

The future of school funding

The government has launched the second stage of its schools National Funding Formula (NFF) consultation, providing local authorities and schools with a guide of how much funding they stand to gain or lose. The new formula aims to address wide gaps in school funding between different geographical areas by using a new method to distribute cash. This briefing highlights the key points from the consultation for London, along with an analysis of how the NFF is likely to impact London's schools.

Introduction

The second phase consultation for the NFF for schools and high needs was launched by the Department for Education (DfE) on the 14th December 2016, with responses accepted until 22nd March 2017. The consultation provides detailed proposals for the design of the new national funding formulae for schools and high needs, and for the new central school services block for local authorities. It builds on the previous consultation about the principles and structure of the new funding system, which ran between March and April 2016.

The first consultation set out proposals to create a new NFF based on redistribution of the existing funding pot. London Councils' preliminary modelling of these proposals estimated that London could lose £245m per year through a new NFF based on redistribution without any capping or additional investment. As a result, London Councils has been lobbying with London MPs for extra investment in education to ensure that no school loses funding and those set to gain receive the funding as soon as possible.

The new consultation states that under the proposed funding formula changes, a total of 10,740 schools (54 per cent) in England would be funded at a higher level than in 2016-17. However, it also confirms that 9,128 schools (46 per cent) would be funded at a lower rate. It is the intention of the DfE to move towards this new funding formula in 2018-19, which will be a transitional year, with a view that the hard formula will be implemented for 2019-20. A total of 101 local authority areas will see gains and 49 will see reductions.

Analysis

The publication of the second stage consultation is an important step to delivering a national funding formula. It is the first time the DfE has provided illustrative allocations by school and local authority, so it is possible to understand the scale and size of funding gains or losses. While DfE stresses the illustrative allocations are based on current pupil characteristics, which are likely to change between now and when the national funding formula is implemented, it is the most accurate basis for analysis.

Set out within the consultation, the DfE has also committed to allocating an additional £200m in 2018-19 and 2019-20 (a total of £400m over a two year period) on top of the current value of the schools block. This money has been found to provide protections for schools facing reductions and rapid increases for those set to gain.

In addition, the consultation sets out:

1. **Funding floor** – ensuring no school will see their per pupil funding amount decrease by more than 3%

2. **Funding gains** - schools that will see their per pupil funding amount increase will receive gains of up to 3% per-pupil in 2018-19, and then up to a further 2.5% in 2019-20. So a school could see its per pupil amount increase by a maximum 5.5 % compared to current levels within a two year period.

These changes to the proposals to the NFF set out in the first consultation and additional funding that has been announced have resulted in London losing less funding than predicted, however it will see larger reductions in funding than anywhere else in the country.

Regional breakdown

According to London Councils' analysis, each region will have schools that gain and lose funding under government proposals. Table 1 provides a regional overview of total number of schools and whether their allocations decrease, increase or do not change when compared to 2016-17 allocations.

More schools in London will see reductions in their allocations in 2019-20 compared to all other regions. A total of 1,536 schools (70 per cent) will receive less funding, followed by 58 per cent of schools in the North West and 53 per cent of schools in the West Midlands.

Table 1

Region	No of schools losing funding	No of schools that gain/no change	Total % losses
London	1,536	643	70%
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%

London borough breakdown

While DfE is yet to publish its technical note to explain details behind some of its illustrative allocations, London Councils has been able to carry out preliminary analysis. It shows that a

total of 19 London boroughs will lose funding under the proposed schools national funding formula when compared to their current allocations.

Table 2 shows that losses range from 0.1 per cent to 2.8 per cent and, at the same time, the biggest gains in London are for Croydon 5.6 per cent and Merton 4.3 per cent. Although these figures are an aggregate of individual school allocations by local authority area, school allocations will vary within each area.

Table 2

Borough	% change total allocations between current rate and NFF rates
Barking and Dagenham	-0.1%
Barnet	-1.0%
Bexley	1.0%
Brent	-1.9%
Bromley	-0.3%
Camden	-2.8%
Croydon	5.6%
Ealing	2.3%
Enfield	2.5%
Greenwich	-2.3%
Hackney	-2.8%
Hammersmith and Fulham	-2.7%
Haringey	-2.7%
Harrow	-0.7%
Havering	0.6%
Hillingdon	2.6%
Hounslow	0.3%
Islington	-1.5%
Kensington and Chelsea	-2.6%
Kingston upon Thames	1.0%
Lambeth	-2.8%
Lewisham	-2.8%
Merton	4.3%
Newham	-2.6%
Redbridge	4.1%
Richmond upon Thames	1.2%
Southwark	-2.7%
Sutton	1.9%
Tower Hamlets	-2.7%
Waltham Forest	-2.0%
Wandsworth	-1.5%
Westminster	0.7%

Other information to note

Funding formula factors

- Deprivation and English as an additional language (EAL) receive a relatively higher weighting than under previous methodologies, benefitting London overall.
- DfE will include a pupil mobility factor as part of the methodology to allocate funding for schools, this factor caters for pupils arriving mid-term. In the first consultation the removal of this factor was proposed. London Councils lobbied against this as it costs London's schools significantly to deal with the impact of high levels of mobility.

Schools forums – There is no clear position on schools forums, despite proposals in the first consultation to distribute funding directly to schools and by-pass schools forums completely. However, DfE will consult further on the precise arrangements for 2019-20 when the hard national funding formula will be implemented. This consultation is likely to include proposals for legislative changes and the future role of schools forums. London Councils argued strongly for the retention of schools forums as the means of distributing the DSG to schools, as they provide local flexibility to be able to respond swiftly to changing circumstances.

Central services funding block – The DfE is proposing to create a new funding block known as central services funding block to distribute funding to local authorities to discharge their education statutory duties in relation to all local children. It will be formed from two existing government funding streams: the schools block funding that is currently held centrally by local authorities and the retained duties element of the Education Services Grant (ESG) and will be distributed to local authorities on a simple formulaic basis.

High needs – The DfE has also published a high needs national funding formula consultation on the 14th December, which will run until the 22nd March. Under DfE proposals, no school will lose any funding for their high needs per pupil funding.

Commentary

The publication of the second stage schools and high needs funding consultation by the DfE provides further clarity about their proposals. While the picture is positive for many parts of the country and within London, it is not the case overall in the capital.

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 school leaders 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.

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,

¹ *Financial Sustainability of Schools*, National Audit Office, December 2017

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 had a budgetary overspend 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 deficit in this financial climate.

London Councils has been consistently urging the DfE to level up funding rather than redistribute the existing funding pot across the country. The proposals set out in the second stage of the NFF consultation include some additional funding, a capping of overall funding reductions at 3% and changes to the factors, all of which have reduced the budgetary loss to London. However, London is still the worst hit region and it is likely that any budgetary reductions, coming on top of existing financial pressures, will have a significant impact on standards in London's schools.

London Councils will continue to lobby on behalf of London to make the case for more investment in its schools. It will be meeting Nick Gibb, Minister of State for School Standards, in early January 2017 to this effect and will continue to brief the media, London MPs and the business community on the impact of the NFF and current financial pressures facing London's schools.

London Councils will be submitting a response to the second stage of the consultation on the NFF. The deadline for response is 22 March 2017. It is important that as many school leaders, parents, businesses and other key stakeholders submit a response to this consultation make the case to government for greater investment in London's schools. The consultation documents can be accessed here: <https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2/>