**WESTMINSTER CITY COUNCIL**

**SCHOOLS FORUM 10th OCTOBER 2016**

 **REPORT BY THE HEAD OF RESOURCES**

**NATIONAL FUNDING FORMULA UPDATE**

This paper provides the background on the stage one stage one of the national funding formula consultation and models the potential impact on schools. To review the transition arrangements prior to the implementation of the national funding formula .

**FOR INFORMATION**

**NATIONAL FUNDING FORMULA CONSULTATION**

**1.0 Background**

1.1 A new funding formula is expected to set a national rate that every school will get for each pupil, and extra rates for those with additional needs. From 2017-18, the amount of money schools and local authorities get will be based on the characteristics of their pupils rather than purely historic calculations.

1.2 A government source said: “This is a key part of our goal of extending opportunity and providing educational excellence, everywhere.

1.3 “It means bringing an end to a system that has become arbitrary and unfair. We’ll ensure that there is a smooth transition, with a pace of change that is manageable for schools and local authorities.

1.4 “We are ensuring schools across England are funded fairly so that parents know all pupils, whatever their background and wherever they live in the country, have access to a good education.”

1.5 Among the proposals announced, the Department for Education (DfE) sets out plans to fund schools directly from 2019/20, which would significantly reduce the role of local authorities and school’s forums in determining allocations. It also proposes a new ‘central schools’ block of funding for local authorities to deliver their statutory duties.

1.6 At the heart of this highly charged debate are historical disparities in funding between schools in different areas. A complex array of local and national funding arrangements, developed over decades, can mean schools that are barely miles apart but sit across borough or county boundaries receive vastly different funding per pupil.

**2.0 Impact on London Schools**

2.1 London Councils has undertaken some preliminary analysis of the criteria set out by the DfE in its consultation document *Schools and high needs funding reform*. The DfE is proposing that funding is distributed by calculating per school allocations, based on a formula based on eleven factors including an area cost adjustment.

2.2 As the weighting placed on each factor will not be proposed until the second consultation, London Councils’ preliminary analysis is based on the relative weighting placed on each criteria used to distribute an additional £390m in 2015/16 to address variability in the funding system.

2.3 London’s schools could lose £245million under a new national funding formula, equivalent to 5,873 full-time teachers or 11,598 full-time teaching assistants.

2.4 Inner London would be the hardest hit with a cut of 9.4%, equivalent to £586 per pupil, compared to a 4.5% cut across London.

2.5 The DSG would need to increase by £521 million to completely protect all local authorities from a cash cut (1.7% of the schools block).

**3.0 Initial Analysis Per Borough**

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| --- | --- | --- | --- |
| **Preliminary analysis by local authority Borough**  | **Preliminary analysis per pupil amount**  | **DSG 15/16 per pupil**  | **% cash per pupil change**  |
| City of London  | 5,459  | 8,587  | -36.4%  |
| Hackney  | 5,690  | 6,673  | -14.7%  |
| Tower Hamlets  | 6,083  | 7,007  | -13.2%  |
| Newham  | 5,360  | 6,125  | -12.5%  |
| Greenwich  | 5,333  | 5,998  | -11.1%  |
| Lambeth  | 5,685  | 6,377  | -10.8%  |
| Haringey  | 5,271  | 5,871  | -10.2%  |
| Lewisham  | 5,368  | 5,964  | -10.0%  |
| Southwark  | 5,566  | 6,116  | -9.0%  |
| Hammersmith and Fulham  | 5,803  | 6,241  | -7.0%  |
| Islington  | 5,857  | 6,222  | -5.9%  |
| Barking and Dagenham  | 5,250  | 5,575  | -5.8%  |
| Camden  | 5,863  | 6,198  | -5.4%  |
| Kensington and Chelsea  | 5,586  | 5,866  | -4.8%  |
| Hounslow  | 4,957  | 5,203  | -4.7%  |
| Barnet  | 4,804  | 4,981  | -3.6%  |
| Harrow  | 4,769  | 4,920  | -3.1%  |
| Wandsworth  | 5,424  | 5,574  | -2.7%  |
| Waltham Forest  | 5,072  | 5,197  | -2.4%  |
| Ealing  | 5,167  | 5,289  | -2.3%  |
| Brent  | 5,232  | 5,350  | -2.2%  |
| Redbridge  | 4,707  | 4,799  | -1.9%  |
| Enfield  | 5,087  | 5,187  | -1.9%  |
| Richmond upon Thames  | 4,508  | 4,499  | 0.2%  |
| Havering  | 4,735  | 4,719  | 0.3%  |
| Bromley  | 4,587  | 4,545  | 0.9%  |
| Hillingdon  | 4,879  | 4,824  | 1.1%  |
| Sutton  | 4,736  | 4,670  | 1.4%  |
| Kingston upon Thames  | 4,690  | 4,594  | 2.1%  |
| Westminster  | 5,994  | 5,864  | 2.2%  |
| Bexley  | 4,728  | 4,619  | 2.3%  |
| Croydon  | 4,996  | 4,829  | 3.4%  |
| Merton  | 4,992  | 4,824  | 3.5%  |

3.1 From the initial analysis the impact of the introduction would see an increase of 2.2% per pupil for Westminster Schools. Whilst, this may be seen as positive there are two some major issues. The initial analysis is heavily caveated at this stage and the final position will not be released until the Autumn. Any change in the current use of funding factors could have a significant impact on future funding levels.

3.2 There is a wide variation in funding levels per pupil between Westminster schools. This is due to historic funding decisions and the targeting of funding at individual school to support local priorities. The introduction of the NFF will cause significant turbulence in individual school’s budgets and if the period of transition is too quick schools may not be able to adapt in time.

3.3 In Westminster there are a significant number of small schools. The local funding formula protects these schools with allocation the maximum lump sum available. A national funding formula may not allow this.

3.4 The potential removal of the mobility factor will have a significant impact on funding levels for Westminster schools.

3.5 One of the Key factors in the allocation of future funding will be Free School Meals (FSM) as a measure of deprivation. Westminster has seen a significant drop in the number of parents applying for FSM.

**4.0 Challenges facing London Schools**

4.1 The London education system has been transformed over the past 20 years, which has been widely recognised. With strong leadership across the system, London schools have gone from being amongst the worst in the country to now consistently outperforming all other regions.

4.2 The London education system, however, experiences significant challenges. Not only does education cost more to deliver in London than elsewhere in the country, it also faces factors such as higher levels of deprivation and mobility Further challenges loom with the capital’s population set to continue to increase, with an estimated 146,000 new school places required by the end of 2020. This also places a disproportionate pressure on the London education system to recruit sufficient additional staff.

4.3 London schools are already facing considerable issues with teacher recruitment and retention. In London, over 50% of head teachers are aged over fifty and approaching retirement.

4.4 The proximity of London boroughs to each other alongside excellent transport links, result in higher levels of cross-border mobility than elsewhere in the country. More than 136,000 pupils educated in the capital are being taught at a school outside of the local authority they live in - 13 per cent of the total. This is double the proportion of pupils who cross council boundaries to attend school in England as a whole.

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

**5.0 Next Steps and Consultation**

5.1 The government has launched the first consultation phase which ended on the 17th April 2016.

5.2 In tandem, 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. It will focus its campaign on the following broad principles:

• To address any inequalities in the current funding formula, funding should be levelled up, rather than down

• Fairer funding through a NFF should not result in a reduction in funding for London’s children

• Local flexibility over funding is vital to address and respond swiftly to local diverse and emerging issues

**Appendix A**

**SCHOOLS NATIONAL FUNDING FORMULA**

**GOVERNMENT CONSULTATION – STAGE ONE**

**City of Westminster Response**

**SUMMARY**

Stage one of the government consultation on the Schools National Funding Formula was launched on 7 March, with a deadline of 17 April for submissions.

The consultation contains 25 separate questions relating to the proposals and our response, informed by discussions with London Councils, is outlined below. In summary, the key principles of the response are as follows:

* 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

Furthermore, in 2002 35% of pupils in London Schools were getting five A\*-C grade GCSEs. By 2013 that figure had almost doubled to 64%. For the most disadvantaged pupils the rise more than doubled from 23% in 2002 to 49% in 2013. Therefore, we wish to emphasise that:

* Destabilising the finance of London Schools jeopardizes the academic attainment of London’s children

**RESPONSE TO CONSULTATION QUESTIONS**

**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.

Furthermore, in 2002 35% of pupils in London Schools were getting five A\*-C grade GCSEs. By 2013 that figure had almost doubled to 64%. For the most disadvantaged pupils the rise more than doubled from 23% in 2002 to 49% in 2013. Therefore, we wish to emphasise that destabilising the finance of London Schools jeopardizes the academic attainment of London’s children.

It is noted that the ability of Multi Academy Trust Boards to pool funding and redistribute it between the academies in the MAT according to its priorities does not accord with the principles of fairness, transparency and predictability. This is particularly concerning as a MAT can cover more than one LA area, thereby moving resources between local authority boundaries and even regions.

Despite protections on school funding, school spending per pupil has already faced reductions in real terms in many schools across London and the Institute of Fiscal Studies predicts that it is likely to fall by 8% over the next five years. The Westminster’s schools are already dealing with rising demand for places, high levels of in-year pupil mobility and increasing challenges around teacher retention and recruitment.

Given the high proportion of spend on staff costs, it is unlikely that schools will not be able to make further savings through efficiencies alone without impacting on performance. Therefore, any potential loss of funding from the introduction of the National Funding Formula could jeopardise the ability of schools to continue to deliver good educational outcomes and could put pupils’ longer term employment prospects at risk.

We believe that no local schools should experience a drop in funding as a result of the introduction of the NFF and that funding should, where necessary, be increased in ‘underfunded’ areas rather than redistributed. This will help to protect pupils’ outcomes and is the only way to ensure the NFF is fair to all pupils.

With regards to the consultation process, we are disappointed with the time allocated to this stage of the consultation (only six weeks) and the timing of the consultation, considering that it is of significant importance to schools (two of the six weeks falling in the Easter break, when schools are closed). This is particularly disappointing as:

* Criterion 2 of the Code of Practice on Consultation (2008) ‘Duration of consultation exercises’ states that “Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible”.
* Point 2.2 of the same document states “If a consultation exercise is to take place over a period when consultees are less able to respond, e.g. over the summer or Christmas break, or if the policy under consideration is particularly complex, consideration should be given to the feasibility of allowing a longer period for the consultation”.

and

* Item G of the Consultation Principles (2016) ‘Consultations should take account of the groups being consulted’ states that “When the consultation spans all or part of a holiday period, [the government should] consider how this may affect consultation and take appropriate mitigating action”.

**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?**

Westminster does not agree with the proposal to remove the local authority and school’s forum from the allocations process. Schools forums have a far more granular and informed understanding of pupil characteristics at the school level, and should therefore maintain a role in the funding allocations process to be able to adjust national allocations through local formula to reflect diverse local need. This model would enable school’s forums to manage turbulence in local schools swiftly.

This process is currently wholly transparent, fair and straightforward, and would continue to be so. The school’s forum model ensures that head teachers and local authorities have a voice in how allocations are determined, which guarantees that local accountability is built in.

Furthermore, the removal of the requirement for local authorities to set a local formula will change the relationship that the council has with local schools and therefore will impact its ability to discharge its duties relating to the High Needs Block. This is particularly pertinent if, as is proposed in the High Needs Funding Consultation, the current concept of a notional SEN budget is removed from the school’s block, as local authorities will be required to ensure that mainstream schools are delivering what they are expected to provide for pupils with SEN and disabilities.

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?**

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

Key stage 1 pupils require more supervision than key stage 2 pupils, so we believe that there should be an additional division between 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.

Westminster 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.

It is our view that the current application of FSM based on national salary levels disadvantages London’s poorer families and that, for this reason, all factors should have an area cost adjustment.

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

Westminster 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 school’s forums.

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

Westminster agrees with the inclusion of English as an Additional Language (EAL) as a formula factor.

49% of pupils in London speak English as an Additional Language[[1]](#footnote-1). It is therefore essential that EAL funding fully meets additional cost pressures and supports ongoing work to close attainment gaps between EAL and non-EAL pupils. We experience rapid changes in EAL pupils, so it is essential that there is in year flexibility to support any surges in new arrivals.

**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?)**

The Westminster agrees 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[[2]](#footnote-2) 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 the consultation recognises, some pupils will require “sustained support over a longer period of time”. We believe that a lower per pupil rate for EAL pupils who entered the system more than three years ago would be an effective additional indicator to meet the cost pressures of EAL eligible pupils requiring more sustained support beyond three years.

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 school’s 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?**

The Westminster 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.

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

The Westminster 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?**

The Westminster would support the inclusion of a business rates factor in the national funding formula to cover this specific, measurable cost.

The effect of business rates revaluation in 2017 would need to be considered carefully to ensure that the amount allocated through the business rate indicator corresponds with actual costs every year.

Allocations to local authorities based on historic spend would not be an appropriate mechanism for ensuring schools receive the correct level of funding because of business rates revaluation.

**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 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.

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

Private finance initiatives are a high and unavoidable cost for some schools. We therefore support the introduction of a PFI factor and proposed that it is allocated as appropriate through school’s forums, as they have greater intelligence of the localised costs involved.

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

We support the inclusion of an exceptional premises factor to reflect school-specific circumstances. An ongoing role for school’s 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?**

As outlined in responses 9-12, we do not believe that funding should be funded based on historic spend.

Allocating on the basis of historic spend disadvantages areas with rapid growth and removes local authorities’ flexibility to respond to unexpected changes in growth.

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?**

The Westminster agrees that a growth factor should be included in the formula and that the EFA should fund planned growth.

**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. Instead, the reforms provide an opportunity to introduce a more sustainable mechanism to resolve the current lag in funding for schools during periods of pupil growth, as outlined in question 14.

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

We believe that an area cost adjustment is essential to meet higher costs in London.

An area cost adjustment should be applied to all education funding streams, including the pupil premium.

The Westminster remains 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?**

The Westminster 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.

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?**

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.

The virtual head teacher remaining in control of the pupil premium is sensible and provides a level of accountability.

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

Along with other local authorities in London, The Westminster has one of the most mobile school populations in the country and our schools report a significant cost implication in addressing this issue. For this reason, we 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.

£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.

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

The Westminster believes that the removal of the post-16 factor and the transfer of funding directly to the provider should be phased in over a transitional period, with local flexibility maintained to make the change more manageable.

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

The Westminster disagrees with the proposal to end the ability of local authorities to transfer funding to and from the school’s block.

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, there is a risk to local funding that arises from the ability of Multi Academy Trusts Boards to pool funding and redistribute it between the academies in the MAT according to its priorities. This is particularly concerning as a MAT can cover more than one LA area, thereby moving resources between local authority boundaries and even regions.

Interaction with the early year’s block will also need to be considered carefully. The early year’s 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?**

The Westminster believes that there should be a level of protection for schools’ budgets over a set period of time as they move towards the levels outlined in the National Funding Formula. We are of the opinion that a minimum funding guarantees of 5% would be reasonable.

To ensure a workable transition to a national funding formula will require a level of flexibility at the local level. Local flexibility on the level of minimum funding will help to aid this transition.

**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?**

The Westminster 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.

The Westminster 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.

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.

The Westminster welcomes the proposals to include an area cost adjustment on 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?**

Yes. We believe that no local authority should be disadvantaged by historic commitments. Many LAs will have entered into contracts to achieve economies of scale for all schools and these costs will still need to be met.

**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 wholesale 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. We believe 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. Any change in duties risks creating unnecessary turbulence in the system, at an already challenging time.

**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 school’s 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 subsequently. It would not be fair to cut into core schools funding to subsidise these services. However, it is important that local authorities and school’s forums continue to have local flexibility over how the DSG is deployed.

1. https://www.gov.uk/government/statistics/schools-pupils-and-their-characteristics-january-2015 [↑](#footnote-ref-1)
2. https://www.gov.uk/government/publications/schools-block-funding-formulae-2015-to-2016 [↑](#footnote-ref-2)