

# Consultation on school funding reform:

## Proposals for a fairer system

### Equality Impact Assessment

## Description of the policy

This is an interim equality impact assessment of proposals contained in *A consultation on school funding reform: Proposals for a fairer system* published on 19 July 2011. There will be a further analysis on final agreed policy and this will take into account what we learn from the consultation.

Most revenue funding for maintained schools is currently allocated through the Dedicated Schools Grant (DSG) to local authorities. This is a ring-fenced grant paid to local authorities. Local authorities then allocate this to schools using a local funding formula. Since 2006-07 the DSG has been allocated to local authorities using the Spend-Plus methodology, which is based on planned local authority spend in 2005-06 and uplifted each year. Schools with children known to be eligible for Free School Meals will also receive funding from central government through the separate Pupil Premium grant. Academies are funded by replicating the formula used for local authority maintained school budgets. Academies also receive additional funding for services which they have to provide which would be provided for maintained schools by the local authority.

The current funding system has a number of failings which means that it does not accurately reflect current needs. It is based on local authority characteristics dating back to 2005-06 and beyond, so is increasingly out of date. Also variations in funding policies at a local level means that similar needs, for example funding for deprivation, can be treated and funded very differently between local authorities. The Government's decision to mainstream many specific grants into the DSG for 2011-12 has simplified the process but overall it remains complex and difficult to explain and ultimately results in schools with similar intakes receiving very different levels of funding.

In March 2011 the Government launched the first phase of consultation on school funding reform. The March consultation - *A consultation on school funding reform: Rationale and principles* set out the case for reforming the revenue funding system and sought views on the principles underpinning a new funding system. The overall aim is a clear and transparent system for funding primary and secondary schools, including Academies. The intention would be to ensure that schools serving similar intakes would receive similar levels of funding while ensuring that the needs of different groups of children are reflected, such as children from historically under-attaining communities (most notably those from low income families). Responses to this consultation show there is strong support for funding reform.

The Government is now launching the second phase of its funding consultation - *A consultation on school funding reform: Proposals for a fairer system* which seeks views on options for reforming the revenue funding system. It is important that we take time to develop the new system and allow sufficient time for further consultation and time for schools and local authorities to plan before the reforms are implemented. We also need to consider carefully the right time to introduce the new formula and the consultation seeks views on this. Because of this, the current system for allocating the DSG will be retained for 2012-13.

The main change for 2012-13 is to the Pupil Premium arrangements, where we are seeking views on whether to extend coverage of the premium to include pupils previously eligible for FSM, in addition to those currently eligible. The options include extending the premium to those eligible at any point in the last three years or widening further to include those so eligible in the last six years.

The consultation concentrates on proposals for changing the system in the future. It covers options for the operation of a new formula, with the suggestion that the formula include basic amount per pupil, additional funding for deprived pupils, pupils who have English as an Additional Language, a factor for small schools and an Area Cost Adjustment. It also proposes:

- to allow some element of local flexibility over how money is allocated to individual schools;
- to continue to fund Academies on the same basis as local authority maintained schools; to continue existing arrangements for funding Free Schools, University Technical Colleges and Studio Schools to the end of the spending review period;
- to retain the local authority role in funding early education; to provide separate funding to local authorities for High Need Pupils, defined in Chapter 6 of the consultation document as those whose educational provision is more than £10,000 a year;
- to keep funding for the pupil premium separate from the DSG for the rest of the spending review period;
- to clarify the respective responsibilities of maintained schools, Academies and local authorities so that funding can be accurately targeted; and
- to allow local authorities flexibility to move funding between the four main funding blocks of Schools, Early Years, High Need Pupils and Central Services.

There will be further consultation on the proposed details of the new funding system before it is implemented.

### **The evidence base (the information on which you have based your analysis)**

The analysis was conducted by the Department's Infrastructure, Funding and Longitudinal Analysis Division. The main data sources used were the School Censuses, Section 251, Out-Turn and NPD Extracts.

In addition, relevant publications are:

- Review of the distribution formula for DSG – Strand 2:High Cost Pupils - PriceWaterhouseCoopers 2009
- A consultation on school funding reform: Rationale and principles – DfE consultation document March 2011
- An analysis of the responses to the March 2011 school funding consultation, which is published alongside the current July 2011 consultation document.

## What the evidence shows – key facts

### (i) Case for funding reform

The case for reforming school funding is set out in the March 2011 consultation document - *A consultation on school funding reform: Rationale and principles*. Annex A to this document details the main failings of the existing system, namely that it doesn't accurately reflect current need, that there is too much funding variation as schools with similar characteristics can receive significantly different levels of funding and that it is not responsive to changing needs.

The charts in Annex A are based on an internal analysis, using 2010-11 Section 251 funding returns and January 2010 Annual School Census data, and show (i) that schools with a higher proportion of FSM pupils, which would be expected to have higher levels of funding per pupil, can receive less funding per pupil than schools with a lower proportion of these pupils; (ii) significant variation in funding between similar primary and secondary schools, (iii) that funding for deprived pupils in the current spend plus system is not always well targeted and that deprived pupils across the country can receive different levels of funding; and (iv) that while all regions across the country have experienced changes in the number of pupils eligible for both Free School Meals and with English as an Additional Language since 2005, these changes will not have had been reflected in DSG allocations.

### (ii) Raising attainment and narrowing attainment gaps

Poverty is the strongest predictor of a child's future life chances and if the funding system is to promote equality of opportunity it will need to address the issues of children from low income families. Whilst attainment gaps between FSM and non-FSM pupils have narrowed in recent years, significant gaps remain. For 2010, in maintained schools non-FSM pupils continue to outperform FSM pupils at Key Stage 2 in English, mathematics and English and mathematics combined. Gaps are narrower in mathematics (16.9 percentage points) and greater in English (19.0 percentage points).

#### Key stage 2

Attainment between FSM v non-FSM pupils

	2010 attainment of Level 4 or above		
	FSM	Non-FSM	Gap
English	64.5	83.5	19.0
Mathematics	66.0	82.9	16.9
English and mathematics combined	55.8	77.1	21.3

The attainment gap between those in the most deprived and least deprived areas (based on pupil residence, deprived areas are defined by the Income Deprivation Affecting Children Indices) have narrowed but still remain. In English, mathematics, and

English and mathematics combined this year the largest narrowing has been in mathematics (down from 17.8ppt to 15.9ppt) and English and mathematics combined (down from 23.7ppt to 21.8ppt).

For key stage 4, significant attainment gaps remain at GCSE between FSM and non-FSM pupils.

- Overall, 57.8% of FSM pupils attained 5 or more GCSEs or equivalent at A\*-C, up from 48.9% in 2009. This compares to 78.4% of non-FSM pupils.
- 30.9% of FSM pupils attained 5 or more GCSEs or equivalent at A\*-C, including English and maths, up from 26.6% in 2009. This compares to 58.5% of non-FSM pupils.
- The attainment gap between those in the most deprived and least deprived areas (as defined by the Income Deprivation Affecting Children Index (IDACI)) narrowed in relation to the percentage of pupils attaining 5 or more GCSEs or equivalent at grades A\*-C, including English and maths. The gap narrowed from 38.9ppt in 2009 to 35.8ppt in 2010.

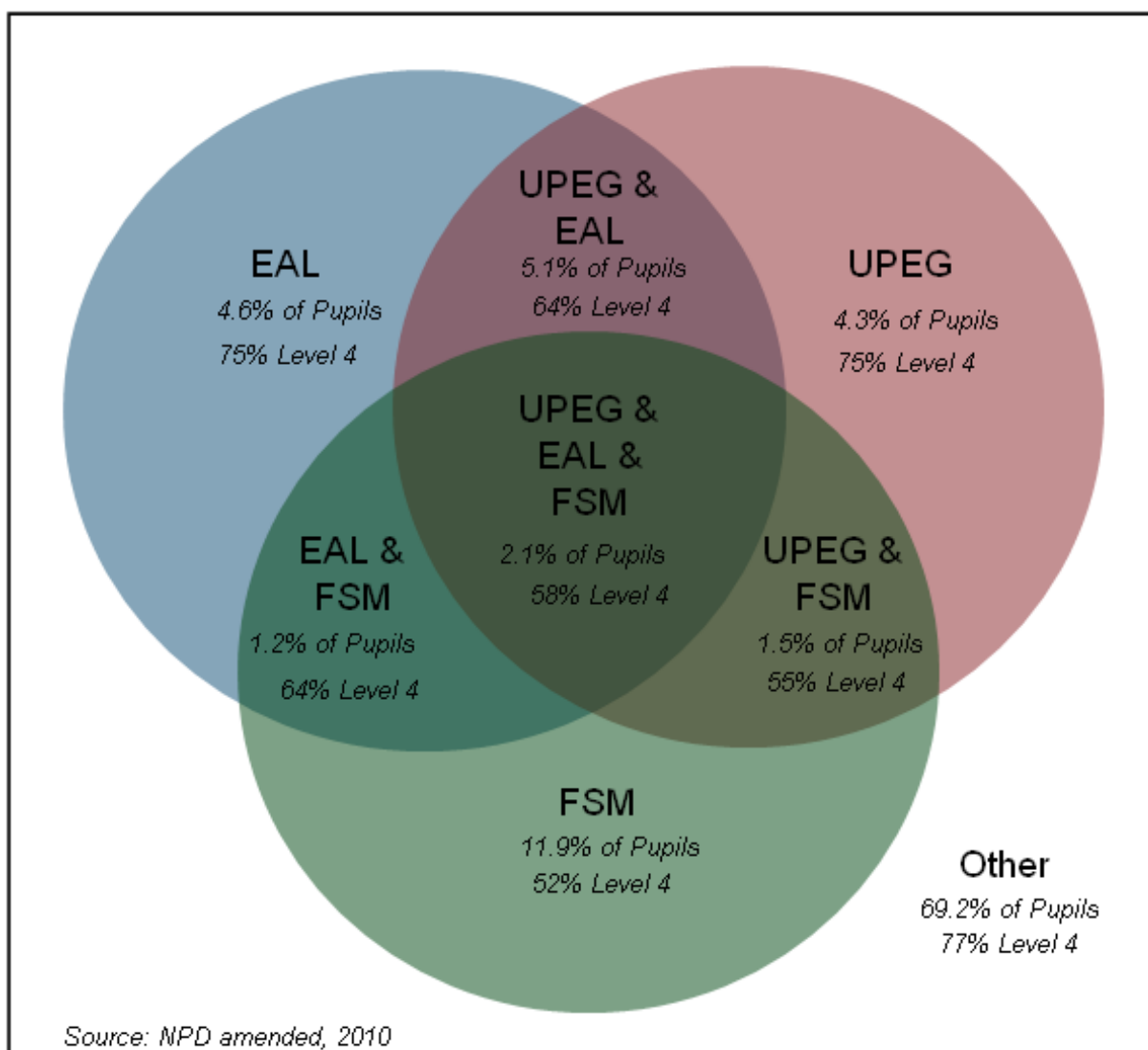
### **Attainment by group, including ethnicity**

We also need to consider what other groups of pupils, in addition to deprived pupils, might need additional support and therefore funding to help them achieve. The Spend-Plus methodology does not provide funding for specific factors, such as deprivation, or for groups of pupils, such as underperforming ethnic groups. The formula that was used to fund local authorities in 2005-06 did, however, include a factor for the secondary block only to reflect the proportion of pupils in low attaining ethnic groups. This would have reflected the groups shown to be underperforming in secondary education back in 2005-06 which, like other aspects of the existing system, will not reflect current needs. No ethnicity factor was included for the primary block where an English as an Additional Language factor was seen to better reflect the additional needs of primary pupils.

Further internal analysis has been undertaken to help identify what further factors of underachievement there are at Key Stages 2 and 4 to assess whether these need targeting through the funding formula. This is set out in more detail in Chapter 3 of the accompanying consultation document - *A consultation on school funding reform: Proposals for a fairer funding system*.

Chapter 3 sets out the position for pupils with English as an Additional Language (EAL) and pupils from Under Performing Ethnic Groups (UPEG). At Key Stage 2, pupils who only have EAL or who are from an Under Performing Ethnic Group achieve almost as well as pupils who do not have any additional needs (both groups 75% achieved Level 4 in English and Maths compared with 77% for all other pupils).

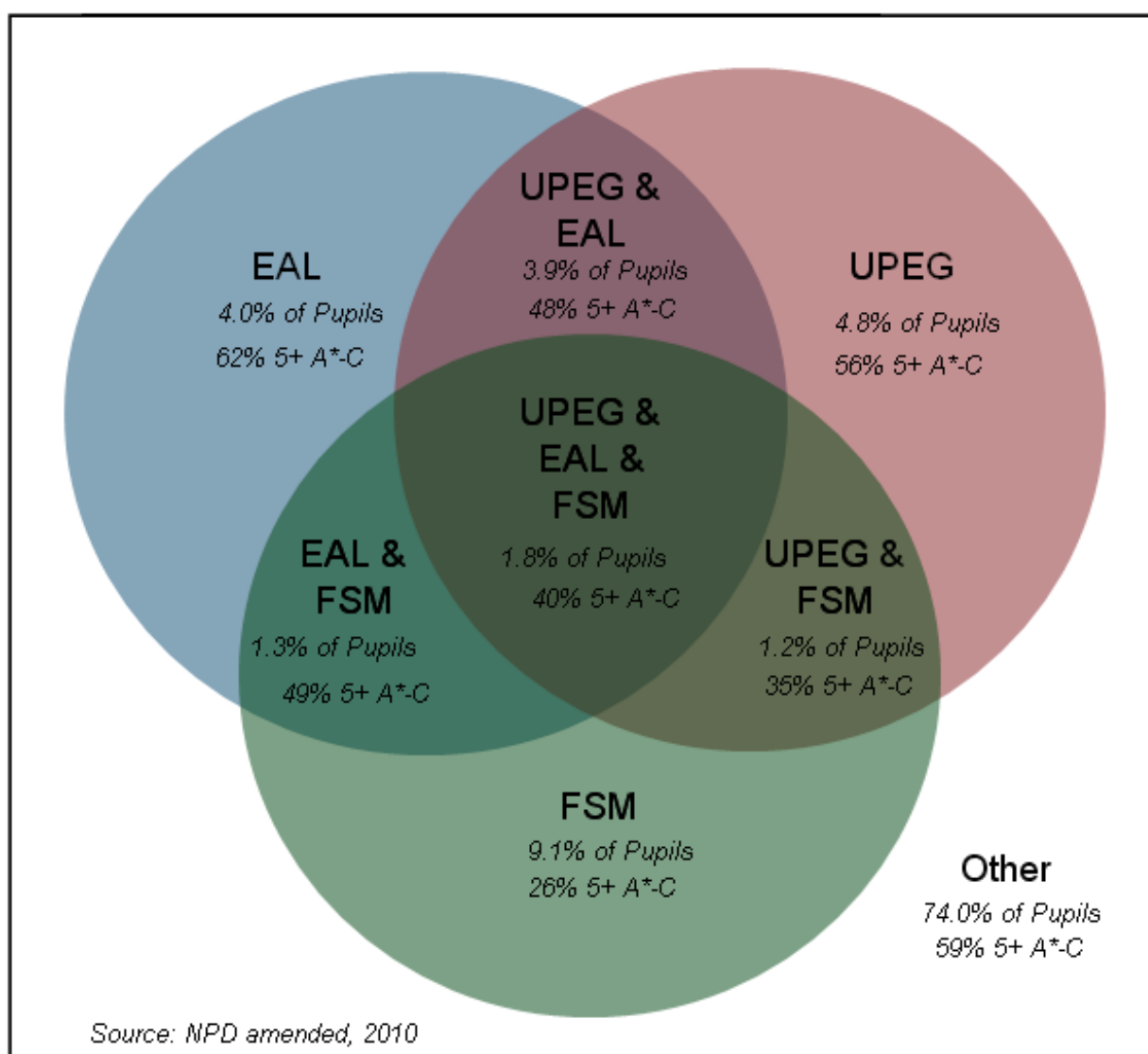
## Key Stage 2



The table represents 412,000 pupils for which Key Stage 2 attainment data is available. The national average for Level 4 in English and Maths is 73%. The diagram displays the proportion of pupils in each sub group, and the percentage that achieve level 4 at Key Stage 2 in English and Maths.

At Key Stage 4, pupils who only have EAL perform better than pupils with no additional needs (with 64% achieving at least 5 A\*-Cs including English and Maths compared with 59% for all other pupils). Pupils from Under Performing Ethnic Groups however achieve slightly less well, with 56% achieving the same grades compared to 59% for all other pupils).

## Key Stage 4



The table represents 569,000 pupils for which Key Stage 4 attainment data is available. The national average for 5+ A\*C including English and Maths is 55%. The diagram displays the proportion of pupils in each sub group, and the percentage that achieve 5+ A\*C GCSEs including English and Maths at Key Stage 4.

The analysis at both Key Stage 2 and Key Stage 4 shows that underperformance for pupils in either of these groups is mainly related to deprivation rather than having EAL or being part of an underperforming ethnic group.

However, pupils who cannot initially speak English will often require some additional short term support to help develop the language. Deprivation is not necessarily relevant and such children tend to go on to achieve well.

## Disability – mainly those with Special Educational Needs

Children identified as having a Special Educational Need are more likely to have low levels of educational attainment.

Key Stage 2	%age of pupils achieving level 4 or above, 2010				<b>Gap (non-SEN – All SEN)</b>
	Non-SEN	All SEN	SEN without a statement	SEN with a statement	
English	92.6	44.3	48.5	17.2	<b>48.3</b>
Mathematics	91.0	48.2	52.5	20.0	<b>42.8</b>
English & mathematics	87.2	33.4	36.6	13.2	<b>53.8</b>

Key Stage 4	%age of pupils achieving 5 + A*-C including English and maths, 2010
Non-SEN	66.2
All SEN	20.2
SEN without a statement	22.6
SEN with a statement	7.3
<b>Gap (Non-SEN – All SEN)</b>	<b>46.0</b>

Data also shows that there is a significant overlap between children who are both eligible for FSM and have SEN. In 2010:

- primary pupils with SEN but without statements were more than twice as likely to be eligible for FSM (30.5%), as those with no special educational needs (14.2%). Those primary pupils with statements were almost twice as likely to be eligible for FSM (26.8%) as those without SEN.
- secondary school pupils with special educational needs were more than twice as likely to be eligible for FSM (25.9 % for those with special educational needs but without statements and 24.9 % for those with statements), compared to those with no special educational needs (11.0 %).
- Pupils with statements at special schools were most likely to be eligible for Free School Meals, where 33.7 % of pupils were eligible.

It is clear that targeting additional funding through the DSG formula and the Pupil Premium at deprived pupils will disproportionately benefit pupils with SEN at a national level. However, because the definition of SEN varies significantly at local level it would not be a robust or fair measure to include in a national funding system.



Pupils with SEN will sometimes have high cost needs not related to deprivation and any funding formula will need to have regard to these needs. The previous funding formula which was introduced in 2003 included a High Needs block. The formula for it was based on resident child population, (because responsibility lies with the home authority), income support to reflect deprivation, and low birth weight.

In 2009, PricewaterhouseCoopers carried out research for the Department on the costs of high need pupils in mainstream schools and links between high needs pupils and factors for reflecting them adequately in a funding formula (proxy indicators). The main finding was that the incidence of high need pupils appeared to be much more random than had originally been thought. The research also suggested that 66% of pupils with Statements of SEN and 7% of pupils recorded as School Action Plus were high cost although this may not be representative for every local authority because of varying statementing and recording practices.

An analysis of which indicators might accurately reflect the incidence of high need SEN pupils by local authority suggests that the rate of Disability Living Allowance claimants aged under 16 and the population size of 3-15 year olds provides the strongest link with the location of high need pupils

### Gender and educational attainment

Both boys and girls with FSM achieve less well than their non FSM peers, with FSM and non FSM boys achieving lower levels of attainment than their female counterparts.

Key stage 2	% of pupils achieving level 4 or above, 2010					
	FSM			Non FSM		
	Boys	Girls	Gap	Boys	Girls	Gap
English	58.4	70.8	12.4	79.3	87.9	8.6
Mathematics	66.6	65.4	-1.2	83.1	82.8	-0.3
English and mathematics	52.6	59.1	6.5	74.7	79.6	4.9

Key Stage 4	% of pupils achieving 5+A*-C including English and maths, 2010		
	FSM	Non FSM	Gap
Boys	27.8	54.7	26.9
Girls	34.2	62.4	28.2
All pupils	30.9	58.5	27.6

While the FSM/non FSM gap in attainment for both boys and girls is significant, 27.6% on average at key stage 4, the difference in the attainment gap between boys and girls is small.

This indicates a need for additional support for deprived children, whether male or female. Given that the distribution of boys and girls across the country is even, it is for schools to consider how best to use their resources to support boys' attainment. It would not be sensible to have a gender factor in the main formula.

## **Engagement and involvement**

Discussion on school funding reform have been held mainly with the following two groups:

School Funding Implementation Group - which includes representatives from schools, local government, teacher unions, school leader associations, Academies, school business managers and the Special Educational Needs Consortium.

Ministerial Advisory Group on the Roles of the Local Authority – which includes representatives of local government and schools, including Academies.

High Need Pupils Consultative Group – made up of representatives from local government, SEN education organisations (maintained and non-maintained sector), LLDD sector and alternative provision education organisations

We are also consulting on school funding reform which is open to all:

- A consultation on school funding reform: Rationale and principles – March 2011
- A consultation on school funding reform: Proposals for a fairer system – July 2011

Conferences:

There has been regular discussion on funding reform at the six monthly National Fair Funding Conferences attended by local authority finance officials. The last one was in May 2011.

Departmental officials attend regional meetings of LA Finance Officers on a regular basis.

## **Challenges and opportunities**

The challenge is to fund schools fairly, using a simple and straightforward formula, so that schools with similar characteristics receive similar levels of funding, while having regard to the differences in the cost of employing teachers across the country.

It is particularly important in a tight fiscal climate to have a school funding system that is equitable, fair and transparent. If schools are to allocate resources effectively then it helps to have clarity about how their budgets are calculated and to know that they are based on an accurate assessment of need for the schools across the country.

It is also important that the funding system is able to promote equality of opportunity for all pupils and that the impact of the groups protected under the Equality Act 2010 has been considered. The elements of the formula of particular importance to promoting equality of opportunity are:

- how to allocate funding for deprivation, given the very strong link between poverty and educational attainment;
- how to consider the needs of pupils with additional educational needs that are not deprivation related, more specifically for pupils with SEN or EAL needs or from underperforming groups;
- what flexibility to allow at the local level to enable local authorities to continue to reflect local issues.

## **Equality analysis**

### **2012-13**

We consider that the changes for 2012-13 should have a positive impact on equality issues. As the method of allocating the DSG is not changing, the main difference will be to the arrangements for allocating the pupil premium. Extending the coverage of the Pupil Premium to include those previously known to be eligible for FSM should help address one of the concerns that current FSM eligibility is not picking up all those pupils from poorer families that might need additional support. It will ensure that more pupils from low income families, who are most likely to underachieve, are included.

### **2013-14**

The assessment for 2013-14 is based on the options outlined in the current school funding consultation. Final proposals, determined after consideration has been given to the responses to this consultation, will be subject to further consultation and a further impact assessment. We expect the proposals outlined in this consultation to have a positive impact on promoting equality of opportunity. As the March school funding consultation has shown, the existing system does not accurately reflect current need and a new system, which is able to reflect current characteristics, should allow for the better identification and targeting of funding to current needs.

Whilst deprived pupils are not a protected group under the Equality Act 2010, deprivation is the strongest predictor of lower attainment. The funding reforms should promote equality by reflecting pupil characteristics, including deprivation, more accurately. The document proposes a range of options for reflecting deprivation through the formula, based on more up to date needs, and the intention is to maintain the level of deprivation funding currently passed on to schools through main school funding and to add the Pupil Premium on top. There is also an option to include an EAL factor to meet the short term needs of pupils with specific language needs not related to deprivation.

We have concluded that the issues for pupils from underperforming ethnic groups as a whole are strongly linked to deprivation or EAL issues, which can be addressed through the proposed deprivation and EAL factors for the formula. The Department will continue to look at the specific needs of the small number of groups, such as for Gypsy, Roma and Traveller of Irish Heritage, where underperformance is unrelated to deprivation or EAL to consider whether separate, more targeted action is needed.

The funding formula should support the needs of High Need pupils and ensure that decisions on placements are made on the basis of their needs, not costs. The funding system should ensure a level playing field and the consultation document puts forwards proposals to achieve this.

For High Need pupils, many of whom have low levels of attainment, research has shown that the needs are not specifically linked to deprivation and the use of Disability Living Allowance rather than more deprivation related factors in allocating funding for High Need pupils should again result in better targeting to need at local authority level. Allocation of funding to meet individual pupil needs within each local authority will continue to be made by local authorities in conjunction with schools.

Finally, the intention to retain some local flexibility in the allocation of funding to schools should allow for local needs and circumstances to be addressed. Proposals will allow local authorities to retain central funding for maintained schools in respect of support for minority ethnic pupils and underachieving groups and the supply costs of long term sickness and maternity cover. This flexibility will enable local authorities, if they wish, to support schools for their actual costs of supply cover when a woman is on maternity leave.

### **Next steps**

Consultation on reforming school funding will run for twelve weeks, finishing in October 2011.

There will be further consultation in 2012 on the detailed proposals for funding schools in 2013-14. Before setting these proposals, consideration will be given to the responses to this consultation.

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