

# **Consultation response to *Schools and high needs funding reform***



## **Summary**

London Councils represents London's 32 borough councils and the City of London. It is a cross-party organisation that works on behalf of all of its member authorities regardless of political persuasion. This paper sets out the London Councils' response to both consultations relating to the Department for Education's *Schools and high needs funding reform*, published on 7<sup>th</sup> March.

## **London Councils' position**

### **Funding allocations**

London Councils believes strongly that any change to the way in which schools are funded should be fair and transparent, and that this means that no local authority area should experience a loss in schools funding as a result. We are therefore calling on the government to level up the funding across the country for both the schools and high needs blocks, rather than redistribute, to ensure that every school is given the tools to be able to match the country's best performing schools in London.

The London education system has been transformed over the past 20 years and London pupils now consistently outperform their peers at Key Stage 2 and GCSE. London has the highest percentage of schools that are good or outstanding in the country. We are concerned that reducing funding to London's schools will have a detrimental impact on the success of this improvement trajectory. Clearly, levelling up the funding would require additional resource, but we believe strongly that driving up standards across the country should be a government priority for investment.

London Councils welcomes the additional £500m announced by the Chancellor in the Budget to ease the transition to a National Funding Formula (NFF) but seeks clarity about how it will be allocated. We urge the government to use this funding to bring up allocations in areas that stand to gain under the NFF without impacting on school budgets in areas that stand to lose. We know that this funding will not be sufficient to protect schools funding in London in the medium term, therefore we will continue to call on the government to level up the funding to effectively protect the schools budgets in London.

### **Removing local flexibility**

London Councils does not agree with the proposal to remove the local authority and schools forum as the means of distribution for the Dedicated Schools Grant. A degree of local flexibility in the allocations process is vital to ensure that schools have access to funding to respond quickly and effectively to changing local circumstances, as demonstrated by the local authority response to updated 2015 IDACI data.

The schools forum model, with access to more granular and localised intelligence, is best placed to allocate funding transparently and fairly on the basis of a number of factors under a NFF, including: differentials of low prior attainment, age weightings, EAL

weightings, split site, post-16, PFI and exceptional premises. These factors require specialised understanding of the local circumstances at play to be able to ensure fair allocations. As representatives from schools and academies (including free schools) make up the schools forum, decisions agreed to are informed by the views as well as support of local schools.

### **Academisation agenda**

We are concerned about the implications of the drive towards an all-academy system by 2022 set out in the White Paper *Educational Excellence Everywhere* and how that fits with the introduction of the NFF within the same timescale. The White Paper sets out three ongoing roles for local authorities in an all-academy education system:

1. Ensuring every child has a school place
2. Ensuring the needs of vulnerable pupils are met
3. Acting as champions for all parents and families

It is not clear from the White Paper how local authorities will be able to fulfil these roles and discharge their remaining statutory duties sufficiently in an all-academy system without appropriate funding or levers.

Rolling out a NFF at the same time that maintained schools will be converting to academy status is likely to create additional pressure in the system, which could destabilise schools financially and put their improvement efforts at risk. The process of converting to academy status involves legal, financial and structural changes and most school leaders will have little or no experience of it. The implications of the introduction of the NFF resulting from the move towards wholesale academisation need to be more fully considered by the DfE in order to mitigate potentially damaging impacts.

### **Further concerns**

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

- An Area Cost Adjustment is needed for the NFF, as well as the pupil premium. This should be based on labour market costs which provide a fairer reflection of real costs in London.
- A deprivation factor is essential to ensure that the NFF is fair and responds to diverse local need. It should be based on a combination of pupil and area-level indicators.
- We do not support the funding cuts to the Education Services Grant and have serious concerns about the ability of local authorities to fulfil their statutory duties as a result of these cuts.
- The removal of the mobility factor will result in a considerable amount of cost not being recognised, and therefore funded. More details of the growth fund need to be published before we can comment fully.
- We do not agree with the proposal to base allocations on historic spend. London is experiencing unprecedented demand for places and needs a fair funding allocation to be able to afford to grow new provision.

- We estimate that London faces a £49m shortfall every year as a result of the lag in school census data. Growing pupil numbers need to be fully funded to ensure fairness in the system. We urge the government to fund this current shortfall and develop a more sustainable mechanism to fund growth.

## **Schools National Funding Formula – Stage 1**

### **London Councils' response**

#### **1. Do you agree with our proposed principles for the funding system?**

Whilst we agree with the principles of fairness and transparency behind the reforms, it is important that fairer funding through a national formula does not result in a reduction in schools funding for any area.

Despite protections on school funding, school spending per pupil has already faced reductions in real terms in many of our schools and the Institute of Fiscal Studies<sup>1</sup> predicts that it is likely to fall by 8% over the next five years. London's schools are already dealing with unprecedented rising demand for places, high levels of in-year pupil mobility and increasing challenges around teacher retention and recruitment. As a result, London schools are already managing real terms funding reduction to their budgets over the course of the parliament.

We have very real concerns that further reductions to school budgets resulting from the introduction of the National Funding Formula will place at risk the financial resilience of some schools, irrespective of their Ofsted judgement. Given the high proportion of spend on staff costs, it is unlikely that schools will be able to make further savings through efficiencies alone without impacting on performance. Therefore, any loss of funding could jeopardise the ability of schools to continue to deliver good educational outcomes and could put pupils' longer term employment prospects at risk.

We are therefore calling on government to level up the funding so that no local area in the country experiences a drop in funding as a result of the introduction of the NFF. This will help to protect pupils' outcomes and is the only way to ensure the NFF is fair to all pupils.

#### **2. Do you agree with our proposal to move to a school-level national funding formula in 2019-20, removing the requirement for local authorities to set a local formula?**

London Councils does not agree with the proposal to remove the local authority and schools forum from the allocations process. Schools forums have a far more granular and informed understanding of pupil characteristics at the school level, and should

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<sup>1</sup> <http://www.ifs.org.uk/publications/8027>

therefore maintain a role in the funding allocations process to be able to adjust national allocations through local formula to reflect diverse local need.

For example, when the IDACI indicator was updated in 2015, some areas unexpectedly saw a change in their index of deprivation. It was widely felt that the 24% reduction in child deprivation based on the IDACI measures did not reflect the true changes in need and therefore costs in London. It is only through the local schools forum system that local authorities were able to make change manageable by controlling the weightings of different factors; this would have been a major disruption under the proposed “hard” system.

This model would enable schools forums to manage turbulence in local schools swiftly. Given the likely disruption to schools as the introduction of the NFF comes on stream at the same time as the DfE intends to push forward its academisation agenda, it is vital that schools forums have local flexibility to dampen the impact of these changes on schools.

The Government has set out its ambition for an all-academy school system in England. With limited information following the announcement, there remains a high degree of ambiguity within the education system, not least due to this potentially reshaping already contested territory in education. With such uncertainty within the system this proposition is premature and therefore, the Government should keep schools forums in place.

We have responded to the questions in this consultation on formula factors considering which ones could be applied fairly at a national level and which ones require access to more localised intelligence and should therefore be applied locally.

### **3. Do you agree that the basic amount of funding for each pupil should be different at primary, key stage 3 and key stage 4?**

London Councils agrees that the basic amount of funding should be differentiated by stage of education, reflecting varying costs such as curriculum requirements and staffing levels.

The correct ratio between different stages can vary between schools and local authorities depending on, for example, the exact curriculum offered at different key stages. Ratios between different stages should therefore be determined at a local level.

Foundation age pupils require more supervision than Key Stage 1 and 2 pupils, so we believe that there should be an additional division between Reception, KS1 and KS2 to reflect the extra cost of educating younger children.

### **4. Which measures for the deprivation factor do you support?**

A deprivation indicator is essential to ensure that a national funding formula is fair and responds to diverse local need.

Closing the deprivation attainment gap continues to be a government priority with pupil premium funding protected over this parliament for this reason. It is vital, therefore, that

a national funding formula does not redistribute funding away from the most deprived pupils and reduce their chances of achieving as well as their peers.

London Councils supports a combination of pupil and area-level indicators. An area-level indicator should be used to reflect the “multiplier effect”: the per pupil cost in a class with a majority of pupils from a deprived background is likely to be greater than the per pupil cost of individual pupils in a much less deprived school.

We are concerned that neither the existing FSM indicators or the existing IDACI indicator effectively differentiate between transient and more persistent deprivation. Research by Professor Stephen Gorad shows that pupils who are consistently eligible for free school meals “consistently achieve lower grades at school than pupils who have only intermittently been eligible for FSM”<sup>2</sup>. The department should therefore develop an indicator to capture more persistent, severe deprivation.

We propose that a new FSM indicator should accumulate funding the longer a pupil has been eligible for free school meals. Separate per pupil rates would apply based on how many of the past six years a pupil has been eligible for FSM. For example, a pupil who has been eligible for funding for five out of the last six years would receive more funding than a pupil who has been eligible for funding in just one out of the past six years. Adjustments would be made for younger pupils who have not yet been in the school system for six years. The administrative burden of this and other FSM indicators should be minimised.

Eligibility changes as a result of Universal Credit should be considered to ensure that they do not cause disruption to school funding. Once Universal Credit is fully operational, we call on DfE to review its income indicators again, as well as consider the implications of changes to working tax credit. We would support a more tapered approach to household income criteria rather than using one flat cut-off point and believe that the particular costs of UASC should be recognised in a funding formula. We would also like to see more regular reviews of deprivation measures to ensure they are fit for purpose.

## **5. Do you agree we should include a low prior attainment factor?**

London Councils supports the inclusion of a low prior attainment factor.

We would urge the DfE to include an indicator to differentiate between different levels of low attainment, rather than using one cut-off point. This extra flexibility should be permitted under local formula at the discretion of schools forums.

## **6a. Do you agree that we should include a factor for English as an additional language?**

London Councils agrees with the inclusion of English as an Additional Language (EAL) as a formula factor. However, it is important to look at EAL alongside deprivation and mobility factors in order to understand potential educational disadvantage and to be able

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<sup>2</sup> <https://www.tes.com/news/school-news/breaking-news/pupil-premium-funding-a-blunt-instrument>

to cost appropriate support to mitigate this. It is essential that EAL funding fully meets additional cost pressures and supports ongoing work to close attainment gaps between EAL and non-EAL pupils.

**6b. Do you agree that we should use the EAL3 indicator? (pupils registered at any point during the previous 3 years as having English as an additional language?)**

London Councils agree that the “EAL 3” indicator should be included as one factor to cover the cost pressures from recent EAL entrants to the state system, but we propose that an unrestricted “EAL” factor should also be included. London Councils’ analysis of local formula data shows that EAL pupils who have entered the state system within the last 3 years make up an estimated 8.6% of the total number of EAL pupils in London. As above, we suggest that the interactions between EAL and deprivation and mobility factors are considered when calculating the formula.

As the consultation recognises, some pupils will require “sustained support over a longer period of time”. We believe that an additional indicator for EAL pupils who entered the system more than three years ago and are also eligible for either a deprivation factor or a mobility factor would maintained a targeted approach to EAL whilst meeting the cost pressures of EAL eligible pupils requiring more sustained support.

The consultation recognises that EAL is not a “precise measure” and we welcome plans to research a more direct measure of language proficiency. Given this uncertainty, the weighting of this factor should be determined at a local level, with the input of schools themselves through schools forums, to reflect the wide variety of circumstances and needs of EAL eligible pupils.

**7. Do you agree that we should include a lump sum factor?**

London Councils agrees that a lump sum factor should be included in a funding formula in order to meet fixed costs and address specific operating challenges in smaller schools and the rate should be based on evidence of actual fixed costs. However, there needs to be transparency about what the lump sum is being allocated to fund. It is important to avoid any double-counting, for example, with the sparsity factor for small schools.

**8. Do you agree that we should include a sparsity factor?**

London Councils believes that both sparsity and mobility should be included in the NFF, reflecting the particular challenges of sparsely populated rural areas and high pupil turnover in some urban areas.

£24.3 million was distributed through the mobility indicator in 65 authorities under local formula, compared to £14.5 million of funding distributed through the sparsity indicator by just 20 local authorities. It would be inconsistent to include sparsity but exclude the more widely used mobility indicator from a national funding formula.

**9. Do you agree that we should include a business rates factor?**

London Councils would support the inclusion of a business rates factor in the national funding formula to cover this specific, measurable cost. Given the proposals to base allocations to local authorities on historic spend, it is essential that funding corresponds promptly with actual costs every year.

**10. Do you agree that we should include a split sites factor?**

We agree that a split sites factor should be included to reflect the additional costs of schools with multiple sites, for example teacher travel costs, and propose that this is distributed through school forums, who will have greater understanding of the localised costs involved.

Allocations based on historic spend would not allow local authorities to allocate sufficient additional funding for any new split site schools.

The split site factor should be capped at the lump sum rate.

**11. Do you agree that we should include a private finance initiative factor?**

Private finance initiatives have led to high and unavoidable additional costs for some schools. We therefore support the introduction of a PFI factor and proposed that it is allocated as appropriate through schools forums, as they have greater intelligence of the localised costs involved. The priority should be to ensure that allocations are based on actual costs.

In the context of rapid mass academisation, we also have concerns about the financial risk to local authorities if they are to be liable for school deficits at conversion.

**12. Do you agree that we should include an exceptional premises circumstances factor?**

We support the inclusion of an exceptional premises factor to reflect very school-specific circumstances. An ongoing role for schools forums is necessary to allocate this funding, which requires a detailed school-specific understanding of school premises.

**13. Do you agree that we should allocate funding to local authorities in 2017-18 and 2018-19 based on historic spend for these factors?**

London Councils does not believe that funding should be funded based on historic spend. London's schools have been dealing with unprecedented demand over the past 7 years. London Councils' analysis shows that the capital's pupil population is set to increase by a further 146,000 representing 26 per cent of the overall national growth between 2015 and 2020.

Allocating on the basis of historic spend disadvantages areas with rapid growth and removes local authorities' flexibility to respond to unexpected changes in growth. It is vital that London receives a fair funding allocation that enables it to meet predicted rising demand every year. In order to do this, there would need to be a mechanism for adjusting historic funding in line with pupil growth, new schools opening and changing need.

#### **14. Do you agree that we should include a growth factor?**

London Councils agrees that a growth factor should be included in the formula, but does not believe that the proposals fully address the funding shortfall schools face during periods of pupil growth.

DSG allocations are currently based on the most recent census, which means data is taken from the October of the immediately preceding financial year. This creates a lag between the pupil count used to calculate the schools block element of DSG and the actual number of pupils educated from September-April of the financial year.

We estimate that London faces a £49 million shortfall in revenue funding every year as a result of this lag. A sustainable solution requires additional DSG funding to meet the system's currently unfunded pupils.

#### **15. Do you agree that we should allocate funding for growth to local authorities in 2017-18 and 2018-19 based on historic spend?**

We do not agree that funding for growth should be allocated based on historic spend. London has faced such a considerable and variable increase in demand for places over the past 7 years, that basing the formula on the previous year's pupil numbers would not be accurate and would leave a great many places unfunded.

Instead, we urge the government to introduce a more sustainable mechanism to resolve the current lag in funding for schools during periods of pupil growth, as outlined in our response to question 14.

#### **16a. Do you agree that we should include an area cost adjustment?**

We believe that an area cost adjustment is essential to reflect higher costs in London. The cost of living in London is significantly higher than the rest of England and this is recognised through the national teacher pay scales. A starting salary for a teacher is typically £5,000 higher in inner London than elsewhere in the country and this is reflected throughout staffing budgets. With 73 per cent of a school's budget on average allocated to staff costs, this means that London's schools have to find considerable levels of additional funding just to mitigate the cost of living in London.

In addition, London schools are 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 rates<sup>3</sup> for head teacher posts are higher in London than in other regions.

An area cost adjustment should be applied to all education funding streams, including the pupil premium. London Councils remain disappointed that calls for an area cost adjustment to the pupil premium, including the pupil premium plus, continue to be ignored. Spend on deprived pupils is impacted by regional differences in costs; current pupil premium allocations mean that deprived pupils in London are not able to access the same level of pupil premium support as deprived pupils elsewhere.

We propose that an area cost adjustment is applied to pupil premium grant allocations in line with core school funding. It would be inconsistent to include an area cost adjustment within core school funding for FSM, but not to apply it for exactly same criteria outside of the main formula in the pupil premium.

### **16b. Which methodology for the area cost adjustment do you support?**

London Councils supports returning to the general labour market measure for area cost adjustment. In an increasingly challenging environment for recruiting and retaining teachers, it is essential that a funding formula fully captures London's significantly higher staff costs.

The teacher salary component of the hybrid area cost adjustment methodology treats the market for teachers as if it operated in isolation from wider labour market pressures. Yet when recruiting and retaining teachers, schools must compete with both the independent school sector and alternative career paths. This is reinforced by the move to full academisation, which will reduce the power of national pay scales and mean that the wider labour market will increasingly determine teacher pay levels.

True staff costs are therefore best captured by the more straightforward, transparent general labour market measure, rather than the hybrid area cost measure.

Whichever methodology is chosen, the GLM methodology should be refined to ensure that local authorities that have costs in line with inner London authorities, particularly inner London teacher pay scales, receive an inner London adjustment.

The area cost adjustment should be updated regularly to reflect relative regional changes in the labour market over time.

### **17. Do you agree that we should target support for looked-after children and those who have left care via adoption, special guardianship or a care arrangements order through the pupil premium plus, rather than include a looked-after children factor in the national funding formula?**

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<sup>3</sup> GLA: Building the Leadership Pool in London Schools  
[https://www.london.gov.uk/sites/default/files/slideshow\\_building\\_the\\_leadership\\_pool\\_2.pdf](https://www.london.gov.uk/sites/default/files/slideshow_building_the_leadership_pool_2.pdf)

We support bringing funding for looked-after children into one transparent funding stream. However, increasing the per pupil rate for looked after children in the pupil premium should not be funded by reducing the total amount allocated through DSG.

### **18. Do you agree that we should not include a factor for mobility?**

London Councils believe that pupil mobility meets the criteria set out in the consultation for inclusion as a formula factor.

Many schools face a significant cost pressure from pupil mobility beyond the pressures captured by other factors: this includes both the administrative cost of pupil mobility, and additional support as pupils settle into a new school. In 2015/16, 65 local formulas included mobility as a factor, confirming that the indicator captures a significant cost pressure for many schools. Many further local authorities would like to use mobility but cannot because of the 10% cut-off point under the current system.

£24.3 million was distributed through the mobility indicator in 65 authorities under local formula, compared to £14.5 million of funding distributed through the sparsity indicator by just 20 local authorities. It would be inconsistent to include sparsity but exclude the more widely used mobility indicator from a national funding formula.

We believe that the 10% cut off point should be removed so that an appropriate per pupil rate can be applied to all mobile pupils. This would create a transparent, fair, pupil-level indicator that captures need at the pupil-level, meeting the consultation's criteria for inclusion as a factor.

### **19. Do you agree that we should remove the post-16 factor from 2017-18?**

Whilst we recognise the anomaly of funding post-16 through the pre-16 formula, London Councils believes that the removal of the post-16 factor should be phased in over a much longer transitional period, with local flexibility maintained to make the change more manageable. Savings to post-16 budgets have placed significant pressure on schools, and any unintended consequences of pre-16 reforms may harm plans to increase post-16 participation rates and the capacity of schools to include all pupils post-16.

To protect schools that currently receive funding through the post-16 factor, schools forums should be allowed to include a post-16 factor in local formula in line with the MFG.

### **20. Do you agree with our proposal to require local authorities to distribute all of their schools block allocation to schools from 2017-18?**

London Councils disagrees with the proposal to end the ability of local authorities to transfer funding to and from the schools block.

If an area experiences swiftly changing demand pressures, the ability to move funding between the blocks enables new places to be fully funded. In a rigid system that allows

no movement of funding between the blocks, schools will risk overspending or not be able to provide sufficient places, leaving children without a school place.

High needs demand is not predictable and fluctuates between years, so the relative pressure on schools and high needs can vary in ways that a national funding formula could not accurately predict. Local authorities currently transfer funding between blocks to manage this uncertainty, so removing the ability to transfer funding between the schools and high needs blocks is likely to put significant pressure on high needs budgets.

Furthermore, if the high needs block sits with the council as a standalone, ringfenced budget with no relationship to the schools budget, there will be a financial incentive for schools to put forward children for EHCPs without the wider financial disincentive of an overspend on the high needs block impacting on the schools block, and under the current proposals without wider accountability via the Schools Forum.

Interaction with the early years block will also need to be considered carefully. The early years consultation has not yet been published, but we believe that flexibility between all three blocks should be maintained.

## **21. Do you believe that it would be helpful for local areas to have flexibility to set a local minimum funding guarantee?**

A NFF should include a MFG at a national level, but with flexibility between the blocks to enable schools forums to address any changing circumstances swiftly on a local level.

London Councils believes that, at a time when schools are already facing real terms cuts, no local area should lose funding as a result of a new national funding formula. A national minimum funding guarantee should therefore be set at 0%, with those local authorities set to gain from a national funding formula levelled up to their formula allocations. This would enable allocations to increase, for example, in line with growth plans.

The most cost effective way to protect schools from turbulence would be to set a 0% minimum funding guarantee at the local authority level whilst retaining the schools forum system. Local formulas could then be used to provide necessary protection at the school level, subject to local decision-making. This would require less additional funding than providing protection at a school-level under a “hard” system that bypasses local authorities.

### **Education Services Grant**

## **22. Do you agree that we should fund local authorities' ongoing responsibilities as set out in the consultation according to a per-pupil formula?**

London Councils believes that local authorities should be funded for ongoing statutory responsibilities but we have very real concerns that there will not be sufficient funding in

the Education Services Grant to do this sufficiently. If government removes funding from local authorities, it should remove any associated responsibilities at the same time.

London Councils is concerned that proposals to save £600m from ESG will lead to an indirect cash reduction to core school funding, on top of potential losses from the national funding formula and on top of other cost pressures.

Local government has already faced, and continues to face, the largest savings of any government department. Core settlement funding assessment will fall by 36.7% in real terms between 15/16 and 19/20. Local authorities are already making difficult decisions about how to meet their statutory responsibilities – including how, and whether, to deliver different services. Local government budgets will not have the capacity to meet any unfunded education responsibilities.

The consultation recognises that “savings cannot be made through efficiencies alone” and that, even with the removal of certain statutory responsibilities, “local authorities will need to use other sources of funding to pay for education services”. There is a considerable risk that local authorities would therefore not be able to fully meet their statutory duties.

For academies, the removal of the general funding rate means a direct cut to core school funding through the general annual grant. For maintained schools, the effect is more indirect but could potentially be as significant.

We are very concerned that ESG savings, which from previous announcements are only required over the course of this parliament, would be almost entirely implemented from September 2017. Given the scale of the change proposed in an already challenging context, this is an unnecessarily tight timeframe and we believe that strong transitional arrangements are equally essential for the general rate paid to local authorities for maintained schools.

We believe that a lump-sum, to reflect costs invariant to size of local authority, should be considered in the central schools block formula alongside per-pupil funding.

London Councils welcomes the proposals to include an area cost adjustment in respect of the new ‘central schools block’. This should be applied consistently across all school funding streams, including the pupil premium.

**23. Do you agree that we should fund local authorities’ ongoing historic commitments based on case-specific information to be collected from local authorities?**

We believe that no local authority should be disadvantaged by historic commitments.

**24. Are there other duties funded from the education services grant that could be removed from the system?**

If the government intends to fulfil its plan to see forced academy conversion by 2022, it is important that local authorities and schools have clarity and sufficient funding to deliver their statutory responsibilities over the next five years.

London Councils believes that local authorities should continue to be responsible for services to maintained schools over this period, such as school improvement, and no changes in these duties should occur.

The capital's pupils have consistently outperformed their peers at Key Stage 2 and GCSE for a number of years. This year they achieved 60.9% five A\*-C GCSEs including Maths and English, the highest rate for any region in England and above the national average at 57.3%. However, we are not complacent in London and know that, despite this success, almost 40% of pupils leave school without good GCSEs. School leaders in London are committed to focusing on improving outcomes for these pupils. However, there is a risk that this success and ongoing improvement drive will be undermined by the turbulence caused by the introduction of the NFF and academisation of maintained schools.

**25. Do you agree with our proposal to allow local authorities to retain some of their maintained schools' DSG centrally – in agreement with the maintained schools in the schools forum – to fund the duties they carry out for maintained schools?**

We do not support the funding cuts to the Education Services Grant and have serious concerns about the ability of local authorities to fulfil their statutory duties as a result of these cuts. The ESG is used by schools to fund a range of vital support services, such as education psychologists and early intervention work, that are unlikely to be funded without the ESG. General local government budgets should not, and are very unlikely to have capacity to, meet ESG savings. Local government has already faced, and continues to face, the largest savings of any government department.

It is important that local authorities and schools forums continue to have local flexibility over how the DSG is deployed.

**High Needs National Funding Formula**

**London Councils' response**

**1. Do you agree with our proposed principles for the funding system?**

Whilst recognising the variability in the current high needs funding system, London Councils believes that the introduction of a formulaic approach to high needs funding would cause substantial disruption without a strong protection mechanism. We are concerned that the proposed national high needs funding formula, based on proxies rather than the assessed needs of children and young people, would only loosely correspond with true need and actual costs.

London Councils therefore strongly agrees with the retention of the local authority distribution mechanism for high needs, allowing school-level allocations to be based on granular local knowledge and allowing local authorities to manage turbulence in the system.

However, given the substantial pressures on high needs budgets that already exist, we believe that protection for local authorities should go further than proposed in the consultation. No local authority should face a reduction in high needs funding as a result of the new national funding formula. Instead, all local authorities set to gain from the reform should be levelled up to their formula allocations, without redistributing funding away from other local authorities.

High needs budget overspend can currently be met by redistributing funding between the notional blocks. We believe that retaining the flexibility to move funding between the three notional blocks of the Dedicated Schools Grant would make the changes to both schools and high needs more manageable.

## **2. Do you agree that the majority of high needs funding should be distributed to local authorities rather than directly to schools and other institutions?**

London Councils agrees with the proposals to retain the local authority role in distributing high needs funding to schools and believes that the vast majority of high needs funding should be distributed through local authorities

As the consultation outlines, any national funding formula will inevitably be based on a series of proxies, estimates and assumptions; at the school-level, centrally set allocations would not correspond accurately with 'true' need. Schools forums have a much more granular and direct understanding of local circumstances – including relative need across all schools and other institutions in their area - so it is right that the current distribution mechanism is maintained for high needs.

For the same reason, London Councils believes that the two-step distribution mechanism should also be retained for the schools block.

## **3. Do you agree that the high needs formula should be based on proxy measures of need, not the assessed needs of children and young people?**

London Councils recognises that proxies are a necessary part of a national funding formula. However, we are concerned that, without a direct measure of high needs such as the detailed data compiled in SEN 2 returns, the resulting formula will only be a very rough approximation of true need and actual costs. Regression analysis in the ISOS report shows that there is only a very partial fit between the five-indicator model and a series of direct measures of high needs. For example, only 19% of variance in the number of pupils with SEN statements or School Action Plus is explained using the five indicator model ( $R^2=19\%$ ).

Given this uncertainty, we believe that it would be too risky to take funding away from a local authority using a formula that even at a local authority level does not correspond accurately with true need and true costs.

#### **4. Do you agree with the basic factors proposed for a new high needs formula to distribute funding to local authorities?**

Whilst we agree that the system would require safeguards to prevent the over-identification of need, factors that directly measure need are essential in a high needs formula. A high needs formula that relies entirely on proxies cannot accurately reflect actual cost pressures, especially for high cost, low incidence SEN.

It is essential that the extension of local authority responsibilities for high needs up to age 25 is adequately funded; the challenge of meeting this requirement will increase as pre-16 pupils with EHC plans feed through the system. The growth in high needs place allocations from 2014/15 to 2015/16 is predominately in post-16, with a 3.4% increase in 19-25 year olds, compared to 1% pre-16.

We do not believe that post-16 high needs is adequately recognised under the current proposals because all of the data sets proposed do not extend beyond age 18. The age range for the population factor should be extended to 25 rather than 18, and a more direct measure of post-16 need should be developed.

London Councils supports the inclusion of health and disability factors as a proxy for high needs, but we are concerned that the proposed indicator is only updated every ten years. To avoid building disruptive step changes into the system and to ensure that a formula is responsive to changing need, this data should be updated every year.

We agree that low attainment should be included as one proxy for high needs. We believe that indicators that can differentiate between levels of low attainment would be more helpful, rather than a simple cut-off point as proposed. In line with our schools funding formula response, London Councils believe that a more nuanced measure of persistent deprivation should be included. We also believe that if IDACI is used it should be updated annually to avoid the disruptive step change seen when the data was updated in 2015.

High needs spend is demand-led, but the national high needs quantum does not currently track either increases in total demand or inflation. We believe that a fair and transparent mechanism should be introduced to ensure high needs funding keeps pace with increasing demand and cost pressures, including both the national high needs control total and specific local authority allocations.

#### **5. We are not proposing to make any changes to the distribution of funding for hospital education, but welcome views as we continue working with representatives of this sector on the way forward**

The budget for hospital education is especially volatile because of the very small number of pupils, if any, covered at the local authority level each year. We therefore believe that hospital education funding should be reformed and funded centrally, potentially through health budgets, to reflect the very high volatility in costs.

#### **6. Which methodology for the area cost adjustment do you support?**

London Councils believes that the general labour market measure should be used, in line with our schools block consultation response.

In an increasingly challenging environment for recruiting and retaining school staff, it is essential that a funding formula fully captures London's significantly higher costs.

The teacher salary component of the hybrid area cost adjustment methodology treats the market for teachers as if it operated in isolation from wider labour market pressures. Yet when recruiting and retaining teachers, schools must compete with both the independent school sector and alternative career paths. This is reinforced by the move to full academisation, which will reduce the power of national pay scales and mean that the wider labour market will increasingly determine teacher pay levels.

True staff costs are therefore best captured by the more straightforward, transparent general labour market measure, rather than the hybrid area cost measure.

**7. Do you agree that we should include a proportion of 2016-17 spending in the formula allocations of funding for high needs?**

We agree that a proportion of 2016-17 spending should be included as a formula factor, although the inclusion of this factor is not sufficient to manage turbulence in the system. We believe that full protection at the local authority level is the only way to effectively manage the change without impacting on outcomes.

**8. Do you agree with our proposal to protect local authorities' high needs funding through an overall minimum funding guarantee?**

London Councils agree that a minimum funding guarantee should be introduced to provide certainty to local authorities. Given the existing pressures to SEN budgets and uncertainty in the formula itself, we believe that a minimum funding level of 0% should be set at the local authority level.

The baselining exercise does not allow inclusion of either high needs budget overspend information or overspend to overall DSG. This means that the baseline against which a minimum funding guarantee would be applied would not reflect true spend for some local authorities.

**9. Given the importance of schools' decisions about what kind of support is most appropriate for their pupils with SEN, working in partnership with parents, we welcome views on what should be covered in any national guidelines on what schools offer for their pupils with SEN and disabilities.**

We would welcome more consistent guidelines of what schools are expected to provide for SEN themselves, developing on the SEN Code of Practice.

**10. We are proposing that schools with special units receive per pupil amounts based on a pupil count that includes pupils in the units, plus funding of £6,000 for each of the places in the unit; rather than £10,000 per place. Do you agree with the proposed change to the funding of special units in mainstream schools?**

London Councils believe that the full amount of funding allocated to special units should be fully area cost adjusted, rather than allocating a flat top-up of £6000 per place.



**11. We therefore welcome, in response to this consultation, examples of local authorities that are using centrally retained funding in a strategic way to overcome barriers to integration and inclusion. We would particularly interested in examples of where this funding has been allocated on an “invest-to-save” basis, achieving reductions in high needs spending over the longer term. We would like to publish and good examples received**

London boroughs use centrally retained funding to achieve economies of scale and manage volatile costs. This is more cost effective than if special schools bought in services independently.

For example, in Croydon, maintained special schools can draw upon a centrally managed therapies budget. This gains economies of scale, but also allows the borough to afford a level of provision that can compete with independent provision when taken to tribunals.

Many local authorities retain specialists to provide guidance to schools when they admit children with needs that have not been experienced before. This central expert knowledge allows funding to be used more effectively and efficiently.

The South London SEN Commissioning Programme is a formal collaboration across 10 south London boroughs with a combined independent sector spend of £75.7 million. Boroughs participate on an “invest to save” basis, with each borough contributing £15k a year and receiving an average return on investment of 1777%. This has assisted boroughs to manage rapidly rising demand, which not been met by a corresponding increase in funding.

**12. We welcome examples of where centrally retained funding is used to support schools that are particularly inclusive and have a high proportion of pupils with particular types of SEN, or a disproportionate number of pupils with high needs**

In Barking and Dagenham, the local authority pays an additional lump sum to all mainstream schools where higher than 1.5% of their roll have statements/EHC plans. This ensures that there are appropriate incentives to encourage inclusive maintained schools.

**13. Do you agree that independent special schools should be given the opportunity to receive place funding directly from EFA with the balance in the form of top-up funding from local authorities?**

Commissioning provision in independent special schools can be costly, so it is important that the reform incentivises cost effective, quality high needs provision.

Clarity is needed over how the proposed change would be funded. If a flat top-slice is applied to the national high-needs block total to meet the costs of EFA place funding, local authorities that currently commission fewer independent special school places would effectively lose out compared to local authorities that commission more independent places. Conversely, recoupment from individual local authorities would create an unnecessary administrative burden.

We believe that an effective mechanism for monitoring unfilled places is also necessary.

**14. We welcome views on the outline and principles of the proposed changes to post-16 place funding (noting that the intended approach for post-16 mainstream institutions which have smaller proportions or numbers of students with high needs, differs from the approach for those with larger proportions or numbers), and on how specialist provision in FE colleges might be identified and designated.**

The proposal to recognise colleges that deliver specialist provision to significant numbers of students with high needs is welcomed. Many of London's local authorities have worked with their surrounding colleges to build up specialist provision to improve the Local Offer for young people and provide greater choice. We would, however, caution against transplanting the school based designation of 'unit' to further education. The designation should recognise the provision that colleges offer in helping to prepare young people for adulthood right across the curriculum and through the use of the college's entire facilities.

The simplification to fund the majority of post-16 settings on a formulaic basis is also welcomed. We urge the Department to look at the current methodology for allocating disadvantage funding specifically block 2, in addition to the process of changes to post-16 place funding. The English and maths condition of funding is putting significant pressure on disadvantage funding, leaving little room to fully meet the needs of students with support costs lower than £6,000. This creates a perverse incentive for some institutions to push costs over the high needs threshold to secure additional element 2 funding in the following years allocation.