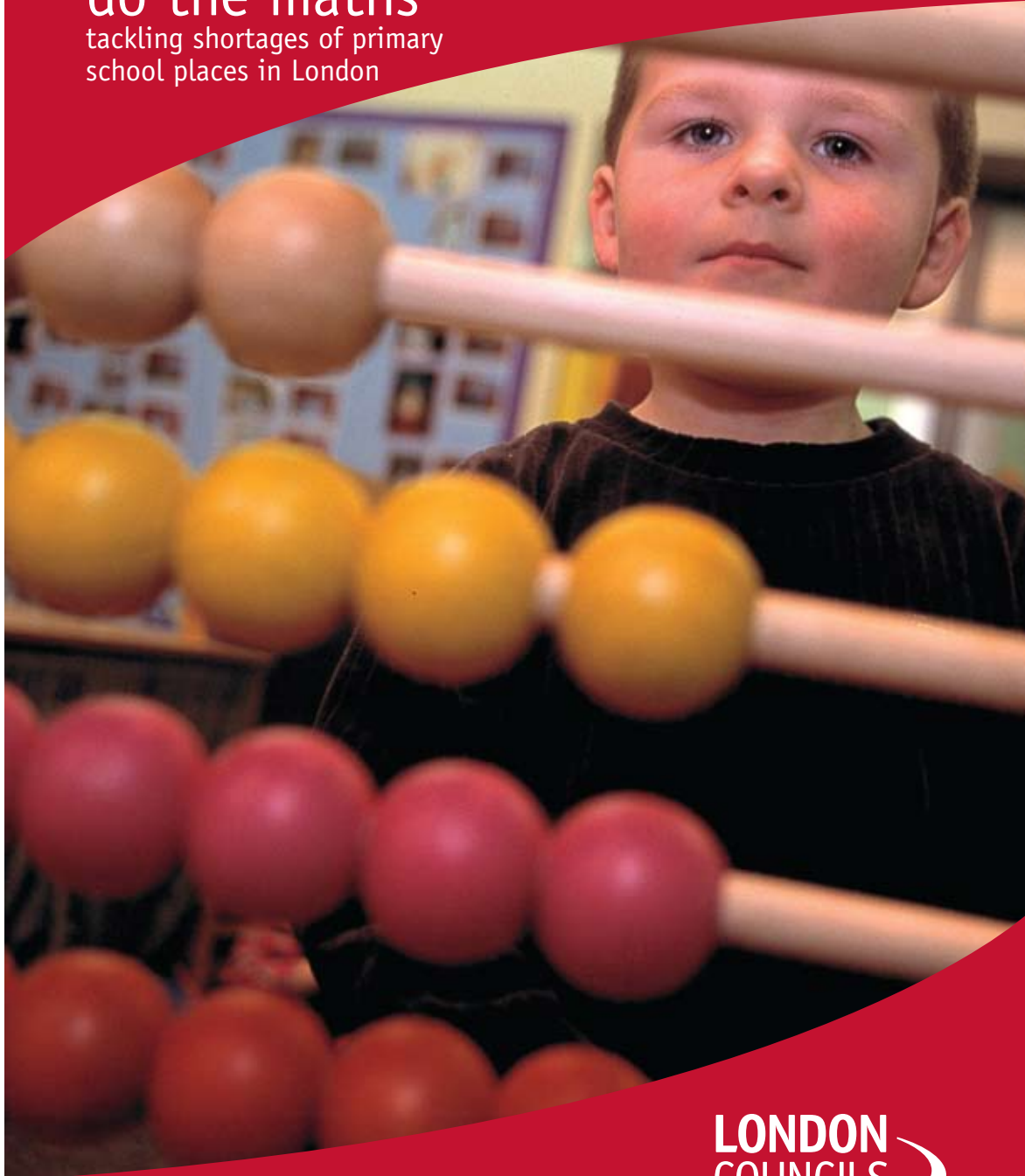


do the maths

tackling shortages of primary
school places in London



**LONDON
COUNCILS**

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01 the issue

School places in London - an education time bomb?

Councils in London are facing extraordinary demand for reception places in local primary schools. Very few boroughs have surplus school places and some have little or no capacity to offer reception places to new primary pupils. This additional demand, which affects three quarters of boroughs in the capital, is expected to continue for the foreseeable future.

London's primary schools need to be expanded and new schools need to be built to ensure that there are sufficient places for five year-olds. However, the level of government funding available to build additional classrooms and schools to match the unprecedented demand for places in London is simply inadequate.

For this financial year ending in March 2010, just over 2,250 children in London will be without a reception place¹ and councils are being forced to consider a range of temporary measures to ensure education provision is made for these children. The shortfall in reception places is expected to increase to over 5,000 children up to the end of the current spending review period in March 2011². Based on current borough projections, London faces reception place shortfalls of more than 18,300³ in total by 2014.

The government has stressed the importance of providing suitable classrooms for all pupils but until it acknowledges the shortfall in capital resources and ensures that funding more accurately reflects the need for extra classroom capacity, the situation in London will not be resolved.

¹London Councils Survey March 2009

²Ibid

³Ibid

This document identifies the reasons behind the huge increase in demand for primary school reception class places in London and examines the mismatch between funding and need. It looks at the amount of capital funding councils receive compared to the school places needed by London's children and identifies shortages across the capital. It examines whether 'borrowing' the three quarters of a billion shortfall needed to plug identifiable gaps in funding is really a sustainable solution. It also considers whether London's councils should be expected to take on more long-term debt and more financial risk to ensure that children in their area have a suitable school place.

**By 2012/13, we predict
a shortfall of 882 places in
our primary schools**
(Inner London borough)



02

the evidence

What is causing the large increase in demand for primary school places in London?

London's recently rising birth rate has contributed to the huge increase in numbers of school age children, especially compared to rates in other parts of the country. However, the impact of other unpredictable factors, such as the downturn, has meant that families with children who might otherwise have moved to areas outside London have been unable to do so. This has increased the demand for reception places beyond levels which councils could have reasonably forecasted.

A rapidly rising birth rate

Since 2001/02 the birth rate in London has grown by an extraordinary 20.5 per cent - the fastest rate of growth of any English region. This is significantly higher than the national growth rate over the same period of 16.8 per cent⁴.

Increasing birth rates have an even greater impact at local level. Between 2001 and 2007, Barking & Dagenham experienced a birth rate increase of 40 per cent, Greenwich 36 per cent, Hounslow 29 per cent and Sutton 28 per cent⁵.

The Data Management and Analysis Group of the GLA has identified that by January 2012 London will need 12 per cent more reception class places, with some boroughs, such as Kingston upon Thames, needing a 30 per cent increase in reception capacity.

Other reasons

The economic downturn

- the impact of the economic downturn has caused an increase in demand for state school places compared to independent school places
- the sluggish property market has meant that fewer families are moving to areas outside the capital

⁴DMAG Update, 13-2008, Births and Deaths 2007, p1

⁵Ibid, p1

- the changing nature of the housing market has resulted in a significant increase in children living in 1 and 2 bedroom properties, thereby increasing the overall number of young children in many areas.

Improvements in education

- improvements in the quality of local primary schools have led to more parents requesting places, this success has resulted in an additional challenge of meeting greater demand
- some areas, particularly those with high performing schools, face inward migration into boroughs by families with school age children.

More locally born children requesting a place in local schools

- there has been a rise in the percentage of locally born children who then go on to request a place in local primary schools. This ratio, known as the retention rate, has risen in many London boroughs. One London borough reported a rise in its retention rate from 85 percent to 95 percent in the current year⁶. Prior to this, its rate had been reasonably constant. Similar increases are reported across the capital.

Neighbouring capacity problems

- increases in cross borough applications for primary places from neighbouring authorities with capacity issues.

⁶London Councils Survey, March 2009



What is causing the shortfall in primary school places in London?

Too few school places

London Councils surveyed all 33 London boroughs to identify whether they have sufficient reception class places in primary schools to meet demand⁷. We found that three quarters of London councils (25 out of 33) had either (i) been unable to meet the demand for places or (ii) acknowledged that lack of classroom capacity and insufficient capital funding for an expansion programme meant that they would be facing problems within the next 2-3 years.

In the 25 authorities reporting capacity pressures, the majority need between seven and 13 additional new forms or classes to accommodate additional primary school demand. However, one borough forecasted a need for a staggering 25 additional classes.

Councils throughout London need much greater financial support to embark on a major programme of school building and expansion to meet this extraordinary demand.

Too many children without a place

In March 2009, London Councils collected information about the numbers of reception class children likely to be without a reception class⁸ place from all London boroughs facing capital funding problems. These figures indicate that, over the next few years, councils and schools face an enormous challenge in being able to provide enough places for new pupils starting primary school.

Councils anticipate that, without the extra government funding to cover school expansion, the number of five year-olds without a school place will be more than 2,250 by the end of the 2009/10 financial year and could rise to over 5,000 during this spending review period which is due to end in March 2011⁹. Boroughs predict that the number of reception age children in London without a school place could rise to over 18,300 before the middle of the next decade¹⁰.

⁷London Councils Survey December 2008

⁸Reception class is the entry class for primary school pupils

⁹London Councils Survey March 2009

¹⁰Ibid

These figures do not actually reflect the full severity of the situation in London because councils in the capital have attempted to mitigate the shortfall in places by providing temporary classroom accommodation and expanded class sizes¹¹. In addition to the number of five year-olds out of school, by the end of the 2009/10 financial year more than 4,750 reception class pupils will be accommodated in temporary classrooms in London¹². Without extra funding, a predicted 14,700 five year-olds will be using temporary classrooms by 2014¹³.

The extensive reliance on temporary classrooms is actually far more widespread than these figures imply, as many boroughs do not place reception year pupils in temporary accommodation. This means that children across the primary school age range are more likely to be in temporary classrooms than ever before as a direct consequence of the shortfalls in capital funding. In 2009/10, one outer London borough will have 450 primary school pupils in temporary classrooms and this will rise to 540 over the course of the next spending review.

Temporary classrooms are not suitable for sustained and longer-term increases in demand for primary school places and they result in valuable investment being wasted on a temporary 'solution'. Without extra funding for school expansion and additional school building, London boroughs will be forced to increase the number of temporary classrooms at the very time that the government is pushing for a reduction in the use of temporary classrooms and improvements in the condition and suitability of permanent primary classrooms.

¹¹Expanded classes have extra teaching resources

¹²Ibid

¹³Ibid



In addition to this, a few boroughs have reluctantly been forced to expand class sizes and to establish classes of more than 30 pupils¹⁴. These classes have additional staffing resources to ensure that no child is penalised by this situation. However, councils are angry that they are being forced to consider these temporary measures. They believe that all children should be educated in suitable permanent classrooms. Moreover, they feel that classes with extra pupils and the use of temporary classrooms both significantly obscure the full impact of the pressures that councils in London face. They also create additional pressures resulting from the large number of children in the school who need to share facilities designed for a smaller number of pupils, such as playgrounds and dining halls.

London Councils believes that the government needs to provide a guarantee to every child that they will be educated in a classroom of a suitable standard. It also needs to ensure there is sufficient capital funding to enable this commitment to become a reality.

Too little funding

Capital expenditure covers medium and long-term spending such as building new schools or classrooms, rather than day-to-day costs, like teaching, which is considered to be revenue expenditure. Medium and long-term capital expenditure to expand school places is funded by capital funding or borrowing. In addition to capital grants, the government makes a judgement about whether councils need to cover some of their capital expenditure through borrowing. It therefore provides some revenue funding to cover the cost of interest and loan repayments on borrowing for long-term capital expenditure. This is known as supported borrowing and is the main source of funding to cover the provision of new school places.

In London, the increase in demand for primary school places has been much greater than expected and the government's safety valve funding mechanism intended to tackle this type of issue, has not been able to resolve the funding problems successfully. Consequently, 75 per cent of councils in London do not have enough capital funding or supported borrowing to cover the significant cost of building extra classrooms and new schools.

¹⁴ Ibid

When London Councils surveyed authorities in December 2008, many demonstrated how they have diverted all available capital funding streams to meet the immediate need to expand schools where possible. For many, this has meant diverting capital funding streams away from much-needed longer-term school modernisation projects. Clearly this is not a sustainable solution.

We found that although the 25 councils affected have taken steps to minimise the funding shortfall, a staggering £740 million was still needed to create enough classroom capacity over the next few years¹⁵. This figure includes (i) the cost of building classrooms and new schools for children who are currently waiting for places, and (ii) the need to provide more places for additional pupils who will reach school age at the start of the next decade. £260 million of this figure¹⁶ is needed now to ensure that councils can deal with over 5,000 five year-olds who could be without a reception place in this Spending Review period (up to March 2011)¹⁷.

Without help to tackle the funding shortfalls, more than 18,000 of London's children could be without a reception place in a primary school by the middle of the next decade¹⁸.

- The government needs to ensure that councils have enough capital funding to be able to provide a school place guarantee to every child of primary school age. Children from every region should expect this minimum guarantee.
- Where there is a serious mismatch between high demand and capacity, particularly within a single region, London Councils believes the government has a duty to provide an emergency capital grant to cover the cost of providing additional classrooms. We believe that the problems which London currently faces are serious enough to merit this additional funding.

¹⁵ London Councils Survey December 2008

¹⁶ Ibid

¹⁷ London Councils Survey March 2009

¹⁸ Ibid

/// We are envisaging over the next ten years some 11,000 additional pupils. This is in excess of 50% of our current pupil rolls (Outer London borough) ///

- London Councils also believes that the government should investigate sustainable longer-term solutions to the mismatch between (i) the levels of capital grant and supported borrowing and (ii) the actual costs of school expansion. One potential solution would be to fund all school expansion through a capital grant based on the reasonable costs of expansion. Without a longer-term solution, the problem of too many children and too few reception places will not go away.

Safety valve funding is not safe enough

Although a mechanism exists to provide some additional capital, it has failed to help large numbers of children across London. Over 2,250 five year-olds could be without a reception place by the end of this financial year in 17 outer London and eight inner London authorities, in spite of the existence of this grant. Its failure largely results from the insufficiency of its quantum, its inflexibility and its inability to understand the very acute financial pressures and dilemmas that boroughs face. Safety valve funding is distributed only once and too early in a Spending Review period. It also assumes that all councils have the same opportunity to take up their full allocation of supported borrowing. The conundrum to borrow or not to borrow, which is considered in more detail later in this document, highlights the financial risks councils face when taking on new borrowing. These are particularly acute for councils receiving funding protection and faced with an avalanche of critical service pressures.

The 'once in each Spending Review period' nature of safety valve funding also disadvantages those local authorities experiencing a sudden and unpredictable change in their circumstances, e.g. rapidly growing demand for places, after the closing date for safety valve funding applications.

Accelerated capital funding is not the solution

The government has written to councils to allow them to use capital funding earlier than planned in this current spending round (accelerated capital funding). But because this does not provide additional funding, it fails to deal with the funding shortfall. For example, if a council's capital funding is equivalent to 50 per cent of its school expansion costs, providing funding earlier still leaves the council with a 50 per cent shortfall over the life of the project. This means that the council would continue to face a high and possibly disproportionate level of unfunded financial risk which needs to be dealt with at some point.

The impact of the property market

The economic downturn and stagnant property market has had unforeseen consequences for essential capital projects, including school expansion. Councils frequently plug gaps in capital by using income generated from the sale of land for development or property. This income is known as capital receipts. The fall in market values means that developers are offering London authorities a fraction of the assumed value of new sites. Councils have a duty to their residents to maximise income to benefit their local communities. In the current climate, it would not be prudent of them to dispose of assets when values are so low. This has created a shortage of capital receipts to shore up school building and other key projects.

- London Councils proposes that the government offers authorities interest free capital loans to be repaid when the property market recovers. This would ensure that essential capital projects, such as school building and expansion, are not compromised by the current difficulty in generating capital receipts

To borrow or not to borrow?

The government allows councils to borrow so they can expand schools to provide extra places for increased pupil numbers. It does this by providing revenue funding to cover some of the interest and loan repayments. This is known as supported borrowing. There is an element of supported borrowing in each local authority's main revenue funding grant.

However, in practical terms, most councils in London are unable to increase borrowing for the following reasons:

Growing service demands in a region facing a real terms cut in funding

In 2006/07 arbitrary changes to the Children's and Younger Adults' Personal Social Services formulae resulted in an implied reduction in formula share for London authorities of catastrophic proportions; a loss of almost £340 million¹⁹.

As a result of these formula changes, the majority of councils in London received funding 'protection' to ensure that they did not face cash losses in grant. This 'protection' is known as 'damping' and is significantly below

¹⁹ Formula Grant Distribution Consultation paper, ODPM, July 2005

the level of inflation. In 2009/10 three quarters of councils in the capital still receive 'protection'. This means that they continue to face a real terms cut in funding year-on-year.

While the new formula 'statistically predicts' a fall in social services' client numbers and demand, in reality, there has been no reduction in demand for these services. So while London authorities face real terms funding losses for the foreseeable future, paradoxically, demand for services from these client groups is not decreasing. In fact, demand in London is expected to rise over the next few years as the impact of the economic downturn is predicted to be particularly severe in the capital. In addition to this, the implementation of the Laming report, which emphasises a greater need to identify and tackle children's needs at an earlier stage, will have a considerable impact on service provision and costs.

Catch 22

What this means is that any element of funding to cover supported borrowing is to all intents and purposes inaccessible, as London authorities, particularly those receiving funding protection, need to use all available funding to cover rising social care costs and other increases in service demand, many resulting from the recession.

With so many authorities in one region facing a reduction in funding with no corresponding fall in costs or demand, the reality is that there is little left to cover interest and repayments on borrowing. Nor would authorities in this position consider it prudent to take on more or disproportionate financial risk when their funding is on a downward trajectory compared to other councils. A number of councils in London couldn't manage to bridge the shortfall in their school expansion costs even if they were in a position to take up the full element of supported borrowing.

Even with historically low interest rates, the interest on borrowing is a long-term cost with long-term implications. Given the funding catastrophe which has beset so many councils in London, it may be too great a risk and too high a price to pay. London boroughs feel they face a Catch 22.

03

the solutions

- The government needs to ensure that councils have enough capital funding to be able to provide a school place guarantee to every child of primary school age. This should also include a commitment to educate all pupils in classrooms of a suitable standard.
- Where there is a serious mismatch between high demand and capacity, particularly within a single region, London Councils believes the government has a duty to provide an emergency capital grant to cover the cost of providing additional classrooms. We believe that the problems which London currently faces are serious enough to merit this additional funding.
- London Councils also believes that the government should investigate sustainable longer-term solutions to the mismatch between (i) the levels of capital grant and supported borrowing and (ii) the actual costs of school expansion. A potential solution would be to fund all school expansion through capital grant based on the reasonable costs of expansion. Without a longer-term solution, the problem of too many children and too few reception places will not go away.
- The government needs to do more to recognise the problems that councils face from not being able to generate income from the sale of land or property. This is a direct consequence of the downturn in the property market. London Councils proposes that the government offers authorities interest free capital loans to be repaid when the property market recovers. This would ensure that essential capital projects, such as school building and expansion are not compromised by the current difficulty in generating capital receipts. Interest free loans would also mean that councils would not be forced to increase their level of financial risk and would allow them to maintain prudent treasury management strategies.

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design: Copyprint

images: Third Avenue, Philip Wolmuth

publication date: April 2009

ISBN: 978-1-85494-171-8



London Councils supports environmentally-friendly products. This publication is printed on NAPM accredited paper that uses 75% recycled fibre and manufactured in the UK at mills with ISO 14001 accreditation.