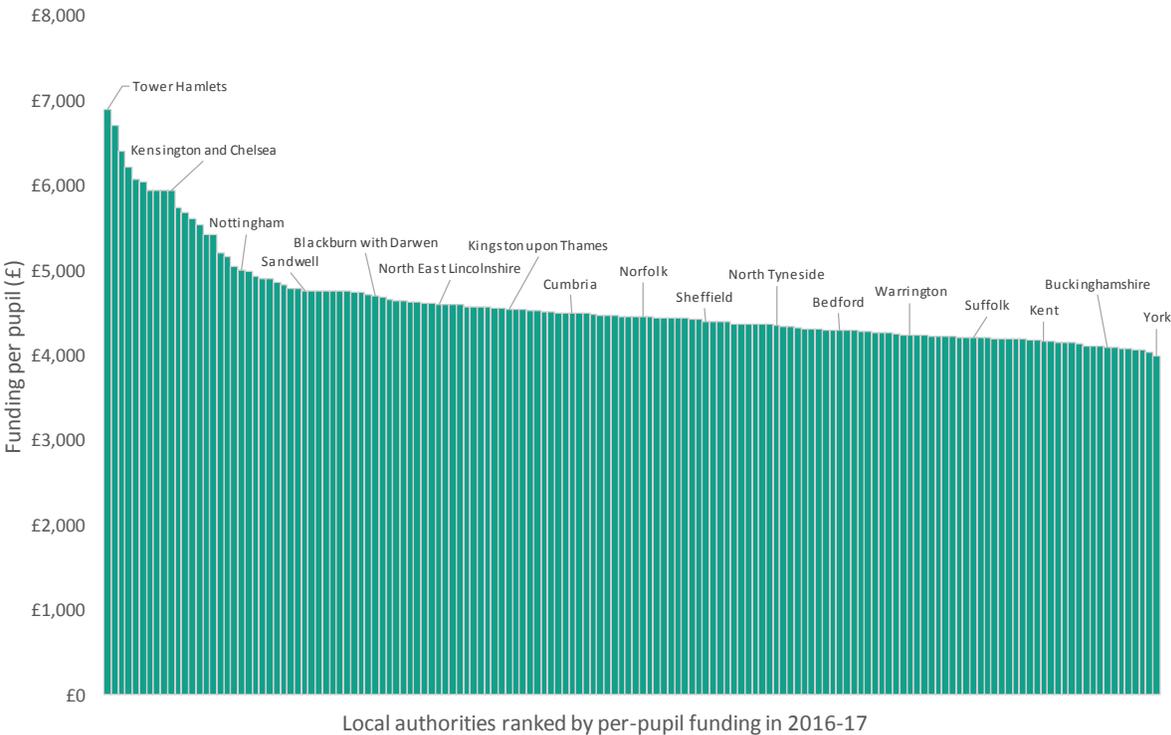


# Education Policy Institute Research Note: Where next on school funding and the National Funding Formula?

July 2017

Last year, the government consulted on introducing a new national funding formula for schools which would take effect from April 2018. At present, funding for schools is allocated from central government to local authorities but the amount allocated is based on historic decisions and assessments of needs, dating back decades. The graph below shows the current variation in per-pupil funding allocated to local authorities in 2016-17, with Tower Hamlets receiving £6906 per pupil and Wokingham receiving £3991 (a difference of £2914 per pupil).

**Figure 1: The distribution of per-pupil funding across local authorities in England in 2016-17<sup>1</sup>**



Each local authority then uses a different local formula to allocate funding to state-funded schools (including academies) in its area. This means that there is variation in how schools are funded at a local

<sup>1</sup> <https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2016-to-2017>

level, as well as at a national level. Since 2013, local authorities have faced greater restrictions over which formula factors they can use when allocating funding. Prior to 2013, local authorities could use up to 37 factors but they are now only able to use 12 (these include a basic per pupil amount; deprivation; low prior attainment; English as an additional language; and a lump sum). The permitted factors are set out in statutory regulations.

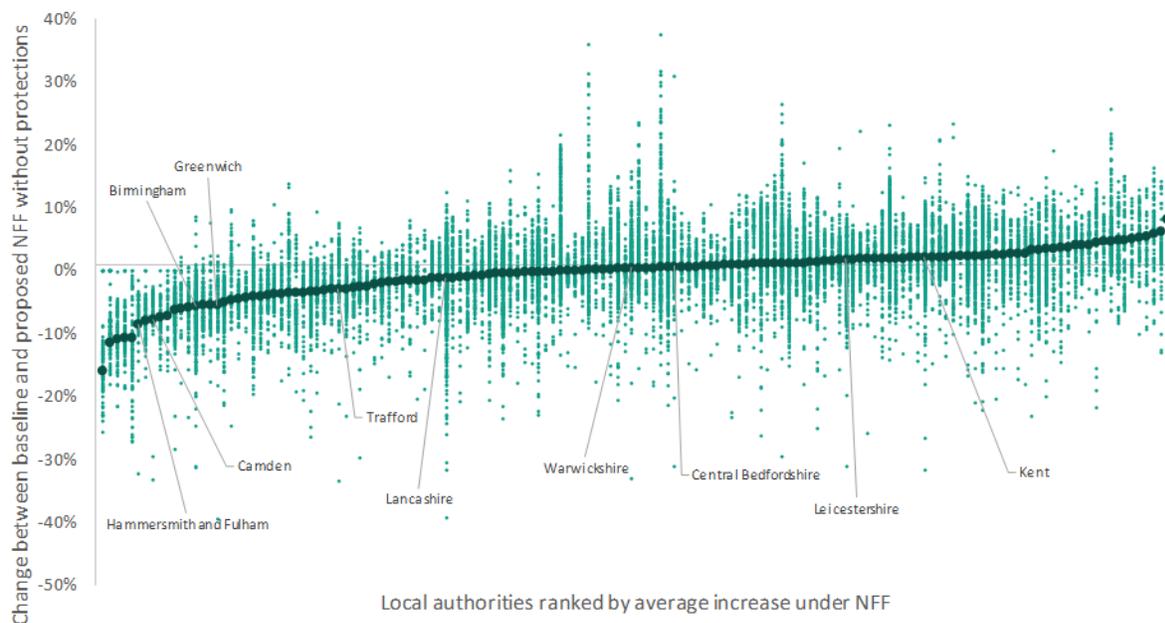
Despite efforts by successive governments to rationalise the funding system, it nevertheless remains out of date and variable both at a national and a local level.

The new national funding formula is designed to correct that by ensuring that all schools receive their budgets based on the same national formula. The government's consultation also proposed to remove the role of local authorities almost entirely (with respect to funding) – thereby removing the local variation that currently exists as well as the situation where academy budgets are still being decided by a local authority committee. Taken together, the introduction of a national funding formula and the removal of local authority decision-making would achieve the government's aim of ensuring that schools with similar pupils receive similar levels of funding.

The principles of these reforms are generally supported. For decades, schools in relatively lower funded areas have been campaigning for a fairer funding system and even those in areas which are set to lose money tend to agree that the school funding system should be more transparent and equitable.

The proposed formula would, however, result in a significant redistribution of funding between local authorities and between schools in local authorities. Without any transitional protections, the biggest 'loser' under these proposals would be Hackney (losing around 16 per cent of its current per-pupil budget) while the biggest gainer would be Derby (which would experience gains of just over 8 per cent). But, as we see from the graph below, there is significant variation in the gains and losses of individual schools within a local authority. For example, in Cumbria, some schools would see gains of up to 37 per cent, while others would see losses of around 14 per cent (per pupil).

**Figure 2: The impact of the proposed national funding formula, by local authority**



To protect schools from experiencing significant cuts to their funding, the government initially proposed to apply a 3 per cent cap (in cash terms) on losses (meaning that no school would lose more than 3 per cent of its 2016-17 budget). However, these proposals came at a time when schools were (and still are) facing real term budget pressures of around 7 per cent between 2015-16 and 2019-20. Research conducted by the Education Policy Institute earlier this year found that, even after a new formula was implemented, all schools would be likely to face a real terms cut in their per-pupil funding.

As a result of the looming pressures, education funding was a focal point in this year's election campaign. Indeed, led by a powerful union-backed campaign, education moved from being the 5<sup>th</sup> most important issue for voters in April, to the 3<sup>rd</sup> most important in May.

In response to these concerns, the Conservative manifesto pledged to ensure that no school would lose as a result of the new formula. The manifesto also committed to investing an additional £4bn into the schools budget by 2022 (compared with 2017-18). Given expected inflation, this would still imply a reduction of real per pupil funding of around 3 per cent over the next Parliament. Another unknown is whether the government can still raise enough to fund this £4bn, now that it has abandoned plans to end universal infant free school meals – which would have saved £650m per year.

### **Where next?**

The most immediate consequence of the general election and subsequent Queen's Speech is that it is unlikely that there will be any education legislation this session. This means that the Department for Education will not be able to implement a 'hard' national funding formula (i.e. removing the role of local authorities in school funding) in 2019-20, as it proposed. Instead, the Department could still significantly reduce the role of local authorities through secondary legislation. Academies are unlikely to welcome the ongoing (though diminishing) role of local authorities in setting school budgets, but will almost certainly accept this as a consequence of a minority government.

The government will then need to address the overall funding pot. In the Queen's Speech debate this week, Justine Greening confirmed that the government would honour the manifesto commitment to ensure that no school loses in cash terms as a result of the new formula. We estimate that this would cost an additional £350m each year (in addition to 2017-18 funding levels) to prevent losers when the formula is brought in.

However, this does not prevent a real terms cut to per-pupil funding over the course of the Parliament. This will be challenging both for schools (which will need to find ways to manage those cuts without compromising on pupil outcomes) as well as for government (given its weak political position). A more equitable distribution of funding will ensure the system is more efficient than it is now, but it doesn't address concerns about whether there is enough money in the system in the first place.

The government will also need to think carefully about how the overall pot is allocated. Under the current proposals, areas which thought they would benefit significantly from the new formula are not likely to see the scale of those expected gains materialise. This is because Justine Greening's design of the formula intentionally allocated a substantial amount of funding to disadvantaged children and those with low attainment. Areas including Cambridgeshire and Wokingham, therefore, are due to experience relatively modest increases to their budgets, while the majority of funding stays in London and other urban areas. Before the election, many Conservative backbench MPs argued that Greening got the principle of the formula right, but the detail wrong.

This is now a precarious line for Conservative government. If it only protects the losing areas without accelerating the gains (or pace of gains) for lower-funded areas, it faces a backlash from many of its heartland MPs.

One way in which the government could protect both losing areas and inject more funding into other areas is to find additional funding to protect the schools budget in real terms, per-pupil. Compared with a scenario where the overall schools budget rises by inflation over the course of this Parliament, we estimate that the additional funding needed to secure a per-pupil, real terms protection would be around £2.3bn per year by 2021-22. This would be £1.3bn more than already promised in the Conservative manifesto. This approach would help to stem concerns that the overall pot is not big enough.

Finally, the government faces a challenging timetable. If the aim remains to implement a new formula in April next year, then the government needs to confirm plans before the summer recess - any later and the timetable for deciding budgets and amending secondary legislation becomes unrealistic and would lose yet more favour from schools and local authorities.