Funding futures

Reforming school funding in England

April
2024

Confederation
of School Trusts

The voice of school trusts

Confederation of School Trusts

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Bringing together trusts from every region and of every size, CST has a strong, strategic presence with access to government and policy makers to drive real change for education on the big issues that matter most.

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Introduction

The strategic state

CST believes education is a public good. It is a good in itself; the building of who we can be. But our school system is fragile, and the state must act to build its resilience.

We argue there are four strategic roles of state that will build resilience, which must inform the priorities of an incoming government:

- **Support for children, young people and families**: Wider public services that support families, including SEND and mental health services reform.
- **Workforce**: An evidence-led strategy for the whole of schools' workforce, including sufficiency.
- **Funding**: Fair per pupil funding that is sufficient, sustainable, and equitable – including weighting for disadvantage – and a capital framework to ensure we have enough school places in schools that are safe and good places of learning.
- **Accountability and regulation**: Proportionate and intelligence frameworks of public accountability, inspection, and regulation.

We also argue these can only be realised if they are underpinned by a connected-but-discrete strategy to tackle poverty, which relies on cross-government working to address health, housing, transport, justice and so on.

In this paper, we focus on funding. Policy ambitions need to carry an understanding of how they can be achieved, then be fully funded to do so, otherwise the outcome will be different. In its simplest form, our fundamental argument is that state-funded education must be adequately funded by the state.

The context

Since 2010, school spending per pupil has fallen in real terms; according to the Institute for Fiscal Studies, there has been a 5% reduction in spending power per pupil from 2010-2011 to 2022-2023.[1] When set against increasing demands, with 1.57m pupils with a special educational need, the reality in individual schools across the country feels much worse.

While trusts have grappled with decreased funding, they have also taken the brunt of a several other costly crises. Energy bills rose rapidly, causing many trusts to face a deficit position before support was offered by government; stubborn recruitment and retention challenges have resulted in costly agency staff becoming a fixture of many staffrooms, while repeated vacancy listings have proven costly; mental health support services cannot keep up with demand; an attendance crisis has developed, with a 20.2% persistent absence rate up to March this academic year;[2]

1 Institute of Fiscal Studies (2024): *The latest picture on school funding and costs in England*

2 Gov.uk Explore Education Statistics service, retrieved April 2024: Pupil attendance in schools

estates management and safety has come to the fore, with some schools closed from September 2023 due to dangerous concrete or building defects; all the while, a cost of living crisis has seen child poverty reach a record high,[3] industrial action over pay resulted in several strikes across the public sector, and pay and pension changes have been implemented without supplementary funding.

It is no surprise, then, that a core concern of school trusts is financial sustainability. Indeed, in 2022 77% of trust CEOs were very confident or quite confident in the financial sustainability of their trust;[4] in 2023, this figure dropped to less than half (46%)[5] – prior to 2024/25 funding forecasts being revised down by the Department for Education (DfE).

The same research found myriad causes for concern, with the biggest risks identified as teaching staff costs (40%), general inflation (36%), difficulty planning ahead (31%), energy costs (31%) and costs associated with SEND (29%).

A sobering 81% said balancing budgets would be the priority for this academic year.

Different initiatives and policy priorities have resulted in a funding landscape that is complex and difficult to navigate. The introduction of the National Funding Formula (NFF) was a major policy intervention, but has still not been implemented fully, while other mechanisms have been embedded but are still treated separately (i.e., Pupil Premium). Capital funding is woefully inadequate, while SEND funding remains reliant on what a child can*not* do rather than what they can achieve.

In this paper, we deliberately avoid focusing on the overall sum of funding. We make this case continuously, both in terms of the immediate need for additional school funding, and in resetting the mindset and seeing education funding as investment. Recent research by Compass Lexecon, commissioned by CST, shows a 10% increase on primary and secondary education would generate £1,100billion in net present value over the period 2024-2080 – an average yearly benefit of £95billion from an average yearly investment cost of £17billion.[6]

Undoubtedly, this is a critical issue facing all schools – and the wider public sector – and we do not want to suggest CST is not making a concerted effort to secure additional funding. However, we also think the ways in which schools are funded must be improved.

Funding Futures

In this paper, informed by CST members, the objective is to suggest a future funding landscape that is more consistent, more sustainable, and more targeted.

The proposals have been built upon five principles:

- **Fair, transparent, and equitable**: The context of a school matters greatly. A large trust of inner-city secondary schools will have different funding requirements to a small trust of rural primary schools. Both need to be adequately funded in a fair and equitable way, with a transparent methodology built on solid evidence. A school for children with profound and multiple learning difficulties is likely to have a different funding requirement to an alternative provision setting. All schools – including special and alternative provision – should receive NFF funding that covers the basic operating and staffing costs.
- **Strategic, coherent, and predictable**: Balancing the operational and compliance requirements with medium- and long-term strategic plans is

3 Department for Work and Pensions (2024). Households Below Average Income dataset
4 CST and Edurio (2022). *National School Trust Report 2022*
5 CST and Edurio (2023). *National School Trust Report 2023*
6 Compass Lexecon (2024). *The returns to investing in education*

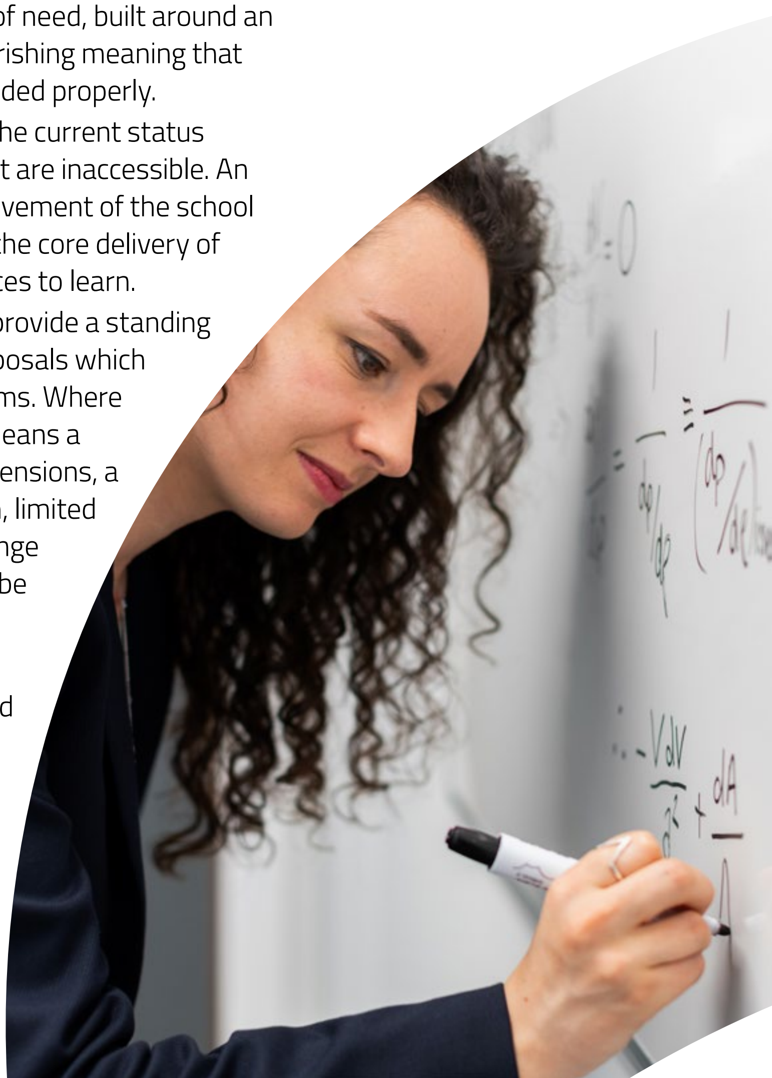
hard if funding settlements are for one year at a time. As a minimum, annual increases in pay need to be funded in-year if budgeting is to retain integrity (both for teachers and support staff, including changes to the Minimum/Living Wage).

- **Evidence and policy led**: The foundation for funding needs to be more robustly evidenced, and adjusted in line with changes in policy, expected practice or desirable outcomes. This is the only way to ensure that government policy can be enacted without directing funding away from the classroom.
- **For an ambitious future, not the past**: If the English state school system is going to be the best system in the world at getting better, it needs funding that enables it to flourish. This means looking at school funding as investment in the society we want to live in, beyond ordinary operations.
- **Reflective of a maturing trust system**: School funding legislation is rooted in local authorities (LA) and the maintained school sector. The funding of all state schools should reflect the academic year, and funding should be directly allocated to the legal entity that runs the school (i.e., the trust or a local authority).

We have identified three areas that require reform and propose one new initiative. All four are dependent on each other and would need to be delivered in tandem to be effective.

- **A fully implemented National Funding Formula**, which includes core funding for basic operational costs of special and alternative provision settings, and integrates long-standing additional funding such as the Pupil Premium, so that schools are adequately resourced to deliver the education provision that society expects and that children deserve.
- **A new approach to funding SEND and AP**, with a protected minimum level of funding provided through the NFF and additional funding provided for ambitious, tailored provision, rather than a statement of need, built around an inclusive and socially affirming narrative of human flourishing meaning that children do not have to fail before their education is funded properly.
- **Holistic capital funding** that is sufficient and replaces the current status quo of too many competing and piecemeal pockets that are inaccessible. An ambitious national plan for the maintenance and improvement of the school estate should be introduced and funded separately to the core delivery of education so that schools are safe and sustainable places to learn.
- **The introduction of a Policy Premium Mechanism**, to provide a standing route for additional funding beyond the three prior proposals which if realised should limit the need for other funding streams. Where there are exceptional cases, a change in government means a shift in priorities, or changes to workforce pay and/or pensions, a single mechanism should be used to deliver short-term, limited funding (the Policy Premium Mechanism). Where a change is significant enough to last for several years, it should be embedded in the NFF.

Throughout the development of this project, we have consulted with CST members[7], particularly chief finance and



7 Over the course of the project, we held three in-person workshops to develop the proposals with CST members; virtual sessions with our Professional Communities; ran an online survey on the proposals; had calls with individual members; and spoke to members throughout our two-day annual conference. We also spoke to other stakeholders, including civil servants and other education bodies, to test our thinking.

National Funding Formula

- Fully implemented, using transparent methodology and evidence
- Uprated to reflect changes to staff pay and pensions
- Cover minimum operating costs of all schools, including special and alternative provision

SEND/AP

- Deliver adequate funding for appropriate provision, not statement of need
- Shift away from deficit model – funding that provides ambitious support for vulnerable children based on what they can achieve
- Ensure access for mainstream settings focused on inclusion

Capital funding

- Based on national maintenance and/or replacement strategy, with net zero at its heart
- Education-specific funding, not public sector scheme
- Undertake exercise to produce national register of school estates and launch rolling cycle of works

Policy premium

- Standing mechanism to inject additional funding for time-limited, specific purposes
- Should attract a minimum period before government must review Policy Premium and move funding to National Funding Formula (to avoid long-term use that undermines long-term budget planning)

chief operating officers (we have included a summary of their feedback in each section, under 'member view'). We have also published a technical note to share some of our background assumptions.

The view of the profession is clear: consistency and timing matter. The most repeated frustration we heard from members is the expectation for them to produce a three-year budget being directly at odds with the amount of certainty and information they have from those receiving the budgets. There is a tension between those being (rightly) held to account for spending of public money and the clarity and timing of those decisions being taken at a national level.

We have not repeated this point throughout the paper, but urge the recommendations be read with it in mind – if nothing else changes, a consistent approach to delivery, reporting, and timing would have a significant positive impact on a trusts ability to plan and budget more effectively.

A fully implemented National Funding Formula

The context

In this chapter, we address the National Funding Formula, not just for mainstream schools but also its potential to fund operational costs for special schools and alternative provision settings. We consider the interaction between core funding and the extra needed to support additional and different provision. We also consider the mechanisms needed to future-proof the formula and the essential design principles for a trust-led system.

These challenges are particularly important for the National Funding Formula as it forms the core element of the funding mechanism. Weaknesses in the NFF risk undermining all other aspects of school funding, reducing the effectiveness of targeting funding and, at worst, leading to financial failure.

The first step towards a national funding formula was big and bold, but 2017/18 was a long time ago. Taking a route that minimised disruption for schools was sensible at the time but too many schools are still facing years of funding reductions as a result of the long implementation tail.

These schools, facing increasing costs and needs not matched by funding uplifts, are left worrying about what provision to cut next to make ends meet.

Moreover, the factors and values within the formula are still largely derived from historic local authority averages, not evidence of true cost or policy intention. Clarity over the end-state NFF and the time to reach it is not evident.

In the steady progress towards a direct NFF, the role of the local authority in determining funding is reduced year on year. Whilst logical, it can leave schools with individual challenges feeling that they are being ignored, that circumstances beyond their control are not reflected in the simple national formula. They are left wondering how to do the best for children when faced with a funding allocation that ignores unique costs.

The system is designed for schools in a geographical area, with a relationship with a local authority. It is not yet designed to allocate funding to a trust, the legal entity with the delivery responsibility and accountability. With increasing numbers of trusts pooling their revenue funding, there is scope to be curious about the alternative distribution methods adopted.

There is an imbalance and inconsistency in the funding for supporting children with additional needs, including the vulnerable and for those impacted on by deprivation and disadvantage. Tension and discontent over funding for high needs is set against a backdrop of local authority budget deficits and high demand.

When cost pressures and increased demand outstrip funding increases and the scope for efficiency savings, the value of formula funding is eroded in real terms, demanding cuts to provision and investment. This needs honesty because it is not always possible to meet the cost nationally. Without honesty there cannot be trust. Without trust there cannot be collaboration, and energy is diverted away from creativity and solutions.

The proposal

CST supports the full implementation of a fair NFF that adequately resources schools to deliver the educational provision that society expects, with appropriately funded and paced transition. We are concerned that there is no secure evidence base for the balance of formula factors, with no consensus over the end-state NFF or the transition towards it. The current long and opaque tail of transition affects too many schools, often those with the highest levels of deprivation.

The quality of interaction between school and high needs funding affects the delivery of inclusive educational provision and that changes to the quantum of funding and its distribution must be addressed at a whole system level. Fundamentally, the NFF should be demonstrably adequate to support the ordinarily available provision expected in an inclusive mainstream school, with appropriate phase differentiation, and with High Needs top-up funding resourcing the agreed "additional or different" provision.

We also suggest a Vulnerable Children Impact Assessment is introduced (and should not be limited to funding). Akin to existing Equalities Impact Assessment or New Burdens Assessments, the Vulnerable Children Impact Assessment should act as a reference framework for policy decisions – including funding – so that the *starting* point is the impact on disadvantaged children and those with SEND. This would place the most vulnerable children at the heart of decision making, rather than seeing additional support as a bolt-on.

Regardless, the development of the NFF to provide core funding for special schools and AP settings should be actively explored, replacing place funding that has been fixed at £10,000 since the funding reforms a decade ago. We explore this in more detail in the second chapter.

To enable the NFF to be relevant and fair, there is a need for a strong mechanism for sector involvement in its future development, where questions about what is not working well enough and how things need to change for the better are embraced.

A formula that allocates over £42bn to over 20,000 schools for 7.5m pupils is too important to leave to stagnate.

What does the sector need:

- A trust level national funding formula, with flexibility to allocate funds across schools within the trust according to need and educational priority;
- A funding formula that is evidence and policy-led, that is informed by an understanding of the real costs of delivery and the challenges ahead by introducing a forum comprising representatives of national education bodies, local authorities, economists, researchers, and government departments (including His Majesty's Treasury);
- A transparent and informed annual settlement, uprated as necessary to reflect changes to workforce pay and pensions (including Minimum/Living Wage increases), to reduce the impact of uncertainty and supports strategic planning;
- To know that there will be reasonable support through transition, when the

funding system or circumstances change significantly;
- To know that there will be an appropriate safety net for the unique, one-off, or unexpected.

What government could do:

- Learn from those trusts that pool their revenue funding and from the body of evidence on integrated curriculum and financial planning in schools, to inform an understanding of the real costs of core provision;
- Explore the genuinely special and different, to ensure no school is left stranded by circumstances beyond its control;
- Assess the real cost of sustainable and effective inclusive provision in mainstream schools.

Member view

There was almost unanimous support for our proposals related to the NFF.

Some members did not think Pupil Premium (PP) should be incorporated, with particular concerns raised about the potential for current PP reporting requirements becoming more complex if included in the NFF. This could be mitigated by keeping PP as a distinct formula factor so its delivery was streamlined but the allocation for a specific purpose remains clearly visible, or by reforming existing reporting on the PP.

One consistent piece of feedback was the challenge of PP being paid in arrears; this was not limited to Pupil Premium and, in general, cash flow and current discrepancies between payments in advance and arrears is something members hope would be addressed in any changes to the NFF. This was also true of funding for early years and post-16, if it were to be delivered through the NFF. We think this requires an additional piece of work to explore the consequences more fully (in particular issues with early years relate to fluctuating numbers throughout the year, which could be mitigated through a termly census).

Another area of contention is the transition to full NFF – feedback is unanimous that it must happen, but the approach and timing needs careful consideration.

Another suggestion that warrants further work is an NFF factor to cover a basic level of capital funding related to IT and health and safety. We heard from two schools that funding intended to address fire safety capital requirements had to be diverted to replace broken boilers. Schools should not find themselves in a position of having to choose between fire safety and heating the building. This could be resolved by replacing the devolved formula capital with an NFF element based on floor area, pupil numbers, and condition.

A new approach to funding SEND and Alternative Provision

The context

In this chapter, we address the funding arrangements for SEND and alternative provision, in mainstream schools as well as for special schools and alternative provision settings. We consider the interaction between core funding and the extra needed to support additional and different provision. We also consider the mechanisms needed to future-proof the formula and the essential design principles for a trust-led system.

These challenges are particularly important if we are to move on from the deficit narrative built around the medical model of disability to a more inclusive and socially affirmative narrative of human flourishing. This means that a child should not have to fail before being able to access additional funding.

If core funding is insufficient, resources intended to meet additional and high needs are diluted and distribution distorted. This brings tension to the boundary between formula funding and child-specific top-ups.

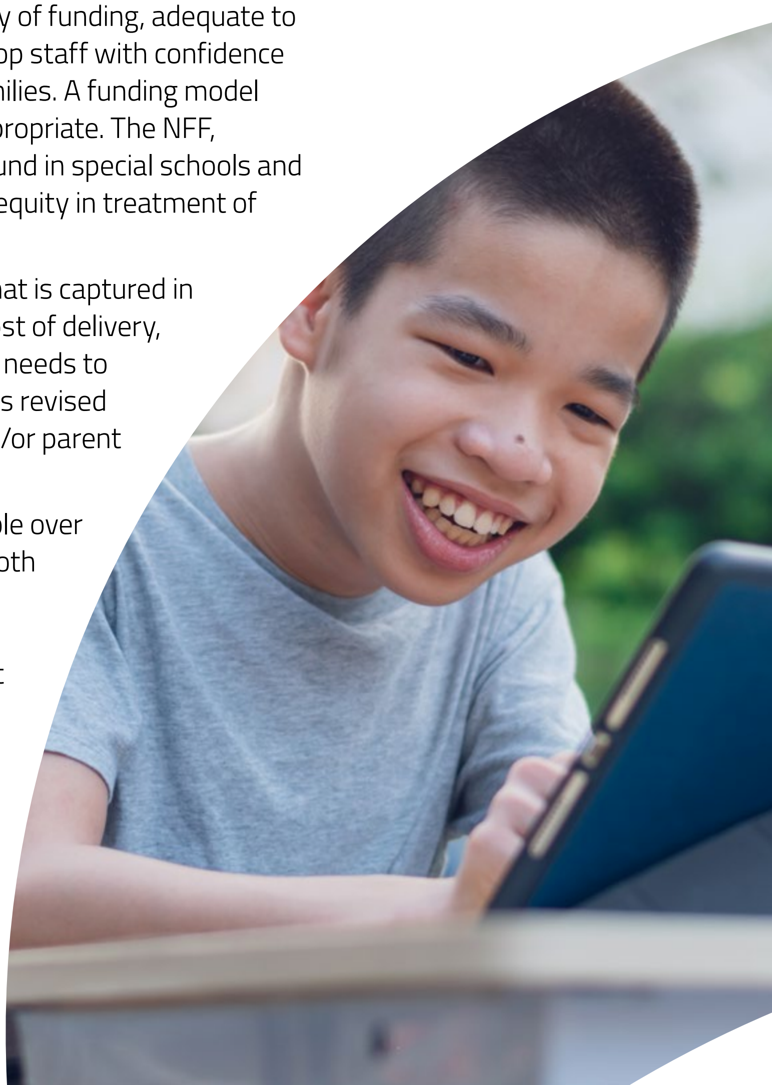
If a school or trust has little or no say over the placement decision or the funding allocation, the oversight and the checks and balances in system become ever more important.

A special school funding mechanism designed to avoid overfunding a school with spare capacity responds poorly to a time of increasing demand on school to take more and more pupils. An alternative provision funding mechanism that seeks to avoid funding empty places ignores the ongoing running costs and the positive impact staff can have in prevention and support for mainstream schools.

Special schools and AP settings need security and certainty of funding, adequate to fund their core purpose so that they can employ and develop staff with confidence and deepen relationships with local schools, pupils and families. A funding model based on £10,000 per commissioned place is no longer appropriate. The NFF, adapted to reflect the minimum level of additional need found in special schools and AP settings, would provide a consistency of approach and equity in treatment of cost pressures across the whole sector.

For "additional and different" provision, especially where that is captured in an EHCP, the funding allocation needs to reflect the true cost of delivery, especially in an AP setting or special school. This allocation needs to be maintained in real terms or the commissioned provisions revised through consultation between school, LA and the child and/or parent carers.

Needs change for some children, whilst others remain stable over time. The funding system needs to be able to respond to both and to have capacity for early help and intervention as well as preventative support where this will make a difference. Those requiring long term support should be able to expect stability of funding to be the default without the need for bureaucratic hoop-jumping.



The proposal

The NFF should be demonstrably adequate to support the ordinarily available provision expected in an inclusive mainstream school, and be used to meet the basic running costs of a special school or AP setting, replacing the out-dated £10,000 per place funding model.

CST believes that High Needs top-up funding should adequately resource the agreed "additional or different" provision, especially where this is captured in an EHCP and that SEND funding bands, whether national or local, should relate to agreed provision, not a statement of need.

What does the sector need:

- Adequate baseline core funding;
- The security of knowing that if needs and commissioned provision stay the same, funding will be maintained in real terms;
- A funding mechanism that is based on a shared understanding of a child's needs, an agreement as to the most appropriate provision, and then funding to deliver it;
- A funding mechanism for high needs that encourages a strategic partnership between school, trust and LA in the interest of children.

What government could do:

- Explore how Integrated Curriculum and Financial Planning can assist with costing provision;
- Draw evidence from the Safety Valve and Delivering Better Value programmes, and the evidence of good practice, to inform understanding of the real cost of delivery;
- Resist the temptation to derive national funding bands from LA averages – it would be easy but not right;
- Understand what works well, for prevention and early intervention as well as long term support, and how to incentivise good practice;
- Consider how well the levers and incentives in the current system work for schools and trusts.

Member view

There is widespread acknowledgement that the current system of funding SEND/AP does not work (in the literal sense of its delivery, and in the broader sense of improving outcomes for children).

Indeed, there is consensus within CST membership and across the sector more generally that SEND funding is in crisis and requires addressing urgently. This is something CST is raising at every opportunity.

Member feedback can be grouped into four areas that need looking into at pace:

The role of the local authority in funding places, and how they will do so in a climate of increasing demand and decreasing funds. Some radical thinking around how their commissioning responsibilities can be retained and met while developing a new approach to funding is necessary.

The role of health in delivery of an EHCP. Rightly or wrongly, most schools feel the 'H' part of the EHCP does not work well, and that schools are often left having to use funding provided for other reasons to top-up their ability to deliver provision. In the current fiscal climate, this will also need a radical re-think.

The development of funding bands and tariffs needs substantial reimagining – not only in terms of shifting from a deficit model, but also in evidencing actual costs to ensure affordability. Too many trusts face a moral dilemma of wanting to help *and support families in their communities, and facing a blackhole in the budget. We think the collective endeavour of health, education, local and national government can do better.*

Mainstream schools with SEND/AP settings deserve better consideration in funding decisions, ensuring they are receiving adequate support to deliver provision. This will be particularly crucial as demand for places increase. There is also opportunity to co-locate provision as pupil numbers fall.

Holistic capital funding

Funding streams for maintenance and improvement are woefully inadequate. The National Audit Office has said[8]:

> *DfE is accountable for providing those bodies responsible for school buildings with the funding and support to enable them to meet their responsibility to ensure school buildings are safe and well maintained.*
>
> *Following years of underinvestment, the estate's overall condition is declining and around 700,000 pupils are learning in a school that the responsible body or DfE believes needs major rebuilding or refurbishment.*
>
> *Most seriously, DfE recognises significant safety concerns across the estate, and has escalated these concerns to the government risk register.*

There is insufficient data to reflect the national condition of the school's estate – incorporating each individual building across a site – for a strategic approach to be taken. This was most obvious in recent issues presented by the use of Reinforced Autoclaved Aerated Concrete (RAAC) and the subsequent approach to mitigating risk.

The Department for Education needs to establish a way of collecting robust data from the responsible bodies (i.e. the trust or local authority) that does not take five years to conduct. We recognise this would be difficult to action but propose a compromise would be for responsible bodies to submit an annual return on building condition which can be updated year-on-year as necessary, and this is triaged by the Department to prioritise quality assurance through the Condition Data Survey programme, then any remedial work undertaken.

The Department and His Majesty's Treasury (HMT) also need to underpin the sustainability and climate change strategy with funding. This will allow pace and coherence in the reduction of emissions from educational buildings and allow schools to meet ambitious sustainability targets.

The proposal

The DfE, in conjunction with HMT, will at some point need undertake a major national maintenance and rebuilding programme. The Department's 2021 report[9] on key findings from the 2017-2019 condition data collection modelled the cost of work to repair or replace defective elements in the school estate will cost £11.4 billion. This figure is likely to have increased since 2019. The same report also found 7% of the estate was built pre-1900, and that over half of costs required were for buildings constructed between 1951 and 1980.

We think it unlikely any government will commit to funding over £11.4 billion of

8 National Audit Office (2023). *Condition of school buildings*

9 Department for Education (2021). *Condition of school buildings survey: Key findings*

capital using tax revenue. If that is true, a radical rethink is needed to establish ways the private sector can be instructed and incentivised to support delivery.

This should not be a return to Private Finance Initiatives (PFI) of the past – there remain significant challenges across the school estate related to PFI payments and associated debt which need addressing. For example, in 2021/22 (the latest published financial data for academies) there were 394 schools in PFI contract across 215 trusts with reported PFI charges of £215m (though 30 trusts did not report any spending). Using the same data and looking at the average spend on premises, maintenance and catering, the average spend per pupil for non-PFI schools was £402; in PFI schools, the cost more than doubled to £899 per pupil.

- **Illustrative solution one:** In 2022, the Government set a 25% main rate corporation tax for companies with profits over £250,000, and estimated this would raise £11.9 billion in year one, and £17.2 billion in year two. It is reported that Corporation Tax will be cut once the economy stabilises; this could present an opportunity to ring-fence a small percentage figure that sits alongside corporation tax as a Civic Duty Levy, specifically to fund a national programme of school estates maintenance and rebuilding. We estimate a 2.5% ring-fencing could raise £16.3billion in two years, which could be used for a national estates programme. However, it would take significant political will to do so, and presents justifiable arguments that the rest of the public sector requires investment too (thus why not retain the higher rate and give all Departments a bigger budget?). A potential solution could be for the ring-fenced amount to create a national public sector investment fund, available to agreed government priorities (say, education, health, and housing in its first years) for Departments to establish investment programmes (crucially, Departments retaining the contract with developers and avoiding a PFI model).
- **Illustrative solution two:** Under Section 106 of the Town and Country Planning Act 1990, or via the Community Infrastructure Levy, local authorities can secure contributions from developers to mitigate the impact of additional housing on public services. This is currently used by local authorities to establish new free schools through the local authority presumption route. The Department for Levelling Up, Housing and Communities intends to replace this approach through the introduction of an Infrastructure Levy. This could be expanded and become part of the Civic Duty Levy, allowing existing public services in the area – including schools run by trusts, not local authorities – to access developer contributions.
- **Illustrative solution three**: The Department lacks detailed information on existing PFI contracts. Working with the sector, it should conduct research to understand the pitfalls of the previous PFI approach, determine ways to buy-out remaining PFI contracts, and establish a new programme of private sector financing for the education sector that does not result in long-lasting expensive contracts which trap schools.

Whichever approach is taken, the scale of the challenge will require a serious response from government that must be a national priority. We do not profess to have identified any easy or low-cost solutions – the reality is several billion pounds of investment will be needed. But this is also a major opportunity to reset the role of the school as an anchor institution which leads the way on net zero.

A multi-disciplinary, multi-departmental, multi-year approach will be needed.

What does the sector need:

- Upskilling and guidance on conducting an annual school condition return, which is triaged by the Department to prioritise and respond utilising evidence;

- The ability to share best practice and lessons learnt from previous capital programmes, such as PFI, to support a future government in creating a national estates rebuilding strategy;
- A collaborative approach with the local authority and developers, to make the most of an expanded Infrastructure Levy.

What could government do:

- Establish a national approach to school estates, rather than piecemeal pockets of funding for the public sector that pits schools against each other, and other services;
- Commit to recognising capital costs – including IT – should not come from existing budgets, and should sit separately to the delivery of provision society expects from a school for children;
- Work more closely with HM Treasury to secure capital investment separately to core funding of provision, and closer working with the sector to collate more robust data so policy decisions are evidence-led.

Member view

Our capital proposals were the most contested amongst membership (and other stakeholders). Indeed, it was the most challenging area to develop any proposals such is the scale of the necessary investment.

Members agree that the current approach to capital is not working well, and that the level of investment is inadequate, but identifying a solution proved difficult. The majority of members argued it is for the Department for Education to fund capital and therefore their responsibility to find a solution. Objectively, we sympathise with this view – however, it is not in the Department's power to provide additional funding if it has not been made available by HM Treasury.

What is clear is there is an undercurrent of concern that the school estate has both the potential to cause a future national crisis – with more buildings reaching end of life and more demand for improvement than supply in existing capital funding – or set the national view of what good, sustainable public sector buildings look like.

There is a risk future governments will continue to think in too short-term a timeframe about investing in school buildings; if nothing changes, at some point in the future we will move from what could be prevention now to urgent reaction. Yet for government, the scale of investment needed in the school estate – as well as rest of the public sector – is enormous.

At some point, a government will find themselves having to source billions of pounds to maintain and rebuild schools. We think this work needs to be sooner rather than later, so that schools are good and safe sustainable places of learning. How it will be achieved is difficult to imagine, and our proposals are far from perfect, but we hope they may spark a meaningful debate about how collectively we move toward a better condition.

The introduction of a Policy Premium Mechanism

There will always be occasions that demand a specific grant, whether that is a new challenge, policy intention, or short-term intervention or correction. But the current funding landscape is complex and opaque: Some grants require the submission of a bid or application, and some are formula-driven, sometimes using similar but slightly different data sources; announcements can be at any time in the year and payment terms vary; some grants have conditions, reporting requirements and some even require an audit opinion; some can be carried forward if unspent, some are clawed back and some are not ring-fenced at all; some are allocated without full public transparency over the details. This approach does not provide a secure foundation for strategic planning and effective delivery in schools and trusts. It places the efficient use of public money at risk.

If core funding is insufficient, resources intended to address specific policy intentions are diluted and distribution is distorted. This is never truer than for the Pupil Premium Grant (PPG). With high quality teaching as a foundation for effective delivery for disadvantaged children, the line between core funding through the NFF and targeted grant funding such as the Pupil Premium Grant is blurred. With both formulae using the same data, there is scope to consider full integration of the PP within the NFF.

The PE and Sports Premium funding could be delivered through the NFF. The grant conditions expect ongoing additionality, which is impossible to deliver year on year, undermining the integrity of the accountability regime.

Where funding is genuinely for short-term targeted investment, such as the Covid Recovery Premium, it makes sense for this to be delivered through a specific grant.

There is also lack of transparency over school conversion, sponsorship, re-brokering and trust capacity grants, with potential for lack of clear alignment with policy intentions, which needs to be addressed.

When taking decisions to introduce new funding streams, Ministers and officials should think deeply about the best mechanism for delivery by asking questions that might include:

- Is the activity optional or a requirement?
- Is it ongoing or short term, and at what point will it end?
- Are all schools eligible and/or affected?
- Are special and alternative provision schools impacted?
- How are early years and post-16 provisions impacted?
- Is it possible to develop an effective formula to distribute funding efficiently?
- Is there a short term need for a separate grant, prior to incorporation into the NFF?
- Are there outcome targets that must be met?
- Is there a need for policy evaluation that demands precision over data on spending and outcomes to inform future policy?
- Is match funding an option to support a collaborative endeavour rather than in response to demand being greater than funding pot?

Trusts build detailed budgets from the spring term in order to resource provision for the next academic year. Changes in funding and/or requirements, even if

marginal, make a big difference. Strategic financial planning and the integration of curriculum and financial decisions would be greatly improved if all funding strands were announced by Easter.

The proposal

A mature relationship between commissioner and supplier includes a mechanism for managing change in scope, context or expectations. The government should implement a clear procedure in its relationship with schools and trusts, similar to the 'New Burdens doctrine' that exists for local authority functions to ensure that all new initiatives, interventions, duties, powers, targets and bureaucratic burdens are costed, and that the funding to pay for them is clear and allocated effectively.[10] This is similar, in essence, to a change request process used in business. Key to implementation of such an approach would be a clearly defined process and a mechanism for formally engaging with the sector.

What does the sector need:

- Adequate baseline core funding so that specific and targeted resources are not diverted, or existing progress put at risk;
- Trust-level funding and responsibility;
- Sector engagement in the design of funding solutions for new initiatives;
- Early notification of new funding streams with simplicity and consistency over formula, process and payment terms;
- Transparency over expectations, implications and accountability.

What could government do:

- Build a body of evidence, mapping the existing funding routes, seeking to understand which have been effective and where complexity or conditions have given poor value;
- Explore how the Change Request process used in the private sector could be adapted for use in a mature relationship between education commissioners and school trusts.

This approach would mean the Policy Premium Mechanism becomes the only funding stream outside of the NFF (or NFF plus High Needs top-up) related to delivering provision.

Member view

Members largely supported the idea of a Policy Premium Mechanism, though raised interesting challenges about how it might act in practice (particularly around the distinction of it being a **mechanism** *rather than a fund in and of itself, which would mean multiple budget lines could be delivered through it).*

The biggest debate was on how long something should be funding outside of the NFF. Our initial proposal was three years, to align with three-year budget setting. We then increased this to five years, to align with the parliamentary term. There did not seem to be a clear preference between members, and we will think in more detail about how the PPM would operate.

What is clear is that the NFF needs to be on a stable, evidenced-informed footing, so some way of introducing additional funding streams without regular amendments to the NFF is necessary. Whether that's our proposal of a PPM, or a different approach, is open to debate.

10 Details of the local government new burdens doctrine can be found on gov.uk.

What next?

As stated in the introduction, the purpose of this paper is not to detract from arguments about the amount of funding schools receive – indeed, we think funding needs increasing urgently and investment in surrounding public services schools finding themselves delivering is an immediate priority for the next government.

We also believe the way funding currently operates is unnecessarily complex and limits the ability for trusts to budget long-term. We think this can and should be a parallel debate, and hope this paper ignites a conversation between the sector and decision makers.

There is much more work to be done, by CST and others, in developing proposals for funding reform. In particular, we think early years and post-16 funding warrant much more consideration, while the four areas in this paper barely scratch the surface of a what is a complicated web of dependencies.

With that in mind, we see *Funding Futures* as a long-term project and this paper as a starting point.

Over the coming months and years, we will continue this work and use real and fictitious scenarios to explore how our proposals might operate in practice (and expect our proposals might change significantly over time) and develop a suite of shorter papers delving into specific challenges (such as PFI, NFF transition, small schools and so on). We will publish these under the *Funding Futures* umbrella with a view to creating a sector-led case for reform.

This is a journey possible only thanks to the professional generosity and support of CST members and others in the sector, who share our ambition for a more consistent, more sustainable, and more targeted funding landscape. The stakes are too high for us not to do so; it is good not just for current pupils who deserve a properly resourced education, but for the whole economy and society we hope to be.

Technical note: Current school funding methodology

National Funding Formula

Mainstream schools are currently funded through a formula, determined by their local authority, within a tight framework. The funding available to a local authority (through the Schools Dedicated Schools Grant (DSG)) is calculated by aggregating the National Funding Formula (NFF) allocations for each school in the area.

The Schools Bill contained clauses that provide for a Direct NFF, with school funding allocations determined through the NFF by the Secretary of State. The Direct NFF cannot be fully implemented without primary legislation.

The NFF consists of the following main strands:

- A lump sum to reflect the fixed costs of running a school regardless of size
- A basic per pupil allocation (AWPU) with rates for primary, Key Stage 3 and 4
- A range of proxy measures for additional need – Free School Meals, area-based deprivation, poor prior attainment, mobility, and English as an additional language
- Premises related factors for specific schools, including a split site allowance, funding for the additional contractual costs of PFI and scope for locally identified truly exceptional premises-related costs
- An Area Cost Adjustment to reflect differences in salary costs across the country.

In addition, there are two layers of protection:

- Minimum Per Pupil Funding Level (MPPFL) which, for some schools, provides an uplift to reflect a minimum level of additional need that is not identified through the proxy measures – the rates are not always uplifted in line with other elements of the formula
- The Minimum Funding Guarantee (MFG) or Funding Floor, providing a minimum increase in funding year on year, supporting schools where historic funding levels have exceeded the NFF allocation.

And finally, the following elements of the national funding framework relate to the local authority role in providing sufficient school places:

- Growth funding, to support those schools providing additional basic need places, recognising that the main formula is based on lagged pupil numbers
- Falling rolls protection, currently to support schools through a dip in pupil numbers, allowing them to retain staff during the period
- An additional lump sum (sparsity factor) to sustain "small and necessary" schools in sparsely populated areas where children would need to travel unacceptably long distances to reach another school.

In determining the local formula, each local authority will also identify which formula factors will contribute to a school's Notional SEN Budget. Any formula factors can be included, in full or in part. The Notional SEN Budget is intended to give an indication of spend on SEN Support and the first £6,000 of the cost of providing for a pupil with high levels of SEN. The background to the use of £6,000 dates back to research work on the LA funding formula in 2009. There is no direct link between this value and the cost of "ordinarily available provision".

The DfE usually announces NFF rates in July each year. The local authority receives formula data from the ESFA in early December and must reach decisions, after consultation, on the local formula by mid-January. Mainstream academies usually receive confirmation of their budget allocation from the ESFA in late February/early March, for the year that starts that September. As part of the transition to a Direct NFF, local authorities are expected to move their local formula closer to the National Funding Formula every year, but several factors can influence progress on this, such as a top slice of the Schools DSG to support the High Needs/SEND budget, or a difference between the cost of delivering the NFF locally and the DSG available. This can occur because the DSG is calculated on the basis of the previous year's pupil data, and movement in pupil characteristics can lead to a shortfall or surplus.

The NFF emerged from the formula decisions of 152 local authorities and has developed subsequently according to Government priorities. The basic balance between funding for each phase, or between the lump sum, basic per pupil funding and additional needs has been influenced more by a desire to minimise turbulence than research or evidence. Analysis of current spending patterns cannot be used to determine the true cost of running a school, as current spending is strongly influenced by current funding distribution.

The introduction of the NFF altered the distribution of funding to local authorities, and through them, to schools. Whilst there was an initial cap on gains in funding, this was subsequently lifted. The Funding Floor, protecting schools from the full extent of a loss of funding, has remained.

The NFF draws on a number of proxy indicators for additional need. The Minimum Per Pupil Funding Levels (MPPFLs) provide protection for schools that do not attract a high level of funding through these formula factors. These schools tend to have lower proportions of groups with protected characteristics than average. As the indicators are proxy measures and cannot accurately target funding in line with need, and these schools still tend to have some groups with protected characteristics, the MPPFLs protect the support that these schools can give to those groups.

However, the MPPFLs do not affect all schools in the same way, giving an unreliable translation of policy into funding methodology. Firstly, the minimum funding level is not adjusted for the Area Cost Adjustment, which means that in higher wage areas, the relative value is less. Secondly, the calculation includes lump sums, which means that a small school with low indicators of additional need may not qualify, where a larger school with the same relative need would. For MPPFLs to genuinely provide a minimum level of additional need resource for schools and trusts, the application should be consistent, removing the inequality for small schools and those in areas subject to an area cost adjustment.

The value of the MPPFL protection has not remained consistent during the time since the NFF was introduced providing additional uncertainty and turbulence for affected schools. In 2023/24, following a period of high levels of year-on-year increase, the MPPFLs were only increased by 0.5%, presenting significant affordability issues for these schools. The uplift to MPPFLs when more recent grants have been "rolled in" to the NFF has also provided further difficulty.

The transition to full implementation of the NFF involves local and central government action. There are some local authorities that retain a significant variation between their local formula factors and the NFF, which can be extremely confusing for a trust that spans multiple local authority areas. In addition, there are local authorities that have fully adopted the NFF but for whom a substantial number of schools are protected at previously higher funding rates, through the Funding Floor and Minimum Funding Guarantee. Schools in these circumstances are experiencing year on year funding increases that are substantially below inflation, resulting in cuts in provision and reduced scope for investment. When combined with falling rolls, as is the case in many areas of the country, especially in London, the impact is damaging. Without clarity over the expected end date for full implementation, these schools will find strategic financial planning very challenging.

The formula values are announced in July each year, often after the end of term, as a result of bringing together forecast pupil numbers and characteristics and the total funding pot available to the DfE. The process does not start from an assessment of the cost pressures that schools face and the funding required for standstill or expected development of provision. As a result, the determination of how much schools can afford for pay awards has to be retrofitted. The DfE assessment of this is published in the following March, within the Schools Costs: Technical Note.

Currently a local authority must bring together a group of school representatives in a Schools Forum, to discuss the development of the local funding formula, the arrangement for funding SEND, early years and certain central functions. There is no parallel National Schools Forum to support the DfE in the development of the NFF.

Funding SEND and AP

The distribution of funding for higher levels of additional need is essentially through a "place plus" approach, with evidence dating back to research conducted in 2009 which identified that where the cost of supporting a child with additional needs exceeded around £10,000, the incidence in mainstream schools dropped considerably. Over time, £10,000 became the value of place funding in special schools and AP settings, and the expected contribution to support costs in mainstream (basic funding per pupil plus £6,000). Over and above this level, funding is allocated through a locally determined top-up payment.

The place funding value has not changed since its original inception. It no longer holds any parallels with basic funding in a mainstream school plus £6,000, and £6,000 is not routinely delivered to schools through the local Notional SEN budget calculation. Recent additional funding, such as for teachers pay and pensions, has been allocated to local authorities on a per place basis but with local flexibility over distribution to specialist and alternative provision settings, adding a layer of complexity and uncertainty to the funding arrangements.

In a local authority area with a matrix of funding bands for top-up payments, schools are unlikely to see a difference in funding for pupils of different ages, for those requiring a free school meal or for special schools and AP settings with exceptional buildings issues (such as split sites).

As a local authority makes strategic commissioning decisions, determines placements, and sets funding rates, with little or no scope for appeal, the balance is not set fair for the development of a strategic partnership. Many local authorities have a very significant deficit in the High Needs budget, with spending exceeding grant income year on year. A fair mechanism for providing top-up funding, that reflects the real cost of commissioned provision, could provide a foundation of trust upon which a strategic partnership can be built.

Furthermore, a local funding bands matrix is often presented as a description of the challenges a child faces, the degree of severity and then a value for the top-up rate with no detail about expected provision with which to back up the cost calculation. In these circumstances, a school must prove failure in order to access funds and any pre-emptive support funded by the school, if effective, will undermine the case for additional resource.

Capital funding

Devolved Formula Capital (DFC) grant is paid to individual schools to spend on capital projects according to local priorities. Once a sizeable fund, the value of DFCG reduced substantially following the 2010 spending review. The current formula for academies is £4,000 plus £11.25 x weighted pupil numbers.

A formula-driven allocation of Schools Condition Allocation (SCA) is paid to larger academy trusts, local authorities, and other eligible bodies. For smaller trusts, the SCA funding is pooled and forms the budget for the Condition Improvement Fund, accessible through an annual bidding round. Trusts must have five or more open schools and at least 3,000 pupils to qualify for SCA. Pupils in special schools and AP settings are weighted, reflecting the floor area to pupil ratio. A large primary trust may have a very significant number of schools but not qualify for SCA.

The preparation of CIF bids takes a considerable amount of time and expertise. The CIF guidance is clear that professional fees above 10% of the total project value are not seen by the DfE as representing good value. Nonetheless, fees at this level draw a sizeable amount from the funding available for improving the condition of school buildings, in addition to the technical fees required to support the assessment of bids by the DfE. Part of the scoring mechanism for a bid relates to the size of the financial contribution made by the trust. This is expressed as a percentage of the total project cost, which is likely to unfairly disadvantage a small school, with limited scope to supplement the project costs.

The SCA formula is based on a unit value, weighted pupil numbers, factors for location, VA and PFI and an SCA band. The SCA band relies on school condition data collected through the CDC programme between 2017 and 2019. A refresh of this data is now underway (CDC2), spread over a five-year period from 2021 to 2026. The relative condition is expressed per square metre. It is not clear how the relative condition per square metre assessment translates to a weighting factor – schools in a very good condition (SCA band A) receive a weighting of 0.4, whereas schools in the worst condition (SCA band Y) have a weighting of 5. Schools with "average" condition have a score of G and no weighting is applied to their formula.

The Private Finance Initiative (PFI) was used for the construction and remodelling of schools up to 2010, utilising private investment instead of public debt. Contracts typically run for 25 years and a unitary charge pays for the capital, interest, and services. Local authorities are allocated funding, through the Schools NFF, to provide to schools that are within a PFI contract for their share of the costs. Every PFI contract is different, but in almost all cases, the contract fees for building maintenance, repairs and facilities management exceed the level of funding generally made available, as the contract usually seeks to maintain the building in an "as new" condition. Consultation on changes to the NFF arrangements, including moving towards a Direct NFF, never include proposals for resolving the funding arrangements for PFI.

The NFF does not include any specific factors that would relate to the variation in the revenue costs of building maintenance, repairs or the care of school grounds. Prior to the introduction of the NFF many local authorities would have included factors such as floor area, grounds area and building condition. For schools with falling rolls, left with bigger buildings that they really need, a revenue funding formula mainly driven by the number of pupils on roll will present a challenge. One that included specific factors to reflect the drivers for building related costs would help.

Policy Premium

In recent years, schools have received funding variously through the following specific grants:

- School Supplementary Grant
- Mainstream Schools Additional Grant (with an equivalent for special schools and AP settings)
- Teachers' Pay Additional Grant
- Teachers' Pension Employer Contributions Grant
- Pupil Premium Grant
- Recovery Premium
- National Tutoring Programme grant
- Universal Infant Free School Meals
- PE and Sports Premium
- 16-19 bursary fund
- Senior Mental Health Lead training grant
- Funding to support Early Career Teachers
- NPQ Targeted Support Fund
- School Staff Instructor grant

Many of the above grants use the same data set as the National Funding Formula although sometimes at a different point in time, with payment arrangements varying and annual cycles at odds. Publication of grant funding arrangements are not co-ordinated and some are traditionally very late in the year, affecting budget planning and staffing decisions.

Some grants are incorporated into the NFF, although with some queries as to the methodology. Others have remained outside the NFF since their inception (Pupil Premium, PE and Sports and Universal Infant Free School Meals are examples). Some grants have complex reporting and accountability arrangements, at odds with the relatively modest sums involved.

Funding available to support academy conversion, support sponsor trusts working with underperforming schools, the resolution of historic deficits, grants to support Trust development and those for the costs associated with setting up a new school can be inconsistent, involve detailed bidding and allocations are not always published in full.

The "New Burdens" process was formalised in 2010, requiring all central government departments to properly assess and fully fund any new burdens on local authorities resulting from policy proposals, new duties, changes in guidance, transfer of functions or new initiatives. This is in order to reduce the pressure on Council Tax. The same arrangement does not exist for schools. Contracts in the private sector will often include a Change Request process, involving evaluating the impact of the change and revising the charge if appropriate. As part of the implementation of a Direct NFF, a formal arrangement for assessing the impact of a change of policy etc. and amending the NFF accordingly would be reasonable.

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