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Originally published in New economy, 7 (2). pp. 92-97 © 2000 Blackwell Publishing.

You may cite this version as:

West, Anne; Pennell, Hazel & West, Robert (2000). New Labour and education spending : the need to reform the funding of schools [online]. London: LSE Research Online.

Available at: <http://eprints.lse.ac.uk/archive/00000213>

Available online: April 2005

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Published in New Economy (2000) 7, 2, 92-97 with minor editing changes so do not quote from this version

New Labour and education – the need to reform the financing of schools

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New Labour and education

The Labour government was elected into office in May 1997 with the promise that education would be given a higher priority than ever before. According to the Labour manifesto education would be its 'number one priority'.

In its first year in office the government undertook a Comprehensive Spending Review (CSR), as a result of which increased resources were provided for key priority areas, including education. In return for these extra resources, Public Service Agreements (PSAs) were published setting out what the government would deliver along with performance targets. The aim of the DfEE's PSA is: 'To give everyone the chance, through education, training and work, to realise their full potential, and thus build an inclusive and fair society and a competitive economy'. Performance targets include: an increase in the literacy and numeracy attainment levels; a reduction in school truancies and exclusions; an increase in the proportion pupils who achieve one or more GCSEs and an increase in the proportion who achieve five or more GCSEs grades A* to C. Two major aims of government policy, then, are to improve standards on the one hand and to achieve a more socially inclusive education system on the other.

Adequate resourcing is fundamental to achieving these aims. However, we argue that the current system does not target resources adequately on disadvantage and as a result the government may fail to meet its own stated objectives. A new mechanism is required which is based on determining the actual costs of educating pupils of different types to enable them to fulfil their potential.

Funding schools

Money for school-based education reaches schools through various means. Most of the money comes from central government, is distributed to local authorities via the Department of the Environment Transport and the Regions (DETR) and then to schools by local authorities. (Council Tax accounts for around 20% of the funds spent by local authorities on service provision.) All

community, foundation and voluntary schools then receive most of their funds via their local authorities although the principal source of these funds is central government.

Each year the government's view of the 'appropriate' amount of revenue expenditure for all local authorities is set out in the Revenue Support Grant (RSG) settlement. For each service area there are Standard Spending Assessments (SSA). Education is the largest service area. Within the Education SSA there are various 'sub-blocks', with primary and secondary education being the biggest. Most of the funds are allocated on the basis of the numbers of pupils on roll in schools in the authority. However, there is an element designed to meet the 'additional educational needs' of pupils in the local authority area. This need is gauged by an index, the Additional Educational Needs (AEN) index, based on the proportion of children aged under 18 from lone parent families; the proportion of children dependent on income support; and the proportion of children aged under 16 born outside the UK, Ireland, the USA or Old Commonwealth, or whose head of household was born outside these areas. To determine the proportion of money that will be allocated on the basis of this index, a statistical technique called 'multiple regression' is used which relates the index to past expenditure. The assumption is that past expenditure gives a benchmark of the level of need within an authority - it is not difficult to see the obvious weakness of this approach.

A further adjustment to the Education SSA is made for population 'sparsity' as school size and home-to-school transport costs are higher in rural areas. The higher labour costs in London and the South East compared with the rest of the country are allowed for in the 'Area Cost Adjustment'. Pupils whose families are in receipt of income support are entitled to free school meals and milk and the additional costs associated with this entitlement are allowed for in the Education SSA. The Education SSA is not 'earmarked', so local authorities do not have to spend a specific amount on education. They can spend above or below it, but the government can prevent what it considers to be 'excessive' increases in Council Tax (known as 'capping' under the previous Conservative administrations).

Whilst the government distributes funds to local authorities, local education authorities (LEAs) are responsible for the allocation of funds to schools. LEAs set their own education budget but then delegate funds to schools according to their Fair Funding formula devised in accordance with government regulations (resources are determined largely on the basis of pupil numbers).

It is important to note that additional government funds are also available for specific initiatives; these too are generally channelled through local authorities but are 'earmarked' for specific

purposes and mostly related to the DfEE targets. They generally require a significant contribution of funds from the LEA.

The outcome of the present system of funding education is that some types of local authorities and thus schools receive more money for education than others. Given the disparity there has been pressure for change.

Reviewing the Education SSA

During 1997 and 1998, there were discussions between the DfEE, the DETR and various associations representing local government about possible changes to the Education SSA. Much of the debate concentrated on a review of the allowance for Additional Educational Needs. The statistical technique of multiple regression was used to construct the alternative indices to measure additional educational needs. Numerous options were considered. Many would have resulted in a redistribution of resources away from areas with high levels of deprivation to areas with lower levels. In the event, no major changes were made to the Education SSA (see Figure 1).

Figure 1 Quotation from the 1998 Budget Statement

This year we did a great deal of work ... on the Additional Educational Needs of some children ... and the Area Cost Adjustment ... But there was no clear front-runner, either on merits or on its support within local government. It would not have been right to take decisions on [these issues] now, when it was clear that there were unresolved issues raised by local government which need further work during the period of SSA stability ... We also need to look at the case for more radical reform, to produce something which is clearer and more robust than the existing system. We need a system which is more easily understood by the voter, and accepted as fair and stable (Budget Statement, DETR, 1998).

Whilst the Labour government carried out a review of the funding of school-based education via Education SSAs, it did not address what we consider to be some of the most fundamental problems associated with the present system. These are to do with the expenditure data utilised, the use of the technique of multiple regression, the variables used to construct the Additional Educational Needs index, the use of census data and the area cost adjustment:

- The expenditure data that the government used to determine weightings were from 1990/91 when inner London LEAs received additional money as a result of the abolition of the Inner

London Education Authority and the transfer of education to the inner London LEAs. The amount was thus artificially inflated.

- There is a fundamental problem with using past spending to determine the weighting given to the AEN index. The flaw in this approach is that it assumes that past spending is determined by the need for spending. Our research revealed good evidence to show that other factors are paramount. These include the level of government funding; the level of Council Tax to be levied; the ‘capping’ level; pressures from other services (e.g. social services); political considerations; debt repayments and the balances held by the local authority.
- There is concern about the appropriateness of the Additional Educational Needs index. In our research we examined the relationship between different measures of disadvantage and national test and examination results at a local education authority level. We found that the relationship between poverty and low academic attainment was extremely high. It was closer than the current Additional Educational Needs index to which this indicator contributes. *Poverty* is thus the key variable that affects national test and examination results and is a better predictor of attainment than the Additional Education Needs index which is currently used by the government to allocate funds to local authorities. Thus poverty, not an index including poverty as a variable, is the crucial factor.
- Census data are used to determine two elements of the AEN index (those relating to lone parents and ethnicity). The main difficulty with census data is that the census is only carried out every ten years and so is not responsive to short-term changes in the characteristics of the population. Another difficulty is that census data may not show the level of need in schools in local authorities where the school population is more deprived than the local population.
- The Area Cost Adjustment aims to compensate local authorities for the higher labour costs in London and the South East of England. However, the distribution of funds on this basis to some authorities outside London and not to others (in close proximity to them) has been seriously questioned by many commentators.

Clearly there are problems with the methods used to allocate resources to local authorities and schools, with funds not being targeted where they are most needed as a result of the methodology used and the indicators selected. Before moving on to examine possible ways forward we examine briefly the way in which the government is increasingly focusing funds on its key initiatives.

Direct expenditure by the government on specific initiatives

Since it was elected into office, the Labour government has increasingly directed funds to support specific initiatives, designed in many cases to meet the DfEE targets. In the final year of the Conservative government (financial year 1996/97) 2.6% of the total expenditure on early years and school education (excluding capital expenditure and credit approvals) was for specific initiatives. In 1998/99 the percentage was 3.9%. If we look specifically at the Standards Fund¹ (used to fund initiatives such as the literacy and numeracy strategies, school improvement and the reduction of truancy and school exclusions), we find that there has been an increase in expenditure of over 80% between 1996/97 and 1999/2000, from £285 million to £522 million.

Moreover, as a result of the recent budget, direct grants to all maintained schools will be made on the basis of the number of pupils on roll. A typical secondary school will receive £40,000 extra 'to help in the drive to improve standards' (DfEE, 2000). Additional funds are also to be made available through a range of other government initiatives, including the flagship 'Excellence in Cities' programme intended to improve the quality of education in inner cities.

The increasing use of central government resources to fund education in a targeted way enables funding to be concentrated on specified priority areas, so increasing government control over expenditure on education. However, it is not clear what the consequences will be for local government expenditure on education. As 'matched' funding (from local education authorities) is required for many government initiatives, it is possible that at a local authority level the main budget received by schools (through the formula funding system of 'Fair Funding') will be reduced.

In this case, schools could be left in a position where funds for DfEE initiatives were available for earmarked expenditure but where the main school budget is reduced with a consequent reduction in the quality of education on offer. This is because not all DfEE initiatives cover teaching staff costs and even where they do, the funds are earmarked to be spent in specific ways. This is in fact happening in some local authorities this year and could have damaging effects in schools in receipt of large amounts of Standards Fund grants – although it is possible that it will be offset by the new direct DfEE grant to schools.

Once again we find that there are problems with the methods used to allocate resources to schools with government funds being dependent on matched funding by local authorities so disadvantaging

schools in spurious ways. The question then arises how should the government distribute resources to schools?

How should government distribute funds to local authorities?

The above discussion highlights the problems associated with the distribution of funds by central government and by local authorities. In our view, schools should be funded on the basis of an *objective assessment of the type and amount of provision required to meet pupils' needs*. We argue that what is needed is a completely new approach to the system of resource allocation.

The evidence suggests that authorities with high levels of disadvantage need to spend more on schooling. Whilst an approach that targets funds on poverty levels (which are strongly related to low levels of attainment) would be relatively easy to administer there are problems in terms of the data to be used to measure poverty. A school-based measure – such as eligibility for free school meals – is subject to manipulation. It may also under-record the number of eligible pupils as the system requires parents to confirm their child's eligibility. On the other hand, a *local authority-based* measure does not necessarily relate to the school population.

A more transparent measure would be to target funds on low attainment. As with poverty, the links between low levels of prior attainment and later attainment are clear, but there is more transparency about a funding system based on attainment levels. However, it would clearly be important for schools and LEAs not to be 'rewarded' for poor performance – the government would not wish to be seen to be acting in this way. However, if funding were distributed to LEAs on the basis of the characteristics of the aggregate *intake* to their schools, this would not, in our view, be problematic. Moreover, the stakes are so high for the tests published at the age of 11 – when 'league tables' are published – that it is hard to imagine there being incentives for primary schools to work at reducing pupils' attainment level so that *secondary schools* get higher levels of funding. The situation is less straightforward at entry to primary school as there are no national tests on entering compulsory education. Nevertheless, a well-moderated testing process would enable a similar system to be used for funding primary schools.

Before making any policy change, however, empirical research needs to be conducted to establish how much it costs to educate children with different levels of prior attainment to meet specified and expected levels of attainment in terms of the national tests that take place at 7, 11 and 14 (see West et al., 2000). Once such data were available, a funding approach could be adopted whereby resources would be allocated to LEAs on the basis of attainment levels *prior to* compulsory

schooling and *prior to* secondary transfer. Funds to schools would likewise be allocated using a similar needs-based approach. Clearly, the level of prior attainment will affect the amount and type of provision necessary.

Whilst an input indicator (of attainment) would be a crucial element in a new funding system, process information is also essential. We know that poverty is linked to levels of attainment, but we know little about how poverty and attainment are linked. If research were to be undertaken it would be important to address this issue too. We need to know far more about the effects of such difficulties on the delivery of the education within schools. We also need to know more about the ways in which concentrations of disadvantage affect school processes – as they clearly affect examination results. Such questions need to be addressed but they can only be answered empirically. Once more evidence is available, government will be in a position to make more informed choices about where and how to target resources to maximise the opportunities for all pupils.

This approach would also provide a more objective way in which to determine the levels of need in schools with different intake characteristics than the current use of multiple regression which has been severely criticised. It is likely that an element of judgement would come into play as it does with the current system. Moreover, at a time when government expenditure is set to increase year on year, there are sound reasons for making changes to ensure that all authorities gain, but to varying extents. It would be important to ensure that no LEA lost funds as a result of these changes. Moreover, it would be vital for schools with disadvantaged intakes not to lose resources, at a time when they are under increasing pressure to improve the academic attainments of their pupils and to reduce truancy and school exclusions, particularly in view of the link between poverty and low levels of educational attainment.

Research designed to make the allocation of funds to local authorities more transparent and related to objective measures such as attainment, would have implications for the distribution of resources to schools by local authorities under Fair Funding. At present there are many anomalies in the system. In addition, schools that have relatively advantaged intakes continue to benefit from a range of government funding initiatives. For example, the former grant-maintained schools (now mostly foundation schools) still receive significant transitional funding - over and above that received by community schools. In addition, schools with selective admissions criteria (either overt or covert) that perform well in the DfEE examination performance tables benefit from funds designed to improve inner city education under the Excellence in Cities programme. They will also

benefit from the new direct grant announced in the budget. A school that is merely located in an inner city area is not *de facto* in need of additional resourcing to offset the effects of disadvantage.

Finally, there is a need to ensure that local authorities spend up to their Education SSA. The Education SSA should be seen as the minimum requirement, to which authorities can add. If expenditure is below this level, the intended gains for children in schools will not materialise. With a national funding system along the lines we have advocated in place, it will be clear whether or not individual schools within LEAs need higher or lower levels of resourcing. In our view, it is important that funds are not further targeted on schools that are either already financially more secure than others are and/or have relatively advantaged pupil intakes.

In short, not all schools in disadvantaged LEAs have disadvantaged intakes; similarly not all schools in advantaged areas have advantaged intakes. Thus, it will be important in the future for the government to ensure that resources go where the need is greatest. A more redistributive approach is clearly what is now needed. Such an approach will ensure that schools with disadvantaged intakes, wherever they are located receive sufficient funds to meet the needs of their pupils.

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Acknowledgements

Part of the work reported here was supported by the Economic and Social Research Council (ESRC). The research was funded by ESRC award number R000236559. We would like to thank the ESRC, the DfEE, the DETR and the local government associations who provided data and other helpful information. The views expressed are the authors' own.

¹ Including the specialist schools programme.