

Executive

School funding

Item no: 7

Report by: Hannah Barker **Job title:** Principal Policy & Projects Officer
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Contact Officer: Hannah Barker
Telephone: 020 7934 9524 **Email:** hannah.barker@londoncouncils.gov.uk

Summary

This report sets out recent key policy developments relating to school funding including on school revenue budgets, capital funding for schools and the high needs block of the Dedicated Schools Grant (DSG). In particular, the report summarises the announcement by the Secretary of State for Education on 17 July, in which an additional £1.3 billion per year was promised for the schools budget until 2019/20, and sets out the potential implications for London's schools. It also highlights the key lines set out in London Councils' latest *Do The Maths* report on capital funding for schools, as well as summarising London Councils' recent analysis on high needs block overspends across London. The report outlines further activity for London Councils to take forward in its ongoing lobbying work on school funding.

Recommendations

The Executive is asked to:

- consider the potential impact that the latest school funding announcement will have on schools across the capital
- discuss how London Councils should collectively respond to the challenges set out in the report on revenue funding, capital funding and high needs pressures

School funding

Revenue funding for schools

Introduction

1. The Conservative election manifesto, published in May 2017, announced a plan to introduce the new National Funding Formula (NFF) with a commitment to ensuring that no school is worse off as a result. The manifesto also pledged to increase the schools budget by £4 billion by 2022 in order to provide real terms protection. These commitments represented a success for London Councils, who have been lobbying consistently for school budgets to be protected from reductions incurred by the introduction of the NFF.
2. However, schools across the country have been facing considerable additional cost pressures, aside from the threat of reductions arising from the introduction of the NFF. London Councils undertook analysis to understand the cost pressures facing schools up until 2022. Our modelling estimates that the total cost pressures on schools in England will be around £5.6 billion between 2017/18 and 2021/22. This 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). Appendix 1 compares the methodology of this analysis with that of other published analyses of school funding pressures.
3. Following the Leaders' Committee meeting on 11 July, London Councils Deputy Chair and Executive member with responsibility for schools, Cllr Peter John OBE, sent a letter to the Secretary of State urging the government to invest £5.6 billion until 2021/22 to protect schools budgets in real terms.
4. The Secretary of State for Education, Rt. Honourable Justine Greening MP, made an Oral Statement on 17 July, setting out the government's school funding plans. She announced that the core schools budget will increase by £1.3 billion in 2018/19 and 2019/20. Every school will receive at least a 0.5 per cent a year per pupil cash increase, and schools classed as underfunded will receive a per pupil cash increase of up to 3 per cent per year.
5. The investment in the schools budget will be funded through efficiencies and savings made in the Department for Education's (DfE) budget. These savings will be made in:

- The main capital budget (£420 million), primarily in healthy pupils capital funding (£315 million)
 - The free schools programme (£280 million)
 - DfE resource budget (£250 million in 2018/19 and £350 million in 2019/20)
6. Also in the statement, the Secretary of State reconfirmed her commitment to create an additional 140 free schools by 2019/20, as announced in the last Budget, and highlighted that efficiencies would “include delivering 30 of the 140 schools through the local authority route rather than the central free schools route”. The Secretary of State also confirmed plans to introduce the NFF in 2018 and stated that the government will respond to the consultation in full in September 2017. There was no mention of school funding plans after 2019/20.

Implications of the funding announcement for London’s schools

7. The announcement represents a major success for London’s school age children and indeed for the lobbying of London Councils and the boroughs it represents. We have undertaken substantial lobbying activity since the initial consultation on the NFF to call for the government to consider the funding pressures already facing schools across the country and to invest an additional £335 million in school budgets to ensure that no school loses out as a result of the introduction of the NFF. The additional investment in the schools budget will be vital in supporting London’s schools to build on their current performance and continue to improve standards.
8. However, there are still significant concerns about how much of the new money London’s schools will receive. Subject to any changes when allocations are published in the autumn, it is highly likely that the 70 per cent of London schools previously set to lose funding under the draft NFF would still only receive the 0.5 per cent per year uplift; the minimum increase. The National Audit Office identified per pupil cost pressures of 1.6 per cent in both 2018/19 and 2019/20¹, suggesting that the schools receiving the lowest cash increase of 0.5 per cent will face a reduction in real terms per pupil funding. This means that London’s schools could receive substantially less of this additional funding than schools in other regions. This will only be confirmed in the early Autumn when school allocations are published.
9. The impact of the savings and efficiencies on other programmes in the Department for Education is uncertain. For example, it is unclear how the proposed savings to the

capital funding budget will affect the government's ability to help manage demand for school places in London, and what support and funding will be provided for councils creating new free schools via the local authority route.

Capital funding for schools

10. London Councils recently published the latest edition of *Do The Maths*, our annual school places planning report. The report highlights the predicted demand for school places across London for the next six years, identifies a number of issues with the current places planning system and makes a number of asks of government to support local authorities in their duty to secure sufficient school places and increase value for money in the free schools programme.

11. This year's projections in *Do The Maths* highlight a shortfall of 63,710 places across schools in London until 2022/23; this includes 27,376 at primary and 36,335 at secondary. This represents a slowing down of demand in the primary sector for the first time in almost a decade, although demand is growing steadily at secondary level. Some London boroughs are still facing considerable demand for places at both primary and secondary levels, in part due to ongoing housing developments. Through discussion with a number of local authorities, London Councils believes that this reduction in demand at primary can be attributed to a number of factors, including:

- Boroughs have delivered a considerable number of new places over the past year, helping to reduce the shortfall significantly
- There was a 2.3% decrease in the number of births between 2012 and 2013, reducing demand for reception places this year
- Affordability issues around housing has meant that families have moved out of some areas of the capital
- Some boroughs have reported changes in migration patterns amongst particular populations, potentially as an early indicator of changes brought about by the decision to leave the European Union.

Asks of government on capital funding and the free schools programme

12. Despite the reduction in the shortfall for places, London will still need additional funding for school places of an estimated £1 billion over the next six years – through

a combination of additional basic need funding and the central funding of places through the free school programme.

13. The report also sets out key recommendations in relation to the free schools programme, arguing that when local authorities are involved in creating new schools from the outset, then those new schools are more likely to meet the needs of the local community and avoid creating surplus places. At a time of considerable pressure on schools budgets the report argues that the DfE should be focusing on avoiding surplus places, which could lead to school closures, and prioritising free schools in areas of high demand. London Councils proposes in *Do The Maths* that the government should undertake a shift in the way it manages the free schools programme by:

- Ensuring strategic join-up between local government and the ESFA on free schools and land acquisition from the outset to ensure better value for money and delivering of sufficient school places
- Only approving free schools where they meet basic need
- Recognising and covering the costs to councils in working on free schools
- Compensating local authorities for all contingency costs when a free school has been delayed
- Aiming for all new secondary free schools to be no smaller than six Forms of Entry

14. The report also includes a substantial section on demand for dedicated Special Educational Needs and Disabilities (SEND) places, which has risen by 22% since 2010. The report calls on the government to commit to providing capital funding consistently to fully meet the costs of creating SEND provision, and to hold a further round of applications for special free schools to increase the amount of local SEND provision available.

15. For the first time, the report includes a section on further education (FE) provision. Demand for FE provision is expected to rise from 2020 as demand in primary and secondary move through the system. Furthermore, the government's focus on technical education and the multitude of reforms including the apprenticeship levy and the introduction of T levels will place significant capital requirements on providers. Thus, the report calls on the government to ensure that sufficient funding

is provided in a timely manner to ensure that local authorities can deliver on their duty to ensure sufficient places for all young people until the age of 18.

High needs funding for schools

16. London Councils recently carried out a survey to capture financial data for Children's Services, including the high needs block of the Dedicated Schools Grant (DSG). The survey found that, in 2016/17, the amount spent on high needs was greater than the amount allocated through the high needs block of the DSG in 23 out of 28 boroughs. The aggregate funding gap across these 23 boroughs was £94 million – equivalent to 14 per cent of aggregate high needs allocations or £4.1 million per borough.
17. This gap has most commonly been met by local authorities through transfers of funding from other blocks of the Dedicated Schools Grant (£40m). A minority of boroughs used reserves (£20m), DSG carry-forward (£11m) or general funds (£5m). Some respondents answered 'other', which accounts for the remaining £18m, and several reported that they used a combination of the above methods. As mainstream schools face increasing cost pressures, it is unlikely that many schools forums will support the ongoing movement of funds to the high needs block, so local authorities will be under increasing pressure to manage these overspends.
18. Another area of significant overspend was in SEND transport budgets, despite a substantially smaller budget. 24 out of 28 boroughs experienced overspends to SEND transport budgets in 2016/17, averaging £1 million per borough. Against aggregate budgets of £75.1 million, this equates to an aggregate 32.1 per cent overspend. Across 20 boroughs providing full data over time, spend on SEN transport increased by 23 per cent between 2013/14 and 2016/17.
19. The pressures on the high needs block and SEND transport budget are exacerbated by the high proportion of children with SEND who are educated in independent or out-of-borough provision due to lack of maintained specialist provision within the borough. The headline survey results were included in *Do The Maths* as an illustration of the need to provide capital funding and support to boroughs to create more specialist provision.
20. Proposals for a NFF included the introduction of a High Needs NFF, which the government plans to introduce in April 2018 at the same time as the schools NFF.

London Councils responded to the consultation on the high needs funding formula along with the main NFF consultation, emphasising that the pressures on high needs budgets are amongst the most acute of any local government service area in the capital and expressing disappointment that the scale and urgency of this financial challenge had not been recognised in the NFF proposals.

Next steps

21. Schools will receive their individual budget allocations in autumn 2017. It is proposed that London Councils conducts analysis at that point to understand how much of the additional £1.3 billion per year investment will benefit London schools and whether this will address all the additional cost pressures facing schools. If a shortfall is identified, London Councils will continue to lobby government to protect all school budgets in real terms.

22. It is proposed that London Councils continues to lobby government to reform the free school programme and secure an adequate basic need allocation for London boroughs. London Councils will seek a Ministerial meeting to discuss how to reshape the free school programme to better support local authorities in their sufficiency duty.

Recommendations

23. The Executive is asked to:

- consider the potential impact that the latest school funding announcement will have on schools across the capital
- discuss how London Councils should collectively respond to the challenges set out in the report on revenue funding, capital funding and high needs pressures

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendix 1: Analysis of cost pressures facing schools

1. London Councils modelling identifies cost pressures on schools amounting to £5.6 billion by the end of this parliament (2017/18 to 2021/22). The analysis found a resulting funding shortfall of £1.6 billion (4.2 per cent) for schools in this time period. This analysis was conducted prior to the Secretary of State's announcement in July, and was based on the Conservative manifesto commitment to invest £4 billion in schools over the course of the parliament. The model factors in pupil growth, other school-specific cost pressures, reductions to the Education Services Grant and the impact of the proposed NFF.
2. The Institute for Fiscal Studies (IFS) and the Education Policy Institute (EPI) completed similar analysis prior to the Secretary of State's announcement in July. The £1.6 billion shortfall predicted by London Councils compares to a 2.8 per cent real-terms, per-pupil reduction identified by the IFS over the same period (equivalent to £1.1 billion). The EPI's analysis shows a £1.3 billion shortfall estimate.
3. Unlike EPI and IFS analysis, London Councils modelling factors in the £335 million cost of introducing a "no loser" national funding formula – excluding this cost, London Councils modelling matches the £1.3 billion EPI estimate. The remaining discrepancy with the IFS estimate is likely to be due to the different data sources used for both pupil numbers and inflation. London Councils uses the forecasts of pupil numbers submitted by local authorities as part of DfE's annual School Capacity Survey (SCAP), whilst the IFS uses separate forecasts based on ONS population data. Likewise, the National Audit Office's school-specific measure of inflation used in the London Councils model differs from the general measure of inflation used by the IFS.