

Leaders' Committee

Introduction of the National Funding Formula for Schools

Item no: 7

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Summary

The Government plans to introduce a National Funding Formula (NFF) for schools in April 2017. It launched the first part of its consultation on the implementation of the new formula on 7 March 2016 for the schools block and high needs block of the Dedicated Schools Grant (DSG).

Among the proposals announced, the Department for Education (DfE) sets out plans to fund schools directly from 2019/20, which would significantly reduce the role of local authorities and schools forums in determining allocations. It also proposes a new 'central schools' block of funding for local authorities to deliver their statutory duties. This paper sets out the key proposals in the consultation, the potential implications for London local government and recommendations for next steps.

Recommendations

Leaders are asked to:

- Comment on the Department for Education's proposals to introduce a NFF and its implications for London local government
- Support the next steps and lobbying position set out in paragraphs 26-27

Introduction of the National Funding Formula for Schools

Introduction

1. Between 2010 and 2015, the Coalition Government began the process of school revenue funding reform with the aim of introducing a National Funding Formula (NFF) for schools to ensure school funding is simpler, more transparent and pupil characteristic led.
2. Building on these earlier reforms, 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. On 25 November 2015, as part of the Spending Review 2015, the Chancellor of the Exchequer announced his intention to implement the first ever national funding formula (NFF) for schools in April 2017, with a consultation to be held in early 2016.
3. Previously, London Councils has made representations to Government in response to its consultations on school funding reforms. These responses have included making the case for why London schools need higher levels of investment and why the funding system requires greater local flexibility to meet varied local need.

The Department for Education's consultation on *Schools and high needs funding reform*¹ (introduction of the National Funding Formula for schools)

4. The Department for Education (DfE) launched the first part of its consultation into the implementation of the NFF on 7th March on both the schools block and high needs block of the Dedicated Schools Grant (DSG). The consultation will close on 17 April. It intends to consult on a further paper, which will set out the detail of the factors that will determine school allocations, in due course.
5. The DfE has identified that there is significant variability in per pupil funding levels across the country. This is due, in part, to historic government funding levels and local authority investment, but also, in part, due to the way in which local authorities and schools forums allocate funding locally according to need.
6. In order to achieve its aim of creating a more transparent funding system, with less variability of funding levels, the DfE is proposing to introduce a number of reforms to the school funding system:

¹ <https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula>

- A new NFF for schools will be introduced in 2017-19. The DfE will allocate funding directly to schools (“hard national funding formula”) by 2019-20, rather than via local authorities; with a transition period between 2017-18 and 2018-19 during which local authorities will still be responsible for determining local allocations with their schools forums (“soft national funding formula”).
 - The DfE will create a new fourth block of the DSG, the ‘central schools’ block, to fund local authorities to deliver their ongoing statutory duties in respect of maintained schools and academies (e.g. admissions, pupil welfare) from 2017-18. Therefore, in 2017-18 and 2018-19 local authorities will be required by the DfE to pass all of the schools block of the DSG directly to schools. It also sets out an intention to merge the current Education Services Grant with the central schools block, to give each local authority one funding pot for providing central education services for its maintained schools and to deliver its wider statutory duties around education.
 - The DfE plans to remodel the DSG using a formula based on four building blocks: per pupil costs; additional needs costs; school costs; and geographic costs. These building blocks are based on 11 factors; a reduction from 14 available in local formulae.
 - It is proposed that a ‘minimum funding guarantee’ is retained in the schools block to ensure stability in the system.
 - The DfE will allocate funding for premises factors, growth and business rates to local authorities in 2017-18 and 2018-19 on the basis of historic spend, for them to distribute at a local level. It is consulting on whether this funding could be distributed on a formulaic basis from 2019-20.
 - There are plans to provide practical support to schools including through an ‘invest to save’ model. Schools will be free to determine how best to use this funding to help them manage the transition to a new NFF.
7. For the high needs block, there is a recognition of the important duties that local authorities have in relation to children and young people with Special Educational Needs and Disabilities. The DfE is proposing the following changes:

- A new NFF will be introduced for 2017-18, retaining the same distribution and allocation process via local authorities.
- The new formula will be based on a range of factors including population, health, disability, low attainment and deprivation.
- The formula will retain a significant element of funding based on what local authorities are currently spending and capping the gains and losses of local authorities each year, for at least the first five years.
- The DfE will provide financial and practical help to authorities to assist them in reshaping their provision, including capital funding for new specialist places and new special free schools.

Areas for consideration in the consultation response

8. The DfE's overall plan is to move to a system in which a pupil would attract the same amount of funding to his or her school wherever they live, before an Area Cost Adjustment is applied. This translates to a school-level national formula rather than a flexible local system with funding distributed via a local authority. Clearly, this proposed model will dramatically change the role of local authorities and schools forums in determining how investment is targeted locally to meet needs. The DfE will need to build in clear accountability structures and increased capacity in order to be able to fully take on this new role.
9. London local government will need to consider the impact of these changes on the wider school system, individual pupils and its own role in terms of delivery of statutory duties and ensuring local accountability in the system. At present local flexibility in the system allows local authorities and schools forums to address specific localised areas of concern, for example by targeting additional funding at Looked After Children in schools operating in challenging circumstances. Removing local flexibilities used by schools' forums to decide how to use funding to meet local need could result in a less refined funding mechanism that cannot respond to specific localised challenges or quickly to meet changing demand.
10. The consultation document sets out limits to the areas covered by the DSG. It suggests that early intervention work is not a valid area to be funded by the DSG². However, many local authorities use the DSG on the advice of schools to fund early intervention activities that

² P.54 <https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula>

enable pupils at risk to achieve improved educational outcomes. There is a risk that this change could have an adverse impact on attainment levels among vulnerable pupils.

11. The Department for Education plans for the NFF to be based on 11 factors. This is a reduction from the current set of 14. It has chosen to include the sparsity factor, which is only used by 24 local authorities in the country and none in London, and remove the mobility factor from the formula, which all London boroughs currently use. The DfE is proposing to pick up mobility in its growth formula. However, the consultation document does not provide much detail on how this growth formula will work. This could represent a significant challenge for London as, according to the National Pupil Database, non-standard admissions are consistently approximately 20% higher in London than elsewhere in England. The associated costs of dealing with in year mobility are considerably high, particularly for first time entrants to the education system.
12. It is also important to note that the DfE has committed to reducing the Education Services Grant (ESG) by £600 million by September 2017. The second phase of the consultation will include more details in terms of local authority funding allocations. It will clearly be important to ensure that the new central services block has sufficient funding, particularly considering the proposal to merge it with the reduced Education Services Grant, and is distributed fairly in order for local authorities to meet current costs in delivering central services as well as its wider education statutory duties.
13. The consultation document makes assumptions about the efficiency savings that schools would be able to make to cope with reductions in funding resulting from the introduction of the NFF. However, schools across the country have already experienced considerable real terms cuts since 2010. According to the Institute for Fiscal Studies³, school spending per pupil is likely to fall by around 8% in real terms (based on a school specific measure of inflation) between 2014–15 and 2019–20. Given the London inflation rate is higher than the national average, the real terms reduction is likely to be keenly felt by London's schools.
14. The DfE plans to consult on the third block of the DSG, the early years block, at a later date. It is difficult to be able to comment on the full implications of the proposals without knowing the detail of proposed changes to early years funding at the same time, as all three current notional blocks (schools, high needs and early years) in the DSG have considerable interaction in the current funding system.

³ <http://www.ifs.org.uk/publications/8027>

Wider funding implications for London's schools and further consultation

15. The Department for Education plans to publish further details, including weightings for allocations as part of the new NFF, in its second phase of consultation. This is expected to be published at some point before the summer.
16. It has made clear, in its consultation on *Schools and high needs funding reform*, that it intends to address the variability in funding levels by distributing more funding to areas and schools that are currently under-funded, while 'gradually reducing the funding of schools that have been generously funded to date'.⁴ The Government during the Spending Review 2015 did not announce any new funding to ease the transition to the NFF.
17. Currently 29 London local authorities receive higher than the national average per pupil funding levels, therefore London's schools are at significant risk of losing funding under any redistributive model. Until the DfE publish the allocation levels, it is difficult to ascertain full scale of the impact of the introduction of the NFF on London's schools.

Challenges of delivering the NFF in London

18. London Councils has undertaken some preliminary analysis of the criteria set out by the DfE in its consultation document *Schools and high needs funding reform*. The DfE is proposing that funding is distributed by calculating per school allocations, based on a formula based on eleven factors including an area cost adjustment. As the weighting placed on each factor will not be proposed until the second consultation, London Councils' preliminary analysis is based on the relative weighting placed on each criteria used to distribute an additional £390m in 2015/16 to address variability in the funding system.
19. Excluding any transitional arrangements or minimum funding guarantees applied in the short/medium term to manage losses and gains for schools, London could lose £245 million under a NFF (Appendix 1 provides analysis by local authority). To protect completely the Schools Block for all local authorities that would lose money under a NFF on the basis of this preliminary analysis, the Government would need to increase the DSG by £521million (1.7% of the existing Schools Block) per annum. If a school-level formula is introduced, £521 million ensures that the total sum allocated to schools in a local authority does not fall, but the amount needed to provide protection for every single school is likely to be higher. Insufficient data and

⁴ P.10 <https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula>

information means preliminary analysis of a NFF applied either to the High Needs Block or Early Years Block cannot be undertaken at this stage.

Complexities of the London education system

20. The London education system has been transformed over the past 20 years, which has been widely recognised. With strong leadership across the system, London schools have gone from being amongst the worst in the country to now consistently outperforming all other regions. For several years London pupils have continued to outperform their peers nationally at both Key Stage 2 and Key Stage 4. London has the highest percentage of both primary and secondary schools judged good and outstanding by Ofsted, 89 per cent compared to a national average of 85 per cent.
21. The London education system, however, experiences significant challenges. Not only does education cost more to deliver in London than elsewhere in the country, it also faces factors such as higher levels of deprivation and mobility. London schools need to continue to ensure that improvements are delivered to reduce the achievement gap for disadvantaged pupils, stretch the most able and enable more pupils to reach their full potential.
22. Further challenges loom with the capital's population set to continue to increase, with an estimated 146,000 new school places required by the end of 2020. This also places a disproportionate pressure on the London education system to recruit sufficient additional staff.
23. London schools are already facing considerable issues with teacher recruitment and retention. In London, over 50% of head teachers are aged over fifty and approaching retirement. As a result, governors report finding it harder to attract good head teachers in London and re-advertising rates⁵ for head teacher posts are higher in London than in other regions.
24. The proximity of London boroughs to each other alongside excellent transport links, result in higher levels of cross-border mobility than elsewhere in the country. More than 136,000 pupils educated in the capital are being taught at a school outside of the local authority they live in - 13 per cent of the total. This is double the proportion of pupils who cross council boundaries to attend school in England as a whole.

⁵ GLA: Building the Leadership Pool in London Schools
https://www.london.gov.uk/sites/default/files/slideshow_building_the_leadership_pool_2.pdf

25. Overcoming these challenges requires considerable resource, effort and expertise. The Government needs to continue to invest in the London school system to ensure the ongoing delivery of high quality education for all the capital's children.

Next steps

26. It is proposed that London Councils formulates a response to the first part of the NFF consultation in discussion with the Association of London Directors of Children's Services and the borough children's finance officers groups.

27. In tandem, London Councils will make the case to government for continued investment in London's schools, taking into account its complexities including deprivation, mobility and other local factors. It will focus its campaign on the following broad principles:

- To address any inequalities in the current funding formula, funding should be levelled up, rather than down
- Fairer funding through a NFF should not result in a reduction in funding for London's children
- Local flexibility over funding is vital to address and respond swiftly to local diverse and emerging issues

28. London Councils intends to undertake a number of activities to raise awareness of the potential impact of the NFF on London Schools, including media briefings, a member event and supporting the work of the All Party Parliamentary Group for London which has taken an interest in this area.

29. London Councils' Executive met with the Mayor of London for a Congress Executive on 1st March, where he indicated his support to work with London Councils to raise concerns about the impact of the NFF on London's schools. London Councils officers will continue to work with the GLA to seek opportunities for joint lobbying activity.

Recommendations

30. Leaders are asked to:

- Comment on the Department for Education's proposals to introduce a NFF and its implications for London local government
- Support the next steps and lobbying position set out in paragraphs 26-27

Financial and legal Implications for London Councils

15. None

Equalities implications

16. None

Appendix 1: London Councils' preliminary analysis of a NFF for schools block

Overview

- London Councils has completed preliminary analysis to indicate the possible impact on London of a national funding formula for the schools block.
- Although formula criteria were recently proposed by DfE in the consultation, the data sources that will be used in the final formula are not publically available and the relative weighting placed on each criteria will not be proposed until the second consultation.
- This is therefore early analysis to indicate the potential scale of the change, in the absence of complete DfE proposals. More granular local authority level analysis in particular should be treated as highly provisional.
- The analysis is roughly based on, but does not replicate exactly, DfE's proposals in the consultation and DfE's methodology for distributing an extra £390 million of school funding in 15/16.

Key findings

- London's schools could lose £245million under a new national funding formula, equivalent to 5,873 full-time teachers or 11,598 full-time teaching assistants.
- Inner London would be the hardest hit with a cut of 9.4%, equivalent to £586 per pupil, compared to a 4.5% cut across London.
- The DSG would need to increase by £521 million to completely protect all local authorities from a cash cut (1.7% of the schools block). If a school-level formula is introduced, £521 million ensures that the total sum allocated to schools in a local authority does not fall, but the amount needed to provide protection for every single school is likely to be higher.

Preliminary analysis by local authority

Borough	Preliminary analysis per pupil amount	DSG 15/16 per pupil	% cash per pupil change
City of London	5,459	8,587	-36.4%
Hackney	5,690	6,673	-14.7%
Tower Hamlets	6,083	7,007	-13.2%
Newham	5,360	6,125	-12.5%
Greenwich	5,333	5,998	-11.1%
Lambeth	5,685	6,377	-10.8%
Haringey	5,271	5,871	-10.2%
Lewisham	5,368	5,964	-10.0%
Southwark	5,566	6,116	-9.0%
Hammersmith and Fulham	5,803	6,241	-7.0%
Islington	5,857	6,222	-5.9%
Barking and Dagenham	5,250	5,575	-5.8%
Camden	5,863	6,198	-5.4%
Kensington and Chelsea	5,586	5,866	-4.8%
Hounslow	4,957	5,203	-4.7%
Barnet	4,804	4,981	-3.6%

Harrow	4,769	4,920	-3.1%
Wandsworth	5,424	5,574	-2.7%
Waltham Forest	5,072	5,197	-2.4%
Ealing	5,167	5,289	-2.3%
Brent	5,232	5,350	-2.2%
Redbridge	4,707	4,799	-1.9%
Enfield	5,087	5,187	-1.9%
Richmond upon Thames	4,508	4,499	0.2%
Havering	4,735	4,719	0.3%
Bromley	4,587	4,545	0.9%
Hillingdon	4,879	4,824	1.1%
Sutton	4,736	4,670	1.4%
Kingston upon Thames	4,690	4,594	2.1%
Westminster	5,994	5,864	2.2%
Bexley	4,728	4,619	2.3%
Croydon	4,996	4,829	3.4%
Merton	4,992	4,824	3.5%