

Rt Hon Michael Gove MP
Sanctuary Buildings
Great Smith Street
London
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04 April 2011

Dear Michael

We are writing with reference to an issue which has caused great concern in authorities. This is the treatment of the final payment of the Standards Fund for 2010-11.

Since 2006-07 a small part of the Standards Fund has been paid in arrears, in the April following the financial year to which it relates. Schools and authorities, as appropriate, have been allowed a further five months to spend it.

When the Schools Funding Settlement for 2011-12 was announced local authorities were informed that the Standards Fund grants to schools would be incorporated in the expanded Dedicated Schools Grant. The full payment for 2010-11 was included in the DfE website calculation of the Guaranteed Unit of Funding for the 2011-12 DSG and in the technical note on the DfE website (see annex).

On 22nd March authorities learned that the DfE would not be paying the final Standards Fund payment for 2010-11 and that the equivalent sum (around £155m; amounting to 0.4% of the DSG payment for 2011-12) would be paid in arrears as if it were still part of the Standards Fund. This has caused great concern in authorities.

The Department has now sent two letters in an attempt to clarify the situation. In the most recent letter it says that there is no more money to deal with this in 2011-12. It suggests that authorities who wish to unwind the position deal with it by carrying forward an overspend as a pressure against DSG. This amounts either to a late notification of a cut to 2010-11 Standards Fund allocations or a cut in published 2011-12 DSG allocations, but either way the notification has come at a very awkward time.

Unfortunately this is unlikely to satisfy authorities. It is inappropriate to describe the outcome as a pressure, as this implies it is the LA that is spending too much, when in fact it is a cut in funding. It has, arguably, arisen from a failure by DfE to operate accruals accounting. In essence, LAs are being asked to find an ad hoc solution to a DfE generated problem, but the announcement has come too late to achieve this for 2011-12.

Where LAs have tried to act in the interests of their schools by providing budget shares early (we understand from one authority that theirs were issued on 2nd March) including mainstreamed grants in good faith, this prevents them from unwinding the Standards Fund arrangement unless they recall the allocations and reduce them; this is not helpful to schools' forward financial planning. If LAs did this, they would have to have a complicated conversation with their schools forum where they had

previously agreed to make some adjustments to the previous distribution. Schools will be very angry at losing funding at such a late stage.

If councils adopt the option of carrying forward the deficit on DSG, there is likely to be a negative cash flow implication for LAs, so there will be a Council Tax burden. In respect of the actual shortfall in Standards Fund money, local authorities will be in difficulty bearing in mind the 28% real terms cut in Council funding over 4 years as opposed to a standstill position for school funding - at least before this issue arose. Therefore the actual impact will be a reduction in funding for schools and pupils.

This is likely to be worse for the more deprived authorities as a proportion of the Standards Fund related to deprivation, so by implication it could dilute the impact of the Pupil Premium.

Authorities suggest that the facility to carry DSG forward is valuable in allowing them to manage local pressures and policy decisions, e.g. a rise in SEN after budgets have been set, or managing capital expenditure charged to the revenue account (CERA) across a multi-year capital programme when BSF and Primary Strategy money has disappeared.

We welcome the fact that DfE states in its letter that it will ensure that local authorities with converting academies do not suffer any pressure due to this issue. However some of these conversions are extremely complex and will be difficult to track.

If it is to be taken account of in the school funding review, we need assurances that this will be transparent, and that it is made clear how the money has been put into whatever new system emerges. At some stage this will have to involve new money.

Councils will have worked out for themselves that they have to carry forward the shortfall until a solution is found by DfE, but the message coming across is that there is little prospect of them owning the problem.

For all local authorities it is around £150m. We understand the Durham Schools Forum has written to you giving some examples of the consequences of a 5% holdback; for this single authority it represents a shortfall of £1.759m, which is a large amount to deal with.

A further issue relates to the minimum funding guarantee. The MFG rules around grant mainstreaming provide for the whole (100%) of 2010/11 Standards Fund and other grants to be put into the baseline for 2010/11 to be compared against the new formula in 2011/12 for using those grants. One authority informs us that 5% less is equivalent to more than - 0.45% out of the -1.5% MFG allowed.

In conclusion you cannot cut 2010-11 or 2011-12 allocations in March with no warning and expect anyone to be able to cope with the consequences. We would expect the DfE manage the consequences, not authorities and schools. Budgets have been set on the basis of information in the Settlement, redundancies considered and accounts for 2010-11 are now being closed. An announcement of a cut in funding at this stage has very significant consequences.

We would therefore urge the department, at this stage, to restore the position as we understood it prior to the 22nd March; that is pay the entire Standards Fund due for 2010-11 in addition to the agreed full DSG for 2011-12 in year. This cannot be regarded as a double payment as schools and authorities will see Standards Fund for 2010-11 as an issue for that financial year, regardless of the fact that they are allowed a further five months to spend it.

Yours sincerely

Eaton

Baroness Eaton, Chairman, Local Government Association

Matt Dunkley

Matt Dunkley, President, Association of Directors of Children's Services

SA Mark Rogers

Mark Rogers, Society of Local Authority Chief Executives and Senior Managers

Annex: Extract from Technical Note on the 2011-12 Schools Funding Settlement

Calculating the new GUF

- 15. For 2011-12 funding per pupil is being maintained at cash flat. The starting point for calculating the 2011-12 GUF is the DSG GUF for 2010-11 and the 2010-2011 allocations for the specific grants being mainstreamed into DSG.*
- 16. To enable the specific grants to be included in DSG we have derived a grant GUF for each local authority based on the allocations for these grants in 2010-2011. This will reduce the level of turbulence between local authorities. This "grants GUF" has been calculated from the pupil numbers used for the 2010-2011 DSG allocations (i.e. the January 2010 School Census, PRU Census, Alternative Provision and Early Years Census). As these pupil numbers include pupils in recoupment Academies, we have added the equivalent grant allocations for these Academies to each local authority's allocation.*