

Leaders' Committee

School funding update

Item no: 6

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Summary

This report outlines recent government announcements on school funding, including the pledges made in the Conservative manifesto and Queen's speech. It sets out our own analysis of the cost pressures facing London's schools (at Appendix 1) and proposes a set of actions for London Councils' campaigning in this area to take forward.

Recommendations

Leaders' Committee is asked to:

- Consider the implications of funding shortfalls to school budgets across London
- Support the proposed activity set out in paragraphs 20-22 for London Councils to take forward

School funding update

National Funding Formula (NFF)

1. The 2015 Conservative Party manifesto outlined a plan to protect schools funding, which would rise as pupil numbers increase, and also introduce fairer schools funding.
2. The first consultation on introducing the NFF, which was published in March 2016, proposed a model based on redistribution which meant that many London schools could lose a significant amount of funding as a result of the new formula being introduced. This consultation did not include any modelling of how the new formula could impact on schools. London Councils, therefore, undertook its own analysis which revealed that London's schools could lose £245m per year through the introduction of the NFF based without any protection.
3. London Councils submitted a response to the government's first consultation opposing any redistribution of the existing pot, instead calling on the government to find new money to ensure they could introduce the NFF without any school losing funding.
4. The government published the second stage of its consultation on the NFF in December 2016. This consultation presented a policy shift in terms of the proposed formula. The key changes to proposals set out in this consultation, following on from the first version are:
 - Capping overall funding reductions by 3% for every local authority area
 - Additional funding of £200m per annum in each of 2018/19 and 2019/20
 - Mobility will be used as a factor in the formula

These changes mean that London's schools face less of a reduction in funding than originally anticipated. London Councils estimates that London's schools will collectively lose £19m per year through the introduction of the NFF along these lines.

5. Following the discussion at London Councils' Leaders' Committee on 7 February 2017, London Councils submitted a consultation response on the NFF. The response recognised that the Department for Education has made a considerable shift in the way it plans to introduce the NFF since its last consultation.

6. However, London Councils raised significant concerns in its consultation response about the impact that funding cuts will have on the 70% of London schools still facing reductions to their budgets as a result of the NFF.
7. In addition to this cost pressure, schools have received a flat-cash funding settlement since 2010. Schools now face a number of additional unfunded costs, estimated by the NAO¹ to be equivalent to an 8% reduction in school budgets by 2020. Across the country schools are already coping with constrained budgets. Combining these cost pressures with the predicted cuts arising from the introduction of the NFF, we estimate that collectively London's schools will lose £360 million in 2018/19. Given this funding context, London Councils has serious concerns, which were highlighted in our consultation response, about the ability of London's schools to cope with such significant budgetary reductions without it impacting on their ability to deliver a high quality education.
8. To highlight the shortfall in funding facing London's schools, and the particular funding threat arising from the NFF as set out in our consultation response, London Councils has delivered an extensive media and public affairs campaign. This campaign has included mentions in: Times Educational Supplement; the Financial Times; the Guardian; the Evening Standard, as well as on BBC One, Radio 4 and Channel 4 news. London Councils organised a meeting for London MPs to discuss the impact of proposed budget cuts on London schools including with a panel of expert speakers from the education and business sectors. London Councils sent a joint letter with Core Cities UK to the Education Secretary urging the government to invest to ensure the introduction of the NFF does not result in funding cuts to individual schools.
9. After these two public consultations, we are now waiting for a response from the government on the final shape the formula will take. The formula is currently still expected to be introduced from April 2018. This means that the government consultation response is likely to be published in the summer to allow schools enough time to plan their budgets for next year. However, given the uncertainty following the general election it is not yet clear what the government's intentions are with the NFF and more general school funding commitments.

¹ *Financial Sustainability of Schools*, National Audit Office, December 2016

Talking Heads research

10. To better understand the challenges facing London's schools, particularly around funding, London Councils commissioned TES, The Education Company and Shift Learning to undertake quantitative and qualitative research with approximately 400 school leaders. This research was published as *Talking Heads: The Views of London's School Leaders on future challenges* on Monday 26th June 2017.
11. The research highlights how much London head teachers are already grappling with funding shortfalls and have very real concerns that these pressures will damage the quality of education schools can provide in the long term. 70 per cent of London school leaders who responded to the survey have already experienced budget cuts, 10 per cent more than those in the rest of England. 91 per cent are expecting their school budget to decrease over the next two years.
12. The Talking Heads report lays bare the negative impact of insufficient funding on teacher and teaching assistant numbers, curriculum options, learning resources such as IT equipment and textbooks, and the upkeep of school buildings. More than 80 per cent of head teachers believe that the quality of their school's environment will be harmed by further cuts and more than 70 per cent feel that pupil outcomes will be negatively affected.
13. London Councils plans to use this research to lend weight to its campaigning efforts on school funding going forward, as well as wider policy work on education.

Manifesto commitments and Queen's Speech

14. The government announced in its election manifesto, published in May 2017 that it plans to introduce the new National Funding Formula (NFF) with a commitment to ensuring that no school is worse off as a result.
15. In addition, the government has pledged to increase the schools budget by

£4 billion by 2022 in order to protect the schools budget in real terms. This amounts to an increase in the annual school budget by £1bn, on top of existing spending plans.

16. The government's increase in investment set out in its manifesto is being funded through scrapping the universal free school meals programme for children in the first three years of primary school (£650m), better systems management for the student loans companies (£200m), departmental efficiencies (£160m) and the soft drinks levy (£10m).
17. In the Queen's Speech on 21 June 2017 it was confirmed that the government would continue to work to ensure that all schools are fairly funded. The briefing note accompanying the Speech stated that the government will:
 - Deliver on their manifesto commitment to make funding fairer
 - Further increase the schools budget
 - Protect the Pupil Premium
18. The specific funding commitments outlined in the manifesto are not included in the speech or the briefing note. The manifesto pledge to scrap universal free school meals for children up to the age of seven has been dropped, which means that the government would need to find a new source of funding to make the investment in education promised in the manifesto.

London Councils' analysis of the cost pressures facing schools

19. This additional funding will be welcome to cash-strapped schools but it does not fully protect their budgets in real terms. In England, our modelling estimates that the total cost pressures on schools will be around £5.6 billion between 2017/18 and 2021/22. The Conservative manifesto pledges £4 billion of additional funding over the same period, which would leave a shortfall of around £1.6 billion (4.2%). The equivalent funding gap in London would be £300 million over the same period (4.3%). Our modelling factors in pupil growth, other cost pressures, reductions to the Education Services Grant and the cost of protecting all schools against losses from the NFF (estimated to be £335 million). An explanatory note setting out the detail of our modelling is appended.

Next steps

20. It is proposed that London Councils continues to lobby government on school funding, focusing on lobbying for £5.6 billion to be invested in the schools' budget to address the wider cost pressures facing schools rather than the specific impact of the National Funding Formula. The government has already committed £4 billion in its manifesto; it will be important to press the case for greater investment to address the full range of cost pressures facing schools over the next four years (as set out in the explanatory note in appendix 1).
21. The Queen's Speech noted that the Government would reflect on investment in public services, including schools, at future fiscal events. London Councils will continue to lobby government to ensure that the manifesto commitments on school funding are delivered and intends to use the Autumn Budget as an opportunity to lobby the government for increased investment in schools.
22. London Councils will analyse the government's consultation response on the introduction of the National Funding Formula as well as any announcements on wider school spending plans in detail when they are published later this year. It will ensure that the government delivers on its manifesto commitment to protect all schools from a funding cut as a result of the introduction of the NFF as well as increased investment in school budgets. Further updates will be provided on these developments to Leaders' Committee.
23. London Councils will be holding an education conference for key senior officers and lead members for education on 13th July 2017. The event will provide a forum to discuss challenges facing the school system at present, including funding pressures, and explore opportunities to help mitigate their impact on school standards across the capital.

Recommendations

24. Leaders' Committee is asked to:

- Consider the implications of funding shortfalls to school budgets across London
- Support the proposed activity set out in paragraphs 20-22 for London Councils to take forward

Financial Implications for London Councils

25. None

Legal Implications for London Councils

26. None

Equalities Implications for London Councils

27. None

Appendix 1: Explanatory note for London Councils' modelling of cost pressures facing schools between 2017/18 and 2021/22

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Explanatory note for London Councils' modelling of cost pressures facing schools between 2017/18 and 2021/22

Summary

London Councils has produced a model to estimate the potential cost pressures facing schools in England and London over the next parliament (2017/18 to 2021/22). The model factors in pupil growth, other school-specific cost pressures, reductions to the Education Services Grant (ESG) and the impact of the proposed national funding formula (NFF).

A significant number of assumptions are necessary to build a tractable model, especially beyond 2019/20. The findings are most sensitive to assumptions around pupil growth and school-specific cost pressures, which collectively account for 93% of the overall cost pressure in the final result.

Main findings

- Estimated cost pressures total £5.6 billion for schools in England between 2017/18 and 2021/22, including around £1.2 billion of cost pressures in London
- Based on the government's manifesto commitment to £4 billion of additional funding for the "overall schools budget", this leaves an England shortfall of £1.6 billion (4.2% of the current school budget)
- The London shortfall over the same period totals around £300 million (4.3%), based on additional assumptions to forecast London's share of the schools budget by 2021/22,
- From a 2015/16 base instead, the funding gap would total £4.4 billion between 2015/16 and 2021/22

Methodology

Four cost pressures are built into the model:

1. Pupil growth

All local authorities submit forecasts of pupil numbers to DfE each year, which are published as part of the annual school capacity survey (SCAP) and used to allocate the main school capital budget². These forecasts are built into the model with the following assumptions:

- Full SCAP pupil forecasts do not go beyond 2020/21, so growth in 2021/22 is assumed to follow the historic trend of decelerating growth (*table 1*)

<i>Table 1</i>	2015/1 6	2016/1 7	2017/1 8	2018/1 9	2019/2 0	2020/2 1	2021/2 2
Annual growth		2.6%	2.3%	2.1%	1.7%	1.4%	1.2%

² 2015-16 school capacity survey, underlying data ([DfE](#))

- Pupils in Y12 and Y13 are removed from the original SCAP data because sixth forms are funded separately
- The model uses growth in *total* pupil numbers. This potentially under-estimates the shortfall because it does not factor in the cost implications of higher relative growth at secondary level

2. Cost pressures

The National Audit Office's *Financial Sustainability of Schools* report outlines the cumulative per-pupil cost pressures facing schools in every year between 2015/16 and 2019/20.³

Their estimates are based on DfE's own internal assessment of school cost pressures covering national insurance and pension contribution reforms; annual pay awards and salary increases; the apprenticeship levy; and inflationary pressures on non-staff spending.

It is necessary to make assumptions about cost pressures beyond 2019/20 in the model. Since cost pressures in 2016/17 are exceptionally high⁴, the model assumes that cost pressures beyond 2019/20 are an average of cost pressures between 2017/18 and 2019/20 (table 2).

Table 2	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	6	7	8	9	0	1	2
Cumulative cost pressures		3.1%	4.6%	6.3%	8.0%	9.7%	11.4%
Annual growth implied		3.1%	1.5%	1.6%	1.6%	1.6%	1.6%

3. Education Services Grant

The NAO does not factor in reductions to the Education Services Grant (ESG) and the subsequent rolling-in of ESG into the schools block. ESG is now largely a historic cost pressure because the effective cut from £563 million in 2015/16 to £282 million in 2017/18⁵ has now been implemented. For future pressures on ESG, the model uses general inflation (CPI) and pupil growth, but this pressure has a minimal impact on the overall shortfall between 2017/18 and 2021/22.

For estimating cost pressures since 2015/16, the model only factors in the impact on maintained schools, which is likely to under-estimate the true impact. Conversely, the model assumes that all ESG pressures are passed on directly or indirectly to schools; this may over-estimate the impact if local authorities are able to make efficiencies or fund the budget gap from general funds.

4. National funding formula

The government has committed to protect all schools from any cash reduction as a result of the national funding formula. Previous London Councils analysis suggests that this would cost around £335 million in England.

³ [Financial Sustainability of Schools](#), National Audit Office

⁴ Likely to be due to the timing of NI / pension contribution reforms

⁵ Factoring in ESG transition grant, school improvement grant and retained duties ESG rolled-in to the schools block

The model effectively applies protection from the NFF first and, once schools reach their formula allocation, then applies real-terms protections. This means that “gainers” from the formula would receive slightly more than real-terms protection – i.e. real-terms protection is applied against the funding schools ought to receive under the funding formula, rather than current budgets. Without this assumption, any schools that lose funding under the NFF would not be protected in real, per-pupil terms.

Calculating the shortfall

The Conservative manifesto committed to £4 billion of additional funding for the “overall schools budget by 2022”. In the model, the overall schools budget is defined as the schools block and high needs block of the Dedicated Schools Grant (DSG).

If pressure on the high needs block is greater than on the schools block, cost pressures will be higher than the model suggests. In addition, the pupil premium and early years block are not included.

For England, the overall £1.6 billion shortfall is calculated by comparing the £5.6 billion of cost pressures against the £4 billion of additional funding announced.

To calculate a London shortfall, it is necessary to forecast the share of the overall schools budget that London will receive in 2021/22, requiring additional assumptions.

First, the London model takes the forecast proportion of pupils educated in London in 2021/22 (from SCAP). Next, it applies the current per-pupil “premium” that London receives in comparison to the England average. Finally, it assumes that London will receive its current share of the much smaller high needs block (since high needs pupil forecasts are not available) and applies the result to the England total.

The model shows a marginally higher cost pressure for London than England between 2017/18 and 2021/22 – this could be due to the relatively high share of funding needed to protect against the NFF or higher pupil growth.

Institute for Fiscal Studies⁶

The Institute for Fiscal Studies have completed similar analysis based on “expected inflation and student numbers”. The full methodology has not been published, but the IFS estimate a 2.8% real-terms fall between 2017/18 and 2021/22 under current plans. Our model estimates a 4.2% shortfall, but this reduces to 3.3% once ESG and the NFF are excluded to reach a more comparable figure.

⁶ <https://www.ifs.org.uk/publications/9252>