

Stephen Kingdom  
Head of Funding and Technology Unit  
School Resources Group  
Department for Education  
Sanctuary Buildings  
Great Smith Street  
London  
SW1P 3BT

Contact: Lorena Esposito-Storey  
Direct line: 020 7934 9716  
Fax: 020 7934 9631  
Email: lorena.esposito-  
storey@londoncouncils.gov.uk

Our reference: HG/LES/JC  
Your reference:  
Date: 25 November 2010

Dear Stephen,

### **Pupil Premium calculation and distribution**

I am writing regarding the concerns that London Councils has about the method which may be used to calculate the amount of pupil premium for deprived children in England. London Councils welcomes the pupil premium and its aim to provide more funding to increase the attainment of deprived children, but is concerned that the way in which the premium will be calculated will disadvantage those very pupils it is intended to help. In particular, I believe that one of the calculation methods under consideration by DfE may disadvantage the most deprived children in the most deprived areas of the country. This is a concern for not only London but for other regions with highly deprived local authorities.

### **Pupil premium - method of calculation<sup>1</sup>**

The consultation paper sets out a method of calculating the pupil premium with a 'guaranteed unit of funding' per pupil that is calculated in each local authority and, for deprived pupils, this amount is topped up with pupil premium funding until a 'target total of funding' is achieved. This would result in a varying amount of pupil premium for each deprived pupil but total funding to each deprived pupil would be equalised. The consultation paper did not, however, give any details about how the guaranteed unit of funding was to be calculated or how the target total of funding would be set.

As stated by the Government in its consultation paper on the pupil premium '*The Government believes it is right to recognise differences already in the system for funding deprivation.*'<sup>2</sup> This suggests that only those differences in current *deprivation* funding per deprived pupils should be accounted for when calculating the amount of pupil premium for deprived children in different local authorities. London Councils' analysis shows that the current funding formulae for government grants allocate more deprivation funding to deprived pupils in wealthier areas than deprived pupils in disadvantaged areas. This is exemplified in Graph One in the Data Annex. It is these differences in deprivation funding that the pupil premium needs to address.

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<sup>1</sup> All references to funding in the following section exclude Area Cost Adjustment (ACA) funding

<sup>2</sup> DfE – Consultation on school funding 2011-12 – introducing a pupil premium, para 25, pg10

However, the Q&A<sup>3</sup> associated with the DfE press notice on the consultation<sup>4</sup> suggests that the Government intends to account for differences in *all* funding streams when calculating the pupil premium – ‘...there are currently significant differences across the country in funding, including for deprivation, which we think the premium should reflect.’<sup>5</sup> Employing this methodology would mean, in the Government’s own words, that the premium would ‘...provide higher funding per pupil for schools with deprived pupils in areas that currently receive lower levels of funding.’<sup>6</sup> It is this which is giving London Councils cause for concern.

The IFS has modelled the outcomes of this method of calculation (using an assumption that Free School Meals (FSM) will be used to identify those pupils who will receive pupil premium funding) and its results show that the pupil premium would provide more funding to deprived pupils in less deprived authorities than it would provide to deprived pupils in deprived authorities<sup>7</sup>. This would mean that deprived children in very deprived areas would receive a smaller amount of overall deprivation funding (including the pupil premium) than deprived pupils in less deprived areas. As the IFS state, this runs counter to the Government’s aims for the pupil premium funding ‘*That the pupil premium should be higher in less deprived areas is hard to justify: it would widen inequalities in funding for deprived pupils, rather than reduce them.*’<sup>8</sup>

London Councils’ own modelling shows that if the pupil premium is calculated by taking into account total funding per pupil, the distribution of pupil premium funding becomes skewed to areas/authorities with lower proportions of FSM pupils - see Graph Two in attached data annex. Graph Two also shows the discrepancy between the level of pupil premium funding between local authorities. Tower Hamlets, a very deprived local authority where more than 50% of children are eligible for FSM receives a pupil premium of £653 per deprived pupil. Conversely, Wokingham which has 5% of pupils eligible for FSM has a pupil premium of £2,943 per deprived pupil.

In addition, Graph Two shows that total deprivation funding (including the pupil premium) is not equalised under this method for deprived pupils in different local authorities, eg, in Tower Hamlets, total deprivation funding per deprived pupils would be £2,850 whereas a deprived pupil in Wokingham would receive £7,002. This runs directly counter to the Government’s aim that ‘*Over time...the same amount of funding will be available for deprived children no matter where they are*’<sup>9</sup> and is clearly inequitable. Under this model, for every 1% increase in FSM eligibility in a local authority, deprived pupils receive approximately £100 less total deprivation funding.

Using this methodology, London local authorities, despite having the largest regional share of deprived pupils (23% of national FSM eligible pupils), would only receive 18% of total available per pupil premium funding (see Graph Three in the data annex).<sup>10</sup>

<sup>3</sup> <http://media.education.gov.uk/assets/files/doc/q/q%20and%20a%20school%20funding%20consultation%202011-12.doc>

<sup>4</sup> press notice id: 2010/0097

<sup>5</sup> Q&A, pg4 – see footnote 3

<sup>6</sup> Ibid

<sup>7</sup> IFS 2010 - Introducing a pupil premium: IFS researchers’ response to government consultation on school funding arrangements

<sup>8</sup> IFS 2010 – Press Release - Proposed pupil premium could increase school funding inequalities

<sup>9</sup> DfE – Consultation on school funding 2011-12 – introducing a pupil premium, pg4

<sup>10</sup> Assumed at £2.5bn overall for the Spending Review period as announced in October 2010.

As I'm sure you are aware, there is no shortage of literature<sup>11</sup> pointing to the importance of neighbourhood and peer effects on attainment (ie that children in deprived areas have lower attainment than children in less deprived areas). London Councils is gravely concerned that this method of calculating the pupil premium which provides less deprivation funding to deprived children in deprived areas could have significant detrimental effects on the attainment on deprived children in the most deprived areas of the country.

### **Pupil premium – equalising the deprivation funding available to deprived children<sup>12</sup>**

The London Councils response to the consultation was very clear that *'for a given level of deprivation, each deprived pupil in England should receive a similar level of resources to meet their additional educational requirements. Where it can be shown that some deprived pupils currently receive less funding than others, where that funding is intended to address the needs associated with deprivation, then we agree that the additional pupil premium should be greater for these pupils to achieve a degree of equalisation in per-pupil deprivation funding.'*<sup>13</sup>

In order for every deprived pupil to receive the same amount of deprivation funding, only *deprivation* funding already in the system for deprived pupils should be included within the guaranteed unit of funding. The exclusion of non-deprivation funding (eg 1-2-1 Tuition funding which is aimed at tackling attainment in English and Mathematics for all pupils) from the guaranteed unit of funding ensures that funding targeted at specific areas which is not necessarily aimed at, or spent on, deprived children does not reduce the pupil premium available to these children.

London Councils' modelling of a pupil premium which does equalise deprivation funding – ie, it only accounts for deprivation funding already in the system when calculating how much pupil premium accrues to each deprived pupil – shows that this method ensures that authorities with higher levels of deprived pupils (as measured by FSM) receive the highest amount of pupil premium. This is exemplified in Graph Five in the data annex. This graph also clearly shows that this method equalises the total amount of deprivation funding (including the pupil premium) available to each deprived child in every local authority. While London and other regions with high levels of deprivation receive higher amounts of 'per pupil' pupil premium funding this is to compensate for the lower levels of deprivation funding they currently receive for each deprived pupil (as illustrated in Graph One).

### **Pupil premium – ensuring relative resource costs are recognised**

London Councils welcomes the Government's recognition that the costs of providing support to deprived children is not equal throughout England and that an area cost adjustment (ACA) would be necessary to recognise higher resource costs. This is of particular importance to London which has significantly higher resource costs than elsewhere in the country. In order to apply the ACA correctly when calculating funding for deprived children, the ACA would need to be applied to the entire amount of funding per deprived pupil – ie the guaranteed unit of funding PLUS the pupil premium. This would mean that the guaranteed unit of funding would need to have any element of ACA funding included within the funding streams that make it up stripped out before the level of the pupil premium is calculated. The ACA should then be calculated on the full amount of

<sup>11</sup> For example: Webber and Butler [2007] Classifying pupils by where they live: how well does this predict variations in their GCSE results? Urban Studies, Vol 44, no 7, p1229-1253

<sup>12</sup> All references to funding in the following section exclude ACA funding

<sup>13</sup> London Councils response to the Pupil Premium consultation

funding and should sit above the target total of funding line. Failure to do so would mean that deprived pupils currently receiving ACA as part of funding streams included within the guaranteed unit of funding would receive less pupil premium. Graph Four in the data annex exemplifies how the total funding to a deprived child, including the pupil premium, should be made up.

I am aware that you and your colleagues are in the process of finalising the distribution of education funding for 2011-12 at present, including the distribution of the first year of pupil premium funding. I would urge you to ensure that the pupil premium is maximised for those children who need it most by employing a method of calculation that recognises only differences in deprivation funding for deprived pupils and correctly applies ACA funding. Failure to do so will mean that the pupil premium funding will not meet the Government's objectives of providing an equal chance for all deprived children.

London Councils' Executive Member for Children's Services and Skills and Employment, Councillor Steve Reed, is also writing to Sarah Teather MP, Minister of State for Children and Families to raise these concerns with her.

Yours sincerely

A handwritten signature in black ink, appearing to read "Hugh Grover".

Hugh Grover  
**Director, Fair Funding**

## DATA ANNEX

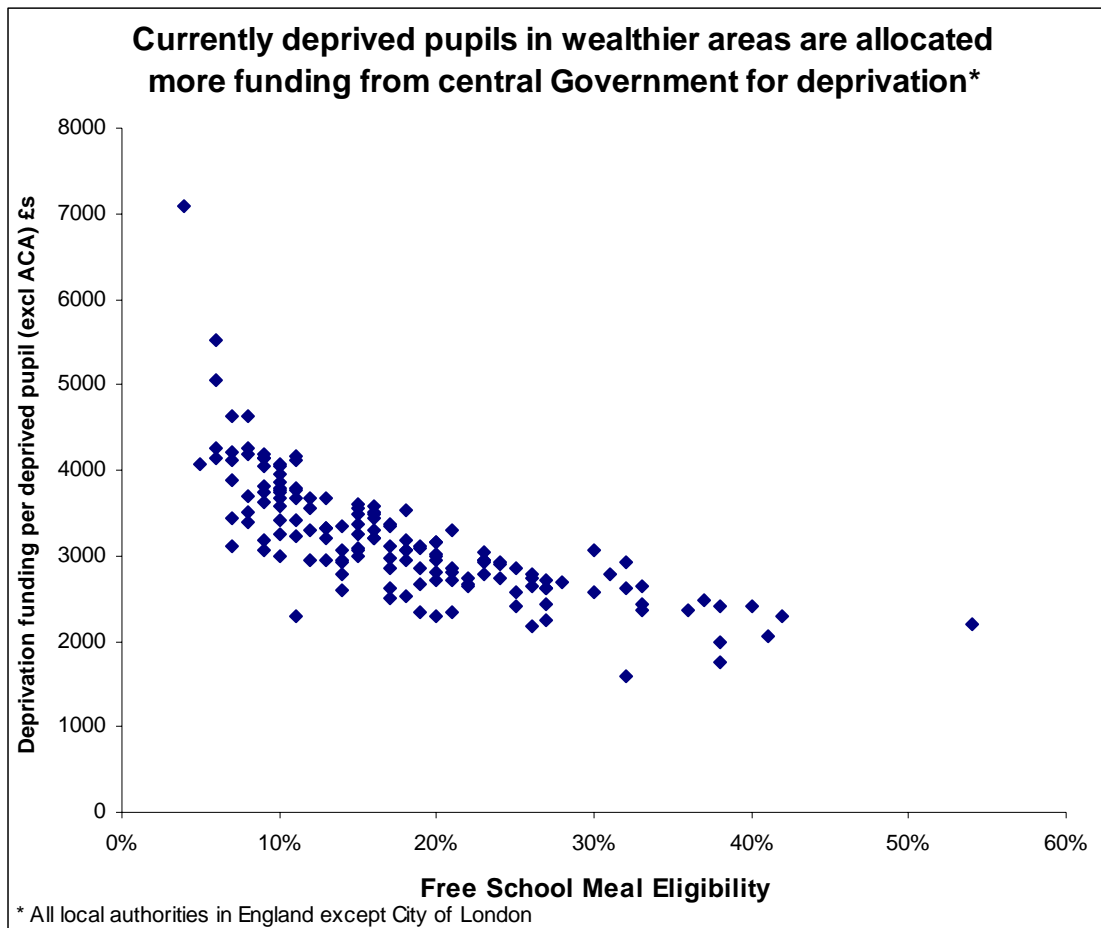
London Councils has modelled two different distributions of the pupil premium:

- Model One – is based on distributing pupil premium funding to reflect differences in per pupil funding for all pupils.
- Model Two – is based on distributing pupil premium funding to reflect differences in deprivation funding for deprived pupils ie it is aimed at equalising deprivation funding for deprived pupils.

The key findings and assumptions from our analysis are set out below.

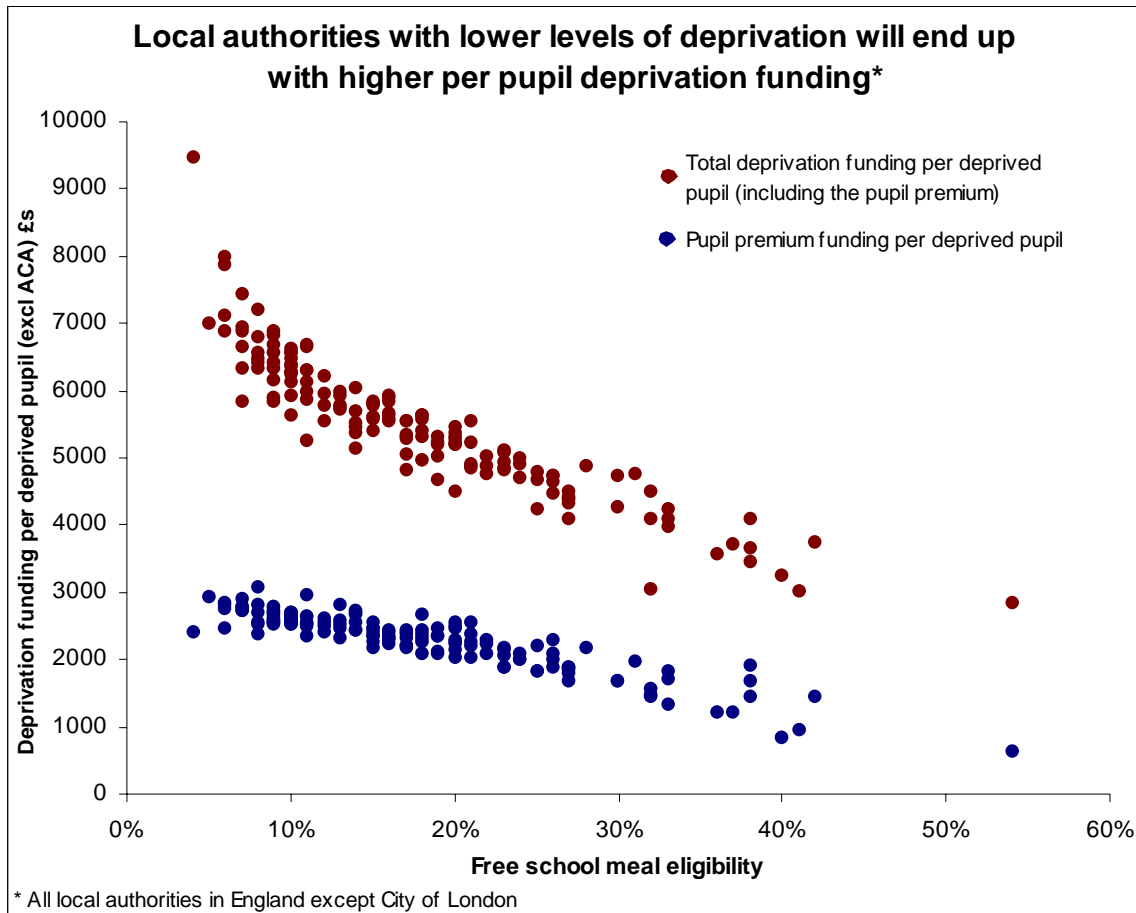
### **Model One: Distribution of deprivation funding if total funding per pupil is used in the pupil premium calculation**

#### Graph One



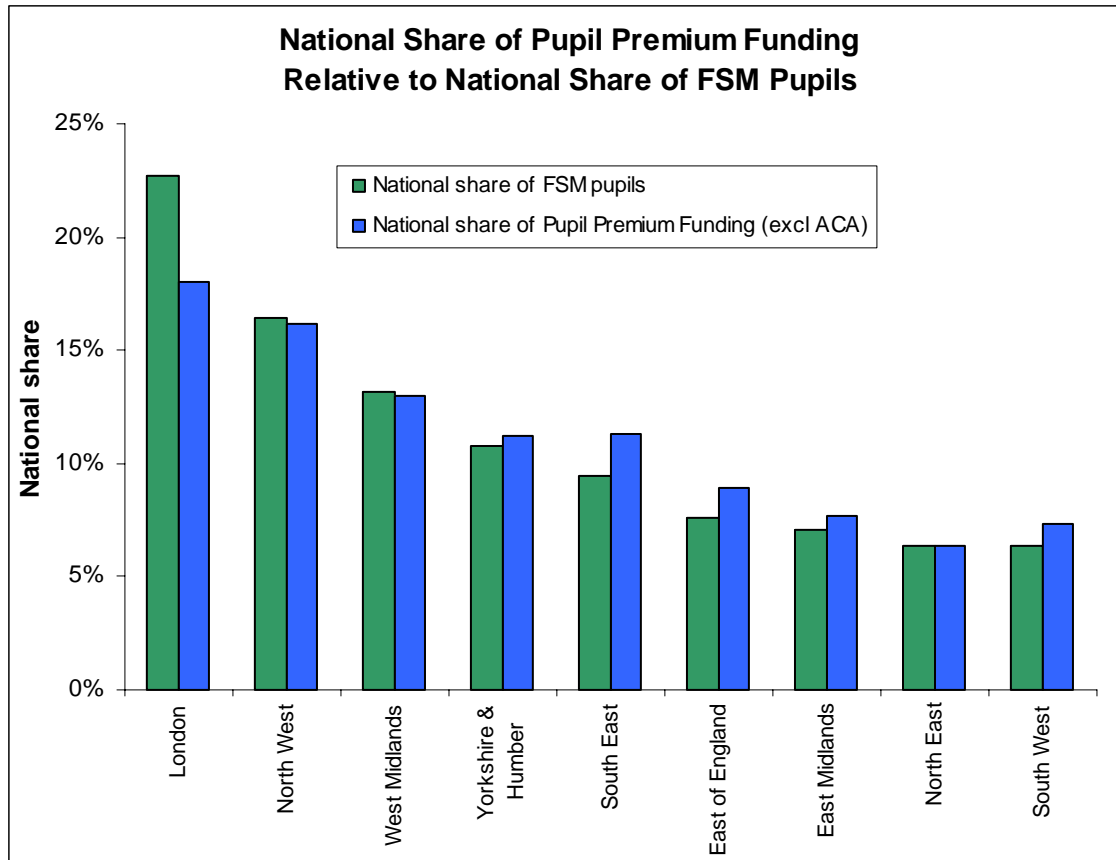
London Councils' analysis shows that the current funding formulae for government grants allocate more deprivation funding to deprived pupils in wealthier areas than deprived pupils in disadvantaged areas.

Graph Two



IFS’s analysis shows that pupil premium funding would be skewed towards deprived pupils in less deprived areas. Our modelling confirms this, and shows that deprived pupils in less deprived areas would end up with higher **total** deprivation funding (shown by the red dots). For every 1% increase in free school meal eligibility deprived pupils end up with approximately £100 less total deprivation funding.

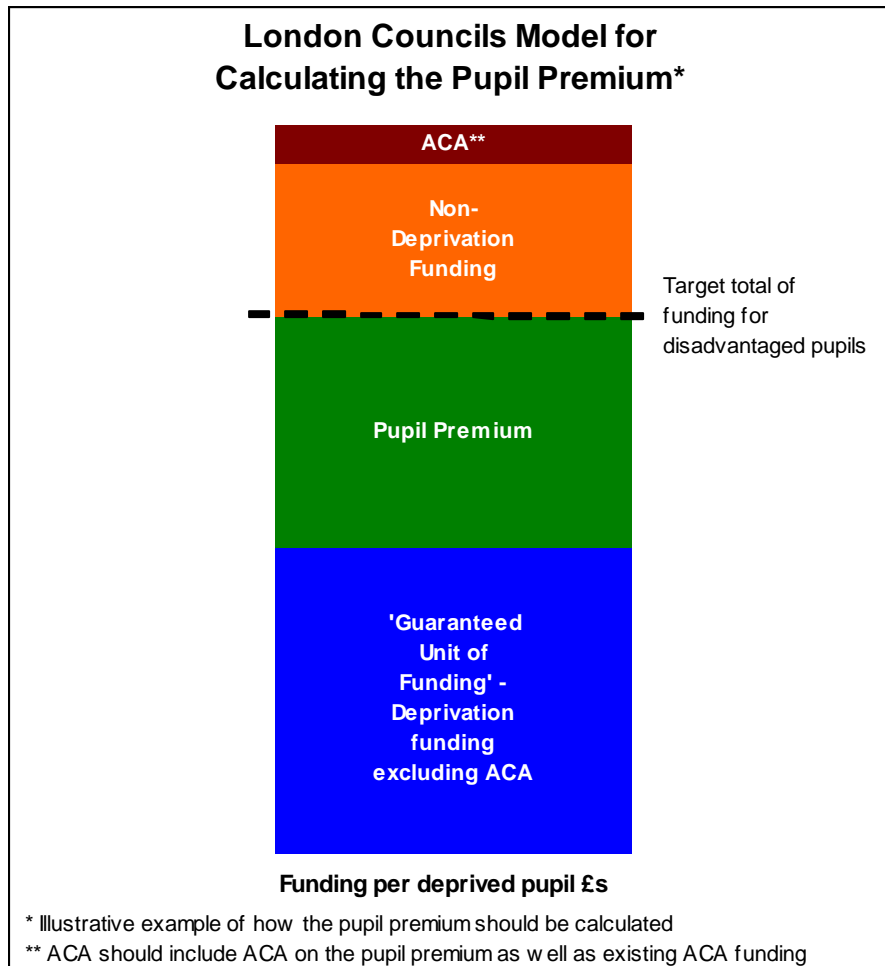
**Graph Three**



Under this model of allocating the pupil premium, regions with a higher national share of FSM pupils, for example London and the North West, don't end up with a commensurate share of pupil premium funding.

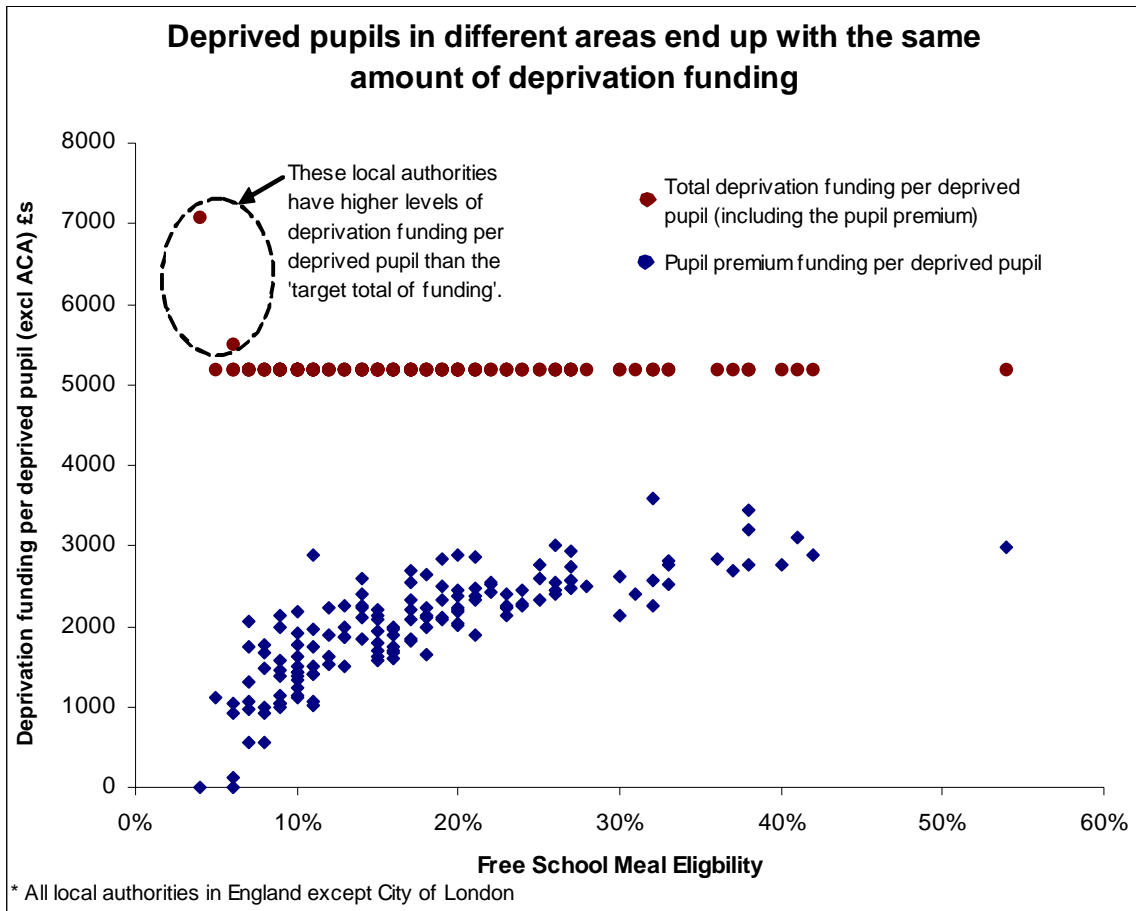
**Model Two: Distribution of deprivation funding if only deprivation funding per deprived pupil is used in the pupil premium calculation**

**Graph Four**



Graph Three illustrates London Councils model for calculating the pupil premium. The pupil premium for each local authority is calculated by comparing differences in deprivation funding per deprived pupil (excluding any differences due to area costs). Non-deprivation funding and area costs are funded 'above' the target total of funding.

Graph Five



Graph Four illustrates the results of London Councils modelling when only differences in deprivation funding per pupil are considered in allocating the pupil premium. It means that every deprived pupil in every local authority will end up with the same amount of total deprivation funding (shown by the red dots).

### **Key Assumptions behind London Councils Analysis**

We have set out the key assumptions that we made in our modelling below. We would welcome the opportunity to discuss these in more detail.

#### **Current funding levels**

- Funding levels are based on 2010-11 allocations for grants that will form part of the Schools' Budget from 2011-12, as announced in the Spending Review, October 2010.
- Funding for early years in the Dedicated Schools Grant has been removed.
- The Isle of Scilly has been excluded from the analysis because it is not funded for education in the same way as other local authorities.

#### **Pupil numbers**

- Pupil numbers are based on 2010 DSG pupil numbers adjusting for early years pupil numbers as these pupils will not initially be eligible for pupil premium funding.

#### **Quantum of pupil premium funding**

- Analysis is based on 2014/15 allocations using a £2.5 billion pupil premium for deprived pupils as announced in the Spending Review.
- No adjustments have been made to the overall quantum of pupil premium funding for Looked After Children and service children because we do not have sufficient information to include that in our analysis. This does not impact on the relative distribution of funding, just the absolute funding levels.

#### **Area cost adjustment**

- In comparing differences in funding between local authorities, current funding to reflect differences in area costs has been removed in both models.
- The cost of providing an area cost adjustment on local authority pupil premium allocations has been factored into our analysis, ie it is part of the £2.5 billion cost, and no additional funding would therefore be needed to recognise relative resource costs.

#### **Deprivation**

- The numbers of deprived pupils are based on 2009 Free School Meal eligibility.
- In order to develop a model of funding that equalises deprivation funding per deprived pupil we have made some assumptions around the amount of current funding that is for 'deprivation'.
- We have made these assumptions based on the information available to us on the purpose and allocation methodology for particular funding streams. For example, we have assumed 1-2-1 Tuition funding which is aimed at tackling attainment in English and Mathematics for all pupils is not deprivation funding.