

England's schools face a significant funding shakeup.  
Paul Gosling examines the key implications.

# true cost of education

■ **Three years ago, newspaper headlines told of a crisis afflicting schools across England. Teachers might be sacked and school support services lost, because the Government was giving too little money to councils to pass on to schools, said the stories. Not so, screamed the Government. If there is a crisis, it is because the education grants given to local authorities have not been passed on to schools.**

Since then we have had less hysteria, less mutual blame accusations and significant changes in the distribution of school funding. We have also had publication of a schools white paper that proposes tearing up the rules for the running and funding of children's education, introducing choice and market disciplines.

## false alarm

However, the 2003 situation was probably never a real crisis, according to a report from the Audit Commission, which investigated the problem. True, there were problems – but these were mostly difficulties in financial planning caused by late changes to grant allocations. And this was exacerbated by councils having little knowledge of the state of their schools' budgets, reserves and balances. To make matters worse, there was evidence of weak financial management within many schools, said the Commission.

With £27bn in revenue grant allocated annually to schools in England alone, this is no small matter in the world of public sector finance. Nor is it something to be glossed over politically, with education proving consistently to be one of last ideological battlegrounds of British politics.

Yet there is neither consistency nor clarity in the funding of schools, with most of the funding going to local education authorities (LEAs) to pass on to schools, some going directly to schools and with LEAs bidding for extra funds from special grants. "School funding is a very complex area" as the Audit Commission puts it, with a touch of understatement. And it varies across the UK's four home nations (see box, right).

## major changes to funding

Acknowledged weaknesses in the English system have led to major changes in funding distribution from the Department for Education and Skills (DfES) from 2006/07. Schools will be given the opportunity to improve their planning, with longer term funding allocations.

By the beginning of the 2006/07 financial year, schools will be told their indicative budget for the 2007/08 year, as well as that for 2006/07. From 2008/09 onwards, schools will be given rolling budgets for the next two or three financial years, in line with the Spending Review cycle.

To ensure that local authorities do not retain money given by government for schools, from the 2006/07 year LEAs receive a ring-fenced DfES grant, called the Dedicated Schools Grant. Allocations of DSG will reflect the outcomes of teachers' pay review findings. But DSG is not a straight copy of the previous non-ring-fenced Schools Formula Spending Shares (SFSS) and contains several refinements.

Schools continue to be given an annual guaranteed minimum increase in the per pupil funding, set in advance. It is intended that local authorities will be required to pass on

funds to their schools on the basis of a 'single count date' of the January prior to each financial year.

Schools will therefore learn of their final budgets – though these will be updated according to final pupil roll numbers – prior to the beginning of each financial year. Local authorities will continue to decide on the operation of their local funding formula and the split between central and delegated items, with permitted applications of local flexibility.

In addition, every school will continue to receive directly from government a Schools Standards Grant (SSG), which it can spend as it sees fit. There is an expanded School Development Grant (SDG), bringing together several of the old Standards Fund grants.

## unhappiness

But Mike Heiser, Senior Project Officer in the local government finance team of the Local Government Association, says there is widespread local authority unhappiness with the new funding system. "It is a big change this year with the move from schools' funding through the local government funding system, to a ring-fenced, dedicated schools' grant," he says.

"Local authorities are still involved, local authorities are still responsible in consultation with their schools forums for setting schools budgets and deciding on anything done centrally by the local authority, and decide on their formulae. But they will do this out of the Dedicated Schools Grant, and this is ring-fenced.

"When you look at the wider issue of children's services, we think this ring-fencing leads to inflexibility, certainly for the 2006/07 year. The DSG contains a 6.8% increase per



pupil. This compares with an increase of just 2.7% – or less for some councils – for local authorities to deal with other children's services."

#### changes facing LEAs

Yet this is far from the end of the school reforms. The schools' funding environment faces revolution when – and if – the schools white paper becomes enacted, assuming its contentious proposals for trust schools pass into legislation. The white paper proposed that "the role of the LEA will change fundamentally", in the words of Tony Blair.

LEAs will basically become agents for their residents in assisting the Department for Education and Skills in driving up local education standards. Depending on what happens to the Bill in Parliament, local authorities may no longer have a role in choosing which pupils go to which schools. But much more than this, the proposed trust schools would employ their own staff, control their own assets and may have control – subject to ministerial approval – of employment conditions and pay.

Revenue funding would be on a per-pupil basis, with trust schools receiving grant comparably with other local schools. But capital funding could be a very different matter.

#### capital programmes

A spokesman for DfES says: "None of the white paper's proposals have a huge impact on capital programmes. Local authorities would still have a strategic role in putting together PFI contracts, for example."

But reality may differ from this theory. There is a close parallel here with the uncertainties introduced by market disciplines into the NHS,

### schools funding beyond England

The system for schools funding is very different in the other home nations, compared with England. Both Wales and Scotland use a structure based on that which used to be England's – the inclusion of schools in grant allocation to local authorities, with councils deciding how to divide the cake. In Scotland, this is augmented by a special priorities scheme, which allocates additional funding for initiatives such as extra funding in deprived areas.

Northern Ireland, in terms of education structure, is a different world. Schools are not a local government function, and regional education and library boards are responsible for passing on money on behalf of the province's Department of Education. But the various types of school – controlled (state), grant maintained integrated, voluntary, Catholic maintained and Irish language schools – are run and funded in differing ways.

with doubts over future 'customer' numbers leading to questions over the 'commercial viability' of some large hospitals. As a result, billions of pounds worth of proposed hospital PFI contracts may fall through. The same could occur with PFI proposals for schools. "No city council in their right mind is going to go ahead with a PFI scheme for schools when they can't guarantee the future pupil numbers," asserts Margie Jaffe, national officer for Unison.

Liverpool City Council's approach seems to back this up. It has applied to the Government for a £320m schools building scheme to be procured conventionally – rather than, as originally intended, through PFI – because of the greater risks associated with the move to independent trust schools and the acceptance that failing schools will have to close.

"We have a problem with falling rolls in Liverpool," says the Council's spokesman Paul

Johnston. "We are losing about a thousand places a year with a declining birth rate. With PFI you have to guarantee that schools are viable for the next 25 years, because you have a contract with PFI partners. If we have an open market for schools, and schools control their own admissions, then you have a situation where we have no say in where pupils go and it becomes more difficult for us to control. That could become an issue."

As is often the way, profound changes are leading to serious uncertainty. And even if the future has become clearer about the distribution of revenue funding, there are major question marks over the current £17.5bn, mostly PFI-based, school building programme. Those are questions which need to be resolved in a hurry. ■

**Paul Gosling is a freelance journalist**