Breaking Point
A report of the school funding crisis in 2016/17
Foreword
Russell Hobby – General Secretary of NAHT

This is the second survey on school funding by NAHT and the data shows us clearly that school budgets are even closer to breaking point than last year. Nearly three quarters of school leaders surveyed say their budgets will be unsustainable by 2019 and the rest of this report provides a breakdown of where the greatest pressures are and how schools are managing.

The big picture that schools are experiencing an estimated £3bn shortfall in the government’s education budget by 2020 – representing the first real terms cuts to education spending since the 1990s. 98 per cent of schools are losing funding as a result of the cost pressures we present in this report. Analysis of the DfE’s own data points to a £339 loss for every primary age pupil and a £477 loss for every child in secondary school.

The reality behind these statistics is damage to learning and to the care of the pupils who need it most.

This report shows that increases to payroll costs and funding cuts to local authorities have had a huge impact. Our members also express serious concerns about the extra pressure they are facing to support the growing number of children with additional needs. Staff in our schools are being forced to step in where cuts in health and social care funding have failed to meet the growing demand for support.

We believe that it is time to stop viewing education spending as a short term cost and to start seeing it as an investment in our future. NAHT’s funding campaign, outlined in our School Funding in Crisis page, aims to mobilise parents and their local MPs to put pressure on the Treasury to commit to funding schools sufficiently.
NAHT Survey of School and Academy Funding 2016/17

Introduction

NAHT carried out a survey of head teachers and school business managers in November and December 2016, asking them about their school or academy budget for 2016/17. We received 1,102 responses from members in England and were able to compare these to the responses from our previous survey carried out last year.

The majority of respondents were from primary schools (83%), and in terms of type of school, 46% were from community schools, 30% from voluntary aided or voluntary controlled schools and 17% were from academies.

Key findings

1. The number of schools in deficit more than doubled since the 2015 survey, increasing by 10 percentage points from 8% to 18% of respondents and reflecting the seriousness of the funding situation.

2. Similarly, the number of schools who were only able to balance their budget by making cuts or using reserves increased from 64% in 2015 to 71% in 2016.

3. The key reasons given for schools experiencing these financial pressures continue to be the 2015 increases in employers’ pension and national insurance contributions, given by 89% and 86% of respondents respectively. This increase in costs of over 5.5% every year with no resulting increase in school funding has been disastrous for schools.

4. This year, the third most quoted source of financial pressure reported by school leaders was the cost of dealing with the additional needs of pupils, reported by 83% of respondents.

5. An important consideration was also the impact of government policy in relation to local authorities: 47% reported the decline of local authority services as a cost pressure on schools. This is being made worse by the reduction in the Education Services Grant (ESG) funding to local authorities which was cut in the last spending review resulting in pressure being passed through to schools. Worry about the impact of cuts to ESG for academies is also a significant pressure, with 65% of academies reporting this as a concern.

6. When asked about how they made their budgets balance, the most commonly reported cost saving was to reduce investment in equipment, quoted by 82% of respondents and up 18 percentage points on last year.

7. After that, schools are pushed to reduce the number of hours of teaching assistants, a measure adopted by 66% of respondents, and up 7% on last year, and/or reducing the amount of hours of teaching staff, reported by 31% of staff and up 6 percentage points on last year. This is deeply worrying, especially when paired with the cuts being made to investment...
in continuous professional development for staff, quoted by 66% of respondents and up a staggering 20 percentage points on the previous year.

8. We asked members whether they foresaw a year by when their budget would be unsustainable and 72% of respondents thought that their budget would be untenable by 2019/20.

9. Members have expressed serious concerns about the extra pressure they are facing to support the growing number of children with mental health issues. Almost four fifths (79%) of respondents provide support for children with mental health issues directly, stepping in where cuts in health and social care funding have failed to meet the growing demand for support, without which children cannot engage with learning effectively.

Recommendations

1. The funding settlement for schools is insufficient to meet inflationary and policy costs on schools and must be uplifted before budgets become unsustainable for all schools and academies.

2. The burden of government policies on flat cash budgets is the main reason that school budgets are at breaking point, and the government must recognise this in future policy developments that impact the education sector.

3. The government’s £600 million cut to the ESG for services that are still required by the education system will shift this additional burden to schools. The impact of cuts to ESG in academies betrays the basis on which schools converted, and creates significant cost pressures on academies. Government must reverse its decision to cut the ESG.

4. At a time where school budgets are already at breaking point, the further imposition of the apprenticeship levy of 0.5% on some academies and all maintained schools will have a significant impact. As a minimum, small maintained schools must receive the same protections as small academies and be excluded from the obligation.

5. The pupil premium is critical to ensure that all pupils achieve their full potential, but the need for parents to register their children as eligible for free school meals means that many children miss out. Government must share data about those pupils that are eligible with schools in order to ensure that all children have the same opportunities – we need automatic registration of pupil premium.
Balancing the budget

We asked respondents to the survey whether their school budget was balancing, in deficit or surplus for 2016/17, and the chart below (Chart 1) compares how members responded, and compares this to last year’s responses.

The number of schools in deficit more than doubled since the 2015 survey, increasing by 10 percentage points from 8% to 18% of respondents and reflecting the seriousness of the funding situation. Similarly, the number of schools who were only able to balance their budget by making cuts or using reserves increased from 64% in 2015 to 71% in 2016.

Since the 2015 survey there has been a drop of 10 percentage points in the number saying that they are expecting a surplus (from 17% to 7%).

In terms of the scale of the deficit, almost half (49%), said that they were expecting a deficit of 5% or more.

Chart 1: Is your proposed budget for 2016/17 in balance, deficit or surplus?
The reasons for the funding shortfall

We asked members what cost pressures had contributed to their poor financial situation and Chart 2 shows the relative importance of a number of factors.

The key reasons given for schools experiencing these financial pressures continue to be the 2015 increases in employers’ pension and national insurance contributions, given as a reason by 89% and 86% of respondents respectively. This increase in costs of over 5.5% every year with no resulting increase in school funding has been disastrous for schools. This year, the third most quoted source of financial pressure reported by school leaders was the cost of dealing with the additional needs of pupils, reported by 83% of respondents.

Another important consideration is the impact of government policy in relation to local authorities: 47% reported the decline of local authority services as a cost pressure on schools. This is being made worse by the reduction in the ESG funding to local authorities which was cut in the last spending review resulting in pressure being passed through to schools. Worry about the impact of cuts to ESG for academies is also a significant pressure, with 65% of academies reporting this as a concern.

Chart 2: What are the major factors that have caused the financial pressures for your school?

- Increase in National Insurance employer contribution: 89%
- Increase in employer contribution to teacher pensions: 86%
- Reduction in educational services grant: 46%
- The move towards a living wage: 41%
- Overall salary increases: 71%
- General increases in price of commodities: 43%
- Introduction of the apprenticeship levy: 16%
- Decline in local authority services: 47%
- Additional needs of some children: 83%
- Academisation conversion: 4%
- Other: 23%
How schools make it work

We also asked our members who had managed to achieve a balancing budget, how they had managed this. Chart 3 below reports these findings and compares them to the previous survey.

Chart 3: Compares how school leaders responded to the question ‘how are you making your budget balance for 2016/17?’ in the 2016 survey and the same question in 2015

This clearly shows that cuts are much more common, with respondents reporting across all reasons in greater numbers except those reporting using reserves. This in itself is likely to reflect the fact that reserves are running out for schools and this option is not sustainable for the long term.

The most commonly reported cost saving was to reduce investment in equipment, quoted by 82% of respondents and up 18 percentage points on last year. After that, schools are pushed to reduce the number or hours of teaching assistants, a measure adopted by 66% of respondents, and up 17 percentage points on last year, and/or reducing the amount or hours of teaching staff, reported by 31% of staff and up 6 percentage points on last year. This is deeply worrying, especially when paired with the cuts being made to investment in continuous professional development for staff,
quoted by 66% of respondents and up a staggering 20 percentage points on the previous year.

When breaking this down further by size of school, there are some differences in the way in which respondents indicated how they were making their budgets balance. In small schools (under 300 pupils), 25% said that they were reducing the number of hours of teaching staff compared with 37% in medium sized schools (300 to 900 pupils) and 42% in large schools (over 900 pupils). Similarly 22% of smaller schools said that they had reduced the hours of administration staff compared with 31% in medium schools and 68% in large. Conversely, in larger schools, 55% said they had reduced CPD, compared with 70% in smaller schools (62% in medium). Smaller schools have far less capacity to achieve significant savings in staffing costs, which typically represent about 80% of school budgets, and have to seek other budget saving solutions.

The figures showing a decline in investment in CPD reflects the findings of other recent NAHT surveys:

- In our July 2016 survey of deputy and assistant head members, The Balancing Act, 30% reported that their CPD had declined over the previous year
- Our October 2016 survey of school business managers showed that there had been a 10 percentage point decrease since the 2014 survey in the number of SBM members receiving four or more days of CPD, from 49% to 39%.

We asked those who said that they were forecasting a surplus for 2016/17, what were the reasons they had been able to build up a surplus. 45% of those said that they were carrying over a surplus because of an anticipated budget deficit in future years and 10% said this was because of capital funding for planned expenditure. This demonstrates how schools are having to plan for ever tightening budgets and how they anticipate that there will be less funding available. Schools that have recorded a surplus because of anticipated capital works, will only be able to use that money for the designated capital work on their school, this money cannot be deemed as a surplus and cannot be used to support school services and the teaching and learning of children.
Views of the future

We also asked school leaders for their views of the future and their responses can be found in Chart 4 below. This highlights that schools anticipate their growing deficit amount although some respondents expect this to improve or are not sure about the situation by 2019-20. This is likely to be because by 2019/20, school funding under the new national funding formula will go directly to schools, and schools may believe this will improve the situation slightly, or feel that it is difficult to make predictions by that time.

Chart 4: Are you forecasting a deficit budget in the following years?

<table>
<thead>
<tr>
<th>Year</th>
<th>Not sure</th>
<th>No</th>
<th>Yes a greater deficit than 2015/16</th>
<th>Yes a smaller deficit than 2015/16</th>
<th>Yes around the same level as 2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/17</td>
<td>6%</td>
<td>30%</td>
<td>33%</td>
<td>6%</td>
<td>25%</td>
</tr>
<tr>
<td>2017/18</td>
<td>13%</td>
<td>13%</td>
<td>56%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>2018/19</td>
<td>24%</td>
<td>6%</td>
<td>60%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>2019/20</td>
<td>34%</td>
<td>5%</td>
<td>53%</td>
<td>53%</td>
<td>3%</td>
</tr>
</tbody>
</table>

We then asked members whether they foresaw a year by when their budget would be unsustainable and Chart 5 below shows that more than half (55%) of school leaders who responded to the survey said that they believed that their deficit would be untenable by 2018/19. A further fifth (21%) of respondents believed that their deficit would be untenable by 2020/21. Only 1 in 10 said that they did not foresee a year by which their deficit would be untenable. In total, 72% of respondents thought that their budget would be untenable by 2019/20.
Chart 5: Do you foresee a year by which your deficit will be untenable for the school?

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>11%</td>
</tr>
<tr>
<td>Yes by 2016/17</td>
<td>2%</td>
</tr>
<tr>
<td>Yes by 2017/18</td>
<td>19%</td>
</tr>
<tr>
<td>Yes by 2018/19</td>
<td>36%</td>
</tr>
<tr>
<td>Yes by 2019/20</td>
<td>15%</td>
</tr>
<tr>
<td>Yes by 2020/21</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Additional costs to schools: supporting children with mental health needs**

Members have expressed serious concerns about the extra pressure they are facing to support the growing number of children with mental health issues. Almost four fifths (79%) of those who responded to the question asking if their school funds support for children with mental health issues said that they do so either often or occasionally.

Interestingly, this was more of a pressure on academies where 54% of respondents directly funded support for children with mental health issues compared with 42% of maintained school respondents. This may reflect a closer working relationship between maintained schools and local authority services where these still exist, but it is clear more generally, that schools are having to step up to fund this support. Similarly, half of respondents from large schools (52%) said they often had to support children compared with just over a third of small school respondents (36%).
78% of respondents reported that this cost had increased over the past 3 years, and we asked school leaders why this was the case. Overwhelmingly, 93% of respondents reported that this was because of an increase in the number of children with mental health issues and a further 77% said it was also because of a lack of support from the local authority or mental health services (as demonstrated in Chart 7). This demonstrates the additional pressures that schools are being put under, through increases in demand for support and reductions in funding for local authority and health services.

The impact of austerity on health and social care services is creating a vacuum and schools and academies are having to step in to the gap. This is adding more pressure on budgets that are already ‘at breaking point’. 
Chart 7: Why has the cost of supporting children with mental health needs increased?

- Increase in number of children with mental health issues: 93%
- Lack of support from local authority/mental health services: 77%
- Other: 6%