School Funding and Social Justice

A Guide to the Pupil Premium

Sam Freedman and Simon Horner
Foreword by Julian Le Grand

policy exchange

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Foreword

By Julian Le Grand

In 1989 I jointly edited a book called Market Socialism. It was, I believe, one of the first from the left to distinguish clearly between the ends and means of attaining the progressive agenda. It pointed out that attaining progressive ends such as the promotion of social justice, the development of economic welfare and the preservation of individual liberties did not necessarily require the traditional socialist apparatus of large state bureaucracies, central planning and top-down command and control. Rather, if the conditions were right, the same ends could be met by methods and mechanisms not normally associated with the left, such as user choice, independent providers and quasi-markets. And the book put forward several ideas showing how this might be done.

One of these ideas was what I rather clumsily called the positively discriminating voucher. This was aimed at the problem that has haunted governments of all political persuasions: that of schooling for the poor and less well off. The idea was simple: that parents should choose their schools, that (public) money should follow the choice, and that part of that money should include a premium for children from poor families or areas. This would give the schools both an incentive to take such children and the extra resources to help with their education. Both social justice and educational efficacy would be served.

This idea lay fallow for a few years, but now – successfully retitled the pupil premium – it has moved on to the progressive policy agenda. As such it needed to be developed from simply a bright idea to a concrete policy proposal with the core principles properly examined and the administrative detail fleshed out. This, I am delighted to say, is exactly what Sam Freedman and Policy Exchange have done in this excellent report. They have shown the complexity of the existing system of school funding (one that probably needs some reform in any case) and have illustrated how difficult this can make headteachers' decision-making over resources. They have demonstrated how a pupil premium could work, using actual numbers and schools, both to simplify funding and to provide the extra resources for the children of the less well-off that the schools require if they are properly to meet those children's needs.

They have talked to headteachers to find out how the extra resources would be spent and the likely impact on their behaviour. And not only have they done all that, but they have fully costed the proposals and shown where the money might come from. Overall, this is a study of which any policy analyst would be proud.

The pupil premium is already supported by two political parties. It has yet to be endorsed by the Government, but I live in hope that this too will come. For, as Sam Freedman has demonstrated so effectively in this work, it is fundamentally a progressive idea, one that promotes both social justice and social efficiency - an idea that can appeal to all progressives, regardless of nominal political affiliation.

Executive Summary

The Theory

- Segregation between well-off and deprived communities remains a huge problem in the English education system. A "pupil premium" would see extra money attached to students from deprived backgrounds. Schools that take large numbers of such students would be better off, giving them some additional resources to educate children from more deprived backgrounds. If these resources were used successfully to boost attainment middle-class families would start to be attracted to the school, reducing segregation. Additionally, schools in wealthier areas might be incentivised to broaden their admissions criteria to attract higher value pupils.

- Both the Conservatives and the Liberal Democrats have announced their support for a pupil premium in principle. In theory it would help to alleviate the risk that their school choice reforms would increase segregation as new providers encouraged to enter the system would have an incentive to target more deprived areas.

- The current government has, so far, not taken up the idea. This may be because they are already diverting money to schools in deprived areas. However, this money is allocated in a labyrinthine way. There is no consistency between schools as each local authority has a different formula; there is only a weak relationship between changes in pupil population and funding due to unnecessary "stability" mechanisms imposed by central government; and the system of allocation is so complex that headteachers do not understand the reasons behind budgetary changes – which works against long-term planning and means that funding can never be used to incentivise behaviour.

Delivery

- For the pupil premium to work it has to be allocated through a consistently applied national funding formula. Each school should receive, for each pupil, a single base sum (different for primary and secondary), an area cost adjustment dependent on the cost of hiring staff in different areas and, if applicable, the pupil premium. The money should be paid straight to schools, bypassing local authorities.

- Currently local authorities "hold back" up to 20% of the money designated for schools by central government. This would no longer be possible if the money went straight to schools. Additional money would have to be allocated to local authorities to cover their expenses – but this should be standardised so only services that have to be provided centrally (like transport) are funded. This should free extra money for schools.

- One advantage of the existing system is that local factors can be taken into account when local authorities reallocate their schools' funding. It is essential that the mechanism for delivering the pupil premium is nuanced enough to take account of local differences in the context of a national formula. This rules out using the proportion of pupils receiving Free School Meals (FSM) as an indicator. This has typically been used as a proxy for deprivation, but is too crude a measure as it is based on just one income-based variable. We recommend using a "geodemographic"

classification like ACORN or MOSAIC which analyse individuals postcodes using 400 variables derived from the census and other sources but are relatively simple to understand. The MOSAIC classification is a better predictor of student performance than other proxies like FSM.

- We have developed a model of a pupil premium using MOSAIC, by grouping its 61 "classifications" into six types based on average GCSE performance. In our model the three lowest performing types would have extra pupil premium money attached to them. £500 for the third worst, £2000 for the second and £3000 for the third. Under this model 46% of students would receive some premium (a close match with the number that do not get 5 good GCSEs) – as opposed to just 14% under a FSM model. School-by-school analysis of the impact of this premium on funding indicates a much stronger correlation with actual performance than a premium based on FSM or existing allocations.

Cost and Value

- The pupil premium would cost an additional £4.6 billion on top of the existing "Dedicated Schools Grant" (which provides most of schools annual revenue). Given the significant increase in the Department for Children, Schools and Families (DCSF) budget over the past ten years and the current economic climate we think there is a strong argument that the premium should be funded through existing expenditure on education rather than through tax rises or other departmental budgets.

- A significant amount of this extra money could be covered by reassigning money given to schools, and local authorities, through additional central government grants: the School Standards Grant, the School Development Grant and the Standards Funds. These three together would cover up to £4 billion. The remainder of the money could be found by scrapping the £550 million Education Maintenance Allowance – a means-tested weekly payment of up to £30 for students in post-16 education. This has had a minimal impact on participation and attainment and will, in any case, become defunct once the education leaving age is raised to 18. Alternative sources of funding identified from within the DCSF budget are the National Challenge programme and the ContactPoint database, both of which have been widely criticised from across the political spectrum, and together will cost more than £200 million annually over the next four years.

- Interviews with headteachers indicate that the extra pupil premium money would typically be spent on hiring qualified teachers – by offering higher salaries if necessary. Another priority would be pastoral care, variously defined as personal tutoring, trips, extra-curricular activities and counselling.

- While academic research suggests that spending in these areas should boost attainment there is still a concern that increasing the amount of money spent by schools – rather than on local and central government priorities – could mean less research-led spending, and a greater risk that schools could waste money on well-sold but unproven technologies or programmes. We recommend that the government should set-up an independent body to undertake evidence-based research into educational interventions to strict international standards and disseminate these findings to schools.

Introduction

At the next election, education will, as ever, be a major battleground. The Liberal Democrats and the Conservatives have already indicated that they will fight on a platform of reforms that would see the principles of the Academies programme (non-state providers running independent state-funded schools) expanded across the whole of the country. Reform on this scale requires re-thinking many aspects of the school system. Funding is one aspect that will need to change dramatically. At the moment school funding is a disorganised mess; the legacy of historical reviews, numerous abandoned policy programmes and ministerial pronouncements. Per capita funding is calculated on a national level, but then re-calculated by every local authority according to a different formula. Various grants are unsystematically tacked onto the main revenue funding. There is a need for reform in any case, but it is even more essential if non-state providers are increasingly going to take over from local authorities in running schools. Financial consistency is vital to develop a viable market; this is why Academies have to be funded separately by the Department of Children, Schools and Families (DCSF).

“At the moment school funding is a disorganised mess; the legacy of historical reviews, numerous abandoned policy programmes and ministerial pronouncements”

Overhauling the funding system provides a real opportunity to offer consistent financial support to schools that take a lot of children from disadvantaged communities. The “pupil premium”, endorsed by the Liberal Democrats, Conservatives and a range of think-tanks from all parts of the political spectrum, would see more money attached to pupils from deprived backgrounds, so that schools which take large numbers of such children would be properly resourced. An additional benefit would be that it might incentivise existing schools with predominantly wealthy intakes to broaden their admissions policy, and would certainly give their neighbouring schools located in more disadvantaged communities the resources to attract middle-class parents. This is especially important if non-state providers have freedom to set up schools wherever they want; a pupil premium could work to attract them to more deprived communities.

The idea seems simple. However, it throws up a number of difficult questions. How, for example, would an individual pupil’s circumstances be quantified? Means-testing would be far too bureaucratic, costly and invasive, but existing measures of school-age disadvantage, like free school meals, are quite crude. How much would a “premium” be worth and how would it relate to existing deprivation funding? How could this be paid for without taking so much money from schools in leafy suburbs that they would be forced to lay off staff? Will schools spend their extra money in ways that will actually boost attainment?

In this report we lay out the principles of a new, simple, and consistent national school funding model based on per capita payments incorporating a pupil premium. We have designed a mechanism for calculating the premium, based on postcodes, that takes into account a wide range of factors without increasing complexity, and have calculated realistic costs that would not require tax increases, or raiding other departmental budgets. Our financial breakdowns are based on “Section 52” data that all local authorities have to provide to central government. This gives budgets for

every school in the country allowing for a school-by-school analysis of the impact of any changes. Alongside the statistical analysis we include quotes from interviews with fifteen headteachers looking at the problems they have with the existing system and how they would spend additional "pupil premium" money. We do not pretend that these interviews offer a representative sample, they were small in number and heavily skewed towards secondary schools in London, but they do offer an indication of how changes to funding mechanisms would be received on the ground. The report is split into three chapters; the first on the theory of the pupil premium, the second on its delivery and the third on its cost. Each chapter is subdivided into a series of questions that, taken together, show how this exceptionally important reform could be made to work in practice.

1

The Theory

What is the pupil premium?

At the moment schools are funded on a broadly per capita basis (with significant variations). However, some children are harder to teach than others – and they come, disproportionately, from disadvantaged backgrounds. Schools, therefore, have an incentive to try to avoid taking these children because they will adversely affect their performance in examinations without bringing in any extra funding. Schools in wealthier areas are helped in this by the current admissions system which in most cases sees places allocated on the basis of distance from the school. House prices are higher near successful schools which means that the children accepted to the school tend to be less challenging to teach – which reinforces the success of the school. There is absolutely no incentive to widen admissions procedures to take in those from poorer areas further afield.

This means that those from poorer areas are often segregated into their local schools. Some of these are highly successful against the odds – often because of inspirational leadership. But where schools do end up taking considerable numbers from disadvantaged backgrounds their performance often suffers and this can be reinforced by the difficulty of hiring good staff, who can receive the same pay working in a much more pleasant environment.

The effects of this segregation are powerful. The Sutton Trust have shown that the top 200 comprehensive schools have an average of just 5.6% of children on "free school meals" (FSM – a common way of identifying the number of poorer children in a school) compared to 14.3% nationally.[1] Of the 638 schools recently identified by the Government as "failing" because fewer than 30% of their pupils achieve 5 A*-C GCSEs including English and Maths, 85% (542) have above average numbers of pupils on FSM.[2] Academics from Bristol University have shown that in a typical local authority in England a child from a poor family is half as likely to attend a good secondary school as a non-poor child.[3]

In British politics this segregation has been a preoccupation of the left. Their concern has been entirely justified. Unfortunately the solutions they have suggested have typically focussed on directly controlling the balance of admissions by bussing or lottery. As the furore caused by the recent introduction of an admissions lottery in Brighton has shown this kind of top-down interference from government is both politically and psychologically unhelpful.[4] Parents like to feel that they have some control over where their children go to school. Equally parental choice is important to improving the quality of schools; without the competition it can bring there is often no incentive to improve.

The pupil premium, however, in theory, would help to balance admissions while still allowing parents to choose the right school for their children. It would see additional money attached, per capita, to children from deprived backgrounds. That way schools in wealthier areas would have an incentive to take them on as they would be properly resourced for the more

1 Sutton Trust, *The Social Composition of Top Comprehensive Schools*, January 2006.

2 http://news.bbc.co.uk/1/hi/education/7444822.stm

3 Simon Burgess and Adam Briggs, *School Assignment, School Choice and Social Mobility*, CMPO Working Paper Series No. 06/157, November 2006.

4 http://www.timesonline.co.uk/tol/news/uk/education/article1452218.ece

difficult job of providing an education for them. Over time, intakes would become more balanced. At the same time schools which took a lot of children from disadvantaged backgrounds would be a lot richer. They would be able to use the money, for example, to pay top rates to attract the best teachers or reduce class sizes to make discipline problems more manageable. Over time, if the school used the money well, results would improve and middle class families would be more inclined to apply. Again this would work to balance intakes. As this happened the financial differences between schools would start to even out.

As Julian Le Grand, who first came up with the idea in the 1980s, has put it:

> *"Schools that contained a high proportion of children from poor families would then have more resources per pupil than those with a low proportion. They would also have better premises and equipment and could attract higher-quality staff. The outcome would either be selective schools, with those that specialised in the education of the children of the poor being better equipped and staffed than those that specialised in the education of children of the rich, or, if head teachers or staff did not want to engage in such specialisations, schools that contained a reasonable proportion of children for all parts of the social spectrum. One way or another cream-skimming that favoured the better off would be reduced or eliminated."*[5]

The pupil premium is particularly relevant to the current education debate because all three main parties are advocating opening up the school system to alternative providers. The Labour party continues to promote the Academies scheme which sees failing schools handed over to sponsors. The Conservatives and Liberal Democrats have more radical plans that would see new suppliers opening up schools wherever they saw demand. Under the current funding system new suppliers might focus on wealthier areas, with easier to teach pupils. A pupil premium could help skew the market so that alternative provision is focussed on more disadvantaged areas where it is needed most.

Where does the idea come from?

Both the Conservatives and the Liberal Democrats have said that they will go into the next election pledging to introduce a pupil premium. In both cases the aim is to make sure that their plans to open up the schools market to new suppliers does not lead to greater segregation. The hope is that the pupil premium will encourage these new suppliers to set up schools in more deprived areas.

There has been some dispute over who had the idea first.[6] Of course, as with any "new" idea in politics, the pupil premium has been around for a lot longer than its current incarnation. It can be traced back to at least 1970 when the US Centre for the Study of Public Policy recommended the "Regulated Compensatory Voucher" in a review of voucher models.[7] They concluded that a voucher system could only work if the inequalities that would be created by a free market were rectified. So under their model schools would not be able to charge top-up fees, would not be able to select and poor children would receive a supplementary voucher.[8]

Julian Le Grand introduced the idea to the UK in his edited book Market Socialism, written by the Fabian Society's Socialist Philosophy Group, convened following the 1983 election to provide intellectual reinvigoration for the Labour party. It was presented by Professor Le Grand (who termed it the "positively discriminating voucher") as the equitable "left-wing" equivalent to the standard free market

5 Julian Le Grand, *The Other Invisible Hand*, Princeton University Press, 2007, p. 148.

6 http://timesonline.typepad.com/politics/2008/01/george-osborne.html; http://www.spectator.co.uk/coffeehouse/441406/premium-politics.thtml

7 Centre for the Study of Public Policy, *Education Vouchers: A Preliminary Report on Financing Education to Parents*, (Cambridge, 1970).

8 Ibid. pp. 14-15.

voucher model proposed by the right at the time.[9] Le Grand has continued to write about the idea in various publications over the last twenty years.

Oddly, though, neither the Conservatives nor the Liberal Democrats seem to have got the idea directly from Le Grand although politicians on both sides of the house were aware of the idea in the 1990s. The pupil premium was introduced to Liberal Democrat thinking by their 2001 Commission for Educational Policy chaired by Professor John Howson who seems to have been inspired by the funding model used in the Netherlands; that sees different amounts attached to pupils according to their backgrounds. Over the last seven years the pupil premium has become embedded in Liberal Democrat policy and was endorsed by the new leader Nick Clegg following a supportive analysis of the idea by the CentreForum think-tank in 2007.[10]

The Conservatives took the idea from a 2005 report by Policy Exchange entitled "More Good Schools". This talked of an "advantage premium" of £5,000 for children at failing schools which they could then "take" to other schools (either state or independent) who would thus be incentivised to accept them.[11] This was based on the Florida "A+" scheme which saw schools receive annual grades based on their performance in Florida's Comprehensive Assessment Test (FCAT). If a school received two failing grades in any four year period, the pupils attending that school would be eligible for a voucher which could be used at public or private school.[12]

Over the last few years the Conservatives (and Policy Exchange) have moved away from the advantage premium idea and towards Le Grand's original idea. Using the pupil's background to determine the degree of financial report, rather than school performance, allows for a more universal scheme and gives schools a higher level of resource *before* they start failing. It also fits better with plans to open up the education market to new providers – as a mechanism is required to incentivise new schools to set up in disadvantaged communities.

So, at the moment, both parties support very similar schemes, though neither has gone into much detail over how they envisage the premium operating in practice. Interestingly Professor Le Grand did recommend the idea to ministers and advisors in the current Government during his time as a senior policy advisor to Tony Blair (2003-2005). There have been no public statements, however, about the pupil premium from the Labour party.

Doesn't the current funding system already favour schools in disadvantaged communities?

One possible reason that ministers have ignored the pupil premium is that, from their point of view, additional money is already distributed to schools with high numbers of pupils from disadvantaged backgrounds. This is true. A recent report from the Institute for Fiscal Studies suggests that, on average, a pupil on FSM will on average be "worth" 70% more money than one who is not.[13] Unfortunately, though, this extra money does not operate as the pupil premium would for three reasons:

1. First there is no consistency in the way that it is allocated between schools.
2. Secondly, the funding system does not respond quickly to changes in pupil population, so there is no incentive to recruit pupils from disadvantaged areas.
3. Finally, the system is so complex that few headteachers understand how their budget is allocated, making it hard to develop long-term plans, and meaning that it can have no impact on their admissions decisions.

9 Julian Le Grand and Saul Estrin ed., *Market Socialism*, (Clarendon Press, 1989) pp. 198-204.

10 Paul Marshall, *Tackling Educational Inequality*, (CentreForum, 2007).

11 James O'Shaughnessy and Charlotte Leslie, *More Good Schools*, (Policy Exchange, 2005).

12 The Florida supreme court declared the scheme unconstitutional in 2006. See Greg Forster, *Lost Opportunity: an empirical analysis of how vouchers affected Florida public schools*, (Friedman Foundation for Educational Choice, March 2008).

13 Luke Sibieta, Haroon Chowdry and Alastair Muriel, *Level playing field? The implications of school funding*, (CFBT/IFS, 2008), p. 7.

1. The first of these problems – the lack of consistency between schools – has two causes: the redistribution of nationally determined revenue allocations by local authorities and the preponderance of central government grants that make up a significant proportion of the extra funding received by schools in deprived areas.

Most of a school's annual revenue funding is allocated according to a national formula but then reallocated by local authorities who can use their own mechanisms. All local authorities receive a Dedicated Schools Grant (DSG) from the DCSF which they must spend on their schools (Academies are separately funded by the DCSF). The DSG is largely based on historical per pupil amounts for each authority which are then increased by a certain percentage each year. Much of the difference between the per pupil amount for each authority is due to previous historical allocations for Additional Educational Needs (AEN). These were based on the number of children speaking English as a second language in the authority, the number in certain ethnic groups that typically underperform and the number of children on FSM. This deprivation funding represents anything from 5 to 22% of the full spending grant depending on the local authority.[14]

Once they have received the DSG, local authorities have some discretion over how this funding is then allocated to schools – and they all have their own formula. Until 2006 there was no requirement for local authorities to use any of this money for AEN even though the DSG[15] was partly allocated on the basis of these factors. A Treasury review in 2005 found that some authorities were "unaware that they receive funding specifically to meet the costs of deprivation" and that "local authorities' decisions on the balance of funding between schools are not leading to deprivation funding being accurately or consistently targeted towards schools in deprived areas."[16]

Authorities do now have to make some allowance for deprivation but there is no specified amount that has to be used in this way. The IFS study published in June 2008 found that they do not allocate all of their AEN on the basis of deprivation – in fact it is "flattened" across all schools so just 40%-50% of the extra funding that local authorities receive for FSM eligible pupils ends up at the schools these pupils attend.[17] In some cases this is because authorities have their own priorities about which schools should get funding – occasionally these are political – but it is not all the fault of authorities. Because of the measures taken by central government to ensure year-on-year stability (discussed below) their hands are often tied.

The second reason for inconsistency is that much of the extra money for poorer students comes not from annual revenue funding via the DSG but through central government grants which are often designed to support specific policy outcomes. The IFS study indicates that over 40% of the extra 70% attached to pupils with FSM comes direct from these grants.[18] This is allocated to schools through two routes: the School Standards Grant (SSG) and the Standards Fund. The SSG is a £1.2 billion fund (in 2007-8) paid directly to schools on the basis of pupil numbers. Given that the DSG is supposedly calculated on a per capita basis there is no obvious reason for this separate fund other than to prevent local authorities from reallocating the money or holding it back to cover central costs (more on how this "hold back" works in the next chapter).

The main Standards Fund grant is the School Development Grant which merges a whole range of formerly separate grants (including Excellence in cities, Gifted and Talented, Specialist Schools and so on). It is based primarily on the historical amounts each school got from these earlier grants – which were disproportionately targeted at schools in deprived areas. There

14 DCSF, Deprivation Guidance for CSAs and LAs, http://www.teachernet.gov.uk/management/schoolfunding/schoolfunding2008to11

15 It was called the Formula Spending Share at the time.

16 DfES/HM Treasury, *Child Poverty: Fair Funding for Schools*, (London: Treasury, 2005), p. 4.

17 Sibieta, p. 7.

18 Ibid., p. 43.

is then an extra £125,000 added for the most deprived schools. In 2007-08 around £1.8 billion was allocated via the School Development Grant (of which £150 million went to local authorities for central use).[19]

> "There is certainly no simple correlation between taking in more children from disadvantaged backgrounds and increasing the amount of the pie available to your school"

Alongside the main School Development Grant there are a number of additional allocations made through the Standards Fund. For example, in 2008-2009 £185 million has been allocated for the "Ethnic Minority Achievement" programme and a further £300 million has been allocated to support the "national strategies".[20] These grants are ring-fenced and must be used for their stated purpose in supporting central government policies. In recent years several other politically-motivated grants have been launched. In 2006 a "personalised learning" grant was added to the SSG worth £220 million in 2006-7 and £365 million in 2007-8 and has subsequently been extended to 2011. This is primarily distributed according to the number of pupils with prior low attainment and FSM. In June 2008 another £400 million was assigned, over the next three years, to the 638 "National Challenge" schools (as we have seen most of these have significant numbers of pupils in FSM).[21]

Much of the money that comes through all of these allocations ends up at schools in the most deprived areas (though not the main £1.2 billion annual SSG grant which is the only part of schools revenue funding to be purely per capita). However, it is difficult for schools to plan on the basis of these funds. They are often short-term and vulnerable to changes in political priorities. There is certainly no simple correlation between taking in more children from disadvantaged backgrounds and increasing the amount of the pie available to your school. As with the DSG annual revenue grant, the complexity and lack of consistency works against the additional funding operating as an incentive.

2. The stability mechanisms built into the Designated Schools Grant (DSG) also work against the ability of the funding system to incentivise schools to take more children from disadvantaged backgrounds. This is the second reason why the current system does not operate as a pupil premium. For a start the DSG is now awarded in three year chunks and the per pupil amount does not change within those three years. So if a school decided it wanted to change admissions procedures so as to include more children from deprived areas they would not be rewarded for this for up to three years. Moreover, the current DSG is based entirely on historical per pupil amounts so there has been no recalculation of deprivation whatsoever for the years 2008-2011. The DCSF call this the "spend plus" approach and acknowledge that "the principal reason" for using it is "stability". They also acknowledge that "that a continuation of the "spend plus" methodology in the longer term would make it increasingly difficult to explain the differences in Dedicated Schools Grant between authorities on an objective basis" (i.e. would make no sense) so they are reviewing the DSG in time for the 2012-2015 allocation.[22] This kind of glacial process means that the relationship between the per pupil amount for each authority and actual deprivation can be extremely tenuous.

Furthermore, once the money reaches local authorities, the "Minimum Funding Guarantee" (MFG) kicks in, creating an even bigger gap between deprivation funding and actual deprivation. The MFG

19 DCSF, Section 52 Budget Summary 2007-8

20 http://www.teachernet.gov.uk/docbank/index.cfm?id=12227

21 DCSF, *National Challenge: A Toolkit for Local Authorities,* (DCSF, 2008).

22 DCSF, *Dedicated Schools Grant: Technical Note for 2008-11 Allocation,* p.2.

means that all schools must receive a set percentage increase in their per pupil funding even if their local authority formula indicates they should receive less money because they have fewer disadvantaged children. This is the main reason local authorities have to "flatten" deprivation funding across all of their schools. It also means schools actually have an incentive to reduce the number of disadvantaged children – because they will continue to receive per pupil funding based on their past pupil population.

The three year budgets and the MFG were introduced after the 2003/2004 school funding "crisis" which saw schools claiming, in spring 2003, that they were not receiving enough funding for the 2004/5 school year, and would have to lay off staff. Charles Clarke, then Education Secretary, blamed the local authorities for holding back funding – so introduced a number of stability measures including the MFG.[23] An Audit Commission investigation of the "crisis", though, found that the problem was entirely unrelated to annual revenue funding, making the reforms unnecessary. Instead the problem was with the short-term central government standards funds: "the late announcement of changes to major specific grants (particularly the Standards Fund)… [left] some schools better off than expected and some schools with less funding than anticipated."[24]

The current government have in effect plumped for stability over flexibility – even though there is no evidence this is necessary. The MFG means that funding can only respond to changes in the composition of pupil populations at a slow rate.

3. The third reason why the current system does not act as one based on a pupil premium would is the extreme complexity of the funding model (amply demonstrated in the previous paragraphs). As headteachers do not really understand how their funding is calculated, they ignore the relationship between admissions and income (except in extreme cases, such as Children with Statemented Special Education Needs who bring with them a specific funding allocation). This means that additional funding for children from deprived areas does not act as an incentive.

Of the fifteen headteachers interviewed for this report the majority had a very limited understanding of why their school received the money it did. Almost none had any knowledge about how the original DSG was worked out. There seemed to be greater awareness of their local authority formula, but even this was limited and often out-of-date. As the head of a secondary community school in London admitted: "to be honest with you, we're more interested in the outcome of the formula than how the formula actually works, so we wouldn't spend a lot of time looking at how the formula is constructed, but clearly how the formula is constructed makes a big difference to what we get in school".

Others expressed similar weariness :

"It would be nice if the minister said that in the next year, the age weighted pupil unit would be this, and this is what they are spending in the LA, and it would be nice if the local authority wrote and said…the age weighted pupil unit for say a 12 year old will be X. We don't get that, what we get is a budget statement, but it's extremely complicated…There is no reason that this needs to be as complicated as it is."[25]

"I find it more and more difficult to understand …what happens…it does seem a fairly complicated and laborious process, in terms of what happens between central government, the council and then the schools."[26]

23 Sibieta, p.28.

24 The Audit Commission, *Education Funding: the impact and effectiveness of measures to stabilise school funding*, (Audit Commission, 2004) p. 2.

25 Headteacher, secondary school, London.

26 Headteacher, primary school, London.

Under these circumstances no incentive effect is possible, because no one appreciates how it works.

The most common complaint with the system itself was that the short-term central government Standards Fund grants played havoc with planning. As one head told us:

> *"What tends to happen…is that funding streams become confused…the streams which are independent and discreet get amalgamated or hidden within other funding streams. It's quite difficult to unpick that and work out what you're being funded for and what you're not being funded for.…That's a really unhelpful process for us…that funding is attached to jobs…and it's attached to a structure that works very well."*[27]

Another gave us the following example:

> *"We were for 5 years what was known as a 'beacon school', now I thought the whole beacon school initiative, sharing excellence and expertise with other schools, and having the money to do it, was fantastic, so for 5 years we were funded to the tune of about £45,000 a year, to work the other schools, which we did locally, nationally and internationally, but then after 5 years the beacon initiative went, and so did the £45,000…we had ongoing projects…we'd staffed it, one has to restructure to do things like that."*[28]

Yet another head complained of the problems caused by recent cessation of the "Excellence in Cities" stream of the Standards Fund.[29] This inability to plan again limits the potential for using the funding system to influence the long-term development of schools.

27 Headteacher, secondary school, London.

28 Headteacher, primary school, London.

29 Headteacher, secondary school, North-East.

2

Delivery

The problems of consistency and complexity discussed in the last chapter have to be resolved before a pupil premium can operate in practice. This can only be achieved by moving to a national funding formula that bypasses local authorities. By removing one of the stages from the existing process it would make the system easier for heads to understand – especially if the one remaining stage was also reduced to just three elements; a base per capita sum, an area cost adjustment and a pupil premium.

As local authorities would be prevented from reallocating money according to their formula it would be clear what schools would lose or gain by changing the mix of pupils over time. The third problem of inflexibility caused by stability mechanisms in the current system could be resolved simply by folding the majority of the Standards Fund money into the national formula. Without the planning difficulties caused by dramatic shifts in central government grants there would be no need for three-year budgets or the Minimum Funding Guarantee. Funding would be genuinely reactive to the school population but would actually be more stable as there would be no dramatic changes caused by the end of a political initiative.

There are three potential problems that might be caused by a simple, direct national formula. The first is that at the moment about £3.65 billion of the £32.72 billion spent on schools (both DSG and Standards Funds) is held back by local authorities to provide central services.[30] If they were entirely bypassed by a national formula they would not have access to this money. Secondly, since the supposed value of having a separate authority formula is that local factors can be taken into account, any national formula would have to be sufficiently flexible to satisfy heads that their local circumstances were being recognised. Thirdly, there would need to be a transition from the current formula to the new one which would need to be carefully managed to avoid unbalancing the entire system.

How would a national formula work?

At the moment local authorities are funded via two sources. They receive a specific LA budget worth over £4 billion annually.[31] As we have seen they also hold back part of the schools budget (£3.65 billion) for central services. The amount held back varies from authority to authority and ranges widely from over 20% to less than 5%.[32] The only rule is that authorities cannot increase the amount they hold back as a proportion of the schools budget (unless it is explicitly supported through the Schools Forum[33]). This is called the Central Expenditure Limit. Unfortunately this creates a considerable disincentive for authorities to reduce the amount they hold back as this shift would be irreversible should they wish to increase spending on central services in the future.[34]

Although, for accounting purposes, there is a division between what the LA budget is spent on[35] and what the money held back from schools is spent on,[36] it is difficult to draw clear dividing lines.

30 Section 52 Education Outturn statement for 2006-2007, Table A England summary (http://www.dfes.gov.uk/localauthorities/section52)

31 Ibid.

32 Sibieta, p. 25.

33 Schools Forums are local consultative bodies, whose role is to scrutinise, and potentially challenge, each authorities school funding proposals for each year. They are a means to increase the involvement of schools themselves in authority funding decisions and thereby provide a check on authorities. Authorities are required to consult Schools Forums on the proposed school funding formula for each year, on particular issues relating to the budget (such as provision for special educational needs and free school meals), and on service contracts agreed by the authority. Forums should have 15 members, and are composed of elected schools members (headteachers and governors) representing the schools within each authority, with an additional quota of non-schools members appointed directly by the authority (which can be no more than one-fifth of the total membership).Taken from Centre for Public Scrutiny website. (http://www.cfps.org.uk/scrutiny_map/subcat.php?mainID=3&subID=21)

34 Sibieta, p. 25.

35 For example, central administration, access, youth services, strategic management and some special educational needs services like education psychologists.

36 For example, admissions, school forums, pupil referral units and other behavioural support, development grant programmes and other special educational needs support. A full breakdown can be found in the Section 52 Education Budget Statement - Table 1- LEA level information (http://www.dfes.gov.uk/localauthorities/section52)

Moreover, the heads we spoke to were unclear exactly how much of "their" money was being held back (the exception was the one Academy head we spoke to who knew that he was receiving £375,000 a year that would otherwise have been "held back") and what exactly it was spent on.

Consistent with the considerable divergence between the "hold back" in different authorities headteachers had widely differing experiences of local authority involvement. Some, in authorities where more is held back, were critical:

> *"there's a notion within some of the services around the local authority that theirs' are the services that we should be buying, so I think a lot of those departments haven't cottoned on to best-value, and the fact that...they should be assisting us...in looking for best value."*[37]

> *"I think Manchester holds back more than other Education authorities....Manchester does need to delegate much more funding to its schools, and if...schools want to buy back services, then they should be able to..."*[38]

Others, in authorities where there is more delegation, were more relaxed, though there were widely divergent views over whether or not it was worthwhile buying back into local authority services:

> *"Many of the services are good value for money...I could opt out, but...by and large I think we get a pretty good service and pretty good value for money."*[39]

> *"I don't have to buy [local authority services] and I don't....they are poor services, and we do our own thing, finances, cleaning, maintenance...And I don't buy in their SEN because it's useless, I buy good consultants, the authorities' are...not prepared to get rid of the inadequate people."*[40]

With one exception there was widespread agreement that, in principle, as much money should be delegated directly to schools as possible:

> *"I've always favoured the strongest possible level of delegation...to schools and schools then being held to account."*[41]

> *"I've convinced that the more that's delegated to us, the better – the more services that we can commission ourselves, the better."*[42]

> *"I'm a great believer in as much money being delegated to schools as possible, and schools can buy services according to best value."*[43]

It is important to note that our sample of heads was heavily biased towards secondary schools and that the exception to this view came from one of the primary heads we interviewed ("I wouldn't want the extra bother of having to commission and look for these things").[44] It is likely that we would have had similar responses from other primary heads as they do not typically have the support staff available to secondary heads. If money passed straight to schools and local authorities were unable to hold back funds to provide services schools would, of course, still be able to buy services from local authorities but it would be entirely on their terms. Primary schools that did not want to spend time evaluating services could choose an "all-in" option. This could, potentially, cause problems for smaller authorities in which there was some demand for a particular service (say payroll management) but not enough to make it economically sustainable for the authority to provide the service. There is no reason, though, why in this type of situation smaller authorities could not band

37 Headteacher, primary school, London.

38 Headteacher, secondary school, Manchester.

39 Headteacher, secondary school, North-East.

40 Headteacher, secondary school. London.

41 Headteacher, secondary school, East Anglia.

42 Headteacher, secondary school, London.

43 Headteacher, secondary school, Manchester.

44 Headteacher, primary school, London.

together to provide this service to schools which did not want to opt-out.

Not all the money currently held back, though, could simply be diverted to schools. Much of the funds held back are used to provide services that have to be provided centrally, such as admissions, transport, home education, pupil referral units and private school fees for children with Special Educational Needs. Some of this is already paid for by the local authority budget but this would certainly have to increase if LAs had no access to the DSG budget. It is difficult to estimate an exact figure that would be required but it would not have to increase by the full £3.65 billion currently taken from the schools budget. The inconsistency of different levels of hold back between different authorities could, however, be eliminated if school and authority funding was properly separated into two centrally provided pots. An additional bonus to replacing the schools budget "hold back" with a higher LA budget would be that authorities were no longer actively incentivised to spend more money than was necessary to hold on to their share (as they are at present through the Central Expenditure Limit).

How would the pupil premium aspect of the formula work?

The second delivery problem is making a national formula sufficiently flexible to take local circumstances into account. The theoretical advantage of having a second stage, where funding is re-allocated within the local authority, as under the present system, is that local factors which no formula could pick up would be acknowledged.

It is important to note, in response to this, that in fact the existing system is not that responsive in relation to local factors. As we have seen the national DSG formula is purely historical so does not relate to existing deprivation. Moreover, local authorities do not allocate the deprivation funding they do get to the schools that actually need it – partly because their own formulas are not optimal and partly because the Minimum Funding Guarantee forces their hand.

> "There was scepticism that any formula could accurately pick up small pockets of deprivation or distinguish accurately between different kinds of deprivation"

The other localised factor built into the current DSG, the "Area Cost Adjustment" (ACA), is as meaningless as the deprivation funding. For a start it is also historical. But even before it was out-of-date it made little sense because it was based on the average salaries of workers in the authority and not of teachers. This means that there are much larger differences than are justified *given that we have a national pay agreement for teachers.* This is the main reason why MPs from certain parts of the country are continually complaining to education ministers that their constituency appears to have got a bad deal.[45]

Any future national funding formula would have to have an ACA, but its role would depend on how teacher salaries (which represent about 65% of a school's budget) are calculated. If they continue to be calculated through a national pay agreement then the ACA need only be a small factor (it would still be necessary because of the wage differences for non-teaching staff). The only exception to this would be London weighting for teacher salaries (which is already accounted for separately). If schools were allowed to opt-out of the national pay agreement[46] then using the average salaries of all workers as a marker would make much more sense.

So it can hardly be said that the existing system is adequately nuanced with regards to local factors. Nonetheless, it is true that

45 For more detail see the discussion on the ACA between members of the DSG Formula Review Group from the 14th July 2008 (http://www.teachernet.gov.uk/management/schoolfunding/DSGformulareview/DSGreviewpapers)

46 As recommended in the Policy Exchange report *More Good Teachers* published earlier this year.

local authorities do have the power to make decisions based on specific circumstances. For example, an authority where most of the educational problems are related to a specific ethnic minority could focus their formula on extra money for that group, as opposed to one where economic deprivation was more of an issue.

While most of the heads we spoke to were in favour of having a national formula that saw funds delegated directly to schools there was some concern that a central calculation might not be nuanced enough to pick up on their specific needs. There was scepticism that any formula could accurately pick up small pockets of deprivation or distinguish accurately between different kinds of deprivation:

> *"The model [would have to be] sophisticated enough to take into account...small variations in need and deprivation...In the kinds of intake that we have here, whilst there's a very deprived community surrounding the school you've also got a pocket of absolute affluence."*[47]

> *"I think it's [a national funding formula with a pupil premium] a great idea, the problem for me is how you assign, the characteristics and the level of weight, because there are some communities who aren't obvious, one of the most difficult ones is white working class, in one of our Academies that we're about to open, it's a very tough white working class area, with low socio-economic deprivation, but high cultural deprivation, all of their parents have got jobs, but they might be scaffolders, or drive white vans, and their aspiration for their children is 'school will look after you for 5 years', it doesn't really matter what you come out with because you're going to be a scaffolder like me, or a painter. Those are very difficult children to teach, and you do need the resource there because you tend to have quite a high level of special needs, things like ADHD, aggression, so as long as you can have a formula which is sufficiently subtle, then fine. But you might go to another part of London where deprivation appears high, and maybe you've got high density, poor health, but they're all Hindu families, and they're high aspiration and will learn in any school, and if you fund those double then you're kind of throwing your money away."*[48]

This is even more of a problem when one considers the need for any formula to be simple. Even if it were possible to include so many variables that the formula was adequately nuanced for any eventuality, this would inevitably reintroduce the problem of complexity; headteachers would not be able to be follow its workings and it would not act as an incentive.

There are a huge variety of deprivation indicators currently included in the national and local authority formulas that could feasibly be used to construct a pupil premium. At the moment the deprivation portion of the current DSG is based purely on historical weightings, but it was originally based on an analysis by PriceWaterhouseCoopers (PWC) of the specific costs of certain additional educational needs (AEN). They identified two types of additional need: children for whom English is an additional language (EAL) and social deprivation.[49] The first could easily be identified through the school census. For the second they recommended using Free School Meals (FSM) as the best proxy indicator. PWC also recommended an amount for any child with EAL or FSM of £1,780 derived from almost 4,000 survey returns from schools. This was based on "met" costs which the school already had to pay (e.g. learning support assistants) and "unmet" costs (the additional support schools felt that pupils

47 Headteacher, secondary school, London.

48 Headteacher, Academy in London.

49 They actually identified four (including SEN and "other learning needs" but these were not funded through the AEN part of the funding formula. PriceWaterhouseCoopers, *Study of Additional Educational Needs – Phase II Final Report*, (August, 2002).

needed but that they were unable to provide). Unfortunately the "unmet" needs identified by schools came to, on average, £1,020 per child with AEN, which was deemed too expensive; so the Government reduced it arbitrarily to £250. They also reduced the met costs, meaning that the total additional funding for each AEN child was £1,210.[50]

At the time this was a major step forward in school funding. Never before had there been any attempt to identify the additional costs associated with teaching certain groups of children. However, by significantly reducing the amount offered for unmet needs, schools with large numbers of AEN pupils remained under-resourced. Furthermore, because the formula used just two indicators (EAL and FSM), considerable nuance was lost. FSM is not a comprehensive measure as a significant number of those eligible do not sign up either because they do not want school food or because of the stigma attached to receiving free food. In addition FSM is a relatively crude measure. For a start it is 'all or nothing' – any formula including FSM assumes that a child whose family income is low enough to receive them (around £14,000) has additional educational needs but one whose family is just over the limit needs no extra support. It is also a purely economic indicator, and as the headteacher quoted earlier in this section noted, certain communities are culturally rather than financially deprived.

FSM is also the predominant indicator in the various formulae used by local authorities to re-allocate their share of the DSG. Following the 2005 Treasury review of Local Authority funding for deprivation LAs were asked to provide statements about their formula and how it would develop to take account of the criticisms made. A technical review of these statements gives a sense of the variety of ways in which resources can be targeted to disadvantaged areas. Only 5 out of the 75 authorities examined did not use any FSM measurement. A third used a simple (and crude) per FSM pupil measure.[51]

One alternative, used by 12 authorities, is the Index of Multiple Deprivation (IMD). This is a combined indicator developed by the Department of Communities and Local Government (DCLG) across seven different domains (housing, education, health, crime, employment, income and living environment). Previously the IMD was only calculated at ward level which was not hugely useful as inter-ward geographies can differ dramatically. In 2004 the IMD was applied to Super Output Areas (SOAs), which are small areas averaging around 1,500 people designed by the Office of National Statistics, using zone-design software to combine compact shape and relative social homogeneity. There are 34,378 SOAs compared to around 10,000 wards at any given time (wards are electoral and so boundaries change regularly – one of the benefits of SOAs is that the boundaries do not change allowing more accurate trend analysis).[52] Applying IMD at this level gives it a greater level of accuracy enabling authorities to use it in a formula. Bury, for example, scores each pupil by their IMD and allocates deprivation funding accordingly.[53]

IMD is, however, not pupil specific and even though SOAs are tightly drawn there are still small pockets of deprivation in predominantly affluent ones and vice versa. And, while IMD takes a few more factors into account than just income, it is still weighted towards economic rather than cultural factors. It is also unable to discriminate between relatively affluent areas because all of the indicators are focused on entirely negative factors.

There is another type of indicator that is used by just a few authorities at the moment which is more promising. These are "geodemographic" classifications which use postcodes to provide an extremely fine-

50 For a sense of the politics involved in this decision see Martin Johnson, *Schools Budgets – Fair Enough?*, (IPPR, February 2003).

51 Judith Partington, *Indicators of Deprivation for use in School Funding*, http://www.teachernet.gov.uk/docbank/index.cfm?id=10254

52 See http://www.neighbourhood.statistics.gov.uk/ for rankings of SOAs and more detail regarding their construction.

53 Partington, p. 20.

grain analysis of communities (on average there are about fifteen households in each postcode). They are based on the principle that similar types of people live in similar types of neighbourhood; that "birds of a feather flock together". Once certain "segments" have been identified as having specific characteristics, cluster analysis techniques can group all of those individuals, households or small areas with those characteristics. Nearly all major companies now use these classifications to target customers but, as yet, little use has been made of them in the public sector.

> "The geodemographic type of an individual pupil was a better predictor of their GCSE score than IMD"

The two principal commercial classifications are ACORN from CACI and MOSAIC from Experian. Both use similar data sets including: the national census; shareholder registers; the electoral roll; the postal address file (PAF); house price and Council Tax information; ONS local area statistics and lifestyle data surveys. Out of these both extract around 400 variables, though Experian place more emphasis on the census which provides 54% of MOSAIC variables compared to 30% for ACORN.[54] The exact process for choosing variables is not explained in detail (Experian only say that they conduct a "detailed analysis of societal trends in the United Kingdom").[55]

Cluster analysis is used to group all the postcodes in the UK into segments out of which a comprehensive classification is developed. The ACORN classification has 56 segments that are grouped up into seventeen broader segments and 5 overarching categories (Wealthy Achievers; Urban Prosperity; Comfortably Off; Moderate Means and Hard-Pressed). MOSAIC has 61 categories grouped in 11 broader segments (including, for example, Welfare Borderline or Symbols of Success). For the full list of segments see http://www.caci.co.uk/acorn/acornmap.asp for ACORN and http://www.business-strategies.co.uk for MOSAIC.

Just six local authorities use these classifications (all use ACORN) to distribute deprivation funding. Most, like Harrow, use it as a factor within a more complex formula. Wakefield's system probably makes the most comprehensive use of geodemographics: personalised learning funding is allocated on the proportion of pupils in ACORN categories 4 and 5; other additional social deprivation funding is allocated to primary schools with more than 80% of pupils on roll in categories 4/5 and secondary schools with more than 72% in these categories.[56]

Recent research suggests that these classifications have more predictive power than either FSM or IMD. Professor Richard Webber (who developed both ACORN and MOSAIC), working with Tim Butler from King's College London, has measured the predictive ability of various deprivation measures using a statistical method based on deviation from average GCSE points score. They found that the geodemographic type of an individual pupil was a better predictor of their GCSE score than IMD. It is also a better predictor than whether that pupil was on FSM. This may seem counter-intuitive but actually makes sense because the FSM measure has no ability to predict performance between the majority of pupils who are not on FSM.[57]

Webber and Butler went on to investigate why the IMD has less predictive power and found that when they ordered the MOSAIC types in descending order of average GCSE points there was significant misalignment between the ranking based on average GCSE points and the ranking based on the IMD of the pupils' Super Output Area (see Table 1). In other words pupils from some

54 ACORN User's Guide, (London: CACI, 2006), p. 4; MOSAIC Brochure, (Nottingham: Experian, 2004), p. 4.

55 MOSAIC brochure, p. 4.

56 Partington, p. 23.

57 Richard Webber and Tim Butler, *Classifying pupils by where they live: how well does this predict variations in their GCSE performance?*, CASA Working Paper 99, (CASA, 2005), pp. 11-12.

MOSAIC types were performing considerably better at GCSE than one would expect given their IMD score, while others were performing proportionately worse. One reason the authors give for this is that, as the DCSF technical review noted, IMD is designed to discriminate only between deprived areas so misses differences at the higher end of the social scale. However, the authors also point out a more problematic issue based on the MOSAIC types that show the greatest misalignment between GCSE performance and IMD rank. Pupils from inner-city social housing types and types containing predominantly Asian families perform better than their IMD rank would suggest, while predominantly white pupils from large overspill estates in urban areas tend to perform worse.[58]

Supporting the headteacher quoted earlier in this chapter, Webber and Butler contrast the attitude of south Asian communities with white working class families living on council estates where material standards of living may be higher but "where lack of educational qualifications has not traditionally been seen as an obstacle to earning good money and where flexibility and opportunism are often perceived to attract greater rewards than diligent consistency of direction."[59] They also contrast inner-city social housing where children are surrounded by examples of social role-models and overspill estates with "low horizons" where they are very few economically successful people around. In other words geodemographic analysis can pick up cultural as well as material deprivation which makes it a better predictor of performance than IMD or FSM.

How would the "pupil premium" aspect of the formula work in practice?

On the basis of the analysis in the previous section we believe that the pupil premium aspect of a national funding formula should be based on a geodemographic classification. There are two clear advantages over other possible mechanisms. First, it covers a far wider range of factors because of the vast number of different variables built into the classifications. These factors go beyond the economic and encompass ethnicity, lifestyle, culture and proximity to different social groups. This means that a formula based on geodemographics will not draw a simple proxy relationship between financial deprivation and low standards. Secondly, although they include a lot of data, such classifications are relatively easy to understand as they are designed for a commercial audience, whereas the IMD, for example, was designed for local government.

The two most popular commercial options are ACORN and MOSAIC. We have chosen to do our analysis with MOSAIC primarily because there is much more data available for modelling due to the work already done by Professor Richard Webber in this area.[60]

Assigning a different level of pupil premium to each classification segment would be unnecessarily complex (there are 61 within MOSAIC). So the first step is to reduce the various segments down to a smaller number of groups based on educational performance. Table 1 shows all of the MOSAIC classification types with the average GCSE score for that type and the equivalent IMD. We have constructed six groups based on this average GCSE performance of pupils within each segment:

- The first – highest-performing – group contains all types with an average GCSE points score of 50 or higher;
- The second all types scoring an average of 45 or higher
- The third those types above 40
- The fourth types above 35
- The fifth types above 30
- And the sixth all types below 30 (the lowest is 24.15)

58 Ibid, pp. 14-15.

59 Ibid. p. 16.

60 There is a another classification called OAC developed by the Office of National Statistics using only census data. If the government where to invest in boosting the predictive power of OAC by paying for the inclusion of non-census data then this would be a viable, non-commercial alternative.

Table 1: MOSAIC Types with Average GCSE Score

Mosaic type	Pupils	Ave GCSE	Deprivation
Corporate Chieftains	6226	56.29	0.00
Cultural Leadership	3648	55.44	0.00
Golden Empty Nesters	6439	55.34	0.00
Provincial Privilege	9075	53.32	0.00
High Technologists	17173	52.61	0.00
Semi-Rural Seclusion	12063	51.10	0.00
High Spending Elders	5138	50.28	0.00
Upscale New Owners	10580	50.24	0.00
Close To Retirement	20667	49.73	0.00
Greenbelt Guardians	9027	49.56	0.0
Original Suburbs	16646	49.25	0.00
New Urban Colonists	3850	47.42	0.01
Upland Hill Farmers	1412	47.33	0.00
Pastoral Symphony	5335	46.96	0.00
Conservative Values	13560	46.66	0.00
Childfree Serenity	3086	46.38	0.00
Families Making Good	16577	45.68	0.00
Small Time Business	17777	44.85	0.00
Summer Playgrounds	728	44.85	0.00
Fledgling Nurseries	4877	44.51	0.00
Sprawling Subtopia	23434	44.47	0.00
Parochial Villages	7287	43.87	0.00
Asian Enterprise	11286	43.66	0.20
Sepia Memories	437	43.48	0.00
Middle Rung Families	25352	43.45	0.00
Tourist Attendants	878	43.44	0.01
Global Connections	556	43.22	0.03
Bungalow Retirement	2774	43.03	0.00
Affluent Blue Collar	20524	42.05	0.01
Caring Professionals	3943	41.55	0.01
Small Town Seniors	12051	41.26	0.00
Respectable Rows	13361	41.22	0.00
Just Moving In	1870	41.20	0.08
City Adventurers	1162	40.89	0.10
In Military Quarters	879	38.98	0.00
Dinky Developments	2017	38.77	0.20
Town Gown Transition	1796	38.52	0.14
University Challenge	485	37.88	0.12
Low Income Elderly	6096	37.28	0.04
Industrial Grit	27637	37.02	0.01
Burdened Optimists	10884	36.79	0.01
Settled Minorities	11444	36.07	0.16
Town Centre Refuge	3613	35.72	0.08
Older Right To Buy	10627	35.38	0.20
Counter Cultural Mix	4766	35.13	0.29
South Asian Industry	12832	34.99	0.23
White Van Culture	24009	34.26	0.03
Metro Multiculture	12074	32.98	0.62
Bedsit Beneficiaries	559	32.80	0.21
Coronation Street	16230	32.07	0.10
Rustbelt Resilience	18900	30.96	0.08
Cared For Pensioners	1120	30.95	0.06
Sharing A Staircase	195	29.52	0.75
Ex-Industrial Legacy	14528	29.39	0.20
Old People In Flats	537	29.14	0.17
New Town Materialism	25270	28.10	0.09
Dignified Dependency	2801	27.74	0.46
Upper Floor Families	8555	26.67	0.37
Tower Block Living	580	25.87	0.61
Low Horizons	23617	25.81	0.48
Families On Benefits	13560	24.15	0.50

Source: Richard Webber and Tim Butler, Classifying pupils by where they live, CASA Working Paper 99, 2005.

Some of those types in the sixth group – that would receive the highest level of pupil premium – have lower IMD scores (i.e. deprivation is not as severe) than some of those in higher groups; which illustrates the problem of using indicators that are primarily economic rather than social or cultural.

Once the MOSAIC segments have been grouped according to average GCSE performance, financial values need to be assigned to each group. Ideally these values would be calculated according to the cost of bringing attainment for children from disadvantaged backgrounds up to the national average. However, as PriceWaterhouseCoopers found, when deriving the original value for the Additional Education Needs (AEN) in 2002, this is more or less impossible. They surveyed almost 4,000 schools asking for the costs of teaching children with AEN and while there was some agreement about the existing costs (extra teaching assistants; teacher time; pastoral support) there was a huge variation in the "unmet need" reported by schools i.e. the needs that schools were not able to support for lack of resources. School estimates ranged from very little to just under £27,000 per pupil. Estimates were arbitrarily capped at £1,800 by PWC meaning that the mean of all the school estimates was £590 rather than £1,020 as it would have been if left uncapped. This was reduced to £250 in another arbitrary change made by the Government because of cost pressures.[61]

The schools making the highest estimates were probably, though, the most accurate. Because schools have a relatively small impact on pupil attainment compared to parents and peer groups a very large amount of money would have to be spent to get *all* students from the most deprived social groups to the national average. There have been no studies looking at how much would be needed in the UK but American researchers have found that nine times as much money would need to be spent on black children to get them to the same average level of attainment as whites (American reseachers tend to use race as a proxy for deprivation rather than class).[62]

Setting the premium, even for the most deprived children, at nine times the base per pupil cost (around £40,000) is not, of course, remotely feasible. Nor, even if there was, would there be enough teachers to provide all the one-on-one tutoring this would pay for. However, we believe it is fair to argue that the premium should be a high as possible. Taking into account the current economic conditions we have put as much money into our theoretical premium as feasible without assuming tax increases or shifts from non-educational spending to pay for it.

Working from these assumptions we assigned £500 for children in Group 4 of our MOSAIC groupings; £2,000 to Group 5 and £3,000 to Group 6 (there is more on the total cost in the next chapter). The reason for spreading the money across all of the bottom three groups is that spending it all on the most deprived is too crude – it would mean schools with only slightly different kinds of population getting very different amounts of money.[63] This is one of the main problems with using just FSM – 14.4% of children are eligible for FSM but 46% would be given extra support through our pupil premium. This is roughly the same number that do not achieve 5 A*-C grades at GCSE; and of course there is a strong correlation between the two groups. By grading the amounts across the three worst performing MOSAIC groups we still ensure that the most deprived get the most money but that all of the groups that currently are below average get some extra support. The maximum amount for Group 6 pupils - £3,000 – is roughly equivalent to the uncapped version of the PWC AEN allowance adjusted for inflation.

61 Johnson, p. 5.

62 Ludger Woessmann and Paul Peterson (editors), *Schools and the Equal Opportunity Problem*, (MIT Press, 2007).

63 There are relatively similar number of pupils in groups 4,5 and 6 (14.5%, 15.5% and 16.1% of all pupils respectively) so the amounts allocated to each group could be tweaked proportionally without affecting the overall cost (for example, £750 for Group 4 and £1,750 for Group 5). It would, of course, though affect the amount going to each school. We decided to focus disproportionately more funding on the poorest groups so as to make a significant funding difference to schools in the most deprived areas.

Table 2: Luton Secondary Schools Funding

School Name	% Students Achieving 5 A*-C including English and Maths	Existing Funding	MOSAIC Premium	FSM Premium
Cardinal Newman Catholic School	60%	£4,249	£4,493	£4,089
Icknield High School	53%	£4,285	£4,402	£4,078
Challney High School for Boys and Community College	50%	£5,222	£5,724	£5,795
Denbigh High School	43%	£4,922	£5,538	£5,576
Lealands High School	43%	£4,480	£4,760	£4,474
Putteridge High School	42%	£4,722	£5,071	£4,684
Stopsley High School	41%	£4,352	£4,207	£4,449
Lea Manor High School	40%	£4,766	£5,490	£4,872
Challney High School for Girls	37%	£4,933	£5,567	£5,501
Ashcroft High School	37%	£4,444	£4,973	£4,459
Halyard High School Now Barnfield West Academy		£5,044	£5,917	£5,201
South Luton High School Now Barnfield South Academy		£4,800	£5,719	£4,842

Amounts are annual per pupil funding
Existing funding taken from 2006/7 Section 52 returns - and includes current deprivation, SEN and Standards Fund money
GCSE results taken from official DCSF tables for 5 A*-C including English and Maths for 2007
FSM premium based on £5,500 per child on FSM
MOSAIC premium based on year-11 MOSAIC data from 2005 (we have assumed all other years have the same proportion of students in each MOSAIC group for our estimate)

To see how this would impact on school budgets in practice we added the pupil premium to existing per pupil funding for all 22,309 schools in England.[64] The above tables show three per pupil values for each secondary school in four example authorities. The first is the actual per pupil sum for 2006/7, including existing deprivation funding passed on by the local authority, the School Standards Grant and the Standards Fund money allocated to each school; the second is a hypothetical per pupil sum including the pupil premium based on MOSAIC outlined above (including existing funding for SEN pupils with statements, but without the existing deprivation funding, School Standards Grant or Standards Fund money); and the third is a hypothetical sum based on a single FSM measure (with £5,500 attached to each pupil with FSM and again including existing funding for SEN pupils with statements, but without existing deprivation funding, School Standards Grant and Standards Fund money – the overall cost would be the same at the MOSAIC pupil premium).

The first table gives these three values for the secondary schools in Luton – a fairly average authority. The first thing to note is that using the MOSAIC premium all schools bar one get more money than they do at the moment, while using the cruder FSM premium three schools are worse off and another two get roughly the same as they currently do. More important though is the relationship between performance and funding. The two schools that would have got the most additional funding under the MOSAIC premium, but not much more under FSM, were Halyard High School and South Luton High

64 We used data matching the 2005 pupil census for years 6 (for primary) and year 11 (for secondary) with MOSAIC codes provided by Professor Richard Webber. Full school data was unavailable so we weighted the total number of pupils according to the numbers in each MOSAIC group for the two years we did have. Data was unavailable or corrupted for about one sixth of schools. For these schools we kept existing costs (including standards funding) constant when measuring the total cost of introducing a premium.

Table 3: Nottingham Secondary Schools Funding

School Name	% Students Achieving 5 A*-C including English and Maths	Existing Funding	MOSAIC Premium	FSM Premium
Trinity Catholic School	73%	£4,455	£4,734	£4,232
Fernwood School	68%	£4,307	£4,146	£4,170
The Nottingham Bluecoat School and Technology College	57%	£4,718	£5,266	£5,258
Greenwood Dale School	51%	£4,457	£5,672	£5,025
Farnborough School Technology College	32%	£4,474	£5,318	£4,820
Ellis Guilford School and Sports College	30%	£4,672	£6,068	£4,954
The Nottingham Emmanuel School	30%	£5,959	£5,502	£5,946
Henry Mellish Comprehensive School	27%	£4,968	£5,986	£5,061
Big Wood School	25%	£4,709	£5,942	£4,353
Fairham Community College	22%	£6,074	£6,393	£5,292
Top Valley School	22%	£4,383	£5,341	£4,327
William Sharp School	20%	£4,733	£6,343	£5,130
The River Leen School	14%	£4,625	£6,044	£5,206
Haywood School	10%	£6,713	£6,525	£7,100
Elliott Durham School	7%	£5,706	£6,429	£5,604
Hadden Park High School	7%	£4,778	£6,462	£5,357

Amounts are annual per pupil funding
Existing funding taken from 2006/7 Section 52 returns - and includes current deprivation, SEN and Standards Fund money
GCSE results taken from official DCSF tables for 5 A*-C including English and Maths for 2007
FSM premium based on £5,500 per child on FSM
MOSAIC premium based on year-11 MOSAIC data from 2005 (we have assumed all other years have the same proportion of students in each MOSAIC group for our estimate)

School. Both became Academies last year because their performance was so bad. The same is true for Ashcroft High School – the next (equal) worst performing school in Luton and Lea Manor (the next worst). This illustrates clearly that low parental income is not necessarily a good fit with low performance. Taking culture and neighbourhood into account is far more accurate. Incidentally if the differences between the funding models don't seem significant – consider that Lea Manor has 1110 pupils – the MOSAIC premium would bring an extra £800,000 a year, which would pay for around 25 extra teachers.

The next three tables are more extreme examples that illustrate the superiority of the MOSAIC premium even more clearly. Table 3 gives values for the secondary schools in Nottingham – which has some of the worst performing schools in the country. Again there is a strong correlation between the value of the MOSAIC premium and poor performance. The two schools that have fewer than 10% of students achieving 5 A*-C including English and Maths at GCSE would both get far more money under a MOSAIC premium than an FSM one. Both these schools are situated near extensive estates which have serious crime problems and where young people often have few positive role-models. The fact that many parents earn a little more than the cut off for FSM is not particularly relevant. MOSAIC picks up these

Table 4: Tower Hamlets Secondary Schools Funding

School Name	% Students Achieving 5 A*-C including English and Maths	Existing Funding	MOSAIC Premium	FSM Premium
Oaklands School	56%	£6,849	£7,466	£8,068
Morpeth School	48%	£6,510	£7,019	£7,143
Mulberry School for Girls	48%	£6,304	£7,611	£8,134
Central Foundation Girls' School	47%	£6,304	£7,180	£7,679
Swanlea School	42%	£6,335	£7,310	£8,220
Stepney Green School	36%	£6,550	£7,397	£8,399
Bishop Challoner Catholic Collegiate Girls School	35%	£5,791	£6,616	£6,740
George Green's School	34%	£6,979	£7,390	£8,350
Sir John Cass Foundation and Redcoat Church of England Secondary School	33%	£6,335	£7,302	£8,339
Langdon Park Community School	32%	£6,686	£7,611	£9,637
Raine's Foundation School	32%	£5,854	£6,450	£6,828
Bow School	30%	£6,876	£7,338	£9,901
Bethnal Green Technology College	26%	£6,610	£7,182	£7,767
St Paul's Way Community School	20%	£6,805	£7,699	£9,502

Bishop Challoner Catholic Collegiate Boys School not included due to lack of MOSAIC data

Amounts are annual per pupil funding
Existing funding taken from 2006/7 Section 52 returns - and includes current deprivation, SEN and Standards Fund money
GCSE results taken from official DCSF tables for 5 A*-C including English and Maths for 2007
FSM premium based on £5,500 per child on FSM
MOSAIC premium based on year-11 MOSAIC data from 2005 (we have assumed all other years have the same proportion of students in each MOSAIC group for our estimate)

differences and would see a lot more money go to these schools. The third worst performing school, Haywood, bucks the trend as the local authority already allocate it a huge amount of Standards Fund money – but it is due to close in 2009 in any case. Otherwise the lowest performing schools all get much more money under MOSAIC than either of the two other methods.

The final two tables offer perhaps the starkest contrast between the funding models. Table 4 gives values for secondary schools in Tower Hamlets and Table 5 for those in Barking and Dagenham. In terms of performance the two sets of schools are relatively similar – below average, but not as bad as Nottingham, yet Tower Hamlets receives considerably more funding as a lot more children take FSM (and much of the existing funding model is based on FSM). Under a pure FSM model Tower Hamlets schools receive vastly more money than those in Barking. Bow School would receive almost £10,000 per pupil (£2,500 more per pupil than they get at the moment).[65] Under the MOSAIC premium schools in both authorities would be better off but by similar amounts. Again, this is because a lot of children in Barking live on white working class estates with low aspiration but incomes above the relatively low level needed to qualify for FSM. In Tower Hamlets far more children quality for FSM but the majority are Bangladeshi –

65 If you were wondering why the MOSAIC premium seems to be more generous than the FSM one in Nottingham and Luton while costing the same overall this is the reason – huge amounts of money would be transferred to a few very (financially) poor areas – especially in inner London.

Table 5: Barking and Dagenham Secondary Schools Funding

School Name	% Students Achieving 5 A*-C including English and Maths	Existing Funding	MOSAIC Premium	FSM Premium
Barking Abbey Comprehensive School and Sports College	58%	£6,445	£6,392	£6,126
All Saints Catholic School and Technology College	55%	£5,570	£6,217	£5,501
Robert Clack School	50%	£5,795	£6,869	£6,463
The Sydney Russell School	37%	£5,423	£6,609	£6,152
Dagenham Park Community School	33%	£6,393	£7,015	£7,139
Eastbury Comprehensive School	30%	£6,010	£6,933	£6,996
Eastbrook Comprehensive School	28%	£4,995	£5,845	£5,004
The Warren Comprehensive School	28%	£5,369	£6,226	£6,402

Jo Richardson Community College not included due to lack of MOSAIC data

Amounts are annual per pupil funding
Existing funding taken from 2006/7 Section 52 returns - and includes current deprivation, SEN and Standards Fund money
GCSE results taken from official DCSF tables for 5 A*-C including English and Maths for 2007
FSM premium based on £5,500 per child on FSM
MOSAIC premium based on year-11 MOSAIC data from 2005 (we have assumed all other years have the same proportion of students in each MOSAIC group for our estimate)

and Bangladeshi families tend to have high aspirations for their children.[66] This is one reason why Tower Hamlets is one of the fastest improving authorities in the country despite refusing central government and business help in the form of Academies. Again the actual performance of schools correlates far better with the MOSAIC premium than either existing funding or a premium based on FSM.

Further questions and variations

The figures contained in Tables 2-5 are based on a number of assumptions; so it is worth going over a few potential variables and questions to be resolved that could have significant impact on the amounts involved.

1. *The age-weighted base per pupil value:* our figures hold the base per pupil figure constant across all three columns. This "base" figure was calculated by taking the existing age-weighted funding and adding in pupil-led special educational needs funding (which is typically tied to a specific pupil statement of needs and would need to paid regardless of any other premium). The age-weighted base funding is calculated differently for each local authority – because of deprivation funding and the area cost adjustment in the Dedicated Schools Grant – and is in turn based on an out-of-date central funding formula. If we were to move to a National Funding Formula, as recommended above, there would be a national per pupil base with a standard area cost adjustment (ACA). However, we decided not to try to incorporate this because it is impossible to calculate an ACA without knowing what will happen to the national pay agreement. We believe that the Academies programme has blown a hole through the agreement (Academies can set their own pay).[67] The logical extension is to allow all schools to opt-out of the agreement, in

66 See, for example, Geoff Dench, Kate Gavron and Michael Young, *The New East End*, (Profile Books, 2006).

67 See Sam Freedman, Briar Lipson and David Hargreaves, *More Good Teachers*, (Policy Exchange, 2008).

which case average local pay rates become much more important and the ACA needs to be more comprehensive. In any case the national base / ACA element of the national formula would need to be phased in over a number of years if it led to dramatic changes from what schools currently received. Our intention, with these figures, is only to show how the pupil premium aspect of any formula could work.

It is also worth remembering that, at the moment, the money passed on to schools depends to some extent on how much their local authority holds back which differs quite dramatically (from 5%-22%). If local authority budgets were fully separated from schools budgets and consistent across the country then these differences would be eliminated. This would likely mean that the per pupil age-weighted base for schools in some authorities would increase and for others it would fall. It should be possible to set the local authority budget at a low enough level that the considerable majority of schools would be better off – by making sure that it covered only those areas that had to be dealt with centrally (such as admissions, transport and pupil referral units).

2. *Primary vs. Secondary:* we have assumed that the premium would be paid equally for children at primary and secondary schools. Given that the base rate is lower for primary schoolchildren (they are taught in bigger classrooms and without specialist subject equipment) it could be argued that they should receive a proportionately lower premium; which would mean that a higher premium for secondary-age pupils would be affordable. Equally one could argue that primary is currently under-resourced given its key role in securing the life chances of its charges. There is relatively little a secondary school can do if the children they admit cannot read and write.

It might also be necessary to gradate a primary premium more gently as they have smaller annual intakes so annual variations in pupil population could create greater instability than at secondary level. The principal though is the same – typically the schools that have the weakest Key Stage 2 scores would benefit most from a MOSAIC premium and a pure FSM premium would mean too much variation between schools of relatively similar intake in terms of attainment. Incidentally, it is worth noting that it makes sense for pupils to be reassessed for funding purposes when moving from primary to secondary as their parents situation may have altered.

3. *Sixth-form pupils:* we have assumed that A-level pupils would be eligible for a premium even though they are funded separately via an allocation from the Learning and Skills Council (LSC). The LSC allocation includes an amount for deprivation – calculated using a similar range of factors to the DCSF formula; so in our calculations A-level pupils are getting counted twice for the purposes of deprivation (we have taken this into account when calculating overall costs). Sixth-form pupils make up just 11% (many students move to sixth-form or FE colleges at sixteen) of secondary school pupils - and a much higher proportion are from well-off families than their younger counterparts – so it does not make a huge difference. Not applying the premium above 16 would make some sense though as by definition if young people have made it A-level standard they are doing relatively well (and very few sixth-formers take vocational qualifications in school sixth forms at the moment), so perhaps money should be targeted earlier in the school cycle. This approach would save some money that could be used to make the 5-16 premium a little more generous (or cut overall costs).

If, however, the premium was to be extended to 18 then does the national funding formula need to be extended to educational provision outside of schools? The LSC is in the process of being disbanded with the money for 16-18 due to be passed to local authorities so it is a propitious time to re-think funding for this age group. If A-level funding was to be taken into a national schools funding formula, though, what would happen to 16-18 year olds in other forms of education? In a recent article Professor Alison Wolf notes that most colleges recruit actively and are not oversubscribed in the way the best schools are so there is less need for an incentive.[68] She has also argued that a premium might not be suitable for further education or apprenticeships as it could act as an incentive against accepting adult learners as providers would focus on 16-18 provision.

However, not applying the premium above 16 might provide a disincentive to schools to encourage pupils to stay on. To cope with the disincentive effect against adults, the scheme could be extended to cover them as well – although, of course this would raise its costs.

4. *Special Educational Needs:* as mentioned above we have included pupil-led SEN money in all three columns of tables 2-5. This money is typically assigned by local authorities to schools as funding attached to statements of special needs; in other words for children that have an identifiable and serious condition that requires additional funding. We believe that this money would continue to be paid regardless of any premium as most types of statemented SEN do not have a strong proxy relationship with deprivation.

At the moment authorities do not receive a separate pot of money to cover statements. Instead part of the DSG is allocated on the basis of "high-cost" SEN incidence (estimated at 3.4% of the school population). Unfortunately this is calculated in a very rudimentary manner. Some is allocated purely on the basis of student numbers as some kinds of severe SEN have no proxy (they occur randomly). The rest is allocated on the basis of deprivation. Here low birth weight and incidence of income support were used rather than FSM – as they were stronger proxies for SEN.[69] Of course, as with all other parts of the DSG, the current allocations are out-of-date as they are simply based on past allocations.

> "If A-level funding was to be taken into a national schools funding formula, though, what would happen to 16-18 year olds in other forms of education?"

If we were to move to a national funding model then money for statements could be directly assigned from the centre according to the needs of individual children – avoiding the need to incorporate severe SEN in the main national formula. In fact this would help solve an ongoing problem with the statementing process: local authorities' conflict of interest (they decide whether a pupil needs a statement and then have to pay the costs of any statements awarded). If statements were awarded by an independent panel and were then paid for out of a dedicated pot by the national agency this conflict could be resolved.[70] There is, of course, an accompanying risk that the number of statements would skyrocket along with costs – the system would have to be designed so no-one involved had a perverse incentive to artificially inflate the number of statements awarded.

There remains a separate issue of how to deal with less serious SEN within a national funding formula. There is no separate allocation for this in the current DSG and it is difficult to see why one would be necessary given the strength of the relationship between low-level SEN (primarily behavioural problems) and social deprivation. Using MOSAIC is helpful in this respect. As we have seen MOSAIC is

68 Alison Wolf, *Premia Post-16: Not so Easy?*, Economic Affairs, June 2008, pp.82-84.

69 DCSF, DSG Formula Review Papers, High Cost Pupils – Special Education Needs, 14th July 2008.

70 This pot could also be used to pay for places at the successors to Pupil Referral Units (PRUs) for children excluded from mainstream education. Most (though not all) pupils at PRUs have some kind of SEN.

good at identifying communities with low aspiration (even if they are not particularly financially disadvantaged). It is precisely these communities that produce large numbers of children with behavioural problems, which is one of the main reasons why performance is so low at their schools.

5. *Losers:* introducing a premium inevitably means that the budgets of some schools in wealthier areas will decrease. Under the model we've used many more schools would win than lose (by a ratio of almost 2:1) but it is unlikely that this government or any future government would want to reduce the budget of any school, with immediate effect, to the point where they had to lay off staff. There are a number of ways the number of "losers" could be reduced. Increasing the age-weighted base at primary level (by reducing the premium) as discussed above would limit the number of serious losers. Adding money saved by making local authority budgets consistent to school budgets would also reduce the number of overall losers, especially if this was weighted towards wealthier areas through an area cost adjustment.

Even if these measures were introduced there would still be some serious losers. Though it is impossible to know how many without modelling the steps mentioned above we estimate it would be in the region of 1,000-2,000 schools or between 5%-10%. For these schools a transition fund could be set up to manage a reduction in budgets over a number of years. This would cost in the region of £250 million to start with (based on a minimum average of £150,000 per school). Assuming a pupil premium were not introduced before the next funding settlement in 2012, this fund could be paid for through an inflationary rise in school budgets as long as the figures we have used for our modelling were stable.

A National Formula – what organisation should deliver it?

A National Funding Formula would have to be delivered via an arms-length National Funding Agency so as to avoid unhelpful politicisation. The DCSF already provide direct funding for Academies, but at the moment this represents fewer than 100 out of 22,000 schools. National funding would require a separate bureaucracy to develop the formula, keep it up-to-date and resolve disputes between schools over individual pupils. If the DCSF tried to handle this centrally it would overwhelm its strategic functions while drawing ministers into specific controversial cases that would undoubtedly arise. England already has experience of a National Funding Agency – between 1994 and 1999 a Funding Agency for Schools (FAS) was set up to calculate and pay grants to grant-maintained schools, to monitor their financial position and to administer a borrowing regime for the schools. Though there were numerous problems with grant-maintained school model the FAS worked well. In 1998 it allocated over £2 billion to over a thousand grant-maintained schools with a staff of 326 and operating costs of £12.4 million.[71]

Once a National Funding Agency had been established it could take on additional responsibilities. For example it could also fund statements of Special Educational Needs – with decisions on whether to grant the statements made either by local authorities or independent local assessment boards. If the pupil premium were to be accompanied by new legislation that allowed schools to be built by non-state providers regardless of local authority support – as is currently promised by the Conservatives and Liberal Democrats – then a Funding Agency could also take responsibility for new school applications. Central government could set a range of criteria that would have to met by any new entrant and the Funding Agency could decide whether new applicants fulfilled these criteria. Again this would help the DCSF from becoming embroiled in controversies over individual schools.

71 http://www.archive.official-documents.co.uk/document/cm41/4157/dee02.htm

3

Cost

It is axiomatic that policy proposals should have realistic cost implications. We saw in the previous chapter that a pupil premium could hoover up considerable funds and still not achieve the objective of parity between deprived and wealthy communities – the difference in performance is simply too great. We argued that the premium should be set as high as possible without requiring additional taxation or cuts in other departmental budgets. The amounts given for children from the most disadvantaged communities, which we used to demonstrate how the premium would work in the previous chapter, were roughly equivalent to the uncapped cost figures for Additional Educational Needs produced by PriceWaterhouseCoopers in their 2001 analysis.

How much would the pupil premium cost and how will it be paid for?

Using figures from the 2006-2007 "Section 52" returns from local authorities we calculate that the total cost of per capita funding delegated by authorities (and the Learning and Skills Council) to schools was £26.4 billion. This figure excludes money spent centrally by local authorities on services for schools and money delegated to schools via the School Standards Grant and the Standards Fund. If our model of a pupil premium, using MOSAIC, had been operational in 2006-7 the amount delegated directly to schools would have been £31 billion; an increase of £4.6 billion.[72]

We believe this can be paid for by reassigning funds from within the education budget. Much of the extra money could be raised by ending existing central government grants sitting outside the Dedicated Schools Grant. Moving to a straightforward national formula with just three elements – a base age-weighted amount, an area cost adjustment, and a pupil premium – with no additional major sources of funding would massively simplify the system. The premium could then act as a clear incentive for headteachers to avoid cream skimming.

There is no good reason for continuing with significant funding streams outside the main national formula. The School Standards Grant would be entirely redundant if all school revenue was paid directly to schools. Its only purpose at the moment is to allow central government to bypass local authorities. There is also no good reason to continue with the Standards Fund which is based on a historical amalgam of defunct policy grants. It typically diverts funds to schools in deprived areas but the pupil premium would do the same in a far more logical and consistent way. The same is true for other politically motivated pots of money such as the "personalised learning" grant and the "national challenge" funds. These kind of short-term funding interventions increase the complexity of the funding system and confuse headteachers. As we saw in the first chapter headteachers find this kind of funding extremely difficult to manage; a sudden influx of funds for a specific initiative (like the beacon schools scheme) will often lead to a restructuring of staff that then becomes unaffordable when the money stops. It was changes in Standards Fund allocations that led to the financial "crisis" of 2003 for which the government blamed local authorities.

72 The full cost with MOSAIC was £31.2 billion but this double-counts deprivation funding for A-level students as LSC deprivation funding is included as well as the pupil premium. We assume deprivation funding accounts for around £200 million (11% of the total £1.75 billion LSC funding for A-level pupils) as no official figures are available.

Table 6: Standards Funds Allocation

Standards Fund Grant* (millions)	2007-8
Ethnic Minority Achievement	178.6
Targeted Improvement Grant	12
Extended Schools	64.5
Targeted Support for Primary Strategy	141.4
Targeted Support for Secondary Strategy	106.3
Primary Strategy: Communication Language and Literacy	2.6
School Improvement Partners	12.6
Music Services	59.6
Music at Key Stage 2	23
Education Health Partnerships	11.6
Playing for Success	9.5
Regional School Travel Advisors	0.2
London Challenge	0.2
Choice Advisors	5.3
School Workforce Data Collection Pilot	1.8
School Intervention Grant	15
Flexible 14-19 Partnership Funding	25.9
Walking to School Initiatives	2.6
General Duty on Sustainable Travel	4
Total	676.7

* Excluding School Development Grant and Capital Funding (Source: DCSF)

Using the latest available figures from 2007-8 – the SSG cost £1.17 billion, the School Development Grant (which makes up most of the Standards Fund) cost £1.84 billion, other Standards Fund grants (not including school meals grants) came to £676 million and the personalised learning grant was £356 million, giving a total of £4.04 billion.[73] It is unlikely that any government would want to allocate all of this money directly to schools as the "other Standards Fund grants" cover a considerable range of political priorities – for example in 2007-8 £250 million was spent on grants to support the national primary and secondary strategies. However, it is likely that a number of these grants could be rolled into a pupil premium (see Table 6 for a full list). Even if a future government did not wish to cease any of these grants – or wished to use the money for a different set of policy-oriented grants - the SSG, the personalised learning grant and the School Development Grant alone add up to £3.36 billion.

In addition to this there are further savings that could be made within the education budget to fund a pupil premium. One of the most significant new lines in the budget since 2002 has been the Education Maintenance Allowance – a means-tested payment of up to £30 a week for young people in post-compulsory education between the ages of 16-19, introduced to boost post-16 participation and attainment.[74] In 2007-8 it cost £550 million.[75] To date the impact on post-16 participation and attainment has been marginal at best. A recent analysis published by the Institute for Fiscal Studies (IFS) suggests that there

73 DCSF, Section 52 Budget Summary 2007-8, (lines 1.0.2; 1.0.4; 1.0.6; 1.0.7; 1.6.1; 1.6.2)

74 http://www.direct.gov.uk/en/EducationAndLearning/14To19/MoneyToLearn/EMA/DG_066951

75 http://www.dcsf.gov.uk/aboutus/reports/pdfs/7493-DCSF-AnnualReport.pdf, p.89.

may have been an increase of just 2% in the number of female participants post-16 and no increase at all in the number of male participants.[76] In terms of attainment, the IFS analysis suggests that it may not have increased average performance at all for female students and by just one quarter of one A-level grade for male students.[77] Figures obtained by the Conservative party suggest that just 400 extra children on FSM have stayed on to do A-levels since 2004.[78] So the EMA is, in effect, a massive deadweight cost – providing payment to 46% of learners,[79] the vast majority of whom would have been in post-16 education in any case. Once new government legislation to make 16-18 education or training compulsory comes into force in 2013 the entire cost of the EMA will effectively become deadweight. As young people will have to participate anyway, it can have no positive incentive effect.

The only possible remaining argument for the EMA is social justice – that young people from poorer backgrounds deserve to be supported from 16 rather than at 18. This is a pretty weak argument given that the vast majority of such young people live at home – and their parents receive child benefit until they are 19 (or leave full-time education). In fact the government originally intended to pay for the EMA by ending child benefit for over-16s but were warned off by child poverty campaigners.[80] Continuing the EMA and the post-16 child benefit while making post-GCSE education compulsory is entirely illogical. There is a far better social justice case for the pupil premium – improving the resources for schools in deprived areas and reducing cream-skimming would significantly boost attainment before 16. This in itself which would lead to much greater rises in post-16 participation than the EMA has managed, and it could be done by raising aspiration rather than forcing, or bribing, young people to take courses that they have not been adequately prepared for in their previous schooling. Moreover the pupil premium is considerably easier to administer, while the EMA requires a complex means-test that adds another layer of complexity to the strained education bureaucracy. This year computer problems have left numerous teenagers without the payments they had been promised.[81]

There are a number of other existing costs that could be cut to provide funds for a pupil premium. The National Challenge programme for "failing" schools that was launched this summer to widespread dismay in the education community will cost £400 million over the next three years.[82] As numerous commentators have pointed out, it makes little sense to focus this kind of resource and attention on a list of schools derived from one variable that can change dramatically from year to year (whether fewer than 30% of their pupils receive 5 A*-C including English and Maths). Is a school where 31% of children achieve 5 A*-C so much more successful than one where just 29% of children make the cut? Furthermore the interventions on which money will be spent may well be counterproductive. £140 million will be spent on National Challenge Advisors, Leadership programmes and additional learning support, all of which cut across existing programmes (School Improvement Partners, the National College of School Leadership and the National Strategies / Making Good Progress / Every Child programmes) and are likely to cause confusion and bureaucratic overload. The rest of the money will be spent on Trusts and Academies – but this spending would be unnecessary if the structural reforms proposed by the Conservatives and Liberal Democrats came into force alongside the pupil premium.

Another significant, and entirely unnecessary, drain on education resources in the future is the ContactPoint database, which will hold records of all the children in the

76 Haroon Chowdry, Lorraine Dearden and Carl Emmerson, *Education Maintenance Allowance: Evaluation with Administrative Data,* Institute for Fiscal Studies, November 2007, p. 3. The IFS researchers used two different methods to analyze the impact of the EMA. The first saw participation and attainment in pilot local authorities which began receiving EMA in 1999 compared with authorities designated as controls when the IFS conducted their original analysis of the EMA pilots. The second compares authorities which began receiving EMAs in 1999 and 2000 with all other authorities in England. We quote figures calculated using the first of these methods.

77 Ibid., p.6.

78 http://www.guardian.co.uk/education/2008/aug/04/tories.allowance?gusrc=rss&feed=education

79 http://www.theyworkforyou.com/wrans/?id=2008-04-29b.201685.h&s=%22education+maintenance+allowance%22

80 http://news.bbc.co.uk/1/low/education/2116635.stm

81 http://www.timesonline.co.uk/tol/life_and_style/education/article4656751.ece

82 £200 million of this is "new" money announced in the 2008 budget the other £200 million will be diverted from elsewhere in the education budget. DCSF, *National Challenge: A Toolkit for Schools and Local Authorities*, June 2008, p.17.

country so that practitioners in health, education and social services will be able to highlight concerns about potential at-risk children. It was set up in the light of the Victoria Climbie case, despite the fact it would have made no difference to this tragedy. It has been widely criticised by children's charities and school groups for potentially placing young people at risk because so many people will have access to the database. It has also been criticised for logistical naivety as the very children who are most at risk are the least likely to have up-to-date information available for a database. The House of Lords select committee report on the database, published in July 2007, synthesised many of these concerns:

> *"We do not consider that the Government have demonstrated conclusively that a universal database is a proportionate response to the problem being addressed, or that the additional benefits of a universal approach justify the additional costs and risks, as compared with a selective approach which would not include a child in the database unless or until the child's needs for specialist or targeted services became apparent…. On current estimates, ContactPoint will hold data on 11 million children, and there may be over 300,000 users of the scheme. The enormous size of the database and the huge number of probable users inevitably increase the risks of accidental or inadvertent breaches of security, and of deliberate misuse of the data (e.g. disclosure of an address with malign intent), which would be likely to bring the whole scheme into disrepute."*[83]

ContactPoint has already run into trouble. It was supposed to be launched in Spring 2008, and again in October 2008 but the pilot scheme has now been delayed until January 2009.[84] Further delays are likely. Given this, the original cost estimates seem ludicrously low. As Terri Dowty, from the charity Action on Rights for children (ARCH), noted in her evidence to the House of Lords:

> *"The Government has already awarded the contract for construction of ContactPoint to CapGemini and set-up costs are estimated as £224m. We doubt this figure, particularly given the frequency of cost overruns on government IT projects. To give just one example: in the first year of HM Revenue and Customs' 'Aspire' programme, the cost of the 10-year contract with CapGemini reached £539m against an estimated spend of £385m…. The annual running costs of ContactPoint are set at £41m. This amounts to around £270,000 per local authority to cover the costs of staffing, training, system maintenance and administration. We are concerned that the figure of £41m is a substantial underestimate."*[85]

The DCSF budget has allocated £88 million, £86 million, and £85 million to ContactPoint over the next three years in capital and revenue costs. An honest re-costing of the programme would produce figures far higher. Scrapping the database now would save at least £100 million a year.

There are other ways of saving money within the education budget – a number of existing education quangos could be scrapped or merged, for example. But the pupil premium could be paid for by the savings outlined above. For the purpose of the table below we have assumed that all existing Standards Fund grants would be diverted to the premium except for those currently targeted on the national strategies as it is unlikely that any future government would wish to scrap these without putting anything in their place.

83 House of Lords, Merits of Statutory Instruments Committee, 27th report 2006-7 session, *Draft Children Act 2004 Information Database (England) Regulations 2007*, July 2007.

84 http://www.guardian.co.uk/education/2008/sep/02/schools.children1

85 http://www.publications.parliament.uk/pa/ld200607/ldselect/ldmerit/146/14608.htm

Table 7

Cost of Pupil Premium	£4.6 billion
School Development Grant	£1.84 billion
School Standards Grant	£1.17 billion
Personalised Learning Grant	£356 million
Other Standards Fund Grants	£426 million
Education Maintenance Allowance	£550 million
National Challenge (annual)	£133 million
ContactPoint	£100 million
Total	£4.6 billion

Of course, should any future government wish to raise additional tax revenue to support the pupil premium, then it could either be paid for without recourse to existing funds or the premium could be set at higher levels. The Liberal Democrats have said that they would raise £2.5 billion for the premium; £1.5 billion by taking wealthier families out of the tax credit system and a further billion by "savings from duplication and waste in Westminster".[86] The first half of this package is realistic but it is questionable whether another tax rise should be used to fund the premium when the education budget has more than doubled in the last ten years. Given the current economic climate it is more likely that any tax increases from a future government would be needed to fund other targeted tax cuts or reductions in borrowing.

Will the money add value?

There is a clear social justice case for the pupil premium. The funding system we have outlined would be far more consistent and logical than the current one; and it would redistribute money to those schools which look after the most deprived children. It will only have a positive impact, though, if schools spend the money on resources that will boost the attainment of their pupils. If the government could spend it better through, for example, Standards Fund grants, then it would not make sense to implement all of these reforms.

The evidence of the benefits of increased spending on education over the past ten years suggests that the Government have not been particularly successful at allocating resources. Figures published by the Office of National Statistics (ONS) last year show that school productivity (defined by GCSE results and the number of children in schools) had increased by only 1% between 1996 and 2006 despite an 83% increase in spending from £27 billion to £50 billion (which includes money spent on other areas of education as well as schools).[87] Since 1999 productivity has actually been falling.

Some of the money ploughed into education by the current Government was never likely to have a significant impact on productivity, but was, nevertheless, necessary. For example, increased capital expenditure on a crumbling infrastructure and increases in teacher salaries that had fallen too low. However, as we have seen, much of the new money has gone to schools in the form of grants oriented to a specific policy, with the aim of improving attainment. As the ONS figures show, the gains in attainment associated have not been proportionate to the increases in spending. Furthermore, it is arguable that the ONS are being generous in using official government attainment statistics. Analysis by academics at the University of Durham suggests that children of the same ability get higher GCSE results now than they did in 1996. Using their own "Yellis" test as a control they show that between 1996-2007 the average GCSE grade achieved by candidates of the same ability has risen by almost two-thirds of a GCSE grade.[88] If this analysis is correct then productivity has actually fallen on average over the last ten years.

86 http://www.guardian.co.uk/education/2007/nov/20/schools.uk2

87 http://www.timesonline.co.uk/tol/life_and_style/education/article2388507.ece; http://www.statistics.gov.uk/articles/nojournal/Education_productivity_2007_execsumm.pdf

88 Robert Coe and Peter Tymms, "Summary of Research on Changes in Educational Standards in the UK", in Mike Harris, *Education Briefing Book 2008*, (Institute of Directions, August 2008), pp. 97-98.

The key question is whether additional unsupervised spending by schools would produce even worse results. The evidence from our interviews with headteachers was encouraging, though the sample was not large enough to draw definitive conclusions. It was clear that spending priorities would differ widely between different schools indicating that there are few, if any, uniform problems that additional central government programmes could solve. The range of projects on which schools wished to spend money suggested that headteachers had given considerable thought to solutions that would be applicable to the particular problems of their communities.

One thing on which all our interviewees agreed was the primary importance of good quality teachers. Most heads said that their priority for extra spending would be either to hire more staff or better staff. As one put it when asked what she would spend extra money on: "it would be teaching, people make the difference, you invest in staff, you only raise achievement and give your children a wonderful education if you've got the right people doing it…"[89] Others gave similar answers: "It would be hiring additional qualified teachers. It wouldn't be hiring many unqualified staff, because in my view, when your needs are as complex as the ones we have to provide for; qualified, well-trained staff, even though they're more expensive, they contribute greater."[90]

There was cautious acknowledgement that to hire the best staff it would be necessary to offer higher salaries:

> *"Currently my school is doing extremely well in terms of 5 A*-Cs, but not very well if you include English and Maths, English is going brilliantly, the issue is Maths. I've got a Maths team that works very hard, I just don't have the depth. With that sort of money, I think I would be looking to appoint, in addition to my current staff, an advanced skills teacher, and probably a high level teaching assistant, and the combination of those two would give sufficient flexibility within the Maths team, to be able to target all the difficulties that we've got."*[91]

> *"I think we can push the workforce performance thing much further, and have qualified support staff, and have excellent teachers in shortage subjects….Pay your Maths teacher £60,000 a year, let them teach large classes, but in technology rich areas, supported by three or four good maths support staff."*[92]

Headteachers talked about making the most of existing flexibilities within the national pay agreement – especially the new Advanced Skills Teachers for excellent teachers who wish to stay in the classroom. But there was also agreement from the majority of interviewees that additional flexibility would help them attract the best teachers, especially if they had more money than schools in wealthier areas:

> *"I think that heads are still, as they've always been, creative in the way they use recruitment and retention [allowances] but certainly a freeing up of that area would be a good idea. It does seem odd, for example, that schools have to come up with a recruitment and retention policy which more or less treats everybody the same when the whole purpose of the policy is to recognise that some people are harder to recruit than others, so to get a head of maths may cost more than to get a head of history."*[93]

> *"The key [to resolving teacher shortages] is the workforce reform element, teachers don't like it, the unions despise it, but I think there is a lot of mileage there, in terms of the para-professional thing, we still have to recruit good mathematicians and good scientists, if they are available."*[94]

89 Headteacher, primary school, London.

90 Headteacher, secondary school, London.

91 Headteacher, secondary school, North-East.

92 Headteacher, secondary school, London.

93 Headteacher, secondary school, London.

94 Headteacher, secondary school, London.

"Ideally the performance management system would be more flexible than now, and we would be able to offer staff more of a financial incentive, but one has to realise this can be very divisive as well, we have to be very sensitive about it."[95]

In "More Good Teachers", a report published by Policy Exchange in July 2008, it was recommended that schools should be able to opt out of the national pay agreement (at the moment only Academies are exempt).[96] We argued that this would benefit schools in deprived areas who need to pay more to compensate staff for a tougher working environment; especially if, thanks to a pupil premium, they were better off than other schools. Our thinking is explained in more detail in the full report, but the interviews undertaken for this project suggest a significant number of headteachers would make good use of any additional freedoms.

Another theme that ran through a number of interviews was pastoral support. This, though, meant something different to each of the headteachers we spoke to, dependent on the kind of community they were serving. For some it primarily involved additional academic support:

"Pastoral care is a slightly dated term, it implies a counselling role…which clearly has to be done by schools…But I'm talking about a slightly more focussed academic coaching…I guess the best way that I can describe it is what students benefit from at university, where they have a personal tutor, who really challenges and pushes them, and knows them extremely well as a learner…the quality of that is dependent on the time that is spent having those deep conversations about learning, and that's what makes the difference to young people in schools, [but] both structurally and financially we find that difficult."[97]

"Additional funding should be geared to…increasing flexibility, personalising more effective pathways for individuals…our maths department want to experiment with bigger class sizes to give greater flexibility to take smaller groups of children off….but…all of that costs money."[98]

"I think we have to be flexible in the way we use our resources. For example…for year 7 intake, we try to indentify a group of kids who are particularly low attainers, poor literacy, poor numeracy and you can relate entirely to poor social class background. We put these kids into much smaller groups, we then tailor curriculum to meet their needs, and it's more like a primary curriculum than a secondary curriculum, with a smaller number of teachers working with those kids…"[99]

For others pastoral support meant programmes to increase the aspirations of their pupils:

"It's raising money to do all the other enrichment things…when they say they can't afford to go away for the week, paying for them…and if they want to learn the trombone then we've got a trombone for you to learn…or they can each go to football training or athletics training….all those things that the parents won't do, all the extra things."[100]

"We do a lot of residential trips and that sort of thing…trying to get funding for these things is difficult so you give students the advantage of these things, in extreme cases we had 23 who went across to China, because we've got a link over in Beijing and these kids learned Mandarin and that sort of thing, and we managed to get a lot of sponsorship, so we only paid a third of the £900 it cost. Managing that, a lot of work goes on, outside school hours just to set up these trips and trying to raise funding."[101]

95 Headteacher, secondary school, London.

96 Sam Freedman, Lipson and Hargreaves, pp. 61-65.

97 Headteacher, secondary school, London.

98 Headteacher, secondary school, Cambridgeshire.

99 Headteacher, secondary school, London.

100 Headteacher, secondary school, London.

101 Headteacher, secondary school, London.

Finally, there were some schools whose local communities were so deprived, financially and culturally, that the headteachers saw an urgent need for more basic pastoral support. One headteacher of a federation of schools explained:

> *"We have an exclusion unit that we run here, and we take students from the other school two miles away….very difficult school, all boys, mainly Caribbean, and you will find our unit is full of their students…the kids are terrifically disadvantaged, with vast numbers of Special Needs, poor behaviour, and there's a dozen children who are electronically tagged. We put them in detention and they pull out their plastic credit card which says I am under curfew, I need to be home at 4 o'clock….So I guess there's an example of a school with a large number of SEN kids, and there, your resource priority would need to be not just classroom support, it would need to be the pastoral side."*[102]

> *"Basically the money would go on support staff, the school is always under a lot of pressure, but so are the pastoral offices…It comes back to this, a tremendous amount of work goes into following up the pastoral problems which go with the students…We don't get much support, because we're not priority in the borough, we get somebody who comes in once every two weeks…the students we have that have an attendance problem need much more chasing up than that."*[103]

The solutions proposed in our interviews closely matched those suggested by academic research. American academic Eric Hanushek has established that there is no easily identifiable relationship between overall financial inputs and outcomes in the school system, and this has been confirmed by numerous studies of specific central or state programmes (in the US).[104] But, smaller scale studies show that specific, costly, interventions can have a significant impact on different types of schools.

This is not particularly surprising. As was evident from our interviews, and indeed our general experience of English schools, different schools require different kinds of programmes to boost results. Take class sizes, for example. Over the past few decades there has been a stream of studies showing class size has only a small, or in some cases non-existent, impact on performance.[105] This seems counter-intuitive until one considers the individual circumstances of each school. In some cases it could lead to a dilution of quality – if there are only a few highly able teachers and fewer children are given access to them. A number of headteachers we interviewed spoke of increasing class sizes to give more children access to the best teachers, if they could afford support staff to assist.[106] Where teacher quality was not such an issue other headteachers did want to reduce class sizes – especially for their weakest students who needed the most support. Bearing this in mind, a government programme to systematically reduce class sizes would have mixed results. Alternatively, giving the money directly to schools allows them to spend it appropriately.

The same is true for other forms of expenditure; extended services, ICT resources and longer school days all work well in the right circumstances but uniformly applied will provide only meagre returns on investment. The one form of expenditure which guarantees better attainment is teacher quality (though not necessarily as measured by teacher test scores). We discuss national programmes to improve quality extensively in "More Good Teachers", but it was encouraging that nearly all of our interviewees mentioned the importance of using funding to boost the numbers of high-quality teachers in their schools.

102 Headteacher, secondary school, London.

103 Headteacher, secondary school, London.

104 Eric Hanushek, *The Failure of Input-Based Schooling Policies*, The Economic Journal, 113 (February 2003), pp. 64-98; Eric Hanushek, "*School Resources*", in Handbook of the Economics of Education, ed. Eric Hanushek and Finis Welch, (Elsevier, 2006).

105 See, for example, Nye, B., L. V. Hedges, and S. Konstantopoulos, The effects of small classes on achievement: The results of the Tennessee class-size experiment. *American Educational Research Journal* 37:123–51 (2000) and Akerhielm, Karen, 1995. "Does class size matter?," Economics of Education Review, Elsevier, vol. 14(3), pages 229-241, September.

106 The UK's pre-eminent expert on class sizes, Peter Blatchford, has made a similar argument – that there are specific instances in which reducing class sizes is beneficial, for example with those struggling with literacy. He argues it should be carefully targeted, which is best done within schools. Blatchford, P., Russell, A., Bassett, P., Brown, P., and Martin, C., *The effect of class size on the teaching of pupils aged 7-11 years,* School Effectiveness and Improvement, 18, 2, June, pp. 147-172.

Despite this correlation between academic research and the responses of our interviewees we remained concerned that increasing direct funding to schools could exacerbate an existing tendency for schools to buy into new technology or new curriculum models which do not have an adequate research base. It is hardly the case, in England, that Government spending is determined by evidence-based research (see, for example, the mass expenditure on whiteboards before research-backed curriculum uses had been developed). However, it is at least theoretically possible that expenditure controlled by central government could be tied to the results of high quality research programmes. The more money that goes direct to schools the greater the risk that it will be spent on well-sold but unproven schemes.

To help counter this the government should set-up an independent body to undertake evidence-based research into educational interventions to strict international standards. It is, frankly, astonishing that we do not already have such an institution – indeed the new Institute for Effective Education at York University is the first body of any kind to offer this kind of research in the UK. It is true that the nature of the evidence-base required to "prove" the value of an educational intervention is contested but as Professor Robert Slavin, the Director of the York Institute has written:

> *"The idea of evidence-based reform is simple to grasp and almost impossible with which to argue. Use what works. How could anyone disagree with that? Yet the difficulties inherent in agreeing on what works are daunting, and there are powerful pressures to keep the system as it is. Still, other fields, such as medicine, agriculture, and technology, have instituted evidence-based practices, and they had to overcome similar pressures. There is no fundamental reason that education cannot do the same."*[107]

Setting up this kind of institution and widely disseminating its results would not in itself guarantee that schools would opt for proven programmes, but it would at least prevent conscientious headteachers from being hoodwinked. It would also offer schools, or groups of schools, that developed their programmes the opportunity to have their work accredited. Finally if schools decided not to use interventions that were proven to work, this could be taken into account by Ofsted if the school was failing.

Will it act as an incentive?

One of the proposed benefits of the pupil premium is that it will act as an incentive for schools to stop cream-skimming children from wealthier areas as they will lose out financially. We believe there is a social justice and effectiveness case for the pupil premium regardless of whether or not it acts as a direct influence on the behaviour of headteachers. However, such an influence would be an important additional benefit, especially in the context of a system which allowed non-state providers to develop and run new schools with state money.

"If schools decided not to use interventions that were proven to work, this could be taken into account by Ofsted if the school was failing"

Whether this would happen as the result of the changes we suggest is extremely difficult to predict. There are no specific international examples – the Netherlands does use a pupil premium type funding model but its school system is so different from ours that is impossible to draw useful comparisons. However, what we do know from international evidence is that both current and new school providers do generally respond to changes in the financial incentive structures that schools face . In Sweden,

107 http://www.cddre.org/solutions/reform.html

the possibility of using state funding to support non-state schools has led to the opening of many new independent schools, innovative in form and popular with parents. Various voucher schemes in the United States have led to improved performance in both public and private schools.[108]

When we asked headteachers of schools with relatively wealthy populations if the pupil premium would affect their behaviour with regards to admissions, the standard response was to deny that any cream-skimming happens at the moment – which is unsurprising if inaccurate. In any case most headteachers we spoke to were not in control of their own admissions system at the moment, which would not be the case if the Academies / free school programme was expanded. In terms of new providers, there is as yet no real market so again it is impossible to predict how they might respond to a financial incentive to build in deprived areas.

What is clear is that schools which currently have relatively disadvantaged populations would (if they used their new resources well) attract more middle-class parents, which would have the same impact as a direct incentive on schools with wealthier populations. This has already started to happen when previously failing schools have been replaced by well-resourced Academies with expensive new buildings. To take two examples, Haberdashers Hatchams Academy in Lewisham and Mossbourne in Hackney have both seen significant influxes of middle-class parents in recent years as results and behaviour have improved. Both schools have used a "banding" admissions system to create genuinely comprehensive intakes. This sees equal numbers taken from each quarter of the ability group which acts to widen the school catchment area to cover a wider range of communities. This has led to criticism, but only because there are no other high-performing school in these authorities. If this happened more widely – as a result of a pupil premium – then it would help to reduce segregation in the education system.

Headteachers at school with relatively disadvantaged populations certainly thought that extra resources would allow them to attract parents that would not consider them at the moment. As one put it:

> *"Quite a large number of parents send their kids to local primary schools but when they get to secondary, they send them to the independent sector and…if we were able to improve to such an extent that we had the faith and trust of a wider middle-class group then I would be happy for that, in as much as I would really like this school to represent the community it serves, in its entirety, not just a proportion of it and I think if that was the case then there would be a reduction in the funding according to the formula you described, but you can't have it both ways."*[109]

In any case, even if there was no incentive effect, the pupil premium would reduce segregation simply through providing extra resources for schools with many disadvantaged pupils. As the Julian Le Grand quote we used in the first chapter put it:

> *"Schools that contained a high proportion of children from poor families would…have more resources per pupil than those with a low proportion. They would also have better premises and equipment and could attract higher-quality staff. The outcome would either be selective schools, with those that specialised in the education of the children of the poor being better equipped and staffed than those that specialised in the education of children of the rich, or, if head teachers or staff did not want to engage in such specialisations, schools that contained a reasonable proportion of children for all parts of the social spectrum. One way or another cream-skimming that favoured the better off would be reduced or eliminated."*[110]

108 For a review of the evidence, see Le Grand (2007), pp.69-73.

109 Headteacher, secondary school, London.

110 Le Grand (2007), p. 148.

Conclusion

At the moment revenue funding for English schools is a mess; a labyrinth built out of failed policy grants, out-of-date demographics and unnecessary "stability" measures. Not a single headteacher we spoke to could explain how their budget was allocated. Even amongst policy-makers there is very little understanding. In these circumstances it becomes impossible to use funding as a way to drive school improvement: if no one knows where the money comes from it cannot act as an incentive.

There is absolutely no need for the system to be this complicated. In this report we have identified three ways to make the system simpler. First we should move to a consistent national funding formula, rather than having a different formula for each local authority. Secondly, most of the arbitrary central government grants should be merged into this formula. Thirdly, the formula should have just three elements for each pupil: an age-weighted base, an area cost adjustment and a premium for those pupils from more disadvantaged backgrounds.

This last element is crucial. At the moment schools serving deprived communities do, typically, have more money than average. But this money is allocated in an entirely haphazard way, differently for each local authority and often through short-term grants awarded by politicians eager for positive headlines. Instituting a consistent "pupil premium" would allow schools to plan their budgets around their admissions. Over time schools with large disadvantaged populations would be able to fund programmes to boost attainment, attract the best teachers and eventually middle class parents. Schools in better off areas would have an incentive to spread their nets wider, make their admissions more comprehensive and boost their budgets. New school providers entering the market, whether through the Academies programme, or future Conservative / Liberal Democrat plans for supply-side reform, would have an incentive to set up in deprived communities, where real choice is needed most.

In this report we have tried to show how a premium could be delivered. We recommend using "geodemographic" classifications based on individual pupil's postcodes rather than measures based purely on income, like Free School Meals, as these take into account cultural aspiration, which can be just as important as financial circumstances. We have modelled how this premium would work using real budget data from all English schools and have shown that it would give a significant boost to struggling schools. Using our figures – which would see a premium of between £500 and £3000 per pupil depending on the level of deprivation – the total cost would be £4.6 billion, but this could be paid for out of the existing education budget.

A wholesale shift in the funding mechanism for schools is obviously a radical step. As the amount of money going directly to schools would be significantly increased relatively few individual schools should have to lose out (rather the excess would be directed at schools in deprived areas). Nevertheless the transition would need to be handled sensitively so that essential services currently provided by local authorities could continue unharmed, while releasing as much money as possible for schools. At the moment the Government are reviewing funding for 2012-2015. It should be possible to move to a national formula in 2012 with the full system in place by 2015, and should be supported by any Government that wishes to call itself progressive.

At the moment revenue funding for English schools is a mess; a labyrinth built out of failed policy grants, out-of-date demographics and unnecessary "stability" measures. There is absolutely no need for the system to be this complicated. In this report we have identified three ways to make the system simpler. First we should move to a consistent national funding formula, rather than having a different formula for each local authority. Secondly, arbitrary central government grants should be merged into this formula. Thirdly, the formula should have just three elements for each pupil: an age-weighted base, an area cost adjustment and a premium for those pupils from more disadvantaged backgrounds.

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