

## Education Funding

*(By 2020)...Schools are now funded sufficiently, equitably and sustainably. In the period before 2015, school funding was distributed inequitably. Some schools and groups of schools faced financial failure. The new government acted quickly in 2015 to work with the profession to develop and implement a national funding formula, which included weighted funding for disadvantage, was equitable at the point of delivery, sufficient and sustainable. It was not easy – there were winners and losers – but it was done fairly and it was carefully planned and implemented over a three year period.*

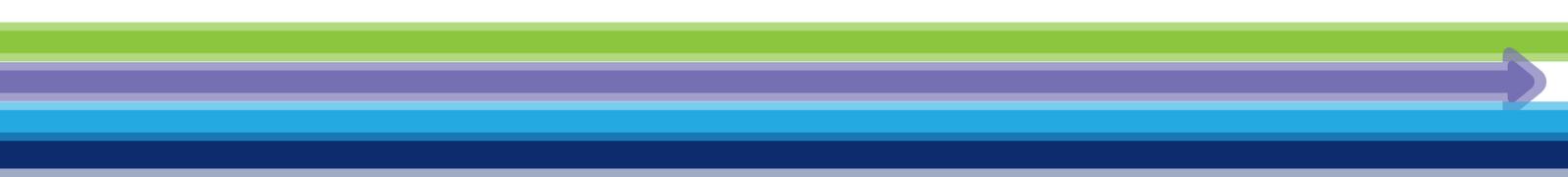
Extract from ASCL's *Blueprint for a Self-Improving System*

### First principles

- 1 The overall national education budget should be set such that all educational institutions can be funded at a level that enables them to provide an outstanding quality of education for their students. Within this overall budget the capital allocation should be sufficient both to provide additional school places to meet the demographic demand and to ensure that the existing building stock is maintained at a good standard including the replacement or refurbishment of substandard or unfit for purpose accommodation.
- 2 The distribution of the national education budget to educational institutions should be sufficient, sustainable and equitable, including access to capital allocations.
- 3 An individual school or college budget allocation should be transparent and predictable to enable effective strategic financial planning by educational institutions.
- 4 A national fair funding formula should take into account the needs of educational institutions and their pupils. This should not be predicated on the historical way in which funding is allocated.
- 5 A fair funding formula is not about creating winners and losers – it is about sufficiency and establishing an equitable base level of funding.

### Analysis of the current system

- 6 Schools are funded on the basis of a formula in which the factors are now determined by government. The existing secondary formula with the national average amounts allocated for each in 2015-16 are given in the appendix.
- 7 There is no rationale behind the schools formula that is linked to any notion of what it costs to educate a child at the different stages of their school career. This has resulted in wide and indefensible variations in the amounts allocated to fund the education of children depending on where they happen to live.



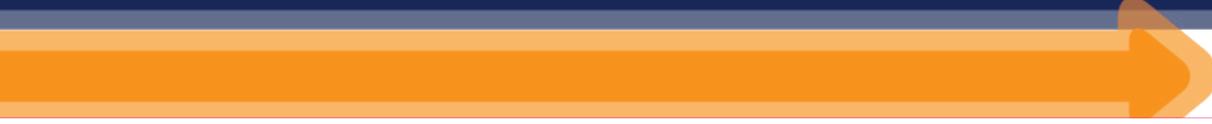
- 8 There is a variation of around £3,000 between the per-pupil funding in the lowest and highest funded authorities, with the lowest funded authorities tending to be rural shire counties. It is perfectly possible for pupils in similar schools on either side of a local authority boundary to be funded at radically different levels.
- 9 This lack of equity has been recognised by the government with a manifesto commitment to move towards fairer funding, though not necessarily a national fair funding formula.
- 10 As part of the process of moving towards a 'fairer' system, local funding formulae have been drastically simplified. For 2015-16, an additional £390 million was given to the lowest funded authorities. Although LAs are not required to allocate these average sums to their schools in the same way, it does lift the basic per pupil funding to enable this to happen if they so determine. This adjustment has gone into the baseline funding of education in England for 2015-16.
- 11 We regard these changes as being a significant step towards improving the system, but recognise there is much more to be done.
- 12 The inclusion of the additional £390m in the baseline from 2016-17 will be a decision for the Secretary of State. It would clearly create additional difficulties if this funding is not aggregated into the baseline for future years as schools in the local authorities affected would have to manage a reduction in funding, which in some cases would be of a significant level. In ten authorities this reduction would most likely be 5 per cent or more in cash terms.
- 13 The same historical spend basis is used to allocate high needs funding to local authorities. This is used to fund complex and additional special educational needs provision. This is also an issue that needs urgent action.

## **Post-16 funding**

- 14 There is already a national funding formula for 16-19 year-old students in schools and colleges. There are a number of institutions still receiving transitional protection as part of this formula but this ends completely in 2016-17.
- 15 The 16-19 year-old national formula is based on study programmes not the number of qualifications students are studying. Students qualify for different funding levels depending on which funding band the number of hours their study programme involves is in.
- 16 Funding for full-time 19 year-olds (that is, those in the third year of their study), is not funded at the full rate when they are on a full-time programme. They are funded at the 450 hours rate which is a 17.5 per cent reduction compared to the full-time rate.
- 17 The fundamental issue with funding for 16-19 year-olds is that the base funding rate is significantly too low at £4000 per full-time student. This is putting the financial health of many school sixth forms and colleges at risk as well as significantly impacting on their ability to deliver a high quality appropriate education.
- 18 The government has announced plans to provide a higher funding rate from 2016-17 for those students engaged in what are termed 'large programmes'. The funding for this essentially will come from the funds currently used for transitional protection.

## **Current pressures**

- 19 All schools and colleges are significantly affected by increased cost pressures directly resulting from government policy. Schools have been on a 'flat cash per pupil' funding rate for four years during which there has been general inflation and, for the last two years, a 1 per cent pay award to staff. From 2015,



schools are expected to fund not only further general inflation and another 1 per cent pay award, but a 2.38 per cent increase in employers' contributions to the Teachers' Pension Scheme from September 2015 and a 3.4 per cent increase in the main band of employers' National Insurance contributions from April 2016. This will have a serious impact on the quality and quantity of provision schools are able to offer.

- 20 These financial pressures apply equally to colleges.
- 21 Urgent action is therefore now critical, as this combination of flat-cash and unfunded increases in employment costs will mean that some schools will face the dilemma of either having to set a deficit budget or reducing to an unacceptable level the educational offer to their students in 2016-17 and beyond<sup>1</sup>.

## Education funding in a self-improving system – policy proposals

### For government

#### 22 Set the overall national education budget at an appropriate level

The overall education revenue budget must be set at a level that ensures all schools and colleges have sufficient funding to provide an outstanding education for all their students by enabling them to plan strategically to:

- employ and develop the best quality teachers and support staff
- continue to develop the quality of their teachers and support staff
- provide a broad, balanced and enriching curriculum for all their students
- maintain and service their buildings to a high standard

#### 23 Develop and introduce a national funding formula

The national funding methodology should ensure that all pupils wherever they are in the country have equal opportunity to access a high quality of education. The funding methodology should be sufficiently responsive to differing levels of need (as expressed through deprivation and prior attainment) so as to provide schools with the level of resources to enable them to close the attainment gap.

- 24 The government should seek a better proxy indicator for deprivation and should incorporate Pupil Premium in a single minimum funding level for deprivation. The national funding formula must ensure that early years' provision is funded on an equitable and sustainable basis and that high needs funding is allocated on a formula basis.
- 25 The national funding formula should maintain the existing formula factors and enable some flexibilities at local level to allow for transparent and accountable local decision making about funding levels for each factor to reflect local and demographic needs including special educational needs. A role for local authorities and schools forums as accountable bodies should be retained. As a safeguard, all schools should be funded to at least a set minimum per pupil funding rate which the authority would have to meet for all its schools.
- 26 Any re-distribution of education funding is potentially disruptive and therefore there will be a need for transitional protection over three years.

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<sup>1</sup> ASCL has budget projections from several regions gathered from individual schools – available on request

## 27 **Increase the level of post-16 funding**

Discussion of a national funding formula for education must include the funding methodology and level for 16-18 year olds. It is our strong contention that post-16 provision in schools and colleges is substantially at risk at the current level of funding. Post-16 funding leads the way in being distributed through a national funding formula. The major flaw is not in the funding methodology, but in the insufficiency of the national funding rate.

28 As well as a general increase in the quantum, a sparsity factor should be included in the post-16 funding formula. Small but geographically necessary school sixth-forms in rural areas are particularly vulnerable. A sparsity factor would address this.

## 29 **Set a significant budget for capital expenditure**

The government should set the capital allocation at a level that ensures that there is sufficient capacity to meet the increases in pupil numbers and that there is adequate funding to replace or refurbish buildings that are unfit for purpose. There should be arrangements for regional strategic planning for places to ensure that new educational buildings are only built in areas of demographic need. Capital funding should be allocated on a needs led basis using a reliable and current data set of demographic requirements and building condition. Regional strategic planning authorities should be required to consult their LA schools' forums for their capital programme proposals in order to improve transparency and accountability.

## 30 **Fund special educational needs on an equitable and sustainable basis**

Special educational needs and disability (SEND) funding should be allocated on a formula basis that correlates to SEND needs. High needs should be funded on a formula basis, in combination with place funding for specialist and alternative provision. It is noted that proposals resulting from the ISOS research as to the most effective distribution model are pending.

## 31 **The same funding year should be used for all schools**

The current arrangements by which different types of organisations have different financial years should be adjusted to bring the financial year for all institutions into alignment.

## 32 **Funding settlements should be set for a three year period**

In order to support sound financial planning and strategic management, settlements should be made for a three-year period to coincide with the consistent financial reporting (CFR) cycle.

## **For government and the profession**

### 33 **Develop high quality training programmes on strategic financial planning**

Particularly in this time of significant financial constraint it will be essential that members of school leadership teams are fully trained in strategic financial planning and management. The profession should take the lead in developing appropriate training programmes and materials. Similar programmes should also be developed to support the work of governors in their strategic financial role. To achieve this there will, initially, need to be government support.

## **For the profession**

### 34 **Ensure that schools are run efficiently and cost effectively**

School leaders will need to ensure that their schools are run well in terms of financial efficiency. There should be regular efficiency reviews to determine whether there are ways of operating more cost

effectively and that there is a close association between the core purpose of the organisation and leadership, management and staffing structures. Schools will need to work together through collaborative arrangements to ensure they are achieving efficiencies through economies of scale and organisational change.

## Appendix 1

This appendix sets out in detail ASCL's proposals for improving the methodology by which schools and colleges are funded.

### Current methodology

- 1 The existing secondary formula with the national average amounts allocated for each in 2015-16 are given in Figure 1.
- 2 The only two factors that local authorities have to use for secondary schools are the Key Stage 3 AWPU and deprivation (either FSM, FSM6 or IDACI<sup>2</sup> or a combination thereof).
- 3 There is no central prescription as to the amounts assigned to each factor.
- 4 Central government allocates an amount per pupil to the local authority (LA) multiplied by the number of pupils in the LA at the time of the October census.
- 5 LAs, in consultation with their schools' forum, decide which of the other factors are used and the amounts allocated to each. This allows for a degree of local targeting of funds towards local priorities, but also results in a wide variation between LAs in the amounts allocated to each factor.
- 6 The amount given to each local authority by central government to fund schools depends significantly on the historical amounts that each local authority was able to direct towards education.

Figure 1

Formula factor	MFL 15-16
KS1/2 AWPU	£2,880
KS3 AWPU	£3,950
KS4 AWPU	£4,502
FSM/FSM6	£1,052
IDACI 1	£289
IDACI 2	£379
IDACI 3	£470
IDACI 4	£554
IDACI 5	£614
IDACI 6	£819
Prior Attainment	£940
LAC	£1,004
EAL	£1,130
Lump sum	£125,155
Sparsity	£66,656

## Education funding in a self-improving system – proposals

### Funding methodology - early years and nursery provision

- 7 We propose that the early years block be distributed on the basis of the number of 2, 3 and 4 year olds on the census data. We are conscious that the pattern of early years provision varies widely across local authorities. 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, but be based on a per child rate.
- 8 We propose a weighting of 1.2 for 2 year olds. This would lead to hourly rates currently to be set at:
  - £4.68 for each 2 year old
  - £3.90 for each 3 and 4 year old

2 FSM – Free School Meals (FSM), FSM 6 any time in the last six years, IDACI – Income Deprivation Affecting Children Index

- 9 We would propose an allowance for deprivation using early years Pupil Premium data. This equals 3 per cent of the total sum.

### **Funding methodology – primary sector**

- 10 We broadly support a methodology for core funding of Key Stage 1/2 where a straightforward needs-led approach adequately covers the activities and functions in primary schools.
- 11 Our approach is based on a calculation of the base costs of having 29 standard learners in a classroom, taught by a teacher and supported by half a teaching assistant and provided with 10 per cent preparation, planning and assessment time. There would also be a leadership element in the calculation. These would generate a core entitlement amount for each pupil.
- 12 In addition there would be a lump sum calculated on the basis of additional head teacher costs, administration, premises, supplies and services. We would support there being a sparsity factor on the same basis as that currently used by the DfE.
- 13 Other pupil specific amounts would need to be quantified for deprivation, prior attainment and EAL.
- 14 We consider that the ‘high needs block’ should be generated by a combination of pupil numbers, deprivation and prior attainment.
- 15 This methodology would be used to generate funding levels per pupil and per school that are aggregated up to form the basis for each LA’s overall funding. LAs and schools forums would then have an element of local discretion about how they actually allocate funding to schools to take into account local factors through their formula. To ensure that all schools were funded at least at a basic level there would be a set minimum per pupil funding level which the authority would have to meet for all its primary schools.

### **Funding methodology – secondary sector (11-16)**

- 16 In developing an approach to appropriately funding the specialist requirements of a secondary school, three different sized secondary schools were used to test funding levels. These were set as a 608 student 11-16 school, a 939 student 11-16 school (the national average), and a 1452 student 11-18 school with 250 in the sixth form.
- 17 The methodology used was a principled needs-led examination of school costs. To establish the required funding, the activities and functions were detailed at small, average and large secondary schools which all have average characteristics for pupil, staffing and expenditure profiles.
- 18 Each was based on a typical curriculum model used by the different sizes of school with appropriate options choices at Key Stage 4 and 5. The number of classes set up in each year reflects the typical decisions made at secondary level for the size of school. These assumptions have been checked against the resultant pupil teacher ratios.
- 19 Teaching staff models have been created to efficiently provide the specialist teaching required for each curriculum model. The leadership and management structures have also been modelled to reflect those typically found in effective schools, with appropriate allocations of management and leadership time. The staffing profiles have been modelled around the national average teacher cost of £46,995, which aggregates the cost of leadership and management. It is noted that this would rise to £49,743 after the full increase in employment costs are taken into account in 2016-17.<sup>3</sup>

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3 Consistent Financial Reporting – method for centrally recording school expenditure

- 20 The modelling also created support staff and SEND staff levels for each school based on a combination of what the demand indicated and the 2013-14 school work force average data for the relevant size of school. NJC pay rates for support staff have been used.
- 21 The average 2013-14 CFR<sup>3</sup> expenditure levels for the non-staff related items for schools of similar size were used in these calculations, with the exception of staff development costs.
- 22 Staff development is a key issue going forwards for a self-improving system and the quality of the teaching in a school is the key determinant of educational success for its pupils. We have therefore built into the models sufficient professional development funding for £2,000 per teacher as an essential component in the cost model.
- 23 National averages for the relevant size of school for SEND, FSM, Pupil Premium and prior attainment were used and have been tested against low, medium and high levels of FSM as indicated in the December 2014 CFR data.
- 24 The modelling also allowed for the upcoming increases in employment costs<sup>4</sup> in 2015-16 and 2016-17 to test the sufficiency going forwards.
- 25 The models create the data given in figure 2.

Figure 2

	Number of teachers	Pupil teacher ratio	Average class size	Contact ratio	Staffing per cent of budget
<b>608 11-16</b>	<b>35.96</b>	<b>16.91</b>	<b>22.52</b>	<b>0.751</b>	<b>72.5%</b>
<b>939 11-16</b>	<b>56.96</b>	<b>16.49</b>	<b>21.36</b>	<b>0.772</b>	<b>77.3%</b>
<b>1452 11-18</b>	<b>81.52</b>	<b>17.81</b>	<b>23.12</b>	<b>0.770</b>	<b>75.5%</b>

- 26 These would appear to be efficient schools based on the data. Previous work done by ASCL has shown that academies rated outstanding by Ofsted are closely correlated with pupil-teacher ratios around 17 and an average class size smaller than 24. The model used should therefore allow for all schools to be sufficiently well funded to have the capacity to be able to achieve the highest levels of performance. These therefore appear as reasonable upper limits on pupil/teacher ratios and average class sizes.
- 27 Each model has been tested against a variety of funding levels in the existing formula and have the following sums (figure 3) have been calculated as being necessary to achieve a balanced budget with a small contingency of around 2-3 per cent in each case.
- 28 Although these levels are sufficient to cover the up-coming increases in employment costs, no assumption has been made about subsequent inflation of employment or other costs beyond 2016-17. They should therefore be regarded as baseline figures going forwards.
- 29 Deprivation set at the level shown (subsuming the Pupil Premium to avoid the potential for double funding) combined with prior attainment would, we calculate, be responsive enough to reflect the percentage of a school's intake with these factors even at very high levels and would allow for any fluctuation in numbers eligible.

3 Consistent Financial Reporting – method for centrally recording school expenditure

4 Increases in employers' contributions to Teachers Pension Scheme, National Insurance and pay rises

Figure 3

KS1/2 AWPU	£2,957
KS3 AWPU	£4,200
KS4 AWPU	£4,800
KS5	£4,800
Deprivation	£2,500
Prior Attainment	£1,000
LAC	£2,500
EAL	£1,000
Lump sum	£150,000
Sparsity	£100,000

30 We are aware of the issues associated with the current proxies used for deprivation and would welcome further work on deriving a more reliable indicator of need. In the meantime FSM6 is our least-worst proxy and has been used in our modelling.

31 We would continue the inclusion of a lump sum, particularly to support provision in small and necessary secondary schools. We also support the principle of basing it on a core of leadership and administrative support. The lump sum set at the indicated level for secondary schools gives sufficient flexibility to support the smaller school, whilst not significantly distorting the allocation through the age weighted pupil unit to larger schools.

- 32 The advantage of modelling the funding for secondary schools in this way is that the parameters on which it is based can readily be adjusted easily and the funding level checked against the three model schools.
- 33 As with primary schools this methodology would be used to generate funding levels per pupil and per school that are aggregated up to form the basis for each LA's overall funding. LAs and schools forums would then have an element of local discretion about how they actually allocate funding to schools to take into account local factors through their formula. To ensure that all schools were funded at least at a basic level there would be a set minimum per pupil funding level which the authority would have to meet for all its secondary schools.

### Funding methodology – post-16 sector

- 34 The post-16 methodology leads the way as a national funding formula. The major flaw is not in the funding methodology, but in the sufficiency of the national funding rate.
- 35 In order to arrive at a sufficient funding rate, a similar modelling process for the secondary sector (11-16) above was applied to 16-18 provision to determine the Key Stage 5 rate of £4,800 given in figure 3. This provides a typical academic programme in a school sixth form or college, including an appropriate programme of curriculum enhancement activities.
- 36 A national funding rate set at this level would support high quality study programmes across all providers and ensure that an appropriate range of A level and other level 3 and level 2 courses were being offered in schools and colleges. It is noted that most institutions offering 16-18 education have been forced to reduce the range of courses on offer on financial grounds despite a continuing educational demand.
- 37 It is noted that the financial failure rate amongst UTCs and studio schools is exacerbated by the inadequate funding generated by the current rate in small and specialist provision.
- 38 As well as a general increase in the quantum, a sparsity factor should be included in the post-16 funding formula, such that the additional costs associated with offering a viable programme to students in an area where they are not easily able to access alternative provision are recognised. This should be set using a maximum travel-to-learn time of two hours per day.
- 39 Similarly, no student should be disadvantaged through being unable to access post-16 education. Student support funding should be set at a sufficient level to enable economically disadvantaged students in rural areas to be able to access provision.
- 40 Where students are legitimately engaged in a programme that allows them to progress from a Level 2 through a Level 3 qualification over three years, institutions offering such provision should not be penalised

by a reduction in funding for the third year of a student's study.

- 41 A society which is serious about life-long learning and the concept of a self-improving workforce should not reduce the funding available to support adult learning. We are therefore also proposing a re-instatement of the adult learning funding to previous levels whilst a review of the funding on FE and adult education is undertaken.

### **Funding methodology – SEND and high needs**

- 42 Notional SEND funding is a difficult area for a number of reasons. Although implying that there is a separate budget to support students with SEND in schools, it is actually the identification of percentage amounts from different factors in the funding formula that are notionally available to meet their needs. Different local authorities choose to identify very different factors and percentages of those factors as contributing to notional SEND. This means that different schools have widely different levels of identified resource in their budgets to meet students' needs. We therefore think there should be a much stronger steer over the factors that should be deemed as contributing and that they should reflect the national average figure of 10 per cent.
- 43 There is a further degree of unfairness connected with SEND funding. This is related to the degree to which local authorities have moved sufficient funds from high needs into schools in order to meet the first £6,000 of need for students with SEND. Local authorities receive high needs funding on an historical basis that bears little relation to actual need, which means they have very different levels of resource with which to meet the demands of the new system.
- 44 We therefore strongly support the move to fund high needs block allocations on a formula basis, in combination with place funding for specialist and alternative provision.
- 45 We consider that the high needs block should be generated by a combination of pupil numbers, deprivation and prior attainment, with the principle weighting being pupil numbers.

### **Funding methodology – area cost adjustment (ACA)**

- 46 Provided it can continue to be shown that there are strong labour market reasons for doing so (given the freedoms over teachers and other school staff pay in recent changes), then we would also support an area cost adjustment on the hybrid model that will operate for the 2015-16 funding arrangements.

