



Local Government Association

the new school funding arrangements 2006–07: the local authority perspective

by Mary Atkinson, Caroline Gulliver, Emily Lamont and Richard White
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Local Government Association



INVESTOR IN PEOPLE



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Executive summary

The Local Government Association (LGA) commissioned the NFER to conduct a study examining the implications of the new school funding arrangements to be introduced in 2006–07, focusing in particular on issues and support for schools. The main proposals include guaranteed multi-year budgets for schools, the introduction of a new ring-fenced Dedicated Schools Grant (DSG) and the bringing together of the Standards Fund and the School Standards Grant into a new Single Standards Grant.

Implications of the new funding arrangements for schools

- Long-term planning certainty, through the provision of multi-year budgets, was identified as the most important aspect and the main advantage of the new funding arrangements. However, it was also thought that ensuring that schools recognise that budgets are provisional could be problematic for local authorities.
- The most frequently identified challenge was a lack of financial expertise in schools to deal with the new arrangements. To address this local authority support was considered key.
- The majority of interviewees reported that there were no particular implications for schools as a result of the DSG, although the greater protection of schools' budgets was cited as advantageous and a shift in council members' perception of accountability leading to unwillingness to top up school funding from local sources was considered a potential drawback.
- The School Development Grant (which combines previous Standards Fund grants into a single funding stream) and the separate School Standards Grant were largely welcomed as they were thought to provide greater clarity for schools. There was some support for merging the School Standards Grant into the DSG.

- Interviewees reported that schools with fluctuating rolls, falling rolls in particular, might be adversely affected by the new arrangements because they could not see how the arrangements would help these schools manage their financial situation better.
- The majority of interviewees reported that the new arrangements hindered issues of equity between schools, mainly as a result of the continuation of the minimum funding guarantee (MFG).
- There was a concern that certain pupils, particularly pupils with special educational needs (SEN) and those with high or complex needs, were potentially at risk under the new funding arrangements because fluctuations in SEN would not be taken into account when setting budgets.

Implications for local authorities in their school support role

- The importance of local authorities providing access to advice, guidance and information regarding all aspects of the funding arrangements was highlighted as a key feature of local authority support.
- The most frequently identified implication of the introduction of multi-year budgets related to supporting and improving schools' financial forecasting ability. In this respect, local authorities pointed to the need for increased training.
- The main implication of the DSG for local authorities' school support role was reported to be that the split between local authority funding and school funding would limit central expenditure, leaving local authorities unable to provide the level of support schools had previously received.
- A number of interviewees felt that some additional support would be required by all schools, especially with respect to increasing knowledge and understanding of the new arrangements, whilst

others felt that schools with fluctuating rolls may require particular help.

- Several broad approaches to assisting schools in effective planning were identified: advice, guidance and training, monitoring and challenge and the use of existing support services.
- Two-thirds of the finance managers felt that the new funding arrangements would hinder local authorities' ability to adapt school allocations according to need, in the main blaming the continuation of the MFG and having to be tied into a formula for three years as a result of the introduction of multi-year budgets.

School financial management

- Overall, interviewees' comments suggested that the new funding arrangements would not have significant implications for financial management, largely because of the existing satisfactory level of skills and capabilities in schools and local authorities.
- The increased focus on the level of training and support available was considered a positive aspect of the new arrangements, whilst the increased demands on less able financial managers and the increased burden on local authorities were considered negative aspects of the new arrangements.
- Although the majority of interviewees thought that the School Financial Management Standard would, or should, be met within the required timeframe, some barriers, such as the short time available for establishment of the necessary support structures and insufficient resources at school level, were reported.
- Interviewees went on to suggest that additional support for schools from local authorities, improved relationships between schools and local authorities and changes in schools' orientation towards financial management might be required for the standard to be realised.
- The majority of interviewees contended that the new funding arrangements would not have a significant

impact on reducing bureaucracy and burdens on schools, although some thought that it might in the long term.

Accountability and autonomy

- It was suggested that, since almost a third of the budget is funded through the DSG, with a ring-fenced DSG the council might feel less accountable for education.
- There was a view that, as a result of the new arrangements, local authorities were more accountable for schools' performance and were expected to challenge schools more without being given the tools to carry this out.
- It was also thought that the implementation of the School Financial Management Standard and the introduction of multi-year budgets would sharpen school accountability.
- The overarching view was that the new arrangements would reduce local authority autonomy, mainly because the DSG was outside of the local government finance settlement and not part of the democratic process.
- Over a third of interviewees agreed with the Schools Forum having greater decision-making powers, primarily because of the local discretion this afforded, whilst about a quarter disagreed, mainly because of the lack of knowledge and expertise of forum members.

Collaborative working

- The great majority of interviewees held the view that the new funding arrangements would neither facilitate nor hinder collaborative working between schools and between schools and other agencies. Wider policy contexts, such as Every Child Matters (ECM) (HM Treasury, 2003) and the development of extended schools and other factors, such as sufficiency of funding and schools' willingness to be involved, were seen as greater potential influences.
- However, the new funding arrangements were identified as having some potential for supporting increased collaborative working, the most significant

aspect being the guaranteed multi-year budgets. The perceived increase in certainty of funding was seen to provide a more stable basis upon which partnerships and agreements could be built.

- The ring-fenced DSG was identified as being an element of the new funding arrangements that could be disadvantageous to collaborative working as it may restrict the scope in which funding could be directed. Decreased flexibility could thus hinder the establishment of partnerships and joint working initiatives.

Future developments

- All but two interviewees were against the proposal for academic year funding and they were most vociferous about their opposition, on the grounds of the extra workload for schools and local authorities, the limited benefits and the additional costs entailed.
- Whilst the majority of interviewees were in favour of the Single Standards Grant on the grounds this would be less complicated and reduce confusion, finance managers considered it important to recognise that there was still a need for specific targeted grants, without which, the local authority could not challenge schools about how funding was being utilised.
- At the same time, there was a strong contingency in favour of the Single Standards Grant being pooled into the DSG because it was not considered to be targeted funding.

Conclusion

The new school funding arrangements, particularly guaranteed multi-year budgets, have largely been welcomed by local authorities for the stability and certainty which they could provide for schools. However, it is important to recognise that to ensure that schools realise the overarching benefit of effective long-term planning, schools not only require the necessary financial expertise, but some schools may also be required to change their thinking with regard to financial matters, which may thus far have been focused on the short term. Thus, local authorities will not only be required to provide extra support and training to improve schools' financial expertise and forecasting ability, but also to further challenge schools on their short-term attitude to financial planning. In addition, schools with particular issues, such as those with falling rolls, may require extra help.

It would seem ironic, therefore, that another aspect of the new arrangements, the introduction of the ring-fenced DSG and the separation of local authority and school funding, might limit central expenditure, leaving local authority support services depleted to the extent that they may be unable to maintain financial management support for schools at previous levels. Furthermore, by taking school funding out of the local government financial settlement, schools are likely to perceive themselves as more autonomous and more able to resist any form of challenge from the local authority. In addition, there is danger that with a consequent reduction in control over school funding, councils may be less inclined to enhance education funding from local sources, leading to reduced funding for some schools.

1 Introduction

The LGA commissioned the NFER to conduct a study examining the implications of the new school funding arrangements to be introduced in 2006–2007, focusing in particular on issues for schools and how local authorities can support them. The main proposals include guaranteed multi-year budgets for schools, the introduction of a ring-fenced Dedicated Schools Grant and the merging of all existing grants allocated to schools in the Standards Fund into one grant. Within the DfES consultation document it was suggested that the changes would help schools make more efficient use of their resources and provide better value for money, as well as emphasising the importance of strategic financial management and planning in schools.

This interim report presents local authority perspectives, garnered through telephone interviews with relevant personnel, on the implications of the new arrangements for schools. Prior to this, an initial exploration was conducted through the analysis of 50 local authority responses to the DfES consultation exercise. The findings from this analysis were presented in a research briefing published by the LGA in July 2005 (Atkinson and Lamont, 2005). This is available free of charge on the LGA website.

1.1 Aims

The aims of the research are:

- to assist local authorities in implementing the new funding arrangements and to identify how they can be supportive to schools
- to identify the kinds of support that schools need with regard to financial and personnel management
- to examine the implications of changes to the funding arrangements for pupils, particularly those deemed vulnerable.

1.2 Methodology

Following analysis of local authority responses to the DfES consultation exercise, 15 local authorities 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 available in the Appendix). They had also indicated their willingness to be involved in the research on their consultation response. In each local authority interviews were conducted with personnel able to offer an overview of the implications of the new funding arrangements for schools. This was largely finance managers, resources managers and assistant directors. For ease, throughout the report these local authority personnel are referred to collectively as 'finance managers'. Wherever possible, interviews were also conducted with the Chair of the Schools Forum in each of the 15 authorities. In total, 28 interviews were conducted: 14 with local authority personnel, 13 with the chairs of the Schools Forums and one with a resource manager who also acted as the chair of the Schools Forum. The findings from this data collection exercise are presented in this interim report. The final phase of the research focuses on the school perspective of the changes to the funding system and a final report is due to be published in spring 2006.

1.3 The structure of the report

The structure of this report closely follows the sections that were covered in the interviews:

- implications of the new funding arrangements for schools
- implications for local authorities in their school support role
- school financial management
- accountability and autonomy
- collaborative working
- future developments.

This is followed by the conclusion.

2 Implications of the new funding arrangements for schools

This section of the report describes interviewees' perceptions of the implications of the new funding arrangements for schools. Interviewees were asked to consider the most important aspects of the new arrangements and their advantages and challenges for schools. They were also asked about the implications of specific elements of the new arrangements, implications for particular schools, how the new arrangements affect issues of equity between schools and implications for the pupils. All interviewees (i.e. finance managers and forum chairs) were invited to comment on each area.

2.1 Most important aspects for schools

Long-term planning certainty, brought about primarily by multi-year budgets, was identified as the most important aspect of the new arrangements for schools. This was identified by two-thirds of the finance managers and also two-thirds of the forum chairs. Multi-year budgets were valued for providing schools with the ability to 'look forward with a little more planning certainty' (chair of Schools Forum) and, given that some authorities already provide three-year budgets and encourage medium-term planning, the new arrangements were welcomed for formalising their good practice and for allowing the schools to continue working under a familiar regime.

Another element of the new arrangements deemed to be particularly important by interviewees was the DSG, for its effect at the local authority level and for protecting schools' funding levels. Section 2.4 explores the implications of the main elements of the new arrangements, such as multi-year budgets and the DSG, in greater detail. Other positive elements highlighted included the continuation of the MFG and the enhanced role of the Schools Forum. In contrast, a lack of change to the funding formula, the cessation of the Transitional Support Grant and a lack of financial expertise in schools were described as negative elements.

Important outcomes of the new arrangements, as highlighted by interviewees, included the simplification

of the funding system, brought about primarily as a result of fewer funding streams, greater transparency and more effective financial planning at the school level.

2.2 Main advantages for schools

The overarching view, expressed by all but one finance manager and all but two forum chairs, was that the new arrangements provided greater stability for schools, mainly through the introduction of multi-year budgets. These were reported to afford schools more predictability over their future funding levels and assurance that the formula would remain stable in the coming years, whereas the present funding situation was described as a 'hit and miss affair' by one forum chair. However, some interviewees were keen to point out that, although multi-year budgets can provide stability, this depends on whether the schools can effectively plan ahead: 'If their minds are not set in the planning process, simply producing budgets for two years would be of no value at all to them' (finance manager).

The second most frequently cited advantage, identified by one-fifth of interviewees, was the transparency and clarity that had resulted. They believed that the new arrangements had provided 'a simplification of an incredibly complex and haphazard set of funding arrangements' (chair of Schools Forum) and, according to another forum chair, had made 'positive steps to simplify it and make it a little bit more understandable'. Transparency was enhanced through the merging of specific grants and the allocation of funds for new initiatives, such as the workforce reform. Other interviewees referred to greater flexibility in school budgets. The rationalisation of the Standards Fund grants into one single grant was seen to allow schools greater flexibility and choice in the use of their budget. Furthermore, the fact that funds would not be ring-fenced or set for specific initiatives was seen to be particularly important: 'It is important that every school has the opportunity to have funding to address the issues that matter for the children in that school' (chair of Schools Forum). Another advantage cited was protection for schools with falling rolls.

2.3 Main challenges for schools

Only two forum chairs felt that the new arrangements presented no challenges to schools within their authority. The most frequently identified challenge, reported by one-quarter of all interviewees, was a lack of financial expertise in schools to deal with the new arrangements:

It's no good pretending that you can control the finances if you don't have the expertise within the school ... I don't think anybody has a clue what they are doing, not day-to-day, week-to-week, month-to-month.

chair of Schools Forum

The introduction of the Financial Management Standard was seen to exacerbate this situation, requiring extra local authority support and creating particular problems for those schools that had not already begun to work towards the standard (see section 4.3). Interviewees expressed concern that schools, particularly small primary schools, would struggle 'to learn a whole set of new rules and regulations and funding streams with the limited resources available to them' (chair of Schools Forum). Where financial expertise was lacking, ensuring that schools' budget setting processes were rigorous and fitted in with school priorities was also seen as challenging for the local authority:

The challenge is one that we've always had with schools – moving them forward to actually focus on setting realistic budgets and facing up to the consequences of doing so.

finance manager

Whilst acknowledging merit in the Government's proposals, a lack of funding was a challenge raised by just under one-fifth of interviewees: 'When there's not enough money and our needs aren't being recognised, it becomes very difficult to get on board with it all' (finance manager). Cash freezing at local authority level was also an issue and interviewees predicted that schools would lose out as the authority would be unable to provide adequate levels of support for schools.

Problems for schools with fluctuating rolls were also predicted to be a challenge (see also section 2.5), as was the recruitment of people onto the Schools Forum (see section 5.3). Other challenges included a lack of flexibility in the new regulations. A tension between providing stability and allowing flexibility for changing circumstances over the three-year period was described.

Furthermore, concern was voiced that the new arrangements start from the assumption that all local authorities have already got their funding formula right. As a result, it was argued that any anomalies will be compounded by the new arrangements. A lack of credibility in the multi-year budgets, brought about by fluctuating pupil numbers, tight implementation timescales and adaptation to changes, were also seen as challenges for schools.

The most frequently cited suggestion for overcoming the challenges identified was through local authority support (see also Chapter 3). Finance departments within the authorities were largely seen to be very helpful; some were in the process of writing new finance manuals to explain the expectations, giving hints, tips and guidance on how schools should be progressing and offering additional training. One finance manager stressed that local authorities should be honest with schools regarding financial matters:

The biggest support you can give to schools is not to kid them how difficult it is... be open, be clear about the requirements and introduce some sort of monitoring.

Local authority support also engendered a greater understanding of the new arrangements and, where efforts were made to educate schools about the changes, they were thought to become better equipped to respond to them effectively. Other suggestions included giving schools greater autonomy and receiving clearer information from the DfES.

2.4 Implications of specific aspects of the new arrangements

Interviewees were asked what they considered to be the implications of specific aspects of the new arrangements, namely, multi-year budgets, the ring-fenced DSG and the School Development Grant (which combines previous Standards Fund grants into a single funding stream) and a separate School Standards Grant.

2.4.1 Multi-year budgets

The overarching view was that multi-year budgets awarded schools stability, as explained in section 2.2 above. This was identified by all but one of the forum chairs and by over two-thirds of the finance managers.

However, balancing flexibility and stability was reported to be problematic:

Stability is great, but let's be real about how much stability we can actually get. Fixing the pupil numbers will give stability, yes, but it will be stability at the expense of realism.

finance manager

Some interviewees suggested that ensuring schools recognise that the budgets are provisional would be problematic as schools would, according to one finance manager, 'anticipate having three-year budgets and that they can plan from these, but in reality this is not what they will have' because of fluctuations in pupil numbers. This, together with the previous comment, might already suggest some contradictory understanding with regard to whether funding will be fixed despite changing pupil numbers.

Other interviewees welcomed implications of the multi-year budgets, such as the required shift in school thinking, accompanied by changes to training accordingly: 'It's a whole new training issue, of making them think a little differently' (finance manager). Although, in one authority, this shift in thinking was seen to be slightly problematic by one finance manager: 'For the majority, it is new territory. Some schools will have quite a lot of difficulty in adapting to thinking in those terms.'

2.4.2 The ring-fenced DSG

Just under half of all interviewees reported that the DSG would have a minimal effect on schools within their authority, largely because the authorities already passport the majority of funding: 'If you have passporting, what is the difference between passporting and the DSG?' (finance manager).

One-fifth of interviewees, notably, all of whom were forum chairs, welcomed the grant, particularly because it meant that the money schools receive would not be 'touched' by the local authority:

Headteachers have welcomed it as it can't be invaded by the LEA ... every school I know has welcomed the thought that they are totally in control of their money.

Interestingly, some interviewees suggested that schools could lose out as a result of the DSG as local authorities would no longer maintain a contingency to deal with

exceptional circumstances: 'With it being a DSG the authority is not going to get its fingers on the money' (chair of Schools Forum) and could not, therefore, help schools in deficit. Furthermore, two interviewees predicted that local authorities may suffer as a result of the DSG, particularly where the LEA budget is subsidised out of the schools' budget. In these circumstances, it was felt that this could lead to redundancies and the depletion of vital services for schools.

Concern was expressed by five finance managers that the DSG will result in an unwillingness for members to top up schools' funding with local funding. It was predicted that members would see the funding as 'central funding for schools', where the authorities' role is simply to distribute it:

The whole move towards the DSG has the potential to herald a complete shift in members' perception of accountability for education ... I'm sure there are education members throughout the country who say they have no control over funding, so why should they put more into education than the Government does?

finance manager

Other positive implications of the DSG included greater clarity and enhanced autonomy for schools, whilst other negative implications included the use of the schools' budget as a basis for grant distribution.

2.4.3 The School Development Grant and the separate School Standards Grant

Two-thirds of interviewees spoke positively about the School Development Grant (which combines previous Standards Fund grants into a single funding stream) and the separate School Standards Grant, although a small number of negative implications were also identified. The main comment overall, identified by just under half of all interviewees, was that the grants would provide greater clarity. The fact that schools would receive fewer pots of money and instead be given an amount of money that they could spend as they need was a welcome change. As long as schools were aware of what was in the grant, it was reported that schools would welcome the move. It was reported to offer schools greater flexibility and to provide them with more clarity over what resources they would receive. Furthermore, it was described as stabilising funding by putting as many funding streams as possible together: 'It says that this is what you are getting, it is a single funding stream of this amount and

I think that is incredibly important' (chair of Schools Forum). No longer having to match funding was also seen as favourable.

Where concerns were expressed about the School Development Grant and School Standards Grant, this was mainly because interviewees thought that the School Standards Grant should be merged into the DSG (suggested by one-fifth of interviewees). Some other reservations were also expressed. For example, one interviewee had reservations about the per pupil increase in School Development Grant in the first couple of years and was concerned that similar schools were not getting similar allocations of funds. There was also concern that schools, particularly those who currently benefit from funding streams outside of the general allocation, would lose out as a result of the new grant structure. The amalgamation of additional grants (e.g. the Teachers Pay Grant, the Leadership Incentive Grant and ICT grants) into the new grant structure was also reported to be potentially problematic for schools. It was noted, for example, with the loss of the Leadership Incentive Grant, that some schools might lose a significant amount of money and, with the loss of the ICT grant, the progress made by schools in this area might not be maintained.

2.5 Implications for particular schools

Whilst just under one-fifth of interviewees did not believe that schools would be affected differentially, half of all interviewees reported that schools with fluctuating rolls would be particularly affected under the new arrangements. One-third of all interviewees commented that they were unable to see how the new arrangements would help schools with falling rolls to manage their financial situation. They stated that these schools tended to have more management problems and that, where primary schools are faced with declining numbers without a guaranteed baseline, they could suffer a significant loss of resources. However, three interviewees argued that schools with rising rolls would actually lose out to the benefit of schools with falling rolls as a result of the proposed pupil count taking place in the January prior to the financial year. They maintained that schools with falling rolls would receive the same level of funding throughout that year, whilst those with rising rolls would not receive any benefit from this arrangement.

Remaining responses, each identified by a few interviewees, pointed to schools with other characteristics as being particularly affected, including schools with high levels of deprivation and those with previous financial difficulties, as well as small schools and primary schools, particularly where they lack financial expertise.

2.6 Equity between schools

Just over one-third of interviewees, all but two of whom were finance managers, reported that the new arrangements hindered equity between schools. In most cases, it was stated that the continuation of the MFG would leave local authorities with less money to move around in their distribution formula, making the distribution between schools more even and hindering their ability to prioritise expenditure within the formula to meet different levels of need: 'Where the local authority may find an issue that it wants to take forward, it is constrained all the time by the MFG' (finance manager). The MFG was also seen to maintain the status quo if funding levels were currently incorrect. In addition, it was argued, by one finance manager, that, by freezing the formula for two to three years, 'you are by definition making it less equitable because you can't reflect changing circumstances'. It was suggested that the new arrangements were unlikely to do anything to help equity between schools as, within one authority, some of the changes recently made to better address need would be more difficult to make under the new arrangements.

Just under one-fifth of interviewees believed that it may both hinder and facilitate issues of equity between schools. For example, at secondary level it may facilitate it, but at primary level, where there are so many small schools, the new arrangements could exacerbate some of the differences. Additionally, it was noted that different elements of the new arrangements affected equity differentially.

Only two interviewees believed that the new arrangements facilitated issues of equity between schools. This was cited as being due to the way that schools, rather than the local authority, perceive the MFG: 'The schools see it as something that helps equity' (finance manager); 'If you can see funding arrangements nationally across the country, this is very important as it makes schools understand that it is an equitable system' (chair of Schools Forum). These interviewees argued that it was difficult to balance stability and

equity, but to exempt everything from the MFG would be 'pointless'. It was reported to 'soften the blow' when new changes were introduced.

2.7 Implications for particular pupils

About a quarter of the finance managers interviewed (most of whom were from London boroughs) thought that there would be no implications for pupils as a result of the new funding arrangements. The role of the Schools Forum was cited as ensuring that vulnerable pupils were not disadvantaged and it was felt that good relationships between the local authority and the forum would assist this process. It was also thought that the application of the MFG and greater school autonomy in terms of addressing pupils' needs would prevent any negative impact.

However, concern was expressed by some interviewees that particular pupils, mainly pupils with special educational needs (SEN) and pupils with high or complex needs, were potentially at risk under the new funding arrangements. The following pupils were also cited: pupils with behaviour problems; vulnerable pupils; mobile pupils; pupils with English as an additional language (EAL) and looked after children. Whilst a variety of reasons were given for the potential impact, the most frequently raised was that only data changes regarding pupil numbers would be taken into account when setting budgets so that the scope for short-term targeting would be reduced. The limit on central spend was also held responsible, since this was mainly used to support SEN pupils. It was thought, for example, that constraints on central spend for home-school transport would lead to inappropriate placement allocation. It was also reported that the local authority was less likely to hold back any contingency for these pupils (e.g. high needs and mobile pupils). Another aspect of the new arrangements, the School Development Grant, was also cited, since it was felt that it would no longer be possible to use the grant to target these types of pupils. In addition, the new arrangements were reported to be unhelpful for certain pupils because they would make some of the financial mechanisms supporting the Children Act more difficult (see Chapter 6). One interviewee also thought that there would be more of an incentive to exclude certain pupils from the school system.

In contrast, a positive aspect of the new arrangements for pupils was noted by one interviewee, who stated that

encouraging schools to address school management and financial issues earlier could only benefit pupils.

2.8 Key points

- Long-term planning certainty, through the provision of multi-year budgets, was identified as the most important aspect and the main advantage of the new funding arrangements. However, it was thought that ensuring that schools recognise that budgets are provisional could be problematic for local authorities.
- The most frequently identified challenge was a lack of financial expertise in schools to deal with the new arrangements. To address this local authority support was considered key.
- The majority of interviewees reported that there were no particular implications for schools as a result of the DSG, although the greater protection of schools' budgets was cited as advantageous and a shift in council members' perception of accountability leading to unwillingness to top up school funding from local sources was considered a potential drawback.
- The School Development Grant (which combines previous Standards Fund grants into a single funding stream) and the separate School Standards Grant were largely welcomed as they were thought to provide greater clarity for schools. There was some support for merging the School Standards Grant into the DSG.
- Interviewees reported that schools with fluctuating rolls, falling rolls in particular, might be adversely affected by the new arrangements because they could not see how the arrangements would help these schools manage their financial situation better.
- The majority of interviewees reported that the new arrangements hindered issues of equity between schools, mainly as a result of the continuation of the MFG.
- There was a concern that certain pupils, particularly pupils with SEN and those with high or complex needs, were potentially at risk under the new funding arrangements because fluctuations in SEN would not be taken into account when setting school budgets.

3 Implications for local authorities in their school support role

This section outlines local authority finance managers' perceptions of the implications of the new funding arrangements for local authorities' school support role. Interviewees were asked to consider the implications of the following changes: multi-year guaranteed budgets, the introduction of the ring-fenced DSG and the new School Development Grant and separate School Standards Grant. Further, interviewees were asked to identify any particular types of schools which they felt might require extra support and to outline any local authority support that might be helpful in assisting schools to plan ahead effectively. Finally, interviewees were asked to highlight whether they felt that the new arrangements would facilitate or hinder the local authority's ability to adapt schools' allocations according to need.

3.1 Implications for the way in which the local authority supports schools

The need for local authorities to support schools' knowledge and understanding of the new arrangements emerged as a single overarching implication of the new arrangements. The importance of local authorities providing access to advice, guidance and information regarding all aspects of the funding arrangements was highlighted as a key feature of local authority support. Alongside this, several implications relating to the following different elements – multi-year budgets, the DSG, the School Development Grant and separate School Standards Grant – were identified by interviewees.

3.1.1 Multi-year guaranteed budgets

Interviewees pointed to several implications for the local authority's school support role relating to the introduction of multi-year budgets. These concerned:

- increased training
- provision of budget information
- reduced flexibility
- the balance between support and challenge.

The most frequently identified implication of the introduction of multi-year budgets related to supporting and improving schools' financial forecasting ability. In this respect, local authorities pointed to the need for more training for school finance staff following the new arrangements. Some noted that this training was being provided 'in-house' by the local authority itself (e.g. finance managers), whilst others referred to the training made available through the National Bursars Association, arranged by the DfES. The use of specific financial forecasting programmes, such as software for schools which prepares a five-year strategic financial plan, was also noted.

The introduction of multi-year budgets was also felt to have implications for the budget information provided to schools. In one case, for example, in order to support schools with regards to multi-year planning, the local authority intended to provide schools with indicative budget information for 2008–09, as well as for the two-year fixed period for which they were required to do so.

The multi-year budget arrangement was also considered by some to have reduced local authority flexibility in terms of their ability to support schools. In particular, it was felt that authorities were now less able to respond to school issues which may arise over the two to three-year budget period, given that the initial formula, set at the beginning of this period, should not be adjusted after this time: 'The lack of freedom to change things will make it harder' (finance manager).

Multi-year budgets were also considered to have specific implications for local authorities in terms of the nature of their school support role. In particular, it was felt that this new arrangement would affect the balance of support and challenge from local authorities to schools and thus the relationship between the two. Several interviewees referred to the expectation for all secondary schools to have met the Schools Financial Management Standard by March 2007 and the repercussions this may have for local authority/school relations (see also section 4.3).

In two authorities, the move to multi-year budgets was considered to have few implications in terms of the local authorities' school support role. In one authority, for example, finance staff reported that multi-year planning already existed in the authority and, therefore, the level and type of financial support would continue to work in the same way as previously. Another noted that much of the support provided to schools was based on service level agreements which schools bought in from the authority and this would continue under the new funding arrangements.

It's reinforcing things that we're already doing. We have a very proactive scheme of bursars visiting schools and helping them manage their finances and increasingly planning multi-year budgets. The new arrangements won't have any implications for the way we support schools – it might even make things easier.

finance manager

3.1.2 The DSG

The main issues identified by interviewees related to the impact of the DSG on local authority budgets and their capacity to provide support for schools. Ultimately, the main implication of this for local authorities' school support role was reported to be that the split between local authority funding and school funding, following the introduction of the DSG, would limit central expenditure, leaving local authorities unable to provide the level of support they had previously offered:

A cash freeze is an erosion of funding and if you're trying to give the same level of support to your schools as you did before, you're just not going to be able to do it without putting more money in. But where is that going to come from because we haven't got the flexibility any more to move money between one thing and another?

finance manager

Furthermore, in some authorities, where funding cuts were anticipated following the introduction of the new arrangements, the potential of a reduction in the level of support the local authority would be able to provide to schools in order to maintain budgets was noted: 'We now have a real problem with capacity but we can't address it because we're always up against the central expenditure limit' (finance manager).

3.1.3 The School Development Grant and separate School Standards Grant

The introduction of the School Development Grant and the separate School Standards Grant was identified as having the fewest implications for local authorities in terms of their school support role. As with the other aspects of the new funding arrangements, the role of the local authority in supporting schools to understand the changes related to the introduction of the two separate grants was noted (i.e. in terms of which Standards Fund grants they encompassed). In particular, it was felt that schools may require additional support and guidance in terms of their allocation of the School Development and School Standards Grant funding (compared with previous funding arrangements through which grant funding was specified, e.g. Standards Fund). Similarly, interviewees identified the potential challenge of ensuring that schools allocated funding where required (i.e. to address the school improvement plan) and acknowledged the need for local authority support and guidance in this respect (particularly where the overall amount of funding was reduced following the changes):

There will be more difficulty for us to get schools to target specific issues because they are poorly funded. They'll use it to keep teachers in post. It makes it difficult for us to say this money is for that and you need to do it.

finance manager

3.2 Types of schools requiring extra support

Almost a third of interviewees felt that some additional support would be needed by all schools, particularly with respect to increasing their knowledge and understanding of the new arrangements. However, two-thirds also thought that particular schools would need additional local authority support (some acknowledging that these may have also needed extra support prior to the new funding arrangements). These included:

- schools with fluctuating rolls
- primary/small schools
- schools in changing circumstances
- schools with high levels of SEN/deprivation.

The most frequently nominated (by about half of the finance managers interviewed) were schools with fluctuating rolls (including those with transient populations), which it was felt would require additional support from the local authorities as they would continue to experience great uncertainty. Schools with falling rolls were particularly highlighted. Interviewees acknowledged that schools with falling rolls would still see falling budgets, due to annual adjustments that would be made in accordance with declining pupil numbers over the budget period. The issue of reduced funding might not be felt immediately, but would occur in the future, requiring local authority support at that time. At the same time, interviewees noted that other aspects of the new arrangements offered protection for schools with falling rolls, for example, through the introduction of funding allocations based on the use of 'lagged' pupil numbers (i.e. taken from the January count preceding the financial year). Contrary to this, some interviewees noted that schools with rising rolls may require extra local authority support, as they may be disadvantaged by the introduction of funding allocations based on the use of 'lagged' pupil data. However, interviewees also acknowledged the short-term nature of this issue, given that the increase in pupil numbers would be reflected in the funding received in the following year and that falling rolls were more difficult to deal with than rising rolls.

A number of interviewees also suggested that primary schools or small schools might require additional support, acknowledging the lack of resources and/or lack of financial management expertise available in these schools for implementing the changes: 'Primary schools may feel that they are being inundated. They have very few staff and may not even have a full-time admin officer' (finance manager). In this way, the expertise provided from local authorities was considered to be crucial in supporting those schools following the introduction of the new funding arrangements. Budgetary and administrative restrictions, as well as limited financial expertise were highlighted as issues for small schools.

Several interviewees considered that schools with changing circumstances, for example, those undergoing a process of regeneration or recovery, or those experiencing staff changes, might need more support from the local authority following the introduction of the new funding arrangements. Schools in areas of high deprivation and those with fluctuating or high levels of SEN were also identified as in need of extra support.

3.3 Local authority support to help schools plan ahead effectively

Several approaches to assisting schools in their planning were identified. These could be broadly grouped into the following three categories:

- advice, guidance and training
- monitoring and challenge
- use of existing support services.

Most commonly, interviewees pointed to the provision of advice, guidance and training to schools as the main way in which local authorities could help to extend their ability to plan ahead. The provision of budget planning tools through the local authority was the most frequently cited approach for assisting schools with longer-term forecasting. Similarly, financial management training for schools was identified as a significant feature of future support. Providing schools with sufficient statutory information in a user-friendly format was also considered to be an important aspect of future local authority support in this respect.

Alongside the need for further local authority support, several interviewees also acknowledged that assisting schools to plan ahead effectively would require increasing the monitoring and challenge role of the local authority:

You can't give support unless you know what support you need and you don't know that unless you monitor. Three-year budgets induce schools to monitor themselves and the LEA to monitor them.

finance manager

Within this, a small number of interviewees pointed to the need for local authorities to emphasise to schools the importance of longer-term financial planning. The requirement for all secondary schools to have met the Schools Financial Management Standard by March 2007 was felt to increase the need for monitoring and challenge from the local authority in order that this standard might be achieved (see section 4.3).

Some interviewees talked about the use of existing services and departments within the local authority, referring specifically to the auditing department and access to school improvement partners through the

school improvement services. The need for closer working between local authority departments and services, for example, linking curriculum and financial planning, was also noted.

3.4 Allocation of funding according to need

Two-thirds of the finance managers felt that the new funding arrangements would hinder local authorities' ability to adapt school allocations according to need. Most blamed this on the continuation of the MFG, which was reported to override any changes to the formula that might be required in order to adapt to local needs and, in this sense, the situation would be no different from previous years. However, some interviewees also blamed the need to be tied into a formula for three years as a result of the introduction of multi-year budgets. This, it was felt, meant that the authority could not respond promptly to adjustments that were required as a result of the 'genuinely unknown', such as the teachers' pay reform. According to one finance manager: 'Being tied to a formula for three years without the ability to change or modify could be a major hindrance to adapting to local need.' This finance manager reported that this could have a major impact on schools' financial circumstances: 'Two or three years down the line can do an awful lot of damage to a school's budget if they are already on the edge.' A few also suggested that the limit to central expenditure could also make focusing on need problematic and the ECM agenda was particularly referenced in this context (see also Chapter 6). They thus cited the package of measures as potentially responsible for making allocation according to need difficult and some stated that it was the overarching emphasis on stability and predictability, over flexibility within the new arrangements that was the key issue.

3.5 Key points

- The importance of local authorities providing access to advice, guidance and information regarding all aspects of the funding arrangements was highlighted as a key feature of local authority support.
- The most frequently identified implication of the introduction of multi-year budgets related to supporting and improving schools' financial forecasting ability. In this respect, local authorities pointed to the need for increased training.
- The main implication of the DSG for local authorities' school support role was reported to be that the split between local authority funding and school funding would limit central expenditure, leaving local authorities unable to provide the level of support they had previously received.
- A number of interviewees felt that some additional support would be required by all schools, especially with respect to increasing knowledge and understanding of the new arrangements, whilst others felt that schools with fluctuating rolls may require particular help.
- Several broad approaches to assisting schools in their planning were identified: advice, guidance and training; monitoring and challenge and the use of existing support services.
- Two-thirds of the finance managers felt that the new funding arrangements would hinder local authorities' ability to adapt school allocations according to need, in the main blaming the continuation of the MFG and the need to be tied into a formula for three years as a result of the introduction of multi-year budgets.

4 School financial management

Local authority finance managers and chairs of Schools Forums were asked for their views on the implications of the new funding arrangements for financial expertise and training for school and local authority staff. They were also asked about the introduction of the financial management training programme for schools, the potential for meeting the School Financial Management Standard and the consequences of the new arrangements for levels of bureaucracy.

4.1 Financial expertise and training implications

Overall, interviewees' comments suggested that the new funding arrangements would not have significant detrimental implications regarding local authority and school staff finance training issues, largely because the level of existing skills and capabilities in schools and local authorities were satisfactory.

Headteachers and bursars were suggested to be already equipped with the necessary skills and experience to manage the finances of their schools efficiently.

Elements of the new arrangements, such as the multi-year budgets, were seen as lying within the existing capabilities of finance personnel: 'Any competent bursar or headteacher in a big school will be looking at financial security of the school over more than one year' (finance manager). It was felt that, when combined with ongoing support from the local authority and DfES training, the new arrangements should not cause any difficulties.

Local authorities were also regarded as being capable of meeting the support and training needs of schools. The sharing of good practice across the authority and between schools through groups, such as bursar groups, in conjunction with regular meetings for admin officers was seen by a finance manager as being particularly effective in supporting schools.

Both positive and negative implications for financial expertise and training were recognised by interviewees and these are discussed below.

4.1.1 Positive implications for financial expertise and training

Some interviewees talked about the increased focus on the level of training and support required and the level of training and support available as a result of the new funding arrangements as a positive aspect.

Despite the general confidence in school financial managers, it was contended that the introduction of the new funding arrangements highlighted that the levels of experience and expertise in financial management in some schools, especially in the primary sector, was an area for development. Concerns were expressed that the career backgrounds/histories of those responsible for financial management often related to general school administration rather than financial management. Calls for the development and 'professionalisation' of the school bursar role were made. Although such comments were made in relation to school financial management as a whole, the specific context of the new funding arrangements was said to make this requirement more apparent.

The need for increased training and skill development of school financial personnel, governing bodies in particular, was seen as especially pertinent. The new arrangements were said to carry with them an implicit expectation or assumption that financial management skills would have to be increased accordingly. There was uncertainty as to how this would be achieved. Amongst the solutions forwarded was the notion that a cluster of schools could jointly access the services of a bursar so as to limit the increased costs incurred by individual schools. Whilst training could be offered, it was also suggested that a bigger issue revolved around the need to embed such training into the everyday practices of financial management. Ongoing partnerships between school staff, governing bodies and the local authority were identified as key to this. Although training was seen as necessary, it was also stressed that it was equally necessary to strike the right balance between this and not overburdening the school during such times of change. Identifying the right individual, or group of individuals to train was a key issue: 'We'd need

to train more than one person, but we still need to educate the children' (finance manager).

As well as the potential deficit in financial management skills, the new funding arrangements were suggested to reveal or clarify the consequent training and opportunities available to schools, often provided by local authorities. The need for secondary schools to meet the required standard by 2007 was said by one finance manager, for example, to have given the training of headteachers and governing bodies increased impetus: 'We've trained every school in the use of the Financial Management Toolkit.'

Multi-year budgets were identified as an area where schools were particularly keen to approach the local authority for guidance and support. The local authority's support and training role was regarded as being consolidated through the introduction of the new funding arrangements. Furthermore, as a means of competing with other providers, the need for the local authority to customise its provision to meet the needs of individual schools was identified. Hence, the new funding arrangements could be regarded as providing local authorities with a renewed impetus to consolidate and strengthen their support to schools.

4.1.2 Negative implications for financial expertise and training

Despite the generally positive overall interpretation of the financial expertise and training implications of the new funding arrangements, several potentially negative points were raised:

- the increased demands on less able financial managers
- the increased burden on local authorities
- the questionable standards of training on offer.

It was contended that the limited ability and experience of some school financial managers would be challenged further through the new funding arrangements, exacerbating the difficulties they already faced:

There will be extremes. Some will not understand it or manage it, some will cope very badly. Schools will either amass greater surpluses through fear of not being able to predict the future, or will just run themselves into greater problems.

finance manager

Increased burdens on staff, particularly those in small primary schools, were identified as being a potential negative impact of the new funding arrangements. Schools unable to afford a professional accountant were said to be placed in particular difficulties.

It was suggested that the new funding arrangements would carry with them the potential for schools to place increased demands on local authority finance personnel so stretching their capacity and impacting on their workloads:

There might be an expectation that we'll have to do more – we'll get leaned on more by schools. The tools that we've produced to help schools have become more complex and time-consuming to produce and require more staff training.

finance manager

The perceived successive reductions in the proportion of money centrally retained by local authorities within the new funding arrangements was seen to diminish the local authority's potential to offer schools necessary and appropriate support and training services.

The standard of training offered to local authorities was questioned by one interviewee, who suggested that nationally delivered, centrally-devised training programmes were not appropriate for meeting the needs of individual local authorities. It was reported that these programmes failed to demonstrate knowledge of the workings of local government.

4.2 The financial management training programme

The majority of interviewees suggested that the 'Supporting Schools' Financial Management Programme' would be welcomed in their authority, especially amongst schools. However, nearly half of the interviewees also noted reservations or caveats surrounding their views of this programme.

The programme would be welcomed because:

- financial training is necessary
- it contains valuable information
- it provides opportunity for interaction.

In the light of comments relating to the levels of skills and experience amongst school finance staff, several interviewees stated that any financial training and assistance would be welcomed, especially for governors. A local authority finance officer felt that there would be a good deal of support for the programme from schools. 'They would embrace it and go along with it as much as they can.' Any such training was also said to be welcomed from the authority's perspective as it was suggested that the level of financial management skills in schools needed improving. However, it was also questioned whether or not training would be sufficient to bring about the increase in quality and skill required.

Whilst recognising that the programme may be regarded by schools as a time-consuming burden, it was suggested that once financial managers became acquainted with it, the quality and value of its content would become more apparent: 'There are documents in the DfES pack that are very well written and very useful' (finance manager). It was suggested that as school finance personnel realised that the programme could be approached in a phased manner, module by module, their attitudes towards it had improved so redressing the balance in the trade-off between burden and usefulness.

Attending the relevant training events associated with the programme was seen as having provided school financial managers with the potential to interact with other school personnel. In addition, hearing 'experts' telling school finance staff that they were 'doing the right thing' was seen as a useful means of boosting their confidence.

In contrast, several interviewees did suggest that the 'Supporting Schools' Financial Management Programme' would not be welcomed because of:

- its inappropriateness for individual local authority and school contexts
- the nature of delivery
- the increased bureaucracy for schools
- the duplication of existing support packages.

Whilst acknowledging that the programme might be useful to some staff in some authorities, one interviewee contended that it was not relevant for their own local authority's particular context. The programme

was described by one finance manager as 'a sledge hammer to crack a nut' having been brought about as a governmental response to some poor examples of local authority financial management. It was further described by another finance manager as a 'tortuously complex solution' imposed across the board of local authorities which is 'not actually helpful or relevant to 75 per cent or more of authorities that are doing perfectly well'. Whilst the programme might have its merits for authorities in need, its blanket introduction was not welcomed. In addition, it was contended that schools lack the flexibility over their budgets to make such sophisticated financial management worthwhile. Similarly, it was reported that small primary schools, with no access to professional accountancy services, might find the programme problematic and unhelpful: 'To expect them to be operating at that level of financial competence is just not living in the real world' (finance manager).

The nature of delivery was also questioned. For example, whilst the programme was seen as being potentially useful, concerns were expressed about central government schemes provided by a national audit company. It was suggested that other organisations might be better placed to offer more relevant and better value for money programmes and support. Also, whilst recognising the need to have systems of accountability for public money, one interviewee remarked that the standard may be accompanied by too much bureaucracy that could divert schools away from their core focus. In addition, although containing useful information, the programme was said to pose difficulties in terms of accessibility and the duplication of existing local authority programmes.

4.3 The School Financial Management Standard

The majority of interviewees thought that the School Financial Management Standard would, or should, be met within the required timeframe (i.e. by March 2007). They noted that meeting the standard by 2007 would be possible for the majority of schools in their local authorities. One interviewee hinted at the expectation that the standard would be met, suggesting that, from the local authority's position, there were no reasons why schools should not reach this target. Similarly, the forum chair likened large

secondary schools to medium-sized businesses and contended that: 'You cannot have businesses not meeting financial standards.' The belief that the standard should and would be met, often reflected and was informed by, assessments of the existing levels of skill and competence that school financial managers possessed. To be fully compliant by 2007, it was thought that only a small amount of work on the details would be necessary. Several interviewees stated that many schools were already performing at, or very close to, the standard. It was noted, however, that primary schools would face more of a challenge as they often do not have a dedicated finance officer.

Despite this overall positive view, some barriers to meeting the standard were raised and some interviewees went on to talk about the support that would be required by schools for this to be realised.

4.3.1 Barriers to meeting the Financial Management Standard

A number of interviewees suggested that schools might not be able to reach the standard by March 2007, mainly because of the short timeframe for the establishment of the necessary support structures and because there were insufficient resources at school level. Local authorities were seen as still having a long way to go to get their support and guidance structures in place before they could adequately assist schools to meet the standard. Failure to provide extra time was said by one interviewee to pose a possible threat to the relationship between schools and the local authority as the schools would not receive the necessary support and they would fail to meet the standard.

Although acknowledging that the standard had a lot of merits, one local authority interviewee defined it as being 'overly ambitious at the moment'. Without an increase in resources, schools would not be able to meet it as they would continue to prioritise other demands, such as the workforce reform. The lack of suitably trained or skilled people in schools was also seen as a barrier to achieving the standard by 2007. It was also suggested by one finance manager that failure to meet the standard could be indicative of wider problems faced by schools, such as governor and leadership issues: 'It is a tough standard and there are reasons why some schools are derailed.'

4.3.2 Support required for schools to meet the Financial Management Standard

Suggestions were made as to what needs to be done in order that the standard be met by March 2007. These included:

- additional support from local authorities
- developments in the relationship between schools and local authorities
- changes in schools' orientations towards financial management.

It was suggested that schools that might not currently be in a position to meet the standard, would be able to do so by the deadline with the addition of further support. The local authority was seen to have a key role in this in terms of providing this support and also in encouraging these schools to take on board the usefulness of the standard. The local authority had the responsibility to 'show them the vision of it, to show them that it's not just another paper exercise, it's something that they can really use' (finance manager). Additional training of local authority personnel was also identified as a key aspect underpinning the effectiveness of the support that would be offered to schools. Increased promotion and awareness raising of the standard amongst schools by local authorities was also identified as an important strategy.

Revised communication and working relationships between the local authority and school personnel could contribute to clarification of the requirements and responsibilities consistent with meeting the standard. One interviewee raised this issue in the context of an authority in which a large number of schools were foundation schools 'and although some have a good relationship with the authority, others only deal with them when they absolutely need to'.

It was suggested that the schools' attitude towards financial management, namely having a progressive governing body and an aware senior management team, were critical factors in meeting the standard in the required timeframe. The likelihood of meeting the standard by 2007 varied between schools and was largely dependent on the skill and experience of the school finance personnel involved. A crucial element

within this revolved around the re-prioritisation of resources towards increasing the profile of finance in schools. One finance manager suggested that school financial management was a poorly developed profession in schools (especially primary schools) and that, if the standard was to be met, increased training and resources would be required. The need for schools to re-examine their approach to financial management, especially in terms of considering bursarial support, given the current absence of professional accountancy expertise in some schools, was highlighted.

4.4 Bureaucracy

The majority of interviewees contended that the new funding arrangements would not have a significant impact on reducing bureaucracy and burdens on schools. Several interviewees noted that the management of any change carried with it the inherent potential for increased bureaucracy and workload burden. Being a substantive change, the new funding arrangements were likely to be accompanied by additional bureaucracy. Similarly, new arrangements were seen to mean new bureaucracy: ‘Something new replaces whatever you had before, with new bureaucracy with it’ (finance manager). It was also suggested that, while the distribution of public money required systems of accountability, bureaucracy could not be reduced. In addition, specific elements of the new arrangements, such as the ring-fencing of the DSG and the evidence needed for self-evaluation, were deemed to be quite demanding for schools. Similarly, the requirement to produce three-year budgets was seen as a means by which the bureaucratic burden on schools would increase.

Despite the overall view that the new funding arrangements would do little to reduce bureaucracy, some interviewees felt there would be a long-term decrease in bureaucratic burden. The new funding arrangements were seen as increasing the burden on schools in the short term, but with the additional local authority support in place, ‘in the end, it will make things more efficient for them’ (finance manager).

It was also suggested that well managed, financially efficient schools may not suffer an increased burden as a result of the new funding arrangements:

Schools who aren't as good may find that they are going to have to get better to be able to deal with the new arrangements.

finance manager

4.5 Key points

- Overall, interviewees’ comments suggested that the new funding arrangements would not have significant detrimental implications regarding local authority and school staff finance training issues, largely because of the existing satisfactory level of skills and capabilities in schools and local authorities.
- However, positive implications for financial expertise and training, such as the increased focus on the level of training and support available and negative implications, such as the increased demands on less able financial managers and the increased burden on local authorities, were highlighted.
- Whilst the majority of interviewees thought that the School Financial Management Standard would, or should, be met within the required timeframe, some barriers, such as the short timeframe for establishment of the necessary support structures and insufficient resources at school level, were reported.
- Interviewees went on to suggest the changes that might be required for this to be realised, such as additional support for schools from local authorities, improved relationships between schools and local authorities and changes in schools’ orientation towards financial management.
- The majority of interviewees contended that the new funding arrangements would not have a significant impact on reducing bureaucracy and burdens on schools, although some thought that it might in the long term.

5 Accountability and autonomy

Local authority finance managers were asked whether the new funding arrangements would have any implications for local authority or school accountability and autonomy. All interviewees (i.e. finance managers and forum chairs) were asked to comment on the enhanced role of the Schools Forum under the new arrangements.

5.1 Implications of the new arrangements for accountability

Some interviewees highlighted implications for accountability more generally, before focusing specifically on implications for local authorities and schools. They said that there would be a change in levels at which people had to be accountable and a change in accountability relationships as a result of the new funding arrangements. It was also noted that the new arrangements had the potential to improve accountability overall.

5.1.1 Implications for local authority accountability

Although a few interviewees felt that there would be no implications for local authority accountability, a third of the financial managers suggested that the local authority might be considered less accountable for school funding as a result of the new arrangements. They stated that, with a ring-fenced DSG, the council might feel less responsible for education and, since almost a third of the budget is funded through the DSG, this would reduce their level of accountability. They felt that the local authority had almost been cut out of the system and was 'acting as postman' and, as a result, schools would badger the Government for more resources or blame them for any shortfall rather than the local authority. One finance manager considered it strange that the Government was effectively telling local authorities what they could spend when most were spending more than what they

were allocated. For some, the removal of the link with local members and local democratic accountability was a major issue.

Statements made by about a quarter of the finance managers, on the other hand, implied that the local authority might be more accountable as a result of the new arrangements. They thought that there was an expectation that local authorities challenged schools more and that they were being made more accountable for schools' performance without being given the tools to carry this out. It was reported that the new arrangements would encourage schools to become more independent, making it harder for local authorities to challenge them, even though they were spending public money. Reference was also made to the enhanced role of the Schools Forum (see section 5.3), which some finance managers felt gave the local authority more clout:

Getting headteachers together at the forum does help to spread the message that balances should be clawed back. If the forum has a stronger voice in taking us to do that, then it might help. The schools couldn't argue if the forum tasked us, as an LEA, to do that.

finance manager

When asked about accountability, the contradictions regarding integrated children's services were also highlighted. It was felt that having a ring-fenced DSG contradicted broader accountabilities and had not been thought through:

Some of the places where it sharpens 'pure' school funding accountability lines, it actually counteracts other broader policies and initiatives and accountabilities and can make things messier.

finance manager

One interviewee talked about the 'inward focus' of the new school funding arrangements and the 'missed opportunity' regarding integrated children's services. Collaborative working is discussed in more detail in Chapter 6.

5.1.2 Implications for school accountability

Whilst about a quarter of the finance managers felt that the new arrangements would make no difference to school accountability, a third made statements that suggested that schools might become more accountable as a result of the new arrangements. It was felt that they would be more accountable as a result of the implementation of the Financial Management Standard and that the introduction of multi-year budgets would allow more effective planning, thereby sharpening accountability.

A few finance managers, on the other hand, implied that schools would be less accountable to the local authority as a result of the new arrangements because the schools would be encouraged to be independent and local authorities would be left with no recourse to challenge schools.

It was also suggested that there would be a change in internal accountability between headteachers and governors and that school governors would have to take a more strategic view of financial management.

5.2 Implications of the new arrangements for autonomy

Interviewees were asked what they thought the implications of the new arrangements were for school and local authority autonomy.

5.2.1 Implications for local authority autonomy

The overarching view, expressed by about half of the finance managers, was that the new arrangements would reduce local authority autonomy, mainly because the DSG was outside of the local government finance settlement and not part of the democratic process. According to interviewees, this meant that 'schools effectively become a national service' and councils were less likely to put money into the schools' budget: 'There may be a washing of the hands approach when difficulties arise.' In addition, it was noted that the continuation of the MFG reduced local authority ability to channel funding as they see fit.

When asked about local authority autonomy, the implications for council finances overall and the

potential impact on other local authority services, as well as the contradiction regarding the development of children's services, were also raised.

5.2.2 Implications for school autonomy

Although about a quarter of the finance managers thought the new arrangements would make no difference to school autonomy, a third felt that schools would be more autonomous, or at least perceive themselves to be, because the ring-fenced DSG was outside of the process of local democracy. It was suggested that this would encourage schools to be more independent and to question the role of the local authority.

In contrast, one finance manager felt the new arrangements may slightly lessen school autonomy because medium-term accountability would be sharpened.

5.3 The enhanced role of the Schools Forum

When local authority finance managers and forum chairs were asked about the enhanced role of the Schools Forum, many referred to the good relationship between the local authority and the forum in their authority. It was noted that the attitude to these forums varies across local authorities and whether the enhanced role was beneficial would depend on the relationship between the local authority and the forum.

Almost half of the interviewees (forum chairs and finance managers) agreed with the Schools Forum having greater decision-making powers and talked about the advantages of this process, whilst about a third (also forum chairs and finance managers) disagreed. In three authorities, forum chairs and finance managers disagreed with each other. In two instances, the forum chair agreed with the enhanced role whilst the finance manager did not, although, in one instance, the opposite was the case.

5.3.1 Advantages of the enhanced role of the Schools Forum

All of the finance managers who agreed with the forum's enhanced role stated that they welcomed the

local discretion and local decision making that this brought: 'Local people are in a better position to determine such things.' They noted this as an improvement on having to take issues to the Secretary of State. However, alongside this, a few stated that there was a safeguard built into the system as local authorities could still take issues to the Secretary of State and could override the forum where they were not in agreement.

In contrast, forum chairs who agreed with the enhanced role tended to focus more on the importance of consultation with schools and having an independent body to oversee allocations of school funding. Only one finance manager referred to the new arrangement giving greater powers to the community of schools.

5.3.2 Disadvantages of the enhanced role of the Schools Forum

The main argument against giving the forum enhanced powers, raised by forum chairs as well as finance managers, centred on the lack of knowledge and expertise of forum members:

We have governors in there who are governors first and foremost, they're not financial experts and yet they're going to be asked to make some really fundamental decisions ... on how a lot of this budget is dispersed and spent.

chair of Schools Forum

Interviewees also reported that it was already difficult to recruit members (especially school governors) and to engage members of the forum in the issues. It was felt that the additional responsibility, an extra burden on 'volunteers', might make this even more problematic. As three forum chairs were at pains to point out, the forum was originally established as an advisory and voluntary group. This was borne out by the plans of one forum chair (a headteacher) to resign, partly as a result of the proposals: 'I'm not sure that, as the head of a school, I am prepared to take full responsibility for the decision making that will emanate from it [the enhanced role of the Schools Forum].' This headteacher felt that heads in particular would find this difficult as they might not feel comfortable in purporting to represent all the other heads in their authority and that forum members may not be as willing to express their opinions as openly under the new arrangements.

It was suggested that, with a greater focus on decision making, the composition of the forum should be reviewed and that the local authority would have to undertake more modeling of the implications of the changes to assist forum members.

Some interviewees felt that, whilst an enhanced status for the forum was implied, the reality was that decision making was limited and the Government was reported to be ambiguous about the role of Schools Forum.

5.4 Implications for the local authority school support role

Over a third of interviewees spoke favourably of how the changes to the role of the Schools Forum would alter the way it assisted the local authority. Only four interviewees, two finance managers and two forum chairs (two from London authorities) held overall negative views or felt that the move would be of limited value. Others had mixed views or felt that it would depend on how the forum had operated in the past.

Some finance managers felt that, with more responsibility given to the forum, the local authority would have more clout. In contrast, a forum chair described the move as positive because it gave the forum more power over the local authority, i.e. to insist on decisions rather than make recommendations. These different perspectives may reflect different relationships between the local authority and the forum in different authorities and highlight the importance this may play in determining the impact of the new arrangements. Greater openness and an improved relationship between the local authority and the forum were also cited as possible outcomes of the new powers. In addition, finance managers thought that giving the forum more powers would encourage more interest and involvement. Further benefits highlighted by forum chairs were a reduction in the credibility gap between local authorities and schools and engaging the forum at the beginning of the decision-making process. Further benefits highlighted by finance managers included the focus on local decision making and enhancement of the expertise of members through training.

The main concern, shared by three finance officers and one forum chair, was that the link back to elected members would be lost. One interviewee, for example, reported that the forum was not integrated with elected

members sufficiently and this authority was planning to create mechanisms for this. Other concerns, shared by finance managers and forum chairs, was the representation on the forum and lack of school awareness of the role of the forum, which it was felt would have implications for its credibility with schools. Only two forum chairs suggested that the increased powers may lead to friction between the forum and the local authority or the authority being 'wary' of the forum. According to one, this would particularly be the case in authorities whose decisions were previously unregulated and were, therefore, not used to 'policing of decisions'. Finance managers also felt that the forum needed a clearer vision and that schools did not know enough about the role of forum members.

5.5 Key points

- It was suggested that, since almost a third of the budget is funded through the DSG, with a ring-fenced DSG the council might feel less accountable for education.
- There was a view that, as a result of the new arrangements, local authorities were more accountable for schools' performance and were expected to challenge schools more without being given the tools to carry this out.
- It was also thought that the implementation of the School Financial Management Standard and the introduction of multi-year budgets would sharpen school accountability.
- The overarching view was that the new arrangements would reduce local authority autonomy, mainly because the DSG was outside of the local government finance settlement and not part of the democratic process.
- Over a third of interviewees agreed with the Schools Forum having greater decision-making powers, primarily because of the local discretion this afforded, whilst about a quarter disagreed, mainly because of the lack of knowledge and expertise of forum members.

6 Collaborative working

Interviewees (finance managers and forum chairs) were asked for their views on the impact of the new funding arrangements on schools' collaboration with other schools and with other agencies. Generally, it was contended that there would be little impact and that the new arrangements would not significantly facilitate improved collaborative working although some positive and negative influences were identified.

6.1 Implications for collaborative working

The majority of interviewees forwarded the view that the new funding arrangements would neither facilitate nor hinder collaborative working between schools and between schools and other agencies because of the greater impact of wider contexts and other factors, such as sufficiency of funding, schools' willingness to be involved and the lack of specific elements within the new arrangements to encourage collaborative working.

Wider contexts and policies, such as ECM and the extended schools agenda were said to exert far greater influences than the funding arrangements themselves. It was suggested, for example, that the Children's Services Grant would facilitate closer working through the co-funding of education and health issues for vulnerable children. Similarly, grants for children's centres were regarded as having the potential to facilitate collaborative working. Some interviewees suggested that the new funding arrangements were, to some degree, dislocated from these wider contexts: 'Funding arrangements seem to be sat in their own little capsule doing their own thing, not allowing you to do the things you want to.'

Within the broader contexts of moves towards closer working relationships in response to government initiatives on schooling and community work, the delivery of funding is not relevant. Therefore, the new arrangements will not have an impact either way.

finance manager

Collaborative working was also seen to be challenged by overall funding levels rather than methods of delivery. A finance manager from an authority in which relationships between schools were described as being good and cooperative contended that it was not likely that schools would use sums from their DSG for collaborative working as 'everybody is squeezed to death on their central stuff'. Falling rolls in competitive funding contexts were said to generally militate against collaborative working.

Several interviewees suggested that the new funding arrangements do not contain the modifications and/or elements necessary to encourage the successful development of children's services with inter-meshed health, social services and education funding streams: 'There's nothing in it in itself [the new arrangements] that is going to make schools more likely to collaborate more than they are anyway' (finance manager).

Schools' perspectives on and orientations towards, collaborative working were identified as having greater potential impacts than the new funding arrangements. For example, the desire for collaborative working between schools in one particular authority was described as being historically low, reflecting and reinforcing schools' lack of interest in forging closer working relationships. It was felt that the new funding arrangements 'shouldn't make a difference' because the borough's schools were not 'geared to, or interested in, that level of collaboration'.

Similarly, a finance manager commented that collaborative working would depend more on the willingness and ability of schools to recognise that many of the proposed joint working initiatives, such as the extended schools agenda, would require funding from schools' delegated budgets: 'They need to play their part in bringing some of their resources to the table to fund some of the joint working initiatives.' In another authority, the proposed development of several academies and their 'dropping out of the system altogether' was seen to compromise the development of collaborative working.

Despite this overall view, some interviewees suggested that some aspects of the new funding arrangements might facilitate collaborative working and some suggested that there were aspects which might create barriers to collaborative working.

6.2 Factors which might facilitate collaboration

Interviewees did suggest that the introduction of multi-year budgets and the long-term planning that this made possible might be advantageous and contribute towards improved collaborative working.

The perceived stability arising from multi-year budgets was highlighted as providing conditions in which schools could be in a better position to enter into agreements to develop shared appointments, such as peripatetic bursars. This stability was also suggested to support longer-term planning that may, in time, support collaborative working, as schools could be more imaginative in their working practices, including joint and collaborative ventures with other agencies.

It was felt that the financial stability that the move to multi-year budgets could bring may contribute to increased cohesion in partnership working as known budgets would help schools designate sums for collaboration.

6.3 Barriers to collaborative working

Several interviewees identified factors within the new funding arrangements that could hinder collaborative working. These included the overall level of funding and the potential loss of flexibility in the use of funding.

The overall level of funding was suggested by one finance manager to inhibit schools' ability to work with others, asserting that 'the challenges come right back to the size of the DSG and what the Government is prepared to put into that'.

Several interviewees noted that the DSG may prove to be a potential hindrance to collaborative working as the

pooling of budgets would be made more difficult. They were of the view that collaborative working could be made more difficult because of the over-prescriptive nature of this particular funding, restricting it to education use. The ring-fencing of the DSG could thus be seen as operating contrary to the children's services agenda. Hence, flexibility could be compromised and the ability to work collaboratively diminished: 'By pigeonholing a big chunk of education spending just for education means that you can't combine budgets outside of this definition' (finance manager).

Territorialism was also mentioned as a possible restriction on collaborative working between agencies: 'Agencies are watchful and protective of their own funding.' Furthermore, a finance manager also noted that a particular local authority's attempt to fund clusters of schools was being limited by funding regulations.

6.4 Key points

- The great majority of interviewees held the view that the new funding arrangements would neither facilitate nor hinder collaborative working between schools and between schools and other agencies. Wider policy contexts, such as ECM and the development of extended schools and other factors, such as sufficiency of funding and schools' willingness to be involved, were seen as greater potential influences.
- However, the new funding arrangements were identified as having some potential for supporting increased collaborative working, the most significant aspect being the guaranteed multi-year budgets. The perceived increase in certainty of funding was seen to provide a more stable basis upon which partnerships and agreements could be built.
- The ring-fenced DSG was identified as being an element of the new funding arrangements that could be disadvantageous to collaborative working as it may restrict the scope in which funding could be directed. Decreased flexibility could thus hinder the establishment of partnerships and joint working initiatives.

7 Future developments

This section of the report examines potential future developments, in particular, the proposal to introduce academic year funding and the merging of the School Development Grant and the School Standards Grant into the new Single Standards Grant. All interviewees (i.e. finance managers and forum chairs) were asked their thoughts on these issues.

7.1 Academic year funding

All but four interviewees were against the proposal for academic year funding and they were most vociferous about their opposition. According to some of the finance managers interviewed: 'They [the DfES] would be absolutely mad even to consider it'; 'It would be an absolute nightmare'; 'Even the schools were dead set against this one.'

The main objections raised reflected those previously raised in the analysis of local authority responses to the DfES consultation exercise. The main one, raised by over half of the sample, was the extra workload, for schools (especially primary) and local authorities, posed by having to do two lots of accounting. According to two finance managers: 'Many schools do not do it well once!'; 'As soon as we explained the implications of dual accounting, they [secondary schools] said "Don't touch it with a barge pole"'. As many interviewees pointed out, European regulations meant that schools would have to continue to do local authority financial year accounting and schools can account on an academic year basis anyway, if they choose. Helping schools to understand it and the complexities behind it was cited as a challenge for local authorities, on top of the additional costs involved.

About a third of interviewees pointed out that there were no, or few, benefits to this move. Whilst some benefits were cited, such as the alignment with academic performance and the link with pupil number changes and teachers' pay rise, it was felt that the drawbacks far outweighed the advantages and it would only serve to complicate and confuse finances, leading

to a lack of transparency. Learning and Skills Council (LSC) funding, which was reported to have been problematic because of its misalignment with the financial year, was frequently cited as an example: 'It is the biggest no-go area in schools finances that exists at the moment. So there is not a good precedent for it really.' The bottom line for one finance manager was that the move to academic year financing would not improve standards or attainment.

On top of this, finance managers deplored the extra costs and waste of money that this would involve. The costs were reported to have been poorly estimated by the DfES and the local authority support required was considerable.

Only one finance manager, interestingly, a local authority finance consultant and three forum chairs spoke in favour of academic year funding, considering it a logical move. According to this finance manager:

The basic premise is unmistakably logical. The cycle of business is on the academic year, so why not do everything on an academic year? ... The real head and floor of the business revolves around that timeframe and it would make a whole heap of sense to then fund and account on the same time frame.

finance manager

This interviewee described multiple close-downs of accounts as 'entirely practical and entirely possible', provided that they were streamlined as far as possible. He/she envisaged a role for local authorities in making the processes and structures associated with school accounting more efficient. One of the forum chairs stated that the move had been 'widely welcomed' in the local authority and that a number of schools had reframed their development plans to run from September to August. However, the remaining two forum chairs who were in favour, whilst advocating the benefits of the budget year being aligned to the school year, felt that the extra workload entailed in two close-downs of accounts made its introduction practically too demanding for schools.

7.2 The Single Standards Grant

The majority of interviewees (all but three finance managers) were in favour of the Single Standards Grant, some commenting that it was 'long overdue', that it was a 'logical move' and things were moving this way anyway.

Their main argument was that this would be less complicated and reduce confusion. They reported that, with lots of different pots of money coming into schools, it was difficult for them to keep track of their budget: 'Putting things under different heads does not help the system at all; it just muddies the waters'; 'Schools just want one stream of money and want to be judged on their outcomes.' It was also felt that this would give schools more autonomy and more freedom to manage the money themselves. Of those who commented on the local authority support required as a result of this move, the majority felt that none was required, however, ensuring that all are informed and understand the changes and the modelling of different systems by the DfES were reported to be helpful.

Nevertheless, finance managers considered it important to recognise that specific targeted grants are still needed as, without these, the local authority could not challenge schools and ensure that money was spent on specific things. They thought it was important to get the methodology right and be clear about what schools were expected to do with the funds. They noted that transitional support would also need consideration. Others, including forum chairs, were concerned that funding might be reduced and called for assurances regarding guaranteed increases. Interviewees stated that schools needed to have a clear understanding of where the grants had gone so that they can see that they had not lost out and that the local authority could support them in this. However, according to one finance manager, schools tended to view this as extra money and to use it for different projects so it had a 'feel-good factor' associated with it, which 'should not be underestimated'.

At the same time, about a third of interviewees (mainly finance managers) felt that this money should be pooled into the DSG because it was not considered to be targeted funding: 'If they are recognising that it is general, then it really should be general, it doesn't need to be a separate grant' (finance manager). The two finance managers who spoke against the proposal for a Single Standards Grant did so mainly on this basis. They argued that this would enable local authorities to look at local distribution factors and that having a separate grant was an unnecessary complication. It was also pointed out that the School Standards Grant went into the pool anyway and there were no limits on what it could be spent on. However, they also noted that schools were not supportive of such a move because they thought the Government would redistribute the funding at the same time.

7.3 Key points

- All but two interviewees were against the proposal for academic year funding and they were most vociferous about their opposition on the grounds of the extra workload for schools and local authorities, the limited benefits and the additional costs entailed.
- Whilst the majority of interviewees were in favour of a Single Standards Grant on the grounds this would be less complicated and reduce confusion, finance managers considered it important to recognise that there was still a need for specific targeted grants, without which, the local authority could not challenge schools about how funding was utilised.
- At the same time, there was a strong contingency in favour of the Single Standards Grant being pooled into the DSG because it was not considered to be targeted funding.

8 Conclusion

The new school funding arrangements, particularly guaranteed multi-year budgets, have largely been welcomed by local authorities for the stability and certainty which they could provide for schools. However, it is important to recognise that to ensure that schools realise the overarching benefit of effective long-term planning, schools not only require the necessary financial expertise, but some schools may also be required to change their thinking with regard to financial matters, which may thus far have been focused on the short term. Local authorities will not only be required to provide extra support and training to improve schools' financial expertise and forecasting ability, but also to further challenge schools on their short-term attitude to financial planning. In addition, schools with particular issues, such as those with falling rolls, may require extra help.

It would seem ironic, therefore, that another aspect of the new arrangements, the introduction of the ring-fenced DSG and the separation of local authority and school funding, might limit central expenditure, leaving local authority support services depleted to the extent that they may be unable to maintain financial management support for schools at previous levels. Furthermore, by taking school funding out of the local government financial settlement, schools are likely to perceive themselves as more autonomous and more able to resist any form of challenge from the local authority. In addition, there is danger that, with a consequent reduction in control over school funding, councils may be less inclined to enhance education funding from local sources, leading to reduced funding for some schools.

Appendix

The following tables provide information about the sample of the 15 local authorities in terms of type of authority, size, Comprehensive Performance Assessment (CPA) scores and financial band, together with overall sample information.

Table A.1 Local authority sample by type of authority

Type of local authority	Number in the sample
London	4
County	2
Unitary (region)	3
Unitary (city)	3
Metropolitan	3

Source: NFER Database

Table A.2 Local authority sample by size of authority

Size of local authority	Number in the sample
Large	4
Medium	3
Small	8

Source: NFER Database

Table A.3 Local authority sample by CPA score

CPA score	Number in the sample
Excellent	7
Good	4
Fair	4

Source: Audit Commission (2005)

Table A.4 Local authority sample by financial band for education

Financial banding	Number in the sample
Ceiling	5
Middle	6
Floor	4

Source: DfES (2005)

Table A.5 Overall local authority sample information

Local authority	Type	Size	CPA score	Financial band
1	London	Small	Excellent	Ceiling
2	London	Small	Good	Ceiling
3	London	Small	Excellent	Ceiling
4	London	Small	Good	Middle
5	County	Large	Good	Middle
6	County	Large	Good	Ceiling
7	Unitary (region)	Large	Fair	Middle
8	Unitary (region)	Medium	Excellent	Middle
9	Unitary (region)	Large	Excellent	Floor
10	Unitary (city)	Small	Fair	Floor
11	Unitary (city)	Small	Excellent	Ceiling
12	Unitary (city)	Small	Fair	Floor
13	Metropolitan	Small	Excellent	Floor
14	Metropolitan	Medium	Fair	Middle
15	Metropolitan	Medium	Excellent	Middle

Sources: NFER Database; Audit Commission (2005); DfES (2005)

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