

22 March 2017

Local Government Association response to the Department for Education's stage two consultation on a Schools national funding formula.

About the Local Government Association

The Local Government Association (LGA) is the national voice of local government. We work with councils to support, promote and improve local government.

We are a politically led, cross-party organisation which works on behalf of councils to ensure local government has a strong, credible voice with national government. We aim to influence and set the political agenda on the issues that matter to councils so they are able to deliver local solutions to national problems. The LGA covers every part of England and Wales, supporting local government as the most efficient and accountable part of the public sector.

Key points

- The Local Government Association (LGA) has long been calling for a fairer funding system for all schools. We welcome the additional £500 million in funding that was announced in the stage one consultation, but remain concerned about the reductions in funding that a significant number of schools and councils will see under the proposed new funding formula.
- The LGA is concerned that the proposed funding formula will not deliver increases in funding commensurate with rising need. Those schools that are facing a reduction in funding will still need significant support from both their council and the Department for Education (DfE) to ensure cuts are phased in sustainably. Councils cannot however be expected to make good any funding shortfall, where these arise. The DfE should also recognise that those schools that will enjoy funding increases are telling their councils that these will be more than offset by the increase in other cost pressures they face.
- Due to the differing impact of the proposed funding formula on schools and councils, we believe that there is a clear need for councils, working with schools forums and schools themselves, to retain local flexibility in determining what works best in their areas. The DfE alone should not set over 24,000 school budgets, without any input which takes local needs, knowledge and priorities into account.
- The LGA is concerned about the proposal to only have one year of the 'soft' formula in 2018-19, rather than two as proposed in the stage one consultation. The proposed changes need to be phased in gradually to allow those facing a reduction in budgets to adapt.
- We have serious doubts about the effectiveness of the proposal for maintained schools being asked to fund, from their own budgets, council statutory duties that are currently funded from the Education Services Grant (ESG) (recently cut by £600 million or 75 per cent). We do not believe it is right or fair that schools should be asked to pay for services that they currently receive for free and at a time when their budgets are under increasing pressure and, further to this, we think it unlikely that they will agree to this new arrangement.

- Further to this, flexibility to move funding, with the agreement of schools forums, must remain. By ring-fencing the Schools Block, the High Needs Block (HNB) becomes exposed. If the HNB stands alone, the only method available for councils will be to reduce funding for top-ups for mainstream schools, resource provision, special schools and alternative provision. This will not result in better, collaborative provision for the most vulnerable pupils.
- The proposals set out in this second stage consultation focus on the various blocks that will make up the proposed national funding formula; some councils and their schools will see an increase in funding where others are facing a reduction. The LGA is unable to comment on the distributional proposals which will have a differing impact on our member authorities.
- The LGA is concerned that the consultation makes no reference to the impact of the Apprenticeship Levy on maintained school budgets. We are clear that the levy will have a particular impact on small schools which are not exempted from the scheme in the same way that small academies and faith schools will be.

Implementation of the national funding formula for schools

The LGA is deeply concerned about the ability of schools and councils to implement reductions in funding in the proposed one year of the 'soft' funding formula in 2018-19. We are clear that those schools and councils facing a reduction in funding will need more time to make the necessary savings and therefore ask the Department to phase the proposed changes to school funding in more gradually.

Cuts to the Education Services Grant

The LGA is concerned that the £600 million (75 per cent) cut to ESG leaves councils with little resource to perform a wide variety of statutory duties, covering a number of essential services including mental health support and maintenance of school buildings and playing fields, as well as school improvement. We do not believe it is right that schools should be asked to fund these services, at a time when their budgets are being squeezed.

Detailed formula design proposals

We are concerned that the proposal to reduce the lump sum to £110,000 per school, while increasing funding through other parts of the proposed formula, will have a particularly negative impact on small primary schools. This factor seeks to reflect the minimum costs of running a school – e.g. the cost of a head teacher and the maintenance and insurance of buildings.

We believe the proposed reduction in basic per-pupil funding to 73 per cent could make small primary schools with little additionality unsustainable. Instead, we ask the Department to consider setting basic per-pupil funding at 75 per cent to give some protection to these schools.

The impact of the proposed national funding formula for schools

We are concerned that the proposals set out in the consultation will exacerbate the existing difference between the treatment of maintained schools and academies.

For example, councils' ESG ceases completely in September 2017, while academies will see their reductions introduced more gradually, with them tapering until 2020. Clearly this creates an immediate pressure for maintained schools many of which will already be faced with reductions in funding.

The consultation does not seek to address inconsistencies relating to surpluses and deficits when schools moved from maintained to academy status. We believe it is unfair that councils have to write off deficits when schools are taken over by sponsors (via intervention), but that new academies can keep a surplus, while converter academies take surpluses and deficits with them. We believe that the DfE should ensure that there is a consistent approach to this issue across all types of conversion that do not leave councils having to pick up the bill.

Implementation of the national funding formula for schools

As mentioned elsewhere, we are deeply concerned about the ability of schools and councils to implement reductions in funding in the proposed one year of the 'soft' funding formula in 2018-19. We are clear that those schools and councils facing a reduction in funding will need more time to make the necessary savings and therefore ask the Department to phase the proposed changes to school funding in more gradually.

Proposals for the central school services block

The principle of allocating a proportion of the central school services block through a deprivation factor to reflect particular central services, such as education welfare services, appears reasonable.

The LGA does not agree with the DfE's proposal to cut central school services block funding on a per pupil basis 2018/19 and 2019/20. If this proposal is taken forward we believe that the reduction should be set at the same rate as the minimum funding guarantee, i.e. 1.5 per cent.

The central school services block should also take account of the impact of the current education reform programme on home to school transport. As the DfE continues to encourage maintained schools to convert to become academies, there will be an increase in variety of terms dates and timings of the school day and this will have an impact on the costs of councils delivering home to school transport.

The Department's overall approach to constructing the national funding formula for schools

The LGA is concerned about the impact that the proposed National Funding Formula's (NFF) has already had on schools and councils. These include:

- There has been a failure to provide timely figures for DfE negotiated licenses, which were required for schools forum decisions on central budgets to be top-sliced from the Dedicated Schools Grant (DSG). Many councils seek school forum agreement in December to determine the amount available for the formula, but on this occasion the relevant information was received too late to achieve this.
- The announcement of the school improvement grant to councils, specifically the amount that each council will receive, was delayed until January, impacting on council service budgets. Councils have to take decisions on council tax setting in February so budgets need to be settled well before this. Furthermore, undertaking staff consultation and redundancy exercises to reflect the reductions in funding takes additional time, meaning councils cannot achieve a full year's financial saving.

The consultation contains no information on how DSG surpluses and deficits will be treated in the transition to the 'hard' national funding formula in 2019/20. We ask the DfE to share this information as soon as possible, to assist councils in their financial planning in 2018-19.

A number of our member councils have raised concerns regarding the timeliness of consultation. Owing to the delay in publishing the stage two consultation, schools and councils have a very limited window in which to implement the necessary changes, which in turn does not fit with council budget-setting timelines.

Additional points

The LGA is concerned that the consultation makes no reference to the impact of the Apprenticeship Levy on maintained school budgets. We are clear that the levy will have a particular impact on small schools which are not exempted from the scheme in the same way that small academies and faith schools will be. The Levy will see all businesses including schools with a wage bill over £3 million a year contributing 0.5 per cent of that wage bill to fund new apprenticeships. However, schools with a smaller wage bill that are maintained by the local authority will also have to pay.

Where a school employs its own staff, for example an academy or faith school, they are exempt from the Levy if their wage bill is under the £3 million threshold. However where a school is maintained and its staff are technically employed by the local authority, those staff contribute to the overall wage bill of the council – rather than being counted separately. This means that the Apprenticeship Levy is applied to them, and will need to be accounted for in school budgets from April 2017.

We note the findings of a number of recent reports that highlight serious concerns regarding future school funding levels. The National Audit Office's *Financial sustainability of schools*¹ and the Education Policy Institute's *Implications of the National Funding Formula for schools*² both argue that schools will be facing real-terms funding reductions by 2019-20 and the LGA is keen to work with the Department to ensure all schools are adequately supported to meet the challenges presented by the introduction of the national funding formula.

¹ <https://www.nao.org.uk/report/financial-sustainability-in-schools/>

² <https://epi.org.uk/report/national-funding-formula/>