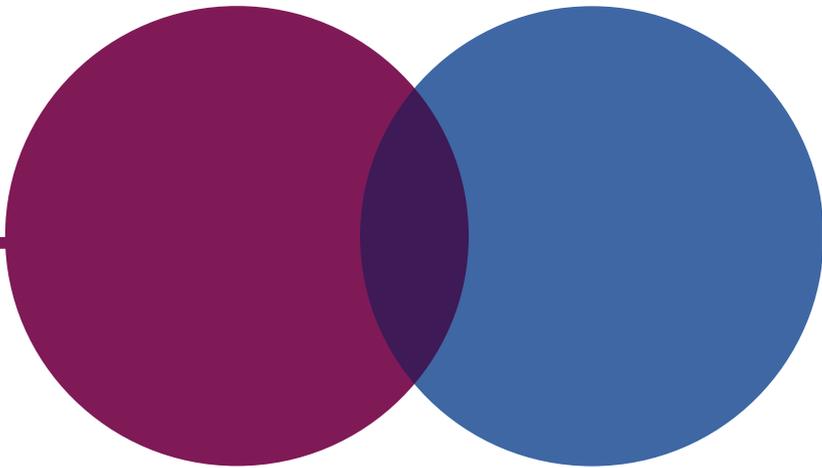




National Audit Office



School funding in England

Department for Education

REPORT

**by the Comptroller
and Auditor General**

SESSION 2021-22

2 JULY 2021

HC 300



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National Audit Office

School funding in England

Department for Education

Report by the Comptroller and Auditor General

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Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

28 June 2021

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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.

Part One

School revenue funding and cost pressures

1.1 This part of the report covers the Department for Education's (the Department's) revenue funding for mainstream schools, the main cost pressures schools face, and COVID-19 related funding and costs.

The school system

1.2 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. These comprised nearly 16,800 primary schools and nearly 3,500 secondary schools (including those with sixth forms).

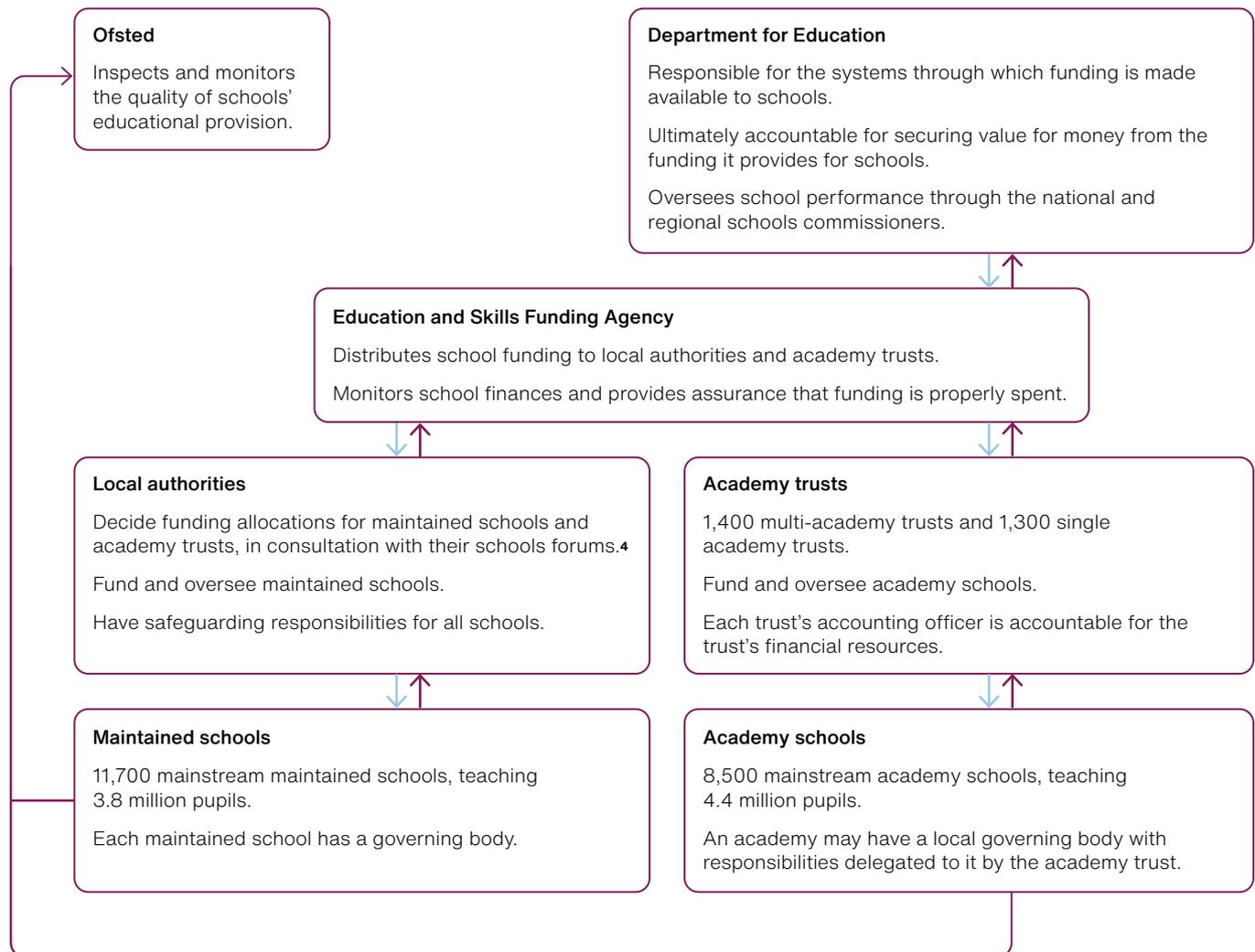
1.3 Around 11,700 mainstream schools (58% of the total), with 3.8 million pupils, were maintained schools, funded and overseen by local authorities. The remaining 8,500 schools (42%) were academies, with 4.4 million pupils. Each academy school is part of an academy trust, directly funded by the Department and independent of the relevant local authority.

1.4 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 (**Figure 1**), 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), an executive agency of the Department, which distributes funding for schools and provides assurance about how the money has been used. Ofsted inspects schools and provides independent assurance about their effectiveness, including the quality of education.

School revenue funding

1.5 State schools receive most of their funding from the Department. In 2020-21, the Department provided mainstream schools with core revenue funding of £43.4 billion (excluding any additional COVID-19 related funding). The largest component of this funding (£36.3 billion, 84% of the total) was the schools block, part of the dedicated schools grant (**Figure 2** on page 14). Schools may also generate income, for example through letting sports facilities and selling services to other schools. Self-generated income has amounted to around £3 billion per year (equivalent to around 7% of core funding).

Figure 1
Funding and accountability arrangements for the school system in England



→ Accountability
→ Funding

Notes

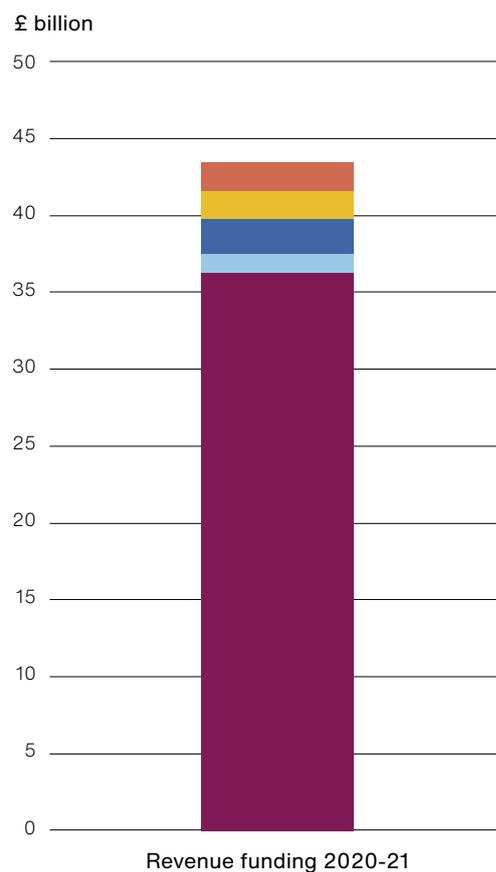
- 1 The numbers of mainstream schools and pupils are for state primary and secondary schools, excluding special schools and stand-alone nurseries, and are at January 2020.
- 2 The numbers of schools and academy trusts are rounded to the nearest 100.
- 3 Pupil numbers are calculated on a full-time equivalent basis. From *Schools, pupils and their characteristics: 2020*, Department for Education, June 2020.
- 4 Each local authority must have a schools forum comprising representatives from schools and other organisations, such as early years providers. Each local authority must consult the schools forum about its proposals for allocating the dedicated schools grant to maintained schools and academies.

Source: National Audit Office analysis of Department for Education data

Figure 2

Revenue funding for mainstream schools by component, 2020-21

The Department for Education's revenue funding for mainstream schools totalled **£43.4 billion** in 2020-21



- Dedicated schools grant – schools block: £36.3 billion (83.5% of the total). This accounts for most revenue funding, which schools use to pay staff and for other running expenses.
- Dedicated schools grant – high-needs block: £1.3 billion (2.9% of the total). This includes top-up funding for supporting pupils with special educational needs and disabilities, over the £6,000 threshold per pupil which is covered by the schools block.¹
- Pupil premium: £2.2 billion (5.1% of the total). This is additional funding to help schools improve the attainment of disadvantaged pupils, based on the number of pupils eligible for free school meals or who are, or have been, looked after.
- School sixth-form funding: £1.8 billion (4.2% of the total). This is funding for the education of students aged 16 to 19.
- Teacher pay and pension grants: £1.8 billion (4.2% of the total). This comprises a contribution to the cost of the 2018 and 2019 teachers' pay awards, and funding to cover the cost of the 2019 increase in the employer contribution rate of the Teachers' Pension Scheme.

Notes

- 1 The Department for Education expects schools to use money from the schools block to cover the first £6,000 of support for each pupil with special educational needs and disabilities.
- 2 This Figure does not include additional funding provided to help schools respond to the COVID-19 pandemic.
- 3 Percentages do not sum to 100% due to rounding.

Source: National Audit Office analysis of Department for Education data

Levels of funding

Government commitments

1.6 In 2016, we reported that the Department's settlement in the 2015 Spending Review had protected the overall schools budget in real terms. However, as pupil numbers were rising, the amount per pupil that schools received, on average, would not rise in line with inflation between 2015-16 and 2019-20.³

1.7 The government subsequently announced, in 2017, extra funding for schools and high needs for the final two years of the Spending Review period – an extra £1.3 billion (£416 million in 2018-19 and £884 million in 2019-20) to maintain per-pupil funding in real terms.⁴

1.8 In 2019, the government announced additional core school funding for all schools, compared with 2019-20, of £2.6 billion in 2020-21, £4.8 billion in 2021-22 and £7.1 billion in 2022-23. The government said that these increases were part of its commitment to level up education funding and give all young people the same opportunities to succeed, regardless of where they grew up or go to school.⁵

Funding trends

1.9 Within its overall funding for all schools, the Department's total core 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 (**Figure 3** overleaf):

- Funding increased in cash terms, from £36.2 billion in 2014-15 to £39.0 billion in 2018-19, which represented no change in real terms.
- It then increased to £43.4 billion in 2020-21, a rise in real terms of 7.2% since 2018-19.

1.10 Funding per pupil followed a similar trend but increased by only 0.4% in real terms between 2014-15 and 2020-21 as pupil numbers rose over the period:

- Funding per pupil increased in cash terms from £4,905 in 2014-15 to £5,021 in 2018-19, which represented a drop of 4.8% in real terms.
- It then increased to £5,510 in 2020-21, a rise in real terms of 5.5% since 2018-19.

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

4 *Hansard HC*, 17 July 2017, vol. 627, col 563.

5 *Hansard HC*, 3 September 2019, vol. 664, col 65.

Figure 3

Revenue funding for mainstream schools in total and per pupil, 2014-15 to 2022-23

As pupil numbers rose, per-pupil funding did not increase in line with inflation between 2014-15 and 2018-19, but is forecast to rise above inflation between 2019-20 and 2022-23

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Planned/projected 2021-22	Planned/projected 2022-23
Total core funding for schools									
In cash terms (£m)	36,238	36,984	37,453	37,907	38,974	40,718	43,428	44,842	46,765
Percentage change on the previous year (%)		2.1	1.3	1.2	2.8	4.5	6.7	3.3	4.3
Percentage change on the previous year in real terms (%)		1.2	-1.2	-0.5	0.5	2.2	4.9	1.5	2.5
<i>Number of pupils in state schools (thousands)</i>	<i>7,388</i>	<i>7,494</i>	<i>7,602</i>	<i>7,677</i>	<i>7,761</i>	<i>7,835</i>	<i>7,882</i>	<i>7,910</i>	<i>7,907</i>
Core funding per pupil									
In cash terms (£)	4,905	4,935	4,927	4,937	5,021	5,197	5,510	5,669	5,914
Percentage change on the previous year (%)		0.6	-0.2	0.2	1.7	3.5	6.0	2.9	4.3
Percentage change on the previous year in real terms (%)		-0.2	-2.6	-1.5	-0.6	1.2	4.2	1.2	2.6

Notes

- 1 The total funding for schools announced by the Department for Education covers all schools, including special schools. This Figure shows actual and planned funding for mainstream schools, including for sixth forms in secondary schools. It does not include additional funding provided to help schools respond to the COVID-19 pandemic.
- 2 We used gross domestic product (GDP) deflators at market prices, forecast change each year (HM Treasury, March 2021), as a measure of general inflation. We adjusted the rates of inflation, using the average GDP deflator for 2020-21 to 2022-23, to smooth the irregular impact of COVID-19.
- 3 Full-time equivalent pupil numbers are from the January school census 2015 to 2020. Data for January 2021 to January 2023 are from unpublished Department for Education analysis.

Source: National Audit Office analysis of Department for Education data

1.11 The Department intends to increase funding for mainstream schools further to £46.8 billion in 2022-23 (Figure 3). Based on current projections of pupil numbers, funding per pupil would rise to £5,914 in 2022-23 in cash terms. Between 2020-21 and 2022-23, total funding would rise by around 4.1% and per-pupil funding by around 3.8% in real terms.⁶

1.12 Overall, between 2014-15 and 2020-21, the balance of funding shifted from secondary schools to primary schools. Secondary school funding per pupil fell by 3.9% in real terms, while primary school funding increased by 4.2%. The main cause of this shift was local authorities protecting funding for primary schools in their local funding formulae. In addition, the Department reduced funding per sixth-form student, which fell by 11.4% in real terms.

Cost pressures on schools

1.13 In 2016, we reported that the Department had estimated that, to counteract cost pressures, schools would need to make economies or efficiency savings of £1.1 billion (equivalent to 3.1% of the total schools budget) in 2016-17, rising to £3.0 billion (8.0%) by 2019-20.⁷ Since then the Department has improved its model for assessing cost pressures to take account of a wider range of variables affecting school costs and funding. It has also updated and published its assessment of the cost pressures schools are expected to face, most recently in January 2021.⁸

1.14 The Department's model estimates that, between 2015-16 and 2019-20, cost pressures exceeded funding increases by £2.2 billion in total (**Figure 4** overleaf). This meant that, to live within their means, schools needed to make economies or efficiency savings.

1.15 The Department estimated that funding would grow faster than cost pressures in 2020-21. Therefore, it projected that, overall at national level, schools would have some financial headroom. The position of individual schools would vary depending on their funding levels and particular cost pressures. The Department did not take account of the potential impact of COVID-19 costs and funding in this assessment.

⁶ We adjusted the rates of inflation, using the compound average GDP deflator for 2020-21 to 2022-23, to smooth the irregular impact of COVID-19.

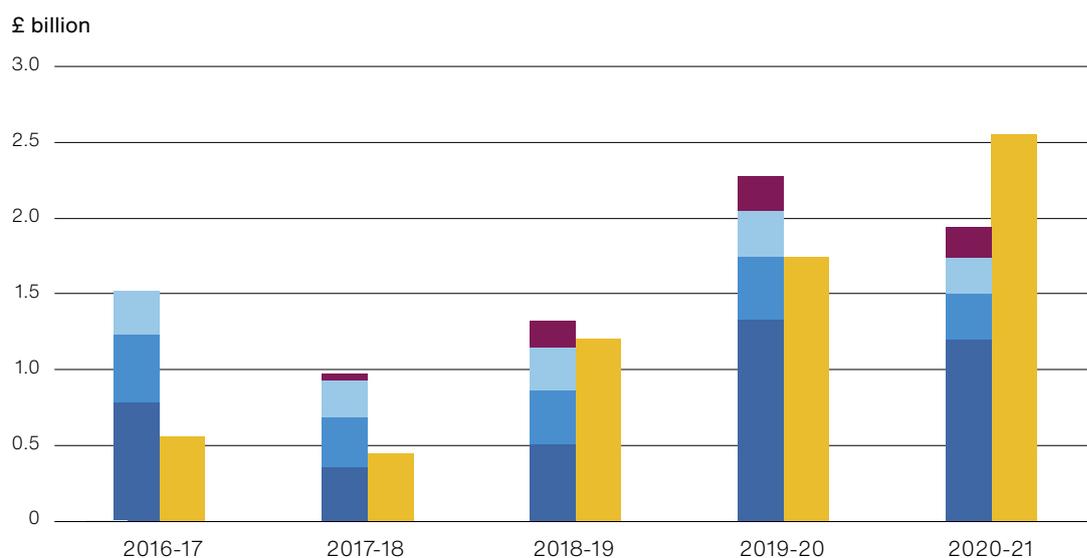
⁷ See footnote 3.

⁸ Department for Education, *Schools' costs 2020 to 2021*, January 2021.

Figure 4

Cost pressures facing mainstream schools, 2016-17 to 2020-21

The Department for Education (the Department) estimates that, between 2016-17 and 2019-20, cost pressures on schools were greater than funding increases

**Cost pressures (£bn)²**

■ High-needs demand ³	0.0	0.0	0.2	0.2	0.2
■ Non-staff	0.3	0.2	0.3	0.3	0.2
■ Non-teaching staff	0.5	0.3	0.4	0.4	0.3
■ Teaching staff	0.8	0.4	0.5	1.3	1.2
Total cost pressures	1.5	1.0	1.3	2.3	1.9
■ Increase in funding (£bn) ⁴	0.6	0.4	1.2	1.7	2.5
Net headroom/ cost pressure (£bn)⁵	-1.0	-0.5	-0.1	-0.5	0.6

Notes

- Figures may not sum due to rounding.
- The cost pressures each year are in cash terms compared with the previous year. The cost pressure for 2016-17 is therefore the increase in costs compared with 2015-16.
- High-needs demand cost pressures are an estimate of the costs arising from the increased proportion of pupils with education, health and care plans in mainstream schools.
- The increases in funding do not fully match funding data presented in paragraphs 1.9 to 1.11 and Figure 3 of this report. There are some differences between the Department's assessment of changes in funding used in this Figure and the analysis we completed for Figure 3. The main reason for these differences is that our analysis includes school sixth-form funding while the Department's analysis does not.
- A positive value indicates net headroom and a negative value indicates a net cost pressure.

Source: National Audit Office analysis of data from the Department for Education's cost model

Main cost pressures

Teaching staff costs

1.16 The Department estimates that teaching staff costs rose by around £3.6 billion (17%) between 2015-16 and 2020-21. The main reasons for this increase were:

- teachers' pay awards, pay progression and changes in workforce composition (these accounted for around half of the teaching staff cost pressure); and
- higher teachers' pension and national insurance costs, because of increased employer contributions (these accounted for the other half of the teaching staff cost pressure).

1.17 The Department provided additional funding to help schools cover the increases in teachers' pay and pension costs. In the three years from 2018-19, it gave grants towards the teacher pay increases (schools had to meet the first 1% of the 2018 pay award and the first 2% of the 2019 pay award), and to meet the full cost of increased pension contributions. From 2021-22, the Department will incorporate most of this additional funding within the dedicated schools grant instead of giving it as separate grants.⁹ The Department has said that it intends that the extra money for pay and pensions provided through the schools block will be the same as if the funding continued as separate grants. However, the change will make the extra funding less transparent.

1.18 At the 2020 Spending Review, the government announced that, in order to protect jobs and ensure fairness, pay rises in the public sector would be restrained and targeted in 2021-22. The Department said, in evidence to the School Teachers' Review Body, that it had paused planned pay rises for teachers in 2021/22 and that the move to increase teachers' starting salaries to £30,000 would no longer be achieved by 2022/23.¹⁰ The Department did not reduce school funding in light of this change.

Support for pupils with special educational needs and disabilities

1.19 The Department estimates that, in 2020-21, the cost of supporting pupils with special educational needs and disabilities (SEND) in mainstream schools was around £650 million higher than in 2015-16. This cost pressure relates to the growing proportion of children with education, health and care plans (EHC plans) in mainstream schools. Pupils with more complex needs have legally enforceable entitlements to packages of support, set out in EHC plans. Between January 2015 and January 2020, the number of pupils in mainstream schools with a statement of special educational needs or an EHC plan rose by 19.7%.¹¹

⁹ The Department will continue to make payments relating to early years and for 16-to-19 provision through separate grants.

¹⁰ Department for Education, *Government evidence to the STRB: The 2021 pay award*, February 2021.

¹¹ EHC plans were introduced by the Children and Families Act 2014 and replaced statements of special educational needs.

1.20 Mainstream schools are expected to cover from their core budgets the first £6,000 of extra support costs for each pupil with SEND. Beyond this threshold, schools can apply to their local authority for top-up funding from the high-needs block of the dedicated schools grant. We reported in 2019 that the Department had committed to review this funding system, including whether the £6,000 threshold remained appropriate.¹² This exercise is part of the wider review of SEND provision that the Department announced in September 2019. The Department told us that government planned to consult soon on how to improve support for children and young people with SEND with proposals that reflect the pandemic.

COVID-19 related funding and cost pressures

Additional funding

1.21 The ESFA continued to pay schools their core funding throughout the pandemic to ensure that they could continue to pay staff and meet other regular financial commitments. The Department recognised that there would be some instances where schools faced additional costs because of the COVID-19 pandemic that they would not be able to cover from their existing resources.

1.22 As we reported in March 2021, the Department is providing a range of additional funding to schools for costs arising from the pandemic (**Figure 5** on pages 21 and 22).¹³ In total, the Department is giving £3.3 billion between 2020-21 and 2024-25. Of this funding, £3.1 billion is to help children and young people catch up on learning lost during the period of disrupted schooling.

Funding for exceptional costs

1.23 The Department made exceptional costs funding available only to schools that could not meet additional COVID-19 costs from existing resources, or could do so only by drawing on reserves and undermining their long-term financial sustainability. The amount that schools could claim was limited according to the size of the school.¹⁴

1.24 Around 72% of schools submitted claims for exceptional costs in the 2019/20 school year, totalling £180 million. The Department reimbursed schools for £139 million of claims (77%) across three categories: providing free school meals, before the start of the national voucher scheme or where schools made local arrangements to support eligible children (£60 million); costs of opening school premises during the Easter and summer half-term holidays (£53 million); and additional cleaning costs due to COVID-19 outbreaks (£27 million).

¹² Comptroller and Auditor General, *Support for pupils with special educational needs and disabilities in England*, Session 2017–2019, HC 2636, National Audit Office, September 2019.

¹³ Comptroller and Auditor General, *Support for children's education during the early stages of the COVID-19 pandemic*, Session 2019–2021, HC 1239, National Audit Office, March 2021.

¹⁴ The limits ranged from £25,000 for schools of 250 pupils or fewer, to £75,000 for schools of more than 1,000 pupils.

Figure 5
Additional school funding relating to the COVID-19 pandemic, 2020-21 to 2024-25

The Department for Education is providing additional funding of £3.3 billion between 2020-21 and 2024-25 to help schools cover costs relating to the COVID-19 pandemic

Element	Description	Funding (£m)					Total
		2020-21	2021-22	2022-23	2023-24	2024-25	
COVID-19 exceptional costs (for costs incurred between March and August 2020)	Funding for the extra costs of providing free school meals, opening premises during holidays, and cleaning due to COVID-19 outbreaks.	139	0	0	0	0	139
COVID-19 workforce fund (for costs incurred in November and December 2020)	Funding to support schools to cover costs arising from staff absences.	6	0	0	0	0	6
COVID-19 free school meals additional costs (for costs incurred between January and March 2021)	Funding for the extra costs of providing free school meals additional to the national voucher scheme.	45	5	0	0	0	50
Total funding for additional COVID-19 related running costs		190	5	0	0	0	195
Catch-up funding announced in June 2020							
Catch-up premium	A universal premium allocated to schools on a per-pupil basis.	379	271	0	0	0	650
National Tutoring Programme	Funding mainly for tuition or other support targeted at disadvantaged children or schools.	163	120	60	0	0	343

Figure 5 continued
Additional school funding relating to the COVID-19 pandemic, 2020-21 to 2024-25

Element	Description	Funding (£m)					Total
		2020-21	2021-22	2022-23	2023-24	2024-25	
Education recovery package announced in February 2021							
National Tutoring Programme	Funding mainly for tuition or other support targeted at disadvantaged children or schools.	0	126	78	0	0	203
Recovery premium	A one-off payment to schools to support disadvantaged students.	0	157	145	0	0	302
Summer schools	Funding for secondary schools to provide face-to-face summer schools.	0	200	0	0	0	200
Education recovery package announced in June 2021							
National Tutoring Programme	Funding mainly for tuition or other support targeted at disadvantaged children or schools.	0	158	393	359	110	1,020
Training and development for teachers and early years professionals	To expand existing teacher training and development and provide professional development for early years practitioners.	0	45	132	145	86	408
Total catch-up learning programme funding		542	1,077	808	504	196	3,126
Total additional funding relating to the COVID-19 pandemic		732	1,082	808	504	196	3,321

Notes

- 1 Figures may not sum due to rounding.
- 2 Most of the funding for catch-up learning is for schools, with the remainder going to early years providers, colleges and training providers.

Source: National Audit Office summary of Department for Education information

1.25 Within the £180 million total, schools made £42 million of claims outside these categories, including for costs relating to: personal protective equipment; cleaning and social distancing; technology and other materials for children’s home learning and staff working from home; and additional staff. The Department did not reimburse schools for any of these other claims relating to the 2019/20 summer term.

1.26 For 2020/21, the Department has provided an additional £50 million in exceptional cost funding to help cover the extra costs that schools incurred in providing free school meals for pupils who were learning at home between January and March 2021.

Funding for unplanned staff costs

1.27 In November 2020, the Department agreed to help schools meet the cost of staff absences experienced in November and December 2020 through a COVID-19 workforce fund. Such costs might include, for example, employing supply teachers or increasing the hours of part-time staff. The Department limited claims for support to schools which could demonstrate that they met:

- prerequisite criteria: for example, that schools were open to all pupils and that costs were not already covered by an existing insurance policy;
- financial reserves criteria: schools and academy trusts were eligible for additional funding if their reserves at the end of the funding year were expected to be no more than 4% of their annual income; and
- workforce absence rate criteria: schools had to meet or exceed absence thresholds set by the Department – in general this meant either an initial absence rate of 20% or a lower threshold of 10% if the absence was long-term.

1.28 By the end of June 2021, the Department had made payments to around 4% of schools for staff costs, totalling around £6 million.

Funding for catch-up learning

1.29 The Department has committed £3.1 billion to help children and young people catch up on learning lost during the period of disrupted schooling:

- In June 2020, the Department announced a £1 billion catch-up learning programme. The programme comprises two main elements: a £650 million universal catch-up premium allocated to schools on a per-pupil basis, and a £350 million National Tutoring Programme (NTP) targeted at disadvantaged children. Schools are expected to meet 25% of the costs of tuition provided under the NTP tuition partners scheme, amounting to an estimated £21 million in the 2020/21 school year. As we reported in March 2021, some teaching unions have raised concerns that schools may not be able to cover these costs, and therefore may not benefit from the scheme.¹⁵

¹⁵ See footnote 13.

- In February 2021, the Department set out a further £700 million of funding. The package includes: a one-off £302 million 'recovery premium' for schools; £200 million to expand tutoring programmes and support language development in early years settings; and £200 million for secondary schools to provide summer schools for pupils who most need support.
- In June 2021, the Department set out a further £1.4 billion of funding. The package includes: a further £1 billion for tutoring, including £579 million to fund schools to provide tutoring using new or existing school staff; £253 million to help provide training opportunities for teachers; and £153 million for professional development for early years practitioners.

COVID-19 related cost pressures

1.30 The Department has not collected additional data from schools about, or systematically assessed, the additional cost pressures arising from the pandemic. Therefore, it does not know the extent to which the extra funding it has provided covers the increases in schools' costs. The Department told us that schools may use funding that they would otherwise have used for teacher pay increases to cover COVID-19 related costs (see paragraph 1.18).

1.31 The latest financial results data that the Department has are academy accounts returns for the year ending 31 August 2020. These indicate that the number of academy trusts with a revenue deficit fell from 169 (6% of the total) in 2018/19 to 112 (4%) in 2019/20; the average deficit decreased by 1% to £376,000. The average revenue surplus rose by 16% to nearly £1.3 million over the same period.¹⁶ The Department told us that these data provide it with assurance that, during the early stages of the pandemic in the 2019/20 academic year, schools did not incur unmanageable additional costs that they could not cover through savings elsewhere. It will not have equivalent data for maintained schools until later in 2021.

1.32 A report by the Education Policy Institute in December 2020 estimated that the Department's additional funding met 31% of the costs incurred by schools because of the pandemic from March to November 2020.¹⁷ Nearly all schools responding to the survey reported incurring additional expenditure as a direct result of the pandemic and a need to make their schools 'COVID-safe'. The Education Policy Institute noted that additional expenditure and losses in income had been offset to a limited degree by savings, for example on utilities costs.

¹⁶ Academy trust financial results data for 2019/20 are provisional.

¹⁷ Education Policy Institute, *Assessing Covid-19 cost pressures on England's schools*, December 2020. Based on survey responses from more than 700 schools.

1.33 The stakeholders we consulted told us, based on the Education Policy Institute's work and their own research, that the funding provided by the Department was insufficient to meet the costs arising from the pandemic. They highlighted: the restrictions placed on what schools and academy trusts could claim for; the limited period for which extra funding was available; and that no funding was provided to reimburse schools and academy trusts for lost self-generated income.

1.34 Stakeholders have also raised concerns about the potential impact of the Department's decision to change how it calculates pupil premium funding. Schools receive funding for every child who has been eligible for free school meals at the time of the school census or at any point in the previous six years. From April 2021, the Department has calculated pupil premium allocations based on the number of eligible pupils recorded by schools in the school census in the preceding October, rather than the more recent January census as was previously the case.¹⁸

1.35 There is wide agreement that the number of children eligible for free school meals, and therefore for pupil premium, rose during the pandemic as the number of people claiming Universal Credit increased substantially.¹⁹ The January 2021 school census found that 1.67 million pupils in mainstream schools were eligible for free school meals. This represented an increase of 290,000 (21%) since January 2020; 98,800 (34%) of the increase had occurred since the October 2020 census.

1.36 Stakeholders have highlighted that the Department's change of approach means that schools will receive less pupil premium than they would have done, directly affecting disadvantaged pupils. In March 2021, the National Association of Head Teachers (NAHT) reported that 62% of schools had five or more pupils who had become eligible for pupil premium between the October 2020 and January 2021 school censuses.²⁰ For a primary school, pupil premium funding for five pupils would equate to £6,725.

1.37 In June 2021, the Department published information on the financial impact of moving to the October census on pupil premium funding for 2021-22.²¹ Its assessment is that overall an extra 62,200 pupils would have been eligible for pupil premium had it used the January 2021 census instead. This would have provided schools with additional pupil premium funding of £90 million in total.

18 Department for Education, *Policy paper: Pupil premium*, updated 30 March 2021.

19 Comptroller and Auditor General, *Investigation into the free school meals voucher scheme*, Session 2019–2021, HC 1036, National Audit Office, December 2020.

20 NAHT news release, *Schools' Covid-19 recovery funding 'wiped out' as a result of changes to pupil premium*, NAHT reveals, March 2021. NAHT surveyed its members and received 1,316 responses to the question 'How many pupils in your school became eligible for pupil premium between the October and January census, and will therefore not receive pupil premium for 2021?'

21 Department for Education, *Pupil premium: effective use and accountability*, updated 24 June 2021.

Part Two

Allocating funding for schools

2.1 This part of the report covers how the Department for Education (the Department) allocates funding for schools and the local funding freedoms that affect how much each school receives in practice. We have focused on the schools block, which comprised 84% of core revenue funding for mainstream schools in 2020-21.

Allocating funding before 2018-19

2.2 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 the characteristics or needs of pupils and schools in each local authority area.

2.3 Under this system, local authorities with similar characteristics could receive quite different funding allocations from the Department. Some of the individual grants that the Department combined to create the dedicated schools grant had been based on indicators of need, such as deprivation. Therefore, although the Department did not link schools block allocations explicitly to need, there was a correlation between deprivation and funding per pupil.²² For example, in 2017-18, on average, for every 1% increase in the number of pupils eligible for free school meals, local authorities received an additional £47 per pupil after adjusting for area costs.

2.4 However, the link between funding levels and indicators of need was not consistent, and per-pupil funding varied substantially. For example, in 2017-18, per-pupil funding for 11 local authorities, which all had 15% of pupils eligible for free school meals, varied between £4,100 and £5,400 after adjusting for area costs. Some of this variation may have been due to other indicators of need. However, because there was no underlying funding formula, it was impossible to identify the reasons for the differences or determine if they were simply the result of historical variation.

²² Throughout this report we use the proportion of pupils eligible for free school meals as an indicator of deprivation.

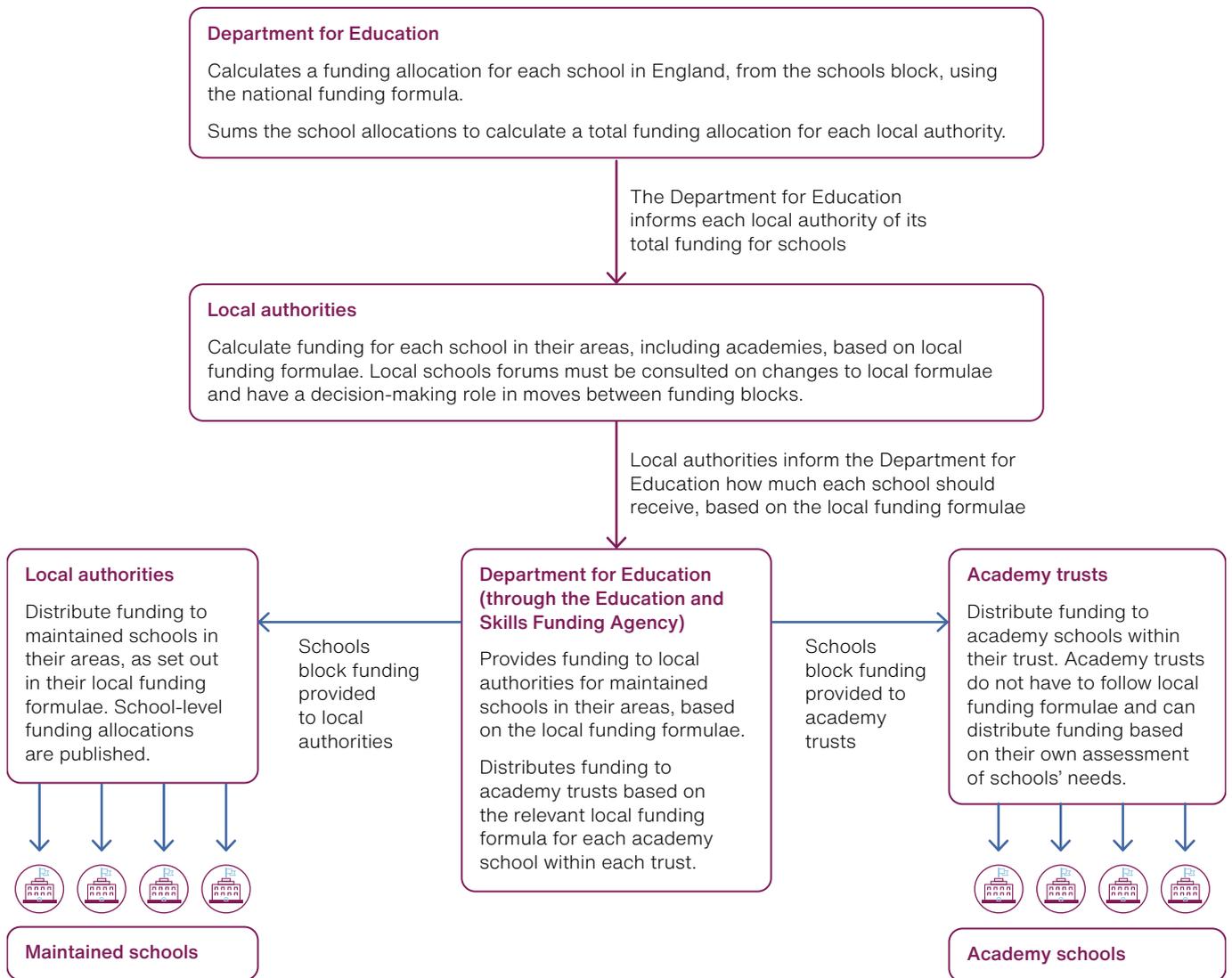
Allocating funding since 2018-19

2.5 Figure 6 shows how the funding system has worked since 2018-19. The Department allocates schools block funding to local authorities, based on school-level calculations. Local authorities distribute money to maintained schools, and academy trusts distribute money to academy schools.

Figure 6

How the school funding system works

The Department for Education distributes funding to schools through local authorities and academy trusts



→ Information → Funding

Note

1 This Figure shows how the schools block, which accounts for more than 80% of school funding, is distributed.

Source: National Audit Office

National funding formula

2.6 In 2018-19, the Department introduced a national funding formula to allocate funding for schools. Its aims included that the new funding system should:²³

- be transparent, simple and predictable so that schools, academy trusts and local authorities could understand how their funding allocations had been calculated and why they varied;
- allocate funding consistently across the country and end what the Department regarded as a 'postcode lottery' in funding local areas. It expected the new system would make it easier for schools, academy trusts and local authorities to compare their spending and outcomes with other schools and areas, and identify ways in which they could improve; and
- allocate funding fairly with resources matched to need based on pupils' and schools' characteristics.

Design of the national funding formula

2.7 Under the national funding formula, the Department allocates most schools block funding based on pupil numbers. The formula comprises three main elements:

- Basic funding per pupil, with the rate varying according to pupils' age (£25.9 billion in 2020-21, 73.5% of the total).
- Funding linked to pupil need (£6.3 billion, 17.9%). Funding varies according to the number of pupils with characteristics that indicate additional need – deprivation, low prior attainment, English as an additional language and mobility. Deprivation is the largest component of need (£3.2 billion, 9.0% of the total).
- Funding linked to school characteristics (£3.0 billion, 8.6%). In addition to a lump sum for each school, this funding is intended to help cover costs that do not necessarily vary with pupil numbers. Schools can be allocated extra money if, for example, they are small and remote, operate over more than one site or have a PFI arrangement.

Within these elements is the 'area cost adjustment', through which the Department adjusts funding for schools to reflect geographical variation in labour market costs.²⁴ It also makes adjustments to control the pace of change in funding (see paragraph 2.11).

²³ Department for Education, *Schools national funding formula: Government consultation – stage one*, March 2016.

²⁴ The area cost adjustment is a multiplier that applies to both pupil-led and school-led factors. The multiplier ranges from 1.18 for some local authorities in Inner London to 1 (that is, no multiplier) for 47 local authorities.

2.8 To illustrate how the national funding formula works, **Figure 7** on pages 30 and 31 shows how the funding allocation for an individual school would be calculated. Each year, the Department uses the formula to calculate a funding allocation for each school in England. Schools block funding for each local authority is the total of the allocations for the schools in its area.

2.9 As funding is linked to need, more deprived local areas receive more per-pupil funding. In 2020-21, the Department provided the:

- most per-pupil funding to Tower Hamlets (£5,918);
- median level of per-pupil funding to Dudley (£4,736); and
- least per-pupil funding to Richmond upon Thames (£4,297).²⁵

2.10 The Department's funding allocations for schools are more transparent and predictable under the national funding formula. It publishes its methodology and the underlying values for the formula each year. The number of factors and adjustments in the formula mean that the funding system remains complex, reflecting that the Department is seeking to achieve several different objectives in allocating funding.

2.11 The introduction of the national funding formula means that there is no longer unexplained variation in the amounts that the Department provides 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 in order not to destabilise the financial position of local authorities and schools. The main mechanisms are as follows:

- The Department includes a 'funding floor' in its national funding formula calculations. This provided for a minimum increase in funding allocations for each school of 1% per pupil in total between 2017-18 and 2019-20 and 1.84%, in line with inflation, in 2020-21.
- The Department also sets a 'minimum funding guarantee' that local authorities must meet in their local funding formulae. For 2018-19 and 2019-20, it allowed local authorities to set the guarantee at between minus 1.5% and plus 0.5% per pupil. This meant that no school's funding would reduce by more than 1.5% per pupil each year. For 2020-21, it allowed local authorities to set the guarantee at between plus 0.5% and 1.84%.

²⁵ These per-pupil funding values are after adjusting for area costs.

Figure 7 How the national funding formula calculates annual funding allocations for schools

Since 2018-19, the Department for Education has used the national funding formula to calculate an allocation for each school, based on how many pupils it has and their characteristics, and the characteristics of the school itself

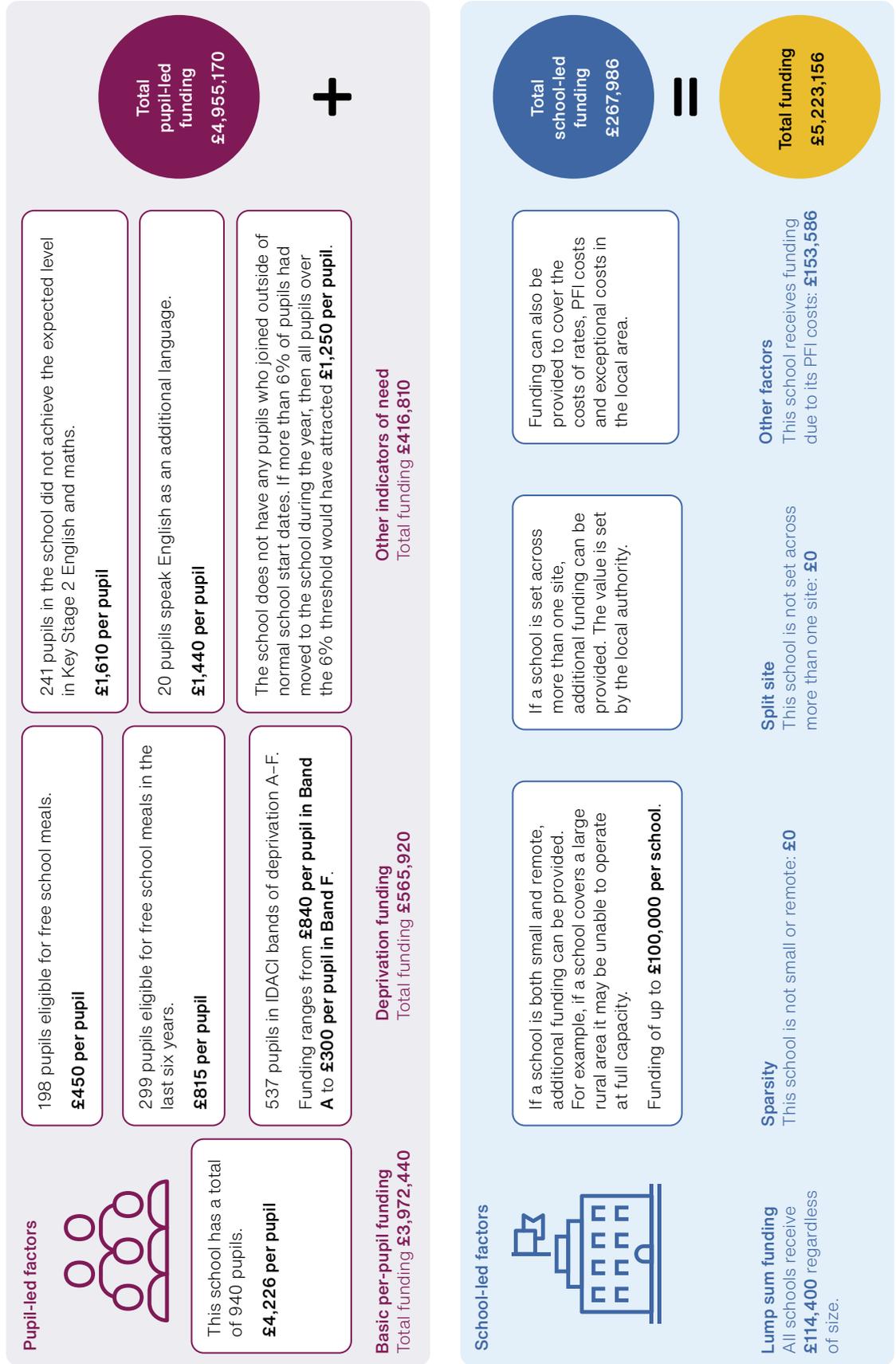


Figure 7 *continued*

How the national funding formula calculates funding allocations for schools

Notes

- 1 This Figure is illustrative but is based on an actual secondary school's allocations in 2020-21. The school is in a local authority that applied the national funding formula in full.
- 2 The Department for Education allocates some funding for school-led factors (including for split sites and other factors) to local authorities based on historical funding levels.
- 3 The Income Deprivation Affecting Children Index (IDACI) is an index used to assess deprivation. This index is produced by the Ministry of Housing, Communities & Local Government and is a supplementary index to the main Index of Multiple Deprivation. IDACI measures the proportion of children aged 0 to 15 living in income-deprived families. Band A comprises children with the highest levels of deprivation and Band F the lowest.
- 4 This Figure does not include adjustments such as the area cost adjustment, the minimum funding guarantee and minimum per-pupil funding levels.

Source: National Audit Office analysis based on Department for Education information

2.12 The mechanisms to limit annual changes in funding mean that the convergence of funding allocations for schools and local authorities with similar characteristics has been gradual. This is illustrated in **Figure 8** on pages 32 and 33, which shows the change in per-pupil funding (adjusted for area costs) for four local authorities with similar levels of deprivation.

2.13 Our analysis shows that in 2020-21:

- 4,818 schools (23.9% of all mainstream schools) were protected through the minimum funding guarantee;
- 32.7% of schools in the most deprived quintile were protected, compared with 19.2% of schools in the least deprived quintile; and
- the proportion of protected schools varied substantially across the country, from 66.7% of schools in Inner London to 9.7% of schools in the South West.

2.14 Assuming no changes to the funding system, the expectation is that allocations for schools covered by the minimum funding guarantee will continue to be protected to some extent until they align with the amounts calculated by the national funding formula. As these schools are more likely to be deprived, this means that, on average, funding allocations for the most deprived schools will fall relative to those for the least deprived schools.

Figure 8

Changes in the funding allocations for four similar local authorities, 2017-18 to 2021-22

The implementation of the national funding formula has gradually reduced the differences in per-pupil funding between similar local authorities

Local authority	Before the implementation of the national funding formula	The impact of the national funding formula – first year of implementation		
	2017-18 per-pupil funding	2018-19 per-pupil funding	Change	Change
	(£)	(£)	(£)	(%)
A – highest funded	4,949	4,860	-89	-1.8
B	4,814	4,783	-30	-0.6
C	4,657	4,647	-10	-0.2
D – lowest funded	4,350	4,414	63	1.5
Difference in per-pupil funding between the highest funded and lowest funded local authority	598	446		

Notes

- 1 Figures may not sum due to rounding.
- 2 Funding per pupil is in cash terms.
- 3 Funding per pupil is after adjusting for area costs in order to allow comparability between local authorities.
- 4 Deprivation is the main factor that the Department for Education uses to calculate pupil need in the national funding formula. Eligibility for free school meals is a commonly used indicator of deprivation. To illustrate the impact of the national funding formula we have therefore used four local authorities with a similar proportion of pupils eligible for free school meals, between 16.1% and 16.3% of all pupils at January 2018.

Source: National Audit Office analysis of Department for Education data

Minimum per-pupil funding levels

2.15 In 2018-19, as part of the national funding formula, the Department introduced minimum per-pupil funding levels for all schools in England. In 2019, the government announced increases in the minimum levels, with the aim of “levelling up education funding and giving all young people the same opportunities to succeed”.²⁶ The value of minimum per-pupil funding has risen each year, as has the amount of money allocated through this arrangement (**Figure 9**). The rates are the same across England and do not reflect variation in costs.

2.16 To implement the minimum funding levels, the Department first calculates each school’s funding allocation using the pupil-led and school-led factors in the national funding formula. If this results in per-pupil funding which is less than the minimum level, additional funding is allocated to that school to bring funding up to the minimum (**Figure 10** on page 34).

²⁶ Government press release, *Prime Minister boosts schools with £14 billion package*, August 2019.

The impact of the national funding formula – second year of implementation			The impact of the national funding formula – third year of implementation			The impact of the national funding formula – fourth year of implementation		
2019-20 per-pupil funding	Change	Change	2020-21 per-pupil funding	Change	Change	2021-22 per-pupil funding	Change	Change
(£)	(£)	(%)	(£)	(£)	(%)	(£)	(£)	(%)
4,883	23	0.5	4,983	100	2.0	5,106	123	2.5
4,792	9	0.2	4,902	110	2.3	5,015	113	2.3
4,676	28	0.6	4,829	154	3.3	4,990	161	3.3
4,538	125	2.8	4,849	310	6.8	4,989	140	2.9
344			134			117		

Figure 9

Minimum per-pupil funding levels, 2018-19 to 2021-22

The Department for Education has increased minimum per-pupil funding levels each year

	2018-19	2019-20	2020-21	2021-22 ¹
Per primary pupil (£)	3,300	3,500	3,750	4,000
Per secondary pupil (£)	4,600	4,800	5,000	5,150
Funding allocated through minimum funding levels (£) (% of the schools block)	185 million (0.6%)	187 million (0.6%)	266 million (0.8%)	455 million (1.2%)

Note

- 1 For 2021-22, the Department for Education merged the teachers' pay and pension grants into the schools and high-needs blocks to be distributed through the national funding formula. It added £180 per primary pupil and £265 per secondary pupil to the 2021-22 minimum per-pupil funding levels to adjust for this. We removed these values from the 2021-22 minimum per-pupil funding levels to allow consistent comparison between years.

Source: National Audit Office analysis of Department for Education data

Figure 10
How minimum per-pupil funding levels work

If the national funding formula initially results in a per-pupil funding allocation that is less than the minimum level, the Department for Education (the Department) allocates additional funding to that school to bring funding up to the minimum

The national funding formula in practice in 2020-21 excluding minimum per-pupil funding

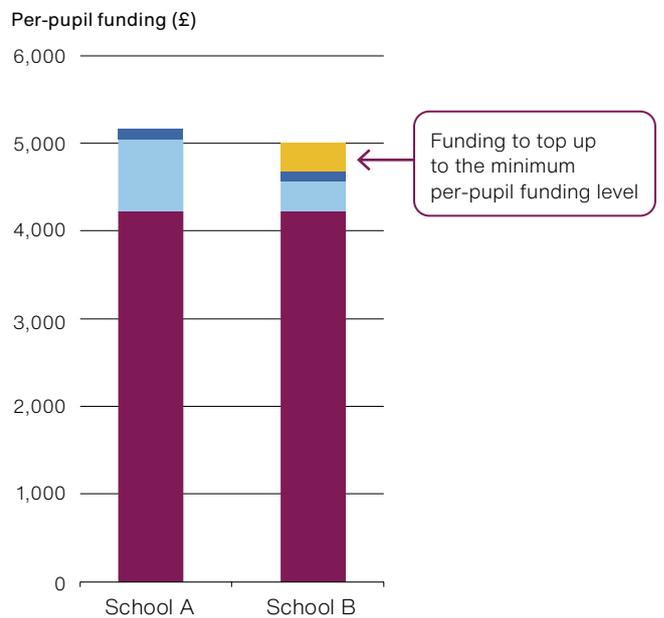
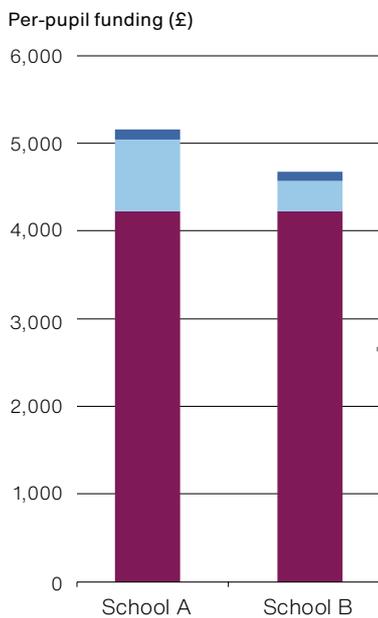
Based on two secondary schools in the same local authority:

- **School A** has a higher proportion of pupils with indicators of need, including eligibility for free school meals and low prior attainment. Using the national funding formula, the Department calculated the school's funding allocation as **£5,156 per pupil**.
- **School B** has a lower proportion of pupils with indicators of need. Using the national funding formula, the Department calculated the school's funding allocation as **£4,680 per pupil** – £476 (9%) less than school A.

The national funding formula in 2020-21 including minimum per-pupil funding

Based on the same two secondary schools in the same local authority. The Department set the minimum per-pupil funding level for secondary schools at £5,000 for 2020-21.

- **School A** has a higher proportion of pupils with indicators of need and its per-pupil funding, as calculated by the national funding formula, was more than the minimum guaranteed level. Therefore, the Department provided **no additional top-up funding**.
- **School B** has a lower proportion of pupils with indicators of need and its per-pupil funding, as calculated by the national funding formula, was less than the minimum guaranteed level. The Department therefore **topped up the school's funding by £320** to £5,000 per pupil. This reduced the difference in funding between School A and School B to £156 per pupil (3%) from £476 per pupil (9%).



■ Basic per-pupil funding ■ Funding based on pupil-led factors ■ Funding based on school-led factors ■ Top-up funding

Note

1 This Figure is illustrative but uses data for two secondary schools in a local authority that applied the national funding formula in full in 2020-21.

Source: National Audit Office analysis of Department for Education data

2.17 Most schools have not been affected by the minimum funding levels since their per-pupil allocations have been higher than the minimum. Schools with higher levels of deprivation have been less likely to be allocated extra money to bring them up to minimum per-pupil funding levels. Our analysis shows that in 2020-21:

- 3,150 schools (15.6% of the total) were allocated extra funding to bring them up to the minimum levels;
- on average, 7.4% of pupils in schools that were allocated extra funding were eligible for free school meals compared with 16.9% of all pupils in mainstream schools across England; and
- 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.

2.18 In 2020-21, local authorities allocated nearly a quarter of the additional minimum per-pupil funding (£63 million) to just 204 schools (1% of the total). Each of these schools received more than an extra £350 per pupil. The schools were relatively less deprived, with 3.5% of their pupils eligible for free school meals on average in January 2020. In addition, 70% of the schools had been graded as outstanding by Ofsted and 100 of the 115 secondary schools involved were selective.

Impact of the changes to the funding system on allocations to local authorities

2.19 For some years before introducing the national funding formula, the Department prioritised stability and did not adjust allocations to reflect changing patterns of need. Funding did not keep pace with changes in relative need, such as the proportion of pupils eligible for free school meals. Between 2010 and 2018, the average proportion of eligible pupils across all local authorities fell by 2.4 percentage points, but the change varied from a decrease of 11.6 percentage points in Inner London to a small rise of 0.1 percentage points in the North East. In proposing the national funding formula in 2016, the Department noted that funding allocations were largely based on data that were over a decade out of date. As a result, it regarded some local areas as having been under-funded, while others had been generously funded.²⁷

2.20 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. The Department shifted the balance of funding between local authorities between 2017-18 (the last year of the previous funding arrangements) and 2020-21 (**Figure 11** overleaf). Typically, the Department reduced funding for local areas that had previously been relatively well funded and increased funding for areas that had been relatively less well funded. 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.

²⁷ Department for Education, *Schools and high needs funding reform: The case for change and consultation summary*, March 2016.

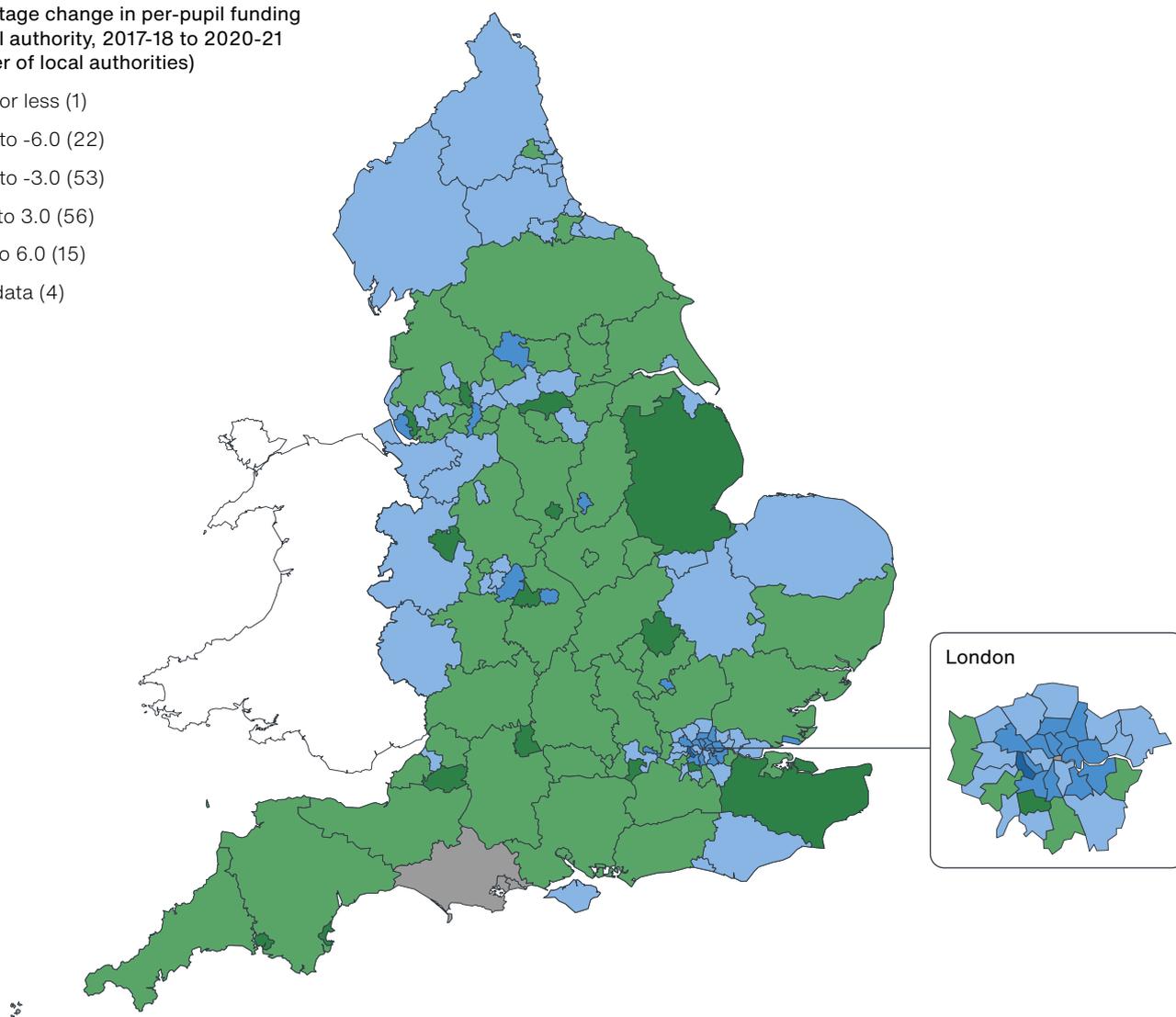
Figure 11

Real-terms changes in the Department for Education’s per-pupil funding allocations by local authority in England, 2017-18 to 2020-21

The Department for Education reduced per-pupil funding in real terms for 76 local authorities, while per-pupil funding for 71 local authorities increased or was unchanged

Percentage change in per-pupil funding by local authority, 2017-18 to 2020-21 (number of local authorities)

- -6.1 or less (1)
- -3.1 to -6.0 (22)
- -0.1 to -3.0 (53)
- 0.0 to 3.0 (56)
- 3.1 to 6.0 (15)
- No data (4)



Notes

- 1 The map shows the real-terms change in per-pupil funding between 2017-18 and 2020-21 for each local authority.
- 2 The change in per-pupil funding varied between -7.6% and +5.5% across the 147 local authorities for which data were available.
- 3 The map is based on counties and unitary authorities (upper-tier local authorities) at December 2019.
- 4 Because of boundary changes in 2019, we could not calculate the change for Dorset Council or Bournemouth, Christchurch and Poole Council. We excluded City of London and Isles of Scilly because of the low number of schools.

Source: National Audit Office analysis of Department for Education data

2.21 Most London boroughs and cities with relatively high levels of deprivation, such as Nottingham and Birmingham, experienced real-terms falls in per-pupil funding between 2017-18 and 2020-21. The Department highlighted that this change partly resulted from the fact that these areas had larger than average falls in the proportion of pupils eligible for free school meals in the years before the national funding formula was implemented, while their funding had remained stable. Therefore, by 2017-18, these areas were more likely to have become relatively well funded compared with need.

2.22 On average, local authorities with relatively low levels of deprivation in the South West, the East Midlands and the South East saw the largest growth in funding per pupil, with all three regions seeing real-terms increases of around 1% or more for their local authorities.

2.23 Under the national funding formula, the Department has shifted the balance of funding from relatively deprived parts of the country towards less deprived areas. For example:

- 20 of the 30 least deprived local authorities in 2017-18 received real-terms increases in per-pupil funding between 2017-18 and 2020-21. The average change was an increase of £33 per pupil (0.8%); whereas
- only 10 of the 30 most deprived local authorities in 2017-18 received real-terms increases in per-pupil funding between 2017-18 and 2020-21. The average change was a decrease of £89 (1.4%).²⁸

Local freedoms to distribute funding

2.24 Since 2018-19, the Department has used the national funding formula to calculate schools' funding allocations, but local authorities have not been obliged to follow these allocations in distributing funding. 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.²⁹ This move would require legislative change.

2.25 As the Department has not yet implemented the 'hard' national formula, the funding system for schools continues to involve local discretion. Both local authorities and academy trusts have the freedom to vary the funding allocations that the Department has calculated for each school. These freedoms mean that the Department cannot ensure that each school receives the level of funding intended by the national funding formula.

²⁸ We separated local authorities into quintiles. The 30 most deprived local authorities are the fifth of local authorities with the highest level of deprivation and the 30 least deprived local authorities are the fifth of local authorities with the lowest level of deprivation, as measured by the proportion of pupils eligible for free school meals.

²⁹ Department for Education, *The national funding formulae for schools and high needs 2021-2022*, July 2020.

Local funding formulae

2.26 Local authorities can apply local funding formulae in deciding funding for maintained schools and academy trusts. The Department limited the extent of local authorities' discretion from 2020-21 by requiring them to include the minimum per-pupil funding levels in their local formulae. It reported that, in 2020-21, 64 local authorities mirrored the national funding formula almost exactly in distributing funding to maintained schools and academy trusts.³⁰

Local transfers to the high-needs block

2.27 Local authorities can transfer funding between the schools block and the high-needs block to help cover the cost of support for pupils with special educational needs and disabilities. These transfers leave less core funding available for local authorities to distribute to schools. Since 2018-19, the Department has required local authorities to seek approval for transfers exceeding 0.5% of the schools block and for transfers that are not supported by the local schools forum. This change substantially reduced the value of funding transferred. In 2020-21, 64 of 149 local authorities transferred a total of £67 million from the schools block to the high-needs block.

2.28 Local authorities, with the agreement of the local schools forum, may also retain some schools block funding to provide centralised services, such as to support school improvement.

Multi-academy trust pooling

2.29 The Department allows multi-academy trusts to pool funding centrally. It expects academy trusts to play a role in supporting and improving struggling schools and to use funding for this purpose. Multi-academy trusts can also re-distribute funding between their schools based on their own assessment of need. They are not required to provide schools with the Department's minimum per-pupil funding levels.

2.30 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.

³⁰ Education and Skills Funding Agency, *Schools block funding formulae 2020 to 2021: Analysis of local authorities' schools block funding formulae*, July 2020.

Overall trends in the funding received by schools

2.31 Since 2014-15, there has been a relative re-distribution of funding from more deprived schools to less deprived schools. For example, the most deprived schools saw the largest real-terms reductions in per-pupil funding, and in 2020-21 the least deprived schools saw the largest real-terms increases in per-pupil funding (**Figure 12** overleaf). This position reflects both how the Department has allocated funding to local authorities and how local authorities have distributed funding to their schools and academy trusts. The trend began before the Department introduced the national funding formula and minimum per-pupil funding levels in 2018-19 and has continued since then.

2.32 This relative re-distribution of funding has not been driven only by reductions in funding to local authorities with higher-than-average levels of deprivation. Within local authorities, there has also been a shift in the balance of funding from more deprived schools to less deprived schools. For example, in six of the 10 local authorities that received the highest per-pupil rises, funding for schools in the least deprived quintile increased at a faster rate than for those in the most deprived quintile.

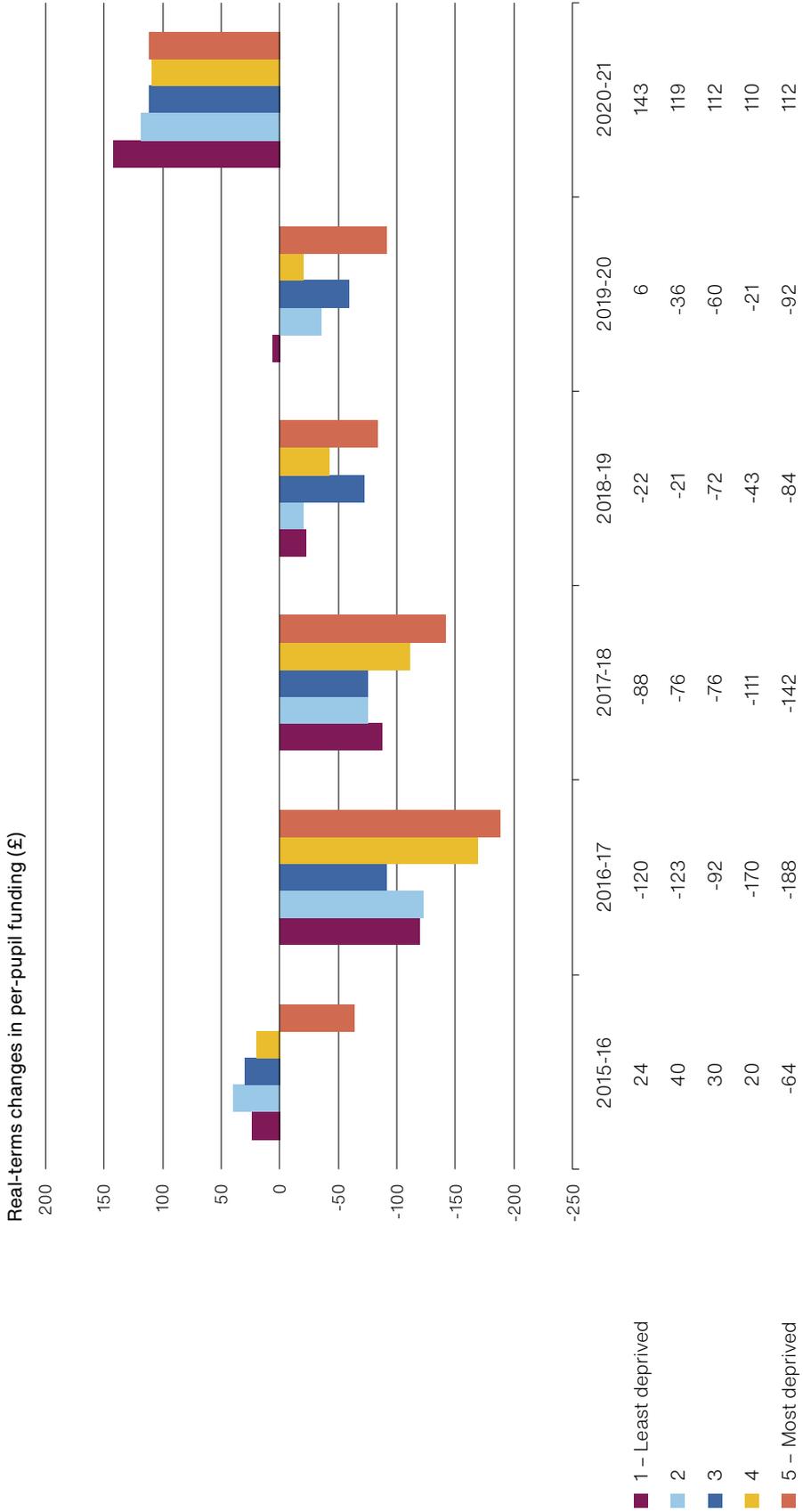
2.33 Our analysis shows that:

- in 2017-18, average per-pupil funding in real terms for the most deprived fifth of schools was £5,241, compared with £4,344 for the least deprived fifth of schools;
- by 2020-21, average per-pupil funding for the most deprived fifth of schools had fallen in real terms by 1.2% to £5,177; over the same period, average per-pupil funding for the least deprived fifth of schools had increased by 2.9% to £4,471; and
- these changes meant that, by 2020-21, average per-pupil funding for the most deprived fifth of schools was 15.8% higher than for the least deprived fifth, a substantial reduction from the difference of 20.7% in 2017-18.

2.34 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. Between 2017-18 and 2020-21:

- 58.3% of the most deprived fifth of schools 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; and
- 43.2% of the least deprived fifth of schools saw a real-terms decrease in per-pupil funding; the proportion was 88.1% in Inner London and 42.8% in the rest of the country.

Figure 12
 Real-terms changes in per-pupil funding received by maintained schools and academy trusts, 2015-16 to 2020-21
 On average, the most deprived schools had larger real-terms reductions in per-pupil funding than the least deprived schools



Notes

- 1 Changes in per-pupil funding are in real terms. Real-terms funding has been calculated using gross domestic product deflators at market prices, forecast change each year (HM Treasury, March 2021).
- 2 Schools have been separated into quintiles each year. The most deprived schools are the fifth of schools with the highest level of deprivation and the least deprived schools are the fifth of schools with the lowest level of deprivation, as measured by the proportion of pupils eligible for free school meals.
- 3 We based our analysis on published school-level allocations of schools block funding through local authority funding formulae. Maintained schools receive the funding as set out in the published data. Academy trusts receive allocations for all schools in their trusts but do not have to distribute funding to individual schools in line with the published allocations.

Source: National Audit Office analysis of Department for Education data

Appendix One

Our audit approach

1 This report examines the Department for Education's (the Department's) revenue funding for mainstream state schools in England. The report provides an update on developments in relation to school funding since we reported on the financial sustainability of schools in 2016.³¹

2 The report covers:

- school revenue funding and cost pressures; and
- how funding is allocated to schools.

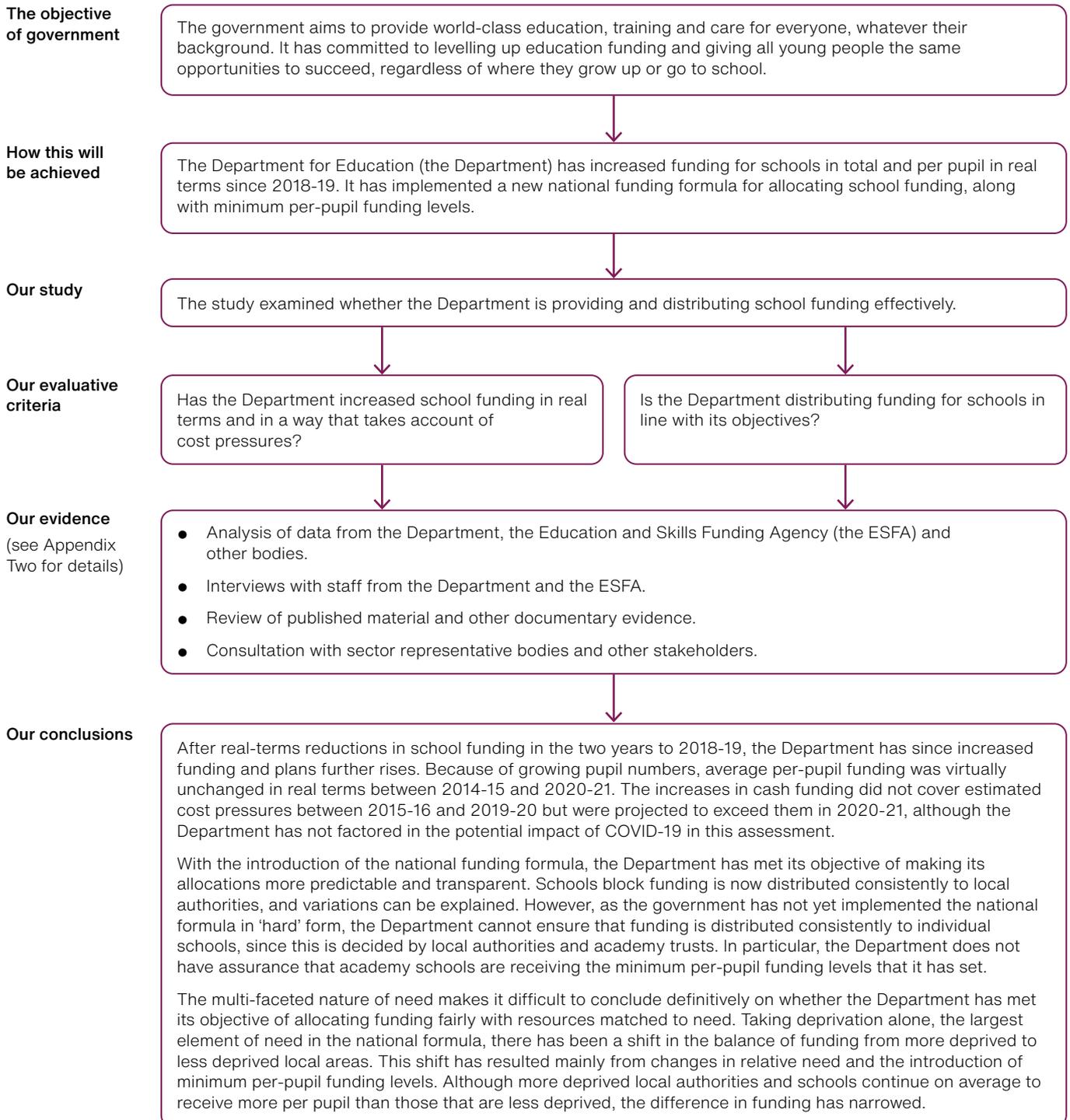
3 We applied an analytical framework with evaluative criteria that considered what arrangements would be optimal for achieving value for money. By 'optimal' we mean the most desirable possible, while acknowledging expressed or implied restrictions or constraints. A restriction in this context is the legislative framework for allocating school funding.

4 Our audit approach is summarised in **Figure 13** overleaf and our evidence base is described in Appendix Two.

³¹ Comptroller and Auditor General, *Financial sustainability of schools*, Session 2016-17, HC 850, National Audit Office, December 2016.

Figure 13

Our audit approach



Appendix Two

Our evidence base

1 We reached our independent conclusions on whether the Department for Education (the Department) is providing and distributing school funding effectively, after analysing evidence collected between January and June 2021. Our audit approach is outlined in Appendix One.

2 Our report covers revenue funding for mainstream state schools in England, including funding for pupils aged 16 to 19 where schools have a sixth form. Mainstream schools are general primary and secondary schools, as distinct from special schools.

3 In designing and carrying out our work, we took account of the previous National Audit Office report on the *Financial sustainability of schools*,³² and the subsequent Committee of Public Accounts report.³³ We also took account of previous National Audit Office reports that covered funding for schools. These included our 2019 report on *Support for pupils with special educational needs and disabilities in England*,³⁴ and our 2020 report on *Support for children's education during the early stages of the COVID-19 pandemic*.³⁵

4 We analysed national funding data for 2014-15 to 2020-21.

- The Department publishes school funding statistics including a core funding time series and funding allocations at a national level for all material revenue grant streams received by all schools. For this report, we used data relating to mainstream schools between 2014-15 and 2020-21, including 16-to-19 funding for schools with a sixth form. We excluded funding for special schools.
- The grants covered in Part One of this report are: the dedicated schools grant (schools block and the element of the high-needs block allocated to mainstream schools); pupil premium; teachers' pay grant; teachers' pension grant; funding for pupils aged 16 to 19 for mainstream secondary schools with sixth forms.

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

33 HC Committee of Public Accounts, *Financial sustainability of schools*, Forty-ninth Report of Session 2016-17, HC 890, March 2017.

34 Comptroller and Auditor General, *Support for pupils with special educational needs and disabilities in England*, Session 2017-2019, HC 2636, National Audit Office, September 2019.

35 Comptroller and Auditor General, *Support for children's education during the early stages of the COVID-19 pandemic*, Session 2019-2021, HC 1239, National Audit Office, March 2021.

- We used 2014-15 as the starting point for our analysis as this provides some overlap with our 2016 study on the financial sustainability of schools.
- Unless otherwise stated, all financial data are in cash terms. Where financial data have been converted into real terms, we used the gross domestic product (GDP) deflator series published by HM Treasury in March 2021. Real-terms values are at 2020-21 prices.
- For the years 2020-21 to 2022-23, the GDP deflator as published is not representative of expected inflation due to distortions caused by COVID-19. Therefore, we used the compound average growth rate of the GDP deflator for these three years to smooth the irregular impact of COVID-19.
- We analysed schools' claims for, and the Department's payments relating to, COVID-19 related funding.

5 We reviewed the Department's analysis of school cost pressures and projections of future funding.

- The Department uses a model to analyse cost pressures and funding for the school system. We reviewed the Department's analysis and used the results to report the Department's assessment of the cost pressures facing mainstream schools.
- We reviewed changes in cost pressures and funding between 2015-16 (the first year that the Department produced this analysis) and 2020-21 (the most up-to-date data available). There are some differences between the Department's assessment of changes in funding (used in Figure 4) and the analysis we completed for Figure 3. The main reason for these differences is that our analysis includes school sixth-form funding while the Department's analysis does not. Our analysis and the Department's analysis exclude funding for universal infant free school meals and schools' self-generated income.
- We analysed financial results data for academy trusts for the year ending 31 August 2020.
- We reviewed future projected funding for 2021-22 and 2022-23. The Department has not confirmed funding for all grant streams for these years. We therefore used the Department's current estimates of future funding in our analysis.

6 We analysed local authority-level funding data for the schools block element of the dedicated schools grant for 2014-15 to 2020-21.

- The Department publishes dedicated schools grant allocations and the pupil numbers used to determine funding at a local authority level each year. We used these data to analyse trends in average schools block funding per pupil over time.
- To enable comparison between local authorities, we removed the area cost adjustment applied to some local authorities. The area cost adjustment is a multiplier that applies to both pupil-led and school-led factors. The multiplier ranges from 1.18 for some local authorities in Inner London to 1 (that is, no multiplier) for 47 local authorities.

7 We analysed school-level funding data for the schools block element of the dedicated schools grant for 2014-15 to 2020-21.

- The Department publishes school-level allocation data for the schools block after the application of local funding formulae each year.
- We determined the deprivation quintile for each school based on the proportion of pupils eligible for free school meals in January of the applicable financial year. The exception to this was 2020-21 for which we used data from January 2020, the most up-to-date data available.
- A small number of schools each year did not have available data on the proportion of pupils eligible for free school meals, usually due to changes in their unique reference numbers. We excluded these schools from our analysis.
- We also analysed the changes in per-pupil funding for individual schools between 2017-18 and 2020-21. This analysis could be carried out only for schools that were open over that period and had not changed unique reference numbers. Our analysis covered 95.3% of schools that were open in 2020-21.

8 We analysed demographic data.

- We analysed departmental data on pupil numbers and their demographic characteristics collected via the school census in January each year. We used eligibility for free school meals as an indicator of deprivation throughout the report. This is also the main measure of deprivation that the Department uses to assess pupil need in the national funding formula.
- Where indicated, we separated local authorities into quintiles each year. The most deprived local authorities are the fifth of local authorities with the highest levels of deprivation as measured by the proportion of pupils eligible for free school meals. The least deprived local authorities are the fifth of local authorities with the lowest levels of deprivation as measured by the proportion of pupils eligible for free school meals.
- Where indicated, we separated schools into quintiles each year. The most deprived schools are the fifth of schools with the highest levels of deprivation as measured by the proportion of pupils eligible for free school meals. The least deprived schools are the fifth of schools with the lowest levels of deprivation as measured by the proportion of pupils eligible for free school meals.

9 We interviewed staff from the Department and the Education and Skills

Funding Agency (the ESFA). The people we interviewed at the Department included those responsible for funding policy and strategy in the school sector. The ESFA staff we interviewed included those responsible for operating the system for providing funding for schools and those responsible for monitoring school financial management and spending.

10 We reviewed published and unpublished documents from the Department

and the ESFA. We used this information to understand how these bodies exercise their funding responsibilities, and the impact of implementing the national funding formula and minimum per-pupil funding levels. These documents included material relating to:

- funding policy;
- detailed funding arrangements including the operation of the national funding formula and other individual grants; and
- the strategy for school funding.

11 We invited stakeholders to respond to a consultation exercise. We asked stakeholders for their views, and any supporting evidence they had, on the following issues:

- the extent to which schools were facing cost pressures and what the main pressures were, both before and during the COVID-19 pandemic;
- what schools had done themselves in the last few years to manage cost pressures and make efficiency savings; and
- the main reasons why some local authorities and academy trusts have not fully followed the funding allocations, as determined by the national funding formula, in distributing money to individual schools.

12 We met or received formal consultation responses from:

- the Association of Directors of Children's Services;
- the Association of School and College Leaders;
- the County Councils Network;
- the Institute of School Business Leadership and the Confederation of School Trusts (joint response);
- the Local Government Association;
- the National Association of Head Teachers;
- the National Education Union;
- the National Foundation for Educational Research;
- NASUWT, The Teachers' Union; and
- Parentkind.

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