



National Audit Office



School funding in England

Department for Education

REPORT

**by the Comptroller
and Auditor General**

SESSION 2021-22

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HC 300

Key facts

0.4%

real-terms increase in per-pupil funding for mainstream schools between 2014-15 and 2020-21

£2.2bn

the Department for Education's (the Department's) estimate of savings mainstream schools had to make between 2015-16 and 2019-20 to counteract unfunded cost pressures

1.2%

average real-terms reduction in per-pupil schools block funding between 2017-18 and 2020-21 for the most deprived fifth of schools, compared with an increase of 2.9% for the least deprived fifth of schools

£43.4 billion the Department's total revenue funding for mainstream schools in 2020-21

£5,510 average funding per pupil in mainstream schools in 2020-21

3.8% the Department's intended real-terms increase in per-pupil funding for mainstream schools between 2020-21 and 2022-23

£3.3 billion additional funding that the Department is providing schools to help cover costs arising from the COVID-19 pandemic between 2020-21 and 2024-25

17.9% proportion of schools block funding that the Department allocated through the national funding formula in 2020-21 based on pupil need

3,150 number of schools that were allocated minimum per-pupil funding in 2020-21, 15.6% of all mainstream schools

64 number of local authorities that mirrored the national funding formula almost exactly in distributing funding to schools in 2020-21

Throughout this report, central and local government financial years are written as, for example, '2020-21' and run from 1 April to 31 March; school academic years are written as '2020/21' and run from 1 September to 31 August.

Summary

1 In January 2020, there were more than 20,200 mainstream state schools in England, educating more than 8.1 million pupils aged four to 19.¹ Around 11,700 of these schools (58% of the total), with 3.8 million pupils, were maintained schools, funded and overseen by local authorities. The remaining 8,500 schools (42%) were academies, with 4.4 million pupils. Each academy school is part of an academy trust, directly funded by the Department for Education (the Department) and independent of the relevant local authority.

2 The Department's vision is to provide world-class education, training and care for everyone, whatever their background. It is responsible for the school system, and is ultimately accountable for securing value for money from the funding provided for schools. The Department works with the Education and Skills Funding Agency (the ESFA), which distributes funding for schools and provides assurance about how the money has been used.

3 In 2020-21, the Department provided mainstream schools with core revenue funding of £43.4 billion. The largest component of this funding (£36.3 billion, 84% of the total) was the schools block of the dedicated schools grant. Other funding streams included grants to support disadvantaged pupils and pupils with high needs.

Focus of our report

4 We reported on the financial sustainability of schools in 2016.² We concluded that the Department's overall schools budget, as set out in the 2015 Spending Review, was protected in real terms but did not provide for funding per pupil to increase in line with inflation. Therefore, mainstream schools would need to find significant savings to counteract cost pressures. At that time, the Department was planning to introduce a national funding formula to allocate funding for schools. Its aims included that the new funding system should be transparent, simple and predictable, allocate funding consistently across the country, and allocate funding fairly with resources matched to need based on pupils' and schools' characteristics.

¹ Mainstream schools are general primary schools and secondary schools, as distinct from special schools.

² Comptroller and Auditor General, *Financial sustainability of schools*, Session 2016-17, HC 850, National Audit Office, December 2016.

5 This report focuses on the Department's funding for mainstream schools in England, and updates aspects of our 2016 report. We examined whether the Department:

- has increased funding in real terms and in a way that takes account of cost pressures (Part One); and
- is distributing funding in line with its objectives (Part Two).

We set out our audit approach in Appendix One and our evidence base in Appendix Two.

6 Alongside the work for this report, we have also been examining the financial health of schools and the support that the Department has provided to schools to help them be more financially sustainable. We plan to report our findings on these issues later in 2021.

Key findings

School revenue funding and cost pressures

7 **Although the Department's total funding for schools increased by 7.1% in real terms between 2014-15 and 2020-21, the growth in pupil numbers meant real-terms funding per pupil rose by 0.4%.** Total core revenue funding for mainstream schools rose from £36.2 billion in 2014-15 to £43.4 billion in 2020-21, an increase of 7.1% in real terms. However, as pupil numbers rose over the period, funding per pupil increased by 0.4% in real terms. The trend in funding was not even over the period:

- per-pupil funding increased from £4,905 in 2014-15 to £5,021 in 2018-19, a 4.8% reduction in real terms; and
- per-pupil funding rose to £5,510 in 2020-21, a real-terms increase of 5.5% since 2018-19.

Between 2014-15 and 2020-21, the balance of funding shifted from secondary schools to primary schools, partly because the Department reduced funding per sixth-form student (paragraphs 1.9, 1.10 and 1.12, and Figure 3).

8 **The Department plans to increase school funding so that total and per-pupil funding is expected to rise by around 4% in real terms between 2020-21 and 2022-23.** The Department intends to increase total core revenue funding for mainstream schools to £46.8 billion by 2022-23 (£5,914 per pupil). Based on current projections of inflation and pupil numbers, total funding would rise by around 4.1% and per-pupil funding by around 3.8% in real terms between 2020-21 and 2022-23 (paragraph 1.11 and Figure 3).

9 The Department estimates that, between 2015-16 and 2019-20, cost pressures on mainstream schools exceeded funding increases by £2.2 billion, mainly because of rising staff costs. Teaching staff costs increased by an estimated £3.6 billion (17%) between 2015-16 and 2020-21, because of rises in teachers' pay costs and higher pension and national insurance costs. In the three years from 2018-19, the Department provided separate grants to help schools cover these increases. From 2021-22, it will incorporate most of this funding within the dedicated schools grant. Another significant cost pressure on mainstream schools is supporting the increased proportion of pupils with education, health and care plans. This cost grew by around £650 million between 2015-16 and 2020-21. Overall, funding increases were projected to exceed cost pressures in 2020-21, giving the school system as a whole some financial headroom. However, the Department did not take account of the potential impact of COVID-19 costs and funding in this assessment. In earlier years, schools will have had to find economies or efficiency savings to counteract the cost pressures (paragraphs 1.14 to 1.19, and Figure 4).

10 The Department is providing extra funding of £3.3 billion between 2020-21 and 2024-25 to help schools cover costs relating to COVID-19, mostly for catch-up learning, but does not know the extent to which this covers cost pressures.

The Department provided: £139 million for exceptional costs schools incurred in the early stages of the pandemic in 2020 (such as additional cleaning due to COVID-19 outbreaks); £6 million to support schools to cover costs arising from staff absences in November and December 2020; and £50 million for the extra costs of providing free school meals in early 2021. The Department limited the amounts that schools could claim and schools' eligibility for funding depended on their financial position. The Department also plans to spend £3.1 billion between 2020-21 and 2024-25 to help children and young people catch up on learning lost during the period of disrupted schooling. However, the Department has not systematically assessed the cost pressures arising from COVID-19. It told us that the 16% rise in average revenue surpluses in academy trusts in 2019/20 provided assurance that overall, in the early stages of the pandemic, schools did not incur unmanageable extra costs that they could not cover through savings elsewhere. The Department will not have equivalent data for maintained schools until later in 2021. The stakeholders we consulted consider, based on work by the Education Policy Institute and their own research, that the funding provided by the Department was insufficient to cover the additional costs arising from the pandemic (paragraphs 1.21 to 1.33, and Figure 5).

Allocating funding to schools

11 The Department implemented the national funding formula in 2018-19, which means school funding is now allocated more transparently and consistently.

Before 2018-19, the Department allocated schools block funding to local authorities mainly on a historical basis. This meant that local authorities received a per-pupil funding rate largely determined by the rate they had received in the previous year. The Department did not calculate funding at school level or explicitly base funding on need. As a result, local authorities with similar characteristics could receive quite different levels of funding. Under the national funding formula, the Department allocates nearly three-quarters of schools block funding based on pupil numbers, with the remainder based on factors relating to the characteristics of pupils and schools. Schools block funding for each local authority is the total of the allocations for the schools in its area. The Department publishes its methodology and the underlying values for the national funding formula each year (paragraphs 2.2, 2.3 and 2.6 to 2.10).

12 The Department is gradually reducing the differences in per-pupil funding between similar local authorities. The national funding formula means there is no longer unexplained variation in how much the Department allocates to local authorities. There is, however, still variation in funding between local authorities with similar characteristics. This is because the Department has applied mechanisms to control the pace of change. For example, in 2020-21, 4,818 schools (23.9% of all mainstream schools) were protected through the 'minimum funding guarantee', which meant all schools received a minimum per-pupil cash increase of 0.5%; more deprived schools were more likely than less deprived schools to be protected. Assuming no changes to the funding system, the expectation is that allocations for schools covered by the guarantee will continue to be protected to some extent until they align with the amounts calculated by the national funding formula (paragraphs 2.11 to 2.14, and Figure 8).

13 The introduction of minimum per-pupil funding levels in 2018-19 resulted in increased allocations for 15.6% of schools, mostly with low levels of deprivation.

In 2018-19, as part of the national funding formula, the Department introduced minimum per-pupil funding levels for all schools in England in support of the government's aim of 'levelling up education funding'. In 2020-21, the levels were £3,750 per primary pupil and £5,000 per secondary pupil. Most schools, particularly those with high levels of deprivation, have not been affected by the minimum funding levels since their per-pupil allocations have already been higher than the minimum. In 2020-21, 3,150 schools (15.6% of the total) were allocated extra funding totalling £266 million. No school in the most deprived quintile was allocated funding under the minimum per-pupil funding arrangement, compared with 37.1% of schools in the least deprived quintile (paragraphs 2.15 to 2.17, and Figure 9).

14 The Department has allocated the largest funding increases to previously less well funded areas, which tend to be less deprived. Under the national funding formula, more deprived local areas receive more per-pupil funding than less deprived areas as funding is linked to need, but the difference has decreased. Most London boroughs and cities with relatively high levels of deprivation, such as Nottingham and Birmingham, saw real-terms decreases in per-pupil funding allocations between 2017-18 and 2020-21. The Department allocated the largest increases to local authorities that had the lowest per-pupil funding. On average, local authorities with relatively low levels of deprivation in the South West, the East Midlands and the South East received real-terms increases of around 1% or more in their per-pupil funding allocations. The main reasons for the relative re-distribution of funding between local authorities were the introduction of minimum per-pupil funding levels and changes in relative need. For some years before the national funding formula, the Department had not adjusted allocations to reflect changing patterns of need. As a result, funding had not kept pace with relative need such as the proportion of pupils eligible for free school meals, which fell by 11.6 percentage points on average in Inner London between 2010 and 2018 compared with a slight rise in the North East (paragraphs 2.19 to 2.22, and Figure 11).

15 Local freedoms mean that the Department cannot ensure that each school receives the funding calculated by the national funding formula or that academy schools receive the minimum per-pupil funding levels. Local authorities are not obliged to apply the allocations calculated by the national funding formula – they can apply local funding formulae in distributing funding to maintained schools and academy trusts. In 2020-21, 64 local authorities mirrored the national funding formula almost exactly in distributing funding. Local authorities must pass on minimum per-pupil funding to their maintained schools, but academy trusts do not have to do the same for academy schools. Multi-academy trusts can re-distribute funding to their schools based on their assessment of need and they can pool funding centrally, for example to support struggling schools. While the Department publishes details of the funding provided to each maintained school, it does not publish or have assurance about how much schools block funding is provided to each academy school by multi-academy trusts. The government has said that it intends to move to a ‘hard’ national funding formula, where schools’ budgets would be set directly by the Department based on the formula. This move would require legislative change (paragraphs 2.24 to 2.26, 2.29 and 2.30).

16 In recent years, there has been a relative re-distribution of funding from the most deprived schools to the least deprived schools. This change reflects both how the Department has allocated schools block funding to local authorities and how local authorities have distributed funding to maintained schools and academy trusts. Between 2017-18 and 2020-21, average per-pupil funding for the most deprived fifth of schools fell in real terms by 1.2% to £5,177; over the same period, average per-pupil funding for the least deprived fifth increased by 2.9% to £4,471. The relative shift in funding away from more deprived schools towards less deprived schools has occurred in every region except Outer London, with the trend particularly marked in Inner London. For example, between 2017-18 and 2020-21, 58.3% of schools in the most deprived quintile saw a real-terms decrease in per-pupil funding; the proportion was 83.6% in Inner London and 55.4% in the rest of the country (paragraphs 2.31 to 2.34, and Figure 12).

Conclusion on value for money

17 After real-terms reductions in school funding in the two years to 2018-19, the Department has since increased funding and plans further rises. Because of growing pupil numbers, average per-pupil funding was virtually unchanged in real terms between 2014-15 and 2020-21. The increases in cash funding did not cover estimated cost pressures between 2015-16 and 2019-20 but were projected to exceed them in 2020-21, although the Department has not factored in the potential impact of COVID-19 in this assessment.

18 With the introduction of the national funding formula, the Department has met its objective of making its allocations more predictable and transparent. Schools block funding is now distributed consistently to local authorities, and variations can be explained. However, as the government has not yet implemented the national formula in 'hard' form, the Department cannot ensure that funding is distributed consistently to individual schools, since this is decided by local authorities and academy trusts. In particular, the Department does not have assurance that academy schools are receiving the minimum per-pupil funding levels that it has set.

19 The multi-faceted nature of need makes it difficult to conclude definitively on whether the Department has met its objective of allocating funding fairly with resources matched to need. Taking deprivation alone, the largest element of need in the national formula, there has been a shift in the balance of funding from more deprived to less deprived local areas. This shift has resulted mainly from changes in relative need and the introduction of minimum per-pupil funding levels. Although more deprived local authorities and schools continue on average to receive more per pupil than those that are less deprived, the difference in funding has narrowed.

Recommendations

- 20** We recommend that the Department should take the following actions:
- a Evaluate the impact of the national funding formula and minimum funding levels over time and use that information to inform whether further action is needed to meet its objectives.** In particular, the Department should review whether the shift in the balance of funding from more deprived areas to less deprived areas, and from more deprived schools to less deprived schools, means it is adequately meeting its objective of matching resources to need.
 - b Assess systematically the impact of the COVID-19 pandemic on schools' finances and take account of this information in its decision-making.** This work should consider the potential impact of the pandemic on schools' costs and income over time, and the differential impact on schools in different circumstances.
 - c Make clear, in communicating information about funding to the school system, Parliament and the public, that local flexibilities mean that it cannot guarantee the amount of schools block funding that each school receives.** In particular, the Department should be explicit that it does not have assurance that academy schools are receiving the minimum per-pupil funding levels that it has set.
 - d Take action to help mainstream schools deal with high-needs cost pressures.** The Department needs to complete its review of support for pupils with special educational needs and disabilities and set out how it will improve this aspect of the funding arrangements for mainstream schools.