



# A National Funding Formula for Schools - a proposal from f40

December 2014

## 1. Introduction

The case for fair funding for schools has been made, and accepted by the government. This paper builds on the work we published last year and sets out a proposal from the f40 group of low-funded education authorities for a national funding framework for schools, to be introduced from 2016/17.

The proposal covers the full breadth of the Dedicated Schools Grant i.e. the funding of mainstream schools, Early Years and High Needs provision.

The government has announced that an additional £390m will be available in 2015/16 under the *Fairer Schools Funding* banner. f40 warmly welcomes the additional funding and the further acknowledgement of the unfairness of the current arrangements but is concerned that:

- The methodology is flawed, in particular by being based solely on the Schools Block of the Dedicated Schools Grant.
- Fundamental reform is still needed; the *Fairer Schools Funding* is a limited, temporary fix, not a first step towards a national funding formula.

## 2. A National Funding Formula

To briefly re-state the case for fundamental reform:

- The existing funding model has no rationale and is clearly unfair. Mainstream school funding has become more and more of a 'mess' with a tangle of funding caught up in the Minimum Funding Guarantee and capping. There is no rationale for the funding of Early Years or High Needs either. A new start is needed.
- The inconsistencies in funding for individual schools with similar characteristics across the country are too great.
- A national funding formula for mainstream schools would resolve the problem of a child attracting very different levels of funding if they attend a school on one side of a local authority boundary rather than another.
- Schools in low funded areas have inevitably had to prioritise meeting their core costs and have struggled to improve outcomes for vulnerable pupils as a consequence. Fair funding will enable schools to be judged fairly on the outcomes their pupils achieve.

### 3 Key Principles

The f40 model is based on the following principles/features:

- It offers a formula for distributing the national budget for schools based on a clear rationale: from 2016/17 education funding can be geared towards improving educational standards across the country rather than perpetuating an inequitable distribution of the national budget.
- The f40 national funding formula has, as its main building block, a core entitlement at pupil level. The formula enables a school to have access to similar resource levels for a child's basic classroom costs i.e. the share of a teacher and teaching assistant. The core entitlement reflects different needs and costs at the various Key Stages.
- The formula contains factors to reflect pupil level needs beyond the core entitlement (e.g. deprivation and high incidence SEN) and factors to reflect the needs of small schools that are necessary in a local authority's structure. There will need to be clarity about what needs and outcomes each factor is seeking to address.
- F40 proposes that the existing DSG structure continues i.e. with blocks for:
  - Schools
  - Early Years
  - High Needs

With each element based on a proper formula.

Local authorities, with the advice of the local Schools Forum, would be free to move funding between High Needs, Schools and Early Years blocks.

### 4. The National Funding Formula

In considering the national funding formula for schools last year, f40 concluded that there were two options the Department for Education could take:

- Option 1 - a core formula to allocate funding to every school and academy with local discretion on other formula factors.
- Option 2 - a core formula to produce a local authority level total with each local authority then having discretion on how the total is allocated within the area.

Having reviewed the position further we are now convinced that only Option 2 is feasible. Option 1 would be hugely bureaucratic, and insufficiently flexible to meet local needs effectively.

We entirely accept the need for greater consistency in school funding but believe that Option 2 provides for consistency in overall *level* of funding whilst offering the local flexibility needed, together with very sharp local accountability.

## 5. The Funding Framework

f40 proposes the following arrangements for the Schools Block:

- The national pot for the Schools Block should be top-sliced for PFI and exceptional pupil growth.
- The Schools Block should then be distributed between local authorities on six formula factors:
  - Age weighted pupil unit
  - Deprivation
  - High incidence SEN/prior attainment
  - English as an Additional Language
  - Lump sum
  - Sparsity
- Area costs to be added, on the 'hybrid' model.

Note: this closely matches the Department for Education's seven 'Minimum Funding Level' factors but removing the Looked-After Children factor (on the grounds that LAC numbers are volatile, and therefore a poor, indicator of need)

f40 agrees that, in the interests of transparency, local authorities should use common criteria and data for deprivation, high incidence SEN/prior attainment and for EAL.

Many authorities with one or more schools meeting the sparsity criteria have chosen not to introduce sparsity as a formula factor. More work is clearly needed, both on the additional costs that small schools in sparsely populated areas face and on developing a formula that adequately reflects relative need. Given the wide variation in the characteristics of rural authorities we think it would be unhelpful, at least until further research has been completed, to specify any criteria or data that local authorities must use for this factor.

Local authorities/Schools Forums should then be free to:

- add additional factors
- shift funding between the three blocks
- agree any de-delegations from maintained schools

We see no need for restrictions or regulation given the level of accountability.

Central costs (e.g. co-ordination of admissions and the costs of the Schools Forum) should be met from the Schools Block as now but with no restrictions – Schools Forums should be free to determine the appropriate level of central costs.

## 6. Other School Funding Issues

We recommend that the allocations for EAL, deprivation and SEN are 'smoothed' by averaging data over three years.

We proposed last year that rates be removed from school funding, or as a minimum all schools, not just Voluntary Aided, Foundation Schools and Academies, should be entitled to an 80% rebate. That remains f40's position. However, this is a complex issue and beyond our remit to make detailed recommendations. As an interim step we propose that rates (and rents where these concern land or buildings that are intrinsic to the running of the school) be funded at the Local Authority for all schools and academies.

The school funding system should be cost-effective to administer. Costly and bureaucratic formula replication should not be a feature. Formula replication by the Education Funding Agency should cease.

The formula should apply to all maintained mainstream schools and academies in exactly the same way and on the same funding year. A case can be made for either the financial year or academic year. Overall, our preference is still for the academic year.

All school funding should be through a single stream i.e. no specific grants and incorporating the Pupil Premium. We acknowledge that there is strong political commitment to maintaining the Pupil Premium as a separate funding stream. But it remains f40's view that it should be incorporated within the main funding for schools in due course.

## **7. The Early Years Block**

We propose that the Early Years block be distributed on the basis of the number of 2 year olds, and 3 and 4 year olds on the census data. We are conscious that the pattern of early years provision varies widely across local authorities. But as with the other DSG blocks, we do not believe that the distribution of the national budget to local authority level should take account of historic factors or current spending patterns.

## **8. The High Needs Block**

We understand that the Department for Education is commissioning research that will recommend an approach to formula funding of High Needs. We warmly welcome this. Pending the outcome of that research our model relies on the work undertaken by PriceWaterhouseCooper in 2009. Our view is that although that research needs to be broadened and updated, it will be a significantly fairer means of distributing the available resources than the current methodology. We are very open to evidence from the DfE research project on other indicators of need that may be appropriate for distributing the high needs block and would welcome an opportunity to take an active role in evaluating the evidence.

Further work, which we hope will be covered by the DfE-commissioned research, is needed on whether any allowance needs to be made in the High Needs block for the impact of regional or national specialist facilities.

## **9. Implementation**

f40 remains concerned about the impact of allocating the additional £390m for 2015/16 by reference to the Schools Block only. This has resulted in significant allocations to authorities, including some in the London area, that are already comparatively well-funded, whilst some very low funded authorities will receive little or no increase. Our very strong view is that the changes we propose here for the Schools Block should be implemented for 2016/17, alongside a formula based approach to the Early Years and High Needs blocks.

It continues to be f40's position that in order to rectify the historic unfairness in school funding, a new formula-based approach to allocating the Dedicated Schools Grant should be phased in over a three year period. We appreciate the need for year-on-year changes to be manageable for individual schools but contend that, should ministers wish to continue some form of Minimum Funding Guarantee, greater flexibility will be needed in order to:

- Manage the position where budget allocations through MFG are clearly excessive for some schools.
- Avoid a lengthy transition period which then perpetuates unfair funding.

## **7. Summary and Recommendations**

We remain strongly committed to the introduction of a national funding formula for the Schools Block and to a formula approach to the other DSG blocks. This is the only way to address the historic unfairness and inconsistency in school funding. We believe a workable model can be developed for 2016/17.

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