



**DfES/HMT REVIEW OF DEPRIVATION FUNDING FOR SCHOOLS:
PUBLICATION STATEMENT**

1. The government has an ambitious long-term target to halve child poverty by 2010 and eradicate it by 2020. The 2004 *Child Poverty Review* set out what would be necessary to achieve this goal, moving beyond financial support and employment measures alone to wider improvements to public services, such as education, in order to increase the future life chances of children in low-income households. Educational outcomes are closely linked to long-term equality of opportunity, and so closing gaps in attainment between different groups is critical to the government's aim of promoting a fair and inclusive society. An education system with improved opportunities and outcomes for everyone needs to be fairly funded - and take an approach based on the needs of every child, as emphasised in Ruth Kelly's July 2005 speech to the IPPR.

2. As that speech also made clear, there have been improvements in attainment at all levels of education in recent years, and schools in the most disadvantaged areas have improved most of all. However, there remains a major gap between the outcomes of children from disadvantaged backgrounds and their peers. In 2004, only 26.1% of pupils eligible for free school meals (the most commonly used indicator of deprivation) achieved 5 or more GCSEs at grades A*-C, compared to 56.1% of those who were not eligible.

3. The government's individualised approach to improving attainment is embodied in the recent White Paper *Higher Standards, Better Schools for All*, which emphasised not only the need for greater institutional flexibility to meet the continuing challenge, but also the read-across to funding. The inclusion of substantial resources for personalised learning within the Dedicated Schools Grant (DSG) for 2006-07 and 2007-08, allocated partly on the basis of deprivation, underlines the government's commitment in this area.

4. Central allocations of education funding between local authorities, and some government grants paid to schools outside their budget shares, take account of local circumstances, including a significant weighting towards deprivation. However, local authorities have considerable discretion over how they distribute funding to schools in their area, and the formulae they use to distribute funding tend to give less weight to social need compared to other

cost pressures. As a result schools with similar proportions of pupils from income-deprived families can receive very different levels of funding.

5. The *Child Poverty Review* announced that the government would review the formulae that local authorities use to fund schools to deal with the costs arising from social deprivation. This review¹ has now been completed, and can be found at www.teachernet.gov.uk/deprivationfundingreview/. The review's key conclusions are as follows:

- In practice, **the existing regulatory framework places only a very modest requirement on local authorities to distribute funding to schools on the basis of deprivation. The emphasis that local authorities place on deprivation in their funding formulae varies greatly.**
- There is a **wide degree of variation between local authorities' strategies for assessing and funding the costs of deprivation, and there has often been no systematic approach to reviewing need.** In many cases authorities simply allocate funding for deprivation on a historical basis, rather than on the basis of an up-to-date assessment of which schools have the greatest need.
- **Local authorities and Schools Forums sometimes have little understanding of the national system of deprivation funding, and of the intended purpose of this funding at a local level.** This suggests that central government needs to do more to communicate information.
- This leads to **significant variation in funding levels between schools with similar proportions of pupils eligible for free school meals.** For schools with 35% of pupils receiving free school meals - after area costs are removed - per pupil funding varies by around £400, and at the 50% FSM level the variation is much greater. Although in some cases this can be affected by the interface with funding for special educational needs, it is suggestive of wide divergence in local authorities' policy on schools facing the greatest challenges.
- Overall, **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.**
- Many local authorities commented that **the Minimum Funding Guarantee (which guarantees a minimum annual increase in per-pupil funding to schools) can act as a brake on redistribution according to need.**
- It is clear that **additional expenditure has a positive, if relatively modest, impact on attainment. This impact is greatest when**

¹ *Child Poverty: Fair Funding for Schools* (DfES/HMT 2005)

expenditure is targeted on the most deprived schools, and towards pupils who are eligible for free school meals. The impact of a marginal increase in expenditure at Key Stage 3 is three times as great for mathematics and four times as great for science when targeted on pupils eligible for free school meals.

- Given the evidence that schools in deprived areas receive greatly varying levels of funding depending on their local authority's approach, it is clear that **the impact of funding in boosting the attainment of children from deprived backgrounds is not being maximised.**
- One of the **most effective use of resources to help pupils from disadvantaged backgrounds catch up is to improve the overall staff:pupil ratio.** However the evidence base in this area does not yet provide a complete picture of how funding can best be used to maximise impact. **DfES is working to develop this evidence base further as a basis for providing comprehensive advice to schools on best practice.**

The government has considered these conclusions and this statement sets out the steps it will now be taking to drive a more equitable distribution of deprivation funding to schools, and to support schools in using this funding as effectively as possible to help close the attainment gap.

6. The government believes that despite the efforts of local authorities so far – and the report acknowledges that these have been affected to some extent by changes in national requirements – further action is necessary to ensure that pupils from low-income families have full equality of opportunity wherever they live. However, changes must be linked to the wider changes in school and local authority funding which are being implemented in two phases – a transitional phase for two years from 2006-07, and full implementation from 2008-09 following the Comprehensive Spending Review. In some areas, debate may simply need to revolve around distribution of additional resources; but in many the issue of redistribution will also arise and therefore the programme outlined below has 2008, not 2006, as its target. The flexibility which authorities have to make change also varies according to the level of funding they receive to meet the costs of social deprivation – although every authority receives some, and should consider whether its neediest schools get enough of that. These are issues which require local debate and consensus, building on the growing role of Schools Forums, which Ministers wish to encourage.

7. Ministers have concluded that this process should be supported by a specific set of actions:

a. Dedicated Schools Grant

Authorities need to be clear about available resources. The government is determined to ensure that funding allocated on the basis of deprivation is effectively targeted to help meet the additional costs

that schools face as a result of deprivation, and that it is used as effectively as possible to help close the social class attainment gap.

The Dedicated Schools Grant, like its SFSS predecessor, has a substantial element which is related to social deprivation; and DfES is ensuring that authorities are made aware, in the detailed model and technical note published about the DSG, of how much of their overall allocation is calculated on the basis of deprivation².

b. Local reviews of deprivation funding

Every local authority in England will be asked to review its current arrangements for funding schools for the costs of deprivation, and consider in conjunction with its Schools Forum whether the formula used to allocate funding between schools should be changed. Because of the way these formulae are constructed, this may also affect funding for SEN.

This will be a three-stage process:

- i. The data on funding linked to deprivation within the DSG should serve as a basis for beginning local debate about the use of these resources.
- ii. The Secretary of State, using her powers under section 29(1) of the Education Act 1996, will require authorities to supply by the beginning of May 2006 a statement setting out in detail the way in which their funding formulae currently address social deprivation, and the policy approach which has led to the current formula. Authorities will also be asked to say how they have distributed personalisation funding from the 2006-07 and 2007-08 DSG to schools, and the rationale for this distribution. These statements will be collated and published nationally by DfES alongside a quantitative assessment of attainment amongst deprived pupils in each authority, and information on the funding each authority receives.
- iii. Following this, authorities will be asked to undertake their full local review in conjunction with their Schools Forum, and the Department will maintain contact with progress through the Department's Children's Services Advisers. If discussions with CSAs suggest that progress towards a funding formula which targets deprived pupils properly

² This figure will be calculated by applying the AEN component of the 2005-06 SFSS model as a proportion of total SFSS to the 2005-06 spending base for DSG, multiplying that by the 2006-07 DSG uplift and then adding the relevant proportion of the 'personalisation' component of 2006-07 DSG. The amount shown for deprivation will also include additional AEN resource generated for authorities being brought up towards SFSS formula. An amount is also calculated for 2007-08 on the basis of 2006-07 figures uprated for the minimum per pupil increase in 2007-08.

from the 2008-2011 funding period is not being made, the Department will consider in conjunction with the authority concerned what further action is required (including DfES support) to help achieve local consensus on the way forward. As part of the review of DSG operation from 2008 onwards, consideration will be given to ways in which the allocation process might be used to require authorities to target deprivation funding effectively according to need, but this would be seen as a last resort.

Authorities will also be asked to ensure that School Improvement Partners for schools in their area are fully involved in the process of local review: through their overview of attainment and effective resource allocation, they can contribute significantly to an education-based approach to funding formula change.

The Department will be writing to authorities later this month setting out further details of this exercise, including the required format for the statements, and the approach to be taken on attainment data.

When discussing use of resources with local stakeholders and undertaking their reviews local authorities should bear in mind:

- The need to ensure that their local funding formula accurately reflects all schools' needs for resources to address the costs of social deprivation (including in particular the adequacy of deprivation funding where only a minority of schools within an area are seriously affected by this pressure) ;
- The need to address attainment – particularly at KS3 - which is set out in the statement on personalisation funding within DSG. The personalisation element of DSG has been allocated amongst authorities not only on the basis of deprivation but also prior attainment, and the joint review shows that increasing numbers of authorities have explored the use of prior attainment funding as a mechanism for levering up standards. In local debate on these matters the appropriate use of prior attainment funding alongside funding for deprivation should be borne in mind.

They should also consider the interface with funding for high incidence SEN, which is discussed in more detail in the main review document, and the fact that AEN funding within the DSG is also intended to meet certain other specific costs such as free school meals.

c. Technical review of deprivation indicators

The review surveyed local authority practice in the range of indicators used to measure social deprivation, and identified some of the advantages and disadvantages involved in using particular indicators. In order to assist authorities in reviewing how they use resources linked to deprivation, the Department is commissioning a short, external, technical review of the most useful indicators, to complement the evidence on practice already gathered. The Department will aim to publish this review in Spring 2006 at the same time as the collated data in respect of each authority's formula and attainment profile. Further details will be published when the Department writes to authorities about local reviews later in December.

d. Minimum Funding Guarantee

In her statement to Parliament on 21 July the Schools Minister, Jacqui Smith, announced that the way in which the minimum funding guarantee for schools should operate from 2008-09 would be reviewed, with the aim of leaving sufficient scope to redistribute funding in accordance with changing needs and priorities. One of the key issues in that review will be the extent to which a relaxation of the minimum funding guarantee is required to allow future changes to local formulae to deliver effectively the resources required by schools to tackle social deprivation, and the Department be consulting specifically on that aspect when the review is carried out.

8. In addition to these specific follow-up actions to the review, the government will also be considering how its commitment to tackling the effects of social deprivation can be taken forward in other contexts, especially:

- a. specific grants, as the rationalisation of those from 2008 is considered; and
- b. the role of Public Service Agreement targets, as part of the Comprehensive Spending Review which will report in 2007.