



A National Funding Formula for Schools - a proposal from f40

March 2016

Summary of f40's proposal

f40 proposes a new model for distributing education funding in England to create a model of funding for schools which is rational and fair. The f40 model retains the existing Dedicated Schools Grant structure with three blocks: Schools, High Needs and Early Years. The model allocates the funding available through a needs-based formula for each block, recognising the costs of educating children in different parts of the country and taking into account pupil characteristics such as deprivation and other additional needs.

There will always be circumstances that make one school different from another and highlight a need for some differential funding but generally the opportunities for a child, wherever they are in the country, should be able to be met by similar levels of resources.

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 in 2015 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 2017/18.

f40 proposes a new model for distributing education funding in England which retains the existing Dedicated Schools Grant (DSG) structure with three blocks: Schools, High Needs and Early Years. The model allocates the funding available through a needs-based formula for each block, removing any reliance on historic spending patterns and recognising the differential regional costs.

In the absence of any additional national funding, which would be f40's preferred position, re-distribution of the current envelope of funding would unfortunately appear to be the only available option.

The government has provided an additional £390m in 2015-16 under the *Fairer Schools Funding* banner and this has now been baselined into mainstream school budgets. f40 welcomed the additional funding and the further acknowledgement of the unfairness of the current arrangements, but is concerned that:

- The methodology for allocation between local authorities (LAs) was flawed, in particular by being based solely on the Schools Block of the DSG. F40 strongly advises that any transitional protection arrangements implemented in future is reviewed in terms of the total DSG (i.e. all three blocks).

- Fundamental reform is still needed; the Fairer Schools Funding is a limited, temporary fix: a down-payment on the path towards a new national funding formula.

2. The case for 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 (MFG) and capping. There is no rationale for the funding of High Needs or Early Years either. A new start is needed.
- The inconsistencies in funding for individual schools with similar characteristics across the country are too great.
- A national formula for Schools Funding would minimise the problem of a child with similar needs attracting very different levels of funding if they attend a school on one side of a local authority boundary rather than another whilst recognising the different regional costs.
- 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 schools budget to local authorities based on a clear rationale: from 2017-18 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. The Department for Education (DfE) will need to provide clarity about what needs and outcomes each factor is seeking to address.
- All funding formula factors used in the proposed model allocate the same flat rate per pupil across all regions and appropriate area cost adjustment will be applied accordingly.
- f40 would ideally include all current grant funding streams (i.e. Pupil Premium) in the overall proposed model. However, for the purposes of this proposal, the current Pupil Premium funding allocated nationally has been excluded due to current central government policy. There is no doubt that if the current cost of Pupil Premium were to be mainstreamed it would provide a significant contribution to the increasing

employment costs on schools and still allow for some support for deprivation within the formula.

- Local authorities, following discussion with the local Schools' Forum, would be free to move funding between Schools, High Needs and Early Years blocks.

Note: In order to afford the funding rates as indicated in the revised f40 formula an additional £734.9m DSG would be required. The figures that have been included within the model are based upon 2015 data and allow no consideration for changes in national insurance contributions, changes to pension contributions or wage increases (and revisions to differentials) brought about by the living wage or any reductions to academies arising from changes to the Education Services Grant (ESG). These calculations provide a view on the cost of providing education in 2015 assuming other funding streams such as the ESG and Pupil Premium are maintained at 2015 values. The future 75% reduction in ESG is expected to have a significant adverse impact. An option for scaling back to current funding levels is also provided, but it must be clear that in the long term funding should be applied to make up this shortfall.

4. The National Funding Formula: a Framework

In considering the national funding formula, f40 concluded that it favoured a proposal which resulted in 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. This option would ensure consistency in the overall level of funding whilst offering the local flexibility needed, together with very sharp local accountability. We propose the following arrangements for the Schools Block:

- The national pot for the Schools block should be increased to take account of exceptional pupil growth. (i.e. exceptional pupil growth as defined by the DfE).
- The Schools Block should then be distributed between local authorities on six formula factors:
 - Basic entitlement (formerly age weighted pupil unit)
 - Deprivation (based on Ever 6 FSM data only)
 - Low prior attainment
 - English as an Additional Language (EAL)
 - Lump sum
 - Sparsity

(Attached as an Appendix is a technical note which provides further information on each of the six formula factors).

- Area costs to be added, on the 'hybrid' model. This will be applied to all pupil-led factors to reflect regional differences in costs.

Note: this closely matches the DfE'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, low prior attainment and EAL.

The formula for distribution from DfE to LA level will need to be sufficient to cover the needs of the premises related factors such as rates, split sites, joint use or other exceptional circumstances that a national formula cannot hope to cover in the long term other than by reference to actual costs.

It must further be remembered that the basic entitlement and lump sum are simple to distribute, but that schools are not generic and that there are significant numbers of extraordinary circumstances which account for small sums nationally, but which are significant sums to the schools concerned. The position of these exceptional items is not static either and that local authorities put considerable effort into managing these arrangements annually. Joint Use arrangements, for example, are mostly based on individual contractual agreements which need to be managed in the context of the funding formula to ensure that the contract can be adhered to by the school or academy concerned. Similarly, split sites will vary from school to school, but will equally impact on the funding formula. If LAs are not to be involved in overall school funding they must be able to pass full costs to schools and the school must be funded to afford these costs otherwise schools with exceptional circumstances will remain disadvantaged as far as teaching is concerned compared to similar schools.

Local Authorities/Schools Forums should be free to:

- add additional factors e.g. split sites and leases
- shift funding between the three blocks
- agree any de-delegations from all LA maintained schools.

We see no need for restrictions or regulation (i.e. de-delegation) 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.

5. The High Needs Block

Following the DfE-commissioned ISOS Partnership research project on the funding for young people with SEN, we warmly welcome the recommendation that consideration should be given to a formulaic approach for the allocation of the High Needs block.

However, it is disappointing that a formal response to this research, along with any additional evidence, has not been published by DfE. Revising distribution of the High Needs block is likely to be particularly challenging and will therefore require more time to fully consider and make an informed response and recommendations. Although f40 is open to the use of indicators of need that may be appropriate for distributing the High Needs block, we do have concerns in respect of the direct link to identifying need in LA areas, and the

relative weightings that could be applied within a formula. Given the relatively weak correlation of many potential indicators we believe that overall pupil numbers should be the main factor for distribution with limited weightings being applied to reflect proxy indicators such as deprivation, prior attainment and the disability living allowance.

Whatever formula is implemented there is a concern that the redistribution of the three blocks independently could have a deeply adverse effect on some LAs and this needs to be considered as part of the whole DSG and not as separate elements. There will need to be some sense checking of the outcome of the proposals for a formulae against the old GUF differentials to ensure that any narrowing of the distribution gap in one block is not inadvertently instantly lost by the redistribution of the other blocks, and that overall the difference between top and bottom funding levels feel justifiable.

Under the f40 proposal special schools, alternative provisions schools and other High Needs providers would still be funded through a combination of place numbers and top ups based on the needs of individual learners. But all the funding (i.e. to include all High Needs place funding) would be allocated to LAs through the formula-based High Needs allocation with LAs, in consultation with Schools Forums and local providers, having discretion to vary place numbers. This removes the cost and bureaucracy associated with the current process, including 'exceptional needs' cases, managed through the Education Funding Agency (EFA), and enables local authorities to commission provision flexibly.

Consideration is required around regional specialist setting place numbers which attract pupils from a number of local authorities and the financial impact on the host LA for the place (£10k) costs.

6. The Early Years Block

F40 has concerns that the current national Early Years funding envelope is already insufficient to deliver the existing entitlement to two, three and four year olds whilst recognising the continuing increase in numbers and costs to providers. Following the government commitment to extend the free entitlement to 30 hours for working parents there is further uncertainty as to the ongoing sustainability within the sector including the requirement for providers to meet the cost of the national living wage. Although there has been a commitment to an extra £1 billion per year by 2019-20 for childcare, including £300 million for a significant uplift to the hourly funding rate paid to providers, increasing the national average hourly rate from £4.56 to £4.88, there is a risk that this will still not be sufficient in some areas.

Ideally, we would have liked to have presented more detailed proposals for Early Years, but this has not been possible because, at the time of writing this paper, the DfE has not provided appropriate data as to how the extra funding will be allocated and assumptions around the take-up of the extended 30 hours entitlement to make a considered proposition.

However, we have developed some temporary proposals for the Early Years block, based upon providing the average rates announced in early December 2015 for funding local authorities, but due to the anomalies in the resulting distribution will require further work

to consider the interaction of the pupil premium on both the 2 year old and 3 and 4 year old rates paid.

The formula in our interim model is based on the number of 2 year olds, and 3 and 4 year olds, on the census data, via a flat rate per pupil. We are conscious that the pattern of Early Years provision varies widely across 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.

The formula allocates:

- A flat rate amount for:
 - Each 2 year old on roll
 - Each 3 or 4 year old on roll

In theory, we believe the allocation for 2 year olds should be weighted by 1.2 times. This reflects the approximate actual balance of costs given the likelihood that many children will be in mixed groups. However, the allocations provided to meet the average rates paid as announced do not meet this weighting.

- An allowance for deprivation. This allocates 3% of the national total using the number of 3 and 4 year olds qualifying for the Early Years Pupil Premium (EYPP). The model is consistent with the approach taken for mainstream schools. This allows an individual deprivation hourly supplement to be calculated for each local authority. All current qualifying 2 year olds meet deprivation criteria so a single hourly rate is applied for all 2 year olds

Funding EYPP has been included in the f40 model in the way that the Pupil Premium has been included in the announced average rates. However, this is now inconsistent with the Schools Pupil Premium.

As for the Schools and High Needs blocks, area costs are added using the hybrid method.

There is no allowance for SEN in these figures and Early Years SEN will need to be considered as part of the High Needs block

7. Other School Funding Issues

We recommend that the allocations for EAL, deprivation and low prior attainment 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 LA level for all schools and academies.

We feel it is vital that the formula should apply to all maintained mainstream schools and academies in exactly the same way and on the same funding year. Our preference would be 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 has been a 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.

The school funding system should be cost-effective to administer. All allocations to schools and academies should be administered by the LA as this would remove the costly and bureaucratic formula replication (i.e. recouplement) undertaken by the EFA. Local authorities must manage the whole system to enable the required flexibilities to take account of all the individual circumstances that exist. If LAs are left to 'manage' the difficult elements of school funding such as premises, high needs costs and pupil growth, they will need to have complete oversight of the funding system to utilise flexibilities to support schools in their area. It will not be possible to reduce every element of school funding to a formula and it will not be possible for LAs to commit to maintaining small elements of the system that the DfE considers too difficult – the losers will be schools that are already managing different arrangements for a variety of reasons and this will make those arrangements even more difficult to manage.

8. 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 that are already comparatively well-funded, whilst some very low funded authorities have received little or no increase.

Our very strong view is that the changes we propose here for the Schools block should be implemented for 2017-18, alongside a formula based approach to the High Needs and Early Years 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 DSG 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 MFG, 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.

We propose the following specific transitional arrangements on the total level of DSG allocated to local authorities:

- Year 1 – no LA loss greater than 3%;
- Year 2 – no LA loss greater than a further 3%; and
- Year 3 – Implement full formula allocation.

We recognise that the loss in year 3 for some authorities will be too large to effectively manage and request the DfE consider identifying some additional transitional funding to smooth the process over a longer period.

We anticipate the above could be financed by re-deployment of funding to be released by the ceasing the transitional protection afforded to some academies, alongside any further efficiencies found by the DfE. LAs should have discretion to operate a MFG at a level that suits their particular circumstances in agreement with Schools Forum, but no higher than 0% per pupil and no lower than the nationally prescribed transitional rate.

9. In Conclusion

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 2017-18.

f40

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Appendix

Technical Note – f40 Formula Factors for the Schools Block

The following notes set out how the formula has been derived.

1. **The Basic Entitlement, formerly known as the AWPU (Age weighted pupil unit – an amount per pupil in the school)**

The basic pupil entitlement is constructed for Key Stage 1/2, Key Stage 3 and Key Stage 4 using assumptions on:

- Teaching group sizes
- Teacher contact time, including an allowance for planning, performance and assessment (PPA)
- Teaching assistant time
- Absence through sickness, maternity etc.
- Leadership costs
- Non class staff costs
- Resources
- Exam fees (Key Stage 4 only)

Pupils are funded by their key stage and not the type of school they attend. So primary-aged pupils in middle schools will be funded for using primary factors, and secondary-aged pupils will be funded using Key Stage three factors. The same applies for pupils in all-through schools.

We calculated a basic entitlement value for each key stage of education (KS1-4) based upon known or estimated costs using published teachers' pay scales, benchmarking data or professional experience.

Perhaps the biggest assumption in this was assumed class sizes of 29 in primary phase, 22 in Key Stage 3 (years 7-9) and 19 in Key Stage 4 (years 10-11). These numbers are based upon the average class size needed at each age. It might be suggested that for the primary sector we should be using 30 to match the infant class size legislation which states that no infant may be taught in a class of more than 30 where the majority of pupils in the class are age 6 or under. But there are occasions in a school life where it is necessary to teach children in smaller classes for some of the time and 29 is a reasonable average.

For secondary schools whilst a cohort entering the school is likely to be a multiple of 30, it is not possible to teach all lessons in groups of thirty. At Key Stage 3 schools often need to stream pupils for some academic lessons and create smaller classes, many schools don't have science or DT (design and technology) spaces that are capable of taking a group of 30 pupils at once (either physically or safely). When you average out the amount of time pupils spend in smaller classes across the whole curriculum an average class size of 22 is the norm.

At Key Stage 4 we have all the same issues that are there at Key Stage 3, but with the added complication of subject options for GCSEs. Schools need to offer a breadth of choice to cover the likely life paths of pupils in the future and this brings the average class size down to 19.

The class size and education in England evidence report¹ shows that in 2011 primary classes were on average smaller at about 26.5 and for secondary schools (i.e. both Key Stages 3 and 4) were about 20.5. There is KS1, KS2 and whole school data from the 2014 census² which shows that the England Averages are KS1 26.8, KS2 26.9 and secondary schools 20.5

2. The Lump Sum

The model aims to meet the basic costs of a 'normal minimum' school size – defined as 60 pupils for a primary school and 600 pupils for a secondary school. We acknowledge that there are schools of below these sizes in many authorities; our expectation is that the additional cost of such schools in rural areas is covered by sparsity. Where sparsity is not an issue, our view is that the funding model should not subsidise uneconomic provision.

The elements of the lump sum are:

- The cost of a head teacher (Leadership Scale 10 for a 60 pupil primary school and Leadership Scale 25 for a 600 pupil secondary school).
- An allowance for the fixed costs of administrative staff, premises, ICT and supplies.
- In the case of primary schools, the cost of an additional half class. This reflects the difficulties that small schools routinely face in organising 7 year groups into a standard class structure. Very small primary school with age ranges mixed over more than 2 years, for example where year 3 pupils are being taught with year 6 pupils, will need this flexibility to ensure that the curriculum can be effectively taught to appropriate age ranges for some of the time.
- The lump sum for middle schools and all-through schools will be determined by the 'deemed' status of the school. In the majority of cases this will be as secondary schools. How those schools are actually funded will be for local discretion.

3. Sparsity

The majority of sparsely-populated rural areas incur additional costs due to the requirement to fund small necessary schools across all sectors. As such f40 is of the view that any national funding formula should include an allocation to recognise these costs. The f40 model distributes an initial allocation to local authorities based on population density, allocating funding to those with the lowest number of pupils per square kilometre.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/183364/DFE-RR169.pdf

² <https://www.gov.uk/government/statistics/schools-pupils-and-their-characteristics-january-2014>

However we do recognise that no single model can fully reflect the range of circumstances across local authority areas and as such there should be no restrictions on how a sparsity factor should be applied locally.

4. Deprivation

The deprivation factor seeks to reflect the additional needs of pupils from deprived backgrounds and uses free school meals (on the 'Ever 6' model) as a proxy indicator at a value of £1,500 per eligible pupil. The proposal is based on an assumption that the Pupil Premium will continue as a separate funding stream and at the 2014-15 level.

The above figure is in line with and in addition to the current Pupil Premium allocations and is broadly calculated on the following basis:

- £500 for the provision of a free school meal; and
- £1,000 for additional associated support costs

The declared aim of the Pupil Premium is to raise the attainment of disadvantaged pupils and close the gap between them and their peers. The government has been clear that Pupil Premium should supplement rather than replace existing deprivation funding.

5. Low Prior Attainment

The allocation aims to meet the cost of support for pupils with lower level SEN not covered by the Pupil Premium. The model allocates a flat rate sum for each eligible pupil. Eligibility is determined for low prior attainment as children who do not meet certain expected levels in the Early Years Foundation Stage (age 5) or at the end of Key Stage 2 (age 11) and is used as an indicator of high incidence SEN. This is not reflected in the 2014 MFL³ averages, but it was felt that having a similar rate for both phases was an investment in early intervention.

We are very concerned about the reliability and consistency of data being used to determine funding allocations under the current system in this area.

6. English as an Additional Language

The model replicates the existing DfE allocation through the MFL mechanism. This simply reflects current national averages. Whilst not being strictly needs-based we feel relying on current spending is acceptable in this instance - circumstances experienced by schools across the country vary widely.

³ A mechanism used by DfE for allocation of funding to local authorities. It takes the national average of funding historically allocated by local authorities through their formula for a selection of the allowable factors and uses this to fund all local authorities – this has the effect of bringing some local authority funding up to a minimum level. However not all factors that LAs use are included in the funding mechanism and so local authorities must have the discretion to not pay the exact level that they have received directly to schools. LAs must use some of the funding to pay for the additional factors that are allowable and have the discretion to use values as they and their schools forum see fit in the local context.

7. Table of Funding Rates

		£
Age-weighted pupil unit - Key Stage 1-2	Pupil numbers at census date	2,923
Age-weighted pupil unit - Key Stage 3	Pupil numbers at census date	4,034
Age-weighted pupil unit - Key Stage 4	Pupil numbers at census date	4,946
Deprivation	Free school meals (Ever 6)	1,500
Prior attainment – primary	DfE data	1,000
Prior attainment – secondary	Proportion not achieving level 4 in English and Maths at Key Stage 2	1,000
English as an additional language (EAL) – Primary	Minimum Funding Level for EAL3	466
English as an additional language (EAL) – Secondary	Minimum Funding Level for EAL3	1,130
Lump sum – primary	Allowance for fixed costs and curriculum support - see accompanying paper	101,823
Lump sum – secondary	Allowance for fixed costs and curriculum support - see accompanying paper	167,936
Sparsity	Based upon pupil density	n/a

8. Scaling

If scaling is required, the preferred method would be to scale back all factors except the AWPU and Lump sum. Our current calculation of this shows that a scaling factor in the region of 14.1% on deprivation, prior attainment and EAL would be sufficient. Sparsity, rates and PFI are assumed at current levels and would not be scaled back either.