

Executive

National Funding Formula for schools – stage 2

Item no: 5

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Summary

The government published the second stage of its consultation into the Schools and High Needs National Funding Formula on 13th December 2016. This report sets out the government's plans which includes an announcement of additional funding, a capping of overall funding reductions per school at 3% and a change to the proposed formula factors, which result in less funding leaving London than originally predicted. However, 70% of London's schools will lose funding as a result of the introduction of the NFF. This report also sets out the current challenges and financial pressures facing London's schools and outlines a position for London Councils to adopt in its ongoing lobbying work.

Recommendations

The Executive is asked to:

- consider the impact that the introduction of the NFF, alongside the current financial pressures facing London's schools, will have on school standards across the capital
- consider the proposed position and next steps from London Councils set out in paragraphs 24-26

Introduction of National Funding Formula for Schools

Introduction

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. On 25 November 2015, as part of the Spending Review, the then 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.
2. In March 2016 the government announced the first stage of its consultation on introducing the NFF. The key elements of the formula included:
 - Redistribution of funding amongst schools from within the existing schools block funding pot
 - Distributing all schools block funding directly to all schools, rather than via Schools Forums and the local authority
 - A reduction in the number of factors used in the formula, including the removal of the mobility factor
 - Creation of a central schools block of the DSG for local authorities to be able to discharge their education statutory duties in relation to all local children
 - Ring-fencing of funding within the four blocks of the DSG (schools, high needs, early years and the new central schools block)
3. The DfE did not announce any indicative allocations alongside the first consultation. Therefore, London Councils undertook preliminary modelling based on the published criteria to understand the potential scale of funding changes to London's schools. This modelling estimated that London could lose £245m per year through a new NFF based on redistribution without any capping or additional investment.
4. This modelling was shared with London Councils' Leaders' Committee on 22 March 2016, where it was agreed that London Councils' campaign should be based 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
5. London Councils made the case to government for continued investment in London's schools, taking into account its complexities including deprivation, mobility and other local factors. In tandem, London Councils mounted a significant lobbying campaign; briefing the media, London MPs and wider stakeholders on our position. London Councils has been consistently calling on the DfE to level up funding, rather than down, in order to address any inequalities in the current funding formula.
6. London Councils submitted a response to the first stage of the consultation, highlighting:
- Funding allocations should be protected through levelling up funding, not levelling down. Any reduction in schools funding risks having a detrimental impact on educational standards.
 - Schools forums provide local flexibility in the school funding system, which enables funding to be distributed swiftly and effectively in response to quickly changing circumstances, e.g. changes in pupil numbers.
 - Pupil mobility costs local authorities and schools a significant amount to manage and should, therefore, be included in the suite of factors on which the NFF will be based.
 - Basing an Area Cost Adjustment on the General Labour Market reflects more accurately the real additional costs to schools in London, than using the hybrid model proposed.
7. In July 2016 Justine Greening was appointed as the new Secretary of State for Education. She committed the DfE to take forward the NFF but changed the timetable, so that the new NFF would not be introduced to schools until April 2018.

Schools and High Needs National Funding Formulae – Government

Consultation stage 2

8. The government published the second stage of its consultation on the National Funding Formula on 14th December 2016. This consultation presents a policy shift in terms of the proposed NFF. The key changes to proposals set out in this consultation, following on from the first iteration 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
 - It is unclear whether the NFF will by-pass the Schools Forum, as proposed in the first consultation. The DfE has committed to further consultation on the future role of the Schools Forum, particularly in relation to the NFF.
9. The consultation included indicative allocations for every school. London Councils' analysis reveals that around 70% of London's schools will see a reduction in funding. London collectively will lose £19 million, significantly less than our initial cash flat modelling suggested last year. This is primarily due to the introduction of additional funding, which significantly reduces the amount of money from London that needs to be redistributed to fund gains elsewhere, along with a permanent 3% funding floor.
10. Nationally, 9,047 schools experience a reduction in funding under the revised NFF, including 1,536 schools in London. In total, these 9,047 schools experience a loss of £335 million. This, therefore, would be the total amount of additional funding that would be required to protect every school in the country from a cash cut.
11. The initial reporting of the consultation focused on inner London losing considerable amounts of funding and outer London gaining. Some outer London boroughs are, however, losing funding and some in inner London would gain.
12. These changes to the proposals for the NFF, along with the additional funding that has been announced, result in London losing less funding than initially predicted. London will, however, still see larger reductions in funding than anywhere else in the country and redistribution away from London to increase

funding in other parts of England rather than a funding formula based on the needs of schools wherever they are located.

13. Additional funding has been made available to ensure that no local authority loses funding as a result of the new high needs funding formula. Ten London boroughs gain high needs funding.

Current financial climate for schools

14. With 70 per cent of London schools set to receive less money, by as much as 3 per cent, from 2018/19, there will be considerable concern amongst schools about how this can be managed and the possible impact on school standards. While some may argue this is a relatively small amount and schools should be able to absorb this easily, it is unlikely they will be able to do so in addition to the wider budgetary pressures highlighted recently by the National Audit Office (NAO)¹.
15. The NAO's report into the financial sustainability of schools found that schools in England face a £3billion funding shortfall by 2020 (8 per cent of the current schools block) as a direct result of per pupil funding being protected in real terms since 2010, but not increasing with the rate of inflation. In addition schools are facing extra costs including salary increases, higher employment contributions to national insurance and the teachers' pension scheme, non-pay inflation and the cost of the apprenticeship levy. Consequently current DfE funding levels are not sufficient to cover costs in the majority of schools. The NAO estimates that over 60% of secondary academies and 59% of secondary maintained schools spent more than their income in 2014/15. Therefore, even a school that will have an uplift as a result of the introduction of the NFF is likely to have an overall budgetary reduction in this financial climate.
16. Combining the findings of the NAO's report with the illustrative allocations published by DfE, London Councils' analysis suggests that London's schools are set to experience a real-term reduction in funding of £360 million in 2018/19, the first year of the new NFF, in comparison to current 2016/17 baseline. All schools in the capital will experience a real-terms reduction in funding by 2019/20 because the cap on gains over the first two years of the new funding formula (5.5

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

per cent) does not exceed the funding pressures identified by the NAO (8 per cent).

Challenges of delivering high quality education in London

17. London is still the highest performing region in terms of pupil attainment at GCSE. However, in the past two years, the 5 GCSEs A*-C performance gap between London and all other regions has narrowed. Between 2013/14 and 2014/15 all regions saw their performance improve – except London which saw a 0.6 percentage point decline over the same period.
18. London boroughs have long been reporting difficulty in recruiting quality teachers 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*² that London is the region that has the most difficulty currently recruiting teaching staff.
19. London Councils is predicting that the capital needs an additional 113,000 places between 2015-2020 to cope with rising demand. This amounts to 78,275 places at primary level and 34,835 at secondary.
20. London has experienced a very rapid increase in demand for Special Educational Needs and Disabilities (SEND) places in recent years, far exceeding growth in other regions and among London's mainstream population. Between January 2011 and 2016, the number of pupils educated in dedicated SEND places in London rose 23 per cent from 18,8000 to 23,127. This was over twice the 10 per cent growth rate in the rest of England.
21. Given the scale of these challenges, any funding reductions will be keenly felt by London's schools. It will be increasingly difficult for schools to continue to drive up standards, recruit and retain quality staff, deal with rising pupil numbers and provide additional support for SEND pupils, within this context.
22. A NFF based on redistribution rather than need is directly contrary to the interests of London schools.

² *A Question of Quality: TES Teacher Recruitment Index*, TES, April 2016

Next steps

23. The position that London Councils' Leaders' Committee agreed in March 2016 - to ensure that fairer funding through a NFF should not result in a reduction in funding for London's children – is still applicable in relation to the NFF as set out in the second stage of the consultation.
24. It is proposed that London Councils draft a response to the NFF that makes the case for continued investment in London's schools, taking into account current pressures in the system. The response will draw on the wider context of budgetary reductions as identified by the NAO report and focus on the impact that any reduction could have on school standards across the capital.
25. It is proposed that London Councils continue work with head teachers, MPs and businesses to inform them of the risk to the standards of education in London and financial viability of London's schools.
26. The deadline for consultation responses is 22 March. Therefore it is proposed that a report is presented at London Councils' Leaders' Committee to secure support for a collective position on school funding.

Recommendations

27. The Executive is asked to:
- consider the impact that the introduction of the NFF, alongside the current financial pressures facing London's schools, will have on school standards across the capital
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Financial Implications for London Councils

28. None

Legal Implications for London Councils

29. None

Equalities Implications for London Councils

30. None

Appendix 1: National funding formula analysis

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Table 1 - % change by borough

Borough	Schools block (year 1)	Schools block (final formula)	High needs block (year 1)	High needs block (final formula)
Barking and Dagenham	0.0%	(0.1%)	2.8%	18.2%
Barnet	(0.3%)	(1.0%)	-	-
Bexley	0.9%	1.0%	-	-
Brent	(1.0%)	(1.9%)	-	-
Bromley	0.1%	(0.3%)	-	-
Camden	(1.4%)	(2.8%)	-	-
Croydon	2.1%	5.6%	-	-
Ealing	1.3%	2.3%	-	-
Enfield	1.2%	2.5%	2.9%	5.6%
Greenwich	(1.1%)	(2.3%)	-	-
Hackney	(1.4%)	(2.8%)	-	-
Hammersmith and Fulham	(1.4%)	(2.7%)	2.4%	3.2%
Haringey	(1.4%)	(2.7%)	-	-
Harrow	(0.3%)	(0.7%)	-	-
Havering	0.5%	0.6%	2.8%	8.2%
Hillingdon	1.7%	2.6%	2.8%	3.0%
Hounslow	0.3%	0.3%	-	-
Islington	(1.0%)	(1.5%)	1.0%	1.0%
Kensington and Chelsea	(1.3%)	(2.6%)	-	-
Kingston upon Thames	0.7%	1.0%	-	-
Lambeth	(1.4%)	(2.8%)	-	-
Lewisham	(1.4%)	(2.8%)	-	-
Merton	2.0%	4.3%	-	-
Newham	(1.4%)	(2.6%)	0.0%	0.0%
Redbridge	2.1%	4.1%	-	-
Richmond upon Thames	0.8%	1.2%	-	-
Southwark	(1.4%)	(2.7%)	-	-
Sutton	1.2%	1.9%	-	-
Tower Hamlets	(1.4%)	(2.7%)	2.8%	4.4%
Waltham Forest	(1.1%)	(2.0%)	2.1%	2.1%
Wandsworth	(0.7%)	(1.5%)	-	-
Westminster	0.5%	0.7%	0.6%	0.6%

Table 2 – number of schools experiencing gains / losses in funding by region

Region	Losses	Gains / no change	% losses
Total London	1,536	643	70%
<i>Inner London</i>	802	29	97%
<i>Outer London</i>	734	614	54%
East Midlands	698	1,215	36%
East of England	865	1,495	37%
North East	415	629	40%
North West	1,679	1,203	58%
South East	1,175	1,873	39%
South West	582	1,609	27%
West Midlands	1,156	1,017	53%
Yorkshire and the Humber	941	1,137	45%
ENGLAND	9,047	10,821	48%

Table 3 - % change by year compared to 16/17 baseline

Region	Schools block	High needs
London	(0.3%)	1.2%
<i>Inner London</i>	(2.4%)	0.6%
<i>Outer London</i>	1.0%	1.5%
East Midlands	2.5%	3.9%
East of England	1.5%	3.6%
North East	1.0%	2.9%
North West	0.1%	3.6%
South East	2.3%	1.8%
South West	2.2%	1.0%
West Midlands	0.3%	6.1%
Yorkshire and the Humber	1.5%	10.6%
ENGLAND	1.1%	3.4%

Caveats

- Full calculations, such as per pupil rates and pupil numbers, have not been published alongside the consultation. In addition, school-level and local authority-level allocation tables published by DfE do not reconcile with each other. Until London Councils is able to verify the full methodology, figures in this paper should be treated as provisional. DfE is expected to publish a more detailed technical note shortly.
- Further analysis will be needed to understand the interaction between each of the three blocks of DSG (schools, high needs and early years) and the new central schools block

