

# IS FAIR FUNDING FOR SCHOOLS HANGING BY A THREAD?

BY SAM ELLIS AND SUSAN FIELDEN, SCHOOL FINANCE SPECIALISTS

School funding has been much in the public eye during the election campaign, with all parties promising fairer funding and some even recognising the very real cost pressures in schools right now. The news of a hung parliament is already causing many commentators to warn of the death of the National Funding Formula and yet fair and adequate funding for schools is still of vital importance. As a minimum, parents, heads and governors could reasonably ask that every school receives, over the life of this parliament, a core level of funding per pupil, sufficient to deliver a good standard of education. Our analysis suggests a way in which this could be achieved.

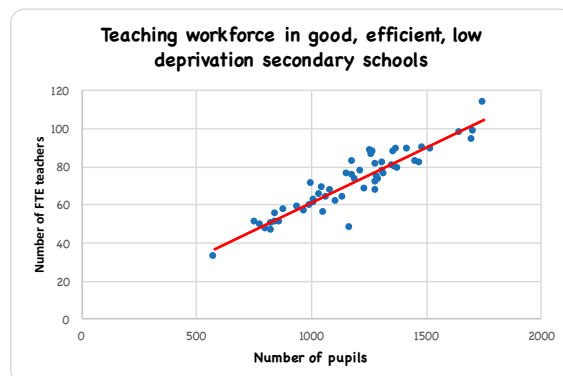
**“Imagine if we could achieve some consensus around the minimum cost of running a school. Imagine we made sure all schools received at least that amount of funding. Imagine we protected that per pupil amount in real terms, so that its value was not eroded by inflation over time. Just imagine....”**

## IDENTIFYING THE MINIMUM COST OF RUNNING A SCHOOL

Concerned about the values proposed by the DfE in the Stage 2 National Funding Formula consultation, we set out to uncover the minimum costs of running a school, building on evidence from the spending decisions of good, efficient schools. A school with low levels of deprivation, in an area of low funding will be spending at a minimum level. However, we wanted to be sure that our analysis was based on schools that were making wise spending decisions, using their resources well. We looked, therefore, at the most efficient schools (using the DfE Efficiency Metric), with a Good or Outstanding OfSTED judgement, with low levels of deprivation and additional need, in areas of low funding (based on the most recent School Budget Unit of Funding).

When you look at what actually goes on in a sample of financially efficient, good and outstanding secondary schools, with low levels of deprivation, in low funded areas you uncover the following facts:

- There is a really clear consensus about the relationship between the number of teachers and the number of pupils – strong enough to build into a reliable model for school funding.
- The relationship is just as strong for primary schools, although the gradient and intercept are different.



- Average teacher cost varies, but the majority of the schools in the sample clustered around £47,000 (2015) – schools need to be able to pay at the right rate to recruit and retain good staff.
- Even the most efficient schools can only spend 50-60% of their income on teachers – the wide variety reflecting local circumstances and choices.
- An already financially efficient school with low levels of deprivation has little room for manoeuvre – core funding levels (the lump sum and the per pupil funding in the formula) will make the difference between survival and insolvency.

### A BASIC SCHOOL FUNDING MODEL

Teachers are the core resource in a school. Good, efficient, low deprivation schools have shown us the strong relationship between number on roll and number of teachers required. The data also leads us towards reasonable judgements about how much of the school's budget is spent on teachers and the average teacher cost. Armed with just these variables we can construct a simple funding model to identify the lump sum and per pupil (Age Weighted Pupil Unit) funding levels required for educational and financial viability, using the following equations:

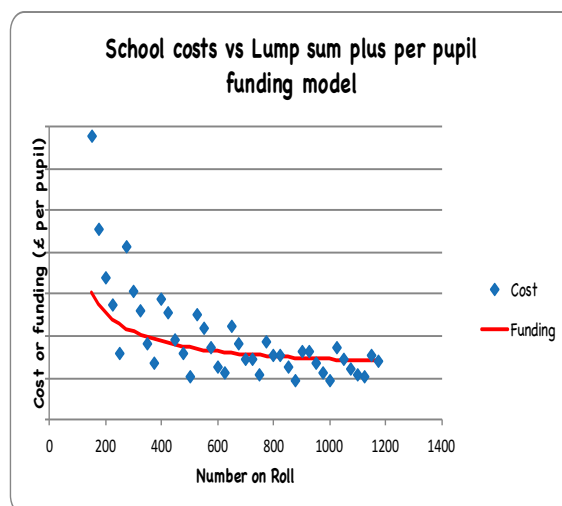
$$\text{Lump Sum} = \frac{\text{Average teacher cost} \times \text{Intercept of FTE v NOR graph}}{\text{Proportion spent on teachers}}$$

$$\text{AWPU} = \frac{\text{Average teacher cost} \times \text{gradient of FTE v NOR graph}}{\text{Proportion spent on teachers}}$$

We tested the output of our simple funding model with a more sophisticated curriculum-led theoretical model, as well as by simulating random school cohort sizes.

**There is, however, a fundamental problem with a basic lump sum/per pupil funding model.**

Schools teach children in classes. Schools have some basic unavoidable costs if they are to be safe, well run organisations. The marginal cost of an extra pupil may be very small but the cost of a whole class is considerable. A lump sum and per pupil funding formula is not the most efficient way to share out a limited pot of money, although it is simple, because it assumes that every extra child costs the same to educate. When the school reaches a tipping point, an extra class is needed, and the cost per pupil rockets, until that class is full. The blue dots show the cost per pupil in random schools, the red line shows the limitations of a simple funding model. Some schools are over funded and some underfunded.



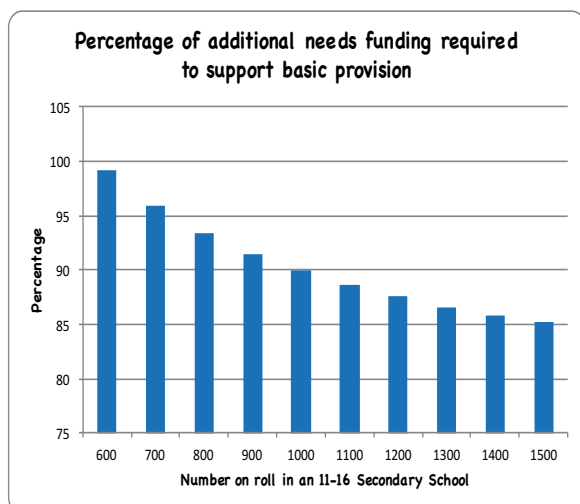
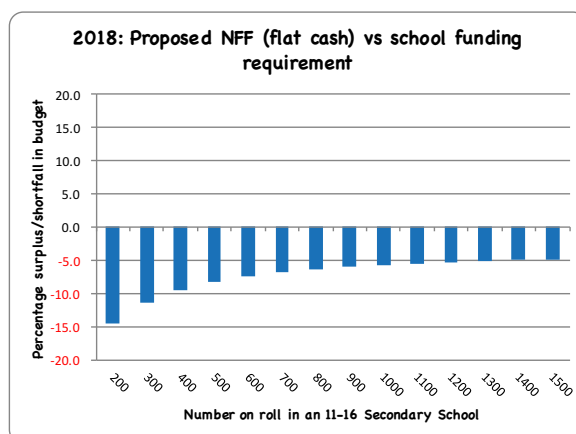
Our model can be developed to give a different funding method that avoids this problem and provides a closer match between funding and core running costs, delivering fairness and minimum cost.

## PROTECTING SCHOOL BUDGETS WITH INTEGRITY

- ➔ Unless the total schools budget increases in line with the number of pupils, each and every school will experience a cut in funding.
- ➔ Unless the values in the funding formula (local or national) increase in line with unavoidable cost pressures, each and every school will feel the pinch.
- ➔ Unless the core funding a school receives through a formula is adequate to support an educationally and financially viable school, money allocated for the support for the disadvantaged, vulnerable and those with SEND will need to be used to plug the gap.

## TESTING THE PROPOSED NFF VALUES

Using the evidence from the most cost-effective secondary schools, with an average teacher salary of £49,000 (2018) and 55% of the school's income spent on teachers, we used our school funding model to look at the implications of the proposed national funding formula. Looking at the worst of all the political promises (flat cash funding per pupil) set against cost increases averaging at 1.5% (approximately 8% over five years), the situation looks very bleak, with the prospect of worse to come.

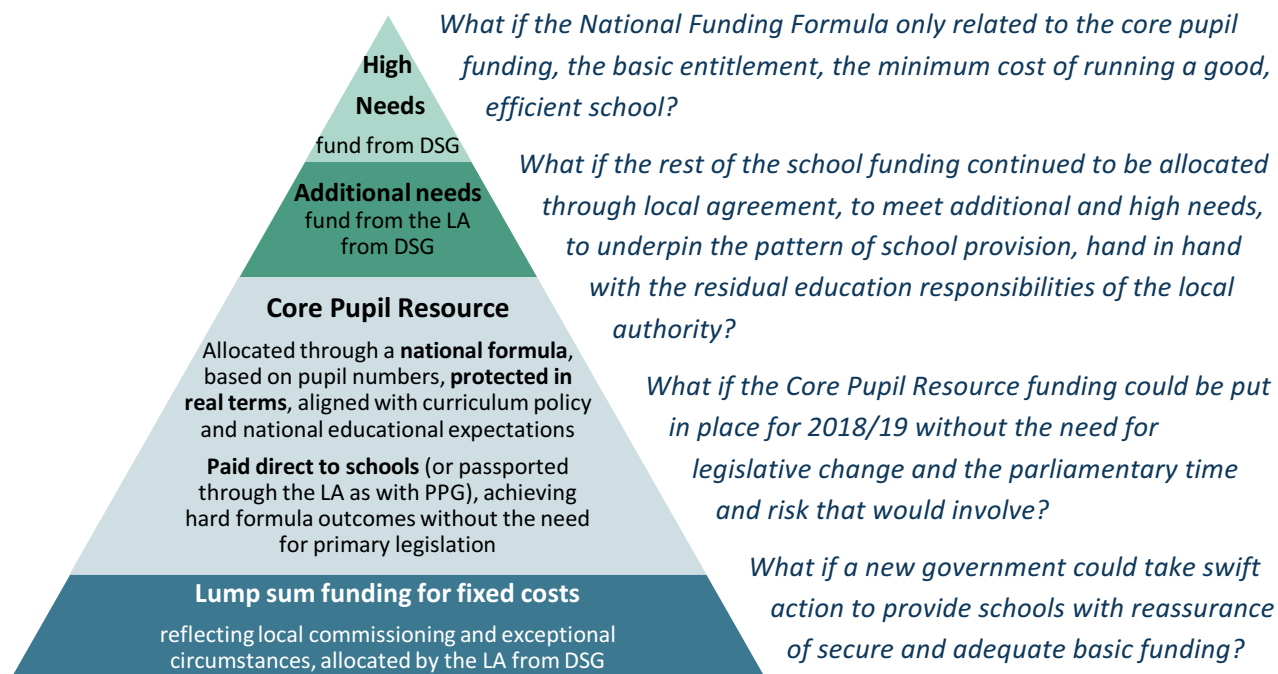


Some schools might be able to draw on balances to survive one more year but with around two thirds of secondary schools already using reserves to balance the books, this is a risky assumption. Instead, funding intended for those pupils with additional needs, intended to improve the outcomes of the disadvantaged and support the vulnerable, will need to be used to fund basic educational provision. Assuming these schools have around 25% extra funding to support additional needs, the model shows how little would be left for its intended purpose, and how schools below 600 pupils have no room for manoeuvre at all.

## A PRAGMATIC SOLUTION

*Partial implementation may, however, be possible. A fair and affordable solution.*

*What if the National Funding Formula only attempted to directly fund schools for the basic minimum cost of running a school?*



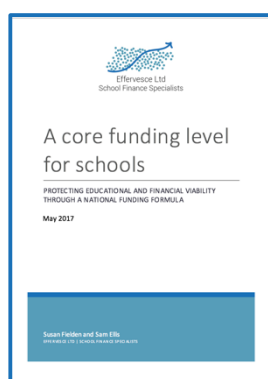
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## EVIDENCE-BASED SCHOOL FUNDING POLICY COULD BE A REALITY

*The facts about the cost of running a cost-effective school can be used to build a funding model that would ensure educational and financial viability. Funding basic core education provision adequately would bring an honesty to statements about funding targeted to meet additional needs, for the disadvantaged, those with limited English language skills, the vulnerable, those struggling with mental health conditions and those with special educational needs. It would bring an end to the hidden subsidy required to make ends meet.*

*The total size of the education budget is important, of course, but heads and governors, parents and pupils, will be worrying about the money coming into **their** school over the course of the next parliament. While the debate rages about how many billion will be available over the next five years or where the “winners and losers” are, the lack of transparency around the cost of core education provision in English schools continues. A funding model that starts with the facts must be better. A fair funding formula for schools, that protects core funding levels, must be worth striving for.*

Want to find out more – download the full report at:



[http://schoolfinancespecialists.com/publications and research.html](http://schoolfinancespecialists.com/publications%20and%20research.html)

### About the authors

**Susan Fielden** is a qualified accountant with over 25 years' experience working with schools and education leaders. After many years as strategic finance lead for education and children's services in Somerset she joined the Department for Education to work on the national funding policy for schools. Establishing Effervesce during 2016 has given her the additional opportunity to work with individual schools and to improve the cost-effective use of resources for children.

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