

15 April 2016

Local Government Association response to the Department for Education's stage one 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 and we welcome the announcement of an additional £500 million to speed transition to a fairer funding formula. Introducing a new national formula will inevitably create losers as well as winners so it is essential that it is introduced in a phased way to protect those schools facing a relative reduction in budgets. Councils already play an important role in supporting schools to cope with funding changes and we welcome the recognition in the consultation proposals that this role needs to be retained during the transition to the new system.

We are however disappointed at the poor timing of this consultation. Being so close to the Easter break has given councils insufficient time to work with their Schools Forums on a response. We are also disappointed that the Early Years funding consultation has yet to be published; an integrated set of proposals is needed.

The LGA is clear that the existing local funding formula system is not to blame for large variations in funding between similar schools in different local authority areas. That is why a fair national distribution between schools in different council areas is needed. However, we would like to see an element of local discretion and local discussion between schools and councils retained within the framework of a fair national formula, as it will be during the transitional phase. This will allow local needs and priorities to continue to be taken into account and deal with additional school costs that cannot be adequately addressed through a formulaic approach.

We are opposed to the principle of the budgets of twenty-four thousand schools being set in Whitehall. School budgets are best set at the local level, in consultation with schools forums, to allow for continuing local flexibility and discussion. We are concerned that the proposals set out in the consultation will remove the ability of local authorities to work together with their Schools Forums to ensure local needs can be met. The loss of this collaborative approach will mean each school's budget is determined by government using a central formula that cannot fully reflect the mix of characteristics that affect their need to spend.

Further to this, the ring fencing of the Schools Block will significantly reduce flexibility for local areas to address pressures in the other blocks, where there is often limited scope to influence costs due to statutory requirements. Schools are also the beneficiaries of expenditure in the other blocks; separating out the Schools Block will prevent an integrated approach to the use of resources.

We support the proposed 'soft' funding formula and would like to see this continued beyond 2018-19 to give local authorities continued flexibility to deal with hard cases and for factors that do not admit to a formulaic approach, such as historic costs and growth.

We agree that under a national funding formula schools must know that they will get a basic amount of funding for each pupil in their school. And we agree that the new system should continue to differentiate between key stages 3 and 4, allocated on a council by council basis, as costs increase with curriculum complexity, staffing requirements and the additional requirements of external assessment at key stage 4.

The LGA is pleased that the DfE recognises that there will be turbulence in school funding as we move towards a new national formula and that schools must be protected from this. Both schools and local authorities must be protected from significant reductions in budgets in the transitional years of 2017-18 and 2018-19, with the provision of additional funding from the DfE, if necessary.

We welcome the Department's proposal to phase in the reforms, although we are concerned that bringing in the new national funding formula for the start of the 2019-20 year will be challenging for the government, local authorities and schools.

Clarity is required on how the proposals will work with the Northern Powerhouse and other devolution proposals, to ensure that additional funding is available for targeted work to give children and young people an excellent education.

There is a clear need for further dialogue with the Department for Education (DfE) to understand how the proposals set out in the consultation will be impacted by the proposals set out in the *Educational Excellence Everywhere* White Paper published on 17 March. The proposals to require all council-maintained schools to become academies by 2022 will clearly have an impact on the continuing council role in education and the proposal for a £600 million cut in ESG. We cannot comment on that proposal until there is greater clarity about how the continuing council role in place planning, protecting the interests of the most vulnerable pupils and acting as champions of parents and families will be funded.

Reforming the funding system

The LGA is concerned that the policy outlined in the White Paper *Educational Excellence Everywhere* of enforced academisation and a preference for Multi Academy Trusts (MATs) as the default model of school organisation could frustrate the proposals set out in this consultation. Trust Boards receive the funding for all their academies and can redistribute it according to the Trust's priorities, as well as top-slicing academy budgets for central services they decide to deliver on their behalf. Unlike reporting arrangements for local authorities, there is no scrutiny or challenge to MATs in how they take decisions on the allocation of funding between schools.

When a majority of schools in the country are members of MATs, this practice could frustrate the aim to achieve fairness, transparency and predictability in school funding. We are concerned that it could undermine the overarching goal of the funding reform to achieve parity of funding for similar schools.

We share the Government's ambition to develop a system for funding schools that is fair and transparent, with resources matched to pupils' and schools' characteristics consistently across the country. We agree that achieving fairness in the way that educational provision is funded for all children is crucial to providing world-class education that allows every child and young person to achieve to the best of his or her ability regardless of location, prior attainment and background.

We note that the National funding formula will come into effect from 2019-20 and that for 2017-18 and 2018-19 while the formula will be used to calculate the schools block, the money will continue to be distributed by local authorities using their own, local, formulae (a 'soft' national funding formula). We are pleased that the Department recognises the need for stability as changes to the funding arrangements for schools are implemented. We therefore welcome the transitional arrangements and that councils have a continued role in them, but we await further, detailed proposals on how schools that lose out under the new arrangements will be supported.

We are concerned that councils will be compelled to pass on all of their schools block funding to schools as we do not believe that there is a need to restrict local flexibility in this regard. Instead the LGA would like to see local authorities, in consultation with their schools forum, continue to have the flexibility to distribute schools block funding to meet local need.

The LGA is clear that the composition of the new formulae must be demonstrably fair; any reductions will exacerbate cost pressures. Extra High Needs Block top up funding totaling £139.5m in 2015/16 and 2016/17 was allocated on pure pupil numbers, unrelated to need; it is hoped that this does not signal the approach of a new national funding formula. The equality analysis is silent on the impact of the proposals on children from disadvantaged backgrounds.

The schools national funding formula

The LGA supports the principle of a fair and transparent funding formula, but as this is a distributional issue that will affect our member councils differently, we will wait for the detailed proposals set out in the second stage of the consultation before commenting further.

Transition to a reformed funding system

We would welcome further information on how the Department will ensure that gains for under-funded schools can be achieved without reducing the funding for schools that are adequately funded under the existing school funding arrangements. We would not want to see a situation where some schools will lose funding in the short term to fund minimum funding guarantees (MFG) during the transition to the new funding arrangements. We welcome the opportunity to comment on the national MFG when it is outlined in greater detail in the second part of the consultation process.

We welcome the DfE's recognition that any school that loses funding must be given time to plan and prepare so that savings can be made without damaging the quality of their provision. We are however concerned about the capacity of some schools to undertake this work individually and believe there is a continued role for local authorities in supporting individual, or groups of schools, in ensuring they are prepared for reductions in funding.

We are pleased that the DfE will be reviewing the 'soft' formula arrangements which will be used during 2017-18 and 2018-19 to inform and refine the national formula on a year-on-year basis. We would like to see the DfE go further however, by extending the 'soft' formula beyond 2019.

We do not agree with the DfE's proposal to ring-fence schools block funding, creating a 'ring-fence within a ring-fence'. We would instead like to see the continuation of discretion for the schools forum, by agreement, to be allowed a greater degree of local flexibility than with the proposals as set out in the consultation.

Some councils may wish to continue to provide support services to schools and we therefore welcome the DfE's proposal to allow this practise to continue as a traded service agreed with schools.

Funding that will remain with local authorities

The LGA believes that there is a need for further clarification on the central schools block following publication of the Schools White Paper.

Under a new national funding formula it is proposed that the Central Schools Block will combine centrally retained DSG and council statutory duties from the Education Services Grant. Allocating this on pupil numbers will change the distribution of funding. We are concerned that this approach shows a lack of understanding of the diverse cost drivers for centrally retained services. In relation to centrally retained budgets, it will also countermand the previously expressed wishes of Schools Forums.

By bringing the ESG element into DSG, the government is taking control of a non-ring fenced grant that local authorities currently have discretion over. There is no recognition of the economies of scale that councils have already achieved through operating services on behalf of schools and the efficiency savings councils have made in the way they conduct their statutory duties.

The Admissions service is a vital local authority statutory role, for which a standard per pupil amount is not appropriate for in-year admissions. The White Paper proposes a stronger role for local authorities in coordinating in-year admissions; the level of these varies significantly in different areas, and sufficient funding must be provided so that the duty can be discharged adequately.

It is not clear how the Central Schools Block per pupil amount will be calculated: will it be a redistribution of current spending, or a rebasing of what government thinks the services should cost? Any annual exercise to capture changes needs to be merged with the Section 251 return, not conducted separately. If funding reduces, local authorities will need time to consult on the termination of staff contracts and must be able to charge redundancies to this block.

The future of the education services grant

The 2015 Spending Review announced a £600 million cut (75%) in the Education Services Grant and the Government's intention to end the statutory council role in school improvement. It is not clear how the proposal to end the council role in maintaining schools, announced in the budget, will impact on that proposal. The comments below therefore reflect our current understanding of the proposals outlined in the fair funding consultation and may change when we have further clarity about the future of the ESG in a fully academised school system.

The LGA believes that the DfE must provide evidence that shows how councils and academies can make the efficiency savings set out in the consultation. We would be interested to discuss whether a reduction in the number of statutory duties, placed on councils with regards to school improvement functions, would mitigate against this reduction in ESG.

Further to this we are concerned that the proposals breach the principle of fairness by giving academies preferential treatment with tapering protection until 2020, while cutting off local authority ESG by summer 2017. This is too short a timescale to expect local authorities to restructure their services. It also means that schools that are about to become academies will be at a financial disadvantage compared to early converters.

The previous setting of a national rate for ESG led to swings in funding which were able to be managed at a local level because the grant was not ring fenced. It is therefore incorrect to assume that everyone is spending at the same level as their ESG; some will be subsidising these statutory education functions by cutting other discretionary services. There are other statutory services (such as Education Psychology) not covered by ESG, for which councils are already facing pressures due to rising needs.

It is not appropriate to remove funding until it is clear which duties can cease; proposing a withdrawal of funding then asking how to achieve it suggests that the policy has not been properly thought out. Making savings in such functions will not be simple; for example, setting the local funding formula is rarely a full time job, but is managed within other data functions.

The document states that other sources of funding will need to be used to fund education services when the general ESG rate is removed, so recognises the need for a mechanism for local authority maintained schools to agree central retention. The Central Schools Budget should be sufficiently funded so that this mechanism is not needed. If the Forum does not agree central retention, and the Secretary of State does not approve it, it is unclear what would happen. Will this remain a function of School Forums after the review?

The central retention is cited as being equivalent to the MAT top slice, but there is no way of knowing how much MATs take for their central services; we assume there is significant variation. There needs to be parity between the two examples, achieving consistency in transparency and use of taxpayers' money.

Additional information

The full impact of the proposals will not be fully understood until the details of the formula are published, but in relation to the principles there are some key concerns as noted above. The timing of the second stage consultation and the publication of Early Years Block proposals are crucial to achieving a full understanding of how the overall system is likely to work.

The LGA hopes that sufficient time and full information is given for stakeholders to be able to consider the next set of proposals. In particular, the timing must allow for full consultation with schools. These proposals represent the most significant change in school funding arrangements since the introduction of Local Management of Schools in 1988 and getting it wrong will affect the life chances of children and young people across the country.

If councils are to be able to carry out their responsibilities as champions of children and parents, they must be able to exercise some control over the allocation of resources to the front line in their local area, ensuring that those with particular profiles such as high levels of inclusion of pupils with SEND and pressure on school places receive sufficient funding to recognise the challenges. The centralisation of decision making for the funding of over 24,000 schools will adversely affect this, and will put outcomes at risk, especially for those areas where a majority of schools will lose funding.