



School funding: 2006–2010 policy changes under the Labour Government

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Following funding problems for schools in 2003, the then Labour Government abandoned the system of providing a non-ring-fenced notional amount for education within each local authority's total funding. Guaranteed per pupil funding increases alleviated the funding crisis before a new school funding system was introduced in 2006 which included:

- ring-fenced Dedicated Schools Grant (DSG) paid to local authorities using the “Spend Plus” methodology;
- multi-year budgets;
- School Forums to approve local authority variations.

In March 2010, the Labour Government issued a consultation document stating that it wished to “return to a formula-based method of allocation in 2011, so that allocations better reflect actual characteristics of pupils”, rather than the “Spend Plus” methodology which “required the setting of a base year to which future increases are applied [2005-06] and so does not allow for changes in relative needs between local authorities since that time to be reflected”.

However, the May 2010 General Election meant that the Government changed before the consultation had even closed. The new coalition Government published the results of the consultation, but introduced its own proposals for school funding.

This note is one in a series of Library Standard Notes on school funding, see also:

- [School funding: Pupil Premium](#) (SN/SP/6700)
- [School funding: annual settlements under the Coalition Government](#) (SN/SP/6701)
- [School funding: moving towards a national funding formula](#) (SN/SP/6702)

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1 School funding issues in 2003

Under the Schools Formula Spending Share (SFSS) approach to school funding, which was part of the local government finance system then in operation, local authorities received formula grant from central government that covered general revenue expenditure on education, as well as other services such as social services and roads.

The system worked as follows:

- in determining a local authority's total budget, the SFSS was the notional amount calculated by the Government that it thought the local authority needed to spend on education in order to provide a standard quality of education across the country;
- the SFSS was then pooled with the other elements (e.g. social services, roads) into a formula spending total for the local authority;
- the formula spending total was provided to the local authority;
- local authorities were then free to decide how much of their spending formula total to actually spend on education (and other services) i.e. it did not have to be the same as the SFSS, or, put another way, the SFSS was not ring-fenced.

However, in the spring and early summer of 2003 school funding attracted media headlines reporting funding shortages, examples including "[Four-day week fear for schools: Council with £4m shortfall could lose 100 teachers](#)" (*The Guardian*), "1,500 teachers face axe as cash crisis mounts" (*Daily Mail*) and "Classroom assistants face job losses" (*Daily Telegraph*).

In July 2003, the then Secretary of State for Education, Charles Clarke, made a statement to the House on school funding for 2004/05 and 2005/06 and acknowledged that schools were having "real difficulties ... with their budget allocations". In response, he proposed "a guarantee at the level of the individual school, so every school will receive at least a minimum increase in its funding per pupil ... We intend to implement that through fair funding regulations, placing each local education authority under a direct obligation to provide for such a minimum guarantee".¹

Further information on the school funding methodology in place in 2003 can be found in the Library Standard Note *School Funding Arrangements* (SN/SP/2596), which is available on request.

¹ [HC Deb 17 July 2003 cc454-455](#)

2 Move towards a new funding approach

Following the funding issues, in July 2004 the then Government published its *Five Year Strategy for Children and Learners*, which noted that under the prevailing funding system “the bulk of school funding does not come to local authorities as hard cash. It comes as a theoretical planning total based on a range of factors, and there is no guarantee that it will be spent on education”. It described this arrangement as a “long-standing confused responsibility between central and local government for setting the level of school funding”.² They also noted that the “unpredictable and short-term budgets” also made “it harder for schools to plan ahead and take full independent responsibility for their future development”.³

In response, the White Paper proposed the introduction from 2006 of a “new dedicated [i.e. ring-fenced] Schools Budget” – the “Schools Budget” was subsequently renamed the Dedicated Schools Grant (DSG). The then Department for Education and Skills (DfES) explained that while the School Budget (or DSG) would mean that education funding “will continue to be channelled through Local Authorities ... they will not be able to divert this spending for other purposes [i.e. because of ring-fencing] ... but [local authorities] will retain an important and necessary role in reflecting local needs and circumstances”.⁴

The strategy also proposed from 2006 the introduction for all schools of “guaranteed three-year budgets”,⁵ and for budgets to be “aligned with the school year, not the financial year as now ..., geared to pupil numbers, with every school also guaranteed a minimum per pupil increase every year”.

The DfES argued that their proposals would “give unprecedented practical financial security and freedom to schools in their forward planning”.⁶

In February 2005, the then Government commenced a consultation on their proposals for school funding arrangements.⁷

In July 2005, the Government reported that there had been 757 responses to the consultation, and observed that “respondents generally welcomed the proposals for the new school funding arrangements from 2006–07”.⁸ In particular, “the majority of respondents agreed that it would be helpful to schools to receive forward budget information ... Respondents were happy that this would enable them to plan more effectively for the future, and this was seen as a positive step”.⁹

In the light of the consultation, the Government announced its plans for school funding, confirming the new ring-fenced DSG and three year budgets for all maintained schools. It also announced:

- limited flexibility provided by the input from “School Forums”; and

² Department for Education and Skills, *Five Year Strategy for Children and Learners*, Cm 6272, July 2004, pp46–47, paras 11 and 12

³ As above, p45, para 6

⁴ As above, p47, paras 12–13

⁵ As above, pp46–47, paras 11–12

⁶ As above, p46, para 11

⁷ Department for Education and Skills, *Consultation on New School Funding Arrangements from 2006-07*, February 2005

⁸ Department for Education and Skills, *New School Funding Arrangements from 2006-07 — Report on the responses to the Consultation Document*, July 2005, p3, para 8

⁹ See above, p5, para 23

- consolidation of current direct payments to schools for standards-related activities into a single Standards Grant.

Announcing the results of the consultation and the consequential policy approach, the then Minister for Schools, Jacqui Smith, stated that the introduction of the DSG was “an essential precursor to three year budgets for schools”.¹⁰

¹⁰ [HC Deb 21 July 2005 cc129WS–130WS](#)

3 Implementing the new approach from 2006

The transition from the SFSS approach to the DSG was subject to consultation because, as Ms Smith noted, “if we use the existing Schools Formula Spending Share (SFSS) distribution methodology to distribute the DSG as proposed in our consultation document, schools in authorities which currently spend above their SFSS allocation will, over time, see their funding level reduced in relative terms”.¹¹

She proposed “a modified method of distribution” to give every local authority a minimum increase in its per pupil budget each year of 5% in 2006–07 and 2007–08, with the remaining grant distributed according to criteria which would be determined by Ministers in advance of each multi-year budget period, adding that “distribution against these criteria would be through a formula based on objective data”.

The results of the consultation were reported in December 2005: there was support for this approach from “a majority of respondents”, and the Minister noted that it “met the concerns of those authorities which currently spend significantly in excess of their Schools Formula Spending Share (SFSS), since their spend in excess of SFSS would be consolidated into their baseline”.

For those schools in local authorities whose school budgets had been below their SFSS in 2005–06, Ms Smith announced that the Department had “responded to their concerns by allocating in our distribution methodology additional funding specifically for schools in these authorities”. This amounted to £30 million in 2006–07 and a further £30 million in 2007–08, meaning that half the gap between spending and SFSS was expected to be closed by 2008–09.¹²

Ms Smith said that the new arrangements for three-year budgets had been “widely welcomed by respondents to the consultation”. However, the multi-year budgets would commence in 2008-09, rather than 2006 as originally proposed, with two transitional years leading up to the change during which time preparation would be undertaken for the new approach.¹³ The arguments Ms Smith cited for the delay were twofold: the changes “imply significant changes to the way in which local authorities manage the budget-setting process”; and also that it would be important that “changes to the school funding system — and in particular those which affect the distribution of funds between local authorities or schools — are introduced gradually”. As a consequence of the delay to 2008–09, however, the three-year budget cycle would be “in line with the [Government’s] spending review cycle”.¹⁴

In terms of how multi-year budgets for individual schools are put together, Ms Smith argued that it was “essential that budgets are updated annually to reflect changes in pupil numbers”, although “other decisions—in particular the extent to which annual changes should be made to reflect changes in other data” should be taken locally and in discussion with the Schools Forum “to ensure that local circumstances can be fully taken into account”.¹⁵

The Minister said that her announcement “means that, for the first time, schools will know what their budgets will be for more than one year ahead, giving them increased stability and

¹¹ [HC Deb 21 July 2005 c129WS para 17](#)

¹² [HC Deb 7 December 2005 cc94–95WS paras 8 and 18](#)

¹³ Department for Education and Skills, *Five Year Strategy for Children and Learners*, Cm 6272, July 2004, p8

¹⁴ [HC Deb 21 July 2005 c127WS paras 3–5](#)

¹⁵ [HC Deb 21 July 2005 cc127WS–128WS](#)

predictability and allowing them to plan ahead with confidence and make the best use of their resources for the benefit of all their pupils".¹⁶

Ms Smith explained further how the role of the existing School Forums would be changed from an advisory role to also including a role to approve local authority variations from the regulations, so as to avoid the need for the Secretary of State's approval in those cases where the local authority and Schools Forum reached agreement.¹⁷

The Minister also announced that most standards-related grants would be rationalised into a single School Development Grant from April 2006, although the School Standards Grant would remain separate from the consolidated grant in 2006–07 and 2007–08. Other grants excluded were those that were directed at particular schools or were time-limited, and also some grants spent at local authority level and so not devolved to schools.¹⁸

¹⁶ [HC Deb 7 December 2005 c97WS](#)

¹⁷ [HC Deb 21 July 2005 c131WS para 29](#)

¹⁸ [HC Deb 21 July 2005 c131WS](#)

4 Policy implementation, legislation and political response

The *School Finance (England) Regulations 2006* (SI 2006/468) implemented the new approach and set out the financial arrangements of local education authorities funding of schools over the financial years 2006–07 and 2007–08.

4.1 House of Lords debate of the new school funding regulations

As the then Parliamentary Under-Secretary of State for Education and Skills, Lord Adonis, noted during the debate on the regulations in February 2006:

The new arrangements set out in these regulations will provide for three important changes: first, a ring-fenced dedicated schools grant so that the funding intended for education is ring-fenced for that purpose alone within local authority budgets; secondly, multi-year budgets for schools so that they get the full benefit of the multi-year pre-announcement of funding that we made in December; and thirdly, a rationalisation of standards-related grants so that there is less central prescription on how standards funding is spent at school level.¹⁹

Lord Adonis added: “in making provision for those three worthwhile changes we are striking the right balance between national prescription and local flexibility”.²⁰

Further information was provided about the creation of the two budgets, the local education authority (or LEA, as they were then called) budget and the schools budget, and how spending allocations for individual schools would be made:

To achieve the dedicated schools grants, the regulations define two separate budgets — the LEA budget and the schools budget. The LEA budget must include the expenditure on the strategic functions of a local education authority, whereas the schools budget can include only expenditure on provision for schools and pupils. Under the new arrangements the whole of a local authority's dedicated schools grant must be applied to its schools budget. That is the key to ensuring that funding intended for schools actually reaches them.

The vast majority of the budget must be distributed in the form of budget shares for individual schools. However, a local authority may retain necessary expenditure for other key educational functions, including certain types of school support services, nursery education provided outside maintained schools, and support for pupils who cannot be educated in maintained schools. As well as placing restrictions on the type of expenditure for which a local authority may retain money from its schools budget, the regulations limit the amount that can be retained.

The regulations also describe how local authorities must allocate funding to individual schools. They contain a mixture of central prescription and local discretion, which will be familiar to local authorities and schools in most respects. For example, the minimum funding guarantee, which guarantees every school an annual per pupil increase in funding to meet cost pressures, remains a central feature of these regulations. The minimum funding guarantee is an important safeguard for schools, is strongly supported in the schools community and supports the principles of stability and certainty that underpin the new arrangements at large.²¹

¹⁹ [HL Deb 16 February 2006 c1337](#)

²⁰ [HL Deb 16 February 2006 c1337](#)

²¹ [HL Deb 16 February 2006 cc1337–1338](#)

Referring to the added role of the Schools Forum, Lord Adonis described it as “an important devolution of power and responsibility”, and concluded by saying that the regulations “give schools unprecedented certainty and flexibility in their budgeting”.²²

In response, Baroness Buscombe, the then Opposition Spokesperson for Education and Skills, said:

We welcome the principal policy behind the regulations, the new ring-fenced dedicated schools grant, the multi-year budgets and the rationalisation of standards grants. We also welcome the rationalisation into one set of regulations and the fact that they cover two funding periods — 2006–07 and 2007–08 — with the intention of having three-year funding periods in the future in line with the spending review cycle.

She added that “despite the simplification, however, school funding is still incredibly complicated”, and raised a number of concerns with the regulations.²³

Baroness Walmlsey, the then Liberal Democrats spokesperson on Education and Skills, said while her party “welcome the move towards multiple-year funding”, it was “worrying that more and more control from the centre is proposed in the regulations, cutting out the discretion of LEAs”,²⁴ and queried the independence of School Forums, among other points.

The motion to approve the regulations was agreed without a division.²⁵

4.2 The School Finance Regulations: 2006 to 2011

The *School Finance (England) Regulations 2006* (SI 2006/468) covered the financial years 2006–07 and 2007–08.²⁶ They contained provisions for the introduction of the first multi-year budget, the DSG, and for the additional powers for School Forums that were announced by the Minister for Schools on 21 June 2005.²⁷

Although the 2006 regulations made provisions for the following two years, in 2007 the Government made the *School Finance (Amendment) (England) Regulations 2007* (SI 2007/365). In addition to some minor technical changes to the way the Minimum Funding Guarantee (MFG) operated in 2007–08, the regulations included the school finance measures that had been provided for in the *Education and Inspection Act 2006* in order to:

- place a requirement on local authorities to provide a new school with a budget share up to 15 months before it admits pupils, to cover any necessary start-up costs;
- give additional powers to School Forums to approve revisions to local authorities’ schemes for financing schools;

²² [HL Deb 16 February 2006 c1339](#)

²³ [HL Deb 16 February 2006 c1340–1343](#)

²⁴ [HL Deb 16 February 2006 c1343](#)

²⁵ [HL Deb 16 February 2006 c1350](#)

²⁶ Sections 45A, 45AA and 47 of the *Schools Standards and Framework Act 1998* (SSFA), as amended by the 2002 and 2005 *Education Acts*, make provision for the Secretary of State to make regulations governing the operation of funding for local education authorities. These regulations set the framework under which local authorities must provide budgets for maintained schools.

²⁷ See the explanatory memorandum to the draft SI at http://www.opsi.gov.uk/si/si2006/draft/em/uksidem_0110738985_en.pdf

- alter the regulations so that from September 2007 local authorities will be able to recover funding from schools to provide education for a pupil from the 6th school day after he/she has been permanently excluded.²⁸

For the three-year period, 2008–11, the *School Finance (England) Regulations 2008* (SI 2008/228) were introduced although the then Government said that “to a large degree, they re-enact provisions in the previous regulations”.²⁹

²⁸ See the explanatory memorandum to the SI at http://www.legislation.gov.uk/uksi/2007/365/pdfs/uksiem_20070365_en.pdf

²⁹ *School Finance (England) Regulations 2008 (SI 2008/228) – Explanatory Memorandum*, p1, para 2.2

5 The 2010 consultation on formula-based funding

The then Secretary of State for Children, Schools and Families, Ed Balls, announced on 15 March 2010 the publication of [Consultation on the future distribution of school funding](#).³⁰

The consultation document noted that the DSG used the “Spend Plus” methodology, which “has required the setting of a base year to which future increases are applied, in this case 2005-06, and so does not allow for changes in relative needs between local authorities since that time to be reflected. There is a strong case, therefore, for returning to a system where funding allocations better reflect current need”.³¹

Previously, in January 2008 the then Government had launched a review of the mechanism for allocating DSG, the findings of which had fed into the consultation:

The aim of the review has been to consider the development of a single transparent formula for the distribution of the DSG, which allocates resources in line with relative need, recognising the different costs of educating particular groups of pupils, particularly to meet the needs of disadvantaged pupils, and providing education in different areas.

To steer the work of the review and to gather evidence on relevant issues, a Formula Review group was established. This group included representatives from central and local government, teacher and headteacher associations, unions representing support staff and other interested parties.³²

The consultation paper set out the principles of the formula and the options within its various elements, and sought the views of schools and local authorities about the options.

Even before the consultation period had ended on 7 June 2010, the 2010 General Election had taken place and the coalition Government replaced the Labour Government. However, the new Government did publish [Consultation on the Future Distribution of School Funding 15 March 2010 to 7 June 2010 – Summary of Consultation Responses](#), having agreed that the consultation exercise should continue and that it would consider the responses in the development of its own funding proposals.³³ Further details on the strategy and policies of the coalition Government can be found in the Standard Note [School funding: moving towards a national funding formula](#) (SN/SP/6702).

³⁰ [HC Deb 15 March 2010 cc37WS–40WS](#)

³¹ Department for Children, Schools and Families, [Consultation on the future distribution of school funding](#), March 2010, p8, para 1.2

³² As above, p8, paras 1.3–1.4

³³ Department for Education, [Consultation on the Future Distribution of School Funding 15 March 2010 to 7 June 2010 – Summary of Consultation Responses](#), undated, p2