

Schools national funding formula – second round consultation response

Introduction

London Councils recognises that the Department for Education has made a considerable shift in the way it plans to introduce the NFF since its last consultation. These changes will make a difference to how much funding is available to many London schools. In particular, we support the 3% cap on overall reductions facing every school and the additional £200m per annum announced.

We still, however, have significant concerns 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. In addition to this impending threat schools have received a flat-cash funding settlement since 2010. Schools now face a number of additional unfunded costs, estimated by the NAO 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.

We have serious concerns 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.

Our analysis shows that it would take £335 million per annum of additional funding (just a 1% increase in the schools block budget) to protect all schools across the country from a funding cut arising from the introduction of the national funding formula. London Councils, therefore, is calling on the government to find this additional funding to ensure that no school faces further budget cuts as a result of the introduction of the NFF.

We support the inclusion of a funding floor. However, we are concerned that without sustained investment to raise all schools up to their final formula allocations more quickly, many schools will be overtaken by a prolonged and unmanageable funding freeze into the next parliament.

London Councils has a number of further areas of concern relating to the consultation proposals:

- Creating different distribution and accountability mechanisms for the schools and high needs blocks is inefficient and is likely to lead to confusion. We believe that the schools forum is the best mechanism through which to distribute all school revenue funding to schools as it allows for local flexibility to address any emerging issues swiftly and effectively.
- Basing pupil growth on lagged figures is highly problematic for London. Given that the capital needs an additional 113,000 school places between 2015-2020, it is vital

that schools have a funding mechanism that can direct money where it is needed quickly to cope with rising demand. We believe that the fairest way of funding additional unforecast demand would be through in-year contingency funding.

- London Councils does not support the difference in approach to the introduction of the apprenticeship levy between different types of schools. Whilst standalone academies are likely to be exempt, community and voluntary schools will be eligible for the levy because the local authority is classed as the employer. We believe that this variation cannot be justified and we call on the government to apply a consistent exemption to all schools with a pay bill under £3 million.
- Our analysis suggests that London boroughs face an effective £38.1m (46 per cent) cut in funding for central functions in 2017/18 as a result of savings to the Education Services Grant, assuming that schools forums approve the central retention of retained duties funding¹. The significant funding gap for statutory functions that this leaves creates an acute risk to school standards and pupil welfare in the capital. Therefore London Councils is calling on the government to reinstate this funding.

Consultation response

1. In designing our national funding formula, we have taken careful steps to balance the principles of fairness and stability. Do you think we have struck the right balance?

- 1.1 Following a positive policy shift since the first consultation, particularly with the introduction of additional funding and the 3% cap on overall funding reductions, the proposed national funding formula now strikes a better balance between fairness and stability. However, the delivery of a fairer system of school funding has been undermined by an inadequate level of overall funding.
- 1.2 Whilst the mechanics and financial impact of the new funding system are set out in detail, the government does not provide evidence that thousands of schools have the ability to maintain or improve performance levels with reduced cash budgets. This is a real concern for schools at a time when savings of 8 per cent are already required to meet wider cost pressures by 2019/20².
- 1.3 Over 1,500 London schools are set to face funding cuts as a result of the funding formula, typically of 2 per cent or more. Additional funding for schools set to gain will not be sufficient to meet wider cost pressures. Neither fairness nor stability can be achieved under a redistributive model.
- 1.4 Our analysis of illustrative school-level allocations suggests that £335 million of additional funding – just 1 per cent of the schools block – could be used to protect all schools from a cash cut and enable gainers to reach their formula allocations sooner. London Councils believes that this relatively modest amount of additional investment

¹ Factoring in the transitional ESG grant and the new school improvement grant – assumes the top-slicing of former retained duties funding is approved in all boroughs.

² *Financial Sustainability of Schools*, National Audit Office

is the fairest approach to delivering such a far-reaching reform, mirroring arrangements for the high needs national funding formula.

- 1.5 The proposed national funding formula is just one of several pressures on school budgets in London. As the National Audit Office identifies, reform of pension and national insurance contributions, the apprenticeship levy, pay rises, the national living wage and general inflation will all lead to additional costs for schools. London faces a particularly acute challenge around teacher recruitment and retention at all levels, which will only intensify if schools do not have the resources to attract the new teachers needed for a rapidly rising pupil population. These pressures will mean that schools will have to find significant savings from their budgets, which have already been reduced since 2010. This will make it difficult for schools to maintain standards, which poses a real threat to London's school improvement trajectory.
- 1.6 In addition to protecting schools from the impact of the funding formula, we believe that government has a broader responsibility to cushion schools against the impact of wider cost pressures, particularly those that are a direct result of government policy such as the apprenticeship levy.

2. Do you support our proposal to set the primary to secondary ratio in line with the current national average of 1:1.29, which means that pupils in the secondary phase are funded overall 29% higher than pupils in the primary phase?

- 2.1 Illustrative allocations show that the primary / secondary ratio is a key driver of funding changes at individual school level. Whilst national guidance on the appropriate ratio has been in place for some time, the decision to set this ratio solely through a national average still creates a high degree of turbulence in some areas and for some smaller schools.
- 2.2 For the primary / secondary ratio and the formula more generally, funding would correspond more closely with need if the proposals were underpinned by a much stronger evidence base on school cost drivers. The formula often has the effect of rebalancing funding between different types of school within an area (e.g by phase, school size or selection policy), which can appear arbitrary or unfair at an individual school level when it is the result of an unsophisticated national average approach.

3. Do you support our proposal to maximise pupil-led funding, so that more funding is allocated to factors that relate directly to pupils and their characteristics?

- 3.1 Yes. Local authorities already aim to channel as much funding as possible through pupil-led factors locally, in line with national guidelines. Whilst this should continue under a national formula, it is equally important that schools with exceptional characteristics - such as split sites and PFI contracts - continue to be recognised fairly in the new funding system.

4. Within the total pupil-led funding, do you support our proposal to increase the proportion allocated to the additional needs factors (deprivation, low prior attainment and English as an additional language)?

- 4.1 Yes. We support the principle of channelling a higher level of funding through additional needs factors in comparison to the proportion of funding currently allocated through these factors locally.
- 4.2 We support the increased weighting on additional needs factors in comparison to local formulas which will ensure that schools are better able to cope with the impact of deprivation. However, we have concerns about the distributional impact of the national funding formula. On average, the proposed funding formula would redistribute funding away from schools with the most deprived intake towards schools in more affluent areas. We would therefore be firmly against any reduction in the proposed weighting on additional needs when the formula is finalised as this would further disadvantage schools that are already dealing with significant challenges in intake as well as funding reductions. Additional funding is the only viable solution to the financial challenge facing schools of all intake types.
- 4.3 As the consultation recognises, under the current system a local authority might not use a particular factor if data does not vary significantly between schools in its area. For example, if all schools have equally high rates of EAL, funding could be channelled through the base rate instead of the EAL factor. The weightings in local formulas are therefore likely to underestimate the extent to which additional needs drive actual costs.
- 4.4 Under the proposed funding system, there would be an inconsistency between deprivation funding within the formula and deprivation funding channelled through the pupil premium outside of the formula. Whilst deprivation factors based on free school meals (FSM) within the national funding formula will be area cost adjusted, the pupil premium grant based on the same criteria is currently distributed through a flat per pupil rate. London Councils believes that the pupil premium should be protected and adjusted for area costs, in line with other education funding streams.

5. Do you agree with the proposed weightings for each of the additional needs factors?

- 5.1 English as an Additional Language data is currently the best available proxy for language proficiency, a key cost driver for many London schools. We agree that a more nuanced and direct measure of language proficiency would better align funding with need and support the ambition to move towards a system that uses data from the new school census question.
- 5.2 Updates to IDACI data will need to be managed carefully. Unlike the most recent update of IDACI data, local authorities will no longer be in a position to manage any turbulence once a 'hard' formula has been introduced. Similarly, the impact of the introduction of Universal Credit on the FSM will need to be recognised in the new formula.
- 5.3 The high weighting proposed for prior attainment nationally is likely to redistribute funding away from relatively high-performing areas such as London.

- 5.4 It is important that pupil premium funding continues to be allocated to disadvantaged pupils alongside the NFF. This funding provides vital additional support to children who do not have access to the educational advantages of their more-affluent peers.

6. Do you have any suggestions about potential indicators and data sources we could use to allocate mobility funding in 2019-20 and beyond?

- 6.1 London Councils strongly supports the inclusion of mobility as a formula factor, in line with our first round consultation response. Schools with higher rates of non-standard admissions face additional costs which are not captured through other factors, such as administrative costs and the wider cost of targeted catch-up programmes to counteract the impact on attainment. The decision to distribute mobility funding based on historic spend is a sensible interim measure, but we agree that a more sustainable methodology is required in the longer-term. Using a historic spend methodology, only 0.1% of funding will be channelled through the mobility factor, which is unlikely to capture the true cost of pupil mobility in London
- 6.2 London Councils commissioned the Education Datalab to produce detailed research into the impact of pupil mobility on London's schools. The report provides evidence of the higher levels of mobility in the capital and provides estimates of the per pupil costs of different types of mobility based on interviews with schools. Practical proposals for the design of a national funding formula factor, based on the national pupil database, are also outlined.
- 6.3 London Councils would therefore like to be involved in further discussions about how to design a pupil mobility factor that captures accurately the true cost of mobility to schools.

7. Do you agree with the proposed lump sum amount of £110,000 for all schools?

- 7.1 Especially following the opening of a number of small free schools in London the financial viability of small schools is not just an issue in rural areas. Given the challenges around securing large sites for new schools in the capital, this is likely to become increasingly relevant at secondary level: 40 secondary schools with fewer than 750 pupils are located in London, representing a relatively proportionate 11 per cent share of the national total.
- 7.2 The proposed formula could be challenging for schools with a particular faith or community focus, some of which can be as small as 1 FE. The impact on these schools should be considered specifically as part of the equalities impact assessment.
- 7.2 To support school place planning, the revenue and capital funding systems should work together to encourage the creation of new schools that are of an efficient size and able to deliver a full curriculum. The level of the lump sum is an important part of this incentive, so clearer national guidance on the minimum size of a sustainable new school would be beneficial.

8. Do you agree with the proposed amounts for sparsity funding of up to £25,000 for primary schools and up to £65,000 for secondary, middle and all-through schools?

n/a

9. Do you agree that lagged pupil growth data would provide an effective basis for the growth factor in the longer term?

- 9.1 No. Unfunded pupil growth is a significant challenge in London and we do not agree that the proposal to use lagged pupil growth data is an effective solution.
- 9.2 Under the current system, pupils who enter new or expanded schools essentially receive no funding for the first seven months of the academic year (September to March). Pupil growth within the financial year can only be met by recycling existing funding, redirecting funding away from other schools in the area. London Councils analysis suggests that unfunded in-year growth currently costs the capital's education system around £50 million each year.
- 9.3 The cost of pupil growth will not be met by a system with a one year lag included. A fair funding system cannot allow the continuation of unfunded pupils and we believe that in-year contingency funding should be made available for any pupil growth that has not been forecast through the growth factor itself.
- 9.4 London Councils is predicting that the capital needs an additional 113,000 school places between 2015-2020 to cope with rising demand. This amounts to 78,275 places at primary level and 34,835 at secondary. This is the largest increase in demand for places in the country and will put incredible strain on the school system to create these new places.
- 9.5 Whilst we agree that ONS population forecasts are not suitable for the growth factor, we believe that school capacity survey (SCAP) data could be more promising. Since the department already uses this data for the distribution of basic need funding, it could also be used as part of the growth factor on the revenue side.
- 9.6 The National Audit Office recently found that "57,500 of 113,500 new places in mainstream free schools opening between 2015 and 2021 will create spare capacity in some free schools' immediate area"³. This will create unnecessary additional pressure on revenue budgets for existing schools, so we believe that the location of new free schools should be more closely aligned with areas with the highest need.

10. Do you agree with the principle of a funding floor that would protect schools from large overall reductions as a result of this formula? This would be in addition to the minimum funding guarantee.

- 10.1 Yes. We support the principle of a floor funded by additional investment. The decision to introduce a 'hard' formula creates a very high degree of volatility, with the impact of the formula varying significantly between and within local authority areas. A permanent funding floor is therefore essential.
- 10.2 As the consultation recognises, schools in some areas would experience reductions of "over 10 per cent" without the inclusion of a funding floor. Whilst a permanent

³ <https://www.nao.org.uk/wp-content/uploads/2017/02/Capital-funding-for-schools.pdf>

funding floor is necessary within the current overall schools budget, it will create challenges and distortions for both 'winners' and 'losers'. For those schools that would experience the largest losses under the formula, the floor could lead to a prolonged and unmanageable funding freeze continuing into the next parliament – this would affect schools in London disproportionately unless there is a sustained investment of additional funding each year to raise all schools up to their final formula allocation more rapidly.

11. Do you support our proposal to set the floor at minus 3%, which will mean that no school will lose more than 3% of their current per-pupil funding level as a result of this formula?

- 11.1 According to the National Audit Office, schools will be required to make £3 billion of savings by 2019/20. In this challenging financial context, the consultation does not demonstrate that a further 3 per cent cash cut can be delivered without impacting on school standards.
- 11.2 Without conclusive evidence showing that schools are able to keep pace with existing cost pressures, we do not believe that a redistributive model is suitable for the new national funding formula. London Councils analysis shows that the introduction of a stronger funding floor is an efficient mechanism for providing cash protection to all schools in the country whilst ensuring that gainers reach their formula allocation sooner. A funding floor of zero per cent would cost just £335 million, equivalent to 1 per cent of the schools block.

12. Do you agree that for new or growing schools the funding floor should be applied to the per-pupil funding they would have received if they were at full capacity?

- 12.1 As the consultation recognises, effective per-pupil rates are much higher whilst a school is still filling up because the fixed lump sum makes up a greater share of the overall school budget. It would not be appropriate to use the same per-pupil baseline for schools filling up, because funding would be over-allocated to these schools. Further clarity is needed on the exact methodology and proposed data sources.

13. Do you support our proposal to continue the minimum funding guarantee at minus 1.5% per pupil? This will mean that schools are protected against reductions of more than 1.5% per pupil per year.

- 13.1 Yes, the MFG should continue as under the current system. With allocations set centrally for each school in the country, there are likely to be outlying schools that face significant changes in funding each year as data updates. A protection mechanism is necessary in addition to the funding floor, especially once the local authority role managing turbulence is removed under a 'hard' formula.

14. Are there further considerations we should be taking into account about the proposed schools national funding formula?

- 14.1 The system of funding new schools from 2018/19 will need to be considered carefully and separate arrangements are likely to be required. Without a baseline against

which to apply floors and caps, an unadjusted application of the new formula would lead to severely distorted funding levels for new schools.

- 14.2 Factors based on historic spend are unlikely to meet actual costs in high growth areas such as London. For example, the business rates factor will not meet the cost of bills for new and expanding schools. A mechanism for retrospective or in-year adjustment should be introduced for these factors.

15. Are there further considerations we should be taking into account about the impact of the proposed schools national funding formula?

- 15.1 Many of the cost pressures facing schools, as identified by the National Audit Office, are the direct result of government policy, such as changes to national insurance and pension contributions. Any action the government can take to ease these cost pressures would make the introduction of a fair funding formula less challenging.
- 15.2 For example, the apprenticeship levy will apply inconsistently across schools. Whilst standalone academies are likely to be exempt, community and voluntary schools will be eligible for the levy because the local authority is classed as the employer. London Councils does not believe that this different approach can be justified and we call on the government to apply a consistent exemption to all schools with a pay bill under £3 million.
- 15.3 London has a higher number of unaccompanied asylum seeking children (UASCs) than other regions and some areas have specific funding arrangements in place locally for this potentially key cost driver. UASCs are an example of an exceptional school-level pressure that a 'hard' formula will struggle to capture accurately at a national level but are currently picked up locally. The impact of the formula on similar cost drivers – uncommon, but highly significant for individual schools - will need to be considered carefully.
- 15.4 London's schools are facing considerable pressure to recruit high quality teaching staff across a range of subjects, as well as retaining them in the long term. TES reports in *A Question of Quality: TES Teacher Recruitment Index*⁴ that London is the region that has the most difficulty currently recruiting teaching staff. Funding reductions could further exacerbate this situation and impact on pupil outcomes.

16. Do you agree that we should allocate 10% of funding through a deprivation factor in the central school services block?

- 16.1 Yes. Local authorities in more deprived areas are likely to incur higher costs.

17. Do you support our proposal to limit reductions on local authorities' central school services block funding to 2.5% per pupil in 2018-19 and in 2019-20?

- 17.1 We support the inclusion of a funding floor in the new central school services block, but the protection that this isolated mechanism provides in 2018/19 will be insignificant when compared to the cuts to funding for central functions in 2017/18.

⁴ *A Question of Quality: TES Teacher Recruitment Index*, TES, April 2016

- 17.2 Our analysis suggests that London boroughs face an effective £38.1m (46 per cent) cut in funding for central functions in 2017/18 as a result of savings to the education services grant, assuming that schools forums approve the central retention of retained duties funding⁵. The government has recognised that this cannot be achieved through efficiencies alone.
- 17.3 To meet the shortfall, boroughs are forced to choose between reducing core school funding (either through a top-slice or buy-back model) or redirecting funding away from other key services through the use of general council funds. Neither option is a sustainable or sufficient solution at a time of unprecedented funding cuts for local government. The significant funding gap for statutory functions that this leaves is an acute risk to school standards and pupil welfare in the capital. Therefore London Councils is calling on the government to reinstate this funding into the education services grant.
- 18. Are there further considerations we should be taking into account about the proposed central school services block formula?**
- 18.1 Following the effective end of the education services grant and the decision to roll retained duties funding into the schools block, a new system of funding for central functions begins in 2017/18. One year later, a second system of funding central functions will be introduced through the new fourth block of DSG.
- 18.2 The introduction of two new systems in two years appears to lead to an uneven transition path for local authorities. A very large cut to funding for central functions from September 2017 will be followed by small losses or gains from 2018/19. London Councils does not agree with the proposed reduction in funding for central functions but, if the savings do go ahead, this would be an unnecessarily disjointed transition.

⁵ Factoring in the transitional ESG grant and the new school improvement grant – assumes the top-slicing of former retained duties funding is approved in all boroughs.