

A consultation on school funding reform: Rationale and principles

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1. Introduction

1.1. In the White Paper *The Importance of Teaching* the Government set out its view that the current funding system is opaque, full of anomalies and unfair and therefore in need of reform. The White Paper said we would consult on the merits of moving from the current funding system to a national funding formula, including the right time to begin the transition to a formula, the transitional arrangements necessary to ensure that schools and local authorities do not suffer undue turbulence, and the factors to take into account in order to assess the needs of pupils for funding purposes.

1.2. This document represents the first stage in that consultation and invites views on the aims and objectives of the school funding system and the high level principles for any potential reforms. Taking into account the views expressed in response to this document, we expect to publish further proposals for consultation later in the spring or in early summer. Because we consider the current system for funding Academies to be unsustainable, we are also publishing more detailed interim proposals for the funding of Academies alongside this consultation, for possible implementation prior to wider system reforms.

1.3. We have not yet carried out an Equality Impact Assessment, since it is not possible to do so until we have developed proposals for the content of a formula. However, the intention of the reforms will be to create a fairer funding system, including ensuring that additional needs of particular groups are recognised. We will carry out an Equality Impact Assessment to be published alongside the second part of the consultation.

2. The ideal school funding system

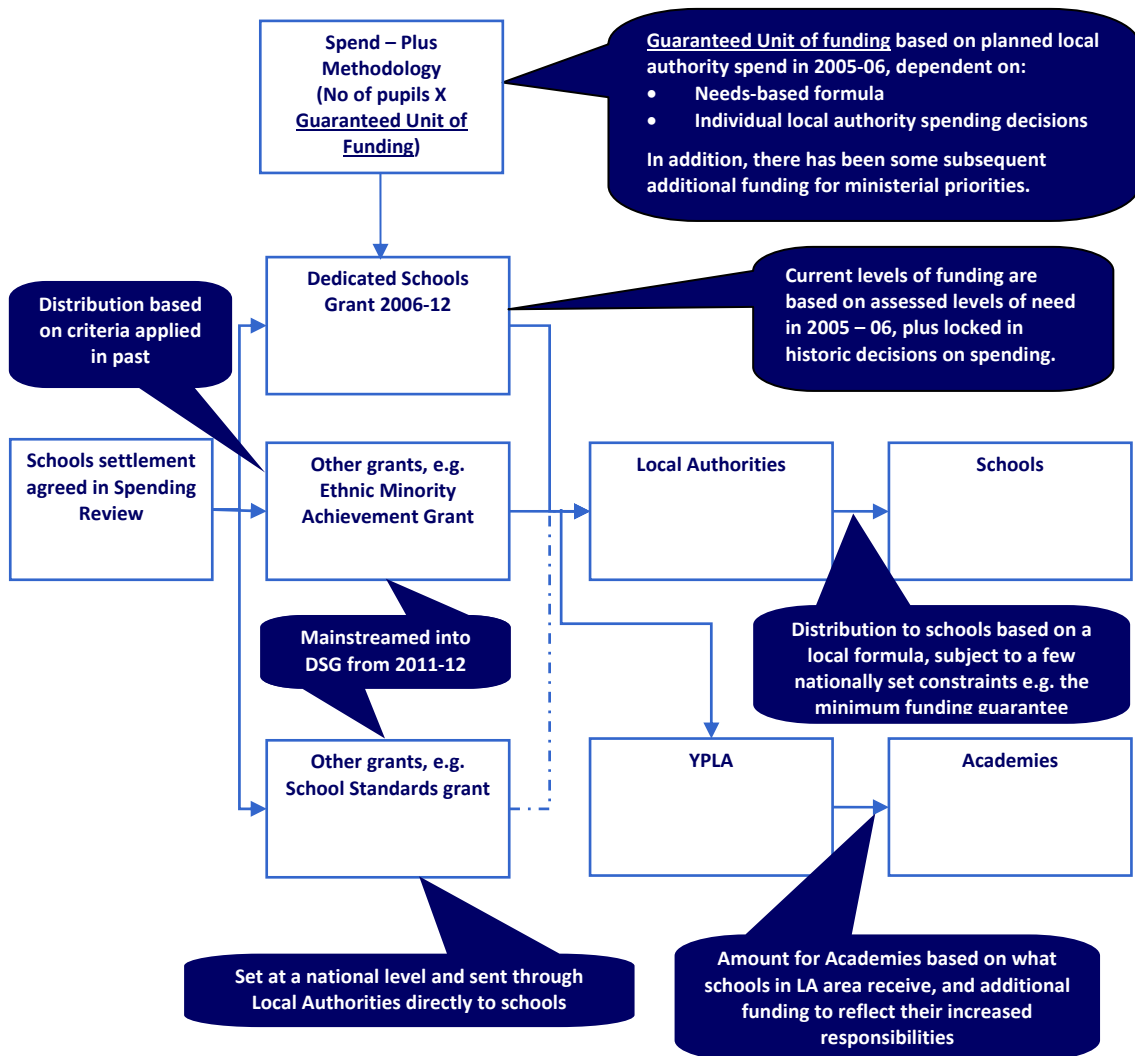
2.1. Our view is that an ideal school funding system would have certain key characteristics.

- **It would distribute money in a fair and logical way.** Schools in similar circumstances and with similar intakes would receive similar levels of funding. Not only would this be demonstrably fairer, but it would increase the accountability of schools for the outcomes they deliver for their children. Schools' budgets would also vary as they respond to the changing characteristics of pupils.
- **It would distribute extra resources towards pupils who need them most.** All children are entitled to a world class education. Yet we know that many children need additional support for which additional funding is necessary. That is why we have already introduced the pupil premium. A funding system which targets extra money at deprived children would help schools to provide them with the support to help them reach their potential, and would help improve the attainment of children overall.
- **It would be transparent and easy to understand and explain.** This would mean that parents would be able to see clearly why their child's school is funded at a certain level and how much money is being invested in their child's education. Transparency would also lead to predictability, with schools understanding why they receive the funding levels they do, and how changes to their pupil population would affect their funding.
- **It would support a diverse range of school provision.** Transparent and fair funding would ensure that all schools operated on a level playing field, be they maintained, Academy or Free School; and would mean that as new schools and providers entered the system it was clear on what basis they would be funded.
- **It would provide value for money and ensure proper use of public funds.** Revenue spending on schools currently represents over £35bn of public money. The school funding system needs to ensure that this represents good value for money, that funds are directed where they are needed, and that they are spent appropriately. In our view, schools are best placed to make decisions about how to use funding for their pupils.

3. The current school funding system and its flaws

3.1. The Department for Education has up until now paid money to local authorities for schools through a number of different grants. The largest of these is the Dedicated Schools Grant (DSG). The DSG is ringfenced – i.e. can only be used for schools, early years or certain services for pupils such as provision for children with special needs. The amount of DSG per pupil for each authority is calculated based on what the local authority received the previous year. Local authorities then fund schools using a local funding formula. The system is set out in the diagram below.

The current school funding system



3.2. This method – called ‘spend plus’ - was started in 2006-07 and represented a reform from the previous method of school funding. When the DSG was created, in 2006-07, its initial level for pupils in each local authority was based on what each authority planned to spend on schools in 2005-06 – the last year before the introduction of the DSG and ‘spend plus’. Therefore, because we still base funding from the DSG on the previous year, current levels of school funding are, in fact, based largely on those in 2005-06.

3.3. The amount spent in 2005-06 was determined by two things:

- an assessment of what the local authorities’ needs were at that time (often using data that was already becoming out of date); and
- the amount local authorities each chose to spend on schools (itself a result partially of decisions made several years previously).

3.4. So, current levels of school funding are based on an assessment of needs which is out of date, and on historic decisions about levels of funding which may or may not reflect precisely what schools needed then. It is

inevitable that over time needs have changed and historic local decisions may no longer reflect local or national priorities.

3.5. This system falls well short of the characteristics set out above. In particular:

- **It is opaque and extremely complex.** The amount of funding a school receives is dependent on a series of decisions taken at different levels in the system over a long period of time. In particular, it is heavily based on a historic assessment of needs, going back to 2005-06 and earlier, which is unlikely to be up to date or reflect the current needs of children in the school. The system is very difficult to explain; in addition to the national complexity, each local authority has a funding formula which is often very detailed. A series of minimum funding guarantees has also locked in previous funding levels for schools that do not reflect current need. The way that schools are funded under the spend-plus system makes it almost impossible to explain to parents why their children's education is funded at the level it is.
- **It is unfair as it leads to schools with similar intakes receiving very different levels of funding.** In any school funding system, we would expect to see some variation in budgets due to different needs. However the current variation cannot be explained by needs, or by local decisions. Schools in very similar circumstances can currently get vastly different levels of funding for no clearly explicable reason. Funding between comparable secondary schools can vary by £1,800 per pupil: across a 1,000 pupil school that means that the lower funded school receives £1.8 million less funding per year.
- **It fails to reflect need accurately.** Additional funding relating to additional need varies widely. For instance, the amount of additional funding targeted at deprived children varies significantly, due to how deprivation funding is distributed to local authorities and variable local policies on passing it on. Furthermore, the funding system does not respond to changes in needs or pupil characteristics. Some areas are now woefully underfunded compared with how they would be if the system reflected need properly, whereas some areas continue to receive funding to which they should no longer be entitled.
- **It does not support the new school system.** The methodology for funding Academies was devised at a time when Academies were expected to form only a small proportion of the total number of schools. It is not suitable for a system where the number of Academies is growing rapidly. In particular, it is not possible, under the current system, to deliver transparent and absolutely comparable funding for maintained schools, Academies and Free Schools and this creates perverse incentives in the system for new providers considering setting up schools or for schools considering opting for Academy status. Chains of Academies see very different levels of funding for their schools in different local authority areas even though they can see that the schools face similar challenges.

3.6. The annex contains further detailed analysis demonstrating these flaws in the current system.

3.7. These substantial flaws mean we need to give strong consideration to reforming the school funding system.

Questions for consultation

1. Do you agree with the stated characteristics of an ideal school funding system?

2. Are there further characteristics the system should have?

3. Do you agree with the analysis of how the current system falls short of these aims?

4. Do you agree with the case for reforming the system?

4. The Pupil Premium

4.1. The introduction of the pupil premium is our first step towards a fair funding system. It ensures that every disadvantaged child (currently defined for these purposes as a child known to be eligible for free school meals or who has been looked after for six months or more) attracts additional funding for their school, and will enable the school to provide them with the additional support they need to help them reach their potential. In 2011-12, the premium will be worth £430 per child; with the total value of the premium being £625million. By 2014-15, the premium will have risen in total to £2.5billion. As the total spent on the premium grows, we expect both to increase the number of children eligible for the premium and the amount paid for each child.

4.2. The premium is clear and transparent in the way it delivers additional funding for every deprived pupil. However, the underlying school funding system is neither clear nor transparent. Significant weighting is given to deprivation in the current funding system, but it is not transparent how that funding follows pupils, and the amount per child varies from school to school and from area to area. Therefore, outside of the pupil premium, the total level of funding for deprived children is neither identifiable nor consistent across all schools.

4.3. The pupil premium moves us closer to achieving our aim of ensuring that all deprived pupils have the same level of funding for their education, wherever they live in the country. It will continue as clear and additional funding for at least the period of the current Spending Review. However, improvements to the current funding system would enable the Government to deliver on this aim more effectively.

Questions for consultation

5. Do you agree that the aim of ensuring all deprived pupils get the same level of funding no matter where they live is the right one?

6. Do you agree the underlying funding formula needs to change to meet this aim more quickly and effectively?

5. A Fair Funding Formula

5.1. In the White Paper, the Government set out its long term ambition for a fair, national funding formula. A fair funding formula would lead to clear and transparent funding for primary and secondary maintained schools and Academies. It would give a clear national basis for funding schools and for providing the money to meet the needs of different groups of children. It would not mean that every school received the same level of funding. We believe it is right that different pupils should attract different amounts of funding dependent on their circumstances. That is one of the reasons why we have introduced the pupil premium. But it would ensure that schools serving similar intakes would receive similar levels of funding; and new providers would know what funding to expect since there would be complete clarity about the funding they would receive.

5.2. A key issue in any reform of the school funding system will be who takes decisions about the level of funding for individual schools. Even within a transparent, overarching, fair funding formula there could be locally agreed decisions to vary the level of funding to meet particular circumstances.

5.3. A fair funding formula could involve all schools' budgets being set according to that formula. However, a fair funding formula could also operate so that it stated a national expectation of the funding for schools and set the aggregate level of funding for maintained schools within each authority, but allowed local authorities – in consultation or agreement with the schools they maintain – to vary the actual budgets to meet local circumstances or locally agreed priorities. Such flexibility for local authorities could be limited to particular circumstances or a particular proportion of the budget, or it might be unconstrained.

5.4. The advantage of using a national formula to set schools' budgets is that it would be the clearest and simplest; and would guarantee comparability of funding between individual schools, whether in different parts of the country or between maintained schools and Academies or Free Schools in the same area. However, it would not enable funding levels to be varied to reflect particular local circumstances.

5.5. A system which allowed local flexibility would enable funding to be more responsive to particular local circumstances. And because overall local funding levels would be set in accordance with a consistent fair formula, there would be clear accountability for the decisions taken by central and local government. Such a system would, as now, enable similar schools to receive

different levels of funding. It would also raise questions about the funding of Academies and Free Schools, since we would need to decide whether their funding should also be affected by that local flexibility. If it is, then their funding would be subject to the decisions of the local authority, which would be both inconsistent with their independence and would require us to develop a more manageable system than the current one. If it is not, and their funding was set by the fair formula, then it would vary from that of local schools with similar intakes. This would risk perverse incentives for schools considering Academy status or for potential promoters of Free Schools, for instance to set up in areas where the funding was more favourable.

Questions for consultation

7. Do you think the school funding system should be based on a purely national formula? Or should there be flexibility for local decisions about funding levels?

8. If so, should that flexibility be limited, and if so how?

9. If there is local flexibility, what should the roles of local authorities, schools and the Schools Forum be in decision making?

10. If there is local flexibility for maintained schools, how should Academies and Free Schools be funded?

6. The role of local authorities

6.1. The majority of school funding is delegated to individual schools; but some funding is retained by local authorities. There is no set national definition of the balance of funding between what is delegated and what is retained centrally; nor of all the functions that should be delegated to schools and those that should be retained by local authorities.

6.2. If we move to a fair funding formula, with or without local flexibility, it will be necessary to have a clear divide between these responsibilities and the funding for them. Every school and authority would be funded in the same way regarding these responsibilities, despite their current different arrangements. There would likely be freedom for schools to decide to continue to operate particular functions through the local authority or otherwise.

6.3. The next two sections discuss the funding for two of the key areas that need handling outside of a national funding formula for schools - 'High Cost' pupils and nursery provision.

7. 'High Cost' Pupils including children with special educational needs

7.1. A fair funding formula for mainstream schools should be able to meet the needs of most pupils, including the majority of children with special

educational needs who are educated in mainstream schools. These pupils' needs are met from schools' delegated budgets at present.

7.2. However, we recognise that there are many pupils whose needs are particularly costly to meet: some of these are in mainstream schools, some in maintained and non-maintained special schools, and some in alternative provision. These would not be readily fundable through a formulaic approach, and we therefore recognise a need for local authorities to have a substantial pot of money for high cost pupils outside the fair funding formula.

7.3. For our second consultation, we will work up proposals for how this pot of money will work. There are a number of important issues to be addressed, including how to distinguish between low cost needs covered by the formula and high cost needs; how to establish the budget for high cost pupils and divide it among local authorities; how to promote personal budgets as promised in the recent Green Paper *Support and aspiration: a new approach to special educational needs and disability*; and whether there is a case for some degree of formulaic funding for high cost providers, while recognising that this will never be able to address all individual needs.

7.4. The recently published Green Paper posed three specific questions about funding for SEN. In order that views on these can be taken into account in the second stage consultation of the review on school funding, we would like to take the opportunity to ask the same questions in this first stage consultation.

7.5. **Funding for SEN support services:** These are currently managed and funded by local authorities, but funding has also been included for them in the budgets of Academies. We need to reach a sustainable, affordable solution for funding them so that schools, Academies, Free Schools and other providers all have access to high quality support services, and responsibility for providing and funding services is clear.

7.6. **Banded funding framework:** We proposed to explore a national banded framework for funding high-cost provision for children and young people with SEN or who are disabled, in addition to what is normally available in schools. This could improve parents' experience of the assessment process and make funding decisions more transparent to them. Such a framework might set out high-level descriptions of the different types of provision for children with more severe and complex SEN or who are disabled, including, for example, additional curriculum support, therapy services, physical requirements, equipment, home-to-school transport, and family support (including short breaks).

7.7. The framework would not, however, determine the financial tariff associated with a particular type of need. This is because it is not the case that any one child with a particular category of need, for example autistic spectrum disorder, will require exactly the same support as another child with the same category of need. We consider that any national banded funding framework should continue to allow local leaders the flexibility to determine the levels of funding to be associated with each level and type of provision and, therefore,

to put in place personalised packages of support for children, young people and families.

7.8. Alignment of funding across the age range: We also committed to exploring ways in which we can bring about greater alignment of the different funding streams for children and young people with SEN, or who are disabled, from birth to 25. At present, there are separate systems of funding provision for these children and young people pre-16 and post-16. There are also three different funding streams for learners with learning difficulties and disabilities post-16.

Questions for consultation

11. How do you think SEN support services might be funded so that schools, Academies, Free Schools and other education providers have access to high quality SEN support services?

12. How do you think a national banded funding framework for children and young people with SEN or who are disabled could improve the transparency of funding decisions to parents while continuing to allow for local flexibility?

13. How can the different funding arrangements for specialist provision for young people pre-16 and post-16 be aligned more effectively to provide a more consistent approach to support for children and young people with SEN or who are disabled from birth to 25?

8. Early years funding

8.1. Every three and four year old is entitled to 15 hours a week of free early education. These hours can be taken in the maintained sector as well as the private, voluntary and independent sector. The funding for free early education is included within the overall school funding system, with local authorities responsible for funding providers. The level of funding for early years varies from local authority to local authority, both because of the national distribution of funding and because of local decisions about the balance of funding between early years and older children. Around a half of free early education for three and four year olds is delivered in schools.

8.2. All local authorities have recently introduced the early years single funding formula (EYSFF). The EYSFF has been intended to increase transparency in how providers are funded in each local authority, as well as bringing greater efficiency through funding on levels of participation and not on capacity. The EYSFF was also intended, through use of financial incentives, to support local authority action to maximise the impact of free early education in tackling disadvantage, increasing the quality of provision and enhancing flexibility for parents.

8.3. Feedback on the introduction of the EYSFF has been mixed. There is greater transparency than previously on early education funding, and participation funding has brought a greater focus on participation levels. However, there have been some suggestions that formulae used in the EYSFF pathfinder LAs were more complex than perhaps was necessary. Additionally, whilst the EYSFF has increased awareness of tackling disadvantage, the quality of provision and the importance of flexibility, it is not clear how effective funding supplements have been in incentivising providers. There are also differences in funding rates paid to providers across the country. Some argue these differences are unfair; others say that they reflect different circumstances in local childcare markets.

8.4. If a fair funding formula is introduced for reception to year 11 provision, there will obviously be implications for how free early education funding will operate. The relationship between free early education funding and the fair funding formula, as well as how early education funding is distributed, will need to be clarified.

Questions for consultation

14. How successfully has the EYSFF been implemented? How might it be improved?

15. How important is an element of local flexibility in free early education funding? What might alternative approaches look like?

16. How should we identify the total amount of funding for early years and free early education for three year olds and four year olds not in reception from within the overall amount of 3-16 funding?

9. Elements of a fair funding formula

9.1. Any school funding formula consists of direct and proxy indicators that attempt to measure the needs of different children. Following this first part of the consultation process on a fair funding formula, we would expect to consult in more detail on possible indicators and the balance between them. However, there are some key principles on which we are seeking views now.

9.2. **Pupil vs school characteristics?** A school funding formula would be largely based on pupil-led factors, such as the number of pupils and the number of pupils from deprived backgrounds. However, it could also contain factors based on the characteristics of the school itself, such as funding based on the floor area of the school; or additional funding to support small schools.

9.3. A formula which takes into account the characteristics of a school in addition to just the characteristics of the pupils in the school may be better able to reflect the cost of existing provision. However, it would be less supportive of entry of new providers into the system and risks solidifying the current pattern of provision. It also does not encourage greater efficiency as it can protect less

cost effective provision and create disincentives to moving to more efficient organisation.

9.4. Our view, therefore, is that the formula should be based on pupil characteristics, with the probable exception of some mechanism to support small schools. This mechanism might, for example, be a lump sum element for all primary schools.

9.5. **What pupil factors should a formula contain?** The Government is clear that any formula should include a basic per pupil amount for all pupils (this will be higher for secondary pupils than for primary) plus extra funding per deprived child. The pupil premium will also continue to provide additional funding. It is our long term aim for the pupil premium to be fully integrated within the fair funding formula, and to be the vehicle for clear and transparent distribution of all deprivation funding.

9.6. However, there may be other needs that a formula should take into account. These might include additional funding to recognise different labour costs in different areas (the 'area cost adjustment'); other geographical factors such as rurality; funding for children for whom English is not their first language; underperforming ethnic groups; other proxy measures for additional or special educational needs; and incentives or rewards for improved performance.

9.7. **Complexity vs simplicity.** The simpler a formula, the clearer and more easily understandable it will be. That means it should be clearer to parents and schools why they receive the funding they do, and it will be clearer to potential promoters of new schools what funding they will receive. However, a very simple formula may be less accurate at addressing the differing needs of schools and pupils.

Questions for consultation

17. Should the formula include only pupil led factors or also school led factors?

18. What factors should be included?

19. What is the right balance between simplicity and complexity?

10. How should we manage the transition to a new funding system?

10.1. The Government has protected school funding overall at the same cash level per pupil for the Spending Review period, with the pupil premium in addition to that. As demonstrated in the annex, the current funding system delivers very different levels of funding to schools with similar characteristics and similar intakes – in a way that goes beyond local choice. That is both unfair and inefficient. A fair funding formula would remedy that situation. But, by definition, that means that as we move to a fair funding formula, some

schools will see their budgets reducing relatively whilst others see them increasing. This levelling of funding to schools in similar circumstances must be right, but it could cause difficulties for those schools most affected and will need to be managed carefully.

10.2. We would expect, therefore, to implement any move to a fair funding formula with significant protection arrangements. These would be likely to set a maximum level of reduction in budget per pupil any school would receive each year; and to pay for this by constraining the level of increase any school could receive. These are called floors and ceilings.

10.3. We also think that the more notice we can give schools of changes to their budgets, the more able they will be to cope with those changes. There may, therefore, be a case for setting very tight floors and ceilings (ie so no school sees large changes to its budget) in the first years of introduction of a fair funding formula, but to allow greater fluctuations over time with schools notified of these well in advance. For the current Spending Review period at least, we expect the pupil premium to operate outside these transitional arrangements, so every school would receive the full value of the premium, clearly in addition to the rest of their budget.

10.4. There is also the question of when to begin movement to a fair funding formula. In the current fiscal climate, with school funding protected but not seeing large increases, there is an argument for delaying the introduction of a fair funding formula until we can afford additional funding to help pay for transitional arrangements. On the other hand, the current inequitable distribution of funding is inefficient, and it is more important now than ever to ensure we are getting maximum value for every pound of public money we spend. Schools with relatively higher levels of funding per pupil are likely to be comparatively more able to make efficiencies.

Questions for consultation

20. What level of change in budgets per year can schools manage?

21. How much time do schools need to plan for changes in their funding?

22. When is the right time to start moving towards a fair funding formula?

11. Next steps

11.1. This document is the first stage in our public consultation on a fair funding formula. We would welcome comments on the questions asked and on other aspects of the school funding system by 25th May.

11.2. In the interim, we will continue to discuss reforms to the system with partner organisations. We will then consider responses to this document, before publishing the next stage of the consultation later in early summer.

11.3. Consultation responses can be completed:

- online at www.education.gov.uk/consultations/
- by emailing schoolfunding.consultation@education.gsi.gov.uk
- or by downloading a response form which should be completed and sent to:

Ian McVicar
Funding Policy and Efficiency Team
Department for Education
Level 4
Sanctuary Buildings
Great Smith Street
London
SW1P 3BT

Annex – Problems with the current school funding system

The current funding system is difficult to understand

The current school funding system is based on an assessment of pupil need that was made in 2005-06. Funding levels are a mixture of formula results, historical protections, and a multitude of different grants. Complexity exists both nationally, through the way the Dedicated Schools Grant is calculated, and locally, through different local authority formulae.

Local complexity

There are 152 local authorities in England and each local authority has its own formula for calculating school funding. Each formula takes into account different factors and apportions different percentages of funding to each factor. This can mean that different factors, such as site specific factors, attract varying levels of funding in each local authority. For example, in one local authority, site specific factors (pupil-led) constitute 12% of a school's budget share, whereas in a different local authority that has similar pupil characteristics, site specific factors (pupil-led) constitute only 3% of a school's budget share.

The minimum funding guarantee

The minimum funding guarantee (MFG) adds an additional layer of complexity to the system. It was introduced as a protection to school budgets which guaranteed increases or limited decreases in funding and therefore provided stability. However, the way in which the MFG operates alongside the current spend-plus system can prevent the local formula from working properly and, therefore, can be seen as partly responsible for locking in historical differences and creating opacity in the system. In 2010-11, 5,255 schools (nursery, primary, secondary and special) were on the MFG. 26% of all primary schools were on the MFG and 17% of all secondary schools were. For 550 out of the 5,255 schools, the MFG represents over 5% of their budgets (not including grants). This means that in a significant number of schools and local authorities, the local formula is not able to distribute funding in the way in which it intended.

The way that schools are funded under the spend-plus system, makes it almost impossible to explain to parents why their children's education is funded at the level it is.

Funding variations in the system

Schools with similar characteristics receive varying levels of funds

In any school funding system, we would expect some variation in the amounts that schools receive by taking into account different measures such as deprivation and English as Additional Language (EAL). However, none of these factors can explain the variation we currently observe.

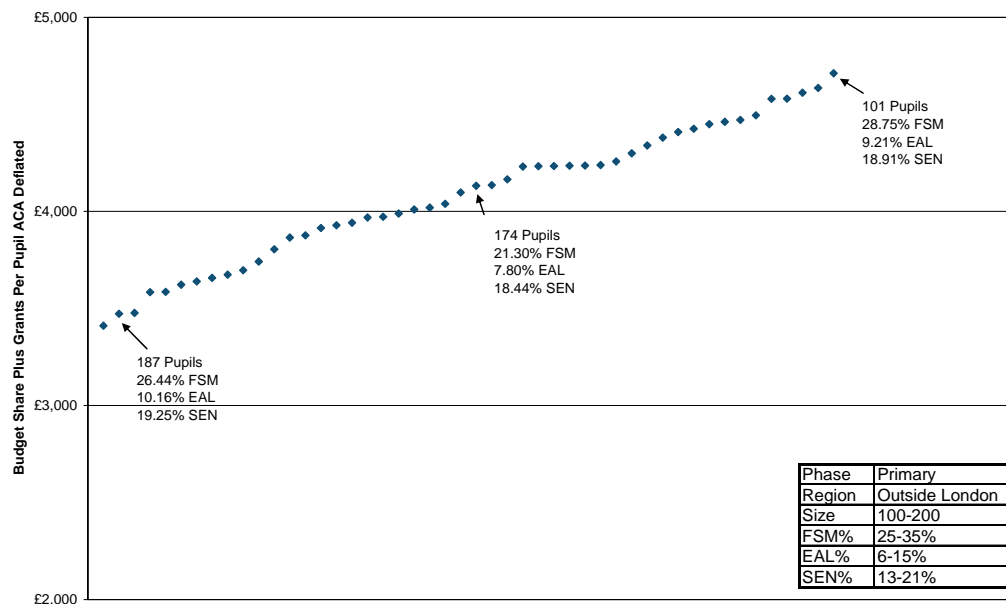
We can look at groups of schools with similar characteristics and similar pupil intakes and see how much their funding levels vary. The following graphs show primary and secondary schools with similar characteristics.

Primary schools

In a fair funding system, you might expect similar primary schools to receive a similar level of funding, i.e. for the graph to show a flat line. However, what the graph in fact shows is a large variation in funding between the similar schools chosen; ranging from around £3,400 per pupil to over £4,700. That difference, in a 150 pupil school, is equal to a total of over £195,000 and could pay for 5 extra teachers.

2010-11 budget share plus grants per pupil* for a selection of similar primary schools

*ACA deflated to ensure comparability



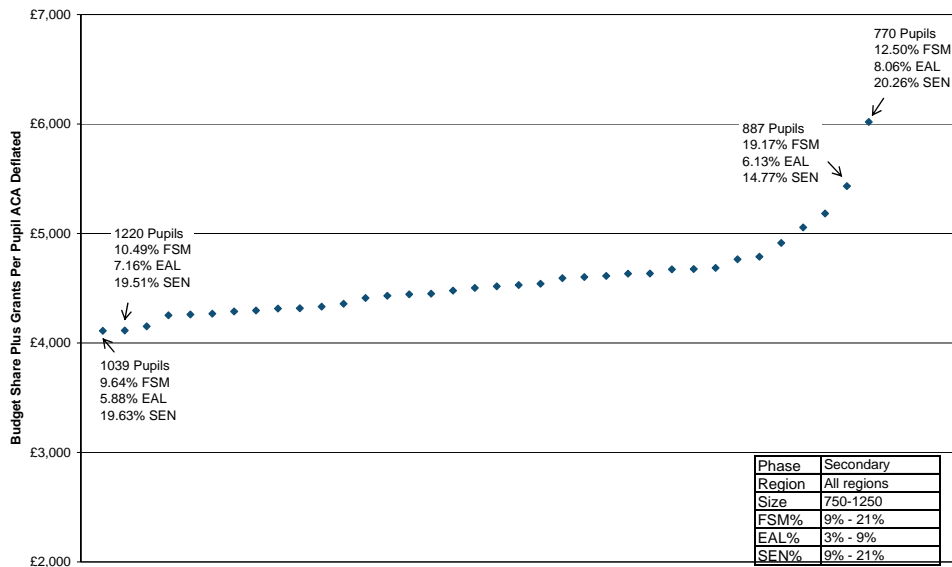
Source: Section 251 2010-11 Budget Table 2 as of 06/01/11 and Annual School Census January 2010

Secondary schools

In a fair funding system, you also might expect similar secondary schools to receive a similar level of funding. However, this graph also shows that there is a large variation in funding between similar schools; ranging from under £4,200 per pupil to over £6,000. That difference, in a 1000 pupil school, is equal to a total of over £1.8m and could pay for 41 extra teachers.

2010-11 budget share plus grants per pupil* for a selection of similar secondary schools without 6th form

*ACA deflated to ensure comparability



Source: Section 251 2010-11 Budget Table 2 as of 06/01/11 and Annual School Census January 2010

When variations of funding between schools occur it is very difficult to explain, to parents of children at the lower funded school, why their children's education is funded at the level it is. Sometimes it is hard to justify the level of funding one school receives in comparison to another similar school, either nearby or elsewhere in the country.

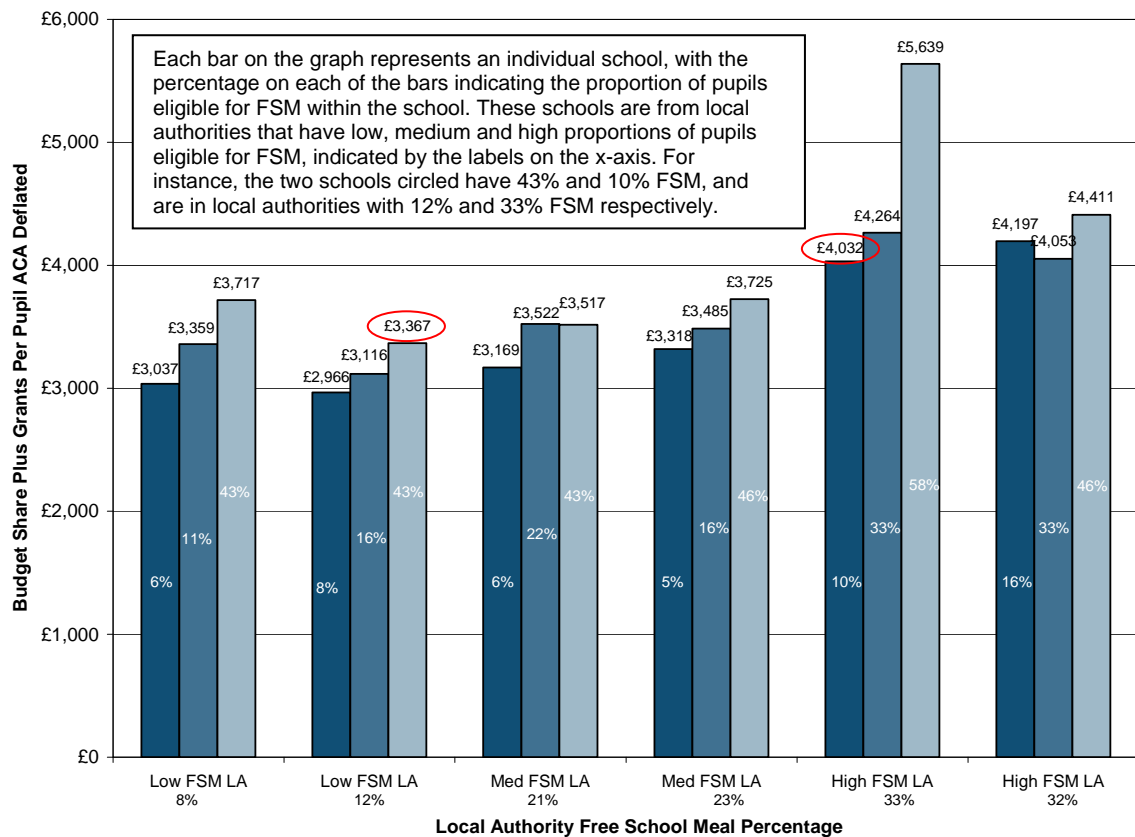
Funding fails to reflect needs accurately

Schools with higher levels of deprivation can receive less money per pupil than schools with lower levels of deprivation

The following graph shows examples of schools with low numbers of deprived pupils in highly deprived areas, receiving a greater amount of funding per pupil than schools with high numbers of deprived pupils in areas with both low and medium levels of deprivation overall. This means for example that a school with 43% of pupils eligible for FSM can receive £665 less funding per pupil than a school with 10% of pupils eligible for FSM (circled on the graph). This is caused by a combination of national and local factors – both the way the authorities have been funded and the way the authorities are funding schools.

Variation in 2010-11 budget share plus grants* between medium size primary schools in local authorities with high, medium and low levels of pupils on FSM (without pupil led SEN funding)

*ACA deflated to ensure comparability



Source: Section 251 2010-11 Budget Table 2 as of 06/01/11 and Annual School Census January 2010

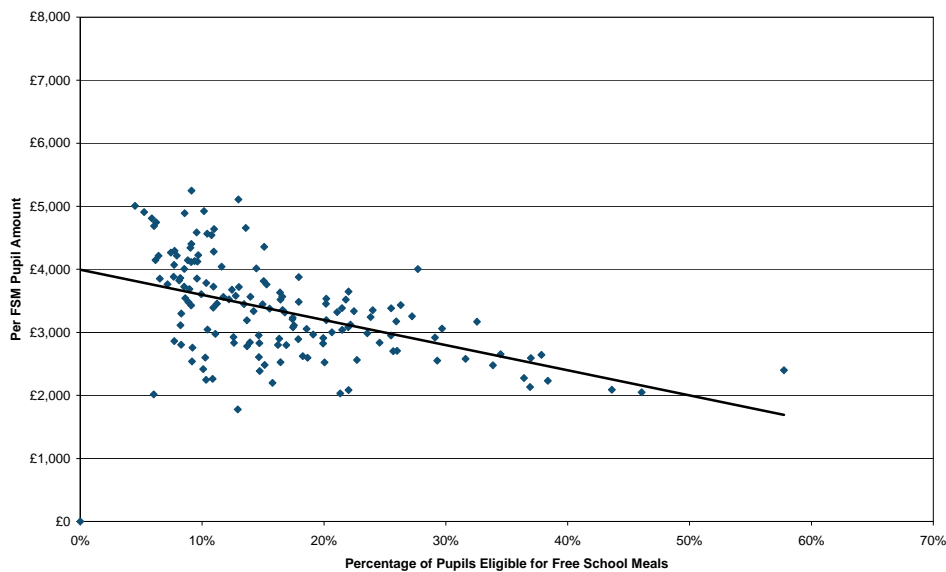
Deprivation funding is not universally well-targeted

There is significant deprivation funding in the current spend-plus system. However, it is not always well targeted and different local authorities have different methods of targeting this funding.

The graph below shows the funding that each local authority allocates for deprived pupils. There is significant variation reflecting local decisions but lower funded authorities tend to allocate higher levels of funding to their deprived pupils. Under the current system, the amount of funding that a deprived pupil receives is dependent on the local authority in which they are educated – both because of local decisions and the way local authorities are funded nationally.

A fair funding formula, alongside the pupil premium, would mean deprived pupils receive comparable levels of funding wherever they are.

Local authorities by percentage of secondary pupils eligible for FSM against extra funding allocated locally per deprived pupil

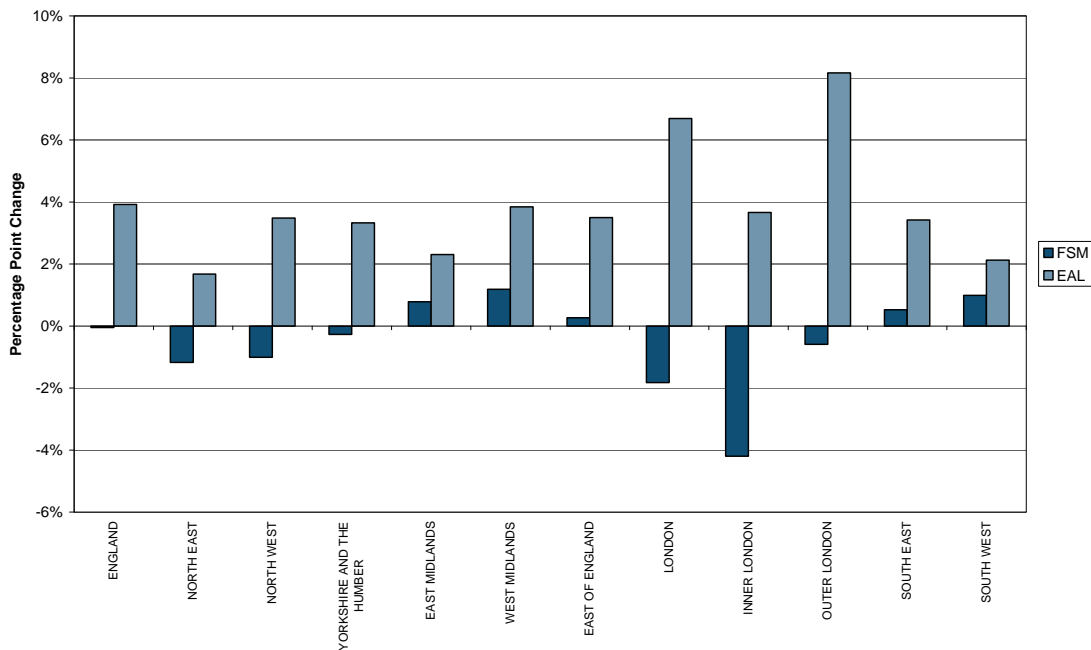


Source: Academic Year 11/12 Free School Ready Reckoner Tool based on analysis on Financial Year 10-11 Data from S251. FSM data from Annual School Census 2010.

The system does not respond to changing pupil characteristics

The current system is based on an assessment of need in 2005. The nature of the system means that historical differences are locked in which, in turn, means that it is unable to respond properly to changing characteristics at a local level.

All regions primary and secondary school change in FSM and EAL between 2005 and 2010^{1,2}



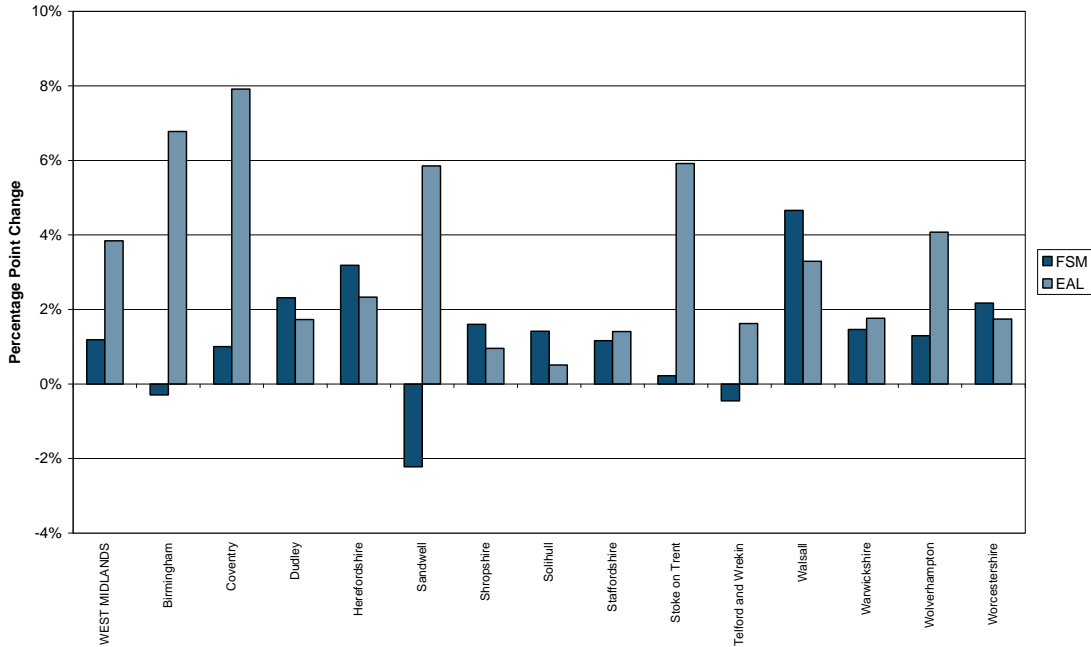
From the graph, we can see that since 2005 all regions have experienced changes in the number of pupils on Free School Meals and the number of pupils with English as an Additional Language (EAL). Local authorities that have seen increases in these pupil numbers will not have received any additional funding (or had their funding relatively reduced) to reflect these changes (before the pupil premium). A responsive system would reflect these changing characteristics.

¹ The underlying pupil characteristics used in setting the Guaranteed Units of Funding for 2005 used the most up to date pupil characteristics data available at the time. The information used for FSM and EAL in this, and subsequent pupil characteristics graphs, has been taken from 2004 and 2010 pupil characteristics. However, in this document it will be referred to as 2005 pupil characteristics as the funding levels were set for 2005 using this data.

² **Source:** Statistical First Release 2004 and 2010 – Schools, Pupils and their Characteristics

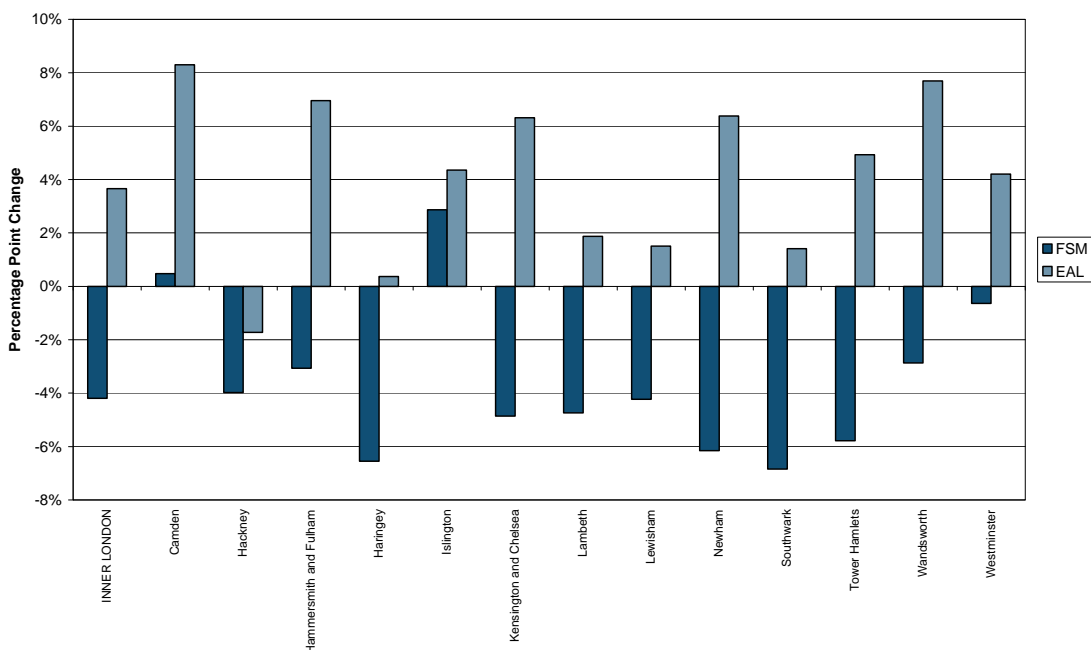
The below graph shows that the West Midlands is an example of a region where both FSM and EAL have increased since 2005 in all but two local authorities. The funding system does not reflect the current level of need in this region.

West Midlands primary and secondary school change in FSM and EAL between 2005 and 2010²,



In contrast to the West Midlands, Inner London has seen both increases and decreases in the percentage of pupils with EAL and on FSM since 2005. These changes will not be reflected in the funding system.

Inner London primary and secondary change in FSM and EAL between 2005 and 2010²,



The ability for local authorities to cope with changing circumstances under the spend-plus system is varied. For example:

- In a West Midlands local authority, EAL increased by 7.91%, and FSM increased by 1%
- An Inner London local authority experienced a 6.84% decrease in FSM and only a 1.41% rise in EAL.

From these examples we could expect that the Inner London authority may have some capacity to cope with the relatively small rise in EAL due to the decrease in FSM. However, the West Midlands authority may not have the capacity to cope with both the rise in FSM and EAL.

If the data was updated to reflect current need, most local authorities would see a change in their funding levels.

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