REFORM IDEAS

More money, fewer problems?

The case for targeted education spending

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#reformpublicspending

About

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About *Reform* Ideas

***Reform* Ideas** – These are short research papers which enable a high-level exploration of a key public service challenge. The papers examine the policy context, identify key opportunities for reform and set out a vision for the future.

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Introduction

School finances are high up on the political agenda.[1] In the 2019 Spending Round, the Conservative Government committed to giving schools an additional £4.6 billion in real terms by 2022-23.[2] This money included a pledge to 'level up' school funding by increasing the minimum level of per-pupil spend that primary and secondary schools receive.[3]

The focus on school spending is no surprise. Total school spending per pupil fell by around 8 per cent in real terms between 2009-10 and 2018-19 – resulting in strong opposition from the education sector.[4] In 2018, around 2,000 headteachers marched on Whitehall to protest their shrinking budgets and earlier this year, several schools made or considered changes to their timetables to cut costs.[5]

The finances of maintained schools, however, show a mixed picture. In 2018-19, over 40 per cent of primary and secondary maintained schools spent more than their income.[6] Although alarming, these figures do not tell the whole story. A school with cash in the bank might be able to offset this overspend. It is a much bigger problem, therefore, if a school has no revenue reserves to fall back on. Revenue balances for 2018-19 show that nearly 30 per cent of secondary schools and 8 per cent of primary schools were in revenue deficit. In contrast, a significant proportion of schools were in revenue surplus. Therefore, amid the political focus on school funding, the annual accounts show a varied picture – demonstrating the need for targeted spending that reach schools in financial difficulty.

This piece examines the proportion of maintained schools in surplus and deficit, the levels of surplus and deficit and regional variations to gain a more comprehensive picture of school finances. Moreover, it explores the characteristics of schools and whether certain factors make it more likely for a school to be in deficit.

[1] Branwen Jeffreys, '£3.8bn Needed to Reverse School Cuts', *BBC News*, 18 June 2019; Sally Weale and Richard Adams, 'Schools Shake-up: The Four Key Areas in Leaked Tory Proposals', *The Guardian*, 27 August 2019.
[2] HM Treasury, *Spending Round 2019* (Her Majesty's Stationery Office, 2019), 2.
[3] Education Policy Institute, 'Analysis: 'Levelling up'- What It Really Means for School Funding', Blog, Education Policy Institute, 2 August 2019.
[4] Christine Farquharson and Luke Sibieta, *2019 Annual Report on Education Spending in England: Schools* (Institute for Fiscal Studies, 2019), 3.
[5] Richard Adams, '"A Complete Crisis": 2,000 School Leaders Rally against Cuts', *The Guardian*, 28 September 2018; Freddie Whittaker and Jess Staufenberg, 'Union: More Schools Could Be Forced to Cut Teaching Hours', *Schools Week*, 8 March 2019.
[6] Department for Education, *Local Authority Maintained School Spending - Full Data Workbook*, 2019. See Consistent Financial Reporting Data.

1. The finances of maintained schools

While more money would be welcomed by schools up and down the country, there is a need for targeted spending. The annual accounts of maintained schools reveal the financial difficulties facing schools across England. The in-year balances of maintained schools, in addition to the amount of cash in the bank, show a mixed picture. A large proportion of schools are in deficit, but a large proportion have significant surpluses. As a result, more targeted spend can help to reach the schools in most financial need.

1.1. In-year balances

A school's in-year balance shows whether it is spending more than its income in a given year. The numbers highlight the scale of maintained schools with an in-year debt. In 2018-19, 45 per cent of secondary schools and 43 per cent of primary schools reported an in-year deficit.[7] Among these schools, the average in-year deficit was over £166,000 for secondary schools and over £36,000 for primary schools. Compared to the previous year, the average in-year deficit has decreased for secondary schools but slightly increased for primary schools. In 2017-18, the average in-year deficit was over £174,000 for secondary schools and £34,000 in 2018-19 prices.

While the annual accounts highlight that a large proportion of schools had an in-year deficit, most had an in-year surplus. Fifty-five per cent of secondary schools and 56 per cent of primary schools reported an in-year surplus in 2018-19. Among these schools, the average surplus was over £146,000 for secondary schools and £38,000 for primary schools. What this demonstrates is that in 2018-19 there was considerable variation in the in-year balances of maintained schools – while most schools were able to keep within their annual budget, a significant proportion were not.

1.2. Revenue balances

In-year balances, however, are not the whole story. If a school has a healthy revenue balance – meaning that they have cash in the bank – they might be able to weather an in-year deficit. If a school is in revenue deficit and therefore in the red, it is a much bigger problem.

1.2.1 Schools in deficit

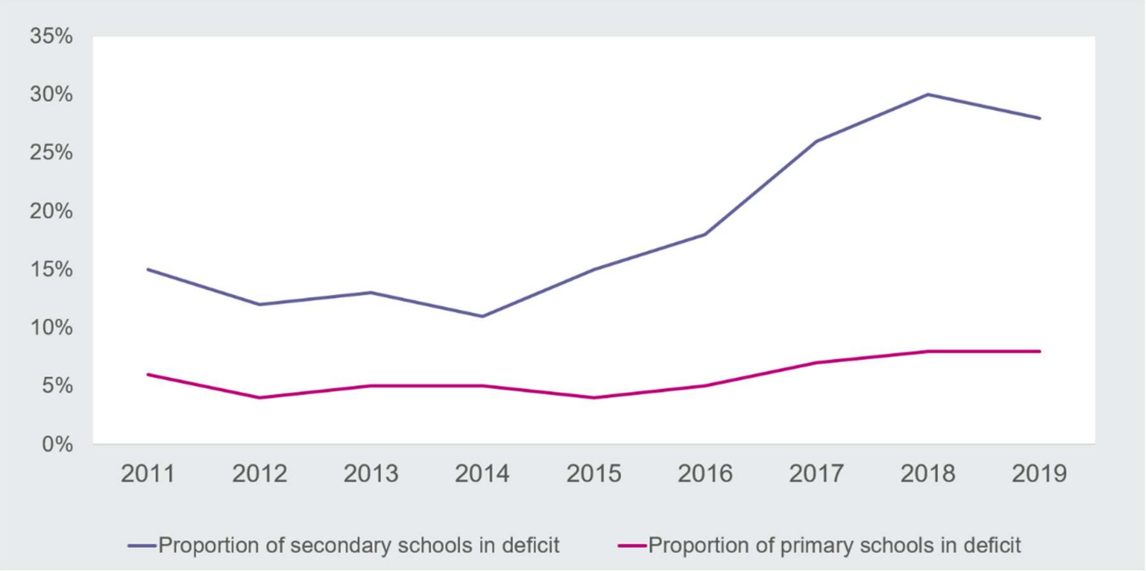
In 2018-19, the proportion of maintained schools in England with no cash reserves in the bank (i.e. revenue deficit) was 28.3 per cent for secondary schools and 7.8 per cent for

[7] Ibid. See Consistent Financial Reporting data.

primary schools.[8] These figures have slightly decreased since last year, where over 30 per cent of secondary schools and over 8 per cent of primary schools were in deficit.[9]

Although the proportion of maintained schools in deficit has fallen since last year, it has risen since 2010-11 as shown in Figure 1. The proportion of secondary schools in deficit has almost doubled – increasing by 13.7 percentage points. The proportion of primary schools in deficit has seen a smaller increase of 2.1 percentage points over the same period. This shows a growing fragility in schools' bank accounts. For secondary maintained schools in particular, as per-pupil spending has decreased over the past decade, there has been a significant increase in the proportion of schools in revenue deficit.

Figure 1: The proportion of schools in revenue deficit from 2010-11 to 2018-19



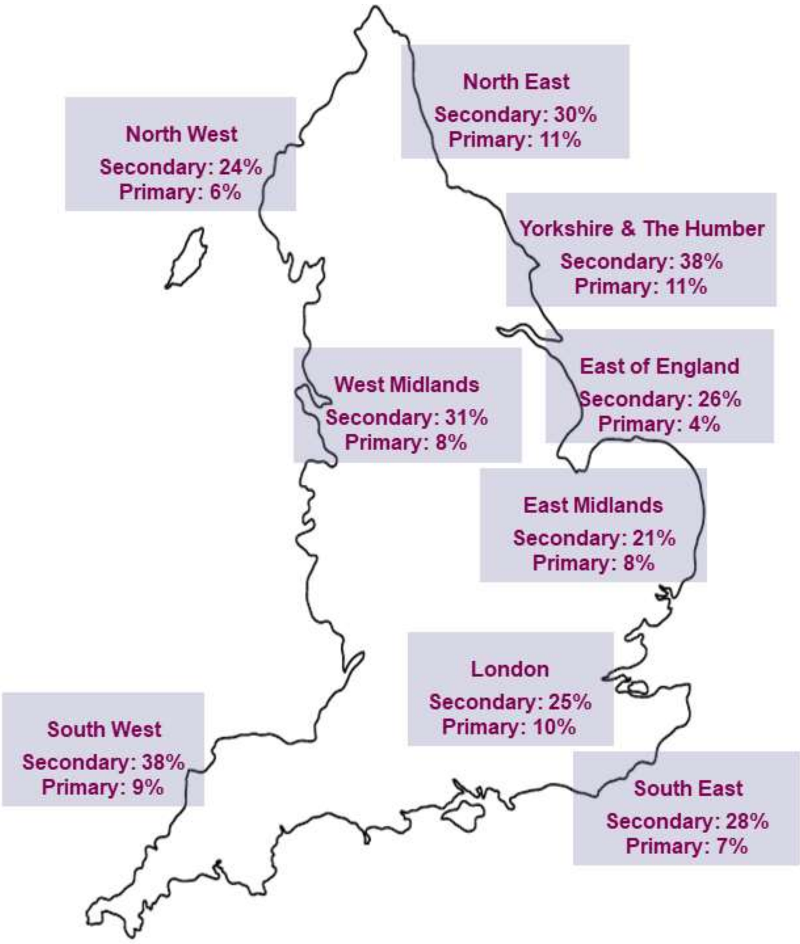
Sources: Department for Education, *LA and School Expenditure 2017 to 2018: Main Tables,* 2018; Department for Education, *Local Authority Maintained School Spending – Full Data Workbook*, 2019. See Consistent Financial Reporting data. The figures are based on the proportion of schools in deficit in each given year and therefore the total number of schools will differ from year to year. N.B. The years are based on financial year.

The average revenue deficit among maintained schools is also growing. Among schools in deficit, the average deficit was around £570,000 per secondary school and £56,000 per primary school. The total deficit among all secondary and primary schools in 2018-19 amounted to around £195 million. Although the number of schools recording data differ from 2017-18, the average deficit size has increased since last year. In 2017-18, the average deficit was approximately £493,000 per secondary school and £51,000 per primary school in 2018-19 prices.[10] Therefore, although most maintained schools are not in revenue deficit, for those that are, they are on average falling deeper into financial difficulty.

[8] Ibid. See Consistent Financial Reporting data.
[9] Department for Education, *LA and School Expenditure 2017 to 2018: Main Tables*, 2018; Jon Andrews, *School Revenue Balances in England* (Education Policy Institute, 2019).
[10] Department for Education, *LA and School Expenditure 2017 to 2018: Main Tables*. These figures have used the GDP Deflator with 2018-19 as the base year.

Across England, the proportion of schools operating with a revenue deficit differs by region. As Figure 2 shows, the percentage of secondary schools in deficit is largest in Yorkshire & the Humber and the South West of England. The East Midlands has the lowest proportion of secondary schools in deficit, with just over one in five in the red. Among primary schools, Yorkshire & the Humber and the North East have the largest proportion of schools in deficit. Nonetheless, the proportion of primary schools in deficit across the regions is significantly lower than that of secondary schools. Figure 2 also shows that across England, schools face financial difficulty regardless of region. Targeting spend to reach these schools will be essential for the new government.

Figure 2: Proportion of LA secondary schools in deficit by region



Source: Department for Education, *Local Authority Maintained School Spending – Full Data Workbook*, 2019. See Consistent Financial Reporting data.

1.2.2 Schools in surplus

There is also a significant proportion of maintained schools with revenue surpluses – meaning that they have savings in the bank. In 2018-19, 70 per cent of secondary schools and 90 per cent of primary schools reported a surplus. Moreover, many of these schools were considered to have "excessive surpluses" according to the Department for

Education, meaning that their revenue surpluses are significantly larger than their yearly income.[11] Approximately 36 per cent of secondary schools and 42 per cent of primary schools had excessive surpluses in 2018-19. This shows the complexity of school finances where some have revenue deficits and others have revenue surpluses.

Among schools in surplus, the average surplus in 2018-19 was £391,500 for secondary schools and £120,500 for primary schools. Like the schools in deficit, this amount is growing. In 2017-18, the average surplus was £377,000 for secondary schools and £115,000 for primary schools in 2018-19 prices. This highlights the increasing gap between the average surpluses and deficits across maintained schools in England.

The total surplus among all secondary and primary schools in 2018-19 was around £1.5 billion – eclipsing the total deficit of £195 million. Therefore, although a large proportion of schools are battling deficits, there is still a significant amount of money in the education system and a need for more targeted funding.

1.3 Are schools in surplus vulnerable?

The maintained schools in revenue deficit, however, are not the only schools which are in financial risk. For maintained schools with revenue surpluses, the cash in the bank might not be enough to withstand further in-year deficits – demonstrating the extent of financial vulnerability across the system.

Among the schools that had a revenue surplus in 2018-19, 9 per cent of secondary schools and 7 per cent of primary schools would see this surplus wiped-out if their in-year deficits were the same next year. The account reserves for 2018-19, therefore, do not provide the whole picture. A proportion of secondary and primary schools in surplus are teetering on the edge. Ensuring that these schools can also avoid falling into the red must also be a priority.

> **Idea 1:** Additional funding for maintained schools should be targeted at schools in financial difficulty. This should include schools in revenue deficit and schools that risk falling into revenue deficit.

1.4 Does it impact outcomes?

With a significant proportion of schools facing financial difficulty, it is important to understand whether the state of revenue balances impacts educational outcomes. *Reform* analysis found that for secondary schools, the link between finances and outcomes is unclear.[12] When assessing each school's average Attainment 8 measure, which

[11] Department for Education, *Expenditure on Education, Children and Young People's Services by Local Authorities and Schools in England: 2017 to 2018* (Department for Education, 2018), 8. This is calculated as revenue balances that are 5 per cent above income for secondary schools and 8 per cent above income for all other types of schools.

[12] The analysis correlated each secondary school's revenue reserves with the average Attainment 8 score and average Progress 8 score for 2018-19. The correlations were r=0.198 for Attainment 8 score and r=0.23 for Progress 8 score. This was calculated from 811 local authority maintained secondary schools.

measures a student's average grade across eight subjects, as well as the Progress 8 measure, which shows a student's progress from the end of primary school to the end of secondary school, there is no correlation showing schools with healthier revenues have better results.

This analysis is consistent with previous assessments. For schools that lost funding from 2010 to 2015, evidence suggests that whilst the attainment at key stage 2 was slightly lower, there was no statistically significant change for key stage 4.[13] Schools in revenue deficit, therefore, are just as likely to achieve top results. However, they are having to achieve these outcomes whilst facing serious financial challenges and uncertainty.

[13] Department for Education, *School Funding and Pupil Outcomes: A Literature Review and Regression Analysis* (Department for Education, 2017), 5.

2. The drivers of deficit

The financial vulnerability of maintained schools across England, in addition to the significant proportion with excessive surpluses, begs the question: what are the drivers that make it more likely for a school to be in deficit or surplus? In other words, does a school's characteristics, such as the percentage of pupils on Free School Meals (FSM) or percentage of pupils where English is not the first language, impact revenue reserves? In addition, do classroom factors that may require extra resource, such as the number of support staff, affect overall school finances?

Reform analysis of several factors that might impact revenue reserves shows that there is little correlation between a school's characteristics and a school's revenue reserve or in-year balance.[14] Factors such as the percentage of FSM pupils, the percentage of special educational needs pupils, or the costs of building maintenance show little correlation with the end-of-year accounts. Similarly, classroom factors such as pupil-teacher ratio, percentage of pupils who are persistent absentees and pupil-support staff ratio also show little correlation. As a result, it is difficult to derive insight into the characteristics that make it more or less likely for a maintained school to be in deficit.[15] The challenge for the new government, then, is to establish which factors most impact a school's revenue balances and whether the decisions made in schools with excessive revenues can be replicated across England.

Idea 2: The Department for Education should explore which characteristics make it more likely for a school to be in revenue deficit. This would help the Department provide support to these schools.

Idea 3: The Department for Education should assess schools in excessive surplus, to understand whether the financial management decisions made in these schools can be replicated across England.

[14] The analysis correlated each school's revenue reserves and in-year balance with the following variables: percentage of FSM 2018-19, percentage of SEN with statement or EHC plan 2018-19, percentage of pupils where English is not the first language 2018-19, pupil:teacher ratio 2018, percentage of overall absence 2017-18, percentage of enrolments who are persistent absentees 2017-18, building maintenance as a percentage of total expenditure 2018-19, building maintenance and improvement expenditure 2018-19, total expenditure 2018-19, teaching staff expenditure 2018-19, education support staff expenditure 2018-19, pupil:classroom support ratio 2018-19. The correlation was between r=0.45 and r=-0.26 for all variables and was therefore not statistically significant.

[15] *Reform* produced a principal component analysis which showed the presence of 6 components explaining about 76 per cent of the variance in the dataset. Component 1 = pupil number, total expenditure, expenditure on teachers and supply staff. Component 2 = percentage of FSM, percentage of overall absence and percentage of persistent absentees. Component 3 = revenue reserve, in-year balance and in-year balance 2017/18. Component 4 = building maintenance as a percentage of total expenditure and building maintenance and improvement expenditure. Component 5 = percentage of FSM, percentage of SEN, percentage of pupils where English is not the first language and education support staff. Component 6 = percentage of SEN, pupil:teacher ratio and supply staff. This shows which factors in the data move together.

Conclusion

The 2018-19 annual accounts for maintained schools show a complex picture. While a proportion of schools spent more than their annual income and had no revenue reserves, there was also a significant proportion that reported surpluses. Delving further into these figures, 9 per cent of secondary schools and 7 per cent of primary schools with money in the bank are teetering on the edge of the red. It is also clear that since 2010-11, the proportion of schools with no cash reserves has increased as school funding per pupil has decreased.

The variation in school finances demonstrates a need for targeted funding and further exploration of why certain schools are more susceptible to financial difficulties. For the new government, the focus of spending pledges should be on righting this wrong. While all schools will welcome an increase in their budgets, the 2018-19 accounts demonstrate a need to prioritise those in the most financial difficulty.

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