

The short and long run impact of the national funding formula for schools in England

Introduction and background

The government is currently undertaking the single largest reform of the school funding system in England for the last 25 years. At present, the funding which a school receives is determined by a local authority funding formula, and by the amount the authority receives from central government. Under the new proposals, the 152 different formulae which exist across the various local authorities will be replaced by one single National Funding Formula (NFF). One of the main aims of the reform is to ensure that similar schools in different parts of the country receive a similar amount of funding.

The proposed reforms come at a time when school budgets are under pressure. The current policy of freezing school spending per pupil in cash terms implies a real-terms fall in school spending of around 6.5 per cent between 2014-15 and 2019-20. In addition, schools' costs have risen more rapidly in recent years because of higher employer pension and National Insurance contributions. On the other hand, it is worth noting that because of significant increases in the 2000s, school spending per pupil is still over 70 per cent higher in real terms than it was in 1990-1991.

Against such a backdrop, this briefing note from the Institute for Fiscal Studies (IFS) provides an impartial analysis of the reforms and on how they are likely to impact on schools' budgets both in the short and the long term.

Key findings

Rationale for reform

- The current school funding system is a two-stage process. The government gives grants to local authorities and the authorities then distribute these to individual schools according to their local funding formula. On top of this, schools receive Pupil Premium funding directly from central government and they receive funding from local authorities to cover the extra costs of teaching pupils with high or special educational needs.
- This process leads to a lot of variation between the funding received by schools in different parts of the country. Successive governments also make choices to fund different sorts of areas and schools in different ways. For example, over the last 20 years there has been an increase in the funding given to schools with more disadvantaged pupils.
- There is also variation per pupil across similar schools in different parts of the country. The first reason for this is that grants provided to local authorities are currently based on out-of-date information. This leads to a situation where schools in areas such as Barnsley, Blackpool and Knowlsey, which have seen their levels of deprivation rise in recent years are now under-funded. Secondly, local authorities make different choices in their funding formulae. The most important choice which they make is about the relative amount provided for primary and secondary pupils. Other differences include the amount provided for disadvantaged pupils or the level of compensation for fixed costs.

- There are advantages and disadvantages to the introduction of a single national formula. On the one hand, local policymakers may have better information on the levels of need in their area. On the other hand it is not clear why basic elements of the formula such as the ratio of funding for primary and secondary schools should vary so much across local authorities. There is a clear trade-off between having the flexibility to incorporate local knowledge and reducing funding differences across the country.
- Although they are outside local authority control, academies still have their funding set by local formulae. If all schools are expected to become academies in the future, it would be more logical for them to have a single funding formula.

Government proposals

- The new formula proposed by the government is largely pupil-led, i.e. allocated on the basis of the characteristics of the pupils attending each school. Apart from some important exceptions, the funding factors were set close to the average amount which local authorities currently allocate. In this way, there has been an attempt to minimise the degree of turbulence which would be created by the new formula.
- The most important factor in the new formula is the basic amount allocated for pupils of different ages. These are set at a higher level for pupils in secondary schools, with a funding ratio of 1.28 compared to primary. The basic funding amount per pupil for a primary school pupil is £2,712 per annum. For a pupil in key stage 3 it is £3,797 and for a pupil in key stage 4, it rises to £4,312.

- Under the new formula, the government has sought to at least maintain the existing level of total funding targeted at disadvantage. It has used a wider range of measures to capture disadvantage including English as an additional language (£515 primary and £1,385 secondary).
- Under the new formula, there will be extra amounts allocated to pupils according to which band of the Income Deprivation Affecting Children Index (IDACI) they are in. For those in Band A (most deprived) the payments are £575 for a primary school pupil and £810 for a secondary school pupil. For those in the least deprived areas (BandF) the amounts are £200 for primary and £290 for secondary.
- Funding for disadvantaged pupils has been increased in 2 ways through the new formula. Firstly, some local authorities do not specifically target funding at disadvantaged pupils because the proportion of disadvantaged pupils is high across schools in their area. They are therefore effectively allocating some deprivation funding through the basic amount provided for all pupils. The government has increased the amount of money explicitly targeted at deprivation to account for this. Secondly, the government has increased the amount for funding for pupils with low prior attainment (£1,050 for primary pupils and £1,550 for secondary pupils).
- The Pupil Premium currently provides an extra £1,320 at primary level and £935 at secondary level for any pupil who has been eligible for free school meals (FSM) in the last 6 years. As the new formula provides a specific amount for the same factor, it would be better to roll the existing Pupil Premium into the new formula. It would be more logical to hold schools to account for how pupils from different backgrounds perform more generally rather than to continue to hold them to account for the performance of a single group.
- In order to protect small schools in sparsely populated areas, the government has introduced a sparsity factor which would provide up to an extra £25,000 for primary schools and £65,000 for secondary schools.
- The government has set out a new Area Cost Adjustment (ACA) in order to compensate schools which face higher costs of running a school. The adjustment combines 2 elements, namely differences in teacher salary scales across areas and differences in average wages across areas to account for the costs of employing other staff.
- The government has proposed a range of transitional arrangements and protections so that schools will not see large changes in their budgets in the short term. There is a minimum funding guarantee (MFG) so that no school will experience a per-pupil funding cut of more than 1.5 per cent in cash terms in each of 2018-19 and 2019-20. At the other end of the scale, there is a proposed cap on increases to per-pupil funding of 3 per cent in 2018-19 and a further 2.5 per cent in 2019-20. The funding formula also incorporates a funding floor so that no school can lose more than 3 per cent of its per-pupil funding between 2017-18 and 2019-20. However, the funding floor creates uncertainty about what will happen after 2019-20. There is no guarantee that schools will have their funding determined with reference to their 2017-18 level. This uncertainty could cause schools to make inefficient decisions if they are faced with the prospect of having to make further cuts after 2019-20.

Short-run impact: by 2017-18 to 2019-20

- The authors of the report looked at changes in funding per pupil across all schools, both before and after the transitional protections outlined above have been applied. Before protections, the anticipated change in cash terms between 2017-18 and 2019-20 is near zero. This equates to a real term fall (i.e. taking inflation into account) of 3.1 per cent between 2018-18 and 2019-20.
- The combined effect of the transitional protections which the government has put in place will temporarily increase total school funding by about £300 million in cash terms, or by 0.8 per cent in primary schools and 0.7 per cent in secondary schools. However, taking inflation into account, funding per pupil is expected to fall by around 2.5 per cent in real terms between 2017-18 and 2019-20.
- Under the new proposals, those schools with the highest levels of current funding per pupil are mostly due to experience falls and those with the lowest levels of current funding per pupil are mostly due to experience increases. A large part of this pattern is driven by the fact that inner London local authorities are almost all due to experience falls as a result of reducing the ACA from around 28 per cent to 18 per cent.
- Although there is a pattern of larger increases for local authorities which are currently under-funded, it is not consistent. Rutland and Cheshire East, both currently underfunded, are due to experience further cuts under the NFF. However, Knowsley, Bansley and Blackpool are due to experience generous increases.

Long-run impact

- In order to move over completely to the NFF in 2019-20, more than 4 per cent of primary schools and 5 per cent of secondary schools would need to receive cuts of more than 10 per cent of per-pupil funding.
- The ways in which schools move towards the new formula depends on which transition protections are kept after 2019-20, and on the national increase in average school funding.
- Since more schools have funding supported by the Minimum Funding grant (MFG) than constrained by the cap on gains, the transitional arrangements have a net cost. The net cost of providing the transitional protections is £290 million in 2019-20. The cost naturally declines over time as fewer schools require protection.
- While transitional arrangements are a good way to prevent sudden losses in school budgets, they mean that only 60 per cent of schools will receive the level dictated by the NFF in 2019. This means that a significant adjustment will be needed after 2019-20; by this time, around 1,000 schools will still be more than 7 per cent above the funding level dictated by the main formula. There is as yet no indication of how such schools will transition to the new formula. This lack of certainty is a challenge to schools seeking to make long-term planning decision, particularly those which may face protracted cuts.

The full document can be downloaded from:
<https://www.ifs.org.uk/publications/9075>