



## Education Committee

Oral evidence: [Fairer Schools Funding, 2015-16](#),  
HC 220

Wednesday 11 June 2014

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Members present: Mr Graham Stuart (Chair), Neil Carmichael, Alex Cunningham, Bill Esterson, Siobhain McDonagh, Ian Mearns, Caroline Nokes, Mr David Ward, and Craig Whittaker.

Questions 1-79

Witness: **Rt Hon David Laws**, Minister of State for Schools, gave evidence.

**Q1 Chair:** Good morning and welcome, Minister, to this session of the Education Committee looking at the issue of fairer schools funding.

The Government has been consulting on this repeatedly throughout this Parliament. It has accepted the case that funding is not fair. Everyone it has ever asked has said repeatedly it is not fair, and yet all we now have is a bit of money spread around on a complex formula. We will deal with some of the anomalies of that, but, given the recognition of the seriousness of the issue and the recognition of the fundamental injustice it delivers, why have you been incapable of doing more than this—before we get to the detail of why this is not very good either?

**Mr Laws:** You are being a little bit pessimistic about it, if I may say so, Chair. It is the largest step the Department has taken towards a fairer funding system for schools in recent memory.

**Q2 Chair:** You found 2% of overall schools funding and this you describe as a huge step forward. It is not, is it?

**Mr Laws:** It is a third of £1 billion going to roughly 60 authorities. We have had very positive feedback from people not only about the principle of moving to a fairer funding system, but also from many of the authorities that are affected.

As you know, Chair—I think we are at one on this—we would like ideally to be in a position now to move to a national fair funding formula, rather than this large but incremental move. The reason we have not been able to do that is that the Government has not set public spending plans beyond the year we are talking about, 2015-16.

Having looked at it very closely and considered the issues and uncertainties that would arise—particularly for those areas that we consider to be appropriately funded—we thought, I thought, the Secretary of State thought, the Prime Minister and the Deputy Prime Minister thought, that it would not be the right time to move to an NFFF, and that the right time to do that would be when we have the plans for public spending beyond 2015-16.

**Q3 Chair:** Is that technical; nothing to do with any political realities?

**Mr Laws:** No, it was because we do not know—and we are not going to know before the general election—what our spending plans are over a period of years.

Everybody knows that because of some of the unfairnesses in the existing funding formula, it would be impossible without a huge injection of cash to move in one year to the perfect system. You would have to do it over a period of time and you would be doing so at a time where there is already tight control of general public spending. Our concern was that if we did so and could not say to schools in those areas that were already appropriately funded what those arrangements would be for them and how convergence would work, it could create a great deal of uncertainty. Schools would not know whether they would have to reduce staffing numbers. We thought the most logical thing to do was to have this move to an NFFF, but to do so when we have spending plans set out for three or four years.

**Q4 Chair:** I do not want to anticipate everyone else's questioning, but that answer suggests your acceptance that a move to fairer funding would require losers as well as winners, whereas clearly it is always much easier to say, "Here is a few quid extra. Nobody loses—and therefore I do not have any political controversy." The truth is that if the thing is as fundamentally broke as you say and as everyone you have ever consulted says, there should be losers as well as winners—because it would take so long to move to a just and fair system if you refuse to have the courage to say, "You have too much."

**Mr Laws:** My view is that you can move over a sensible period of time—not too short, not too long—to a fair national funding system. If you are doing so at a time when a) you do not know your forward budgets for the Department and b) you know that there is probably not going to be considerable growth in public spending under any political party, the risk is that you cannot then give a clear assurance to those parts of the country that are not underfunded about what will happen to their budget. I have yet to find any part of the country that says to me they are overfunded. People always have good reasons for thinking that their funding is either adequate or they need more.

In any case, there is a good principle that, where Governments in the past have taken decisions to fund schools in a particular way and have argued that that is somehow fair or rational, to move very speedily to a situation where you change the funding—particularly if you were cutting it, where people would suddenly have to make real individuals, who have arranged their lives around their teaching practice, redundant—is something that Governments of all parties would want to avoid; it is not good governance to have those kinds of shifts.

My aspiration is still to be able to deliver this in a no-losers way, in the sense that I would not be particularly attracted to solutions that cut the per-pupil cash budget in any area. To

do that, you need to know what your forward budgets are, to see whether you can actually make such pledges and give such reassurance to overfunded areas.

**Q5 Chair:** You have just said that, whoever wins the general election, there is little prospect of a major increase in expenditure in this area, given the state of the public finances. Actually, unless someone decides to slash education spending overall, which is pretty unlikely, the broad envelope of funding for education in the next Parliament—short of another financial crisis or some unprecedented boom in public finances—is fairly predictable. I am putting to you that you have a pretty good idea of where we are going on that front. Tell me whether you agree with me on that. If that is the case, you could already be working out roughly how long it would take, fulfilling the principles you have just set out, to move to whatever you describe as fairer funding.

**Mr Laws:** To speculate on what might happen in the next Parliament—I will do, because you are inviting me down that route, but I put the qualification around it that this is somewhat above my pay grade, because it is a matter that will be determined by the Treasury—it seems to me there are two points to make, which are slightly more optimistic about moving to an NFFF in the next Parliament.

One is that we started this Parliament with the largest deficit in the public finances in living memory. We are going to have completed a large part of the fiscal consolidation by the end of the Parliament, if we remain on track as we currently are. I therefore do not personally think that the situation in relation to education funding will be more constrained in the next Parliament than it has been in this one, although it is obviously a matter for the next Government and for political parties to determine their priorities. What we do not yet know is whether it will be considerably better than in this Parliament. However, even if the schools budget again was static in real terms in the next Parliament—I certainly would not want to see, from my party's perspective, it being any worse than that—we know that that means that the cash budget for schools is growing every year.

We have chosen in this Parliament to use the growth in the cash budget, the real protection, largely to go into the pupil premium—for reasons that are entirely right and both parties entirely support—but we have now reached the level of the pupil premium that we pledged, £2.5 billion in 2014-15. Even if we only protected the schools budget in the next Parliament, there would be an issue about what we did with the gap between real protection, if that was the situation, and cash protection.

I am more optimistic than you might otherwise suggest that, even in what will be not an easy Parliament, the next Parliament, whoever is the Government, we have the possibility of moving decisively towards this NFFF—if the political will is still there in the next Government.

**Q6 Chair:** Assuming we have another five-year Parliament, you think it could be delivered in the next Parliament. We will come to the detail of what you consider fair funding to be and the principles behind it, etc., but could it be done in a Parliament, in the circumstances?

**Mr Laws:** It could be done in around that amount of time. Obviously, this is now a matter for each party to put in their manifesto. I would imagine that my own party will put in its manifesto a commitment to move to a national fair funding formula in the next Parliament.

There is no reason why we could not take that decision very early in the next Parliament and, then, once we know the spending plans—which will have to be set out, again, I would have thought, early in the next Parliament—move to that national fair funding formula over a period of years. Without calculating precisely what the end point would be, I cannot tell you whether that would take four, five, six or seven years.

**Chair:** It would be somewhere in that area.

**Mr Laws:** However, that timescale—probably no shorter than one Parliament, no longer than two—is my best guess at the moment about what we would actually need to deliver an NFFF.

**Q7 Chair:** Your oral statement to the House on fairer schools funding on 13 March quoted an example of a school in Birmingham with only 3% of pupils receiving free school meals and that school gets a higher funding rate per pupil than a school in Shropshire with over 30% of pupils eligible for free school meals. Shropshire does receive an increase under your proposals, but its per-pupil rate will still be £850 lower per pupil than Birmingham's. Do your proposals do enough to tackle the problem you have identified?

**Mr Laws:** They do, because they are making a very big step towards fairer funding. However, implicit in what we have already said—that we are not moving immediately to a national fair funding formula—this announcement that we made in March does not complete the process. What it does is put in place a much more logical system of allocating money around the country, give a minimum funding level for every pupil in every part of England, and concentrate resources in those areas that seem to be unjustifiably below that minimum funding rate.

One other point that is worth mentioning, Chair, which we discussed in a previous session, is that moving to a national fair funding rate is not just about calculating within the existing parameters whether particular areas are fairly or unfairly funded. It is also about the judgments we make as a Department and politically about how much money to put into deprivation, what type of deprivation to measure—whether you put it into EAL, sparsity factors or lump sums.

When we get a national fair funding formula, that will not be the end of all our debates about education funding. It will actually lay bare some of the choices we are making as a country about how to fund deprivation, lump sums and sparsity. Even when we have a national fair funding formula, we will still have people saying, “It is outrageous that my area is getting this or that,” because one of the reasons Birmingham is getting, even in our new model, a lot more money than Shropshire is that it has a lot more deprivation, as we measure it, and so we are giving it a lot more funding. There will still be people who want to challenge whether we are giving too much or too little in the deprivation element.

**Q8 Chair:** Does that schools example you gave not show that we have rather crude measures that say, “Birmingham has more deprivation than Shropshire,” and it ends up with a school in Birmingham with practically no deprived pupils getting vastly more money than a school in Shropshire with a very high level of deprived pupils? That is a system that is so crude it is failing to deliver the aims it sets out to achieve.

**Mr Laws:** Yes, the example I gave makes the point I wanted to make: you can have two schools with characteristics where you might well want to fund a school in the area that is getting lower funding at least at as high a rate as the other school. However, my general point is that does not necessarily mean you do not want to give Birmingham more money than a part of the country that has considerably less deprivation. The key thing is not only to fund individual areas fairly but to fund individual schools—and you can have very deprived or non-deprived schools in parts of the country that may themselves be either deprived or non-deprived. We have to fund areas fairly and then we have to fund the schools within those areas fairly.

**Q9 Ian Mearns:** Minister, the ATL, in their consultation response, suggest that the Government has never defined the characteristics of fair funding. You have described the proposals as a huge step towards fair funding, so it is important to try to understand from you what you mean by “fair” in this context. In particular, does a fairer system mean that the difference between the highest funded and the lowest funded local authorities will necessarily be smaller—or could it be larger? Is unfair the same as uneven?

**Mr Laws:** Under any funding system that we are likely to have, there will be an uneven allocation between local authority areas, because there is a very great unevenness across the country in the amount of deprivation, English as an additional language, sparsity and so forth. Sometimes, as you will know, people talk to us about the unfair nature of education funding and they say, “Tower Hamlets is getting more than Surrey and there is a massive gap.” The fact that the Tower of Hamlets is getting more than Surrey does not necessarily mean the system is unfair. It means that we want Tower Hamlets to have more than Surrey, because its aggregate needs are greater than Surrey’s—defined in the way that most political parties agree.

However, what we are trying to achieve is that any pupil in any school that is comparable in any area of the country will receive a similar level of funding. What is unacceptable to people is that you could have a school with 50% free school meals and 10% English as an additional language in areas that are equally sparse in different parts of the country and they can be totally unequally funded.

I have been, as some of you might have been, to places like Cambridge in the past, where head teachers have said to me, “Look out of this school window at that school you can see in the far distance, which happens to be over the other side of the county boundary. It looks exactly the same as us in terms of its characteristics, but its funding is totally different; how can you justify that?” The answer is that you cannot justify that—but that does not mean Tower Hamlets is going to get the same as Surrey in the future.

**Q10 Ian Mearns:** Within the context of fair funding and a definition of fair funding, it also presupposes that we have a clear understanding of what we want schools to achieve with this money. It seems to me that schools increasingly now come under pressure to alleviate all the social ills of their neighbourhood within the school setting.

**Mr Laws:** Yes, there are high aspirations and expectations on schools to tackle a lot of the poor educational outcomes that are associated with economic and social disadvantage. All the political parties aspire for schools to do that. We give schools and the education system in general a lot of money—through deprivation-related characteristics and low

prior attainment—to help schools to do that job. One of the key questions in devising a truly fair, perfect, final national fair funding system is, “How much do you fund a deprived youngster compared with one who has lower levels of deprivation?”

That requires not just setting a fair level of funding for a deprived youngster in one part of the country compared with another, but also making a judgment about how much we want to fund somebody who has various levels of disadvantages. Some young people with disadvantage are funded at 100% more than average pupils without those characteristics. There is issue about whether that itself is appropriate.

**Q11 Ian Mearns:** These discussions about fair funding—across a whole range of different services, but, in particular, in education services—have gone on for many years. I have often come across people who have described what they see as unfairness as it impacts on them, because a school down the road gets more money. There are examples that defy the rules, but, when you look at the context and you suggest to the school that is getting less funding, “You want that amount of funding, but would you take all those social problems to get that funding?” the answer is probably no.

**Mr Laws:** That is right. There is a reasonable challenge, though, that heads put to us, which is, “I am a head teacher in Cambridgeshire or Somerset or East Riding. I have a school with 30% or 40% on free school meals and with all these types of challenges and special needs. My funding level is X. When I then go to area Y”—often inner London or some other metropolitan area—“I see a school that has very similar characteristics and it’s got an extra £1 million or £2 million in its budget. How can that be fair?”

That is a perfectly legitimate point, but, at the same time, all political parties are saying that what fair funding looks like is not every pupil in the country getting exactly the same funding rate, because all parties believe that some schools with greater challenges should get more funding to deal with them.

**Q12 Mr Ward:** For the school down the road and the one that is over the county boundary, how do we know that that is a fairer funding issue and not simply a decision made by the schools forum in their local discretion?

**Mr Laws:** It could be. We are not trying to move to a system where local areas have no ability whatsoever to set some of those priorities themselves. We certainly have massively reduced, under this Government, the number of the variables that local authorities and others can take into account when they allocate money to schools in order to try to concentrate on a number of key measures. However, we are allowing that local discretion for areas to decide if they want to put more or less into things like deprivation. We must make sure, however, that we fund all the local areas in a fair way before they make those decisions.

If Surrey and Tower Hamlets are funded fairly and then the authority decides to skew their deprivation or prior attainment spending in a particular way, they are free to do that and the schools in that area have recourse to the schools forum and the local authority, and they may say, “You are getting this money fairly from the Government, but you are allocating it in a stupid way.” Those discussions can still take place at local level, but we, as national Government, have to get the funding fair to those areas.

**Q13 Ian Mearns:** The current Government has consulted four times now on issues and proposals relating to fairer funding for schools and yet the first question for the latest consultation was, “Do you agree that the existing distribution of schools funding is unfair?” Why was it necessary to re-establish the case for reform when so many previous consultations have been held?

**Mr Laws:** You may have a list of some of the other consultations that have been held; I do not, because I probably was not in the Department for some of that period in time. However, we have been trying to move to a fairer funding system in a number of different ways. Some of the other consultations that I suspect you are referring to are, for example, narrowing down. We previously used to have 37 different factors that local authorities could allocate money on the basis of; we have been trying to simplify those things.

It is right that we have had multiple consultations, because we have got multiple issues to deal with. I have no doubt that we will come later to questions about the other parts of the DSG and whether those are allocated fairly. We have some way to go before we produce the perfect fair funding system. I have no doubt that there will be not just one further consultation but probably a number under this Government and the next.

**Q14 Chair:** Minister, if you want to read them all, we have them all here.

**Mr Laws:** That is great.

**Chair:** They are fairly repetitive. I am not sure whether the need for another after another, asking the same question, is entirely correct. However, they are all here; you can make that judgment yourself.

**Mr Laws:** I am pleased to say we have 91% of people agreeing with us that the existing funding system is unfair. There is clearly a strong basis for this.

**Chair:** You will not ask that question again, then.

**Mr Laws:** It is always good to consult people and make sure you understand their views. They might think our previous work has been so excellent that there is nothing else for us to do.

**Ian Mearns:** Possibly, you need to ask them, “Do you think that the current unfair formula is worse or better than the previous unfair formula?”

**Mr Laws:** We will think about adding that question to the next consultation.

**Q15 Ian Mearns:** You have already touched on this, because you have outlined, from your own perspective, how long you would see this process taking. Given that this is a fixed-term Parliament, we have known for a while the exact time available to deliver a new funding formula. Is it fair to say that failure to deliver this is an example of poor project planning, because we know exactly how long this Parliament has to run?

**Mr Laws:** That would be a bit unfair. We do not necessarily know in education—we would not have known at the beginning of this Parliament—for how long we were going to have spending plans fixed into the future. Obviously, no Government can commit its successor entirely on funding in a binding way, but the Treasury has, for example, given

us capital budgets for basic need and maintenance out to 2020/2021. We are allocating money well beyond the current Parliament in this area and we will go on doing that later on this year. I suspect we will make further allocations for capital that will go well into the next Parliament.

If the Treasury had said, “We are really keen to allocate revenue funding into the next Parliament for a period of years,” it would have been much easier for us to do the NFFF, but the fact is they have taken what is a perfectly defensible position: that they do not want to allocate money beyond 2015-16, when there is going to be a new Government and that new Government will set its own priorities.

**Ian Mearns:** It feels a bit like Dorothy singing *Somewhere Over the Rainbow*, does it not?

**Mr Laws:** I would gently say that would be fair of the last Government, which talked quite a lot about unfairness and did not do anything at all.

**Q16 Alex Cunningham:** They had three-year funding streams for education, Minister—three years.

**Mr Laws:** It had three-year unfair funding, so you knew with certainty you were going to be funded unfairly for a long time as a teacher.

**Alex Cunningham:** There was certainty for schools in that.

**Mr Laws:** There was certainly a certainty about unfairness, but, looking at the feedback that we have had from areas that feel most aggrieved—I acknowledge that not every area, Chairman, before you come on to this, is in a state of ecstasy—

**Chair:** Sometimes I miss the dynamics of American politics.

**Mr Laws:** A lot of them are very happy. Places like Cambridgeshire, which have been badly underfunded, are now very pleased that we have made this big step forward.

**Q17 Ian Mearns:** Is there anything specific the Department will be doing on a true national fair funding formula between now and the next Spending Review?

**Mr Laws:** Yes, there will be a few things we will be doing. Firstly, we still have to finish off this consultation and make an announcement, which, I guess, will be in July. We have to listen carefully to the representations that have been made, including the views of this Committee. I am seeing a number of people from different parts of the country, Members of Parliament. I am seeing the Chair; I am seeing people from Somerset tomorrow. We are still in a listening mode.

We also have—you will be conscious of this—to update the figures we used when we made the statement to Parliament in March, which were based on the 2013-14 data and the pupil data. We have to update the data for 2014-15. As you are aware, there will be not immaterial changes but small changes between the original announcement and the final one—and that assumes we do not make any bigger changes as a consequence of the representations, which we have not made a judgment on yet.

Then we want to do more work in the latter part of this Parliament on what fair funding looks like and—this may be an issue you want to come to—we are conscious of the fact that there are other parts of the DSG where there are fairness issues that we have not been able to deal with in this consultation, and we want to do some groundwork in those areas, for example high needs and early years, to work out whether those are being fairly funded.

**Chair:** We will come to that.

**Q18 Neil Carmichael:** Good morning. First of all, can I just ask you to confirm that the £350 million is additional money, rather than money sliced off somewhere else?

**Mr Laws:** Yes, it comes from two sources, as we made clear when we made the announcement. Part of it is from the protected schools budget. The budget would be growing in 2015-16 anyway. We do not anticipate making a big increase in the pupil premium that year, so some of that growth above inflation is going into this. Also, our expectation, which is what we had agreed with the Treasury before the announcement, was that the Treasury would also make a contribution to it based upon our need to fund this and the pressures within the departmental budget.

**Q19 Neil Carmichael:** How was the Treasury's contribution calculated?

**Mr Laws:** Essentially, we looked at what we thought was going to be necessary and the extent to which we could fund that from within the Departmental budget. They said they would underwrite the amount we felt we might not be able to fund from within the schools protection and give us that additional funding. Obviously, we have to recalculate what the minimum funding levels will cost based upon the latest data. That will give us a tweaked, updated estimate. We will know at that stage what final contribution there will need to be from the Treasury. I imagine they will not want it to be much greater than the figure they initially agreed to, but we will finalise it at that stage.

**Q20 Neil Carmichael:** How will you monitor the effectiveness—or, indeed, otherwise—of the £350 million?

**Mr Laws:** Firstly, we will be making sure that, when it goes to local areas, it does go down to a school level. The intention here is that it should be devolved to schools and not be used to fund central services. As Mr Ward indicated, there will still be discretion at a local level to determine whether or not the money goes in the same way as we have assumed in our allocation between deprivation, sparsity and so forth. We have allowed local authorities and schools for to have that flexibility, but we will be making sure it is spent on schools and not held centrally.

**Q21 Neil Carmichael:** What is the correlation between funding and outcomes in schools? What sort of evidence does the Department have to make a case for fairer funding?

**Mr Laws:** We have two pieces of information. One is simply the principle that if you are a school with the same characteristics and same pupils—the same type of pupils and the same characteristics in terms of sparsity—any person would say it is logical for the Government to fund those schools and those pupils in the same way. The second thing is about the impact of additional funding. There, there is a lot of academic research. Not all

of it, as is usually the case, is conclusive. Sometimes there are schools and countries where there is a lot of funding and the outcomes are not brilliant. All of us know that the quality of leadership, management and teaching in a school is crucial. You can have a very badly managed, badly run and well-funded school that would be getting bad results.

Before we underestimate the effect of money, however, we know that there are good interventions that are measured by people like the Education Endowment Foundation. If you put funding in and you use it for the right interventions, you get good results out. It is probably no accident that inner London, which is now very well funded, gets very good results. However, it would be unfair to say that that is just a funding issue, because they used to be very well funded as well, 15 years ago, and they had some of the worst results in the country. It is not just funding.

**Q22 Neil Carmichael:** Can authorities think of this additional funding with some degree of confidence that it will be repeated in the future? In other words, is this a one-off thing or is this going to be reliable in the future?

**Mr Laws:** It is reliable in the sense that the allocation that we have made for 2015-16 is designed to be in the baseline. It is not simply a one-year allocation that we are then taking away. However, what authorities and parents will be asking themselves will be, “What is the political commitment to dealing with the unfairness in the funding system?”

Given that we have only made the first big step, but not completed the journey, will political parties be committed to that after the election? People will look at what we all say in our manifestos and judge whether the political parties are committed to finishing this process off or whether they are not committed to it.

**Q23 Neil Carmichael:** You have said that the spending plans beyond 2016 are not fixed, so therefore you cannot really reform the formula funding system, or at least outline what those would be in detail. However, is there any work being done in the Department to pave the way for a reform?

**Mr Laws:** Yes, we have got a lot of expertise, obviously, in the school funding area. There is a lot of work that has been going on about all of the factors that we announced in the minimum funding levels. There is work that I think we are going to touch on in a moment that has been programmed for later on this year in some of the other parts of the education budget, including high needs. I have also commissioned some work on deprivation funding to look at how we are funding deprivation at the moment and whether that is the most rational way.

For whichever parties are in Government after May 2015, there will be a lot of work in this area to build upon, and it should therefore be possible for any incoming Government to make decisions relatively swiftly, if they wish to do so and once the Treasury has allocated its budgets over a period of years.

**Q24 Chair:** Is there much academic consensus outside the department? There is comparative research going on all over the world all the time into education; to what extent is

there a chance of there being more of a consensus as to what a fair system looks like, or is it going to remain entirely a creature of political priority?

**Mr Laws:** As I understand it, there is an academic consensus that the existing system is not fair. People like the IFS and everything have fed back, as you have seen, to this consultation largely positive comments. There is a consensus at a broad level about the fact you need to spend more money on youngsters from disadvantaged backgrounds if you want to give them a decent chance.

There will be much less consensus academically about—because some of these are political decisions—how you fund sparsity: what sorts of lump sums do you set? In other words, how much do you support small schools? There is also much less consensus on a lot of decisions about things like deprivation, which are a really major part of the differences in funding across the country. These decisions would be regarded partly as political decisions, but, also, partly as very challenging decisions to make—in the sense of what you are trying to do. Are you trying to deliver a level of funding for somebody from a disadvantaged background that would give them an equal chance as somebody from the most advantaged home in the country to succeed in school—or somebody from an average home? That would be very challenging.

**Q25 Chair:** It might mean withdrawing schooling altogether from some people to ensure that they are level with someone else. The same thing happens in health: if you are obsessed by inequality and outcomes and you do not resource as actual need presents, because you are so desperately level outcomes, you end up creating inequities worse than you started with.

**Mr Laws:** Yes. There would not be political support for such a skewed system, in which you are effectively disabling the education of some people in order to skew outcomes perfectly.

**Chair:** I should hope not.

**Mr Laws:** Some of those things involve some political judgment as well as some academic information.

**Chair:** They also involve philosophical judgment. Could you just tell us about the split—because you did not quite give us numbers—between the Department and the Treasury? Of this £350 million, how much is the Treasury putting in?

**Mr Laws:** As I have made clear, this will be finalised only when we know what the final costs are and how much of our protected budget has been used up, but our initial assumption, when we made our announcement, was that, of the £350 million, £90 million might need to come from the Treasury and the balance would be from within the protected budget. However, that could change either way—depending on the final calculation of what this is going to cost.

**Q26 Chair:** On the correlation question, to follow up on Neil's question about that, you said that it varies around the world and London might be an example, but, actually, London had lots more money in the past and it was not very good compared with other areas, at which point I was none the wiser. Has the correlation between expenditure and outcomes

become greater over time? Have we become more effective in ensuring additional resource leads to better outcomes for young people, deprived or otherwise, or have we not?

**Mr Laws:** I am not sure we have evidence that is strong enough to draw that conclusion over time. However, what I would be happy to do, if it would be useful to the Committee, is to ask the Department, the experts, to summarise for you what evidence there is in this area and to send that to you. The evidence, as I have seen it over a period of time, is that money does matter; it does make a difference. If you spend it on the right things, you get better outcomes, but you can very easily have schools with large budgets spending them extremely badly getting bad outcomes. It is not a panacea, which is what we would expect.

**Q27 Mr Ward:** I was going to ask this: if £350 million was a huge sum, what would £700 million have been? However, I will not ask that question.

**Mr Laws:** An even huger sum.

**Chair:** Outwith of the vocabulary.

**Mr Ward:** For my information, if for nothing else, where did the unfairness arise? I know from my own previous experiences as a councillor with responsibility for education, there were very complex calculations using deprivation indices: the index of multiple deprivation as well as free school meals. We thought we were making a pretty good fist of trying to identify where needs required additional funding. Everybody agrees, you say; there is a consensus. Where did this come from?

**Mr Laws:** It has come from two things: firstly, the baseline funding that we have got, which we are trying to make fairer, has come from a whole series of incremental decisions made by Governments over time at both a local and a national level, which has then embedded an underlying funding system that is not based upon stepping back and saying, “How would we perfectly fund the country?”

The second thing that has happened is we have also made lots of incremental decisions—successive Governments and at a local level—on how we want to fund deprivation, by how much and so forth. We have probably rarely had the opportunity to stand back and try to make a judgment about what the most rational way of doing it is. Although you are teasing us a bit about our multiple consultations and everything, the truth is that we are trying—

**Chair:** You are describing 2% as huge; we are teasing you about that as well.

**Mr Laws:** You are teasing me about a number of things, yes, but what we are trying to deal with is teasing out the unfairnesses that have built up over a long period of time, which we could not do in one big bang without creating a riot across the country, where we had massive movements of funding across all the different parts of the system, in which case people would be very unhappy with us. We cannot solve problems of 30 or 40 years on the basis of one or two years of decisions.

**Q28 Neil Carmichael:** Following on from that answer, the complexity of the system we are talking about and the political issues and risks that you have just referred to really suggest the possibility that we might end up recalibrating the system rather than

fundamentally reforming it. I would like you to comment on that statement, if you like. Secondly, what would be the main parameters of reform that you would like to see considered—say, by this Committee or by any other think tank or academic?

**Chair:** We are not a think tank.

**Mr Laws:** What we are trying to do now, and what a national fair funding formula would complete, is make sure that wherever you are in the country, your school—if it is similar to another school—is funded in a similar way to the local area. If the local area wants to make a different judgment, that is fine. At least people in Surrey, Somerset and East Riding all know that their local area has got a fair amount of funding, so that their school, with similar characteristics to somewhere in Tower Hamlets, could be funded in a similar way.

**Q29 Chair:** I am sorry to interrupt you. Going back to my academic consensus, is it something that the IFS or someone like that could look at? Should we be looking for someone outside of Government? It is politically so sensitive. Someone could say, “Here is what fairness would look like. As best we can, with this limited set of parameters, here is what it should look like. You could pick another set, but they are reasonably objective parameters.” As soon as that is published, regardless of how long it has taken them to do it and the softening of the blow, there would be a political furore. How can we get an objective assessment of what it ought to look like out in the public domain without such political embarrassment that you stop it happening?

**Mr Laws:** The IFS and other organisations can help and have already helped in this area. My understanding is that they have done quite a lot of work. Just because the IFS came out and said, “The system is not fair; this is what fairness would look like,” it would not mean that was the final word, because politicians would still have to make a judgment about how we get to that end state. Most politicians would not suggest moving overnight and creating losers all over the country and having large numbers of redundancies without schools being able to plan. Just because someone academically flushes out “the truth”, it does not mean we have to apply it in a blunt way.

What the IFS and others will find it difficult to do is make some of the second very important judgments that you have to make about a national fair funding formula, which are about how much you want to fund deprivation and how much you want to try to reduce inequality of outcome.

**Chair:** The IFS would come up with a mechanism that would say, “Yes, those things are subject to political decisions. Here is a system based on objective data that we have gathered—possibly with the help of Government. Whatever percentage you want to give, we can say that if it is 10%, it would look like this in Birmingham and this at this school in Shropshire. If it is 20%, it would look like this.” You would have a system that did convert political decision-making into a rational and fair distribution. That is what we do not have at the moment. We should not confuse political choice with unfairness. The truth is the political choice does not convert into the political choice on the ground. What Ministers think they are doing and what actually happens do not actually correlate.

**Mr Laws:** I cannot remember how long ago and what the outcome was, but I am pretty sure the IFS has done a lot of work in this area over recent years. It has done a bit of work recently to update things, but, yes, they could certainly go on doing that work and

updating it. I have no doubt they will if this remains issue into the next Parliament, which I think it will do, and information from respective bodies such as the IFS will certainly inform the political debate.

**Q30 Alex Cunningham:** You have already addressed part of the answer to my first question, about not being able to apply a fair funding formula in a blunt way. However, why was the Government not brave enough to have losers as well as winners as it developed its new, as it was, fairer funding?

**Mr Laws:** There are two reasons. One is that we could not tell you at the moment how much those people would have to lose and over what period of time, because we do not know our budgets for 2016-17 and beyond. The second thing is that there is a need, if you are having a system of converging to a new fairer funding formula, to think about how you want to do that in a way that is fair to areas that may, through no fault of their own, have had more funding in the past than a perfectly rational system would justify.

As I said earlier, I am yet to find any school that says, “We are grotesquely overfunded. Please take away part of our budget.” Even if they did privately accept that, what I am sure they would say to any of us is, “For god’s sake, we have used this money as sensibly as possible.” It would probably be used to deal with a lot of disadvantage. They would say, “Do not suddenly take it away in one year so that I have to make 40 teachers who live in our area redundant.”

**Q31 Alex Cunningham:** I am not suggesting you should do that. However, was there no scope for a little slice here and there that could have gone to other authorities and made it a little bit fairer? I am not advocating that you should do it; I am just asking your view.

**Mr Laws:** I do not wish to make a political point—or too political a point. However, the time to have done that would have been in the last Parliament, where because of the state of the public finances and the decisions made by the Government, there were big increases in education funding coming through. Having relative losers—areas that were not getting as big increases—and having the underfunded areas getting the biggest increases would have allowed us to converge it in a way that people would have found fair and acceptable.

Now we are in a situation where the base funding per pupil is basically flat cash. In order to create more headroom, we would literally have to take money away from other parts of the country, which would mean that their actual schools budget would be smaller, even though their staff costs are probably going up at the margins. That would be a difficult thing to do and challenging for any Government that wanted to do that.

**Q32 Alex Cunningham:** Were you not a little bit surprised that some of the higher funded authorities have actually seen an increase in their cash rather than a decrease?

**Mr Laws:** When I first saw the figures, I was surprised about a couple of the authorities that had actually gained, but they gained for very good reasons. They gained because they had been underfunded before in terms of the measures we were choosing to allocate funding. One of the things we all learn by going through this process is just because you are an authority that it is funded in the upper half or quarter per pupil in terms of funding,

it does not mean you are overfunded. You are only overfunded if you do not have any of the deprivation, sparsity or English-as-an-additional-language factors that we are putting funding into.

Areas such as Brent, for example, which was not one of the ones that I automatically expected to gain, clearly was not being funded appropriately before, given that it is an area that has a lot of deprivation and English as an additional language, and there are issues of teacher costs and so forth. We could have done something very crude, in which we took the authorities that looked like they had the lowest funding rates and up-rated them. What we tried to do was to look genuinely at the areas that were being unfairly funded, even if they were being funded above the average.

**Alex Cunningham:** Is that the explanation, then, for the increase for Westminster schools as well?

**Mr Laws:** You are quite right. Westminster would be a very good example where the average per pupil rate is higher than for many other authorities, but they have gone up as a consequence of this, because we have applied a system that we believe to be fair, rather than simply to identify low funding—even though low funding is sometimes for a rational reason.

**Q33 Ian Mearns:** You have outlined a whole range of reasons why some authorities should be getting additional funding. This Committee has recently been doing some work on underachievement of white working-class pupils. Would that be a factor that you would see factoring into the formula in future?

**Mr Laws:** I am not sure I see ethnic minority characteristics as being something we would automatically fund. What we are funding at the moment is deprivation and prior attainment. Obviously, where there is underperformance by a particular ethnic group, that is likely to be picked up in those indicators—particularly in relation to prior attainment.

I am—it is something that was prompted a little by this Committee, in the Inquiry you had on white working-class children—commissioning more work within the Department to understand in greater detail different aspects of deprivation. One of the issues that you jogged me on, which was something I was interested in anyway but we have now accelerated our work on, is this issue about underperformance by people who might, for example, be white working class, but where they are actually in employment and therefore they do not get flagged up as part of the free-school-meal indicator.

We do need to look at how we allocate disadvantage funding, and we should not assume we are doing it to perfection at the moment. This is what I meant when I said to the Chairman earlier that some of the debates about the fair funding formula are things that will take a longer period of time to pan out, because some of these debates about how you fund deprivation are quite complicated.

**Q34 Alex Cunningham:** Is the message to authorities who have not had any increase in funding that perhaps they are overfunded and they need to brace themselves for the future?

**Mr Laws:** No, the message is that we are not making an absolute judgment, firstly. I would love to be able to spend more money on all schools in the country, because most of them put it to good use. We are not saying to anybody, “You have got too much money and we are desperate to take it off you.” What we are saying is that we have identified the people who we believe are clearly not getting their fair share, who are being underfunded relative to other people, and we are going to give priority to them in terms of the additional money we have available. By not pressing ahead with the national fair funding formula in this Parliament, we signalled that we are very sensitive to the position of those schools that may be fairly funded or overfunded at the moment. We do not wish to create unnecessary uncertainty for them or have massive shifts in their school budgets in a short period of time, resulting in huge redundancies.

**Q35 Alex Cunningham:** On the question of perceived overfunding in some parts of education, is there overfunding of schools in the AET academy chain sufficient for the private sector partner to cream off profits from it?

**Mr Laws:** I have not seen any evidence that has suggested that there is overfunding of that academy chain. They will be funded in the same way as all academies. There will not be any evidence that their chain is dealt with differently from any other school.

**Alex Cunningham:** So they need to be investing all of their money into the education of the children, rather than creating an organisation that is going to cream off profits from the money going to children’s education.

**Mr Laws:** They certainly need to make sure that they are using all of their school’s allocation very effectively. Obviously, some organisations—local authorities do this as well—retain some services centrally so that they can support the schools in their chain, both local authority chains and academy chains. Some of that money is usefully spent and some of it might be wasted. It is for Government to make sure that we keep an eye on how this money is spent centrally and create incentives to make sure it is spent effectively and not on things that do not deliver improved education.

**Alex Cunningham:** A few minutes ago, you said you would like to spend more money on all our schools because they spend it effectively. Surely, taking real cash out in terms of profit from our schools is not really acceptable in our education system.

**Mr Laws:** At the moment, we do not have profit making as a part of our state-funded system. There may be things that you are unhappy that various groups or local authorities have spent their money on. That would not constitute profit-making, but it might constitute things you think are unwise. If there are such things, then I hope you will let us know so that we can look at them and take any action we need to take.

**Q36 Alex Cunningham:** I will be writing to you about the whole issue around AET anyway, Minister, but one of my principal concerns is that we will end up with less fair funding in some of those schools because the autonomy that the head teacher has is actually stripped away, because their support services, and possibly even teaching support services, are actually removed from their overall control. Is that a concern that you would share with me?

**Mr Laws:** I do not think so—unless I am misunderstanding your question. What we are trying to do, which I support, is devolve more power and budget to individual schools. We believe that very strongly.

It may well be the case that, once we have devolved that, some schools—particularly smaller schools—decide that they do not have the power or the ability to deliver all of those services economically within their own entity. They may well then spend that money on getting support from outside; they may spend it on school-to-school support. They may decide to pool some of the money to buy a business manager between a number of individual schools. We would rather that those decisions, about how to prioritise the school budget, were taken by the individual institutions—even if they decide to buy back and pool their budgets—rather than retain a huge amount centrally, which is then only drip-fed down to the school level.

**Alex Cunningham:** I hope the AET will read the evidence you have given to the Committee today, because it is a matter of great concern that a joint-venture partner could in fact be taking profit out of our system. My problem, as I say, is this: does that really result in the fair funding that you and I both believe in?

**Mr Laws:** I am not the lead Minister on academies; that is Lord Nash. Obviously, however, if you want to write to me or Lord Nash with any concerns that you have got, we will certainly investigate them.

**Chair:** To get back to where Alex started, on this £350 million and the allocation, you said, “When you apply the criteria it might be surprising, but that there are millions more for Brent and Westminster is actually entirely rational.” Are you sure that is true? You are the last Minister I would expect to do this, but is not the job of a Minister to let the machine crank away and take the principles you give them, come out with numbers and then for you to look at those numbers and say, “This does not add up”? It cannot add up.

The East Riding of Yorkshire, when you look from the schools block, was the third lowest funded area in the country; it is now going to be the lowest funded in the country. Starting from what you talked about earlier, do you really want to look at a school there and then go from that school to a school with a similar number of pupils in Westminster or Brent and seriously suggest that giving millions more to Westminster and Brent is a fairer funding result than where we started?

I would challenge you to do that. Find those schools with roughly similar numbers and then take me through rationally and explain why the school in Brent or Westminster genuinely needs more money compared with the school with similar characteristics in East Riding. I have a gut feeling—because I have not done it myself—you would start to go back to your civil servants and say, “Actually, I am sure you did your best, but this is not working out right.”

**Mr Laws:** I am confident we have done the right thing, but you are quite right that it leads on to other questions. The reason we have done the right thing is if we had only looked at the lowest funding per pupil authorities and we said, “These are the only ones we are going to look at. Brent have got far too much money and it is not a priority,” you might have had a school in Brent with 50% free school meals, vast English as an additional

language, special needs, and so on and so forth, getting, for example, £5,000 a pupil. You might then have gone down to look at a school in Manchester or in Tower Hamlets or in Southwark, and “exactly the same school”, with the same number of pupils, the same deprivation and the same English as an additional language, might have been getting substantially more. It is perfectly fair for that school in Brent to say, “We may appear to be better funded than Somerset, for example”—my county—“but actually we are better funded for a good reason, because you have recognised things like deprivation in the formula.” Because we are higher funded than another authority does not mean that we are fairly funded. We could still be very unfairly funded. This is entirely rational and sensible.

You, Chair, could then go on to challenge whether this particular approach makes sense—I am sure you will, if you want to. However, the decision that Brent is going to get more money than the other areas that you might cite is based upon the amount that we decide to give for deprivation, English as an additional language and sparsity. We have not, in this minimum funding level judgment, gone back and said, “Is the amount we give for deprivation absolutely perfect? Do we want to halve it? Do we want to double it?” At the moment, we assume that it is the correct amount.

You might come to us and say, “You are funding deprivation too much. If you funded it less, you could give more money to these rural areas.” I need to be blunt and say we have not tried to sort that problem out in this consultation. Given our existing priority in terms of what money is spent on between the average weighted pupil unit and the other factors, we are trying to make sure we are funding local authorities and schools consistently. We have not asked a question at this stage about whether we should be doubling deprivation funding or halving it. That would have big implications for the types of questions you are asking.

**Q37 Mr Ward:** Because of the dampening effect, protections are built into the allocation of the £350 million. It is not going to do a huge amount towards making an unfair system fairer. Was there any temptation simply to allocate the £350 million to the local authorities and the schools fora? All schools have been under cost pressures, wherever they are, fairly or unfairly funded. There must have been a temptation, until we can move towards a full national system, just to allocate the £350 million to the authorities and say, “Distribute it as you wish.”

**Mr Laws:** They do have a choice about how they allocate it to their individual schools. They may decide to give more or less to sparsity or deprivation. We are not trying to dictate that to them.

**Mr Ward:** It is difficult to do that after the £350 million has been allocated by you on the basis of the formula.

**Mr Laws:** Most local authorities, if they are in an area that is benefiting, will be under some pressure to show schools in that area that they are going to see the benefits of that. Ultimately, however, that is a judgment that those areas will make. I take your point that not every area is getting as much money as they would like, but, in an environment where there is authority in the public sector and for good reasons, some of these percentage increases are actually quite large and quite welcome. A school getting 3%, 4%, 5% or 7%

more in this environment is really noticing that. It means extra teachers or not having to get rid of existing key posts. It is quite useful for the underfunded areas.

**Q38 Mr Ward:** Until we move to the system of fairer funding, would not another option have been to simply top up the pupil premium? This clearly does go, in a targeted way, to the schools that we wish it to go to.

**Mr Laws:** That would not have been a good way to deal with the problem we have got, for two reasons. Firstly, some of the underfunded areas, which are the lower FSM areas and the more rural areas, are not the biggest beneficiaries of the pupil premium. In addition, as your Committee will have looked at before, we took the decision with the pupil premium to allocate it in the same way to every single part of the country, whatever the underlying deprivation was at the beginning. We did that because, firstly, it was simple; it meant that we would not be accused of having a very generous pupil premium in Surrey and a very low one in Doncaster.

Actually, however, a risk of going on allocating the pupil premium in this way is that areas that are arguably quite well funded for deprivation already—like Tower Hamlets—would just get ever more money thrown at them. If we had put more into the pupil premium, we would not have helped most of the areas that are being unfairly low funded. We would end up simply piling more money into some areas that are already quite well funded.

**Q39 Bill Esterson:** Lots of areas have not had any of the £350 million, of course. The evidence we have had suggests that for a typical secondary school to go forward with the flat cash arrangements they face would mean the equivalent of the loss of 10 teachers' salaries, which amounts to a £350,000 loss in their budget, given the other pressures they face, which comes back to David's question: would it not have been better at this stage, given all these pressures, to have allocated this additional money on an equal basis?

**Mr Laws:** First of all, I do not accept or recognise those figures. Secondly, there was a really good case—schools put it to us in places like Cambridgeshire—for doing this type of fairer allocation now. Those areas that were most unfairly low funded, like Cambridgeshire, were precisely those areas that were saying to us, "Look, we have got no buffer. We have been underfunded for many years. If you do not deliver fairer funding in the near future, we really are going to have to cut back on some of our teachers. We will be doing so from a low baseline already in relation to other parts of the country." It would have been very unfair to allocate the money across all schools rather than helping the lower funded areas.

Bear in mind we have had real-terms protection for the schools budget at a time when the largest element of cost in a school is staff. Staff pay has been held back by what was initially a public-sector pay freeze and then a 1% cap. That has helped to take the pressure off some schools, because the system as a whole has been effectively getting general inflation increases at a time when cost pressures have been quite tightly constrained.

**Q40 Bill Esterson:** The flat cash figure comes from: the pay increase for teachers; an anticipated increase for non-teaching staff; an increase for employers' superannuation contribution; the introduction of the flat-rate state pension, which is a 2% increase in schools'

costs for teaching and most ancillary staff; for schools with sixth forms, a continuing reduction in sixth form funding; plus energy, fuel and other cost increases. That is calculated at £350,000 for a secondary school.

**Mr Laws:** However, it ignores two things: firstly, this allocation and, secondly, all the extra money put in by pupil premium on top of flat cash, which has meant that those schools with the greatest levels of challenge have had more money. I accept, obviously, if you have no pupil-premium pupils then you are going to be seeing smaller cash increases.

**Bill Esterson:** You may also not get any of this £350 million increase as well.

**Mr Laws:** Yes, but I am very happy to defend that. At a time of austerity, we have prioritised disadvantaged areas, particularly unfairly funded ones, through the pupil premium, because it goes to all disadvantaged pupils. We have prioritised dealing with underfunded authorities. What is also worth noting is that we have got a big increase in the pupil population at the moment, as many of you are conscious of. That also means that in many schools the budget is expanding because the number of pupils is going up. There are a number of positive things that are happening to schools, which are bringing in more money, that need, in fairness, to be set against those factors that you quite fairly mention, but which are only part of the picture.

**Q41 Chair:** Have you not just said, Minister, that the pupil premium cash is going to go to pay the fuel costs, the superannuation costs and the other things that Bill listed?

**Mr Laws:** No, what I am simply saying is that if you say, “Look, we have got a flat-cash situation across the Parliament and therefore our budget is going to be very tight, is it not?” I would say, “No, of course it is not—because we are putting in money on top of that, but it is skewed towards schools with the greatest level of disadvantage, schools that have got more pupils and schools that have been unfairly funded in the past.” That is absolutely the right thing to do.

**Q42 Bill Esterson:** The Chair’s question is well put. If I look at my authority, there has not been an increase as a result of this change. What do you estimate would have been the losses, if there had been losers, if there had not been a minimum funding level in place? If the formula had just been applied and there were no protections in place, what would have been the losses?

**Mr Laws:** When you say “the formula”, we are not introducing a national fair funding formula. We are introducing this minimum funding level. That minimum funding level does not have any cushion in it because it is simply uplifting people to the average level for the variables we have selected. Because we have decided to do it that way, it is automatically a system that is only uplifting, rather than reducing anybody’s budget.

**Bill Esterson:** It is not possible to calculate.

**Mr Laws:** No, because this is a winning formula, not a losing formula.

**Ian Mearns:** That sounds like a manifesto.

**Chair:** Do you have any other buzzwords?

**Mr Laws:** That was quite good, was it not?

**Q43 Bill Esterson:** Local authorities can transfer money between three blocks of the dedicated schools grant. Is it fair that the biggest winners under these proposals seem to be the ones who chose not to prioritise the schools block and who are now being topped up? Would you consider adjusting in some way for authorities who assigned much lower proportions of the DSG to the schools block?

**Mr Laws:** I do understand the point that is being put here. We have had quite a lot of people saying this. The Chair has said it, and I am going to be seeing people outside this meeting to discuss the feedback we have had. I do not want to give the impression that we have made a final decision on it, because I want to listen to what people have to say. I can see the argument that, if you have decided very explicitly to put loads of money into schools and you have squeezed the other things like mad, because we have focused on the schools factors, you could then end up finding that you do not gain vastly from this methodology, but you may feel that you have been underfunding your other blocks.

**Bill Esterson:** Is your advice to local authorities, “Change the way you allocate between the blocks, if you want better funding,” under your winners-only formula in the future?

**Mr Laws:** No. The reason it is not is that there will be very good reasons in some parts of the country why they are spending a lot of money on things like high needs. It is not just that they have made a judgment to put lots into schools and to cut back on high needs. There will be parts of the country that do have more high needs pupils, that have centres of excellence that have attracted in parents who have highly disabled and special needs children that are very expensive to fund. What would be really unfair in those areas that have had to manage those high needs pressures—and, therefore, have had to have low funding for schools—is to penalise them for that and to penalise the mainstream students in schools for the fact they have a large high needs pressure.

**Chair:** Might you not be looking at it the wrong way around? Might it not be that you have a low funded area that had no choice—small, sparse schools in a big area—and had to put its money in the schools block because there was no way of keeping the schools open and remotely meeting need with supply, and yet still has special needs requirements? It does not have any of those fabulous facilities you just talked about, because it never had the money with which to deliver it. On top of that injustice, you then come along and it is the classic inertia thing, where you reward those for having had money already and you penalise those who do not, and you say, “Look, they do not have the services; they obviously did not have the need.” It is just nonsense.

**Mr Laws:** I understand your point, Chair. By the way, I am not saying this is not an issue; it is an issue.

**Chair:** That is good; you are listening.

**Mr Laws:** We need to commission more work in this area. Our problem at the moment is we do not have enough evidence as to why the special need allocations and funding are so different across the country.

**Q44 Chair:** East Riding would tell you it was because they had absolutely no choice but to put it in the schools block. Because they put it in the schools block, they now find themselves being penalised. There are millions going into places with all these facilities you talked about, and East Riding have moved from the third lowest funded in the country to the very lowest funded. Apparently that is fairer—and you are happy to defend it in principle today.

**Mr Laws:** Let me give you the counter case that would mean it would be rather dangerous for us to spring straight from that conclusion to doing what you are inviting me to do. If you have a part of the country—it might be a smaller authority—that has a couple of centres of excellence in dealing with high needs pupils and what has happened over time is parents have moved from other parts of the country to be in the catchment area, as those pupils, as I mentioned, can be incredibly expensive to fund, then in those areas they may have felt the pressure, and they may not have been able to avoid it, to put a huge amount of finding from a limited budget into high needs. They may then have had to underfund significantly their schools. If we ignored that, what we would end up doing is penalising them and going on underfunding the schools in that area, because of their high needs expenditure being high, which they have no control over.

What we definitely want to do—whether we make adjustments as a consequence of the consultation or not, Chair—is see this only as the beginning of a system of making the whole education funding fairer. We also know that similar issues about the rational or irrational allocation relate to the early years as well as high needs. We will commission work—I am happy to include East Riding in this, if you think it would be helpful—to understand why we have early years and high needs at such different levels around the country.

I have no doubt that we will find there are elements of the allocation that cannot be rationally defended. In that case, on the basis of that evidence, that would be the right time to assist areas that might have ended up having to have low funding of things like high needs, because they wanted to defend their schools block.

At the moment, the honest advice that I am getting is that if I were to make an allocation that sought to take those things into account, we do not have the data to know whether we would be creating a greater unfairness to try to deal with the type of potential unfairness that you are talking about, which is an issue and which we accept is an issue.

**Q45 Bill Esterson:** The point the Chair made about relative need is an important one. It does not just apply to areas of sparsity either. There does seem to be, from the evidence, quite a lot of authorities where there has been quite an arbitrary decision taken prior to this arrangement coming up. It is important that you follow up on what you have just said. However, is the focus on increasing the funding of the schools block meaningful when local authorities can move it to a different block after they have received the money?

**Mr Laws:** The only way we could deal with that problem or issue is to bring more ring fences into education and local government. The Government, right since May 2010, has been in a general mode of dismantling ring fences and seeking to give greater flexibility to local areas. I would expect most of this money to percolate through not just to local authorities but to the front line of schools. Ultimately, however, it is a judgment that local areas will be able to make, as to whether this is the priority within their education block.

What I am undertaking to do is make sure that we pursue these issues that you are raising about whether or not the high needs allocations and early years are fair. We need to collect information on that to understand why there are such massive differences across the country. This is another area, I am afraid, where Mr Mearns is probably going to see a consultation at some stage in the future about how we resolve this unfairness. Some of the areas the Chair is concerned about may then gain.

**Q46 Bill Esterson:** My understanding is that the minimum funding level applies to the schools block, but it does not apply to the other two blocks. Have you considered introducing a minimum funding level in the early years block or the high needs block to ensure fairness in these areas as well?

**Mr Laws:** We do need to go on to do work to understand the differences in early years funding across the country and high needs. Both of these areas are incredibly complicated and a lot of the level of allocation, as I said to Mr Ward earlier, has resulted from decisions taken over long periods of time, which have not been properly refreshed and justified recently. We need to look at and understand these differences to see whether some of the things we are doing in the schools area we do not also need to do for early years and high needs. What we cannot do is make those judgments without understanding what the situation is on the ground. Otherwise, areas that legitimately have very high needs costs could suddenly find themselves being really badly penalised.

**Q47 Chair:** You decided you had better do something before the election to have fairer funding and you cobbled together £350 million between your Department's budget and the Treasury, which was the best you could extract from George Osborne, and then you had to decide how you were going to allocate it. How many different approaches did you look at?

**Mr Laws:** Yes; that is not quite how I would put it myself.

**Chair:** Despite your first-class presentation skills and general mastery of the landscape, which I pay tribute to, Minister, I do not find it at all convincing as to explaining how you took one of these blocks, which do not have any fundamental rational basis—they are based on choice by local authority—and decided to tie £350 million to it. Surely, you could have looked at doing it across all three. My first question is: did you? Did you do that and did you look down the list of who gained and who won and decide, for some reason or another, you did not like it—or did you just not do it in the first place? How many ways of spending this £350 million did you examine?

**Mr Laws:** We certainly did not go into it blind. We were, firstly, looking to solve the schools problem and, secondly, we were acutely aware of the complexities in the early years budget and high needs that mean we think these areas are ripe for review. There are massive differences in the allocation of early years expenditure and high needs across the country. We do need to understand why that is, but what we know now is that we do not have the information to allow us to suddenly make reallocations without ending up being unfair to some areas. We need to—we have already planned this—collect information about why there is such a dispersion in the early years and high needs.

**Q48 Chair:** You are doing that. You have picked one of them, which we have said the local authority can move around whichever way they like. Where it happened to lie in a

particular area is now determining the allocation of money, which apparently is about fairness. I am not probably doing a good enough job of explaining just how ridiculous it is that you have allowed something so disproportionate to determine something that, apparently, is about creating a fairer playing field. Fundamentally and conceptually it just cannot, can it?

**Mr Laws:** It is not ridiculous or unreasonable. The amount of data that we have to understand the allocation of money in the schools system is much greater than in high needs, which is incredibly complicated and for which we are going to have to do a research project to understand why the dispersion of high needs is so great around the country. It is much more complicated even than schools partly because the funding of individual institutions varies so massively for many legitimate reasons. We do not have the information at the moment to make a rational judgment; we do on schools.

**Q49 Chair:** However, it was about the fair funding of schools, of which these are blocks. As you said, different authorities can cut it different ways. It could even be that the budget descriptors might look similar but actually do something different. As you say, you do not know. Why did you not just take the whole education spend in schools, which includes these three blocks that vary massively and of which you have little understanding, which you just said, and base it on the total? When you do not understand the component parts, which you have just pretty much admitted, why on earth would you pick one of them and say, “I am going to make it fairer, so I am going to pick one of these three, none of which I really understand. This one I understand slightly better than the other two, but I cannot claim that to be all that good on it, and I am going to allocate the money to one of these three”? Surely, you had to do the whole until you understood the component parts.

**Mr Laws:** No, because, firstly, the schools proportion is massively the largest of these three things and, secondly, if we had said, “We will not do anything until we have perfectly understood the high needs funding system,” I would be here and you would be saying—

**Q50 Chair:** You would not need to understand the component parts if you had done it on the whole. You have said to us, “I am picking one of the component parts, none of which I fully understand.” If you had done the whole and said, “One day, maybe we will do the research and then we will do some more sophisticated modelling based on those particular things,” that would have made sense. I cannot see how it makes sense to say, “I do not understand the component parts, but I am going to pick one of them and introduce fairness funding allocated to one of those.”

**Mr Laws:** That is not what we are saying. We are saying we understand incredibly well the largest component of the DSG, which is schools, which allows us to make these long overdue decisions. If we waited until we perfectly understood the high needs budget, which is incredibly complicated and which has not been properly reformed over time, then we would be making announcements well into the future and beyond the next Parliament. Places like Cambridgeshire would legitimately be saying, “This is hopeless,” and they would have to sack teachers because they are unfunded and not fairly funded.

**Q51 Chair:** East Riding is saying, “This is hopeless.” If you look down the top 50 lowest funded authorities, you will find the one with the largest schools block allocation of all

of those is East Riding. Apparently, they were entirely entitled to do so. They could move it between blocks as they saw fit for their own particular reasons, which you have made clear you do not understand. They were entirely entitled to do that, and because they happened to allocate it a certain way, apparently they can move from the third lowest funded to the lowest funded, and the pupils I represent in my constituency are left high and dry while a Government—of which I am a member or a supporter or whatever the right descriptor is—is saying, “This is making life fairer.” I have to go and face my electorate, and I do not think I can stand up and say, “This is a fantastic step forward”—let alone a huge one.

**Mr Laws:** You can say that it is the biggest step that has been taken for 20 years. You can say that we are finally trying not only to sort out the schools system but we are going to move on to sort out high needs. I could not have defended places like Cambridgeshire sitting around waiting for another year or so until we have got enough information about high needs.

**Q52 Chair:** You did not need to. I do not know if it was done deliberately or otherwise, but if you had done the total thing and you had looked at it and allocated it on the basis of all three, Cambridgeshire would have got more money. East Riding would have got more money too, which would have been a fairer allocation of a limited resource, would it not?

**Mr Laws:** I could not sensibly have done that, when we do not have the information to understand why different parts of the country receive such different levels of high needs funding. I could then potentially have been extremely unfair to areas of the country that actually have particular pressures in the high needs block.

**Q53 Chair:** You do not understand how they get different amounts of high needs funding. It is not that they get different amounts of high needs funding; they choose—as they are entirely free to—to allocate it. It is nothing to do with that. That is not true. They then choose how to allocate the amount of money they get to these blocks. Without understanding why they allocate the money to the blocks, you have picked one of them and said, “That is the one I am going to use to allocate additional revenue to make things fairer, without understanding it.” That is indefensible: not to have taken the quantum overall and then allocated on that basis.

**Mr Laws:** Chair, when you say they “choose to”, of course, in one sense they do, but if you are a local authority with a number of very expensive high needs institutions, with lots of parents who have moved into that area—where their children are right in the middle of their education and costing £200,000 a year, and you have to go on funding them and the cost of those places goes up—you do not say to me, “This is a choice that we have made because we want to splash loads of money into high needs.” You say, “I am sorry, but we are a local authority that has a lot of these institutions. Parents have moved in. We have to fund them. It is perfectly right that these young people with great vulnerabilities have to be funded.” They would say to me, “What do you want us to do? Do you want us to take that money out in order to put it into the schools? Do you want us to chuck these young people out of high needs institutions?”

**Q54 Chair:** I am sorry, Minister; that is entirely false. We are talking about extra money here. We are talking about £350 million extra and you wanted it go to those who are

most unfairly funded. If you had taken an overall quantum, nobody would have been losing; nobody would have been chucked out of a special school. As a result, they would have got more money overall. Rather than being based on the split of this money historically on local choice, they would have been able to sort it out.

**Mr Laws:** We could only do that by making assumptions about why people were spending high needs money in the way they are. It would potentially have penalised some of those areas that have a very good case for doing so—and who do not feel it is a choice but a consequence of having these institutions and large numbers of youngsters with those high needs.

**Chair:** We will have to agree to differ and I will have to hope that you think further on this and consider change before the implementation and allocation.

**Q55 Ian Mearns:** Minister, although I have great sympathy for my esteemed Chair, you will be delighted to know that I am not going to plough the furrow of the East Riding of Yorkshire.

**Chair:** It was just an example.

**Ian Mearns:** It was just as an example. The minimum funding levels are to be calculated according to what local authorities currently allocate to pupil characteristics on average. Does an average-based approach adequately reflect the needs of schools? If I can clarify that, does the Department have any evidence on the relevant importance of different pupil characteristics and the weighting they should receive for funding purposes? Was this used in the drawing up of these proposals?

**Mr Laws:** Yes, we have quite a lot of evidence in the individual areas—these seven indicators of how much we should be allocating. We will have made judgments about what a reasonable lump sum for schools is, what a sensible amount to allocate for sparsity is, and what some of the costs are in English as an additional language. We then try to make sure that schools with those characteristics are properly funded so that there is an equivalence.

Bluntly, the most controversial and difficult one for us to make judgments on is where we allocate money to deprivation. How much you allocate in order to give a young person from a disadvantaged home a fair chance is not an easy question to answer. What is important for me to make clear—you already understand this as a Committee—is that we are not seeking to change that judgment about how much deprivation should be funded in this methodology. We have accepted how much we have allocated and, broadly, the ways that we allocate at the moment in terms of prior attainment, IDACI and everything.

Once we get a national fair funding formula, which I am confident we will eventually get, one of the issues will be whoever is then Minister will be back in front of this Committee answering the next question, which is, “Why is your national fair funding formula allocating so much to deprivation versus these other factors?” We are not seeking to sort that out. We are seeking to make sure, in this exercise, youngsters with the same characteristics in different schools get the same levels of funding.

**Q56 Ian Mearns:** Obviously, pupil premium is determined on characteristics like free school meals, for instance. I have always had a bit of a problem with the fact that, where you have concentrations of youngsters in school populations who are entitled to pupil premium, you also have around them many other youngsters whose parental income is only just above the thresholds to entitle that child to a pupil premium. You might have a discrepancy of, say, £20 or £30 per week in terms of overall levels of income in the household, and yet the child who is getting £20 more in terms of family income does not get an additional £900 pupil premium. It really does make you wonder whether there is a better way of doing that to make sure that schools get all of the money they really do need in order to overcome those sorts of problems.

**Mr Laws:** Yes; we have, obviously, reduced that cliff edge by moving early on in the Parliament this ever-6 measure of pupil premium. If your parents are now in work but they were on means-tested benefits, they still get it. That helps a lot and it has increased the coverage of pupil premium to almost a quarter of pupils. However, you are still right to ask the question, “Is the cut-off in the perfect place?” and that is what we are looking at at the moment.

Basically, there is a continuum between disadvantage and attainment, where the most disadvantaged youngsters in the lowest income households are associated with the lowest attainment, and the ones in the most highly affluent households the opposite. If you pick somebody on a low-paid minimum wage job, crudely speaking, their children are going to have a slightly better chance than those who are only in a household that is workless.

However, there is not one point, as you rightly indicate, where you suddenly move from being disadvantaged to being advantaged or average. Therefore, it is a political and policy judgment as to at what point we remove disadvantage funding and whether we should include more people in it. We could look at whether there are people, in the future, who are on low pay, but maybe they have low parental qualifications, maybe they have low aspirations, maybe they are not going to go on to higher paid jobs. Are their children and the schools that serve those types of catchment getting a fair amount of funding? We tried to deal with that through ever 6, but it is not the end of the discussion.

**Q57 Ian Mearns:** The use of statistical models, though, to look at that sort of data does throw up daft anomalies. A school of which I have been a governor in the past is in a neighbourhood where there is a high proportion of property in the private rented sector in the surrounding area. According to the local authority data, which is based on a national model, that property would be for young upwardly mobile singles, but it is actually occupied by people who would see the private rented sector in that neighbourhood in the north-east of England as being housing of the last resort. The vast majority of people in the private rented sector would move into different sorts of tenure if they at all could. That sort of statistical quirk does have an impact on the way in which funding can be defrayed from the local authority perspective.

**Mr Laws:** Yes, we have to use indicators that are as intelligent as possible. We use IDACI, the area-based deprivation index; we use prior attainment; we use free school meals and so forth. We should be constantly looking for better systems to use. There is a real risk, if you just use area-based systems, that somebody living in a massive mansion in the middle of a relatively disadvantaged area might suddenly discover their child is

entitled to disadvantage funding. That is why we do not use just area-based systems. The more we can do this in an intelligent way, however, the better. Many of our colleagues feel that there are communities where the number of people on free school meals and pupil premium are quite low, but where the educational disadvantage in the family home and the lack of parental qualifications is quite high.

**Chair:** Largely because of the Chair, we have a lot to cover and limited time to do it. Bill, there is no need for a comment from you. Let us press on, Minister, if the Committee will crack on.

**Q58 Ian Mearns:** Is it likely that local authorities will actually be able to fund their schools at the minimum funding levels described in the consultation, given that the dampening effect of the minimum funding guarantee and top slicing for central costs has been brought into place?

**Mr Laws:** Yes, they ought to be able to, given that we have funded them at the MFL levels and we are proposing to allocate that for 2015-16. As I mentioned, we are going to finalise the judgments on this based on the latest data and pupil numbers, and hopefully release that in mid-July.

**Q59 Ian Mearns:** You think that is entirely possible. There is some concern that it might not, in all cases, be the situation. If we do find situations where there is a problem for individual schools within individual local authority areas, is this currently being made clear to schools or might their expectations have been raised by the consultation and the terminology of the minimum funding level?

**Mr Laws:** My experience in general is that schools for a are quite intelligent and understand the whole range of things that are going on, including with the minimum funding guarantee and additional pupil numbers. Schools normally get to the bottom of these changes quite quickly and they will not get carried away. They will see this as a package of things that we are doing.

**Q60 Bill Esterson:** I thought your additional questions were excellent, Chair, and really added to the debate. However, Minister, you mentioned parental qualifications as something you have commented on in evidence to us previously. Have you given further thought as to how you might use that as an indicator to improve the allocation of funding to deal with some of the issues of deprivation?

**Mr Laws:** What I have done is commissioned work in the Department, which is ongoing. Obviously, we have had to give priority to this piece of work and to other things that we have been doing in the near term. Later on this year, that work that I have commissioned will be done and we will then look at it, but that it most definitely a next-Parliament issue, because we have allocated all of our available money for 2015-16. It is sensible for the Department and all parties to think about whether the way of allocating deprivation is right and whether we can improve it.

**Q61 Bill Esterson:** What about the issues about how pupil premium is allocated? Have you thought about rationalising the approach by directing deprivation funding through

the pupil premium instead of via local authorities formally or, alternatively, distributing the pupil premium through the DSG?

**Mr Laws:** No, we have not yet. At some stage in the future—in the next Parliament and, particularly, after an NFFF gets going—it would be very sensible for people to look at this. Obviously, in the ways in which we fund disadvantage, there are a number of different streams. They have grown up and evolved in different ways. We wanted to design the pupil premium in the way we have to make sure that it would get through to pupils with these disadvantage characteristics wherever they were.

One of the previous problems with the disadvantage funding was that there were lots of pupils who had disadvantage who were in schools that were not in disadvantaged areas, who were not getting money. We wanted this rather centralised mechanism, which would be based on pupil characteristics.

However, you are right: we now have different streams of deprivation funding, which have their origins in history. It is sensible in the next Parliament, but is probably something not for us in this Parliament, to see whether there is any case for rationalising any of these things. However, I would not want to move away from the pupil premium principle and the strong link between those characteristics and pupils and schools getting the extra money.

**Q62 Alex Cunningham:** Mrs Hooker is a head teacher in Stockton borough and she chairs the primary heads group. She has written to me and asked me to write to the Government, asking them if they will release the data that will better identify children who are entitled to free school meals in order to maximise the money they get through the pupil premium. Is that something that you would support?

**Mr Laws:** Yes. If you have a letter from her, I would be very happy to look at it and respond. There are two things that we need to do. One is that we need to improve the ease with which schools can identify free school meals pupils. We know that this has always been a challenge. There are some parts of the country that have a very low take-up of their free school meals. The last Government put in place the data-sharing mechanism that looks at entitlement and that has been used very helpfully in some parts of the country. We need to build upon that.

Because we have got universal infant free school meals, we are also writing to all schools and local authorities to make very clear how they can collect that data and probably do even better on their pupil premium than they have done in the past. In the future, a future Government should look at data sharing so that some of this stuff happens automatically.

**Q63 Alex Cunningham:** That should apply to Government data too. They need to be able to share the Government's data.

**Mr Laws:** Yes, Government data too. We need to design a system in the future, beyond the election—this would probably need a data-sharing piece of legislation—where we can passport automatically to schools the money for disadvantaged pupils. We do not want a ponderous data-collection system where schools have to write to parents and collect it in.

**Alex Cunningham:** I agree.

**Mr Laws:** I hope we will get some data-sharing legislation early in the next Parliament that can do some of this stuff automatically and take the burden off schools.

**Q64 Bill Esterson:** I must write to you about the difficulties that some of my schools are having in being ready for free school meals in September.

**Mr Laws:** Please do.

**Bill Esterson:** It is perhaps the Committee should come back to you on, on a future, not too distant, occasion.

**Mr Laws:** Yes, I would be delighted to. If you have any schools that need support from us, just let me have those details.

**Bill Esterson:** That is helpful. Of course, you are always helpful. Can I ask you about the overlap for pupils eligible for free school meals living in higher IDACI bands with low prior attainment in English as an additional language? At least four different categories are listed there. Do you accept that often they are funded more than once for related characteristics? Is that situation causing unfair funding for children?

**Mr Laws:** I am not overly worried about it, in the sense that those youngsters with all those characteristics, on average, do pretty badly in schools versus the average. There is no evidence that we are funding disadvantaged youngsters to such an extent that they are all doing absolutely fantastically and everybody from medium-rank or higher income homes is being left behind—far from it. However, you are quite right to point out that one conclusion of having these different forms of deprivation funding is that people get overlapping funding. That is why looking in more detail at how we fund deprivation for the next Parliament is a sensible thing to do.

**Chair:** Thank you, I will move on if I may, Bill.

**Q65 Mr Ward:** The Coalition's initiatives have shown that it believes in focusing on early years interventions to deal with the issue of low attainment. When it comes to low prior attainment and minimum funding levels, however, in fact more than twice as much money is allocated to secondary as opposed to primary level. Is that the right balance?

**Mr Laws:** There is a really strong reason to allocate by prior attainment at secondary level. Obviously, we have very good data, because we know exactly who is doing well at the end of Key Stage 2. It is much more difficult to do so earlier on, because of the quality of data and the independent tests on entry to primary. We do not have anything that is comparable.

However, we are now trying to invest more in the early years. We have obviously increased the pupil premium for primary this year more than secondary. We are introducing an early years pupil premium; we are going to have a baseline assessment. The more we do those things, the more we will have options of funding on the basis of prior attainment, which in some senses may be a very effective way of targeting disadvantage, as manifested by low attainment, provided we can make sure it does not create any perverse consequences.

**Q66 Mr Ward:** There is a quite large difference, though, Minister, because there is quite a bit of evidence that the horse has bolted once it gets to secondary stage. Sadly, many young people simply do not catch up, whatever the level of support provided at the secondary stage. It is double the amount that is available.

**Mr Laws:** Yes, part of that is because the quality of information is much better. Certainly, we are putting more into early years pupil premium; it is very sensible to invest early for success. What you are saying to me is, “Could we invest earlier on the basis of prior attainment rather than disadvantage?” One of the risks there is what measure we would use. Would we use the Key Stage 1 data? If we did so, we might create some perverse consequences for people to underperform on their Key Stage 1 data in order to get a big budget rise. That is one of the issues about using prior attainment earlier than secondary: you are then relying on measures that could arguably be gamed more if there were large budgetary consequences.

**Chair:** If you would allow it, David, I would like to move on and bring Ian in.

**Q67 Ian Mearns:** The minimum funding level has a number of factors within it. There are seven factors proposed. The lump sum attracted the lowest approval rating in the consultation. Only 41% regarded it as important. The sparsity factor was the most popular at 54%. Obviously, with a difference of between 41% and 54%, there was a great deal of variation in what people saw as important. Is the school lump sum factor a needs-based measure? Does the lump sum encourage small schools, which would possibly in other circumstances be forced to think about merging or closing, to stay open? I am thinking about that from the perspective of my own local authority, where, over the last 20 years, we have done an awful lot of mergers, merging junior and infant schools into primary schools in order to rationalise costs. Would that militate against local authorities and schools thinking that way in order to actually better spend the money?

**Mr Laws:** We want to make sure that local areas get the chance to make local decisions about whether they want to have smaller schools, which is why we have the lump sum and the sparsity factor. It would be dangerous to nationalise this by either getting rid of these factors or by having very small factors. We need to accept the fact that there are going to be parts of the country that will need to have and protect small schools. In extreme cases, we have areas like Cumbria, where if a small school closed, you would have a huge travel distance. There might be a lake in the way on the map to get there. There is a rationale for having lump sums and sparsity factors. It is for the local area to decide how to use them. If they decide they want a small lump sum or sparsity factor, they can do that.

**Q68 Ian Mearns:** Have you considered merging the lump sum and the sparsity factor into one different element?

**Mr Laws:** In a sense we did, in that my recollection is—officials will correct me if I get this wrong—we originally were proposing just to use a lump sum factor, and then some areas said to us, “This is not refined enough to allow us, in areas such as Cumbria, protect small schools. You need to be able to reflect sparsity, so we can target better without having huge lump sums for all schools.” That is why we introduced the sparsity factor. We probably need both of these to do the job that we get told by local areas they want to do.

**Q69 Ian Mearns:** Moving on to the area cost adjustment, why did the Department choose to use teachers' basic pay when calculating the area cost adjustment when, inevitably, this will be lower than their actual pay, which includes allowances and additional responsibilities?

**Mr Laws:** As you know from the consultation, we have used a mixed measure, a hybrid measure, which reflects both the general local labour market, which is what we used entirely in the past, and also the information about teachers' pay. For example, in inner London we are looking at all the evidence about how much teachers are paid and whether they are paid more than in other parts of the country, but we are also looking at whether the labour market in London has higher levels of pay—as, obviously, it does with high paying sectors like the City. Previously, we just looked at the local labour market in general. Here, we are introducing the labour market for teachers into it as well, which is sensible and which a lot of people have welcomed.

**Q70 Ian Mearns:** The area cost-adjustment calculation, though, makes use of teachers' regional pay bands, which will include the effect of pay flexibility through academisation in terms of teachers' regional pay. Therefore, it is quite difficult to get your head around the appropriateness of the area cost adjustment calculation, but it can have a skewing effect on the way in which area cost adjustment impacts on actual funding.

**Mr Laws:** It seemed to us to be the most logical way to do it, because previously only reflecting the local labour market without reflecting the local teacher labour market did not seem very sensible. What we think we have come up with is fairer and does reflect the fact that some parts of the country—not just inner London, but outer London and the fringe around London—do have higher pay costs. This is designed to continue to allow schools to have flexibility over how much to pay people, but to make sure they have budgets that reflect the fact that, in some areas, they are going to have to pay more.

**Q71 Ian Mearns:** Does the area cost adjustment take into account the need to be able to attract teachers to work in the areas that need them most? In other words, you may have areas of significant deprivation where, for whatever reason, it might be difficult to recruit teachers and keep them there.

**Mr Laws:** It does in one sense, and in another sense it is the pupil premium and deprivation funding that is important. However, what it does mean, which was not always the case in the past, is that schools can now afford to pay to attract teachers to areas like inner London and outer London, where, clearly, there are greater pay pressures but there is also a lot of deprivation. Those areas are helped by both the pay element and the deprivation element.

**Q72 Ian Mearns:** That runs neatly into the question I was going to ask next. If an area cost adjustment is important for basic funding, why is there no equivalent factor for allocating the pupil premium, such as an area cost adjustment for pupil premium as well?

**Mr Laws:** We would not need both. The area cost adjustment says, "It is more expensive to recruit teachers in some areas than others, so we are going to give you a bit more money." The pupil premium says, "You have more pupils with deprivation, who are

challenging to teach, in some areas than others, so we are going to give you money, which will reliably and predictably go through to every school based on its deprivation characteristics, to allow you to have those interventions.”

**Q73 Ian Mearns:** However, if we are using pupil premium to help bolster the pay of teachers, those schools where you have to do that have less disposable pupil premium to do all of the other innovative things they would love to do.

**Mr Laws:** Yes, but those schools that have more pupil premium pupils in areas that are expensive to recruit will have their pay budgets inflated so that they can recruit good quality staff. If they then say, “On top of that higher pay that we are having to pay out, we also want to pay more to attract the best physics teacher in the south east or the best maths teacher,” they are free to do that out of their pupil premium money, but they will have to weigh up attracting a better teacher on higher pay is a more useful way of spending the money than, for example, employing another teacher to do more small-group tuition.

**Q74 Mr Ward:** I will condense this into one question. I visited a school in my constituency in February. It had had 65 in-year admissions since September and the school down the road had had 70. Should there be something built in for areas of high growth? Incidentally, these were all EAL pupils that had come into the area. Should there be something additional for high growth areas and, indeed, where there is turbulence within school populations? It creates enormous pressures on the schools.

**Mr Laws:** We did look at this a bit when we looked at the different factors that needed to be taken into account. We looked at turbulence and mobility as some of the issues to see whether they would make a big difference to the distribution of funding across the country. The answer that we found was that it did not make a very profound difference between areas, partly because this is still small compared with those other factors. I do not think it is an issue, but if you have schools in your area that do think it is an issue or do not feel that the local formulae deal with it, then please do let us know and we will take a careful look at them.

**Q75 Caroline Nokes:** Did you consider using the £400 million budget exchange from the apprenticeship programme and children’s services in 2013-14 to bring forward the fairer schools funding proposals for 2014-15?

**Mr Laws:** You mean the underspend that we had last year.

**Caroline Nokes:** Yes.

**Mr Laws:** No, we did not consider that to be an option for two reasons. Firstly, some of those elements of underspend we would not have known about when we were planning for the uplift for the MFLs. Also, more seriously, those underspends are one-offs that would not necessarily be safe to assume in the future, whereas this minimum funding level policy is something that has to be there for the long term. The Treasury would not have been very attracted to us making promises for 2015 onwards on the basis of a one-year underspend.

**Q76 Caroline Nokes:** Moving on to the subject of 16 to 19 education, you will be aware that the Association of Colleges has raised very serious concerns about reductions to the funding for 18-year-olds. Will you consider how to pay for the education of those students as part of the work on fairer funding so that cuts can be avoided?

**Mr Laws:** As you know, because you have looked into this area already, we did make quite a big cut in the 18-year-old assumed funding rate. Because it is not part of our protected budget—and we needed to make savings in those areas—we thought it was a reasonable thing to do, given that people have had two years of funding post-16. We know that people are concerned about it. We would rather not have to put pressures on the post-16 budget, but it is not part of the Department's protected settlement.

There is an issue in the next Parliament for all of us about whether we are going to extend the protections that there have been, if the parties are committed to those, to cover 16 to 18. There is a real issue, if we have got education that goes right through to 18, over whether or not the protections, if we continue with them, should go further. We have tried, as you know, to moderate the impact of the 18-year-old cut by protecting institutions at -2%.

Obviously, institutions are also free to take the budget that they have and allocate it in any way they think is most sensible. They do not have to pass on the cut to the 18-year-old budget if they think they can make the savings from somewhere else from within the budget, and it may well be that that is what some institutions decide to do.

**Q77 Caroline Nokes:** That 17.5% cut has been absolutely dwarfed by the extra £350 million that has been found for the fairer funding programme, has it not? Could it be argued that you are simply robbing Peter to pay Paul?

**Mr Laws:** I do not think so. Firstly, most of the £350 million is part of our protected schools budget. It is money that would be expected to be used for up to 16. The other thing is that everything we know about the education system and attainment indicates that spending money early is the most rational thing. People who do well or badly at 11 and 16 have the consequences of that with them afterwards. In a system where money is constrained, spending it early is sensible. That is why we have had a bigger uplift in the pupil premium in primary this year and we have introduced an early years pupil premium. If money is in short supply and you really have to decide where the prioritisation is, spending it early, rather than late, makes a lot of sense.

**Q78 Caroline Nokes:** Finally, whilst discussing fair funding, it would be bizarre if I did not raise the issue that is raised with all of us, I am sure, by every sixth form college that, of course, they do not benefit from the same VAT breaks as schools do. The point that they will always make is that they are funded at a lower per-pupil rate and they also cannot reclaim VAT. Does the Government have any plans to address that?

**Mr Laws:** We do not in the short term. This is something that we and, probably, our predecessors discuss periodically with the Treasury, but there is no plan to change the system at the moment.

**Q79 Chair:** Should that be in the parties' manifestos? You have been talking about a rational system. Sixth form colleges are the highest performing 16-to-19 institutions in the

country and yet they continue to be treated relatively unfairly, which has been accepted by Ministers, but no action has been taken as a result.

**Mr Laws:** We should make sure that we constantly keep under review any things we think are unjustified anomalies. We have fixed one recently, Chair, in terms of access in colleges to free school meals, where you could get them if you were in a school, but not in a college.

**Chair:** That is a very welcome development.

**Mr Laws:** We have dealt with that—so maybe we will be able to deal with others in the future.

**Chair:** Thank you very much for giving evidence to us today.