The options for school funding reform and their likely impact

Luke Sibieta, Institute for Fiscal Studies,
National Association of School Business Management, 19th November 2014
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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Funding per Pupil (£, 2014-15)

Percentage of pupils eligible for FSM

- Outer
- Rest
Significant variation in funding per pupil across similar local authorities
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• 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
• 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

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

For more details, see [https://www.gov.uk/government/publications/fairer-schools-funding-arrangements-for-2015-to-2016]
Likely effects of April 2015 reforms

- Around half of local authorities see no change as they already receive more than the minimum amount
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• Slightly larger increase in funding for LAs with lower levels of deprivation
Average cash-terms increase by region

Average Cash-Terms Increase (14/15 to 15/16)

<table>
<thead>
<tr>
<th>Region</th>
<th>% Increase</th>
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<tbody>
<tr>
<td>South West</td>
<td>3%</td>
</tr>
<tr>
<td>Outer London</td>
<td>3%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>3%</td>
</tr>
<tr>
<td>East of England</td>
<td>3%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>3%</td>
</tr>
<tr>
<td>South East</td>
<td>2%</td>
</tr>
<tr>
<td>North West</td>
<td>2%</td>
</tr>
<tr>
<td>North East</td>
<td>2%</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>1%</td>
</tr>
<tr>
<td>Inner London</td>
<td>1%</td>
</tr>
<tr>
<td>All LAs</td>
<td>2%</td>
</tr>
</tbody>
</table>

Likely effects of April 2015 reforms

• 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

KS4-Primary Ratio across LAs
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?