Funding Futures: Protecting foundations

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Confederation of School Trusts

The voice of school trusts

Funding Futures: Protecting foundations

In *Funding Futures: Reforming school funding in England*, CST set out a case for changing the way school funding is delivered. We argued the current landscape is overly complex and bureaucratic, and that it limits the extent trust leaders can plan strategically over a longer-term.

In this first follow-up paper, we argue for the introduction of a Schools' Costs Index to identify affordability challenges facing schools, and protection across funding formulas to guarantee funding stability for schools.

These proposals form part of our wider argument for a fully implemented National Funding Formula that utilises evidence and a transparent methodology. We see the arguments in this paper as laying the foundations for affordability.

Laying the foundations: A Schools' Costs Index

Our starting point is that any protections for school funding must be real terms and based on the costs faced by schools. Too often, funding decisions do not well enough consider affordability; while government may increase the total amount of funding allocated to education, this does not always reflect increasing costs, sector challenges, or population change that make affordability the prominent issue.

Existing measures commonly used across government to monitor costs – such as the Consumer Prices Index, Retail Prices Index, and GDP Deflator – are not reliable enough for education. In its 2023 Annual report on education spending in England, the IFS concluded that using school-specific cost inflation would make a 4% difference in school funding protection since 2019.

General measures do not adequately consider inflationary pressures relevant to the school setting, costs such as teaching and non-teaching pay settlements decided in year through a process largely separate to trusts as employers, changes to pension contributions, or other costs directly impacting the sector (for example, agency and advertising costs associated with recruitment and retention). Crucially, the GDP Deflator does not reflect changes in the price of imported goods and is likely to misrepresent the impact of recent increases in energy costs, for example.

The methodology currently used to analyse the impact of inflation on schools, the Schools' Costs Technical Note, excludes special schools, AP settings, nursery and post-16 provision. Its scope is maintained schools, and disregards the impact of April and September pay awards on the two different financial years. It has a focus on national averages without any sensitivity analysis to assess the implications for those at the extremes, and it assumes that additional costs associated with pupils with SEND are fully funded by a local authority. This is a misleading assessment of affordability[1].

A Schools' Costs Index, to establish solid evidence for the real terms change in school costs over time, is a necessity to ensure a realistic baseline informs decisions on how much a child is funded for their place at school.

Protecting the foundations

Our fundamental view is that state funded education must be adequately funded by the state, and that school funding is a critical factor in government building resilience into the school system. If we assume changes to education funding are informed by a Schools' Costs Index, rather than the GDP Deflator or other measures, we can begin to identify the actual cost changes over time.

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[1] The National Employers Organisation for School Teachers, in which CST is represented, has already begun collaborative engagement with the DfE to improve the methodology.

This gives a transparent evidence base for decisions to be taken and allows formula factors to reflect real cost pressures. This is critical as only real terms protection ensures schools can maintain and improve provision.

We must ensure the real terms costs of formula factors – particularly taking into account changes to pupil numbers, levels of disadvantage, and delivery high-quality SEND provision – are not eroded. This requires the total funding pot to be adjusted appropriately for changes in volume: pupil numbers, disadvantage through FSM and IDACI measures, and the number of children and young people with SEND. Simply adjusting the Core Schools Budget for changes in pupil numbers each year results in a distortion of the relative weighting for additional and high levels of need.

In some ways, we believe the model successive governments have used in relation to pensions (the 'Triple Lock') provides a blueprint for education.

Given the current fiscal climate, and necessary nuance when dealing with schools, we do not think an identical 'lock' is quite right – instead, an approach to protecting and uprating in real terms the three key underpinning factors (basic per pupil funding, funding for disadvantage, and funding for SEND) provide a starting point for addressing barriers to opportunity, establishing consistency, and supporting a more strategic approach to managing funding.

This would also ensure schools are able to maintain provision, as the *value* of the formula will not be eroded.

A note on the pensions 'Triple Lock'

In 2011, the Coalition government announced the now well-established pensions 'triple lock' – a commitment that State Pensions would be uprated by the highest of earnings growth or inflation or 2.5%[2].

This is above and beyond the statutory duty to uprate State Pensions in line with earnings and has become a politically symbolic commitment for all political parties – it is a choice supported by politicians across the spectrum since 2010.

We explored applying such an approach to schools; in particular, we are concerned that if the overall funding envelope is not protected as the school-aged population decreases over the coming decades, we would see a crisis in maintaining provision (recognising that fewer pupils does not immediately or proportionally reduce the number of classes, staffing, or static costs like utilities).

Given current economic circumstances, and our wider view that the funding landscape needs reform, we think the introduction of a Schools' Costs Index and a protection on the key formula factors (per pupil, disadvantage, SEND) is a sensible foundation to build upon in future.

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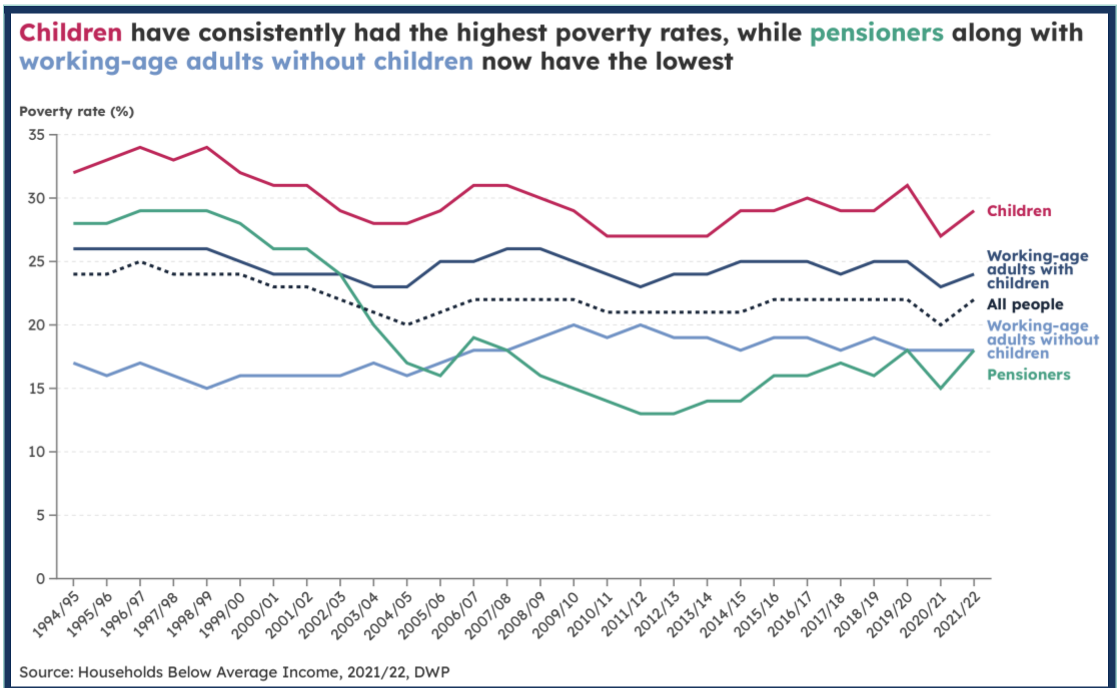
[2] House of Commons Library Research Briefing, 2023: *State Pension Triple Lock*.

Poverty and the Triple Lock

Our argument is not only based on protecting funding for schools to deliver provision. We also see it as an urgent moral imperative.

While we are not calling for an identical approach as seen in the pensions triple lock, we think lessons can be taken from its impact on poverty pensioner as the new government begins work to reduce child poverty.

While other factors are important – notably tax thresholds and home ownership – data show a correlation between the introduction of the triple lock and the decline in pensioner poverty.



Graphic taken from Joseph Rowntree Foundation analysis of Department for Work and Pensions Households Below Average Income data 2021/22, published before the release of 2022/23 data.[3]

At its peak in 1989, 41% of pensioners lived in relative poverty; in 2022-23, the figure was 19%, the lowest of any group[4]. Meanwhile, child poverty has risen to historic highs – according to the same 2022-23 data, 30% of children are living in poverty, the highest of any group[5][6].

At the same time, neither the Core Schools Budget or fundamental elements of the National Funding Formula have risen at the same rate as the basic state pension; since 2011, the Core Schools Budget (which includes funding for high needs and deprivation as well as mainstream

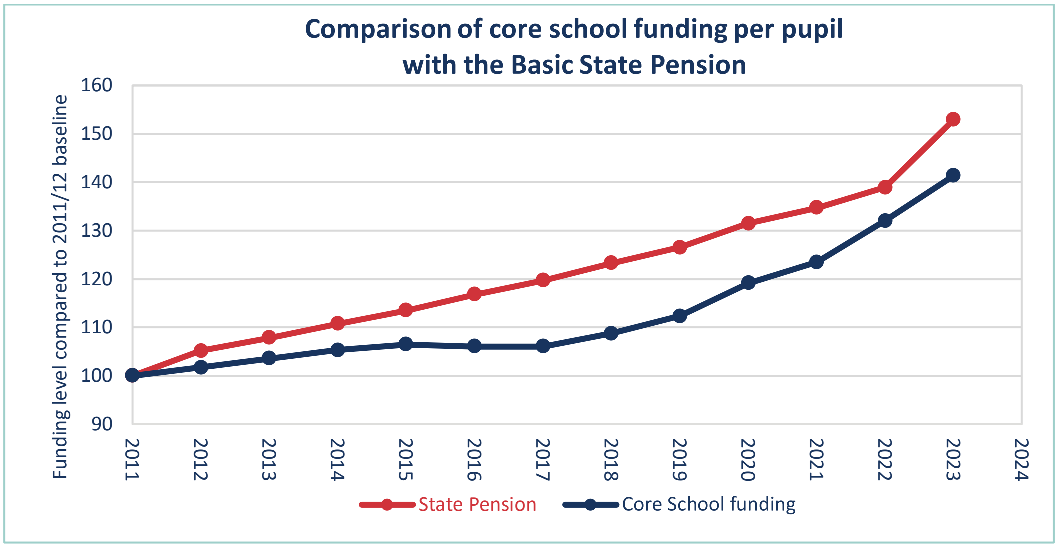
[3] Joseph Rowntree Foundation, 2024: *UK Poverty 2024: The essential guide to understanding poverty in the UK*.

[4] Resolution Foundation, 2024: *Pensioner progress: The impact of personal tax and benefit changes since 2010 on pensioner families*.

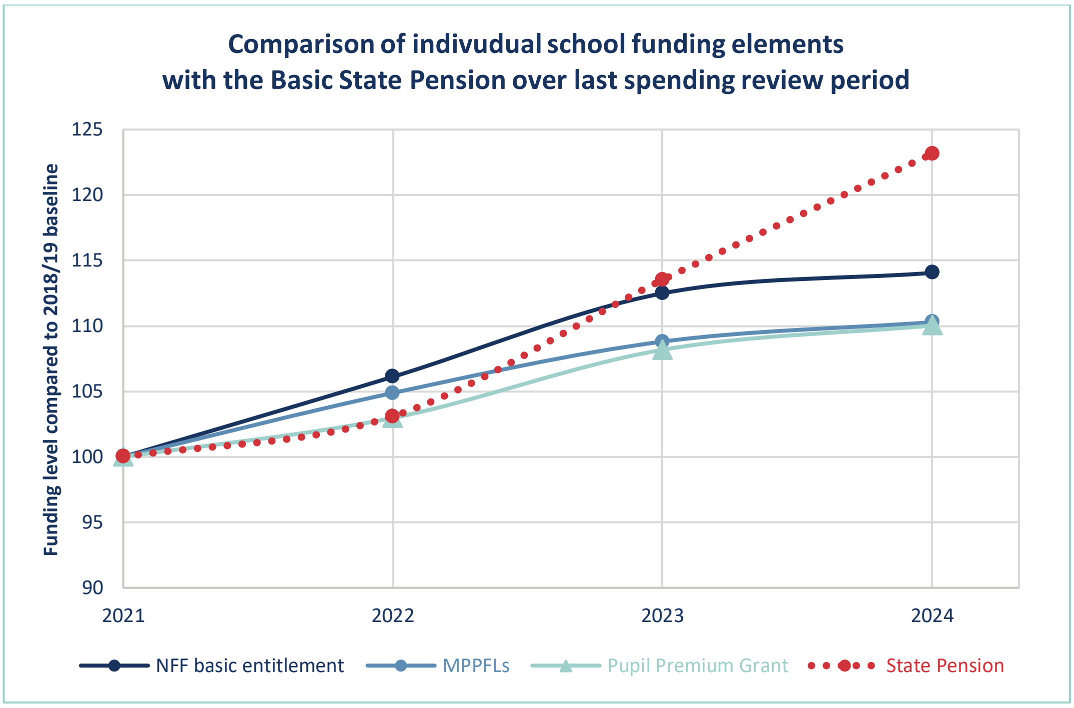
[5] Child Poverty Action Group, 2024. *Child poverty reaches record high*.

[6] Department for Work and Pensions, March 2024 statistical release: *Households Below Average Income (HBAI) statistics - Households below average income: for financial years ending 1995 to 2023.*

school costs) has risen slower than the Basic State Pension, representing a loss of relative value of 8% over the period:



Over the last Spending Review period, during a cost-of-living crisis and despite additional funding grants, the rate of increase of fundamental elements of the school funding system has lagged behind, particularly affecting schools with high levels of deprivation as well as those who assumed that they would be protected through the Minimum Per Pupil Funding Levels.



Conclusion

CST's recent research with Compass Lexecon set out the economic case for investing in education; it found a 10% increase in spending on education would generate £1,100bn in net present value over the period 2024-2080 – the average yearly benefit would be £95bn from an average yearly cost of £17bn. The research also found non-pecuniary benefits such as improved health outcomes, reduced crime, and better civic engagement.

We also know from CST members that, aside from addressing funding pressures, they wish to see the government tackle the key challenge of child poverty. We think it is right and noble that governments have focused on supporting pensioners and have significantly reduced poverty – but we also think the same energy and political will needs to be prioritised for children.

Our view is that introducing a Schools' Costs Index and establishing an evidence base for cost pressures faced by schools, then utilising it to inform real terms and demographic uprating of the key formula factors, would provide more sustainable funding levels for schools.

It would provide a funding settlement that:

- Reflects real cost pressures faced by schools, including national pay settlement for teachers and support staff;
- Reflects changes in demographic volume and need, so schools are able to maintain provision;
- Ensure a funding uplift for pupils with additional needs and those from disadvantaged backgrounds, without eroding the value of funding.

Coupled with a cross-party, cross-departmental strategy to reduce child poverty, these protections could be a meaningful change that begins our broader reforms to create a funding landscape that is more sustainable, more consistent, and more targeted.

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