



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

July 2015

## 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 2017/18.

f40 proposes a new model for distributing education funding in England from 2017/18 which retains the existing Dedicated Schools Grant (DSG) structure with three blocks: Schools, Early Years and High Needs. But the model allocates the funding available through a needs-based formula for each block, removing any reliance on historic spending patterns.

The government has provided an additional £390m in 2015/16 under the *Fairer Schools Funding* banner. f40 warmly 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 was flawed, in particular by being based solely on the Schools Block of the DSG.
- 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 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 formula for Schools Funding would minimise 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 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 DfE will need to provide clarity about what needs and outcomes each factor is seeking to address.

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 £93.9m DSG would be required. The modelling has assumed that this would be made available.

### 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.

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. (i.e Exceptional pupil growth as defined by the DfE).
- 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 (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.

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, 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 at a national level, 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 e.g. split sites
- shift funding between the three blocks
- agree any de-delegations from 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 Early Years Block**

The current national funding envelope is insufficient to meet the national funding policy to deliver the education free entitlement to two, three and four year olds before recognising the latest development to extend the free offer to 30 hours per week.

We have developed some temporary proposals for the Early Years block whilst we await any further national announcements.

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 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.

The formula allocates:

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

The allocation for 2 year olds is weighted by 1.2 times. This reflects the approximate actual balance of costs given the likelihood that many children will be in mixed groups.

- 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 excluded from the f40 model in order to ensure consistency with Pupil Premium for schools.

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

## 6. The High Needs Block

The DfE commissioned ISOS Partnership to conduct a research project on the funding for young people with SEN r. We warmly welcome this and following its recent publication the recommendation contained within it that the DfE should consider moving to a formula for the allocation of the high needs block.

We have not yet had the opportunity to digest and discuss the evidence within it and pending the publication of that research our model relied on the work undertaken by PriceWaterhouseCooper in 2009. Our view is that although that research needs to be broadened and updated, a formula 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.

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 local authorities through the formula-based high needs allocation with local authorities, 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.

## **7. 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 level for all schools and academies.

The school funding system should be cost-effective to administer. All allocations to schools and academies should be administered by the Local Authority, this would then remove the costly and bureaucratic formula replication (i.e. Recoupment) undertaken by the EFA.

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.

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 in due course.

## **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 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 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:

- 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 that gain from a formula approach to education funding should have discretion to operate a Minimum Funding Guarantee at a level that suits their particular circumstances, but no higher than 0% per pupil.

## **9. 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 2017/18.

f40

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**Technical Note – f40 Formula Factors for the Schools Block**

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

1. **The Basic Entitlement, also 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
- Exam fees (Key Stage 4 only)

All other pupil level costs are covered by a general allowance.

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 an AWPU 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.

Note needs adding in cross-ref to figures in spreadsheet.

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 & 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 report<sup>1</sup> shows that in 2011 Primary classes were on average smaller at about 26.5 and for secondary schools (ie both Key Stages 3 & 4) were about 20.5. There is KS1, KS2 and whole school data from the 2014 census<sup>2</sup> 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 headteacher (Leadership Scale 10 for a 60 pupil primary school and Leadership Scale 25 for a 600 pupil secondary school), less the funding generated by the core pupil entitlement (AWPU) for 60 or 600 pupils.
- An allowance for the fixed costs of administrative staff, premises 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

As an interim measure the model uses the current DfE methodology and values. Our view is that further research must be commissioned by the DfE to develop a mechanism that is appropriate to a range of local circumstances. We are convinced that there are additional costs in sparsely-populated rural areas and therefore conclude that the funding formula should include an element for sparsity. We are also convinced that no single model can fully

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<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/183364/DFE-RR169.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/183364/DFE-RR169.pdf)

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



reflect the range of circumstances across local authority areas. There should therefore 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 declared aim of the Pupil Premium is to raise the attainment of disadvantaged pupils and close the gap between them and their peers. Government has been clear that Pupil Premium should supplement rather than replace existing deprivation funding.

#### 5. High Incidence SEN/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 Special Educational Needs. This is not reflected in the 2014 Minimum Funding Levels<sup>3</sup> 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 Minimum Funding Level 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.

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<sup>3</sup> 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.

Table of funding rates

		£
Age-weighted pupil unit - Key Stage 1/2	Pupil numbers at census date	2,957
Age-weighted pupil unit - Key Stage 3	Pupil numbers at census date	3,969
Age-weighted pupil unit - Key Stage 4	Pupil numbers at census date	4,791
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	96,002
Lump sum - secondary	Allowance for fixed costs and curriculum support - see accompanying paper	145,435
Sparsity	As per current LA allocations	n/a