

Institute for
Fiscal Studies

The options for school funding reform and their likely impact

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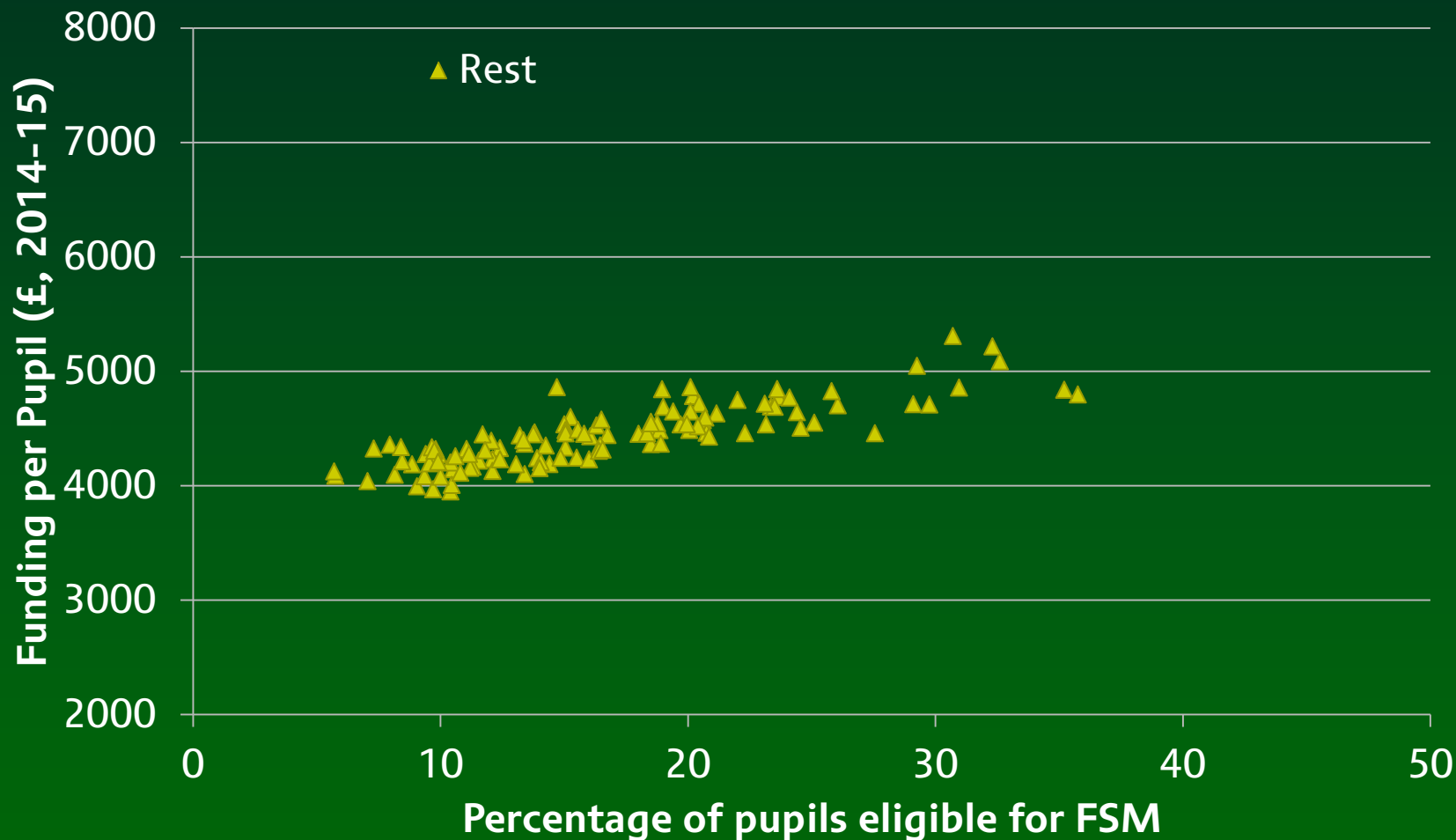
Overview

- Schools spending was relatively protected for 2015-16 in the 2013 Spending Round
 - Commitment to national funding formula for schools
- Government has announced reforms to school funding system for April 2015
 - How we got here and state of the current system
 - Implications of April 2015 reforms for different types of schools and areas
- What happens next with the National Funding Formula?

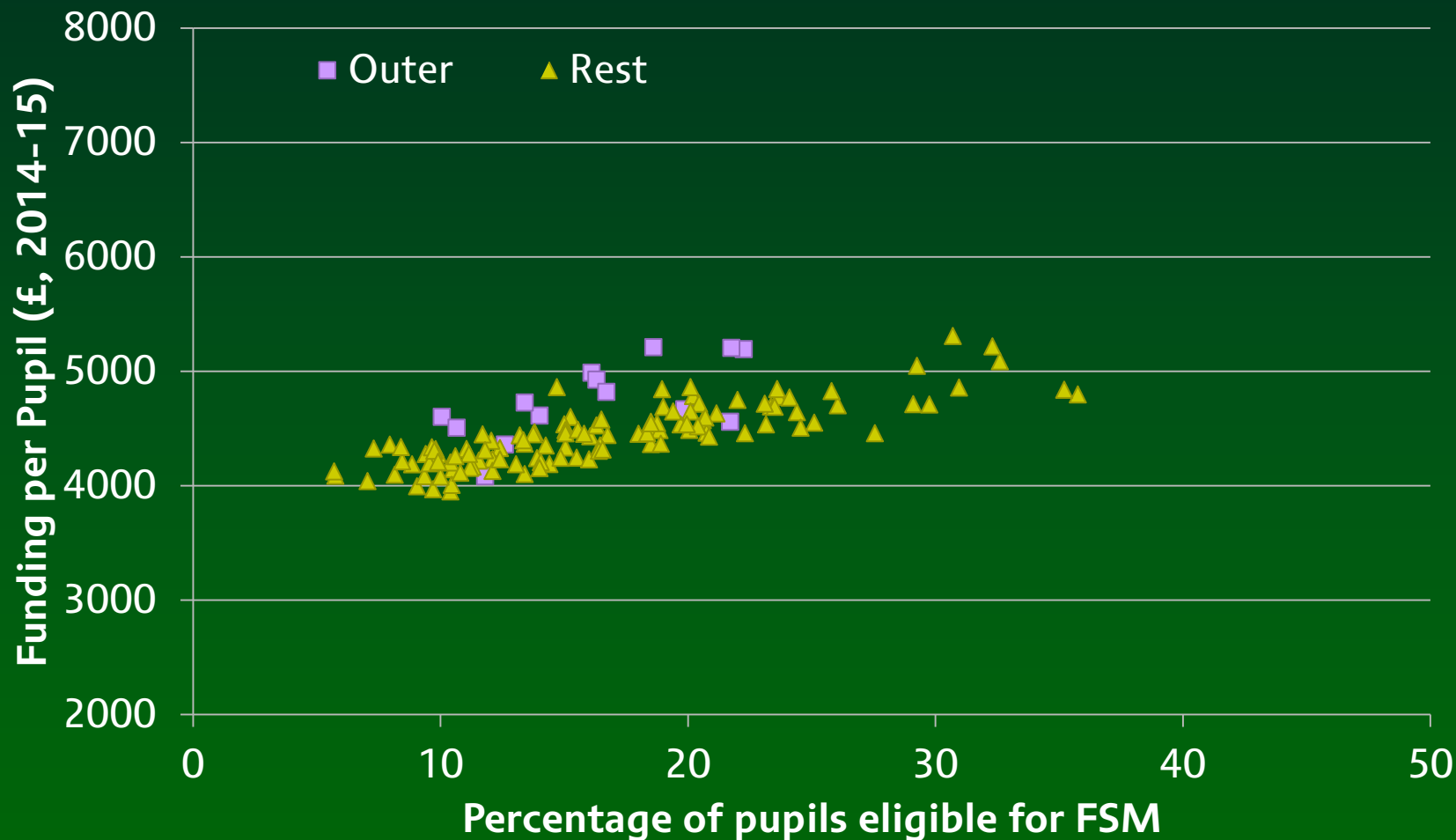
The current school funding system

- Central government allocates funds to local authorities, who in turn allocate funds to schools in their areas
 - No explicit formula for at least a decade
 - Funds allocated on basis of what LAs got last year, plus a bit
- Local authorities set own formula and give priority to different factors
 - Simplified from April 2013 onwards
- Key features of the school funding system
 - Wide variation across schools
 - ‘Progressive’ in sense that funding is focused on more deprived schools
 - Differences in funding across LAs and schools with similar characteristics

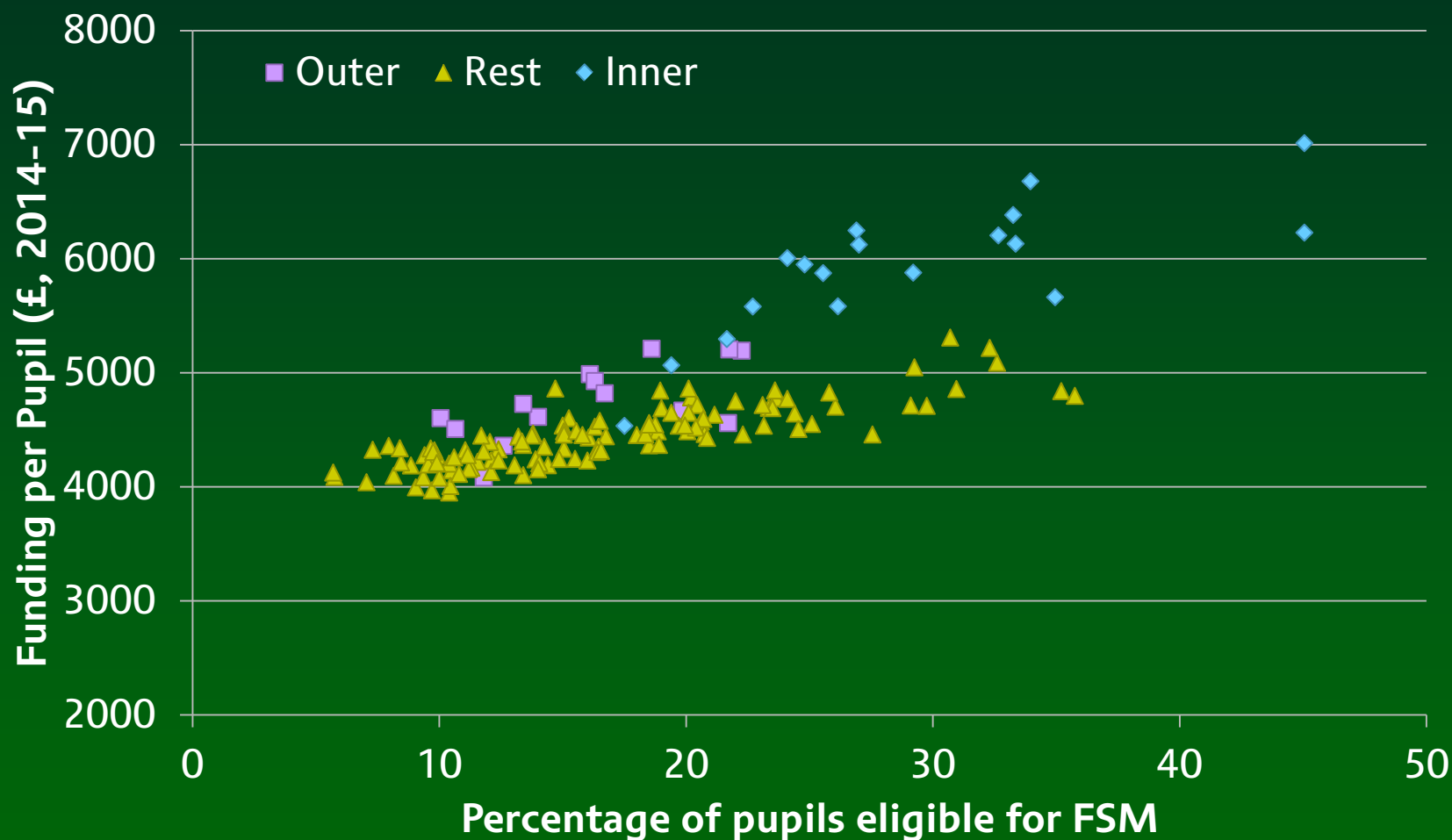
Significant variation in funding per pupil across similar local authorities



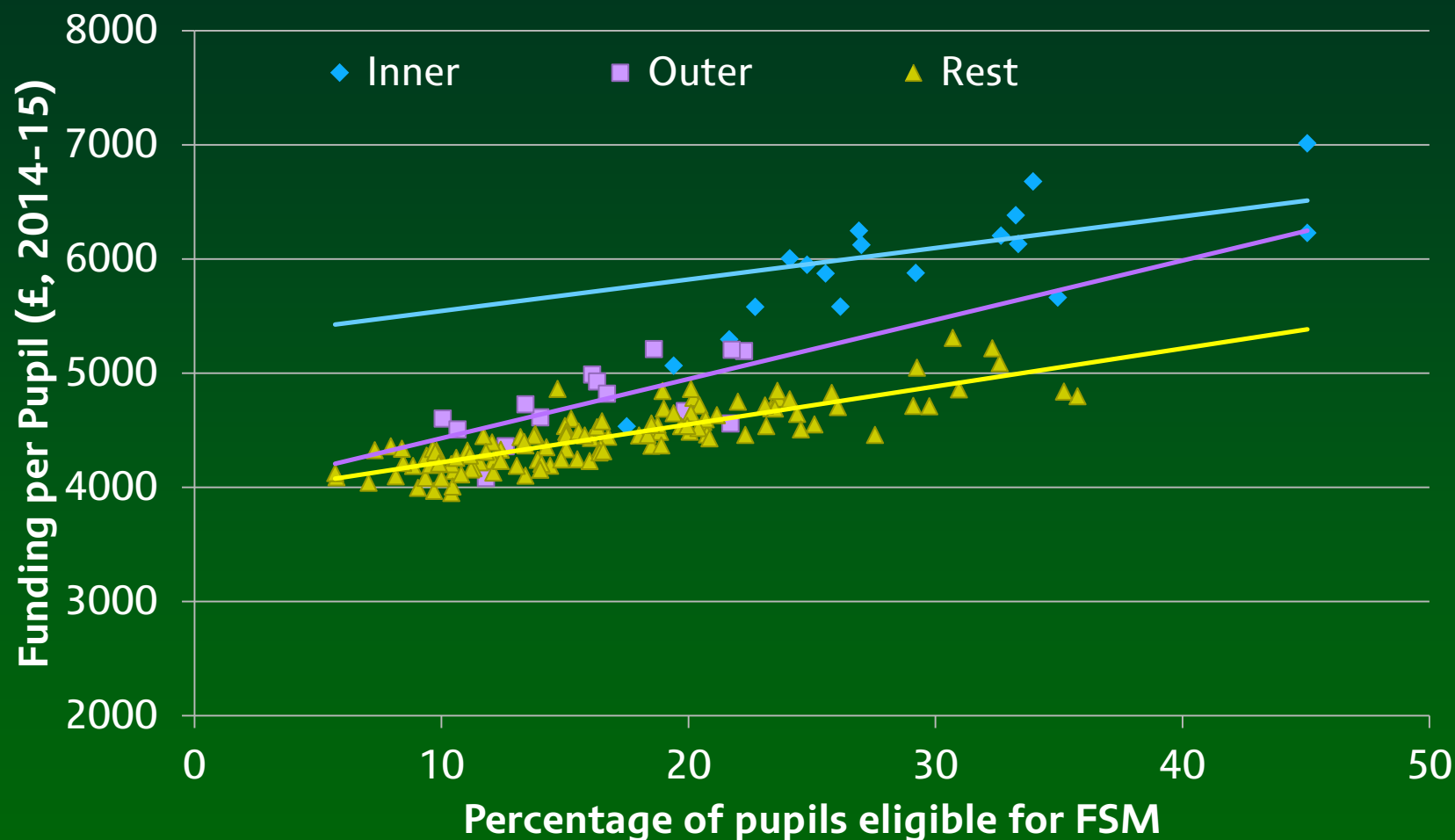
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Source: Author's calculations using "Fairer schools funding: arrangements for 2015 to 2016" (<https://www.gov.uk/government/publications/fairer-schools-funding-arrangements-for-2015-to-2016>) and Pupils, Schools and their Characteristics, January 2014 (<https://www.gov.uk/government/statistics/schools-pupils-and-their-characteristics-january-2014>).

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 - Differences in funding across LAs and schools with similar characteristics
- School funding system certainly in need of reform

School Funding Reforms for April 2015

- Reforms to the way funding is allocated to local authorities
- Minimum Funding Formula
 - Formula based on pupil numbers, social deprivation and other factors establishes a minimum level of funding per pupil for each LA
 - If LA currently receives less than this, funding topped up from April 2015
 - If LA currently receives more than this, funding per pupil frozen in cash-terms
 - Pupil premium unaffected
- New Area Cost Adjustment forms part of Minimum Funding Formula
 - Some LAs receive funding uplift to account for higher staff costs
 - Old version assumed all staff costs vary with general differences in wages
 - New version accounts for specific differences in teacher salary scales

Design of the minimum funding formula

Minimum funding formula largely based on averages of factors currently used by local authorities in their own funding formulae

	Primary	Secondary
Number of pupils	£2,880	Key stage 3: £3,950 Key stage 4: £4,502
Eligible for FSM in past 6 years	£882	£1,052
IDACI	£209-£691	£289-£819
Looked after children	£1,004	£1,004
Low prior attainment	£669	£940
EAL	£466	£1,130
Lump sum	£115,797	£125,155
Sparsity Factor	£44,635	£66,656

For more details, see
(<https://www.gov.uk/government/publications/fairer-schools-funding-arrangements-for-2015-to-2016>)



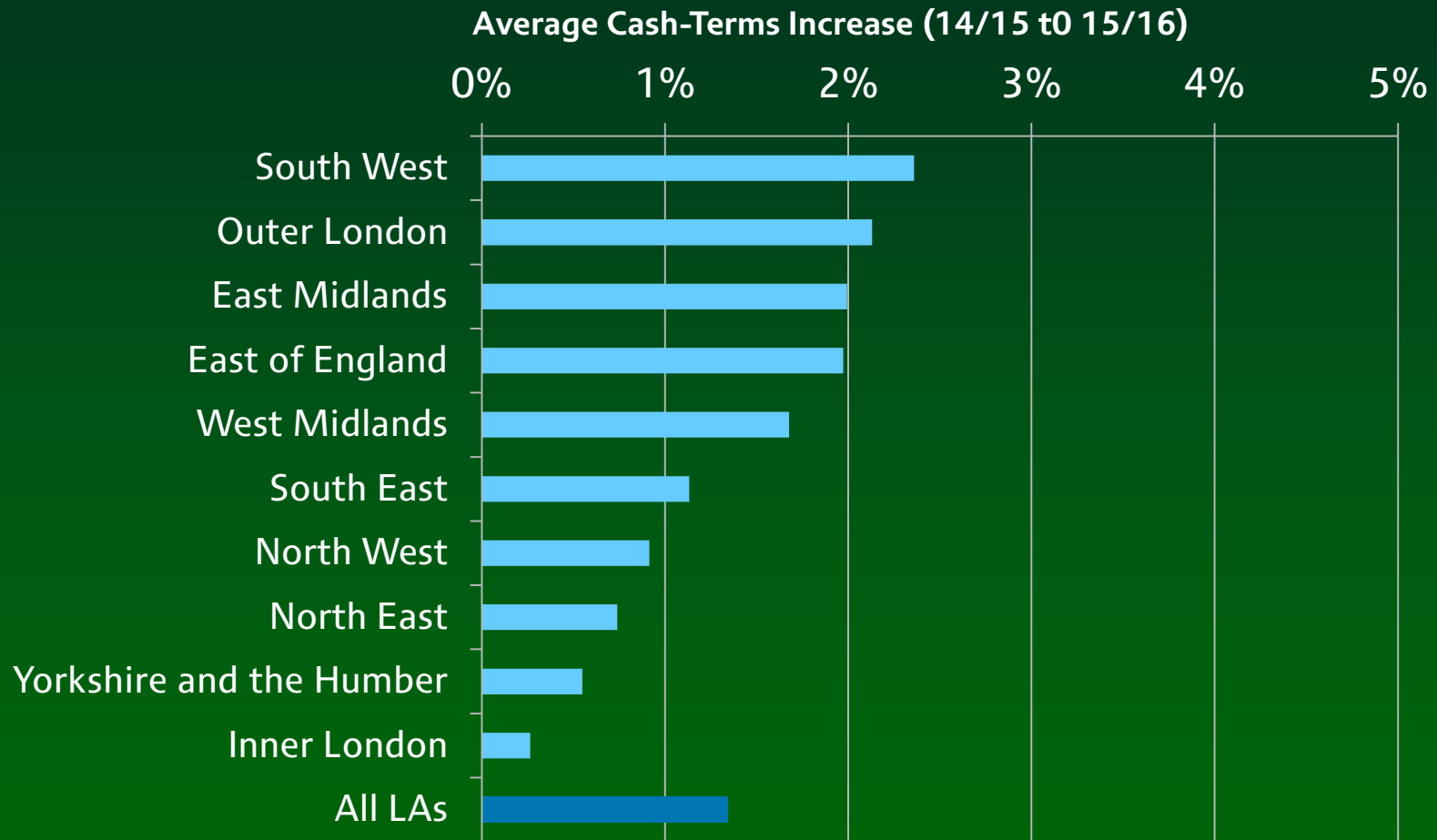
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Average cash-terms increase by region



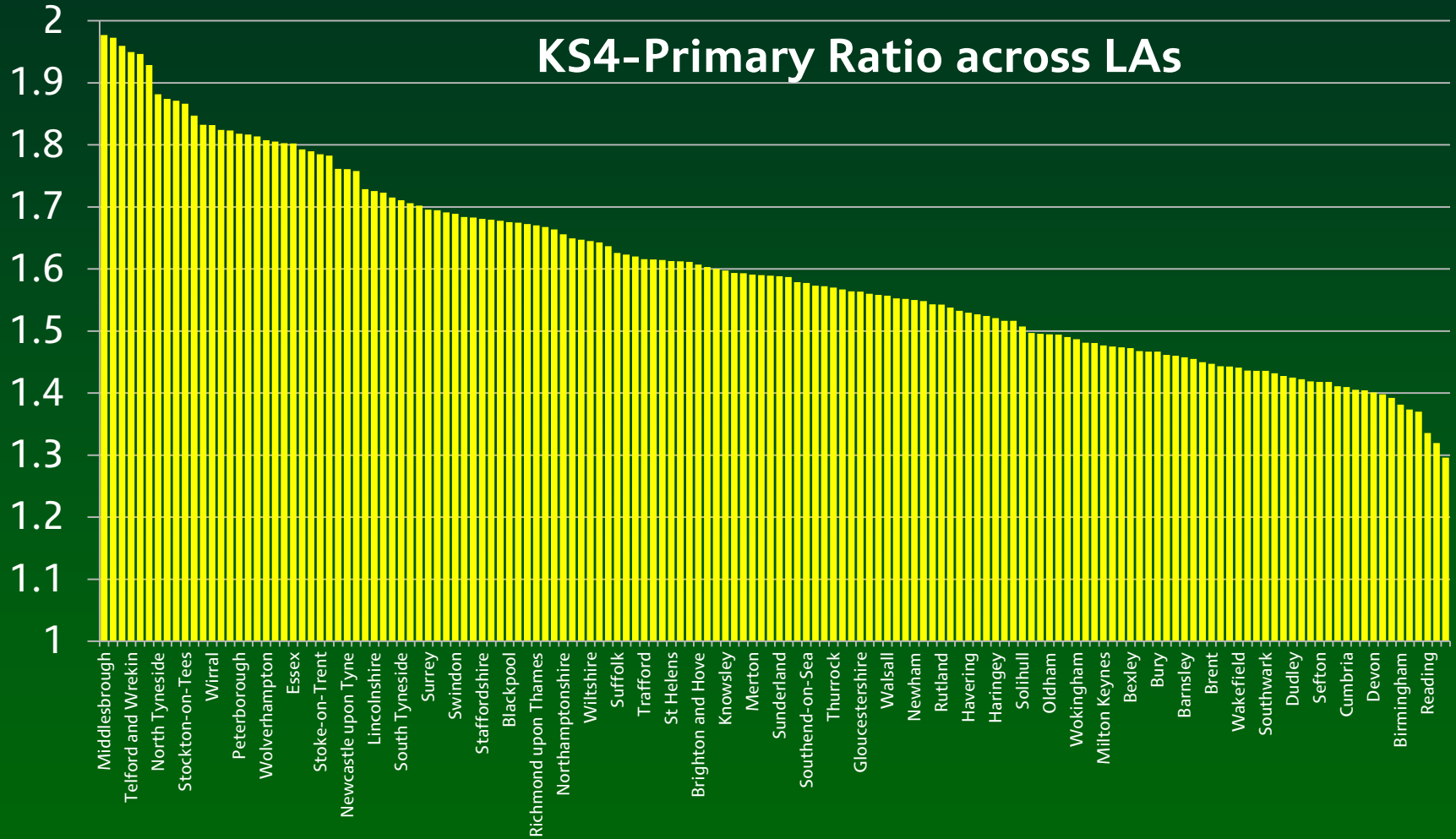
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- Around half of local authorities see no change as they already receive more than the minimum amount
- Slightly larger increase in funding for LAs with lower levels of deprivation
- Inner London sees lowest increase in funding as new area cost adjustment is less generous to Inner London than previous version
- Reforms only affect schools through their effects on local authorities
 - Will correct some differences across similar schools as a result of ironing out anomalies across local authorities
 - BUT, similar school across local authorities could still have different funding levels as a result of different choices made by local authorities in their own funding formulae.

Local authorities do make different choices

Sizeable differences in primary/secondary funding across local authorities



Different choices made by local authorities

- Local authorities differ in term of balance between primary and secondary school funding
 - Around 10% of LAs have a KS4/primary funding ratio in excess of 1.8
 - Around 10% of LAs have one lower than 1.4
 - Is it desirable for this ratio to vary so widely across LAs?
- Different levels of funding targeted at deprivation
 - And differ in terms of the factors they use
 - Less so than they used to

Moving to a national funding formula

- Department for Education says current reforms are a step towards a national funding formula
- Two Main Options
 1. Local Authority Level Formula – formula for allocating funds to local authorities who then use their own formulae
 - *Effectively a continuation of the minimum funding formula for April 2015*
 2. School-Level Formula – single national formula allocating funds to all schools in England
- In either case, a lengthy transition will be desirable

Implications of a school-level formula

- National Funding Formula would replace separate local authority formulae with one single national formula for all schools in England
- Exact changes would depend on the exact formula chosen
- IFS research previously sought to model implications of a hypothetical national funding formula that sought to minimise numbers of big winner and big losers ('Low Disruption')
 - Significant changes across schools: 1 in 6 schools lose at least 10%; 1 in 10 gain at least 10%
 - Lengthy transition would clearly be highly desirable
- Disruption would be concentrated in particular local authorities
 - Areas which have been historically over or under funded
 - **Areas which give differing levels of priority to different factors**



Important questions to consider

- Is it desirable to have a different primary-secondary funding ratio across local authorities?
- With evidence pointing to high effectiveness of early intervention, is this an opportunity to rebalance funding towards earlier ages?
- Significant variation in level of deprivation funding across local authorities, should this be harmonised and combined with pupil premium?

Conclusions

- Re-establishing a formula for allocating funds to local authorities is to be welcomed
- Government says this a step on the way to a national funding formula
- But it hasn't said what this would look like
 - Would it be a school-level formula or a local authority formula?
 - Would it be based on the new minimum formula?
- Most likely scenario is continuing with minimum funding formula
 - But does the “average” of what local authorities are currently doing represent the optimal school funding formula?