of consultation on the draft funding regulations. As the final regulations have not yet been issued it is possible that there may be further changes to come although the main issues identified in this paper are unlikely to be affected.
4. The most significant features of the new arrangements are as follows:
 - funding for schools will in future be delivered through a ring fenced grant, the Dedicated Schools Grant (DSG) which will be separate from other local authority funding;

- school budgets must in future be provided on a multi-year basis, two years in the first instance and then three years thereafter;
- specific grants, including the Standards Fund, will be streamlined.

These issues are discussed below.

5. The new arrangements are intended to help schools manage their budgets by providing greater stability and predictability in funding. There can be no disagreement with this aim and indeed it has been one of the agreed principles underpinning the Nottinghamshire LMS scheme. There is, however, a tension between stability on the one hand and responsiveness to changed circumstances on the other. The DfES arrangements tend to favour stability over responsiveness. For example, as explained below, school budgets will not change if pupil numbers change during the year.

The Dedicated Schools Grant

6. In future the funding for schools will come directly from the DfES and it will be ring fenced from the rest of local government finance. The additional funding that many Local Authorities have provided in the past (£10.5m in Nottinghamshire's case) will become part of the national budget controlled by the DfES. Theoretically, therefore, the additional funding that Nottinghamshire has provided could be used by the DfES in another local authority area. There has clearly been a strong reaction through the consultation to this possibility and all local authority areas are to be guaranteed existing levels of funding in 2006 plus a 5% per pupil increase on that baseline.
7. It is not clear how long this funding position will continue. It would seem unlikely that the DfES would tolerate indefinitely a situation where schools are funded through a national system but the actual levels of funding for a local authority area are determined by historical circumstances. It would seem more likely that funding will in future be determined by the national Schools Formula Spending Share (SFSS) formula that has provided Nottinghamshire with relatively low levels of funding in the past. Under pressure from the F40 group of poorly funded authorities, the Minister has indicated that this formula might be reviewed.
8. The coverage of the ring fenced grant, the Dedicated Schools Grant (DSG), is the same as the current Schools Budget, that is, it provides the funding for delegated schools budgets and also the funding for services for pupils provided directly by the local authority. The funding for the local authority's central education functions is provided as part of the separate local government grant arrangements. It is not yet clear how the transfer of school funding will affect remaining local government funding.
9. The DSG will be provided in 'multi-year' funding periods. The first funding period will be for two years, 2006/07 and 2007/08. Thereafter

there will be three-year funding periods which will be aligned to the Chancellor's spending review cycle.

10. The grant will be based on the January pupil census (PLASC). A unit of resource will be calculated for Nottinghamshire. The sum available through the DSG for 2006/07 and 2007/08 can then be obtained by multiplying the number of pupils on PLASC 2006 and PLASC 2007 by the unit of resource.

Multi-year budgets for schools

11. School budgets will also in future be based on a single pupil count, this being the number of pupils recorded on the January PLASC. School budgets for 2006/07 will be based on the PLASC figure for January 2006. There will be no end of year recalculation of school budgets because the budgets will be based on an actual rather than estimated number of pupils. This arrangement provides schools with greater certainty in their budget planning but it also reduces the responsiveness of the formula. Schools will not gain additional funding if pupil numbers rise in the September admission round.
12. A single January count would seriously disadvantage primary schools because the summer term intake of reception pupils would be absent from the count. The DfES has accepted the need for an additional formula factor for primary schools that would be based on estimated reception age pupil numbers for the summer term. Nottinghamshire's admission arrangements have recently been amended to allow schools to admit all reception age pupils by the January of an academic year. The soonest that a change in policy could be implemented would be January 2007. The funding position will be more straightforward for schools adopting this change in admission policy although funding is not, of course, the only consideration.
13. Schools will be provided with budget information for two or three year periods. The first multi-year budget will cover 2006/07 and 2007/08. Thereafter, budgets will be provided on a three year basis. The budgets for the second or third year of a budget period will be based on estimated pupil numbers. These budgets will be updated before the start of the year when the actual January pupil numbers are known for the year in question. School budgets provided one or two years in advance are therefore indicative rather than actual budgets.
14. Local authorities are still required to operate an LMS formula for the distribution of funding between schools. However, local authorities will also continue to be required to operate the Minimum Funding Guarantee (MFG). The MFG is a separate formula which delivers a particular per pupil increase in funding as determined by the DfES, for a school compared with the year before. Schools must be given the funding which is the higher of the two amounts calculated through MFG formula or the LMS formula.
15. Under the current arrangements, the data on schools such as floor areas or numbers of pupils entitled to free school meals, is updated

every year. The LMS formula is therefore based on the most up to date information. Schools are presently being consulted on whether they would prefer such data in the LMS formula to be frozen for the duration of a budget period. Schools would have more certainty over future budgets if no factors other than pupil numbers were changed and updated. Once again there is a balance involved between greater budget certainty and responsiveness to actual need.

16. A particular funding issue for next year is the methodology adopted for the distribution of the Teacher Pay Grant. This grant has been separately provided by the DfES and is intended to meet the costs of teachers progressing through the threshold to the upper pay spine together with some leadership payments. From 2006, this funding stream will be incorporated within the Dedicated Schools Grant and will not be separately identifiable. The sum of money involved is significant and amounts to approximately £14.9m. Schools are presently being consulted on how the funding might be distributed. The existing method is based on a census of individual schools but this will be difficult to sustain in the longer term and a formula approach may need to be adopted.
17. Under the current arrangements, school budgets are recalculated at the end of each year to adjust for actual pupil numbers. The recalculation step also allows other adjustments to be made. This could include, for example, dealing with a deficit left by a closing school which might have to be met from the budgets of all other schools. This kind of adjustment will not be possible in future because there will no longer be a recalculation of school budgets. There are no entirely satisfactory options for dealing with potential problems of this kind. The DfES has suggested either that the local authority holds larger contingencies or that financial problems are rolled forward to be dealt with at the start of the next funding period.

Standards Fund and Standards Grant

18. Two years ago, the School Development Grant was created by the combination of a number of separate Standards Fund categories. This funding was not aligned to specific activities and in effect schools were provided with further delegated funding. This process is to continue with the inclusion of further Standards Funds categories within the School Development Grant. The School Development Grant will be 100% funded and the DfES will top-slice the Dedicated Schools Grant to provide the previous element of matched funding.
19. A number of targeted Standards Funds will continue unchanged and the LEA will also continue to manage a number of Standards Fund categories. **Appendix 1** to this paper provides the details of the new framework.
20. Schools also receive Standards Grant. The amount of Standards Grant received by a school in future will be determined by a formula which provides a block amount and an amount per pupil. From April 2008, the School Development Grant and the Standards Grant will be

combined and the total amount will be allocated to schools according to this formula.

Schools Forum

21. The government introduced the Schools Forum some three years ago as the recognised vehicle for consultation with schools on funding matters. Hitherto, the forum has been a purely advisory body but its importance is set to increase when it receives some decision making powers next year. The regulations are to be changed so that it will not be possible in the future for local authority elected members to be members of the Schools Forum. The intention is to introduce this change from January 2006 although the final regulations have not yet been laid before Parliament.
22. The areas in which the Schools Forum will acquire decision making powers relate to the operation of the minimum funding guarantee for schools and the size of the non-ISB (non-delegated) part of the Schools Budget. Previously the local authority needed to apply to the Secretary of State for a variation of the regulations. The DfES believes that there should now be a clear separation of function and membership between the Forum and the local authority and the regulations on membership are to be amended accordingly.
23. Subject to the regulations, the size and membership of the Schools Forum may be determined by the local authority. The Nottinghamshire Schools Forum has thirty members within which the regulations allow for a maximum of six non-school members. Three of these places are occupied by members of the County Council. The present composition of the Schools Forum is attached as **Appendix 2**.
24. In view of the planned new regulations, the size and composition of the Forum needs to be reviewed. To be quorate, 40% attendance is required. Experience suggests that it may be easier to achieve effective, quorate meetings with a smaller membership. It is therefore suggested that the three places formerly occupied by elected members be deleted and the membership reduced to twenty seven from the date on which new regulations become effective.

Statutory and policy implications

25. This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, crime and disorder and those using the service. Where such implications are material, they have been described in the text of the report.

Financial implications

26. There are no immediate financial implications for the local authority arising from this report.

Implications for service users

27. There are no immediate implications for service users arising from the new arrangements. It remains to be seen how the funding of schools in this county will be affected in the longer term.

RECOMMENDATION

28. That:-

- (1) the new national school funding arrangements be noted, and
- (2) the membership of the Schools Forum be reduced to twenty-seven from the date on which the new regulations become effective.

PAM TULLEY

Director of Education

Legal services' comments (LM/15.11.05)

29. The new national school funding arrangements are for noting only and the proposals to reduce the membership of the Schools Forums complies with the Schools Forums (England) Regulations 2002 as amended by the Schools Forums (Amendment) Regulations 2004.

Director of Resources' financial comments (PWH)

30. As paragraph 26 indicates, there are no immediate financial implications arising from this report to Cabinet.

Background papers available for inspection

EIA form

Electoral division(s) affected

Nottinghamshire

M19C1448