

school funding: what next?

local authority and school views

LGA educational research programme



LGAresearch report 4/05



National Foundation for Educational Research



Local Government Association

Also available in the LGA education research series

School funding: a review of existing models in European and OECD countries

Mary Atkinson, Emily Lamont, Caroline Gulliver, Richard White and Kay Kinder

LGA research report 3/05
ISBN 1 903880 91 2
February 2005, £15.99

The local authority contribution to improved educational outcomes: phase one report

Anne Wilkin, Kay Kinder and Dominic Schad

LGA research report 25/04
ISBN 1 903880 89 0
December 2004, £11.00

Extending the role of libraries

Anne Lines, Christopher Savory and Angharad Reakes

LGA research report 23/04
ISBN 1 903880 88 2
November 2004, £10.00

Good practice in the provision of education for excluded pupils

Mary Atkinson, Annie Johnson, Kay Kinder and Anne Wilkin

LGA research report 14/04
ISBN 1 903880 77 7
July 2004, £20.00

Mapping the 14-19 learning landscape

David Sims and Susan McMeeking

LGA research report 10/04
ISBN 1 903880 74 2
July 2004, £8.00

The key stage 3 national strategy: LEA and school perceptions

Sarah Knight, Rhona McEune, Kerensa White and Adrian Woodthorpe

LGA research report 11/04
ISBN 1 903880 75 0
June 2004, £7.00

The employment and deployment of teaching assistants

Paula Smith, Karen Whitby and Caroline Sharp

LGA research report
ISBN 1 903880 68 8
April 2004, £6.00 (print on demand)

School attendance and the prosecution of parents: effects and effectiveness. Final report

Sally Kendall, Richard White, Kay Kinder, Karen Halsey and Nicola Bedford

LGA research report 2/04
ISBN 1 903880 65 3
February 2004, £12.50

Partnership approaches to sharing best practice

Peter Rudd, Anne Lines, Sandie Schagen, Robert Smith and Angharad Reakes

LGA research report 54
ISBN 1 903880 64 5
January 2004, £9.50

What works for gifted and talented pupils: a review of recent research

Kerensa White, Felicity Fletcher-Campbell and Kate Ridley

LGA research report 51
ISBN 1 903880 63 7
December 2003, £7.00

New technologies supporting teaching and learning

Mark Cunningham, Sue Harris, Kirstin Kerr and Rhona McEune

LGA research report 49
ISBN 1 903880 61 0
November 2003, £8.50

Available from the Publications Unit
(01753) 637002
book.sales@nfer.ac.uk

school funding: what next? local authority and school views

final report

Mary Atkinson
Emily Lamont
Richard White
Caroline Gulliver
Kay Kinder



Local Government Association



INVESTOR IN PEOPLE



Published in February 2005
by the National Foundation for Educational Research,
The Mere, Upton Park, Slough, Berkshire SL1 2DQ

© National Foundation for Educational Research 2005
Registered Charity No. 313392
ISBN 1 903880 92 0

Contents

Acknowledgements	v
Executive summary	vi
1 Introduction	1
1.1 Aims	1
1.2 Methodology	1
1.3 The structure of the report	2
2 Recent changes to the school funding system	3
2.1 Advantages of the revised funding arrangements	3
2.2 Disadvantages of the revised funding arrangements	5
2.3 Impact of the revised arrangements on central services	8
2.4 Impact of the revised funding arrangements on individual schools	8
3 Allocation of funding to schools	12
3.1 Impact on the way funding is allocated	12
3.2 Impact on the discretionary elements	14
3.3 Advantages of the allocation formula	15
3.4 Disadvantages of the allocation formula	16
4 Relationships with schools	18
4.1 Relationships between local authorities and schools: impact of the Schools Forum	18
4.2 Relationships between local authorities and schools: impact of the revised funding arrangements	19
4.3 Relationships between local authorities and schools: impact of targeted Transitional Support Grant	20
4.4 Fairness of allocation of the targeted Transitional Support Grant	21
5 Monitoring of school budgets	24
5.1 Mechanisms for monitoring school budgets	24
5.2 Frequency of monitoring school budgets	25

5.3	Effectiveness of monitoring schools in financial difficulties	25
5.4	Effective mechanisms for monitoring school budgets	27
5.5	Financial management training	28
6	Future developments	30
6.1	Impact of future funding arrangements on attainment	30
6.2	Future funding pressures	33
6.3	Desired future funding arrangements	34
7	Local authority case studies	36
	Local authority 1	36
	Local authority 2	40
	Local authority 3	43
	Local authority 4	47
8	Concluding remarks and recommendations	51
	Appendix	52
	References	53

Acknowledgements

The authors would like to thank the Chief Education Officers and other local authority personnel who completed the survey in phase one of this study. Particular thanks go to the local authorities who agreed to take part in the case studies and those who gave up their valuable time to be interviewed in phase two. We would also like to thank a number of NFER colleagues. These include Ben Styles for his contribution to the statistical analysis of questionnaires in phase one; Hilary McElderry for providing secretarial support and staff in the NFER's Communications, Marketing and Information Services for their involvement in production and dissemination of the report. In addition, the authors would like to thank the LGA for providing the opportunity to undertake this research and, particularly, Roger Sykes and Ian Elliott for their contribution throughout the study.

Executive summary

Following revisions to the funding arrangements for schools by the Government in the 2003/04 financial year and concerns that these new arrangements may exacerbate the unfair aspects of the present system, creating significant 'losers', the Local Government Association (LGA) commissioned the National Foundation for Educational Research (NFER) to conduct a study on the impact of these changes.

Key findings

Findings relating to recent changes to the school funding system included the following.

- The advantages of the new funding arrangements were mainly felt at school level, since they provided stability and transparency for schools, as well as increased school control.
- However, school and local authority staff felt that the new arrangements perpetuated inequities between local authorities and between schools. They also indicated that school funding continued to be complex and uncertain.
- In contrast to the school level, the new arrangements were reported to have taken control and flexibility away from local authorities, making responding to local needs difficult and leaving little incentive for local decision making. It was suggested that councils may also be less inclined to contribute to education funding as a result.
- The new arrangements were also reported to have put pressure on central local authority services and led to a reduction in expertise and service quality.
- Varying impacts on individual schools were reported, adding further evidence to the fact that, when funding arrangements are adjusted, there are always some perceived winners and losers.
- In the main, the impact on individual schools appeared to be neither authority nor sector specific,

although there was a suggestion from local authority staff in three authorities that secondary schools had been more negatively affected and primary headteachers in two different authorities felt that primary schools had been the main losers.

- A variety of factors were considered influential in whether schools had 'won' or 'lost' financially as a result of the new arrangements, including the operation of the minimum funding guarantee and the floors and ceilings, as well as the merging of the Standards Fund money into the main allocation. Other factors, such as local authority decisions regarding the use of 'the headroom', increasing staff costs and changing rolls were also cited.
- Equal numbers of interviewees reported that the budget was sufficient or insufficient for delivery of the curriculum, although the latter were more vociferous. Again, a variety of factors were felt to have been responsible: uncontrollable costs, inherently poor local authority funding and the workforce reform amongst them. Poor funding was felt to have impacted negatively on staffing, the curriculum, the school environment and pupil support.

Findings relating to the allocation of funding to schools included the following.

- Key concerns about the allocation of funding to schools centred on the passporting arrangements (pressure on central services and the delegation of real costs of provision), the minimum funding guarantee (perverse allocation and eventual return to the local formula) and the merging of the Standards Fund into the general allocation (difficulty assessing whether this equates to previous funding and the need for matched funding).
- The disproportionate amount of funding allocated to the primary or secondary sector as a result of the new arrangements was also highlighted. Whether primary schools or secondary schools were 'winners' or 'losers' as a result of the new arrangements appeared to be local authority dependent.

- Interviewee perceptions of the impact of the new arrangements on the discretionary elements in the local authority formula also appeared to be local authority specific. Interviewees reiterated views expressed by respondents in the survey that the major discretionary elements in local authority formulae were still relevant because they reflected the needs of schools.
- Key issues concerning the discretionary elements in the formula centred mainly around: whether the funding delegated for special educational needs (SEN) was based on actual costs; pockets of significant deprivation that were not picked up by funding indicators; the disproportionate amount of funding allocated to deprived areas; the use of free school meals (FSM) as an assessment of need and the subsidising of small schools at the expense of larger ones.
- A specific advantage of the local authority formula within the new arrangements, from a school perspective in particular, was the financial protection this gave schools. A specific disadvantage, identified more from a local authority perspective, was the inability to adjust the local formula to address local needs and school inequities.
- The majority of interviewees believed that the revised arrangements had had a minimal effect on the relationship between the local authority and schools.
- Where the impact of the revised arrangements had been positive, this was mainly because the local authority was viewed as providing much needed support to schools and school staff appreciated the efforts made to address the situation. The new arrangements were also reported to have encouraged dialogue and communication and to have necessitated a closer exploration and understanding of schools' individual positions by the local authority.
- Deterioration of relationships was attributed to the initial reaction of schools to their budgets or schools being in financial difficulty. Others suggested that the revised funding arrangements had distanced authorities from schools.
- Of those in receipt of transitional support, the majority spoke negatively of its impact, despite the obvious financial benefits it provided. It was criticised for failing to solve the underlying problem and for being minimal in comparison to school deficits or general budget allocation. There was also a belief that transitional support was a fundamentally flawed way to tackle the funding problem and that it was divisive and caused friction between schools.

Findings relating to relationships with schools included the following.

- Interviewee opinions were almost equally divided as to the impact of the Schools Forum on relationships between the local authority and schools, although more interviewees thought it had had a positive impact compared to those who thought it had no influence or reported a negative impact.
- The majority of interviewees who believed that the relationship had improved attributed this to improved transparency, improved communication, effective leadership and appropriate representation and support. Where interviewees believed that it had had a negative effect, this was mainly attributed to inappropriate representation; inadequate financial knowledge; increased scrutiny of financial matters and concerns that it had become 'a talking shop'.
- A positive impact was reported where the grant had been seen as of considerable benefit to schools in avoiding redundancies and protecting the curriculum. Closer examination of school financial situations was also valued.
- Almost three times as many interviewees described the way in which the grant had been allocated as unfair compared to those who described it as fair. Many believed that it had rewarded financial mismanagement.
- Interviewees who perceived the allocation as fair provided fewer justifications for their opinions. Some trusted in their local authority to allocate the funds fairly and others felt reassured that the Schools Forum would hold the authority accountable for its allocation mechanism.

Findings relating to monitoring of school budgets included the following.

- Where monitoring mechanisms were described as ineffective, most typically, they were perceived to be too 'light touch' and lacking in rigour. Mixed messages from government and inaccurate reporting by schools were also considered influential.
- Where monitoring mechanisms were considered effective, high levels of local authority support and high quality staffing at local authority level were provided. Monitoring was also deemed effective where it encouraged school staff to keep a check on their budgets and where electronic monitoring was implemented.
- Most interviewees were satisfied with the frequency of budget monitoring. Monthly monitoring allowed the prompt detection of problems and was preferred for particularly large budgets. Termly monitoring demanded less work, whilst quarterly monitoring was said to aid financial forecasting.
- The majority of interviewees considered the mechanisms for monitoring schools in deficit to be effective. Effectiveness was associated with a supportive approach and skilled personnel within the local authority, whilst ineffectiveness was associated with limits to local authority intervention, the provision of inaccurate information by schools and the need for increased support.
- Electronic systems were viewed as being particularly effective for budget monitoring, although the relationship between local authority and school staff and the availability of high quality finance staff were also considered particularly effective. The use of budget plans and predictions and the availability of a buy-back bursar or peripatetic bursar service from the local authority were also cited.
- Financial management training for governors and other school personnel was recognised as beneficial as it was thought to raise awareness and levels of understanding of financial matters within the school. It was also thought to enable school governors to ask pertinent and challenging questions in relation to the school budget and to reinforce their role in financial issues.

Findings about future developments included the following.

- Suggestions for modifications to the funding system, i.e. the integration of funding streams, the funding of clusters of schools and greater local autonomy, each received more positive than negative responses. However, both advantages and disadvantages of each were highlighted.
- In the main, the funding pressures identified by interviewees reflected those first raised by local authority respondents in the survey phase (i.e. the workforce reform, teachers' pay issues and changing school rolls), suggesting that these were concerns for schools as well as local authorities. However, the pressures associated with school infrastructure and with having insufficient funding emerged more frequently in this phase, whilst SEN appeared to be predominantly a concern of local authorities.
- The main concerns regarding the workforce reform were based not only on the perception that there was insufficient funding for implementation, but also that employment of non-teaching staff would have implications for the quality of education pupils received.
- Local authority concerns about SEN focused on the uncontrollable need for provision, whilst school concerns centred on SEN delegation, the main worry being that the amount delegated would not equate to real costs.
- Whilst there were commonalities amongst school and local authority staff about the desired future funding arrangements, their priorities differed.
- Above all, school interviewees wanted funding certainty, together with long-term budget planning, to enable them to forward plan and utilise their budget to effect and with maximum efficiency. They also wanted greater funding equality amongst schools, greater transparency and more school autonomy.
- The priorities of local authority interviewees, on the other hand, centred more on local discretion, together with the flexibility to address local needs and the integration of funding streams.

- Local authority staff also called for a gradual phasing out of the interim funding arrangements. In contrast, the request for stability, increased funding and, in a few cases, increased delegation or passporting to schools suggested that school staff might welcome continuation of some aspects of the new arrangements (e.g. the minimum funding guarantee). This may, however, be at odds with their request for greater equity between schools, since local authority staff indicated that, with the minimum funding guarantee in place, they may be powerless to address any inequities that exist.
- The idea of a national funding system was mooted to ensure that school autonomy, independence and flexibility were achieved.

Conclusion/recommendations

Whilst the new arrangements have provided greater financial certainty and financial control for schools, they are perceived to have reduced local authority discretion and their flexibility to cater for local needs. As a result, inequities between schools may be difficult to address and councils may be less willing to contribute local funding to schools. Furthermore, the findings suggest that the new arrangements fail to address fundamental underlying discrepancies in basic funding for local authorities. Given the limited financial management

skills in some schools, the role of local authorities in monitoring school finances would appear to remain crucial and they may benefit from the sharing of good practice in this area. The following recommendations would therefore seem appropriate.

- The Government may wish to consider a more fundamental review of the funding system and how this impacts on different local authorities, in particular, the way additional funding is allocated for social deprivation.
- It may also be important for the Government to reconsider the continuation of the funding arrangements in their current form as a way of providing increased certainty and control for schools.
- Since the role of local authorities in overseeing schools' financial management and accountability is a crucial one, this role may need to be reinforced and the powers available reiterated.
- Local authorities may wish to consider the ways in which they might benefit from liaison with other authorities and the sharing of good practice.
- It may be worthwhile examining in greater depth the training and expertise of school financial managers, since this may be vital in ensuring effective financial management at school level.

1 Introduction

Following revisions to the funding arrangements for schools by the Government in the 2003/4 financial year and concerns that these new arrangements may exacerbate the unfair aspects of the present system, creating significant 'losers', the LGA commissioned the NFER to conduct a study on the impact of these changes.

1.1 Aims

The aims of the research were:

- to identify local authority and school perceptions of the main issues in relation to school funding and the revised funding arrangements
- to identify different funding models within local authorities and establish the associated challenges and benefits
- to identify perceived examples of good financial systems for monitoring school budgets
- to examine the impact of budget setting and finance issues on the relationship between local authorities and schools and between the local authorities, schools and Schools Forums
- to explore perceptions of the anticipated future impact of the recently introduced workforce reforms
- to identify local authority and school perceptions of future funding pressures and their financial plans for the next two years.

1.2 Methodology

There were two phases to the research. In phase one, a postal questionnaire was sent to all Chief Education Officers (CEOs) in England. The findings from this phase of the research were presented in an interim report published in October 2004 (Atkinson *et al*, 2004). This is available free on the NFER website.

Phase two involved case-study work in eight local authorities selected from those who indicated that they would be willing to be involved on their questionnaire. They were selected to provide a representative sample in terms of 'floor', 'ceiling' and 'middle' band authorities and of Comprehensive Performance Assessment (CPA) scores, as well as in terms of types and different sizes of local authorities (full sample information is provided in the Appendix). In these local authorities interviews were conducted with key stakeholders, including:

- CEOs
- local authority school finance staff
- headteachers
- school governors
- school finance support staff
- Chairs of Schools Forums.

The breakdown of interviewees is shown in Table 1.1. Overall this shows that a total of 90 interviews were conducted.

Table 1.1 Interviewees in the case-study phase

Local authority staff	No.	School staff	No.
Chief education officers/directors	9	Headteachers	28
Finance/resource managers	7	Finance/administration staff /bursars	25
Chairs of Schools Forum	7	School governors	14
Total	23	Total	67

1.3 The structure of the report

The structure of the report follows closely the sections that were covered in both the questionnaires and the case-study interviews and aligns closely with the structure of the interim report:

- recent changes to the school funding system
- allocation of funding to schools
- relationships with schools

- monitoring of school budgets
- future developments.

This is followed by the concluding comments and recommendations. Finally, summaries of four of the case-study local authorities are presented in order to illustrate the individual circumstances of local authorities and those of the schools within them. The findings from phase one, where relevant, are reiterated at the beginning of each section throughout.

2 Recent changes to the school funding system

This section of the report describes interviewees' overall reactions to the recent changes to the school funding system. It begins by considering interviewees' perceptions of the advantages and disadvantages of the revised arrangements, which are detailed in sections 2.1 and 2.2 respectively. It then moves on to focus attention on their views on the impact on central services (section 2.3) and on the impact on individual schools (section 2.4).

2.1 Advantages of the revised funding arrangements

Interviewees were asked what they thought the advantages of the revised funding arrangements were overall. Thirteen out of 90 interviewees (all but one school staff) from across the eight case-study authorities, stated that there were no advantages to the current arrangements. Overall, case-study interviewees agreed with survey respondents in that, in both cases, two of the most frequently cited advantages of the new funding arrangements were the greater stability and transparency for schools. Given the greater number of school interviewees in the case-study phase, it is perhaps not surprising that increased school control was the next most commonly cited advantage, whilst only rated fifth by survey respondents (who focused on carrying out national policy and easier decision making for the local authority). Thus, case-study comments centred on **stability, transparency and increased school control**.

2.1.1 Stability

The most frequently identified advantage of the new funding arrangements, highlighted by local authority and school representatives from all of the eight local authorities, was the stability afforded for schools by the minimum funding guarantee.

Local authority staff stated that the level at which the Government expected local authorities to fund schools had been made explicit and there was a guarantee that the money would be available, 'whereas

previously we would only have been able to give one year's guarantee' (assistant chief education officer). One of the local authority finance staff acknowledged that, without the guarantee, the local authority may not have put so much money into the school's block (although this may have had a detrimental impact on other local authority services). It was reported that there was an assurance that next year primary schools would get five per cent and secondary schools would get four per cent and they would no longer have to wait until March for their budgets. Some added that, together with local authority formula protection, this provided 'comprehensive protection' for schools and 'a cushion' for a number of schools. According to one assistant director, this had restored headteachers' confidence in the funding system and had enabled the local authority to make formula changes that might otherwise have been opposed. However, some local authority staff felt stability had been achieved at the expense of the ability to target resources to need and had resulted in the overriding of the local formula which had been the agreed basis on which schools would be funded (see section 2.2.4 on disadvantages).

School interviewees welcomed greater stability since this allowed them to forward plan to a greater extent and thereby make more effective use of their funding.

All we want to know is how much money we are getting for the next year, or longer, so that we can effectively plan the educational needs of the school and every aspect of that, staffing etc. ... There is more certainty now and it is clear how much is available.

(secondary school governor)

I think that the idea of being able to guarantee the funding three years ahead certainly helps schools in being able to plan ahead in terms of knowing where you're going and what you're trying to achieve in terms of the learning because, if you're not careful, the whole thing gets wrapped around money and somewhere in amongst it, the actual need to learn can be lost.

(primary headteacher)

2.1.2 Transparency

The second most frequently identified advantage of the new arrangements was the transparency and clarity that had resulted. Typical comments included: 'We don't have a problem in identifying where everything is coming from and what we can use and what we can't use.'; 'I just look straight in the book and it will say straight away how we are funded and what we have to achieve to get any funding in that area.'; 'People know what everyone's getting.' However, one headteacher made the point that it was the amount of money which counted, rather than transparency: 'You are transparently not getting the money.'

Transparency was sometimes attributed to repercussions from the crisis of 2003 or to the almost total passporting of funds to schools, whilst others thought the Schools Forum had been instrumental in ensuring transparency.

What [the 2003 crisis] did do was sharpen the focus and magnify the inspection of the money, including local authorities, so it is clearer as a result ... It also gave a sharper focus to the discrepancies between different authorities in their global budget, which did not help, but gave schools increased understanding.

(primary headteacher)

[The authority] is very open with heads and with the heads' committees about how much money is coming to us and how much isn't, so, from the passporting point of view, if there isn't the money, then we know there isn't the money and we're not worried about the fact that a lot has been hidden somewhere.

(secondary headteacher)

[The new system] is providing a lot more clarity, especially when the money is coming down to the LEA already subdivided into blocks, so there's more clarity when it comes down to the Schools Forum as to which money should be spent in each of the blocks ... We can see how the big pot is split up.

(secondary bursar)

Alongside this, interviewees felt there was a better understanding of the way in which funding was allocated. However, this was sometimes attributed to individual local authorities. One assistant director, for example, felt that the authority had worked very hard to explain the new arrangements to headteachers and chairs of governors:

We feel that schools in [the authority] do understand how the formula works and where their money comes from, which gives them the confidence to project for future years.

(assistant director)

In addition to the increased transparency for schools, some local authority staff noted that the Government itself was more open about the funding received by different authorities and they were therefore in a better position to compare themselves with other authorities: 'So we know where we stand and how we compare to every other authority in the country' (Director of Education). This director felt that anything which enhanced transparency was good 'because that encourages trust. There is not an idea that there is money hidden away and so on'.

2.1.3 Increased school control

Twenty-three interviewees (nearly half from the primary sector) felt that an advantage of the new funding arrangements was the increased control for schools.

A number of school staff referred to greater choice and flexibility in the use of their budget. They stated that there was more money coming through to schools and 'schools are being able to work through what they wanted to do for quite a long time'. They felt that this flexibility was important because of changing needs and that it facilitated creativity.

If money is withheld or retained for services or functions, then clearly I might have concerns as to whether they are of any use to me. So, I welcome anything that will allow us to have access to funding that we can then use and we can select what we do ... Our systems are in place to make intelligent spending decisions.

(secondary headteacher)

I don't like ring-fenced funding because I feel, this school in particular, is quite an unusual school in [the local authority] and I don't think there's a lot of understanding of the needs of a school that's so different from other people's. So, I think it is good if it's just one pot of money that you can dip into.

(primary headteacher)

Increased school control was partly attributed to the increasing amount of money which was delegated to

schools and also to the removal of ring fencing of the Standards Fund. Many school interviewees advocated wholeheartedly the principle of delegation: 'I'm all for funding coming directly into schools and delegating anything and everything' (primary headteacher).

However, not all interviewees agreed. According to one primary headteacher, it was not always helpful for primary schools because of the small amounts of money involved and the necessity to buy back services from the local authority: 'I actually think that the local authority could actually do more with it if they kept the funding' (primary headteacher).

In some low funded authorities, increased passporting was reported to be necessary because of the low level of funding received from the Government. In such instances, the money added to the pot by local government was considered vital: 'It is that added money that makes the difference between something that works and something that doesn't' (secondary headteacher). Others pointed out that headteachers had to be trusted to use the money wisely and that schools needed the necessary financial and leadership skills to manage the budget (financial management training is discussed further in section 5.5).

Some local authority staff also felt that extra delegation to schools was a good thing and that schools should have control over how they spend their money rather than this being imposed by a central body. However, they still believed that the local authority had a role in controlling the finances of schools.

2.2 Disadvantages of the revised funding arrangements

Interviewees were asked what they thought the disadvantages of the revised funding arrangement were overall. Ten of the 90 interviewees (eight from the primary sector) felt there were no disadvantages to the current arrangements. In the survey, from a local authority perspective, the inability to reflect local needs was cited as the main disadvantage of the new arrangements. In the case-study phase, where school interviewees were in the majority, inequity was cited as the most burning issue. However, interestingly, inequity between local authorities was more often referred to than inequity between schools. Again, perhaps not surprisingly, given the school focus of the interviewee

sample, reduced local authority control did not feature as highly as a disadvantage as it had in the survey. Instead, further disadvantages for schools were highlighted. The main disadvantages highlighted in the case-study phase centred on **inequity, complexity, uncertainty** and **reduced local authority control**.

2.2.1 Inequity

Inequity was an issue across all eight local authorities and among all types of interviewee. Issues concerning both local authority and school inequities were raised, although concerns about local authority inequities seemed to predominate. Although it was sometimes acknowledged that this had been a long-term problem, the new funding arrangements were felt to have brought this issue to the fore. One interviewee perspective was that the new arrangements did not address the fundamental issue:

I don't think it will help to resolve the major problem that we have, which is trying to make sure that schools are all similarly funded because, at the moment, we've got a huge disparity between those schools that appear to be able to stack up significant reserves, indefensible reserves and those that are constantly cutting back.

(director of education)

Both local authority and school representatives made comparisons between their situation and those of other authorities or schools in other authorities. An assistant CEO, for example, stated that they could operate 24 more primary schools on the extra money received by a neighbouring, similar, authority. Similarly, a secondary school principal noted that his school would be significantly better off if it were located in the neighbouring authority.

Discrepancies between inner city and rural areas were particularly noted, with many interviewees stating that most of the money went to the inner cities: 'We are not starting from a level playing field' (primary headteacher). This headteacher wanted the global sum to local authorities weighted to redress this imbalance. The minimum funding guarantee was blamed for reinforcing such discrepancies and not addressing the fundamental issues: 'The minimum funding guarantee is maintaining the differential between the not so well off and the local authorities that are well off.' (primary headteacher); 'Schools have got less than they would have got because they are protecting schools on the

minimum funding guarantee. That's not fair.' (local authority head of finance). An assistant director felt that the perpetuation of anomalies from previous years was the greatest concern: 'When things are tight ... as you dampen, you might make permanent a school's relative disadvantage from the previous year.' The principal accountant with another local authority commented similarly: 'If there is a structural imbalance in the formula and you've got something like the minimum funding guarantee in place, you've got a problem, because you can't give to some schools without taking away from others.'

An assistant CEO made the point that transitional funding arrangements, although designed to protect schools with deficits, also perpetuated local authority inequities by allocating money according to the annual increase in funding, resulting in some high funded authorities receiving protection.

There are some authorities that receive protection at a level that is more than the deficits they had for schools, which does not seem right. We had schools with deficits but got no protection because our annual increase in funding per pupil was at the level the Government had anticipated because we had been capped at that level.

(assistant CEO)

A secondary school principal, similarly aggrieved about transitional support, stated that, although the authority received support, the school had missed out because they had saved up a surplus, which he felt was unfair.

School inequity, whilst raised universally as a disadvantage across all the eight case-study authorities, was highlighted mainly by local authority staff and, where school representatives commented, by those in the primary sector. According to local authority staff, some schools had been protected by the minimum funding guarantee 'at a wholly unrealistic level of funding'. In addition, they stated that they were unable to redistribute surpluses that had been built up by schools through the local formula, since the money was retained by schools.

Others talked about inequities between primary and secondary schools. A local authority finance manager, for example, stated that, in order to fund the guarantee in primary schools, they had had to put significantly more money into primary than secondary schools, yet the

secondary schools had larger deficits. Similarly, a director stated that they had huge surpluses in primary schools, but could not address the imbalance between the sectors or between large and small schools because 'we were mindful of the four per cent guarantee'. Primary school staff who commented, perhaps inevitably, thought that funding had been allocated in favour of secondary schools: 'I feel it actually discriminates towards secondary schools at the expense of primary schools.'

According to one secondary headteacher, the problem with inequities between local authorities and schools would be solved by having a national funding formula: 'The problem is that each authority is trying to work its own system instead of a national system.'

2.2.2 Complexity

The complexity of the revised funding arrangements was also a disadvantage raised across the authorities and at both local authority and school level. Typical school comments included: 'It's complicated, people don't understand it'; 'It's all so complex, it needs to be made simpler'. Particular problems with the complexity were reported by school governors, for example: 'If you want to interrogate the information to find out where you can make savings etc., this can be difficult'; 'The sheer complexity of it means that, as a governor, you really have to trust what you are told.' The complexity of the new arrangements had clearly led to difficulties for schools in interpreting how they had received their funds. 'I've had the formula explained to me but I've never really seen the whole workings and it seems too complex just to be presented in a simple way so that people can understand it' (secondary governor).

Increased complexity meant that schools had to ensure they had staff who understood the funding arrangements. 'It's placed even greater importance on having a business manager and staff who have got the ability to interpret the rules ... My staff have to be far more astute to ensure that we claim all the money that we're eligible for' (secondary headteacher).

However, the majority of interviewees who referred to this came from two particular authorities and this may therefore be linked to the availability of effective financial management training in these local authorities. A few interviewees talked about the associated problem of the extra time required for financial management.

The number of different funding streams entering schools was felt to be complicated and this was exacerbated by changes that were often made to them at short notice. Typical comments from secondary school staff included, for example: 'There were 58 letters of change about funding last year'; 'Last year we had 85 additions to that budget as the year unfolded ... There are far too many adjustments'. According to one headteacher, the complexity meant that a lot of time was spent trying to work out what's gone and what's been disguised 'so you can actually preserve pieces of work that are still being done'. A few secondary staff referred specifically to problems with Learning and Skills Council funding: 'You're getting two streams of funding based on different measures and it's a nightmare to try and monitor.'

Local authority staff comments indicated that they thought the new arrangements had added a huge amount of complexity due to the mix of minimum funding guarantee and the local formula: 'A number of schools raised the fact that they could not work out what they had got because it was such a mishmash of minimum funding guarantee, local formula etc.' (local authority head of finance).

However, some interviewees recognised the existing tension between complexity and fairness, which they described as a difficult balance: 'To be fair means that it sometimes has to be quite complex and understanding that is a challenge ... I think that there is a balance to be struck' (secondary governor).

2.2.3 Uncertainty

Despite the fact that many interviewees felt the new arrangements had improved stability (see section 2.1 on advantages), a further disadvantage highlighted by interviewees was that funding was still significantly uncertain and this prevented them from effectively planning ahead. Uncertainty was highlighted at both school and local authority level.

Uncertainty about future funding was partly attributed to lack of advanced knowledge of pupil numbers. Although moving to three-year planning was considered beneficial, interviewees felt that it remained difficult to predict income: 'When you can't predict what your income is going to be, you've got a problem.'

The different pots of money coming into schools at different times of the year was also problematic because

of the significant changes that could occur: 'The difference between April 1st last year and the end of the financial year was £800,000 out of a total budget of £7.5 million' (secondary headteacher). School staff found it difficult to see how the school could run a proper budget under such circumstances. This uncertainty was said to be a key factor in maintaining school surpluses: 'We deliberately aimed for a surplus because we had no idea what the following year would bring ... You can't plan year on year. No company would run like this, they would be bankrupt' (secondary headteacher). A further implication of this uncertainty was the need to make last-minute decisions, as highlighted by one secondary bursar: 'Last year we had to make some drastic decisions on staffing very, very late – before the start of the financial year. It had enormous repercussions for the school.' The fact that the budget was still received too late for effective planning was also raised.

Uncertainties for local authorities could also be problematic. According to one chair of a Schools Forum, for example, it would be helpful for the local authority to have information earlier (e.g. threshold payments) as they have to set the council tax on this basis and sometimes the council tax level largely determines the amount schools received. He noted, for example, that it can be the level of council tax that determines whether the local authority are able to take up Standards Fund money because of the need for matched funding.

2.2.4 Reduced authority control

The reduction of local authority control was referenced less frequently and nearly all of the interviewees who highlighted this as a disadvantage were local authority staff. They referred to a number of ways in which they felt that the control of the local authority had been reduced as a result of the new arrangements.

It was felt that government insistence that the local authority passport the money to schools left no incentive for local decision making. According to one director, there was also less inclination for the local authority to contribute money over and above the allocation. The lack of flexibility to move money between central services and schools was said to have left many local authorities with limited room to manoeuvre. There were references again to the overriding of the local formula by the minimum funding guarantee and inability to adjust the formula: 'Anything that is as blunt a tool as a minimum percentage is never going to be as sensitive as

something that tries to recognise what the local picture is like' (assistant director). The inability to redistribute school surpluses was also mentioned, although this appeared to be an issue in three particular authorities, where it was mentioned by more than one interviewee.

2.3 Impact of the revised arrangements on central services

When asked about the impact on the local authority's central services, four interviewees felt that there had been no impact and 14 interviewees, mainly school staff, felt unable to comment.

The main impact of the new funding arrangements on central services, identified largely by local authority staff, was the increased pressure on central services. The difficult balance between the funding of central services and the funding of schools was noted.

Interviewees reported that central services were being 'squeezed', despite the pressure from schools and others to improve the quality of services offered. Where an authority received limited additional funding, local authority central support staff were felt to be under a lot of pressure to provide services to schools with limited resources: 'The funding arrangements don't give you any room for manoeuvre on any non-delegated service' (assistant CEO); 'Each time there are more statutory and corporate priority pressures than can be afforded by the settlement' (local authority head of finance). In some authorities, it was said that some services (e.g. libraries) had had to be closed to fund education and, in others, a number of functions had been taken away from the local authority that schools would have preferred to have remained. Furthermore, in some instances, this had led to a reduction in local authority staff and significant expertise had been lost, leaving central services depleted.

In many instances, SEN funding (the main pressure on the central spend) was reported to be particularly problematic, since this expenditure was notoriously difficult to control:

We have got £130 million in schools and only £10 or £12 million at the centre ... You can have one placement in a special school that can cost the authority £50,000 to £100,000 a year. If that's an

increase in your budget at the centre, what the Government is saying is, 'Yes, you can have that £50,000 but, because of the gearing, you have got to put £500,000 into your schools budget.' There's no logic in it.

(local authority resources manager)

In two authorities, the central service provision for excluded pupils was reported to be a particular concern.

Schools reported that they had not bought into some of the local authority central services because some, e.g. school improvement, were the first to go when things were tight. This had inevitable implications for central local authority services: 'You do not need many schools not to buy back to affect the service'. 'If not all schools buy back into the LEA, then you get a poorer standard of service.' This had therefore led to a reduction in the number and quality of services available to support schools.

2.4 Impact of the revised funding arrangements on individual schools

As well as the advantages and disadvantages of the revised funding arrangements, interviewees were also asked about the impact on individual schools. In response to this question, they tended to indicate whether schools had lost out or had benefited financially as a result of the revised arrangements. In addition, they were encouraged to highlight whether the funding for schools was sufficient or insufficient for the delivery of the curriculum.

Interestingly, 18 interviewees (all but one of whom were school staff), from across all the authorities, stated that there had been no noticeable impact on individual schools. Some of these interviewees made the point, however, that any increase they had received had been swallowed up by increased costs and some suggested that, without the recent changes, they may have been 'in the red'. Others indicated that some schools were winners and some were losers.

2.4.1 Winners and losers

About equal numbers of interviewees (mainly school staff) said that schools had lost out (17) or gained (13) as a result of the new arrangements. Local authority staff

comments supported this variation since, of those who commented, the majority stated that the impact varied between schools.

Those perceived to have been **winners** as a result of the new arrangements represented seven of the eight authorities and slightly more secondary than primary schools, suggesting that this was neither authority nor sector specific. Some suggested there had been a definite improvement (compared to what they received in 2003) and this had allowed them to redress deficits. A variety of factors were considered influential, such as the minimum funding guarantee and the return of the Standards Fund money back into the main budget. However, concern was also expressed about the minimum funding guarantee, since this had meant that schools with more pupils were 'propping up' those with falling rolls. 'Winners' referred to beneficial decisions made at local authority level, such as the way in which the headroom in some authorities had been used to assist all schools (not just those in financial difficulties) and the authority's own protection mechanisms. Concerns for the future, such as the pressure of the workforce reform (see Chapter 6), however, were still noted.

Those perceived to have been **losers** as a result of the new arrangements represented six authorities and an equal number of primary and secondary schools, suggesting again that this was neither authority nor sector specific. Although this did not appear to be reflected in the school comments, local authority staff in three authorities felt that secondary schools had been negatively impacted because of rising rolls (compared to falling rolls in primary) and significant increases in staff costs. In contrast, a small number of primary headteachers from different authorities suggested that it was primary schools who had mainly lost out due to the way in which funding was allocated in favour of secondary schools within the authority (see section 3.1.2 for more detail). 'Losing out' was, however, attributed to a variety of factors. The minimum funding guarantee was held responsible for some schools having to lose money in favour of other schools. The operation of the floors and ceilings and a change to the formula allocation for authorities were blamed for significant local authority losses which had then impacted markedly on schools. Others blamed a decrease in Standards Fund money and the introduction of the clawback system for Learning and Skills Council (LSC) funding for sixth formers who fail to complete courses.

Other factors that were felt to be influential were staffing costs and increasing numbers of pupils requiring support for complex difficulties. In some schools, being a 'loser' reportedly had implications for staff cuts and class size and had repercussions for standards, staff development and initiative development.

I've just had an Ofsted inspection and they praised the teaching systems, recognised the added value that the teaching assistants made and I'm going to have to reduce their hours because I haven't got the money to pay for them.

(primary headteacher)

2.4.2 Sufficiency of funding

When local authority survey respondents in phase one were asked about sufficiency of funding for both primary and secondary schools, the mean average response tended slightly towards the negative. However, when asked about sufficiency of funding in the case-study interviews, almost equal numbers were positive and negative. However, of those who felt that funding was sufficient, the majority came from three particular authorities, whereas those who felt that funding was insufficient were representative of all the eight authorities (although a large number were from one particular authority). Slightly more secondary schools than primary schools stated that their funding was sufficient, whereas almost equal numbers of primary and secondary schools stated that their funding was insufficient. Typical comments that illustrated the strength of feeling where budgets were felt to be insufficient were:

I'm just not getting enough resources. I don't care where it comes from, how it comes, but I'm not getting enough and, as I understand it, I'm not getting it because somebody else is.

(primary headteacher)

I've ended up with the same sort of budget, give or take a few pounds, as the disastrous budget of last year. As far as I am concerned, it's smokes and mirrors, it's not materialised. Now, whether that is the fault of local or national [government], I can't say, all I know is I haven't got it. Increased class sizes, lost teaching posts, the consequent effect on behaviour and discipline and on staff morale.

(secondary headteacher)

Many of those who stated that funding was **sufficient** noted that it was sufficient at the present time but that things could change very quickly. Some, for example, said that funding was presently sufficient because their pupil numbers were steady or rising, but that this situation could change quite quickly if they experienced a drop in pupil numbers. Others noted that they only had sufficient because they operated with large class sizes. Many interviewees indicated that there was only sufficient because they operated 'tight' financial management or they had been 'prudent', 'reined in' and made savings: 'We have cut our cloth according to the money that we get.' A few hinted that, if things got any tighter, the quality of education pupils received would suffer. One interviewee, involved in providing local authority support services, suggested that 'with numbers plummeting' school balances were currently on the increase, because schools were 'setting aside the cushion to help manage the situation as it unfolds in the next two years rather than being caught on the hop and being in considerable difficulties.' Some attributed sufficiency to access to particular monies. One primary school, for example, was reported to have benefited from the local authority policy to distribute the 'headroom money' to all schools via the local authority formula rather than to schools in financial difficulty. Schools reportedly benefited from extra funding received as a result of Beacon or specialist school status, whilst others had accessed temporary funding streams. Others emphasised that they would like to see more funding for development and detailed initiatives they would like to see implemented which were presently unaffordable (e.g. vocational education).

Interviewees who felt that funding was **insufficient** attributed this to a variety of reasons, few directly associated with the recent changes to the funding arrangements. Some blamed the knock-on effects of the shortfall in their budget from 2003. Others focused their attention on uncontrollable costs (particularly day-to-day running costs) or teacher progression and the workforce reform, which were felt to be placing enormous pressure on school budgets (see Chapter 6). Furthermore, some pointed to specific circumstances to do with their school situation that had led to difficulties. These tended to centre on building costs and compliance with health and safety requirements. Sometimes insufficiency was attributed to local authority issues, such as the low funding of secondary compared to primary schools (see section 3.1.2 for more detail); being a small unitary authority and therefore 'seriously underfunded'

compared to other authorities; or high transport costs. Without attracting additional funding and without tight management or 'brutal housekeeping', some suggested that they would be struggling even more: 'We have to try every single trick in the book to get a penny in'.

Insufficient funds had had a number of implications which touched on many aspects of school life, for example, staffing, the curriculum, the environment (e.g. buildings) and the individual support available for pupils. Interviewees talked frequently about staff cuts, non-replacement of existing staff; reorganisation of staff; lack of non-contact time and limited staff development. They referred to the demands of the curriculum and stated that departments' budgets were overdrawn. Lack of funding had had implications for the curriculum offered, particularly subjects like ICT and design technology, which required expensive and up-to-date equipment, as well as preventing curriculum and initiative development (e.g. vocational education).

Key points

- The advantages of the new funding arrangements were mainly felt at school level, since they provided stability and transparency for schools, as well as increased school control.
- However, school and local authority staff felt that the new arrangements perpetuated inequities between local authorities and between schools. They also indicated that school funding continued to be complex and uncertain.
- In contrast to the school level, the new arrangements were reported to have taken control and flexibility away from local authorities, making responding to local needs difficult and leaving little incentive for local decision making. It was suggested that councils would be less inclined to contribute to education funding as a result.
- The new arrangements were also reported to have put pressure on central local authority services and led to a reduction in expertise and service quality.
- Varying impacts on individual schools were reported, adding further evidence to the fact that, when funding arrangements are adjusted, there are always some perceived winners and losers.

- In the main, the impact on individual schools appeared to be neither authority nor sector specific, although there was a suggestion from local authority staff in three authorities that secondary schools had been more negatively affected and primary headteachers in two different authorities felt that primary schools had been the main losers.
 - A variety of factors were considered influential in whether schools had 'won' or 'lost' financially as a result of the new arrangements, including the operation of the minimum funding guarantee and the floors and ceilings, as well as the merging of the Standards Fund money into the main allocation.
- Other factors, such as local authority decisions regarding the use of 'the headroom', increasing staff costs and changing rolls were also cited.
- Equal numbers of interviewees reported that the budget was sufficient or insufficient for delivery of the curriculum, although the latter were more vociferous. Again, a variety of factors were felt to have been responsible: uncontrollable costs, inherently poor local authority funding and the workforce reform amongst them. Poor funding was felt to have impacted negatively on staffing, the curriculum, the school environment and pupil support.

3 Allocation of funding to schools

This chapter focuses on the way in which funding is allocated to schools. It discusses interviewees' perceptions of the impact of the new funding arrangements on the way funding is allocated to schools and then moves on to examine their views of the impact on the discretionary elements in local authority allocation formulae. It concludes with their perceptions of the advantages and disadvantages of local authority allocation formulae within the revised funding arrangements.

3.1 Impact on the way funding is allocated

A number of interviewees (12), many of whom were school finance staff, felt unable to comment on this issue. The most frequent response, cited across all but one authority and amongst local authority and school staff, was that the way in which funding was allocated had not changed. Where interviewees commented, they stated that the authority had continued to run the formula in the usual manner, certain interviewees noting that they then had to reduce the funding for all schools to ensure that some schools reached the minimum funding guarantee. Where there was reported to have been an impact, interviewees' comments centred on, in rank order: **passporting/delegation**; the **primary/secondary allocation**; the **minimum funding guarantee** and the **Standards Fund allocation**.

3.1.1 Passporting/delegation

A number of issues were raised about the requirement to delegate or passport the majority of funds to schools. The impact in one authority, for example, according to a Schools Forum chair, was that most schools had done better than the minimum funding guarantee because half a million pounds had been reallocated out of central services into schools.

Both local authority and primary school staff reported that the requirement to delegate funds had meant that it had become increasingly difficult for the local authority to provide central services (see impact on

central services, section 2.3). This appeared to be a particular problem for primary schools: 'If it got to the point where schools had to buy in individually to those services, they would be much more expensive than if the LEA held that money collectively' (primary headteacher). School staff also recognised that, as a result of delegation, the local authority could no longer transfer money easily between central services and schools and therefore had less flexibility.

Both primary and secondary school staff, in one authority in particular and specifically in relation to the delegation of SEN (see also the discussion regarding discretionary elements which follows in section 3.2), were concerned about the amount of delegation to schools because of the associated costs and responsibilities for their schools.

With that responsibility goes very difficult decisions re allocation of staff, which, in the old days, we did not have to do. That changes relationships within a school. It is okay delegating money when it actually gives you more choice and greater control, but when it is actually tied up in pre-existing commitments, it does not give you choice, it does not give you control. That's what I find quite difficult.

(primary headteacher)

Others felt that it was 'pointless' to passport or delegate funding to schools when they simply gave the money straight back to the local authority. According to one primary headteacher, their choices were limited by the amount of money they received and the services available: 'I would have thought that 99 per cent of primary schools are given money by the authority and then hand it back to them to buy the services that the local authority provides.' In contrast, he felt that secondary schools had more choice since they were able to run more like businesses because of the scale of their income. Other primary staff made similar comments.

To meet the government criteria and percentage, Free School Meals (FSM) was delegated to us last year. So an amount of money comes into our budgets for FSM

and goes straight out again. So they passport money to us only to take it straight back. ... It merely just provides a statistic so that someone can say 'We've delegated 95 per cent to schools so they can make their own decisions' ... but, in reality, probably 15 per cent of that is not true delegation in that I haven't really got a choice as to what I'm going to spend it on because I've got to spend it on certain things.

(primary headteacher)

3.1.2 Primary/secondary allocation

Other interviewees, when asked about the way funds were allocated, focused on the disproportionate funding between primary and secondary schools. Of the ten school staff who raised this, six were from secondary schools, in the main from two particular authorities. Perhaps not surprisingly, secondary responses were that primary schools received disproportionately more funding at the expense of secondary schools.

Now we all know that money has got to be pumped into the primary sector first because, if you don't raise standards there, we've got no hope at secondary, but it can't be at the disadvantage to the secondary sector otherwise standards drop anyway at the other end.

(secondary bursar)

Secondary education is an expensive business. You need more kids, more skills, more people. We can't say we're starved of funding but the little extra bits that fly about now and again seem to end up in primary schools.

(secondary governor)

In contrast, four primary representatives (from four different authorities) felt that secondary schools were financially favoured and, as a consequence, primary schools were struggling. Whilst it was noted that this was an ongoing debate, it was also reported to have become more apparent as a result of the increased transparency of the new arrangements.

With the figures out on the table, primary schools are seeing how much secondary schools are getting. Then, when it comes to the publication of underspends at the end of the year, then there are some quite sour feelings from primary schools how secondary schools are carrying hundreds of thousands across for specific projects.

(primary headteacher)

3.1.3 Minimum funding guarantee

Ten interviewees raised issues about the implementation of the minimum funding guarantee. Local authority representatives, as in the survey, reported that the guarantee had impacted perversely on the formula and that some schools had received more funding than they would have done through the local formula, for example: 'That has effectively meant a net transfer of resources from those that are on the formula to those that are on minimum funding guarantee and, as far as I can see, without a rationale for the transfer of those resources' (assistant director). Concern was expressed about what was going to happen after the two years and the repercussions of returning to local formula funding because, in some instances, schools had received amounts 'a long way away from what they would have got with the formula'. Continued for a further year, therefore, it was felt that this was likely to create significant difficulties: 'If they keep the minimum funding guarantee, the equivalent of "planning blight", no local formula changes can come through'. According to one director, 'One needs a formula that can reflect the needs of schools in the future rather than one that was stuck at a point in time.'

A finance manager from a floor authority stated that the local authority was not able to put any additional money into the discretionary areas, as requested by schools, because the minimum funding guarantee took up 'a large chunk' of the money. He stated that schools with rising rolls had not benefited from the minimum funding guarantee, but, if they had had £800,000 to distribute as they wished, they may have used it to scale up the age-weighted pupil units (AWPUs) and this would have meant that schools with rising rolls would have benefited from extra money: 'We might have made very different choices had we not had to meet that requirement' (local authority finance manager).

3.1.4 Standards Fund allocation

When asked about the impact on the way funding was allocated, the change to the way in which Standards Fund was allocated was also raised across six of the authorities. This centred mainly on the merging of the Standards Fund into the general allocation, leaving interviewees unclear whether this equated to the funding that was previously available. They were therefore unsure if they had received adequate funding.

It's trying to unpick what's actually in that funding. ... The money that was in there for performance management, the money that was in there for threshold, I'm not really sure where that is now.

(primary headteacher)

I think the Standards Fund is very poorly explained to heads in that we keep getting this message that 'Oh, it's in your budget' and so it will say 'the Government has given more for something' and you say 'Well, where is it?' and they say 'It's in the budget' and I don't think that is totally acceptable to heads because they don't see it as an item ... The fact that there used to be ring-fenced money for NQTs [newly qualified teachers] and now it's in the budget, it's open to abuse and I also think that headteachers feel a bit cheated out of things, even though it may be there, it's not obvious that it's there.

(primary headteacher)

The problems posed by having to find matched funding were also raised by both local authority and school staff.

There's often quite a trumpeting of 'Standard Fund allocations are going up by X' without actually recognising that that does actually have an impact on the LEA budget, because funds need to be matched from that. I think sometimes that is lost, particularly at school level. I think sometimes they forget that there's a pressure on us to deliver that.

(local authority head of finance)

In addition, Standards Fund money, in particular, was reported to be received by schools at different times of the year, thereby contributing to significant planning difficulties.

3.2 Impact on the discretionary elements

Interviewees in the case-study phase were asked about the impact of the new funding arrangements on the discretionary elements in their local authority formula. Twelve of the 90 interviewees, mainly school finance staff, felt unable to comment on this aspect. These finance staff, by way of explanation, noted that they worked with the figures they were given and were not concerned with where the money came from. Eight interviewees, from four out of the eight authorities, noted that there had been no change to the

discretionary elements within their local authority formulae. Some asserted that the main mechanism for allocation was through basic per pupil funding and therefore there had been no significant change in the way funding was allocated. Some general points about the impact of the new arrangements on the discretionary elements in the formula were made and these are discussed first before moving on to examine more specific issues about individual elements.

Nineteen interviewees, including ten school staff, from all but one of the authorities, reiterated the local authority survey findings and said that they felt that the discretionary elements within their local authority's formula were still relevant, given the revised funding arrangements. A typical comment came from a local authority head of finance: 'I would hate it if we ended up with a formula that didn't take into account some of the aspects that we have in our local formula now'. He added that it would be difficult to take these factors into account if there was a national funding formula.

The number of interviewees who raised comments about specific elements of the local formula replicated the rank order of the major discretionary elements highlighted in the survey phase of the study, in rank order: SEN, deprivation, small schools and additional educational needs (AEN). Thirty-five interviewees, over half of whom were from two authorities, referred to issues concerning SEN. This suggests that the issues raised may be local authority related. Sixteen interviewees, including six interviewees from one authority and three from another, when asked about the discretionary elements, focused their comments on social deprivation. These two authorities were reported to consist of affluent areas with pockets of significant deprivation which did not show up in the general statistics that were used as indicators of deprivation to determine funding. With no external funding, it was reported that money had to be allocated from the overall schools budget to address the needs of these areas. Fourteen interviewees referred to the small schools factor within their local authority's formula. However, 11 out of the 14 interviewees were from two authorities, again indicating the authority-specific nature of this issue. In both these authorities, there were reported to be a large number of small schools. Finally, 13 interviewees talked about AEN, but again, 11 were from two authorities, suggesting this was an authority dependent issue. Thus, overall, examination of interviewee perceptions of the impact on discretionary

elements revealed the individual nature of the issues in different local authorities. A summary of the main issues raised by interviewees about each of these discretionary elements is shown in Table 3.1.

3.3 Advantages of the allocation formula

In the survey, nearly half of all local authority respondents indicated that their allocation formula had

no advantages within the current arrangements, whilst a quarter felt that it had. In contrast, in the case-study phase, only nine interviewees said that there were no advantages. For example, a secondary school governor of a school which, prior to the new arrangements, had been in special measures, stated that he struggled to see any advantages of the new system.

At the time the new arrangements came in, a lot of the old funding streams were lost and things were changed and, allegedly, the new funding

Table 3.1 Issues raised by interviewees about individual discretionary elements within the local authority formula

<p>SEN</p> <p>Interviewees felt that:</p> <ul style="list-style-type: none"> • the funding delegated for SEN was unrealistic and failed to meet actual costs • schools were reluctant to support SEN delegation because of perceived low funding • increasing delegation of SEN funding discouraged collaboration between schools • the needs of SEN pupils were becoming increasingly complex and, with increasing demands, there was nowhere for schools to go for additional funding • dealing with areas of expenditure pressure in the schools' budget that were not delegated was considered most difficult for local authorities • the way in which SEN funding was calculated was complex. <p>Deprivation</p> <p>Interviewees felt that:</p> <ul style="list-style-type: none"> • schools which received pupils from neighbouring inner city areas failed to receive extra funding for these pupils • the use of FSM as an indicator for social deprivation was questionable • a disproportionate amount of money was going to disadvantaged areas • meeting the criteria for one fund often ensured receipt of a number of other funds • targeting areas of deprivation led to other areas being starved of essential funding • whether targeting deprivation was the most effective strategy was questionable. <p>Small schools</p> <p>Interviewees felt that:</p> <ul style="list-style-type: none"> • small schools received more money as a result of the new funding arrangements • review of the local authority small school element (e.g. the threshold) was required • small school subsidies were top-sliced off other schools' budgets • a more strategic view ought to be taken about funding for small schools • larger schools were sometimes overlooked as a result of the focus on small schools. <p>AEN</p> <p>Interviewees felt that:</p> <ul style="list-style-type: none"> • the new funding arrangements had prompted 'intensive debates' about how funding for AEN should be allocated • the use of FSM was questionable in relation to the assessment of AEN • the AEN discretionary element was becoming increasingly important because of the rising number of black and ethnic minority pupils in some areas • a disproportionate amount of AEN funding went to deprived areas • children with special needs were subsidising those without special needs • whether targeting AEN was the most effective strategy was questionable. 	<hr/>
---	-------

Source: case-study interviews in phase two of the NFER study, 2004

arrangements covered this loss. At the same time, [the school] came out of special measures and the additional funding we received for this went and all these other changes came in. A culmination of all these changes in funding made a huge difference – a huge deficit to what we'd expect so it was entirely negative. I wouldn't say really that there was any positive in it, to the point well, why bother to change?
(secondary governor)

In response to questioning about the advantages of their local allocation formula, 28 interviewees reiterated the views previously expressed about increased transparency and 13 reiterated previous comments on increased control and flexibility for schools. These views were discussed in depth in Chapter 2 (see sections 2.1.2 and 2.1.3). When local authority respondents answered this question in the survey, they focused mainly on the fact that the local allocation formula provided a rational basis on which to allocate funds to schools. In contrast, coming more from a school perspective, as well as transparency and increased school control, case-study interviewee comments centred on protection for schools, with only a few commenting that the advantage of their local formula was that it allowed schools to be funded on a needs basis.

Protection for schools was identified by 13 interviewees, mainly school staff, from across six authorities. For example: 'If suddenly a hundred of your pupils left, your budget would not go below five per cent, so there is protection there' (secondary headteacher). Interviewees talked mainly about the protection for small schools (see also section 3.2) or those with static or falling rolls. However, the point was made that, by giving some schools protection through the minimum funding guarantee, other schools were losing out: 'If you're going to put the money in and you're not going to go below a certain level, the pot is only a certain size. If you protect them, then someone else is losing' (secondary governor). It was also suggested that the mix of minimum funding guarantee protection and local authority protection may have resulted in increased complexity and correspondingly been at the expense of transparency.

If we start doing formula changes, you're protecting on protecting on protecting and that can diminish the transparency as a school wants to be funded for the needs it has, but, if it's got an artificial protection because of the four per cent and some real protections, to say well they were a winner previously,

they're now going to be a winner, that needs to be protected. For the formula changes I think it's going to be fairly complex.

(local authority finance manager)

3.4 Disadvantages of the allocation formula

Ten interviewees (mainly school finance staff) felt unable to comment on the disadvantages of their local allocation formula. A few reiterated that the formula had not changed. Thirty-three per cent of respondents in the survey phase stated that they felt that there were no disadvantages to their current formula, whereas forty per cent felt that there were some. In comparison, in the case-study phase, only 12 interviewees said that there were no disadvantages to the current funding arrangements. However, seven of these interviewees were from one authority, suggesting some satisfaction with the allocation formula in this authority.

In the local authority survey, the most frequently identified disadvantages, in rank order, were the dampening effect of the minimum funding guarantee on the allocation formula, the loss of local flexibility and the irrelevance of making adjustments or revisions to the formula. Case-study interviewees (mainly school staff), on the other hand, again reiterated points raised in the section on general disadvantages (see section 2.2) and frequently talked about the issues of complexity (21 interviewees) and lack of transparency (20 interviewees). They also talked again about insufficiency of funding (see section 2.4.2), which was raised by 14 interviewees. The 18 interviewees who focused their comments on the inability to make adjustments to the formula as a result of the new arrangements were mainly local authority staff.

From a local authority perspective, the inability to adjust the formula was a concern in three authorities in particular. In these authorities, plans for formula review were noted, suggesting that the new arrangements had impacted more where the elements in the formula were currently under review. In one authority, which had inherited their formula from pre-unitary days, it was recognised that revision had been required for a number of years. This was reported to have prevented the authority from addressing widely acknowledged inequities in funding between local schools.

For the last four years, everyone in [the authority] has recognised that the formula needs to change, especially for deprivation and SEN and every year there has been a good reason why they haven't been able to do this ... That is very frustrating. ... Now I have an Ofsted report that criticises us for not reviewing the formula, yet we were conforming to DfES advice, which was good advice.

(director of education)

In another authority, the limited room for manoeuvre resulting from the new arrangements was reported to militate against adjustments that were necessary to address the workforce reform: 'Our formula doesn't allow for non-contract time for primary teachers in the curriculum model but, in secondary, does ... that has to be corrected as a result of the workforce remodelling' (assistant CEO).

A principal accountant from another authority pointed out that the introduction of the minimum funding guarantee provided a disincentive for local authorities to refine their formulae to reflect local needs: 'If they insist on a minimum funding guarantee, why should we bother to refine our own formula?' Similarly, an assistant director in another authority said that the minimum funding guarantee was 'suppressing interest on the part of the LEA in doing any work on formulas as it would be rendered otiose'.

Key points

- In terms of the impact of the new arrangements on the way funding is allocated to schools, key concerns centred around the passporting arrangements (pressure on central services and the delegation of real costs of provision), the minimum funding guarantee (perverse allocation and eventual

return to the local formula) and the merging of the Standards Fund into the general allocation (difficulty assessing whether this equates to previous funding and the need for matched funding).

- The disproportionate amount of funding allocated to the primary or secondary sector as a result of the new arrangements was also highlighted. Whether primary schools or secondary schools were 'winners' or 'losers' as a result of the new arrangements appeared to be local authority dependent.
- Interviewee perceptions of the impact of the new arrangements on the discretionary elements in the local authority formula also appeared to be local authority specific. Interviewees reiterated views expressed by respondents in the survey that the major discretionary elements in local authority formulae were still relevant because they reflected the needs of schools.
- A number of issues concerning the discretionary elements were raised. The key issues centred mainly around: whether the funding delegated for SEN was based on actual costs; pockets of significant deprivation that were not picked up by funding indicators; the disproportionate amount of funding allocated to deprived areas; the use of FSM as an assessment of need and the subsidising of small schools at the expense of larger ones.
- A specific advantage of the local authority formula within the new arrangements, from a school perspective in particular, was the financial protection this gave schools, whilst a specific disadvantage, identified more from a local authority perspective, was the inability to adjust the local formula to address local needs and school inequities.

4 Relationships with schools

This chapter focuses on the relationship between the local authority and individual schools. It examines whether the introduction of the Schools Forum and the revised funding arrangements were felt to have affected this relationship and the particular factors that led to any change. It also probes whether local authorities and schools received any transitional support and its perceived impact.

4.1 Relationships between local authorities and schools: impact of the Schools Forum

Results from the national survey in phase one indicated that over half of respondents believed that no change had occurred in the relationship between the local authority and schools as a result of the Schools Forum. Just under a half thought it had improved and only one per cent thought that the relationship had deteriorated. Findings from phase two, however, revealed different perceptions. Just under a third of interviewees believed that relationships between the local authority and schools had deteriorated as a result of the Schools Forum. A third indicated that there had been no change and just over a third of interviewees believed that relationships had improved. This finding is most likely a result of the wider representation in phase two, where the opinions of school-level staff and wider local authority representation were included.

Fifteen of the 31 interviewees, who suggested that there had been **no impact** as a result of the Schools Forum, attributed this to the fact that an effective relationship was already established. In one authority, for example, a group similar to the Forum already existed and hence the Forum was 'a natural evolution'. The remaining 16 interviewees were unaware of the Forum, or simply thought that it exerted very little, or no impact upon the relationship between local authorities and schools. Others citing no change felt this was because they were ill informed as to its purpose or role.

I have no idea what they do or what they get up to. They exist, but I've seen nothing about what questions are answered, or what their decisions are, or why they've made those decisions.

(primary bursar)

A variety of rationales were proffered as to why the Schools Forum had a **positive impact** on relationships between local authorities and schools. According to interviewees, this occurred where there had been:

- greater transparency, openness and understanding of the funding system: 'It's brought things right out into the open'; 'Nobody is trying to hide things from us'
- improved communication between the local authority and schools and opportunities for dialogue and debate
- effective leadership and appropriate representation on the Forum: 'We thought it through, we got the right people involved'
- positive attitudes towards the Forum and it had received increasing support
- a challenging environment, which was perceived to have brought people together: 'We were all working in adversity and it threw us closer together'
- increasing recognition by schools of the power that the Forum had over the local authority
- an appreciation of the opportunities provided for school-level input into processes, such as policy review, including the generation and distribution of budgets
- the production of high quality consultation documents as a result of the Forum.

A variety of rationales were also proffered as to why the Schools Forum had had a **negative impact**. According to interviewees, this had been where:

- poor representation on the Forum had led to limited needs being considered: 'There have been a few occasions where the Schools Forum has been perceived to come to some perverse decisions'
- wider representation from people 'on the ground', such as bursars and business managers, was advocated
- the Forum was considered too large and 'unwieldy'
- the Forum lacked representatives with sound financial knowledge: 'Too many different constituents, numbers of whom don't really understand the whole'
- tensions were created because funding was coming under increasing scrutiny and was increasingly challenged by the Forum
- the Forum was just seen as a 'talking shop' and a focus for 'a lot of whinging rather than constructive decision making'.

4.2 Relationships between local authorities and schools: impact of the revised funding arrangements

Results from the national survey in phase one indicated that 80 and 75 per cent of respondents believed that no change had occurred in the relationship between the local authority and schools at secondary and primary level respectively as a result of the revised funding arrangements. Respondents were then almost equally split between those maintaining that the relationships had improved and those that believed they had deteriorated. Results from the case-study interviews were less divided. Forty of the 90 interviewees (less than half) believed that the funding arrangements had had a minimal impact on relationships, although over half of these (21 interviewees) attributed this to an effective relationship established prior to the revised arrangements. Just over a quarter of interviewees believed that the revised funding arrangements had had a positive impact and just under a fifth believed that they had a negative impact on the relationship between the local authority and schools. The impact on relationships was described as being slightly more positive at primary level.

4.2.1 Positive impact

A high proportion of the interviewees spoke positively of the relationship between the local authority and schools because of the revised funding arrangements. The majority of positive comments were from local authority representatives and headteachers. The main reason for this improvement was attributed to the fact that the authority provided much needed support to schools during the revisions, or that staff in the schools appreciated all that the authority were doing to deal with the situation. Where communication was easy and where 'approachable' and 'efficient' staff were involved, schools and local authorities grew closer together. For example, a local authority representative believed that, as the local authority was open with its schools and highlighted issues early, this established an enduring level of trust and strengthened relationships.

I think that they realised that the LEA were working their socks off because, although headteachers were really struggling to get balanced budgets, they would say 'I know the LEA are doing everything they can' and the LEA did do an awful lot of work. They [the local authority] gave an awful lot of backup, not just for helping schools to get balanced budgets, but from a human resources point of view as well. There was always the support there and I think the schools, from that perspective, found the local authority very, very supportive.

(primary bursar)

Representatives in all but one of the eight case-study authorities made similar comments. An increase in respect and greater awareness of the financial difficulties experienced at both authority and school level strengthened this further. Recognition that the difficulties experienced were not caused by the local authority, but by the Government, also contributed to this sense of solidarity.

We recognise that it's not the authority that is imposing the funding arrangements. It comes from central government ... I think, from the school's view, we've seen that both the education authority and the council have been supportive as much as they can be.

(secondary school governor)

For some interviewees, the relationship inevitably improved because any new arrangements were viewed

as an improvement on 2003, where the situation was described as 'an unmitigated disaster' as far as relations between the local authority and headteachers were concerned. The beginning of 2002/3 was described as 'an awful time for school funding' for local authorities, as well as schools, but more recently, since the revised funding arrangements, relationships had begun to improve.

Five school representatives believed that the new funding arrangements had encouraged dialogue and communication with the authority. Interviewees valued the increase in dialogue and felt assured that they could talk to the authority, would receive feedback and that they had been listened to.

As far as relationships go, I would say there is an openness of dialogue. There is a greater willingness to involve schools ... because the new arrangements have, in a sense, dictated that there had to be a revision of how things were discussed.

(secondary headteacher)

Finally, in one authority, the new funding arrangements had impacted positively upon relationships as they necessitated a closer exploration and understanding of schools' individual positions. Additionally, despite some negative feelings and frustrations over the revised funding arrangements, there was a sense amongst some interviewees that these were unavoidable and a 'no blame' culture had been established. Because of this, in some cases, damage to the relationship between schools and authorities was resisted.

4.2.2 Negative impact

Fourteen interviewees described negative impacts of the revised funding arrangements on the relationship between the local authority and schools. When budgets were announced and received by schools, both local authority representatives and some school staff described the relationships with schools as being 'despairing'. They believed that this subsequently damaged relationships: 'The first people they kick against are the local authority' (chair of Schools Forum). Perceptions of the impact of the revised arrangements were considered more likely to be negative where interviewees lacked an understanding of the financial situation of the local authority and of other schools.

Six interviewees believed that the relationship had deteriorated, or that it had the potential to, as a direct impact of the revised funding arrangements. For example, some interviewees maintained that, when a school was having difficulties through no fault of its own, there would nevertheless be some kind of breakdown in its relationship with the local authority:

I think that schools, where they've got problems, I think they feel very much out on their own and, although there's help there from the local authority, you do feel kind of frustrated that they're giving you a budget, you can't make it balance, you know. What are you meant to do?

(primary headteacher)

Other interviewees felt that the revised funding arrangements had distanced the authority from its schools and had therefore limited any potential relationships developing.

4.3 Relationships between local authorities and schools: impact of targeted Transitional Support Grant

Only three of the eight case-study authorities had received the targeted Transitional Support Grant and many interviewees were completely unaware of it. The majority of the remaining interviewees (15), mainly local authority representatives and headteachers, spoke negatively of the impact of the grant upon the relationships between local authorities and schools. In contrast, eleven interviewees, the majority local authority representatives or school finance staff, spoke of its positive impact on relationships.

4.3.1 Negative impacts

Of the 15 interviewees who described the grant as having a negative impact on relationships between the local authority and schools, seven believed this was because it failed to solve schools' underlying problems. Schools in receipt of the grant and of its associated financial benefits agreed that it did not actually tackle the 'real issues', especially given its temporary status.

The worry we have was that it went in as a one off. The reason we had it as an authority was that we received insufficient funding, that was the bottom line. It's

difficult for us, from the central LEA perspective, to square the fact that we're dealing with a one-off grant to help with an underlying problem of under funding.
(local authority finance manager)

Some interviewees, who were in receipt of the grant, believed that they did not receive enough money and that, in comparison to the school's budget, their allocation was minimal ('pathetic'; 'a gesture') and hence did not go far enough to actually solving the problem.

We lost eight staff. We didn't replace on a number of others and we've got a targeted transitional grant of somewhere between 30 and 40 thousand ... on a six million pound budget. Well, come on, let's get real, it's a nonsense Every little bit helped at that point but it didn't come anywhere near enough in terms of the proportion of where we needed to bring things back to.
(chair of Schools Forum)

Other interviewees went further to stress that it failed to solve schools' problems as it was a fundamentally inadequate way to tackle them. A secondary school governor noted that: 'Like many schools, they (the school) didn't like it. It's not seen as a good way of handing out money.' Additionally, interviewees believed that some of the regulations alongside the grant further exacerbated this problem by placing restrictions upon its allocation and use. The requirement for action plans led to the perception that the grant involved more work and effort than it was worth. The grant was also seen as causing frictions in relationships between schools within the same authority: 'It's very divisive. Schools don't like it very much'; 'In terms of relationships, it's caused quite a few problems'. Such problems were intensified through the perception that the allocation of the grant was unfair (see section 4.4).

4.3.2 Positive impacts

Eight interviewees spoke of the financial benefits they received from the Transitional Support Grant impacting positively upon the relationship between the local authority and schools. Typically, the grant assisted some schools in deficit to retain staff, avoid redundancies and to protect the curriculum:

It helped immensely. At that time, we were facing a deficit, an overspend on that end of year budget which was a result of something to do with energy bills which

caused a problem, so it greatly reduced that. It really did help us. It meant that the school had more money in the budget and was able to put it to use and collect resources. We appreciate that it was there for us.
(primary finance administrator)

Local authority representatives spoke of benefits upon the entire authority. For example, in one local authority, out of 105 schools, over 90 benefited. In another, around 50 per cent did so: 'Well, we'd have been in trouble without it, basically' (CEO). Finally, besides perhaps the obvious financial benefits, interviewees also discussed other issues associated with the grant that impacted positively upon the relationships between the local authority and schools. These included the closer examination of school budgets that the grant necessitated, revealing inequalities between schools that consequently became recognised and addressed at local authority level.

It did take you back to look in detail where the spend was in terms of primary and secondary ... as to where the huge imbalances were, where the biggest number of cuts had been taking place, where there was no slack in the budget. When you actually looked at outturn statements and looked at where things were, that bought a kind of reality to where the inequalities were between sectors and that helped a little bit.
(chair of Schools Forum)

4.4 Fairness of allocation of the targeted Transitional Support Grant

Forty-four interviewees (about half overall) felt unable to respond to the question about the fairness of Transitional Support Grant allocation, as they were unaware of the allocation mechanism and in some cases, were completely unaware of the grant. Of the remaining interviewees, 26 described the allocation of the grant as unfair and ten described it as fair.

Thirteen interviewees shared the view that the allocation of the grant was unfair, because it **rewarded poor financial management** in schools. Interviewees with this perception spoke particularly vociferously of the injustice associated with the grant's allocation. Some complained that they were 'penalised' for dealing with their financial pressures for the sake of those who failed to take such measures. Indeed, one interviewee believed

that allocating the grant to schools in deficit 'ate away at fundamental LMS [local management of schools], which is that you set your priorities and implement these in a way that keeps you within your budget'. A business manager who failed to receive the grant complained:

We've been able to make appropriate changes and take hard decisions and manage the resources that we've been given and that's where I feel the targeted Transitional Support Grant has been a bit unfair really as schools may not have taken those hard decisions and yet have been rewarded with more transitional support.

(secondary business manager)

Other interviewees similarly complained that the criteria on which funding was allocated failed to take account of the measures that schools had put in place to deal with financial problems, or where schools in financial difficulty had done little to remedy their deficit, yet had benefited from the grant: 'Why should that school get money just because they can't be bothered to take a look at what's going to happen next year and start to deal with those problems?' (secondary bursar).

The 2004 Audit Commission report points out that, by specifically supporting schools in deficit, or those likely to go into deficit, an unintentional message was given to schools that working within a budget is not a priority (Audit Commission, 2004). This was reflected in the views of some interviewees. One described the allocation mechanism as coming 'dangerously close to the improper use of public funds' and another agreed that 'the Audit Commission report really tells the tale on just what a bad means of distributing a very substantial amount of money that was'.

Six interviewees, five of whom were from one particular authority, whose finances were said to be in pretty good shape, argued that it was **unfair that schools had to bid** for the allocation. They described the process as 'absurd', 'extremely damaging' and as lacking in transparency and stressed the amount of time involved in preparing a bid. Where schools were unsure of the bidding process, or simply lacked the time to complete the relevant forms sufficiently, they reportedly missed out.

What I feel is that, if a school is very good at filling in forms, getting that information together and is quite proactive in that, or has support from somewhere in

doing that, then they get the money. If they are not quite so good, if they are not quite so sure what form to fill in or how to go about it, or they don't really know where they are going in three years' time, they may desperately need the money, but miss out.

(primary finance officer)

Furthermore, local authority representatives admitted to the difficulties of making value judgements and decisions about each bid, without really understanding the complexities of the budgets for each school.

Five interviewees believed that the allocation mechanism was unfair, because **more schools should have benefited**. Even some schools in receipt of the grant felt as though there should have been a fairer allocation of funds. The use of an allocation formula was suggested to be a more efficient and effective way of allocating the grant. For these five interviewees, the prerequisite that the grant be allocated to schools in deficit was viewed as fundamentally flawed. 'The money should have just gone straight into the budget as an admission that the previous year's money was inadequate and should have been shared around all the schools' (chair of Schools Forum).

Three interviewees described the allocation process as improper as it resulted from a 'knee jerk' reaction to the funding crisis of 2003 and hence lacked thorough forethought. The basis of the grant was criticised as lacking in accountability for the absolute funding levels the local authority received and for relying upon levels of increases. Interviewees maintained that this overlooked the relative needs of authorities, resulted in misallocation of funds and thus exacerbated the unfairness. Furthermore, the delay in receiving the allocation guidelines resulted in quick action, which may have affected allocations.

Ten interviewees believed that the allocation of the grant was fair. Half of these interviewees were from authorities or individual schools in receipt of the grant, whilst the other half had not benefited. Fewer justifications were provided for these views, interviewees simply contending that the process was fair, or reporting that they had no issue with the allocation mechanism. In some cases, this was due to a lack of information about the grant and the allocation process. Better informed interviewees were more likely to view the allocation mechanism as unfair.

One interviewee said he trusted the local authority to allocate the funds equitably. Two others were pleased that the Schools Forum had had a role in the allocation of the grant and was able to ask questions and hold the local authority to account during the allocation process. Another interviewee happily accepted that his/her authority had not received the grant, as this indicated that they were financially sound and in a more favourable financial position. Finally, some interviewees, who recognised that the allocation of this particular grant was fraught with difficulties and complexities, commended the efforts of their local authority in making the process as equitable and fair as possible.

Key points

- There was very little difference between the perceptions of interviewees concerning the impact of the Schools Forum on relationships, although more interviewees thought it had had a positive impact than those who thought it had no influence or a negative impact.
- The majority of interviewees who believed that the relationship had improved attributed this to improved transparency, improved communication, effective leadership and appropriate representation and support. Where interviewees believed that it had impacted negatively upon relationships, this was thought to be due to inappropriate representation, representatives' inadequate financial knowledge and the increased scrutiny of financial matters by the Forum, as well as concerns that it had become 'a talking shop'.
- The majority of interviewees believed that the revised funding arrangements had had a minimal effect on the relationship between the local authority and schools.
- Where the impact had been positive, this was mainly because the authority provided much needed support to schools and school staff appreciated the efforts they made to deal with the situation. The revised arrangements had also encouraged dialogue and communication and necessitated a closer exploration and understanding of schools' individual positions.
- Deterioration of relationships was attributed to the initial reaction of schools to their budgets or because schools were in financial difficulty. Others suggested that the revised funding arrangements had distanced authorities from schools.
- Of those in receipt of transitional support, the majority spoke negatively of its impact, despite the obvious financial benefits it provided. It was criticised for failing to solve the underlying problems and for being minimal in comparison to school deficits or their general budget allocation. There was also a belief that the transitional support process was fundamentally flawed, that it was divisive and responsible for considerable friction amongst schools.
- There had been a positive impact where the grant had been of considerable benefit to schools in avoiding redundancies and protecting the curriculum. Closer examination of individual school's financial situations was also valued.
- Almost three times as many interviewees described the way in which the grant had been allocated as unfair compared to those who described it as fair. Many believed that it had rewarded financial mismanagement. Better informed interviewees were more likely to view the allocation mechanism as unfair.
- Interviewees who perceived the allocation as fair provided fewer justifications for their opinions. Some trusted in their local authority to allocate the funds fairly and others felt reassured that the Schools Forum would hold the authority accountable for its allocation mechanism.

5 Monitoring of school budgets

This chapter of the report focuses on the monitoring of school budgets. It discusses the mechanisms and frequency of monitoring for all schools (sections 5.1 and 5.2), including those in financial difficulties (section 5.3) and discusses whether interviewees thought these to be effective. It also highlights some mechanisms interviewees considered to be particularly effective (section 5.4). It goes on to address financial management training for school staff and its perceived benefits (section 5.5).

5.1 Mechanisms for monitoring school budgets

In the national survey, respondents indicated that the most commonly used mechanisms for the monitoring of school budgets were school returns (identified by 44 per cent of respondents) and electronic information (identified by 28 per cent of respondents). To a lesser extent, school visits were also used (identified by ten per cent of respondents). In the case-study phase, discussions focused upon whether monitoring mechanisms were felt to be appropriate and/or effective. Views were almost equally split, with 41 of the 90 interviewees speaking positively of the mechanisms in use and 40 speaking negatively. Interestingly, twice as many local authority representatives described their monitoring mechanisms as ineffective as they did effective.

Local authority representatives spoke most vociferously about the shortcomings of their monitoring mechanisms and were aware that they 'should have a better handle on it'. According to interviewees, monitoring mechanisms were considered **ineffective** because:

- they lacked attention to detail and lacked rigour and sanctions
 - there was a slow response to financial information provided by schools
 - there was a lack of capacity at local authority level to monitor the information provided by schools
 - there were mixed messages from the Government regarding school self-management and the role of the local authority in preventing financial difficulties
 - they often relied upon inaccurate financial information from schools since schools had 'little incentive to report accurately'
 - tracking pots of money and school specific funds was difficult
 - there was a lack of financial expertise and skills at both local authority and school level.
- However, some interviewees spoke with confidence that the local authority had 'a pretty good grasp' on monitoring, or simply thought that the system 'works'. According to interviewees, monitoring mechanisms were **effective** because:
- schools received a quick response from the local authority
 - schools received a high level of support, e.g. direct contact with personnel
 - local authority staff were approachable
 - there were specific local authority staff, e.g. peripatetic bursars, who contributed positively to the budget monitoring process
 - there was increasing capacity at local authority level
 - budget monitoring mechanisms provided a focus and acted as a check for schools
 - electronic monitoring facilitated a prompt response and the information was easily accessible because it was held centrally.

5.2 Frequency of monitoring school budgets

Interviewees were asked whether they thought the frequency with which the local authority monitors the budgets of schools was appropriate. As garnered from the survey data in phase one, termly monitoring was most common, followed by monthly and quarterly monitoring. The case studies reflected this distribution, with four using termly, three using monthly and one using quarterly monitoring.

Almost half of interviewees (42) thought that the frequency of monitoring in their authority was appropriate. Monthly monitoring was most favoured for enabling a quick response and it was widely felt that any more frequently would increase workload to an unacceptable level. Furthermore, considering the sums of money involved in some schools, monthly monitoring was viewed as necessary and therefore, as appropriate. Other interviewees preferred termly monitoring. This was often due to concerns that an increase in the frequency, to monthly monitoring, for example, would become too time consuming and laborious.

I'd say that's [termly monitoring] about right. I think any more would be excessive and any less wouldn't be enough. It fits in doing it termly as that's three distinct chunks really.

(secondary business manager)

Positive comments also concerned quarterly monitoring. Interviewees described it as 'sufficient' and 'effective', provided that schools were completing their own budget monitoring and recommended it for enabling the local authority to predict the future financial situation and direction of schools: 'If you do things monthly you don't actually see the trends as clearly as if you do it quarterly. I think quarterly would be more appropriate' (secondary headteacher).

Where the monitoring frequency was seen as inappropriate, this was most often because interviewees would prefer a different timescale. For example, some interviewees, whose budgets were monitored on a quarterly basis, preferred monthly monitoring for providing up to date information. However, monthly monitoring was criticised because of time delays associated with monthly returns.

Regardless of monitoring mechanism and frequency, some interviewees expressed concern that schools were still getting into difficulty and therefore questioned the effectiveness of the local authority's approach. Although the frequency of monitoring was viewed as appropriate, some school-based interviewees felt as though the authority lacked capacity to deal with it effectively. Some local authority representatives recognised this, agreeing that they lacked the capacity to monitor any more frequently, despite this being desirable.

5.3 Effectiveness of monitoring schools in financial difficulties

Results from the national survey in phase one revealed that 96 per cent of respondents indicated that they used alternative mechanisms for monitoring schools in financial difficulties. For example, it was most likely that a local authority would use more frequent monitoring for schools in difficulty and would increase the number of meetings/liaisons or visits to the school. It was also common for local authorities to use long-term budget planning, increase the stringency and breadth of monitoring, to provide heightened support and to use monthly monitoring. In the case-study phase, interviewees were asked if the way in which the local authority specifically monitored the budgets of schools in financial difficulties was appropriate or effective. Thirty of the 90 interviewees thought that it was effective, whilst 20 interviewees thought that it was ineffective.

5.3.1 Effective monitoring

Where the monitoring of schools in financial difficulties was seen as effective, interviewees offered a variety of reasons for their opinion. Nine interviewees attributed effectiveness to the **supportive and approachable nature of the local authority** when schools were facing difficulties: 'There were monthly meetings looking at the budget They came here and went through it with us. That was very supportive' (primary headteacher).

At local authority level, interviewees also recognised the importance of support for schools in financial difficulties and ensured that such schools had contact with someone from the authority fairly constantly. Support was particularly associated with the use of licensed deficits. Four interviewees considered the way that the local authority monitored schools in difficulty as

effective because of the staff delegated to the 'front line' to support and assist the schools:

If a school goes into a licensed deficit budget arrangement, they actually get me as their finance officer, as the team leader. So I go into the schools in crisis and so they see me ... They would get their normal visit plus they would get to see me to go through the budget and check how things are looking.
(local authority finance team leader)

As with general budget monitoring, the **quality of local authority personnel** was considered crucial to the perceived effectiveness of the mechanisms and processes used. Monitoring schools in financial difficulties was also viewed as effective where **specific mechanisms** were used. For example, a cross-departmental monitoring programme was used by one authority. An 'advanced skills' governor and the placement of a former deputy headteacher in secondary schools in deficit were other examples of special mechanisms. These methods of monitoring were felt to be 'exceptionally effective' as ways of both challenging, yet supporting schools. Finally, other interviewees noted that they saw evidence of a reduction in the number of deficit scenarios in schools and, to this end, one interviewee suggested that the mechanisms in use were 'quite clearly having an effect'.

5.3.2 Ineffective monitoring

Where monitoring schools in financial difficulties was viewed as ineffective, this was most frequently attributed to the **limits of local authority intervention** concerning deficit schools. For example, a governor of a primary school believed that, although the local authority became very involved and worked hard to find effective solutions, 'In the end, the problem is a school's one and therefore, there's only so much one can do'. Furthermore, a local authority representative argued that local authority intervention is limited where the initial problem remains unidentified.

Sometimes I am not convinced that the local education authority and the school are open enough with each other to explain where the problem arises so that they can remove the source of the problem. I mean, it is fine to monitor things, but you have both got to agree that the actions that you have implemented to correct the discrepancies are appropriate.

(chair of Schools Forum)

The local authority were perceived to be in a difficult position as they ultimately lacked control over how governing bodies choose to spend their budgets:

It's the governing bodies and the headteachers who make the decision really. The LEA can only recommend, suggest. I'm sure that the governing body would be imprudent if it didn't accept that recommendation really but, at the end of the day, it's the governing body's decision.

(primary governor)

One headteacher spoke of the problem of monitoring schools in difficulty because of the **changing relationship between local authorities and schools**. He believed that local authority intervention was becoming more difficult with increasing school independence and that a balance needed to be found between autonomy and local authority guidance. Another key criticism of the way in which schools in financial difficulties were monitored was that the information supplied was not always accurate, or sufficiently checked. This is similar to the general criticism of monitoring mechanisms discussed in section 5.1, that schools will often, knowingly or not, provide the local authority with **inaccurate information**. A headteacher from a school that had been in difficulties explained that, although they were asked to prepare three- or five-year financial plans to demonstrate how the deficit would be redeemed, he doubted 'that anybody is keeping a check, that you actually follow that'.

Dissatisfaction with monitoring schools in financial difficulties was expressed by some interviewees who felt that the local authority provided inadequate support. Where support was lacking, the monitoring mechanisms were in turn viewed as ineffective for schools in financial difficulties. Some interviewees expressed concern as to why schools were experiencing difficulties in the first place. If budget monitoring was efficient, then why were schools still finding themselves in such circumstances? Furthermore, if the monitoring was insufficient enough to allow schools to go into deficit, then how could it change to be more effective once schools were in difficulty?

The important thing I would want to find out is why there are difficulties and, most often, the answer to that is not inadequate funds, but inadequate [local authority] control. So I would be looking to see what

controls there were, whether they were effective, whether it was simply a people problem or not.

(secondary governor)

5.4 Effective mechanisms for monitoring school budgets

Interviewees were asked if there were any mechanisms that they considered particularly effective for monitoring school budgets. Twenty-six interviewees could not specify any mechanism that they considered particularly effective for monitoring school budgets. Mirroring the responses from the national survey, a range of mechanisms were highlighted. Results of the national survey indicated that respondents considered the use of a central system, school visits and projections in budget plans particularly effective. Successful budget planning, the use of specific reports and finally, meetings were also mentioned. The case-study interviews highlighted some additional mechanisms. The mechanisms suggested by five or more interviewees, in rank order, were:

- electronic systems, finance packages and other software
- high quality, supportive relationships between schools and local authorities
- budget plans and predictions
- buy-back bursar/peripatetic bursar
- greater school involvement.

5.4.1 Electronic systems

As indicated in the national survey, electronic systems were highlighted as particularly effective. Half of the interviewees giving this example were local authority representatives and these interviewees represented four of the local authorities. They described the software utilised as particularly effective for allowing individual schools to set up budgets, to profile their budgets during the year in terms of expenditure and to monitor the budgets as they were developed. A director from one of the case-study authorities with an 'excellent' CPA score described a new analysis spreadsheet under development that enabled monitoring of around 20 variables, including class size, subject arrangements and

staffing levels. This could be used to model reductions in deficits, consequences of decisions and calculations for the minimum funding needed to run a school. A similar system was highly regarded by a headteacher in a different authority as it enabled him to profile his budget effectively and to consider how internal changes would impact upon the school's financial situation.

It was hoped that, through the increased use of electronic systems, monitoring budgets would become easier, particularly through remote accessing that allowed local authority staff to take finance figures directly from the schools' systems without schools having to submit forms. Electronic systems were also praised for reducing additional processing and manipulation of data and for avoiding subjective interpretation by either the school or the local authority. They were also considered effective as the school and the local authority became directly inter-related and a common reporting structure made financial systems simpler and more accessible.

5.4.2 High quality relationships

The nature of the relationships between schools and local authority staff was seen to be influential in the effective monitoring of school budgets. Eight interviewees highlighted this relationship, where it was positive, supportive and honest, to be particularly effective for monitoring school budgets. This was especially evident in the smaller authorities where it was likely that such relationships could be well nurtured.

There's a lot of pre-planning that goes on between schools' finance teams and heads. There is a lot of support in terms of helping them to set up their budgets in a realistic way. I think one of the things is that they actually build up a relationship with the schools and the schools' administrators and it takes time to build up that trust ... I think it has a lot to do with relationships.

(CEO)

High quality finance staff were also a crucial component in the supportive relationship found to be particularly effective when monitoring school budgets:

I think I would praise the financial advisors that each school has allocated to them. The standard of those has been very, very good ... I think they are very busy and

overworked, but all those I have come in contact with have been particularly efficient and supportive and seem to be quite well briefed, so they understand the school's problems as opposed to just looking at the budgetary problems.

(chair of Schools Forum)

5.4.3 Budget plans and predictions

Eight interviewees nominated the use of budget plans and predictions as particularly effective mechanisms for monitoring schools' budgets. This was also identified in the national survey. In one authority, the provision of three-year financial plans, which interviewees found particularly useful, had been in use for the past ten years. In a second authority, budget plans and predictions were considered particularly useful for alerting the local authority to schools likely to experience financial problems and as a way of encouraging schools to take a long-term view of expenditure. Accurate forecasting was also noted as an effective mechanism.

5.4.4 Buy-back bursar/peripatetic bursar

The use of a peripatetic bursar, or a 'buy-back' bursar service from the local authority was viewed as an effective mechanism for monitoring school budgets:

Also, what is even more valuable is that ... more than half of our primary schools are in a bought-back bursar service ... someone going in two or three days a week to provide the financial service to the school directly. You really get a sense of what's happening and I think that's really useful having that in there.

(local authority head of finance)

The experience of a school administrator was testimony to the success of using a peripatetic bursar in another local authority:

We have a finance officer that comes in for a full day once every two weeks and there's not many schools in [the authority] that have that support, so that helps to keep things up to date. When you're working with somebody close with you doing finance, then it's easy to keep on top of things really.

(primary school administrator)

Interviewees thought that allocating a bursar with appropriate training to a partnership group of schools, to support them and periodically review their budgets and

progression, would be a good solution for schools who could not normally afford someone for this purpose. This was viewed as beneficial for monitoring purposes and for providing information for governors and headteachers.

5.4.5 Greater school involvement

Five interviewees believed that an effective mechanism for monitoring schools' budgets was for schools to have greater involvement in the monitoring process: to be proactive; to do their own monitoring; to receive training and to have a degree of autonomy. Within one case-study authority, a local authority representative claimed to 'do quite a lot to ensure that schools are proactively involved in monitoring their budgets'. Within another, the Chair of the Schools Forum believed that school staff with financial responsibility should have a higher job status and that schools should do their own monitoring. In a different authority, a secondary school bursar appreciated the autonomy that 'being a cheque book school' offered, maintaining that they had fewer financial problems than other schools. A headteacher noted that schools, more recently, had the skills and expertise for financial management planning and were less reliant upon local authority finance staff to control spending.

Other mechanisms perceived as being particularly effective included: clear reports and evaluations; well trained finance officers; the role of the Schools Forum, finance officer help lines and a culture of accountability.

5.5 Financial management training

Interviewees were asked what financial management training governors and other school personnel received from the local authority and what benefits this provided. Data from the survey in phase one suggested that training provision for governors is most often on a needs basis or as part of the regular governor training. Within 12 per cent of the responding authorities in phase one, training was provided as part of the governor induction programme. Training was most frequently run annually or termly. In the case-studies, all interviewees generally held governor training in high regard, describing it as 'one of the jewels in the crown', or as 'excellent'.

Governor training was available in all authorities: only three interviewees were unaware of it, or claimed that none existed. Fifty-one school-level interviewees indicated that training was provided for other school personnel, or that they had undertaken such training themselves. The most common provision was for school finance staff, including bursars, administration officers, secretaries and business managers. In fewer cases, the headteacher, or a member of the senior management team attended training. Interviewee comments focused upon the particular benefits of training for the school. A number of benefits for schools were identified as a result of training for governors, but interviewees cited fewer advantages of training for other school personnel. However, commonly proffered benefits were still identifiable. Financial management training was perceived to:

- keep school staff abreast of changing systems, policies and software
- improve financial understanding amongst school staff
- enable school staff to appreciate the local authority's perspective
- provide school governors with the insight with which to ask challenging questions of schools
- render governors' meetings more effective
- raise school governors' awareness of financial issues
- improve the levels of trust awarded to school governors by headteachers
- encourage school governors to realise the vital role they play in financial decision making in schools
- improve communications and strengthen school finance teams.

Another viewpoint alleged that there was no need for governor training as the school already had a very skilled governing body, or had representatives from financial occupations with sound financial knowledge. This was also the case for other school personnel, particularly where internal training was provided.

Key points

- Where monitoring mechanisms were described as ineffective, this was most typically because they were perceived to be too 'light touch' and lacking in rigour. Mixed messages from the Government and inaccurate financial reporting by schools were also considered influential.
- Where monitoring mechanisms were considered effective, high levels of local authority support and high quality staffing at local authority level were provided. Monitoring was also deemed effective where it encouraged school staff to keep a check on their budgets and where electronic monitoring was implemented.
- Most interviewees were satisfied with the frequency of budget monitoring. Monthly monitoring reportedly allowed the prompt detection of problems and was preferred for particularly large budgets. Termly monitoring demanded less work, whilst quarterly monitoring was said to aid financial forecasting. Dissatisfaction was most typically due to desires for more or less frequent approaches.
- The majority of interviewees considered the mechanisms for monitoring schools in deficit to be effective. Effectiveness was associated with a supportive approach and skilled personnel within the local authority. Ineffectiveness was associated with limits to local authority intervention, the provision of inaccurate information by schools and the need for increased support.
- Electronic systems were viewed as being particularly effective for budget monitoring, although the relationship between local authority and school staff and the availability of high quality finance staff were also considered particularly influential. The use of budget plans and predictions and the availability of a buy-back or peripatetic bursar service from the local authority were also cited.
- Financial management training for governors and other school personnel was recognised as beneficial and was thought to raise awareness and levels of understanding of financial matters within schools. It was also thought to enable school governors to ask pertinent and challenging questions in relation to the school budget and to reinforce their role in financial issues.

6 Future developments

This chapter focuses on future developments regarding school funding arrangements. It includes sections on the impact of future funding arrangements on attainment (section 6.1), future funding pressures for local authorities and schools (section 6.2) and, finally, summarises interviewees' desired future funding arrangements (section 6.3), i.e. their responses when asked what they thought their local authority or school would like to see happen at the end of the two years' revised funding arrangements.

6.1 Impact of future funding arrangements on attainment

Interviewees' opinions of the potential of three specific modifications to the school funding system for raising school attainment are relayed here. These modifications, raised in the LGA discussion paper 'Councils and schools: driving improvement' (LGA, 2004), included closer integration of funding streams, funding of clusters of schools and increased local autonomy.

6.1.1 Closer integration of funding streams

In the local authority survey, the majority of respondents responded positively to a question on whether closer integration of funding streams would contribute to raising attainment. Interviewees in the case-study phase, where school interviewees predominated, provided both positive and negative views of the potential for increased attainment. However, reflecting the survey findings, about two-thirds of those who commented were positive, whilst only a third were negative or had mixed views..

Advantages

In terms of advantages, it was felt that the merging of funding streams would:

- simplify the funding process and lead to procedural and accounting improvements, through better tracking and monitoring of budgets

- refocus school management attention on pupil achievement (rather than being distracted by numerous and excessively complex funding streams)
- lead to procedural efficiencies which would impact on raising standards within the school
- provide more funding certainty and therefore assist with planning budgets and have associated benefits for the schools' ability to raise standards
- enable schools to plan and target resources more efficiently, so potentially impacting on attainment
- provide transparent and protected funding
- provide more flexibility for schools and remove constraints on the way in which funds can be utilised.

Disadvantages

In terms of disadvantages, it was felt that the merging of funding streams would:

- provide a direct strategy for reducing the overall sums of money available to schools: '[The Government] got rid of several funding streams and said it was all in the base budget, but it wasn't.'
- complicate the mechanics and relationships involved in the delivery of educational provision
- provide total funding which was less than the sum of the individual components, with different factions or provisions claiming increased shares and, as a result, pupils may receive inappropriate provision
- provide the opportunity for education funding to be used to fund other interventions (e.g. health and social service intervention): 'At the moment, education funding is protected. There's a danger that it wouldn't be.'
- be unfeasible, given inter-sector and inter-agency variation (e.g. pay and conditions)

- disadvantage local authorities and schools that do well out of bidding for different funding streams.

6.1.2 Funding clusters of schools and increased attainment

In the local authority survey, the majority of respondents responded positively to a question on whether funding clusters of schools would contribute to raising attainment. In the case-study phase, where school interviewees were in the majority, however, interviewees provided both positive and negative views of the potential for increased attainment. Overall, about two-thirds of interviewees who commented were positive, compared to only about a third who were negative or held mixed views. Again, advantages and disadvantages were highlighted.

Advantages

In terms of advantages, it was felt that funding clusters of schools would:

- locate financial management responsibilities in the hands of fewer, but better trained, qualified personnel and thereby 'benefit education as a whole'
- ensure greater consistency of financial management
- provide economies of scale, e.g. a cluster of four primary schools managed by one bursar, for example, was said to have increased buying power
- facilitate the sharing of resources so that funding could be allocated and specifically targeted to the areas of need (e.g. underachievers)
- provide access to jointly funded resources, assisting schools in obtaining resources they could not afford alone (e.g. a mentor or counsellor)
- increase the level and quality of resources and provision within a particular locality
- provide a means through which small schools, or those with limited resources, could make their existing funding levels 'work smarter for them'
- ensure more appropriate provision for students where limited pupil numbers may make provision unviable

- facilitate the involvement of other agencies and alternative provision, broadening the breadth and scope of the support and resources available to pupils and families.

Various notions of cluster were considered as beneficial (e.g. a secondary school and its 'feeder' primaries; a cluster of smaller primary schools in a dispersed rural setting; a cluster of primary schools). School and local authority representatives from one authority in particular detailed situations whereby schools were already forming confederations, or operating as part of networks, such as specialist schools' networks. However, high levels of commitment and cooperation regarding the development of the whole, as opposed to competition for individual resources, was seen as key to success. Examples included a primary school working closely with a secondary school in its pursuit of specialist status for their mutual benefit and schools working in consortia which facilitated an increase in the educational opportunities available for young people: 'It allows us to run minority subjects cost effectively and to share those.' (secondary headteacher). Federations of schools were also identified which pursued an extended school model, involving access to a variety of funding streams. This allowed the schools to benefit from a broadened range of funding possibilities and access to specialist resources. All of these factors were seen as contributing to increasing attainment.

Others saw the advantages of clustered funding, but raised concerns about the ability to achieve this to maximise the potential gains available through such a strategy. For example, one senior local authority representative suggested that the ability to fund clusters of schools (and subsequent effectiveness) was constrained by national policy implications, namely that the bulk of school funding was to be passported to individual schools. This was seen as militating against the formation of clusters. As an alternative, it was suggested that certain funding could be made available and allocated on the condition that it served a particular cluster:

We would like to say to a cluster of schools 'Here's a million pounds [for behaviour support] you can use, but it's only accessible if you all join together.' Otherwise, it's a question of giving the money to individual schools and then trying to persuade them it would be a good idea that they work together. That's a much more time consuming and difficult process.

(director of lifelong learning)

Disadvantages

In terms of disadvantages, it was felt that funding clusters of schools would:

- increase the complexity of funding and be more difficult to manage: 'big isn't always beautiful.'
- lead to 'commercially driven' models of funding and delivery, centred on the increased role and power of commercial interests in education
- create inequalities in funding allocations and difficulties in assessing the destination of funding
- result in an imbalance of equality and effectiveness due to varying levels of commitment and influence: 'you run the risk of the people with the loudest voices getting the most money.'
- require an intermediary body, such as the local authority or Schools Forum, to act as mediator to ensure fair allocation
- lead to a weakening of the position and function of local authorities and thus reduce accountability: '[the Government] seem to believe that clusters of schools can take over a range of responsibilities currently held by the LEA.'

6.1.3 Greater local autonomy

In the local authority survey, the majority of respondents responded positively to a question on whether greater local autonomy would contribute to raising attainment. Interviewees in the case-study phase provided both positive and negative views of the potential for increased attainment. In the case-study phase, however, where school interviewees were in the majority, interviewees suggested that increased autonomy could occur at authority and school level and could have both positive and negative effects on attainment. However, again, over two-thirds of interviewees who commented were positive and only a third were negative or held mixed views. Increased school-level autonomy was seen as a potential contributory factor in increasing attainment, mainly by school representatives and several were highly supportive of removing the tier of bureaucratic supervision imposed by the local authority. The following comments were typical:

There are times when we would cheerfully cut any links with our LEA and go independent – red tape, bureaucracy is just a mountain and if anything can be done to make school more autonomous in that respect ... there's a huge wastage of money coming down through LEAs that could be better used in schools.

(secondary bursar)

It's not so much autonomy for local authorities, it's actually giving full autonomy to the schools that will have the biggest impact on raising standards.

(chair of Schools Forum)

However, from a school perspective, headteachers, governors and finance staff appeared to be less concerned with increased autonomy than increased funding and interviewees generally suggested that increased autonomy over an insufficient budget was meaningless: 'More autonomy won't alter things. If you've got half an orange, you've got half an orange' (secondary governor).

Within the local authority, national structures, such as minimum per pupil increases, were seen to undermine local autonomy: 'It actually stops you from using things like local funding formula to actually direct resources to where you think it's needed' (local authority head of finance). Others suggested that decreased autonomy was a more likely outcome of future policy and this was seen as having damaging educational implications.

Advantages

In terms of advantages, it was felt that greater local autonomy would:

- remove constraints on schools and allow them to 'produce the goods' without 'so many people looking over their shoulders'
- reduce bureaucracy and prevent wastage of money and in this way provide more funding for schools
- provide schools with the freedom to meet their own recognised needs and respond in ways appropriate to their individual circumstances 'and that should be an effective means of raising all sorts of standards'
- capitalise on local knowledge and local commitment to meeting local need: 'if you make people responsible in their own areas, you can get them to

really focus and decide how the money should be targeted'

- facilitate increased flexibility to meet local needs, to 'target certain priorities' which may, at times, be different from those of central government.

Disadvantages

In terms of disadvantages, it was felt that greater local autonomy would increase liability for individual schools should funding difficulties arise. Some interviewees felt that there was no relationship between local autonomy and raising attainment and considered this to be dependent on school-level developments.

6.2 Future funding pressures

Interviewee responses to the question about future funding pressures reflected, in terms of ranking, the

responses given in the questionnaire survey by local authority staff. The workforce reform, cited by 52 interviewees, was seen as a significant pressure by nearly every interviewee (i.e. school and local authority representatives) in all the case-study local authorities. Staff costs (25 interviewees) and pupil numbers (19 interviewees) also featured highly and were recognised as future funding pressures at both levels. School infrastructure (e.g. buildings and ICT), was raised by 18 interviewees (although did not feature in the survey). This appeared to be a significant pressure which was cited by both school and local authority staff. In addition, SEN, the second most frequently identified funding pressure in the survey, was not ranked as highly in the case-study phase and was mainly identified by local authority staff as an issue. Concerns over levels of funding, cited by 15 interviewees, were also highlighted in the case-study phase, but not in the survey and these were mainly located at school level. Interviewees' concerns about future funding pressures are summarised in Table 6.1.

Table 6.1 Concerns raised by case-study interviewees about future funding pressures

Workforce reform

Interviewees stated that:

- there was insufficient funding available compared to the actual costs
- this would lead to staff cuts and redundancies
- there was the potential for repercussions regarding industrial relations
- this may have a negative impact on the team spirit within the school
- the requirement was statutory and successful implementation centred on the availability of accompanying funding
- the quality of education may be sacrificed, i.e. as a result of employing non-teaching staff to cover lessons
- there was uncertainty about the continuation of funding
- there were significant associated costs (e.g. additional training and accommodation required by non-teaching staff)
- primary schools were the most vulnerable to the associated cost pressures.

Staff costs

Interviewees stated that:

- the appointment of experienced staff had to be balanced against the cost advantages of employing less experienced staff
- the retention of experienced staff led to the maintenance of high standards, but this was at a cost
- staff costs were further compounded by the demands of thresholds and upper pay spines
- there were gaps in the level of funding allocated to accommodate threshold payments and the actual costs involved
- headteachers had to make more awards to teachers than their funding allocation allowed in order to avoid making distinctions between teachers.

Pupil numbers

Interviewees stated that:

- fluctuating pupil numbers hindered schools and authorities in their medium and long-term financial planning
- rising school rolls had financial repercussions for school budgets
- reduced demand for school places led to increased competition between schools
- falling school rolls were challenging for local authorities to manage (e.g. closure and amalgamation of schools).

Table 6.1 contd

Infrastructure

Interviewees stated that:

- building costs, especially repair and maintenance, presented significant funding pressures for schools
- there was a lack of capital for development work
- infrastructure and associated cost considerations were key aspects in the delivery of quality education
- older schools were disadvantaged as capital budgets were more prone to being subsumed by health and safety issues
- ICT was an area of concern because of the costs of installing and maintaining up to date software and hardware
- older schools were disadvantaged as they faced additional cost pressures in order to support technology (e.g. cable installation).

SEN

Interviewees stated that:

- the costs associated with out of borough placements were 'uncontrollable' and, in some authorities, reported to be 'going through the roof'
- costs were further compounded by increasing expectations and pressure from schools and parents
- the inclusion of pupils with increasingly wide ranging needs in mainstream schools had considerable financial implications
- lack of centrally supplied funding was highly problematic for schools and local authorities and was compounded by the longevity of funding needs
- increased delegation of SEN funding was problematic for schools because of concerns that it failed to equate with real costs.

Funding levels

Interviewees stated that:

- future funding levels were insufficient to meet the needs of schools and the demands of policy implementation
- concerns over funding were often school specific
- there were tensions between the level of expectation regarding service delivery and levels of funding at local authority level
- funding was frequently unstable or insecure
- political changes at local and national level were potential areas of pressure
- they lacked control over the funding dynamics of the school.

Source: Case-study interviews in phase two of the NFER study, 2004

6.3 Desired future funding arrangements

The final section in this chapter focuses on interviewees' desired future funding arrangements. Interviewees, in the main, reiterated opinions expressed throughout the main body of the report and therefore a summary of their views is presented.

Table 6.2 shows, in rank order, a comparison of the local authority responses in the survey and those of the case-study interviewees, of which the latter can be considered more indicative of schools' views (since the majority were school staff). Indeed, extraction of school interviewee responses alone from the case-study phase, would have presented the same overall picture.

This shows that, whilst there were commonalities, the priorities of school staff differed from those of local authority staff. Above all, schools, across all the authorities represented, wanted funding certainty, together with long-term budget planning, so that they

could forward plan and utilise their budget to maximum effect and with maximum efficiency. Perhaps not surprisingly, a desire for increased funding or, rather, funding which equated with real costs and real needs and equality of funding across schools were also high on their agenda. Although these factors did feature in the responses in the local authority survey, local authorities appeared more concerned with maintaining local discretion, together with the flexibility to adapt to local needs and the integration of funding streams as ways of making more effective and efficient use of the money available. They also called for a gradual phasing out of the interim funding arrangements, suggesting that they felt they had a limited lifespan and that a return to formula funding was desirable. Although school interviewees in the case-study phase, when asked about their future desires, failed to comment as specifically on the interim arrangements, the request for stability, increased funding and, in a few cases, increased delegation or passporting to schools (which does not feature in the table), together with their comments throughout, suggest that they might welcome

Table 6.2 Desired elements of future funding arrangements: comparison of local authority survey and case-study interviewee responses

Local authority survey	Case-study interviewees (mainly school staff)
<ul style="list-style-type: none"> • Local discretion • Integration of funding streams • Phasing out of interim arrangements • Stability • Sufficient funding • Reduced inequality • Long-term budget planning • Funding according to need • Increased funding 	<ul style="list-style-type: none"> • Stability • Long-term budget planning • Increased funding • Reduced inequality • Increased transparency • School autonomy • National funding system • Integration of funding streams

Note: listed in rank order

Source: phases one and two of the NFER study, 2004.

continuation of the minimum funding guarantee and the requirement for local authorities to passport the majority of funds to schools. This may, however, be at odds with their request for greater equity between schools, since local authority staff indicated that, with the minimum funding guarantee in place, they may be powerless to address any inequities that exist.

Some school staff were keen for schools to have more autonomy, more independence and the flexibility to utilise their budget as they wished. A few also mooted the idea of a national funding system, which they saw as a way of resolving inequities between local authorities and between schools, as well as a way of simplifying the overall funding system and making it more transparent. Furthermore, some suggested that funding should go direct to schools and that the role of local authorities should be minimal.

Key points

- Suggestions for the modifications to the funding system, i.e. the integration of funding streams, the funding of clusters of schools and greater local autonomy, each received more positive than negative responses from interviewees, but advantages and disadvantages of each were highlighted.
- The funding pressures identified by interviewees reflected those first raised in the local authority survey phase (i.e. the workforce reform, teachers' pay and changing school rolls), suggesting that these were

concerns for schools as well as local authorities. However, the pressures associated with school infrastructure and having insufficient funding emerged more frequently in this phase, whilst SEN appeared to be predominantly a local authority concern.

- The main concerns regarding the workforce reform were based not only on the perception that there was insufficient funding for implementation, but also that the employment of non-teaching staff would have implications for the quality of education pupils received.
- Local authority concerns about SEN funding focused on the potentially uncontrollable need for provision. Where schools raised concerns in this area these centred on delegation, the main worry being that the amount delegated would not equate to actual costs.
- Whilst there were commonalities in the desired future funding arrangements cited by local authority and school interviewees, their priorities differed.
- Above all, schools wanted funding certainty, together with long-term budget planning, so that they could forward plan and utilise their budget to maximum effect and with maximum efficiency. They also wanted greater funding equality amongst schools, greater transparency and more school autonomy.
- Local authority priorities, on the other hand, centred more on local discretion, together with the flexibility to address local needs and the integration of funding streams.
- Local authority staff also called for a gradual phasing out of the interim funding arrangements. In contrast, the request for stability, increased funding and, in a few cases, increased delegation or passporting to schools might suggest that school staff might welcome continuation of some aspects of the new arrangements (e.g. the minimum funding guarantee). This may, however, be at odds with their request for greater equity between schools, since local authority staff indicated that, with the minimum funding guarantee in place, they may be powerless to address any inequities that exist.
- The idea of a national funding system was mooted, as it was felt that this would ensure school autonomy, independence and the flexibility for schools to utilise their budget as they wished.

7 Local authority case studies

This chapter presents four local authority case studies to illustrate the way in which different local authorities and their schools had been affected by the revised funding arrangements. In each case study, an overview of the local authority is first presented. This includes information on:

- the type of local authority and its funding context
- the impact of the funding arrangements on the local authority
- the impact of the arrangements on schools as a whole within the authority
- monitoring and financial management training within the authority
- future funding pressures and desires.

Each case study then concludes with a brief summary of two primary and two secondary schools visited, in order to illustrate the range of circumstances within different schools.

Local authority 1

This is a medium-sized unitary authority with an excellent overall CPA score. It was reported to be one of the lowest funded authorities in the country and to have been 'bedevilled' financially since it became unitary. It is a middle band authority, but 'getting near the ceiling' and this means that it has 'limited room for manoeuvre'. There are significant pockets of deprivation and the authority receives a significant number of pupils from a neighbouring inner city area, both of which are not taken into account in their funding. It is a very sparse area and home-school transport costs are high. A large number of small schools have developed huge surpluses, which the local authority is unable to redistribute. This year, the authority hit the ceiling and their grant increase (equating to an extra £1.7 million) was curtailed. There have been no financial difficulties, according to those interviewed, because it is financially well managed. They

have a 'slim, but manageable, reserve' and have maintained a low council tax. They failed to qualify for transitional support, which authority staff felt was unfair: 'There is no logic in it not being tied to the level of school deficits.' Schools were considered reluctant to apply for transitional support, since this was offered on a loan basis and they may as well run a deficit. One school (not one of the case-study schools) had received a grant of £50,000, which was described as 'pathetic' and felt to make little difference.

Impact of the funding arrangements

Local authority staff feel that the authority is poorly funded and that the new arrangements perpetuate this situation. They had been undertaking a formula review with the intention of making the SEN and social deprivation elements of their local formula more sensitive. However, the new arrangements have meant that they have not been able to implement this. They are also seeking to delegate more of the stated money to all schools, but schools are reluctant for this to happen because of the low level of authority funding. Authority staff were aware of the advantages of the new arrangements for schools because of the financial certainty afforded by the minimum funding guarantee and felt that the increased transparency 'encourages trust'. It was recognised that it was difficult to have both certainty for schools and local flexibility. The total reserves for schools are £7.5 million, whilst the reserves for the whole council are only four million and there was a view that, the more the Government directed the local authority to passport money to schools, the less likely the council was to contribute because of the lack of incentive for local decision making. Without local discretion they felt unable to address inequities between schools. While there was reported to have been little impact so far, because 'by and large the formula continued to work', there were significant concerns about continuation of the new arrangements and return to funding through the local formula. They would like to encourage more partnership working between schools (e.g. cluster-based behaviour support), but delegation to schools militates against this. Increased delegation to schools has also negatively

affected the authority's central services, which have always been 'tight'. Where schools have not bought back services, this has affected the quality of services provided. The closing of two special schools meant they were over their limit on the increase in central spending and exemption was granted. According to authority staff, the members put an extra half a million into the schools budget this year and without this 'we've got a real problem'.

Impact of the arrangements on schools

Overall, it was felt that the new arrangements had led to an improved funding situation for most schools. There were only one or two schools to which the minimum funding guarantee had been applied as the authority had put enough funding through their formula. However, the transfer of grants into the main budget was felt to have created some winners and some losers. It was reported that, as a result, some schools may lose as much as £90,000, 'potentially three teachers'. Local authority staff felt that funding for schools was insufficient given the demands (e.g. targets and curriculum reform expectations). The funding crisis of 2003 was reported to have had a negative effect on relationships between the local authority and schools, but they were reported to be better as a result of the Schools Forum. However, some local authority staff were not convinced that a better understanding of financial issues extended to all schools as there was no evidence of views being fed into the Forum. Since a critical Ofsted report, the local authority had been more proactive in liaising with schools and there was felt to be a more cooperative approach from both sides. Schools were felt to have more understanding of the restrictions the authority was working under. Any extra funding they received, in consultation with headteachers, they distributed through the formula rather than helping schools in financial difficulties, since it was felt this may reinforce poor financial management.

Monitoring and training

The authority was reported to have been able to halve the number of schools with financial deficits due to a good working knowledge of school budgets. They are in the process of developing an analysis spreadsheet, which will provide a more accurate means of forecasting. Given LMS, the level of monitoring was considered appropriate by authority staff. Others, however, felt that the system

was remote from schools, that the data fed in by schools was often inaccurate and made forecasting difficult. Three-year plans tended to be pessimistic and, as a result, schools were cited as holding on to balances. It was felt that, although the authority staff respond promptly to any problems, the basic system needs improving. Finance sessions are provided through governors' forums and school bursar meetings, once a term. There is a belief that ensuring basic financial management training for all staff involved is key to getting to grips with the financial situation.

The future

SEN and exclusions were felt to be an increasing problem. Performance management had pushed staff costs up and schools wanted a guarantee that staff costs will be met in full. Falling rolls were also classed as one of biggest future issues. Home-school transport continues to create significant pressure, as it is difficult to keep up with increasing costs. It was felt that the workforce agreement would be a pressure for schools. However, workforce remodelling had meant that they were able to reassure schools that they would have sufficient funding. Insurance costs were reported to be way above inflation and because of the claim culture, a pressure on schools. As a pathfinder authority, expectations regarding children's services and associated costs are high but 'there is a gap between what the Government expects and the funding coming in'. The authority would like to see a curriculum-led funding model and reversion to an effective local formula. It was thought that a national funding system would be a disaster for schools because of the loss of additional funding presently contributed by the council. Three-year budgets and accurate forecasting were advocated. There was a strong view that there was too much political interference at present and that financial issues should be resolved at local level.

Primary school 1

This is a large primary school with 425 pupils. It is in a rural area, but takes pupils from a full range of backgrounds. Parents are very supportive but their expectations are high. They have never had serious financial problems, but did have to set a deficit budget in 2003. They had a good Ofsted report in terms of value for money. The budget is tightly managed and there is normally a small under spend. It was felt that, whilst the role of the local authority was felt to have been marginalised by the

new arrangements, without council top-up funding they may have been in a more serious financial position. The school was felt to benefit from staff with significant financial management expertise.

Whilst the certainty that had resulted from changes to the funding system had been welcomed, it was felt that inequity between different authorities remained. It was noted, for example, that a similar sized school in another authority would have as much as a 20-30 per cent increase in budget. Although more funding had been delegated to schools, they felt they did not see the benefit of this because of the increase in costs. The school was reported to have benefited slightly from extra funding distributed by the authority to all schools rather than to those in financial difficulties. In the past they have had to make difficult decisions and decided to live with a deficit budget rather than lose staff. They rely on the pots of money which come in throughout the year and they ended up slightly under budget. They are already working towards non-contact time, so there are contingencies available. Since some of the financial expertise within the authority had been lost, it was felt that a peripatetic bursar may be helpful for groups of small schools and that, in this way, financial difficulties may be picked up quicker.

As a way of dealing with the workforce reform, they plan to change the working day, buy in specialist support staff (e.g. PE) and have a set afternoon for non-contact time. Present funding, however, was considered insufficient to employ a teacher and 'this means you have to put unqualified staff in front of classes'. Despite a recent new build, buildings are a continuing issue. Class sizes were reported to have 'gone through the roof' and it was felt that the authority should address this issue. ICT development was also reported to be problematic. The school would like to see early identification of budgets for planning, rather than pots of money that are ad hoc throughout the year. They would support continuation of the minimum funding guarantee, plus a percentage increase in the cost of teachers' pay. They would also like to see more equitable funding. The headteacher would prefer a needs-led national common formula and direct funding to schools.

Primary school 2

This school, with 382 pupils, is struggling to maintain pupil numbers because a new school has opened in the area and this has significantly affected their funding. As a result, they have been on the verge of staff reductions the last few years. There are pockets of social deprivation and the school has a large number of pupils with SEN. This takes up more of their own funding because they are not considered to be in an area of significant deprivation and these pupils require expensive support packages. The numbers of pupils with SEN are unpredictable and difficult to manage. However, there is a good ability range and the school does well in national tests. It has had no serious financial problems but have set deficits in the past. According to interviewees, the budget is tightly managed and they try to make effective savings when necessary. There have always been good relations with the authority, however, it was felt that the authority should have thought through the impact of the new school.

The school's main concerns centred on social deprivation funding and the falling roll. They only get about £2000 compensatory money for special needs, but still have a lot of social issues. Although review of the formula has had to be put on hold, the headteacher is pleased that the local authority is listening to her concerns. Ironically, they have to turn pupils away when certain year groups are full even though they are undersubscribed. With Standards Fund money in the main budget, it was felt it would be at greater risk if the school was in financial difficulties. It was thought that low authority funding meant it was a constant difficulty. Different pots of money coming in throughout the year (i.e. equating to £186,240 last year) were reported to make it difficult to plan ahead and forecast accurately.

With a deficit budget and other money earmarked, it was felt that they would have to shuffle staff roles to ease the problem of the workforce reform. Teaching assistants have to have more training to be upgraded. Building work is about to progress and the headteacher is concerned about having a bigger site and a falling roll situation: 'Pupils equal money.' Because of the old building, repairs and maintenance is 'a huge headache'. The school

would like consistent funding over a three-year period as a lot of time and energy is spent on school finances and this would enable them to give better value for money. They wanted to see the workforce reform properly funded. Without this, it was felt that they might find themselves in a difficult position with the unions.

Secondary school 1

This is a large 11-18, split-site secondary school, with 2100 pupils. It takes some pupils from a neighbouring inner city area, for whom there is no recoupment of costs. The numbers of pupils with SEN, for whom expensive support packages are required, are increasing. It is felt that the additional money for the split site factor is unrealistic and fails to match real costs. The old age of the buildings is also an issue. The school has not had any serious financial problems, but had an overspend last year of £70,000 (in a seven million pounds budget). They made major cuts (mainly staff training) and moved capital money to the main budget and ended up with a surplus. Relationships with the local authority were better since the 'unmitigated disaster' of 2003.

This year's budget was described as a budget for significant growth. They had to reduce the budget last year by £350,000 and made 'draconian cuts' (mainly staff development and departmental budgets). The fact that funding is year on year rather than three yearly means they deliberately aim for a surplus: 'No company would run like this, they would be bankrupt.' Pots of money came in throughout the year and sometimes meant the difference of £800,000. It was felt that funding based on FSM penalised schools in affluent areas and funding in favour of primary schools was also noted. There was a view that the local formula required fundamental review, which was prevented by the new arrangements. There was also a view that schools with poor results were favoured financially.

Money was felt to be required for increasing standards and addressing issues from their Ofsted inspection. Significant investment is required to improve facilities: 'They cannot continue to patch

over the cracks.' There are plans to put the school on one site. They were turned down for a Buildings for the Future bid. They have a constant level of staff and the workforce agreement will have implications. They have put in place cover supervisors. They presently employ five, paid for from the supply budget, but expect this to increase to ten by next year. Additional funding pressures included IT and other curriculum changes. The school would like to see equity across authorities and transparency. The headteacher argued for a national funding formula and direct funding to schools: 'They have got to trust headteachers to do the job.' It was also felt that three-year budgets were 'well overdue'. They would also like to see the school located on one site.

Secondary school 2

This is an 11-18 mixed comprehensive school with 720 pupils plus a sixth form of 60 pupils. In contrast to many schools, they have a rising roll, but it is a small school so there are no economies of scale. They take pupils with a mixed academic background. They receive a high number of pupils excluded from other schools and from the neighbouring inner city area, for whom there are no additional resources: 'If they were funded on where they lived, I would get £300 extra for each one, so why does coming here make it cheaper to educate them than somewhere else?' The school building is in a poor state of repair and a lot of maintenance is required. It is a health and safety issue. The school was in financial difficulties when the headteacher started a few years ago and staff had to be identified for compulsory redundancies. The headteacher feels that the overall low level of funding in the authority prevents development. He has decided to reduce the teaching week to save money for staff development. In 2002, the Standards Fund Grant was used for non-recurrent expenditure. Following formula revision, however, this grant had to be absorbed as core funding to support recurrent costs, e.g. staffing costs. The business manager for the school has a lot of financial management experience.

The perception was that there has been no noticeable increase in funding. It was felt that the

gap between schools in the authority and schools in other authorities was widening. Having floors and ceilings was reported to be a problem because this had 'wiped out' authority funding. Within the school, departments say they cannot manage on the funding they receive. They have only been able to make a difference through accessing temporary funding streams: 'When it runs out, we will be in the swamp.' They are expecting the roll to rise and, if not, they will have to prune back. The headteacher does not feel that there is sufficient funding to be able to support the students in the way they would like. The authority has incorporated the workload agreement within the AWPU, with the net result that money will go from the secondary to the primary sector. Some secondary schools have a surplus of £200,000 and there was a view that limits should be set on this.

Future funding pressures included the workforce reform and building refurbishment: 'We don't have enough devolved capital to stop the school falling to bits.' They are looking at appointing cover supervisors out of the supply budget permanently on the staff to address the workforce reform. However, there was a concern that being unqualified 'you don't quite know how they are going to cope'. The headteacher advocated activity-led funding as the only way to establish an equitable distribution of funding and felt it would then be realistic to hold schools accountable.

Local authority 2

This is a large London borough with a diverse population. In the south of the borough, in a typical school, approximately 45 per cent of pupils receive FSM and 70 per cent have English as a second language. The north of the borough, by comparison, is particularly affluent (within the top ten per cent in the country). Primary and secondary schools in the authority are large, culturally diverse and draw from mixed or socially deprived areas. The authority's funding formula has to reflect the size of schools and their contrasting social-economic profiles. An increased proportion of funding is allocated to the neediest schools. In some schools, the number of pupils from affluent areas reduces the overall level of FSM and they fail to qualify for

additional funding. Local authority staff were critical of the funding the authority received and considered it to be some way behind in terms of modernising its primary schools. The authority falls below the floor under the new formula spending share. No financial difficulties were reported at either local authority or school level.

Impact of the funding arrangements

The current system was felt to have had a minor impact on the way in which funding is allocated to schools. The authority ensured that schools received the greater of their funding allocation under the existing formula or the guaranteed minimum. The local formula was considered transparent, but, in some cases, it was felt that it would benefit from being simplified.

Interviewees spoke positively about the minimum funding guarantee. They felt that it had not only made the Government's funding expectations explicit but had also provided per pupil protection and thus more stability for schools. However, it was also felt that the system had resulted in less autonomy for the local authority and represented a move towards a more centralised system. A sense of inequality and increased complexity was noted. Criticism was also directed at the current system for categorising authorities into their specific bands (i.e. the use of pay rates), under which it was felt that the authority had been grouped incorrectly and placed at a considerable disadvantage in terms of funding.

It was felt that the authority's funding was 'just' sufficient for the delivery of central services. However, the limit placed on central spending was highlighted as a difficulty. In particular, support services for excluded pupils and pupils with SEN were felt to be struggling to provide the necessary support with the resources available.

Impact of the arrangements on schools

The funding has continued to be allocated equitably between schools and, in addition, a number have benefited under the introduction of the minimum funding guarantee. Furthermore, the local authority has an independent policy which protects schools' budgets at 97 per cent of the previous year's allocation. This has proved particularly beneficial for some schools (i.e. those with reduced pupil numbers). However, as a consequence of the workforce reform, it

was felt that many have experienced increased pressure on their budgets. This had resulted in severe financial problems being experienced by several secondary schools.

The Schools Forum had enabled a greater number of schools to be represented in discussions and had facilitated collaborative working between schools and the authority. There is also another school consultation group which focuses specifically on financial issues and conveys those issues to the wider community. Any impact of the new arrangements was reported as positive, strengthening the relationship between the authority and schools. Schools were reported to have recognised and appreciated the local authority's actions under government constraints.

Monitoring and training

Monitoring schools' budgets involves a yearly budget followed by quarterly returns of actual and forecast budgets and a final end of year report. Within this, schools are expected to monitor their budgets on a monthly basis and feed into the quarterly returns. This was considered by the local authority and schools to be an effective mechanism which enabled schools experiencing financial problems to be identified. Few schools within the authority were experiencing financial difficulties. However, schools showing signs of financial problems were discussed at regular meetings with the School Improvement Service. If necessary, immediate assistance was offered to schools. This might involve the local authority monitoring and managing the budget for the school. It was also felt that the process of closing school budgets earlier was a particularly useful strategy for school financial planning. The authority has implemented a three-year budget pilot to encourage schools to focus on expenditure over the longer term.

A training package is provided for new governors on a regular basis. In addition, a governor service training course with combined finance training is also available. The authority feels that it is particularly beneficial for governors to be well informed on aspects of financial management and school improvement. In addition, financial training was considered to be a useful way in which to convey to school governors their responsibilities and thus the importance of their role.

The future

Without significant additional funding, it was felt that schools would be unable to implement the changes required by the workforce reform. The authority also identified the need for an additional £40 million capital funding over the following two years in order to meet the costs of overcoming the backlog of its capital programme (in particular to cover the cost of the primary school projects). Funding pressures were also identified with respect to services for excluded and SEN pupils. Other funding pressures identified included the reorganisation of services, the increase in teachers' salaries, increased insurance premiums, funding fluctuations at an individual school level and transportation costs for out of borough pupils.

Concern was raised over the stability of the current funding arrangements, particularly with respect to specific grants and floor level arrangements being maintained. The authority would like more grants to be mainstreamed, enabling them to allocate the majority of funding to schools through their individual funding formula. It was felt that this would provide funding stability and transparency. The authority would also like to see the introduction of three-year budget settlements to aid longer-term planning. In addition, under the current funding arrangements, it was felt that the authority would benefit from being re-grouped, enabling funding to be based on more realistic costs.

Primary school 1

This is a large primary school, with over 500 pupils on roll, drawing its intake from a socially deprived area with a wide cultural mix. Over the past three years the school's intake has risen dramatically due to an influx of families into the area. In the first year, because of uncertain numbers, the school was granted a protected budget. Following this, however, when the specified number of places were not taken up, huge retrospective adjustments were necessary. Implications regarding staffing estimates and costs were also identified. Balances have decreased over the last three years and there is currently a deficit. Under the three-year budget plan the school aims to maintain a balanced budget. School staff had received no financial management training to date.

Changes to the Standards Fund have meant the removal of certain funding streams that the primary school had relied on previously. The local authority was considered to have been affected quite badly by previous changes to the funding arrangements, with a 'knock on' effect for schools. The percentage of funding required to meet the daily running costs was said to reduce the funding available for pupils. In addition, the school felt uncertain about the stability of the funding arrangements. Guaranteed funding over three years was considered to be particularly useful for forward planning. One of the major issues for the school is the high mobility of pupils. As the majority of funding is allocated on a per-pupil basis, where the number of pupils was overestimated, huge retrospective adjustments have had to be made. High pupil mobility also meant that pupils with SEN would join the school during the academic year and move on before the school received any funding. School staff felt that the local authority was 'doing their best' to be 'fair to the schools' and to make the formula transparent. However, it was felt that government messages could often be 'misleading'.

The school currently employs 25 teaching staff, therefore, under the workforce reform, to enable all teachers to receive their ten per cent non-contact entitlement the school will require two or three additional teachers. This was described as 'an enormous pressure'. The school felt that schools' needs should be assessed individually so that appropriate funding could be provided.

Primary school 2

This is a large primary school with over 400 pupils. The school draws its intake from a mixed catchment area, although a number of pupils are from socially deprived areas. Approximately 30 per cent of the pupils are in receipt of FSM. The school receives additional funding in recognition of these local needs. No financial difficulties were reported and the school had always had a good relationship with the local authority. Financial management training has been provided for administration staff and governors were also encouraged to attend. The training provided an overview of the budget system and included the use of the local authority

software package and was considered to have been helpful.

The revised funding arrangements were felt to have had no impact on funding for the school, but it was felt that the minimum funding guarantee provided some protection and stability. The complexity of the funding arrangements was highlighted as one disadvantage. In addition, it was felt that, under the current arrangements, there would always be 'winners and losers'. The current methods for monitoring school budgets were considered effective but staffing pressures within the local authority meant that some school financial problems were not identified promptly. It was felt that this would be something that the local authority would like to address. However, it was also noted that monthly returns might be more effective than the existing quarterly method. In addition to monitoring schools in financial difficulties, it was felt that support, advice and guidance should be provided to help them to overcome the problems.

The workforce reform was identified as the main future funding pressure for the school. It was felt that the Government should acknowledge this pressure and allocate additional funding accordingly. A desire for stability and predictability were highlighted with respect to future funding arrangements.

Secondary school 1

This is a large secondary school with over 1400 pupils and an additional 200 sixth form pupils. A high proportion of pupils have English as a second language and 23 per cent of pupils are in receipt of FSM. The school has a wide cultural mix of pupils and draws its intake from a mixed catchment area. Although some pupils are from deprived areas, the percentage of pupils from affluent areas reduces the level of FSM overall and therefore the school does not qualify for additional funding. No financial difficulties were reported. The Schools Forum was considered to have enabled school staff to communicate with the local authority and the revised funding arrangements were felt to have improved the relationship

between the local authority and the school. The support available from the local authority with respect to budgetary issues was welcomed.

The current funding system was not considered to have any particular advantages, although the school felt that it was well informed of the budgetary arrangements by the local authority. Funding was considered to be relatively 'tight'. However, the school has Beacon status and as such receives additional funding. It was also noted that, under the revised system, the allocation formula was clear and incorporated a degree of protection for schools. It was felt that the school would benefit from receiving funding at the beginning of the financial year rather than throughout the course of the year. Balance information is sent to the local authority on a monthly basis and quarterly returns are also submitted. Early identification and intervention were highlighted as effective methods for monitoring schools in financial difficulties.

The workforce reform was identified as the main future funding pressure for the school. It was felt that these pressures should be recognised and funding should be increased accordingly. The school hoped to continue to receive a fair share of the budgetary arrangements.

Secondary school 2

This is a non-denominational girls' secondary school with an available sixth form. The school caters for approximately 1100 pupils. There is no catchment area for the school and pupils are received from across the borough. However, under the local authority's policy, the school must allocate a specific number of placements to relative primary schools within the borough. No financial difficulties were reported. It was felt that a good relationship had always existed between the local authority and the school and the revised funding arrangements were reported as having no impact.

It was noted that, under the current funding system and the introduction of the three-year budgeting arrangements, the school was better informed of its allocation and could forward plan

accordingly. This was noted as an improvement on the previous system. The funding was felt to be insufficient and, although no direct redundancies occurred, in some instances, members of staff who moved on were not replaced. The school reported no impact on the way in which funding was allocated to the school. However, the allocation formula was considered to be more transparent and offering more protection for schools (i.e. through projected budgets over three years). No disadvantages were identified. Quarterly returns were considered to be an effective method of monitoring schools' budgets. The 'unobtrusive' nature of this method was noted: 'It suits us down to the ground.'

The school highlighted the inadequacy of funding as the main funding pressure, noting, in particular, the impact of increased staff costs in proportion to the education budget in this respect. The school would like to receive more funding in the future in order for additional staff to be employed.

Local authority 3

This is a small, unitary authority, with an overall poor CPA score in 2003. It is a floor authority, suffering from one of the highest falling rolls in the country. It is geographically compact, containing 105 schools in total, 17 of which are secondary schools, the majority with specialist college status. Their financial settlement is one of the lowest in the country. For example, in 2004/05 they received a 5.1 per cent rise in funds where five per cent was the cut off point. Problems are created with regards to the census count which takes place in August. Being a tourist area, unemployment levels are heavily affected by seasonal work. Therefore, at census time, many people who would normally receive support grants or rely on tax credits are in seasonal employment. Being a floor authority means that they have to be 'smarter with the funding that we get to increase capacity'. Once the authority has met the costs of pay and other basic essentials, there is limited capacity to invest in new areas and they are unable to invest in new areas. Indeed, last year, the authority supplemented school funding by passporting an extra £1.7 million from the LEA and from Youth and Community funds. Although struggling, the authority is not in financial difficulties.

Impact of the funding arrangements

The changes to the funding formula had a detrimental effect on the authority's financial situation, compounded by falling rolls, particularly in the primary sector. The authority received £854,000 Transitional Support Grant, which was mainly used to support schools to achieve a 12 per cent increase from 2002/03 to 2004/05 as they 'would have been in trouble without it'. The majority of schools benefited and this helped reduce the number of redundancies; however, it is felt to remain inadequate. Furthermore, there is a concern that the resources available to the authority next year will be half of what they were this year. The authority found it 'difficult to square the fact that we're dealing with a one-off grant to help with an underlying problem of underfunding'. As a floor authority, it is particularly likely that, without the grant, they will end up with some severe cases in schools with many potential redundancies. There was a feeling that the funding system failed to reflect local needs as the system curtailed the authority's ability to influence funds in order to support schools where needed. This also led to less local authority control and local discretion. Interviewees maintained that the current funding system was disadvantaging the authority through the assumption that the funding in 2003/04 was fair and equitable and using this as the basis for subsequent comparison. Interviewees believed that this was an incorrect starting point and that they were constantly having to find extra money to maintain this baseline. The authority has had to make considerable cuts in central services and a number of posts at authority level had not been replaced. There is no slack in the budget with which to innovate and it is a struggle to provide what they do. However, as the money coming to the authority was already divided into blocks, the authority was able to identify a sum of money for distribution at a fairly early stage, rather than arguing the case with council members and through interdepartmental discussions. This speeded up the process of resource allocation. Furthermore, the main impact of the revised funding arrangements was the four per cent per pupil guarantee as schools were given a cash guarantee.

Impact of the revised arrangements on schools

It was felt that, if the local authority had not provided £1.7 from central resources, funding for schools would

be widely insufficient because of the low per pupil allocations associated with floor authorities. The prospect of continued falling rolls exacerbates this situation. Large secondary schools have been the hardest hit, impinging upon the curriculum and increasing class sizes. Overall, school budgets were slightly better this year because of the transitional support, yet some schools were only able to meet the curriculum as they had saved money from a previous year, or failed to replace staff. As such, schools can deliver the basic curriculum, but can provide for little beyond this. Schools are therefore benefiting from slight budget increases, but are concerned as to how they will cope in the future, for example, with the workforce remodelling agenda. The Schools Forum was reported to have made the budget setting process very transparent. Relations with schools were reported as good, particularly where changes were perceived to be handled as efficiently as possible.

Monitoring and training

The authority provides a lot of support to schools, but authority staff believe that full accountability at school level is still developing. The authority have introduced quality return checks, which were contentious at first, but have improved monitoring standards. The authority lacks capacity to monitor school budgets more frequently than it does already (termly). The system for monitoring schools in difficulty is considered effective as deficits are being brought back. There are training sessions for headteachers and administrators and support and pre-planning are offered by the finance teams. Training aims to build up good relationships with school staff and governors, provoking governors into asking the right questions and to improve levels of understanding.

The future

The management of falling rolls and how best to manage the merger of some schools are particularly pressing issues for the authority. The workforce reform is also expected to have a huge impact, particularly in the primary sector and headteachers have begun to budget for that now in case the money doesn't come through in 2005/6, as suggested. Pressures are also associated with 'Every Child Matters'. SEN and transportation costs are becoming an issue. For example, statementing is helpful for the schools as they receive additional funding, but pupils are rarely removed from the system so that the

statementing requirement becomes a huge pressure. There are also pressures associated with out of city placements. Teachers' pay is also expected to exert considerable pressure on the authority's finances.

Despite all of the changes, the authority is still under funded and one of their main aims was to be moved off the floor. They called for a reconsideration of the funding criteria and changes to the timing of the data census. It was hoped that three-year funding would become 'the norm', allowing the authority and schools to plan strategically. The authority would also like to see increases in baseline funding figures, fewer requirements to target and channel money so specifically and funds allocated 'in one main pot'.

Primary school 1

This is a 300 place primary school, which is in the bottom 20 per cent in terms of deprivation, with 31 per cent FSM. They have space for sports and arts initiatives, a neighbourhood nursery providing 67 places, wrap-around care 50 weeks of the year and a children's centre. Considering the complexity of the school, there are concerns that the funding only supports the functionality of the primary school, not the wider facilities it offers. The additional responsibilities have demanded considerable leadership and management time which is not reflected in core funding. The school is also involved in a 27 million pound Private Finance Initiative (PFI) project where they will amalgamate on site with a secondary school and a special school, with full extended schools status. The school has successfully emerged from difficult times and, having had financial support from the LEA, is now financed in line with LEA formula funding guidelines.

Increased passporting associated with recent funding patterns has given the school a little more independence as they don't have to keep applying for money. However, it does demand greater administration and leadership skills to facilitate it. The money coming into the school is increasing but, there is not enough to enable the school to do what it would like, during this period of great change. Because of the PFI, the school is benefiting, as their capital funding can be channelled into other resources. They do not get any transitional support. The school is involved in a collaborative partnership that buys in a finance

officer for one day every two weeks. This is considered to be extremely beneficial for internal financial management. Due to the complexity of funding streams and the multifaceted operation of the school the governing body have become reliant in the early stages upon the leadership of the school.

Future funding pressures include the remodelling of the workforce agreement and maintaining sufficient standards of ICT equipment to the detriment of other areas of the curriculum. There are also concerns that the salaries of the leadership and administrators have become out of phase as extended schooling develops. Concerns were expressed regarding future initiatives matched with insufficient funds. Finally, threshold arrangements and increasing staff costs are causing pressures. However, expected increases in pupil numbers as a result of the new build are hoped to ease pressures.

Primary school 2

This school has 245 pupils on roll and serves a mixed catchment area. Twenty-five per cent of pupils qualify for FSM and 25 per cent are on the special needs code of practice. One hundred per cent of the school population, including staff, pupils and governors, are white. The school suffers from falling rolls and although FSM indicators are already relatively high, more parents are entitled to it than claim so levels of deprivation are inaccurate. Funding provided to the school is insufficient to meet real needs. The school has been in financial difficulties twice, but this was due to reasons outside of the school's control. Last year (2003/04), the school carried a £12,000 debt. Interviewees felt a little less constrained by the funding allocation this year, as it required no further cuts. Furthermore, the school received £8,000 transitional support which reduced the debt and 'was an immense help'. Interviewees also appreciated the three-year budget plans. Although funding levels appear to have risen, the school has cut the curriculum in the past two years. They tried to put it back to its previous level this year, but were unable to. Once basic costs were met, there was very little flexibility to use any funds that remained.

Interviewees found the school returns, termly visits, the helpline and feedback sheet used by the local authority to monitor the school's budget to be very useful. However, they recognised a need for more dialogue between the local authority and schools. Interviewees believed that the authority should release funds quicker and should 'step up' the monitoring of schools in financial difficulties. School staff appreciated the training provided by the authority, particularly regarding the use of financial management software. Governor training meant that the governors go to the meetings more informed, able to ask questions and with familiarity of budget monitoring statements. The school's senior administrator has been on secondment to the local authority so the headteacher is confident that she is as good as the people that the local authority send out in managing finances. As such, this makes the school fairly self sufficient in financial monitoring and planning.

Future funding pressures included the falling rolls scenario and the need to reduce class numbers. The workforce reform was described by the headteacher as 'my biggest headache'. Trying to increase the curriculum and staff development budget back to where it was two years ago and the upper pay scale were also financial pressures. Increasing ICT demands were also concerning. Interviewees called for sufficient funding to meet staffing and resource needs and for this to match up with the school's development plan. Reduced complexity, fewer funding streams and greater trust that schools can spend their money to the best effect were also desirable.

Secondary school 1

This is a designated community college, with 1600 pupils. It is responsible for a youth and community centre and the delivery of large number of adult education programmes. They work in strong confederation with other local schools and as a result, are able to offer a range of courses in a cost effective way. The school is not in financial difficulties and has not been for eight years, yet it has had to make some considerable cuts to their expenditure in order to prevent a deficit from reoccurring. The school's settlement this year

slightly improved the budget and having the Standards Fund and key stage 3 money put back into the budgets made a real difference. Furthermore, the minimum guarantee has stabilised the school's income and left a small amount of money on top of what they needed for staffing costs. Hidden costs (e.g. non-teaching staff superannuation) are hitting the school and interviewees felt as though these are never accounted for. The school has lost eight members of staff and did not replace a number of others. They received a Transitional Support Grant of somewhere between £30,000 and £40,000 which helped, but in a £6 million budget, this was not enough to bring things back to where they should be. However, they managed to protect the curriculum despite falling rolls and put money aside to pick up on areas where they might have problems during the year. They felt they had 'bit the bullet' and reduced staffing in 2003 but have been penalised for it as they received less transitional support as a result.

Receiving the budgets from the local authority earlier is helping the school and assists with planning. Furthermore, the discretionary elements have a massive impact on the school as they have high demands for the delivery of provision for SEN and AEN. The school provides internal training for governors, as even those skilled in finance still struggle. The school has 100-150 different cost centres and 20-25 different funding streams, which adds to the complexity of their finances. Future pressures were considered to be the workforce reform and how this is implemented and funded. ICT was also considered to be a future funding pressure, as were upgrades to school premises. Desired future funding arrangements were that the authority would come off the floor, that there was more fairness in the amount of money per pupil allocated to schools and that funding was 'put straight into one pot and devolved to schools'. They also required more assistance with dealing with some of the big issues, such as the workforce agreement and increased funding for the teachers' pay awards.

Secondary school 2

This school is an 11-18 community college with over 1500 pupils and, unlike many schools, it is over subscribed. The catchment area is predominantly upper working class and middle class, although odd pockets of deprivation were described. The school has low FSM (8.9 per cent) and SEN and hence struggles to attract additional funding to the school as they have low measures of deprivation. The school is classed as a chequebook school, which interviewees believed increased their autonomy. It is based on a very large site measuring over 44 acres. Up until five years ago, the school was classed as a split site school and got an extra £34,000 per year, but this status has since been taken away from them, impacting considerably on their financial situation. The school has never been in financial difficulties, but may have been, had it not agreed to make some voluntary redundancies in the past two years due to insufficient funding. Class sizes were also increased as a result. Interviewees reported insecurities over the amount of money coming to the school from year to year. The school reported increased funding in the financial year 2004/5 for delivering the curriculum and retaining staff. The school received £43,000 of transitional support money and as a result, were able to balance their budget. Interviewees complained that there is no protection for additional pressures faced by larger schools (i.e. recognition of additional costs, such as grounds maintenance), as is recognised for smaller schools and that this imbalance needs to be redressed. Furthermore, despite the three-year budgets, interviewees felt as though they still couldn't plan for more than one successive year and that the three-year plans were meaningless.

Budget monitoring and frequency was viewed as being sufficient, although some concern was expressed regarding the local authority capacity for depth of monitoring. Interviewees appreciated the visits from the authority's finance team and the helpline. Governor training had been beneficial as it increased levels of understanding and ability to question. Software training for other school personnel was also considered invaluable. Future funding pressures included the workforce reform, teachers' management allowances, the Educational Maintenance Allowance, devolved capital, threshold payments and the upper pay spine.

Local authority 4

This is a large authority with over 400 schools and 138,000 pupils. The delegated budget for schools is £4 million. In some areas, small pockets of deprivation exist which results in the need to allocate additional funding to schools with higher levels of social deprivation or SEN. The national formula fails to pick up these pockets of deprivation and hence the authority lacks access to some sources of additional funding. The basic per capita allocation is considered one of the lowest of any authority in the UK. Given this, the local authority has sought to attract funding from other available sources which has resulted in the development of strong partnerships with schools and external bodies. Through this, a number of innovative projects have been established, including the use of private sector partners to regenerate a small number of secondary schools. This is also one of the highest performing counties for pupils' academic attainment. It is a ceiling authority (with respect to LEA block funding), but as this is based largely on social deprivation, it is not a true representation of the authority's situation. No financial difficulties were reported, despite the fact that the 2003/4 funding settlement resulted in insufficient funding, which had implications for transportation costs and provision for pupils with SEN (many of which are placed out of county). To compensate, the authority increased the council tax by 17.9 per cent. In addition, 'dramatic action' was taken by a number of schools which involved a reduction in the number of teaching staff. The authority does not receive transitional support.

Impact of the funding arrangements

It was felt that the balance between delegation and retention had 'worked well' in the authority and the minimum funding guarantee was also considered beneficial: 'It provides a cushion for quite a number of schools that otherwise wouldn't have been there.' However, it was noted that the minimum funding guarantee was not useful where there had been a large fall in pupil numbers (e.g. by 20 per cent). The basis of the minimum funding guarantee was criticised for maintaining inequities and funding anomalies and, as such, it would be more beneficial to consider the future needs of schools. It was felt that the local authority would benefit from receiving information much earlier to assist with planning. The small schools factor had been affected by the new arrangements. Despite these issues, the authority considered itself to be 'extremely

imaginative' in the way in which it interpreted the formula, applying measures of predictability and stability. The funding for central services was described as 'hellishly tight', particularly regarding the impact on 'demand driven' services, such as SEN and transportation.

Impact of the arrangements on schools

The authority is aware that the pressures in secondary schools are higher than primary, but the minimum funding guarantee has made it difficult to address this problem. Indeed it was noted that the authority's 'room for manoeuvre' and local variation is being gradually squeezed out year on year towards a national method of allocation, which was considered to be a 'real strategic worry'. Funding in 2003/4 was considered to be insufficient for the delivery of the curriculum. Funding nursery places and SEN were seen to be particularly problematic. As a consequence, a number of schools exhausted the majority of their reserves in order to cope with the inadequate settlement and several made 'massive cuts' in order to restore their balances. Low staff numbers was highlighted as a major problem and interviewees commented that they had 'a vast number of secondary schools in deficit'. Given that primary pupil numbers have fallen and secondary pupil numbers have increased, the authority has been disadvantaged by the floor calculation (based on average funding per pupil) as the increase to secondary schools was less. A good relationship between schools and the local authority was noted.

Monitoring and training

Schools provide monthly returns to the local authority. Some interviewees believed that the monitoring mechanisms in place did not allow identification of any potential deficits early enough for intervention. As such, the authority intends to establish a more rigorous monitoring system over the next few years. It was also felt that mixed messages from the Government and DfES were being received, through championing self-managing and self-governing schools, whilst simultaneously, encouraging local authorities to ensure that schools are running smoothly financially. It was also highlighted that ten per cent of the schools in the authority had 'opted out' and the financial monitoring systems for those schools were not compatible with the system for others. It was felt that the current system was 'very patchy', such that some schools were

excellent at monitoring and management and others were particularly poor. It was noted that specific sanctions (i.e. withdrawal of delegation) to address the problem of poor management in schools were not useful. Financial management training for governors was considered to be 'one of the jewels in the crown' and that, as a result, governors were able to provide much needed, constructive challenge to headteachers where necessary.

The future

The workforce reform, particularly the lack of awareness of the actual cost of the reform, was considered to be the authority's main future funding pressure. The upper pay scales for teaching staff and the pressure of funding uncontrollable 'demand led' budgets, such as SEN and transport costs, were also identified as an issue. Maintaining and expanding central staffing in order to cope with the monitoring demands from the Government was also highlighted as a future pressure. It was also felt that the longer the minimum funding guarantee was in place, the greater the distortion between schools' funding would become. It was felt that the principle of three-year funding settlements was useful, but that the minimum funding guarantee was not useful if pupil numbers had reduced by 20 per cent. It was also felt that the flexibility for the authority enabled under the DfES regulation 28 approvals was useful and allowed the authority to introduce initiatives not set out in the regulations. It was also felt that a clearer idea of Standards Fund grants would be beneficial as the persistent changes to this funding stream were felt to be frustrating. Interviewees believed that monitoring and reviewing should be ongoing over the next two years 'I would argue for a continuous review mechanism' rather than a final evaluation carried out to identify any problems and potential changes. Earlier announcement of formula possibilities and funding restrictions were also highlighted as desired future arrangements. By allowing the authority to implement and seek agreement of budgets earlier, more meaningful consultation with schools regarding funding would be possible. Increased transparency, through direct funding from the Government to schools, was also highlighted as a desired arrangement.

Primary school 1

This school, with 440 pupils on roll, draws its intake from a very mixed catchment area, with a large number of pupils from socially deprived areas. Thirty-five per cent of the school population are from Asian backgrounds, with English as an additional language. The school also has a 25 per cent SEN population. Any activities or events that the school organises must be pitched at quite a low cost in order for parents to be able to access it. As a consequence, 'we are not able to fund raise to the same level as other schools'. The school reported that, four years ago, it had a deficit budget, but that this was subsequently repaid. The school was not in receipt of the targeted Transitional Support Grant. Interviewees reported that the flexibility of budget spends is one of the main advantages of the current funding system and although additional funding would be useful, the current funding was sufficient to deliver the curriculum. Despite this, some cut-backs were identified in order to maintain staffing levels.

One of the major concerns for the school was felt to be decreasing pupil numbers and associated staff cuts. In addition, changes to SEN funding and reducing the number of statements was highlighted as an area of future difficulty, especially given the number of pupils with SEN on roll. Funding for ICT was also identified as an issue where it was felt that schools were expected to provide increasing ICT resources but were not provided with sufficient funding to implement this. The workforce reform agenda was also identified as an area of concern, despite the fact that the school considered itself to be well prepared for the reform, with a teaching assistant in every classroom, plus extra staff. As such, it is already able to provide all teaching staff with five per cent non-contact time. However, increasing this to ten per cent was highlighted as an 'enormous issue' for the school. Another substantial concern for the school was expressed with regards to the requirement for schools to manage their own premises without the specific expertise: 'We have to rely on professional advice from specialists, such as electricians or plumbers, because we do not have the expertise ourselves.'

Primary school 2

This is a school with an expanding pupil roll, driven by the demographics of the local community. There are currently approximately 340 pupils on roll. This has a number of implications for finance issues, particularly given the maintenance of class sizes to maximise budgets. In addition, the school's proximity to another authority with higher salaries for teachers is also an issue: 'Teachers can earn effectively £1,400 more a year at schools only a few miles down the road'. This has meant that the school has had to pay recruitment allowances in some cases. No financial difficulties were reported. It was noted that there was increasingly less monitoring by the local authority and that more money was being put directly into schools. A number of governors had attended financial skills courses, although the availability of such courses was seen to be limited in comparison to past years. Separate financial skills courses were attended by administration staff.

The complexity of the funding arrangements was considered to be the main disadvantage: 'It's very difficult to be able to unpick that information, to be able to challenge it effectively.' Funding was not considered to be sufficient for the delivery of the curriculum. Funding for non-contact time and curriculum resources, in particular, were identified as areas of pressure. Flexibility was considered to be one of the main advantages of the allocation formula, particularly with respect to the fewer restrictions placed on Standards Fund allocations. The allocation formula was also felt to be more transparent. Expanding pupil numbers was considered to be a future funding pressure for the school. It was felt that the funding to cover the increase was not sufficient to enable any strategic investment in terms of staff or other resources. Funding for SEN was also considered problematic as the funding is formulaic and at times has not met actual costs. It was generally felt that three-year fixed guarantees would have some advantages for the school.

Secondary school 1

This school is an 11-16 comprehensive school situated within a 'leafy suburb' of the authority. It has over 1000 pupils on roll and is oversubscribed, increasing its numbers in recent years. Educational attainment is above the national average, making the school a popular choice with parents. Funding was considered to be sufficient for the delivery of the curriculum, but insufficient in terms of curriculum development and the vocational curriculum. It was noted that the potential consequences of reduced funding had been alleviated to some extent through gaining specialist schools status and therefore additional funding. The main advantage of the current funding system was considered to be the security it provided. The minimum funding guarantee was also considered to be helpful and had resulted in additional funding for the school for 2004/05. The main disadvantage was felt to be the provision of funding 'in dribs and drabs', which meant that there was some uncertainty about what funding was to be received and when and that 'making good use of the money is very difficult'. It was felt that the school had a good existing relationship with the local authority. 'In general, I feel quite secure with the LEA. I think the LEA actually do very well by us.' However, interviewees were slightly concerned that the monitoring system was 'light touch', particularly for those schools where the funding situation was considered to be 'OK'.

The school has little need for governor training as it has a financially skilled governing body. However, staff in the finance department have attended training courses. One future funding pressure for the school was considered to be capital spending in terms of keeping the school premises operational. Vocational education was also seen to be an issue, due to the associated expense and lack of management control over it. The 'technology of teaching and learning' was also anticipated to exert pressure, as was the need to increase staff salaries. Training for support staff was anticipated to take an increasingly large proportion of budgets as a result of the workforce remodelling agenda and interviewees were concerned that this would also require extra room that the school is currently unable to provide. The school called for more stability and certainly in future funding arrangements.

Secondary School 2

This is a secondary school with increasing numbers of pupils on roll, set to reach 1400 in September. The school serves a varied catchment area with a considerable number of pupils qualifying for FSM. This was described as making a huge difference to the school's financial situation as it brings in more funding. The school has experienced some financial difficulties, but these have been overcome in recent years. This was mainly due to staffing issues. The relationship between the school and the local authority was considered to be effective, as a good relationship has always been shared. Interviewees reported that funding was sufficient for the delivery of the curriculum, despite the fact that this had been a problem in previous years. They also welcomed the increased flexibility and choice granted by the current funding system. Some concerns were expressed over the amount of funding retained by the local authority. The current funding allocation was considered transparent and the protection that it offered to schools was welcomed.

The school budget is monitored through monthly returns and considered to be relatively light touch. As such, interviewees felt that, although they were being monitored, this was done in a fairly unobtrusive manner. 'It certainly works for us... If everything seems to be going along smoothly, then they leave you alone to get on with it basically, which is good.' The school also valued the closer monitoring that occurred when they were in financial difficulties. Governors in the school attend financial management training which the school finds particularly useful and reassuring. Other school personnel, such as the deputy headteacher, bursars and finance assistants, have also attended training. The future funding pressures at the school are mainly associated with the school buildings as they are in a poor state of repair. ICT pressures are also anticipated as National Grid for Learning funding, which the school had found useful in terms of improving and extending its ICT networks, has been reduced. Interviewees called for the funding to be 'allocated in one pot', granting the school further autonomy over how it is spent. Furthermore, interviewees hoped for fewer restrictions placed on funding.

8 Concluding remarks and recommendations

As with any changes to the school funding system, there have been winners and losers as a result of the new funding arrangements that were introduced in 2004. The new arrangements have provided greater financial certainty and financial control for schools. At the same time, however, they appear to have reduced local authority discretion and with it their flexibility to cater for local needs. One implication of this is that anomalies in the funding arrangements at local level and inequities between schools may be difficult to address. A further implication may be that, with their ability to make effective local decisions severely curtailed, councils may be reluctant to continue to contribute in the way that many of them have to education funding. Furthermore, the findings suggest that the new arrangements, although providing greater stability and control for schools, fail to address fundamental underlying discrepancies in the basic funding allocated to local authorities for schools. Until this is addressed, any system that aims to provide greater certainty for schools through arrangements such as the minimum funding guarantee can only continue to reinforce these discrepancies. Not only this, but implementation of such a strategy in the longer term may make return to local authority formula allocation and thus the ability to address local needs unviable.

Whilst the study would suggest a reducing role for local government in the funding of schools and a depletion of the central services available to support schools, the local authority role in monitoring and evaluating school practice in this area is a crucial one. It is therefore important that local authorities retain the resources to implement this effectively. Without this oversight, particularly, given, in some instances, the limited financial management skills located in schools, it is difficult to see how some schools may cope with financial management tasks and also how they might be encouraged to use their resources to greatest effect (e.g. through collaboration between schools).

Although the study has demonstrated that different authorities may be affected by changes to the school funding system in different ways, in addition to the positive aspects and concerns raised, it has highlighted ways in which local authorities may benefit from the sharing of effective mechanisms they have developed. For example, in the ways in which they monitor and challenge schools with regard to financial matters.

Recommendations

- The Government may wish to consider a more fundamental review of the funding system and how this impacts on different local authorities, in particular, the way in which additional funding is allocated for areas of social deprivation.
- It may also be important for the Government to reconsider the continuation of the funding arrangements in their current form as a way of providing increased certainty and control for schools, prior to any more fundamental review.
- Since the role of the local authority in overseeing schools' financial management and accountability is a crucial one, this role may need to be reinforced and the powers available reiterated.
- Local authorities may wish to consider the ways in which they might benefit from liaison with other authorities and the sharing of good practice.
- It may be worthwhile examining in greater depth the training and expertise of school financial managers, since this may be vital in ensuring effective financial management at school level.

Appendix: local authority case-study sample information

	Financial band	CPA score	Type	Size
1*	Floor	Poor	Unitary	Small
2	Middle	Weak	Metropolitan	Medium
3	Middle	Good	Unitary	Small
4	Middle	Fair	Metropolitan	Medium
5 ¹	Middle	Excellent	Unitary	Medium
6 ¹¹	Middle	Weak	London borough	Small
7 ^{**}	Ceiling	Good	County	Large
8	Ceiling	Good	Unitary	Medium

*case study 3; ¹case study 1; ¹¹case study 2; ^{**}case study 4

References

ATKINSON, M., BEDFORD, N., LAMONT, E., STOTT, A., WHITE, R. and KINDER, K. (2004). *School Funding Issues: Main Findings from the CEO Survey* (LGA Research Report 19/04) [online]. Available: <http://www.nfer.ac.uk/research/downloads/SFI04.pdf> [24 November, 2004].

AUDIT COMMISSION (2004). *Education Funding. The Implications and Effectiveness of Measures to Stabilise School Funding*. London: Audit Commission.

LOCAL GOVERNMENT ASSOCIATION (2004). *Councils and Schools: Driving Improvement. A Discussion Paper on the Future of Education, Governance and Funding* [online]. Available: <http://www.lga.gov.uk/Publication.asp?1section=0&ccat=28&id=-A78201A8> [13 January, 2005].

LGA educational research programme

The LGA Educational Research Programme is carried out by the NFER. The research projects cover topics and perspectives that are of special interest to LEAs. All the reports are published and disseminated by NFER, with separate executive summaries.

The summaries are available free of charge both on paper and on the NFER website at www.nfer.ac.uk



School funding: a review of existing models in European and OECD countries

Mary Atkinson, Emily Lamont, Caroline Gulliver, Richard White and Kay Kinder

The methods of funding schools have been an issue of debate in England since the introduction of local management of schools in the early 1990s. Since then, delegation of funding to schools has increased. More recently, changes to the system of school funding have fuelled the debate in England about how schools should be financed.

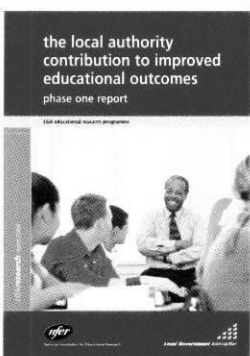
This report interrogates the literature for alternative models of educational funding from other countries, as well as examining the literature for their strengths and weaknesses.

LGA research report 3/05

Published in 2005

ISBN 1 903880 91 2

Price £15.99



The local authority contribution to improved educational outcomes: phase one report

Anne Wilkin, Kay Kinder and Dominic Schad

Recent government policy and legislation has emphasised the value of a holistic approach through increased partnership working by services, acknowledging that children's needs are often complex and multi-faceted and thus do not fit neatly within the remit of one service or agency.

This report provides an overarching perspective of the educational outcomes achieved, or aspired to, in the new local authority landscape, and how a range of local authorities perceive their contribution to such outcomes.

LGA research report 25/04

Published in 2004

ISBN 1 903880 89 0

Price £11.00

Extending the role of libraries

Anne Lines, Christopher Savory and Angharad Reakes

Public libraries have been established for over a century, providing lending and information services. However, there has been an overall reduction in the number of books being borrowed in recent years, leading to speculation about the future of library services.

This report presents the findings of a study that examined the provision that public libraries offer communities over and above their traditional role as lending and information services. It is important reading for all library and information professionals, for local authorities and all groups looking to make more of their library resources.

LGA research report 23/04

Published in 2004

ISBN 1 903880 88 2

Price £10.00

For more information on any of the above projects or to buy the publications, please contact

Publications Unit, NFER, The Mere, Upton Park, Slough, Berkshire SL1 2DQ

Tel: +44 (0)1753 637002 Fax: +44 (0)1753 637280 Email: book.sales@nfer.ac.uk

Following revisions to the funding arrangements for schools by the Government in the 2003/04 financial year and concerns that these new arrangements may exacerbate the unfair aspects of the present system, creating significant 'losers', the Local Government Association commissioned the NFER to conduct a study on the impact of these changes.

The key findings of the research concern:

- recent changes to the school funding system
- allocation of funding to schools
- relationships between local authorities and schools
- monitoring of school budgets
- future developments for the funding system.

The report concludes that whilst the new arrangements have provided greater financial certainty and financial control for schools, they are perceived to have reduced local authority discretion and their flexibility to cater for local needs. The findings also suggest that the new arrangements fail to address fundamental underlying discrepancies in basic funding for local authorities. The role of local authorities in monitoring school finances would appear to remain crucial and they may benefit from the sharing of good practice in this area.

This report is important reading for policy makers, local authority staff, councillors, headteachers and school governors.