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Redistribution and financing schools in England under Labour:

Are resources going where needs are greatest?

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## **Abstract**

This paper explores the policy changes made by the Labour government to the recurrent funding of school-based education in England, focusing in particular on the allocation of resources to meet the needs of disadvantaged pupils. Expenditure on education and, in particular, on schools has increased since 1997. However, whilst there have been two major changes to the way in which government allocates resources to local authorities and a new requirement for local authorities to include a deprivation factor in their funding formulae for schools, the evidence indicates that resources are being allocated to schools in a less redistributive manner than they are being allocated by central government to local authorities. To address this issue, the government could require a minimum proportion of funding to be allocated to schools on the basis of disadvantage; however, politically this would be problematic in the absence of additional resources as it would mean cuts being made by local authorities elsewhere in the education budget. And whilst there is now some information about the level of funding allocated to meet the needs of disadvantaged pupils, there is a paucity of information about how these resources are actually used within schools.

Key words: schools, resources, disadvantage, poverty, expenditure

## 1. Introduction

Since it was elected into office in 1997, the Labour government in the UK has given a high priority to education. The Labour Party's 2005 Manifesto reinforced this view: 'Education is still our number one priority' (p. 30). It also reaffirmed a commitment to tackling the needs of children from disadvantaged backgrounds: 'We will continue to recognise the additional needs of disadvantaged pupils' (p. 33). On average, children from lower socio-economic backgrounds do less well in terms of their educational outcomes than do children from more advantaged backgrounds: in 2004, 33 per cent of young people in England and Wales with parents in 'routine' occupations gained five or more General Certificate of Secondary Education (GCSE) examination passes (or equivalent) at grades starred A (A\*) to C in year 11 (age 16) compared with 76 per cent of those with parents in higher professional occupations.<sup>1</sup> Moreover, only 57 per cent of those with parents in 'routine' occupations continued in education post-16 compared with 85 per cent of those with parents in higher professional occupations (Department for Education and Skills (DfES), 2005a).

The effects of poverty are stark. On average, pupils in England who are known to be eligible for free school meals perform less well in national tests and public examinations than those who are not eligible: for example, in 2005, 20 per cent of children eligible for free school meals obtained five or more GCSE examination passes (or equivalent) including English and mathematics, at grades A\* to C, compared with 48 per cent of those not eligible (DfES, 2006a). As noted by the House of Commons Select Committee on Education and Skills (2003): 'It is unarguable from the evidence presented to us that poverty is the biggest single indicator of low educational achievement' (p. 20).

In order to compensate for the deleterious effects of disadvantage, the funding of school-based education in England has, for many years, been designed to be redistributive. However, a number of concerns were raised in the 1990s about the rationale for distributing funds from central to local government to meet the needs associated with disadvantage (see West et al., 2000a); these included the measures of disadvantage used and the methods employed to calculate how much should be allocated to individual local authorities to meet these needs (see also section 3).

The Labour government has sought to tackle some of these concerns; it has also altered the way funds are allocated by local authorities to schools, in particular in relation to the targeting of funds to meet the needs associated with social deprivation in schools. In addition, it has introduced a number of policy initiatives designed to target funds on schools in disadvantaged areas.

This paper draws on a range of sources of evidence – legislation, statistical data, policy documents, local authority information and research – to review and analyse government policy from 1997 in relation to the funding of schools. The paper argues that even though there have been two major changes to the way in which the government allocates resources to local authorities; a new requirement for local authorities to include a deprivation factor in their funding formulae for schools; and a variety of government grants targeted on disadvantaged areas/schools, there is a concern that pupils from disadvantaged backgrounds are not benefiting to the extent that they could from the increased public expenditure on schools.

The following section provides an overview of the policy context since 1997. Section 3 discusses the recent changes that have been made to the allocation of funds by central to local government, together with the changes made to the distribution of resources by local authorities to schools; it thus provides a historical account of the funding regimes, with particular reference to meeting the needs of disadvantaged pupils. Using information and data from local authority and central government sources, the fourth section examines whether resources are reaching schools where the levels of need are greatest. The final section concludes and discusses possible implications for future policy.

## **2. Policy context and policy change since 1997**

The Labour Party committed itself, prior to the election in May 1997, to giving education a high priority. Table 1 shows that in the 1996-97 financial year, education expenditure as a percentage of Gross Domestic Product (GDP) was 4.7 per cent. There was no increase in expenditure as a proportion of GDP during the early part of the Labour administration on account of adhering to Conservative spending limits (and also because of the improving economic situation and resulting increase in GDP). Whilst expenditure as a percentage of GDP fell, by 1998-99 total expenditure in real terms was higher than under the previous Conservative administration. In 2001-02, the year in which the Labour government started its second term of office, total expenditure on education increased markedly as did education expenditure as a percentage of GDP, reaching 5.3 per cent in 2003-04. Funding per head similarly increased from £614 to £1,004 per head between 1996-97 and 2003-04 (DfES, 2001, 2005c).

Table 1 about here

Turning specifically to current expenditure on schools in England, there has been an increase in real terms. Expenditure by central and local government was £20,910 million in 1996-97 and by 2003-04 this had increased to £30,630 million; this was an increase of 46 per cent (see Table 2).

Table 2 about here

The aim of the Labour government has been to invest in education with the explicit aim of raising educational standards. There is a debate about whether there is an association between higher spending and higher test or examination results. Until recently, much of this research had been carried out in the US where the system of resourcing is very different from that in England; these results were mixed (see Hanushek, 1998), with some studies suggesting a positive association between resourcing levels and outcomes and some not (see also Glennerster, 2002). In England, administrative data have been used to examine the relationship between resourcing and outcomes. Different studies, using different data and statistical methods, suggest that there is a relationship between higher expenditure on education and higher national test and/or public examination results (Jenkins et al., 2006; Levačić et al., 2005; Noden et al., 2002; West et al., 2001). In particular, Levačić et al. (2005) using high quality pupil-level data, found statistically significant associations between expenditure and both mathematics and science attainment in the national tests taken at the end of key stage 3 (typically age 14). Moreover, the gain appeared to be greater for pupils from poorer backgrounds. And Jenkins et al. (2006), also using national pupil-level data, found that at GCSE level, there was an association between higher levels of expenditure and higher attainment in terms of the GCSE point score and GCSE science; a particularly interesting finding was that for GCSE mathematics, there was a statistically significant association between expenditure and attainment for the 40 per cent of pupils with the lowest attainment in the key stage 2 national tests (taken at the age of 11).

Even though the evidence linking increased funding with higher test and examination results, having controlled for other factors, is relatively recent, British governments have, over the decades, sought policy responses to the deleterious effects of disadvantage on education outcomes. In the 1960s and 1970s, in England, Education Priority Areas were designated and schools with high proportions of disadvantaged pupils received additional funds in an effort to compensate for the effects of poverty (see Sammons, 1999).

An initiative with a high political profile, launched soon after the first Labour government was elected, was the setting up of statutory Education Action Zones (EAZs) designed to target resources

on disadvantaged areas (see National Audit Office (NAO), 2001); EAZs were public-private partnerships with the majority of funding coming from the public sector and a minority from the private sector (NAO, 2001). However, the initiative did not last long and in 2005 all statutory EAZs ended (see also Halpin et al., 2004).

In 1999, another (longer lasting) policy initiative, Excellence in Cities (EiC), was set up. This was funded by the government as a separate grant under the Standards Fund, which ‘provides a number of funding streams direct from central government to [local education authorities] for a variety of clearly defined purposes, mostly linked to particular policy initiatives’ (Simkins, 2004, p. 372).<sup>2</sup> EiC involved 58 of the 150 local authorities with responsibility for education in England (Kendall et al., 2005); these included the 50 most deprived.<sup>3</sup> Although focused on disadvantaged areas, EiC was not *solely* focused on either disadvantaged schools or disadvantaged pupils; of the three main ‘strands’, one focused on ‘gifted and talented’ pupils; another, ‘learning mentors’, provided support to pupils with particular barriers to learning; and the third, ‘learning support units’ aimed to tackle disruption in schools, so that pupils could be withdrawn from the classroom and provided with additional support (Kendall et al., 2005; Simkins, 2004).<sup>4</sup> A further initiative that focused on disadvantaged schools was the Pupil Learning Credits (PLC) pilot scheme (see Braun et al., 2005) which ran from 2001 to 2003. This provided more resources to secondary schools, in selected EiC areas, with high levels of pupils entitled to free school meals; the aim was for pupils whose social circumstances were particularly difficult to be offered additional learning opportunities.

Interestingly, in light of the positive relationship between higher levels of funding and higher achievement, the findings from the national evaluation of EiC found that the greatest impact of the policy was in relation to attainment in mathematics at the end of key stage 3 (age 14), for pupils in the schools that were the most disadvantaged. Overall, pupils in schools that received EiC funding attained higher levels in mathematics than those in non-EiC schools, having controlled for a variety of school and pupil level factors including prior attainment. ‘This was equivalent to increasing the percentage of pupils achieving level 5 or above by between 1.1 and 1.9 percentage points’ (Kendall et al., 2005, p. 12); moreover, the higher value was observed in schools that became part of EiC in the first year of the programme, many of which were also part of the PLC pilot scheme (see also McNally, 2005).

A range of other initiatives, some targeted on disadvantaged areas and/or schools, have been funded directly by the DfES. The increase in funding via what was then known as the Standards Fund was significant (cf Simkins, 2004). In 1996-97, the last year of the Conservative administration, in real

terms a total of £161 million was allocated by central government for schools via the Standards Fund; by 2004-5 this had increased to an estimated £1,612 million (DfES, 2005e) – an increase of over 900 per cent. Nevertheless, whilst important, these initiatives accounted for only a very small proportion – 5.2 per cent – of central government expenditure on schools.<sup>5</sup> The bulk of the funding for schools comes from central government to local authorities. Local authorities then distribute resources to schools.

The next section examines the changes that have taken place in the allocation of resources from central to local government and from local authorities to schools. The focus, as before, is on the redistributive nature of the funding and the targeting of resources to meet pupils' varying educational needs.

### **3. Funding local authorities, funding schools**

Since 1997, there have been two major changes in the way central government provides funds for school-based education. Between 1997 and 2006, local authorities received funding for school-based education via the local government finance system – funded through Revenue Support Grant (RSG)<sup>6</sup> from the government department responsible for local government, and locally raised Council Tax. On average 75 per cent of the funding for local authority services came from central government grants (Office of the Deputy Prime Minister (ODPM), 2005), with the remainder coming from local taxation (council tax). The funding allocation was initially via the Education Standard Spending Assessment (SSA) which had been introduced in 1990. The first major change to this system was the introduction of the Education Formula Spending Share (EFSS), which replaced the SSA in 2003-04.

It is important to stress that neither the Education SSA nor the EFSS was hypothecated, or 'earmarked', so local authorities were not obliged to spend a specific amount on education. They could spend above or below the amount indicated by the Education SSA or EFSS. This led to tensions between central and local government as central government could claim that local authorities were not spending enough on education, so 'passing the buck' from central to local government (or indeed vice versa).

The second major change from 2006-07 was the introduction of a 'ring fenced' grant for most of school-based education – the Dedicated Schools Grant – which is distributed separately as a grant to local authorities, by the DfES. The introduction of the DSG was designed to ensure that increases



in education spending were passed on in full. From 2006, the bulk of the funding for school-based education was thus no longer via the Revenue Support Grant to local authorities.

These changes in the allocation of resources from central to local government and from local authorities to schools are now examined in more detail, with a particular focus on approaches used to target funds on disadvantage.

## **Allocation of resources to local authorities**

### **Education Standard Spending Assessment**

Until 2003-04, the Revenue Support Grant was distributed via Standard Spending Assessments (SSA) (see Audit Commission, 1993). In the Education SSA there was an element in the funding formula for ‘additional educational needs’ (AEN). Two of the proxy indicators on which the AEN index was based were derived from census data: the proportion of children aged under 18 in private households containing a lone parent family; and an ethnicity indicator (the proportion of children aged under 16 in private households who were born outside the UK, Ireland, the USA or Old Commonwealth, or whose head of household was born outside these areas). Concerns were raised about the use of these indicators as the census is carried out at 10-yearly intervals, and so is not responsive to short-term demographic change. In addition, ethnicity *per se* is not necessarily an indicator of ‘need’ – as demonstrated by the varying levels of poverty and examination performance of pupils from different minority ethnic groups (see Bhattacharyya et al., 2003). Lack of fluency in English is important, but this was not measured in the AEN index. The third AEN proxy indicator – of poverty – derived from administrative data, related to the proportion of dependent children of income support recipients.

The weighting given to the AEN index as part of the overall Education SSA involved the use of multiple regression and was based to a large extent on the relationship between values of the index and past expenditure (DfES, 2003a). Although it was assumed that past expenditure was an indicator of the levels of need within an authority, this assumption was shown to be flawed as other factors are of paramount importance – such as government funding levels; the level of council tax to be levied; pressures from other services (e.g., social services); political considerations; debt repayments and the balances held by the local authority (West et al., 2000b).<sup>7</sup>

### **Education Formula Spending Share**

In response to growing concerns about the indicators and methods used to distribute government funds to local authorities, a major funding review took place, and from 2003-04, the system of

funding local authorities for the provision of school-based education changed. SSAs were replaced with Formula Spending Shares (FSSs) for each service area for which the local authority was responsible.<sup>8</sup> The Education Formula Spending Share (EFSS) was divided into two main funding ‘blocks’. One of these was for schools and covered provision for pupils. The other was to cover local authorities’ responsibilities for education. The blocks were further divided into sub-blocks for pupils of different ages and those with high cost special educational needs.<sup>9</sup> All the formulae for each sub-block had a basic allocation per ‘client’ (the pupil in the case of school-based education) together with additional amounts or ‘top-ups’ for deprivation (AEN) (DfES, 2003).<sup>10</sup> The approach was informed by research carried out by consultants PricewaterhouseCoopers, which involved estimating, on the basis of empirical research, the additional costs associated with supporting children with ‘additional educational needs’, namely:

- costs that are directly associated with social deprivation;
- the cost of supporting children with less severe special educational needs – that is, without statements of special educational needs; and
- the costs of supporting children for whom English is an additional language (DfES/HM Treasury, 2005, p. 18).

PricewaterhouseCoopers (2002) calculated that the average school costs for pupils with AEN, totalled £1,890; this was made up of staff costs of £1,500 per pupil per year, opportunity costs of £320 and a cost for non-staff school resources of £70. A composite unit cost for pupils who did not have high level SEN was calculated as being £1,780.

The factors that were used in the primary AEN (which was also the same as that for under 5s) and the secondary AEN index are given in Figure 1.

Figure 1 about here

The formulae and indicators used changed with the move from the Education SSA to the Education FSS. The measures that were introduced were higher quality than before as a result of pupil level administrative data being collected by individual schools: from January 2002 data on the characteristics of individual pupils, including known eligibility for free school meals, ethnicity, postcode and data on national test results have been collected. As a result of these new data, measures derived from the census were no longer used. In addition, the measures used were all more clearly associated with educational outcomes. However, the *overall* amount of funding

allocated via the AEN was broadly similar:<sup>11</sup> the percentage allocations under the last year of the SSA system and the first year of the FSS system were 19.1 per cent in 2002-03 and 18.8 per cent in 2003-04 (DfES, 2003a).<sup>12</sup>

### **Dedicated Schools Grant**

Further changes to the funding of school-based education took place in 2006-07 with the introduction of a grant from DfES to local authorities known as the Dedicated Schools Grant (DSG). This is a ring-fenced grant and all the resources must be used for the schools budget. It provides for the same items as had been funded via the Schools FSS.<sup>13</sup> The method used to distribute the DSG for the two year period 2006-07 and 2007-08 is historically based reflecting

each authority's starting position on spending. The starting position will largely reflect historical allocation of resources through the Schools FSS formula and preceding Education SSA formula. One of the main reasons why authorities receive different levels of funding is due to different levels of deprivation: the funding system continues to reflect the fact that some pupils need more support to have the same opportunities (DfES, 2006c, para 45).

In terms of seeking to address deprivation, the DfES estimated the funding for this for each local authority by 'using the proportion of deprivation funding delivered through each authority's 2005-06 Schools FSS allocation to estimate the amount of deprivation funding delivered through DSG allocations' (DfES, 2006c, para 46). In 2006-07, 10.5 per cent of the funding was allocated on the basis of deprivation (DfES, 2006e).<sup>14</sup> The methodology used to determine the DSG is thus based on local authority expenditure along with the historical FSS and SSA formulae, with, as mentioned, the additional educational needs component being informed by the calculations made by Pricewaterhouse Coopers (see DfES/HM Treasury, 2005).

Part of the DSG is a dedicated sum of money for 'personalised learning'. This is aimed at improving the achievement levels of children in disadvantaged areas: 'Personalisation is the key to tackling the persistent achievement gaps between different social and ethnic groups. It means a tailored education for every child and young person...' (DfES, 2005f, p. 50).

Personalisation is intended to provide intensive support for pupils who are not progressing as well as might be expected and is focused on local authorities with the highest numbers of underachieving and deprived children. At the primary stage, personalisation is intended to include the provision of extended opportunities outside the school day for children from low income families. At the secondary level, the funds are aimed at supporting intervention for pupils who are not keeping up in

English and mathematics, provision for gifted and talented pupils and to help children from deprived backgrounds access after school and year round activities (DfES, 2006c). Funding for personalisation is allocated by the DfES to local authorities<sup>15</sup> using a set formula: 15 per cent for each pupil of the requisite age group for primary and secondary schools: 35 per cent per pupil weighted for deprivation (using as the indicator children in families in receipt of the state benefit Income Support); and 50 per cent per pupil weighted for the proportion of pupils not achieving expected levels in national key stage English and mathematics tests (DfES, 2006c).

## **Summary**

The system used to distribute resources for education to local authorities has changed in recent years. The Education SSA and the Education FSS which replaced it, were not hypothecated (earmarked) so local authorities were not obliged to spend a specific amount on education – they could spend above or below the amount indicated, although they were urged by government to pass on in full increases in funding (DfES, 2007). From 2006-07, the government provided an earmarked grant, the DSG. This is a highly significant change: in effect, it guarantees that a minimum amount will be spent on education at a local level. Within the DSG, there is an element that is earmarked (at local authority level), to support the priorities of the DfES. One such priority is the personalisation of learning which is designed to reduce the achievement gaps that exist between children from different backgrounds and has been allocated by central government using a formula driven predominantly by low levels of attainment and poverty.

## **Distribution of funds to schools by local authorities**

The local authority has a key role in relation to financing schools as it sets the budget for education each year and distributes funds to schools. The government provides the bulk of the resources, via the ring-fenced DSG, but local authorities can top this up using resources raised locally via council tax.<sup>16</sup>

It is important to stress that local authorities do not run schools, but ‘maintain them by providing funding and have certain specific duties and powers in relation to the school system’ (Wandsworth Borough Council, 2005, p. 11). Schools are ‘semi-autonomous’ (p. 11) and managed and governed by their headteachers and governing bodies: this has been the case since the introduction of local management of schools following the Education Reform Act 1988. The approach used to distribute funds to schools changed in April 1999, when the Labour government replaced local management of schools with ‘fair funding’ – this was in essence a development of local management of schools with a significant increase in the level of financial delegation to schools.

Local authority budgets for primary and secondary education are contained in their own 'local education authority (LEA) budget' and 'schools budget'. The LEA budget provides funds to support the local authority centrally in four main areas: special educational provision, school improvement, access (planning of school places, admissions, transport etc.) and strategic management (see Office of Public Sector Information (OPSI, 2006)). The 'schools budget' is designed to meet the costs of the actual educational provision for pupils; within this, local authorities are allowed to retain some funding to enable certain education responsibilities to be provided centrally (e.g., in relation to special educational needs, pupil referral units, and early years provision in private, voluntary and independent providers). The remaining amount is the 'individual schools budget'. This is delegated to schools and managed by school governing bodies.

The individual schools budget set by the local authority is distributed to schools in the authority using a formula which 'must take into account pupil numbers' (OPSI, 2006). Local authorities are permitted to allocate the remainder using factors from a 'menu', set out in regulations, including special educational needs, pupils for whom English is not their first language, pupil mobility, characteristics of the school buildings and site, use of energy by schools, salaries at a school (using actual or estimated costs), incidence of pupils from ethnic minority groups having below average levels of academic achievement in relation to other pupils in the local authority area, prior attainment of pupils entering a school.

One notable change made by the Labour government was in relation to the rule that a certain high percentage of funding for primary and secondary schools had to be 'pupil-led' – in other words carry 'the same value for all pupils of a certain age whatever school they attend' (DfES/Treasury, 2005, p. 22). Originally, the pupil-led funding was 80 per cent; this was reduced to 75 per cent in 2002-03 (OPSI, 2002b). And from 2006 onwards the 75 per cent 'pupil-led rule' was 'abolished' (DfES/Treasury, 2005, p. 35; see also OPSI, 2006). It is also of significance, in theory at any rate, that local authorities have been obliged, since 2002-03 to include a factor in their formulae based on the incidence of social deprivation in their schools (OPSI, 2002b; 2006). However, there is no requirement as to the minimum proportion or amount to be distributed by such a factor (see also section 4).

It is important to bear in mind that policy decisions at the level of central government can have an impact on the distribution of resources by local authorities to schools, and as we shall see, the minimum funding guarantee, introduced in 2004–05, is of particular significance. This was brought

in following funding difficulties that were experienced by some schools in 2003–04 (House of Commons Hansard, 2004a). Under the minimum funding guarantee, each school gets a per pupil increase and an increase for fixed costs.

In summary, the funding of schools by local authorities has changed in recent years. When local management of schools was first introduced, there was a requirement that 80 per cent of the funding should be ‘pupil-led’. This was reduced to 75 per cent in 2002-03 and the ‘pupil-led’ rule was abolished in 2006-07. In addition, from 2002-03, local authorities have been obliged to include a factor in their formulae based on the incidence of social deprivation in their schools.

#### **4. Is local government as redistributive as central government?**

Whilst the policies introduced by the Labour administrations have been designed to be redistributive, there are concerns as to whether there is sufficient funding reaching schools to meet the needs of disadvantaged children. For example, Lupton (2005), in a research study which focused on four secondary schools in highly disadvantaged areas of England concluded that ‘resources for individual aspects of schooling are simply too low relative to demand’ (p. 601). She argues that current funding mechanisms are based on intake measures that are too crude, and that funding should be based on an assessment of roles and activities needed to meet those needs (Lupton, 2004). Whilst this suggests that there are issues associated with the funding of disadvantaged schools, it is not possible to generalise across the country on the basis of the research. It does however, raise questions about the funding of schools, and in particular, whether the government is allocating enough funding to meet the needs of disadvantaged schools at a local level, and whether local authorities are allocating sufficient funding in their funding formulae for schools.

A major DfES-funded study was carried out to examine the costs associated with meeting the needs of children with additional educational needs (PricewaterhouseCoopers, 2002). This was empirically based and involved calculating the average school costs for pupils with AEN. Whilst the government made adjustments to this calculation,<sup>17</sup> the figure they calculated has been used as a basis for determining the proportion of funding for deprivation in the DSG, which is distributed by central government to local authorities. However, the fact that this element is included in the government allocation to local authorities does not necessarily mean that it will be passed on to schools by local authorities to meet the needs associated with social deprivation. This is because once funds have been allocated by central to local government, local authorities then distribute funds to schools.

The question then arises as to whether the resources distributed from local authorities to schools are adequate to meet the needs of social deprivation. Indeed, the report 'Child Poverty: Fair Funding for Schools' (DfES/HM Treasury, 2005) argues that the amount of resource identified in the central to local government distribution is not always reflected locally, with a lower proportion being allocated by local authorities than by central government to meet the needs associated with social deprivation. This conclusion was reached after the DfES/Treasury had surveyed the 150 local authorities in England with responsibility for education. A total of 45 responded.

The responses revealed a number of pertinent findings. Amongst them were that social deprivation factors often did not have an objective basis. In addition, the amount allocated to schools frequently bore little relationship to the amount of funding that the local authority received from central government for AEN. Where such factors had been introduced relatively recently, in response to the new legal requirement, the amounts were often small: one authority reported an allocation of £1 per school through the social deprivation factor. Some local authorities had reviewed policy and sought to take a view on the level of resources needed; sometimes these were reported to be based on different activities undertaken (an 'activity-led' approach) 'as in the case of one large shire authority which had sought estimates from four secondary schools of the costs associated with deprivation, mostly staff time, and obtained figures of £150,000 + from the schools most affected' (DfES/HM Treasury, 2005, p. 30). In many cases, it was reported that funding for deprivation had been allocated on an historic basis. In addition, in a number of cases, 'there appeared to be a lack of understanding about the intended purpose of AEN funding' (p. 33) (provided via the former Education FSS), namely that it is designed to compensate for costs associated with low-level special educational needs, social deprivation, and cases where English is an additional language. Following the publication of this report, the DfES asked local authorities to provide statements of how they allocated resources to meet the needs associated with social deprivation. These were published in the summer of 2006 and form the basis of the analysis reported in this section.

Statements providing details were provided by 142 out of 150 local authorities in England (DfES, 2006d). A sample of these statements was analysed in order to examine the extent to which local authorities, in their formulae, target resources on deprivation. The factors used in the formulae by this sample of authorities were also examined. In addition, the factors used to allocate the resources for personalised learning were explored. Finally, reasons as to why the allocations are at the level they are, were examined.

## Methods

Local authorities that provided, in their statements, indicative percentages of the individual schools budget allocated to meet the needs associated with deprivation in primary and secondary schools (combined) were selected so as to enable comparisons with the DfES indicative allocation for social deprivation as provided in the DSG. Whilst the methods used for determining deprivation are not the same, the indicative allocations provide a broad basis for comparing central and local allocations.

In examining the statements, it was clear that different authorities use very different approaches. Some local authority statements included expenditure relating to pupils with statements of special educational needs. However, as central government does not intend funding for *additional educational needs* to meet these costs, and as the focus here is on funding relating to deprivation, these local authority statements were excluded from the sample. The final sample of local authorities comprised 15 local authorities, 10 per cent of all English local authorities with responsibility for education.

The sample is not representative of English local authorities as it was determined on the basis of data being available that fulfilled the selection criteria: for example, London authorities were over-represented. Notwithstanding the nature of the sample, a range of different types of local authorities with differing allocations to meet the needs associated with disadvantage were represented in the sample. The different types of factors selected by local authorities as being proxies for deprivation need to be taken into account, as some included factors that other authorities could have chosen to include, but chose not to.<sup>18</sup>

## Findings

The percentage of funding provided by the government in the Dedicated Schools Grant (DSG) to meet the needs associated with deprivation was provided by the DfES (2006e) for each local authority in England for 2006-07. At a national level there was an indicative 10.5 per cent of the DSG for this purpose. The range was from 5.2 per cent for the relatively prosperous Windsor and Maidenhead to 22.1 per cent for the disadvantaged London Borough of Newham.

For each local authority in the sample, the statement of social deprivation funding provided details of the percentage of the individual schools budget that was allocated on the basis of factors that had been selected as proxies for disadvantage. It is not possible to make precise comparisons as the figures for social deprivation used for the DSG and by individual local authorities are calculated on



a different basis. Also, local authorities fund other activities from the centrally retained element of DSG (e.g., behaviour support services in one case). Table 3 provides details of the DSG indicative allocation and the local authority allocation.

Table 3 about here

As can be seen, the percentage allocation for social deprivation is virtually always lower at the local authority level than at the level of the DSG. Thus, on the basis of the sample of local authorities examined as part of this study, there appears to be less redistribution of funds for additional educational needs from local authorities to schools than from central to local government.

Given that local authorities are required to include a deprivation factor in their formulae, the actual factors used by this sample of local authorities were examined in more detail. Table 4 provides an overview of the factors used and the number of local authorities using each of these.

Table 4 about here

As can be seen, there is variation in terms of the factors used. The most common amongst this sample was free school meals entitlement, followed by prior attainment, special educational needs (without a 'statement' which carries with it additional resources), English as an additional language and pupil mobility. Eight of the 15 local authorities made specific reference to the uptake of free school meals (i.e., the cost of providing free school meals); other local authorities did not include this factor (suggesting that the statements of social deprivation cannot be considered to be fully comparable).

The question arises as to why local authorities allocate a lower proportion of funding to meet the needs of disadvantaged children than central government deems appropriate. There are a number of possible explanations. First, there is the historical context. One local authority in the sample noted:

When formula funding was first introduced, the policy underpinning its development was to devise a formula that caused least financial turbulence to schools, i.e. a formula that matched existing priorities for funding (metropolitan borough)

When formula funding was first introduced there was no requirement for any element to meet the needs associated with deprivation to be included. It was not until 2002-03 that there was a statutory

requirement to include a factor. The following comments were made by two different local authorities in their deprivation statements to the DfES:

Since the phased introduction of Local Management of Schools from April 1990, the County Council and stakeholders, in consultation about the make up of school budgets, accepted that there were a range of challenges posed by social deprivation across the County...Until 2006/07 DfES has not specifically suggested that a proportion of funding they allocate to Local Authorities should be used to address social deprivation...(county)

Second, until 2006, local authorities established funding formulae in consultation with *all* schools in the local authority; this is no longer the case, but they now have to consult with the schools forum, a statutory body within the authority, comprising schools and non-schools members (DfES, 2005g). They were thus subject to a wide variety of local pressures from schools in the authority (and they still are):

[A]s government priorities have been articulated and pressures against school budgets have been identified, resources have been targeted to meet those needs. All other proposals that involved switching resources between schools have invariably met with strong opposition from the losing sector. The Authority is however, currently undertaking a fundamental review of the formula and is working on a needs led model taking into account curriculum entitlement (county).

...it has often been the case that other pressures affecting all schools, such as pay awards, pension increases, energy price rises and job evaluation have, by consensus, taken priority [over more funding for social deprivation] when distributing available funds...(county).

Finally, the operation of the minimum funding guarantee in 2004-05, in the words of one local authority 'has inevitably constrained authorities' ability to direct resources based on local needs and priorities'. In another local authority it was noted:

Consideration was given to increasing the proportion of funding for AEN in setting the 2005/06 schools budget but this was not implemented due to the impact of the Minimum Funding Guarantee (London borough).

Turning specifically to DSG funding for the personalisation of learning, what is interesting to note is that the distribution from central to local government to local authorities is made highly explicit: in 2006-07, resources were allocated on the basis of pupil numbers; an indicator of poverty; and prior attainment. It is noteworthy that the allocation of this ‘pot’ of money, which is earmarked at local authority level to meet very specific needs, was distributed by local authorities to schools in a similar way as shown in Table 5.

Table 5 about here

As can be seen, the majority of local authorities were distributing personalisation funds on the basis of pupil numbers, disadvantage (generally known free school meals eligibility) and prior attainment.

It is important to note that little is known about the extent to which, within schools, resources intended to meet the needs of disadvantaged pupils are actually used in that way. Research carried out in the 1990s explored how schools used money for special and additional educational needs, but this did not attempt to relate the *amount* allocated with how resources were used (West et al., 2000b). It did find, however, that headteachers directed most of their resources to staffing. Whilst other research has examined the use of specific funding allocated as part of particular policy initiatives such as Excellence in Cities (Kendall et al., 2005) and the Pupil Learning Credits pilot scheme (Braun et al., 2005) there appears to be a paucity of research examining how resources intended to meet additional educational needs are actually used at school level. Given that the funds delegated to schools via the DSG are un-hypothecated at school level, they can be used for purposes other than the intended purpose and there is no legal obligation for schools to target resources in any prescribed way. There is a question then, of how resources that are intended to meet needs associated with disadvantage are used at school level.

## **5. Conclusions**

Since 1997, there has been an overall increase in the amount of money allocated to education in the UK both as a percentage of GDP and in real terms. There have been a variety of different initiatives designed to address the needs of pupils in disadvantaged *areas*, such as Excellence in Cities, and in disadvantaged *schools*, such as the Pupil Learning Credits pilot scheme. The evidence suggests that there are positive associations between higher expenditure and higher attainment. There have also been two major changes in the way in which central government distributes resources to local government, but there has been no proportionate increase in the overall amount provided to meet additional educational needs associated with disadvantage.

In relation to the allocation of resources to schools by local authorities, the government now requires each authority to include a factor for social deprivation. The evidence from a sample of local authority statements suggests that notwithstanding problems with data comparability, the proportion of funds allocated to meet needs associated with social deprivation is, in general, lower at a local than at a national level. The fact that there are differences is, perhaps, unsurprising as the distribution of funds to local authorities by central government has always seen to be separate from the funding of schools by local authorities; moreover, until 2002-03, there was no requirement for a factor/factors addressing social deprivation to be included in local authority funding formulae for schools.

A variety of pressures on local authorities also appear to have contributed to the relatively low proportion of funding being allocated to meet needs associated with social deprivation; these include historical reasons; the requirement, until 2006-07 for all schools to be consulted about changes to funding formulae; and the government requirement for a 'minimum funding guarantee', which limits opportunities for local authorities to target funds where needs are greatest.

To make the funding system more redistributive, local authorities could be required to allocate a minimum proportion of funding to schools on the basis of disadvantage, as opposed to merely including such a factor in their funding formulae. Politically this would be problematic as in the absence of additional resources it would mean cuts being made by local authorities elsewhere in the education budget: there are clearly tensions between the government's desire for greater redistribution and the countervailing pressures at a local authority level.

It is, however, significant that in the case of the local authority hypothecated element of the DSG for the personalisation of learning, local authorities are distributing along broadly similar lines to those being used by central government to allocate funds to local authorities. The implication of this is that if government wishes funds to be spent meeting particular needs, this approach is one that could be adopted (similar findings were also observed with the funding for Excellence in Cities – see Kendall et al., 2005). However, such a move would also have implications for the minimum funding guarantee to schools.

Nevertheless, even with such prescription there is no guarantee that funds will be used as intended at school level as funding for social deprivation, and more specifically for personalisation, is not hypothecated *at school level* and schools can choose to spend the money as they see fit. Thus, at

school level we need to know more about how schools meet needs associated with disadvantage and how they take resourcing decisions in relation to meeting needs of different types. Such information will enable a better understanding of the perceived educational needs of children from disadvantaged backgrounds, how these are being met, and how they might be met most effectively.

In conclusion, if the aim of government, and indeed society, is to raise achievement to reduce social exclusion (see Bradshaw et al., 2004), increased efforts need to be made to ensure an adequate level of funding reaches schools; to ascertain how resources are being used; why they are being used in particular ways; and the extent to which any interventions are associated with improved achievement levels of pupils from disadvantaged backgrounds.

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**Table 1 Public expenditure on education as a percentage of Gross Domestic Product (UK)**

Year	Total education expenditure in real terms (£ million) (1)	Education expenditure as a percentage of GDP in real terms (1)
1996-97	44,060	4.7
1997-98	43,966	4.5
1998-99	44,458	4.5
1999-00	45,890	4.4
2000-01	49,338	4.6
2001-02	53,940	5.0
2002-03	55,888	5.0
2003-04	60,506	5.3
2004-05 (provisional)	63,684	5.4

Source DfES, 2006b

(1) At 2004-05 prices

**Table 2 Education expenditure by central and local government on schools in real terms in England**

Year	Current expenditure on schools in real terms (£ million) (1)	Index 1996-97 =100
1996-97	20,910	100
1997-98	21,129	101
1998-99	21,501	103
1999-00	23,034	110
2000-01	25,088	120
2001-02	27,462	131
2002-03	28,337	136
2003-04 (estimated)	30,630	146

Source: DfES, 2004b

(1) At 2003-04 prices (author's calculations, using HM Treasury 2005)

**Table 3 Sample of local authorities: Percentage of funding for deprivation – DfES and LA estimates**

Local authority	DSG % funding for deprivation 2006-07	LA % ISB budget for deprivation 2006-07
Birmingham	18.1%	12.7%
Enfield	14.5%	5.6%
Hampshire	5.8%	5.18%
Haringey	20.3%	5.04%
Hertfordshire	6.1%	6.1%
Islington	17.3%	10.1%
Lewisham	14.1%	9.0%
Luton	15.2%	8.1%
Medway	9.0%	10.3%
Newham	22.1%	10.7%
Portsmouth	10.5%	1.7%
Reading	9.9%	7.2%
Telford and Wrekin*	11.1%	9.7%
Wandsworth	13.2%	7.9%
West Sussex	6.3%	5.2%

\* Includes pupil referral and other units.

**Table 4 Formula factors used by local authorities**

Formula factor	Number of local authorities (N=15)
FSM entitlement	13
Prior attainment	9
SEN audit data/SEN without statements	9
English as an additional language	9
Mobility	9
FSM uptake	8
Index of Multiple Deprivation	5
Minority ethnic group	4
Looked after children	2
Other (e.g., special facilities at certain schools, ward deprivation indices, pupil retention)	3

**Table 5 Factors used in the distribution of personalisation of learning funds**

Factor	Number of local authorities
	N=13*
Free school meals/index of multiple deprivation	11
Low prior attainment	11
Pupil numbers	10
Gifted and talented	2
Free school meals or low prior attainment	1
Other (e.g. lump sum, underperforming groups)	2

\*N is less than 15 as not all local authorities provided details



## Figure 1 Factors used in the Additional Educational Needs Index

Primary Additional Educational Needs index, comprising:

- Children in families in receipt of Income Support/Job seekers allowance.
- Children in families in receipt of Working Families Tax Credit (WFTC).
- Proportion of primary pupils with mother tongue other than English from the pupil level annual school census.

Secondary Additional Educational Needs index, comprising:

- Children in families in receipt of Income Support/Job seekers allowance;
- Children in families in receipt of Working Families Tax Credit;
- Proportion of secondary pupils in low-achieving ethnic groups from the pupil level annual school census (a).

Source: DfES, 2005d

(a) The low achieving groups are: Gypsy/Roma and Travellers of Irish Heritage; White and Black African; White and Black Caribbean; Pakistani; Bangladeshi; Black African; Black Caribbean; Other Black and Other.

## Endnotes

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<sup>1</sup> In England, at the age of around 16, the vast majority of pupils take public examinations known as the General Certificate of Secondary Education (GCSE) in individual subjects. The highest pass grades are starred A (A\*), A, B and C; five such passes are the normal minimum requirement to move on to study General Certificate of Education (GCE) Advanced levels; the latter are the normal entry requirement for entry to higher education.

<sup>2</sup> The Standards Fund has now been replaced with the School Development Grant (DfES/HM Treasury, 2005).

<sup>3</sup> DfES expenditure on EiC (excluding specialist and beacon schools that were part of EiC) rose from about £24 million in 1999-2000 to £139 million in 2000-01 (the first full year) and to about £386 million in 2005-06 (House of Commons Hansard, 2004b). Whilst representing a significant use of resources, this needs to be seen in the context of overall local authority recurrent expenditure on secondary schools of over £9,000 million in 2000-01 (Kendall et al., 2005).

<sup>4</sup> Interestingly, EAZs which no longer exist continued under a different guise as EiC Action Zones (see Kendall et al., 2005).

<sup>5</sup> The author's own calculations (from DfES, 2005e).

<sup>6</sup> The other service areas covered by the RSG are: personal social services; police; fire; highway maintenance; environmental, protective and cultural services; and capital financing.

<sup>7</sup> A further issue related to the measures used in the Education SSA: at the local education authority level, a very close and highly statistically significant negative relationship was found between the proportion of children dependent on income support recipients and national test and public examination results, and this was found to be a better predictor of attainment than the AEN index (West et al., 2001).

<sup>8</sup> As with the SSA, this was not all grant funding as it included an assumption of funding from council tax (Local Government Association, 2003).

<sup>9</sup> Within the schools block there were four main 'sub-blocks' covering children under 5 years of age; primary; secondary; and high-cost pupils (this block was intended to cover the costs of pupils who are high cost, in particular, those with special educational needs). Within the local authority block there were two sub-blocks: one for youth and community provision and one for local education authority central functions (DfES, 2003a).

<sup>10</sup> As with the Education SSA there were other adjustments for areas where it costs more to recruit and retain staff (area cost adjustment) and for sparsity (DfES, 2003a).

<sup>11</sup> The change to the system of funding to the EFSS took place at a time when funds available for school-based education were increasing; in addition, to ensure that there was an effective increase in funding for local authorities and schools between 2002-03 and 2003-04 of no less than 3.2% per pupil, an additional grant was paid to local authorities by the government (DfES, 2003b). Given that these changes took place at the same time, it is not possible to compare the distribution between local authorities before and after the switch to the EFSS.

<sup>12</sup> The AEN total for 2002-03 included all funding allocated through the AEN index, which was composed of Income Support, Lone Parents and the country of birth ethnicity measure. The AEN total for 2003-04 included all funding allocated through Income Support, Working Families Tax Credit, Low Birth Weight (this was used in the high cost pupils block), English as an additional Language and low achieving ethnic groups.

<sup>13</sup> The functions of local authorities with responsibility for education continue to be funded through the local education authority block in the RSG.

<sup>14</sup> The method of calculation was different from that used to compare the AEN components of the Education SSA and EFSS where high cost pupils (e.g., in special schools) were included.

<sup>15</sup> Some of the funding for personalisation goes directly to schools via a specific grant from the DfES, called the School Standards Grant (Personalisation) (HMT, 2006).

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<sup>16</sup> Until the end of the 2005-06 financial year, the funding from central government was not ‘ring fenced’ which meant that local authorities could make their own decisions about their budget: they could spend more or less than their Formula Spending Share. Analyses of 2003-04 data revealed that local authorities spent more than the Schools Formula Spending Share (Local Government Association, 2003).

<sup>17</sup> The government made adjustments to this calculation ‘including an assumption as to what proportion of unmet needs should be funded and the proportion of met costs which are funded through grant and are therefore not relevant to mainstream sources. In total, the £1,780 figure was reduced to £1,460. This figure represents a useful benchmark for the typical additional cost that a school is likely to face as a result of teaching a pupil with either low-level SEN, ‘social’ needs arising from deprivation, or EAL needs’ (DfES/HM Treasury, 2005, p. 19)

<sup>18</sup> For example, the actual provision of free school meals for eligible children.