BRIEFING PAPER
Number 06702, 24 December 2015

School funding in England. Current system and proposals for 'fairer school funding'

By Nerys Roberts

Inside:
1. Current school funding system: what determines how much a particular school gets?
2. Finding information on local schools' and local authorities' current funding levels
3. Proposals for change: ‘fairer schools funding’ and a national funding formula
Annex A: school funding reform under the 2010 Government
## Contents

**Summary**

- How are English schools funded now? 3
- Progress on school funding reform since 2010 4
- The wider school funding context 4

### 1. Current school funding system: what determines how much a particular school gets?

1.1 Stage 1: the Dedicated Schools Grant 5

- How are local authorities' DSG allocations worked out?
- ‘Fairer schools funding’ uplifts introduced in 2015-16
- Policy background on how DSG is calculated and conditions of grant
- History of the Dedicated Schools Grant
- Calculation of funding prior to 2006-07

1.2 Stage 2: the local funding formula 6

- Factors used in local funding formulas

1.3 Capital funding 7

1.4 Other school revenue funding 8

1.5 The wider school funding context 8

### 2. Finding information on local schools’ and local authorities’ current funding levels

- Dedicated Schools Grant allocations 9
- Schools Block allocations 9
- Pupil premium allocations 9

### 3. Proposals for change: ‘fairer schools funding’ and a national funding formula

3.1 Conservative Government reforms 10

3.2 Coalition Government reforms and consultations 11

3.3 Potential impacts of new funding arrangements 11

3.4 f40 group 11

**Annex A: school funding reform under the 2010 Government** 12

3.5 Consultations on school funding reform in 2010 and 2011 12

- Setting the strategy (November 2010)

3.6 The November 2010 White Paper 13

3.7 April 2011 consultation 13

- Responses to the consultation

3.8 Further July 2011 consultation 14

- Proposal for the national funding formula for the Schools Block
- Timing for the implementation of the new national funding formula

3.9 Institute for Fiscal Studies analysis of July 2011 proposals 15

3.10 March 2012 strategy paper 16

- Local flexibility and School Forums

3.11 Further funding changes for 2014–15 17

3.12 2015-16 ‘fairer schools funding’ 17

- Reaction to ‘fairer schools funding’ proposals
- Next steps 18

---

**Contributing Authors:**

Paul Bolton, Social and General Statistics Section, funding statistics
Summary

What is the issue?

The average amount of per pupil school funding individual local authorities in England receive from the Government each year varies considerably. Funding is distributed onwards to schools using local funding formulas, which give different weights to different factors. Consequently, there are differences in the amount of per pupil funding received by individual schools within a local authority area.

Critics argue that these disparities are unfair, and that funding should more closely reflect area, school and pupil characteristics. The f40 Group of local authorities has been particularly vocal in the campaign for school funding reform.

What funding changes have been proposed by the Government and others?

Under the Coalition Government, the Department for Education (DfE) began the process of school funding reform, holding a number of consultations and making some important changes. Among other things, they allocated additional funding to the ‘least fairly funded’ local authorities for 2015-16. However, they stopped short of introducing a national funding formula.

In the November 2015 Spending Review, the Government confirmed it would consult on a new national school funding formula early in 2016, with revised funding arrangements being brought in from 2017-18.

Many commentators agree that reform is needed, but the fine detail is likely to be controversial because of the potential for winners and losers under any new system. The Government has said any changes will be phased in and there will be a transitional period to help smooth implementation.

How are English schools funded now?

The Dedicated Schools Grant

The Dedicated Schools Grant (DSG) is the main source of revenue for state-funded 5 to 16 mainstream schools in England. In 2015-16 total DSG was worth £40.1 billion. This is notionally divided into three un-ringfenced blocks, the largest of which is the Schools Block at £32.2 billion, or 80 per cent of total DSG, in 2015-16. The Schools Block is intended to cover core provision for pupils in mainstream primary and secondary education up to the age of around sixteen.

For 2016-17, Schools Block allocations are largely calculated based on how much an area received per pupil in the previous year, subject to some adjustments. A key factor, therefore, in how much areas receive per pupil is how much they received historically; per pupil funding is not calculated from scratch based on area needs each year.

Local funding formula

Local authorities don’t distribute school funding straight on to their maintained schools; they apply a locally-determined funding formula first. There is some variation between local formulas in terms of the relative importance given to different factors like prior attainment, deprivation and sparsity. The local formula is also used in part to determine academy schools’ funding.
Progress on school funding reform since 2010
Although a national funding formula has not yet been introduced, there have been some significant reforms since 2010. Coalition Government changes included:

- Splitting the DSG into three notional but un-ringfenced blocks in 2013: the Schools Block; the Early Years Block; and the High Needs Block.
- Incorporated most separate grants into the DSG.
- Simplified local authority funding formulas.
- Allocated an extra £390 million in 2015-16 to the 'least fairly funded' local authorities.
- Introduced the pupil premium grant in respect of disadvantaged children and service children. This was worth £2.5 billion in 2015-16, the large majority (93%) of which was the deprivation element of the premium.

Since taking office in May 2015, the Conservative Government have:

- Rolled forward the 2015-16 £390 million fairer schools funding to 2016-17.
- Confirmed that a consultation on the introduction of a national funding formula will take place early in 2016.

The wider school funding context
Schools in England report that they are facing rising cost pressures, especially from increased staffing costs.

In the November 2015 Spending Review, the Government said that the core schools budget would be protected in real terms over the Spending Review period, and that per pupil funding levels will be maintained in cash terms. Funding for the pupil premium would also be protected in cash terms. Savings of around £600 million would be made from the Education Services Grant (ESG). This is additional funding given to academies and local authorities for services such as human resources, school improvement and education welfare services.

This note relates to England only.
1. Current school funding system in England: what determines how much a particular school gets?

1.1 Stage 1: the Dedicated Schools Grant

The main source of revenue funding for state-funded 5 to 16 schools in England is the Dedicated Schools Grant (DSG). DSG is paid to local authorities, minus deductions (‘recoupment’) for academies and subject to certain other adjustments.

The overall value of the DSG in 2015-16 (as at November 2015) was £40.1 billion. The DSG is notionally divided into three non- ring-fenced blocks:

- The largest block, the Schools Block: £32.2 billion or 80 per cent of DSG (all figures 2015-16, as at Nov 2015)
- The High Needs Block: £5.3 billion/ 13 per cent of DSG.
- The Early Years Block £2.7 billion/ 7 per cent of DSG.

On 17 December 2015, the Education Funding Agency (EFA) published local authorities’ Schools Block, High Needs Block and provisional Early Years Block allocations for 2016-2017:


How are local authorities’ DSG allocations worked out?

There is currently no national from scratch formula used to calculate all local authorities’ DSG allocations each year. A key determinant of how much a local authority receives per pupil in its Schools Block is how much it received per pupil in its Schools Block in previous years.

School Block Units of Funding (SBUFs), multiplied by pupil numbers, are the basis on which the EFA calculates local authorities’ Schools Block allocations. In 2015-16, local authorities’ SBUFs varied from around £4,000 in Wokingham to more than £7,000 in Tower Hamlets.

For 2016-17 SBUFs were derived from the local authority’s previous year’s (2015-16) Schools Block allocation and dividing that by the number of pupils on roll in that year (with some adjustments). Similarly, SBUFs and Schools Block allocations in 2015-16 were based largely on the previous year’s allocation, but with some formulaic uplifts for what the DfE described as the ‘least fairly funded’ areas. This ‘fairer schools funding’ is covered in the following section.

‘Fairer schools funding’ uplifts introduced in 2015-16

The Coalition Government provided an additional £390 million in funding in 2015-16 to what it described as the ‘least fairly funded’ local authorities. The ‘fairer schools funding’ has subsequently been rolled forward to 2016-17. The extra money was allocated on the basis of a complex national formula, which allocated minimum cash amounts for certain pupil, school and area characteristics. The ‘fairer schools funding’ in 2015-16 increased the size of the Schools Block, at national level, by just over one per cent.
Where a local authority’s per pupil amount (SBUF) was below that which the formula would have allocated, a share of the £390 million was used to raise the local authority’s Schools Block per pupil funding to the threshold level. Authorities where the SBUF level met or exceeded the threshold did not receive any uplift but were instead funded at the same per-pupil funding level as in previous years, subject to certain adjustments.

A list of the 69 local authorities that received additional funding in 2015-16 can be found in Annex B to the DfE’s guidance document, Fairer schools funding, Arrangements for 2015-16, published July 2014.

Policy background on how DSG is calculated and conditions of grant

Further detailed information on how the DSG is calculated in 2016-17, and the conditions attached to the grant, can be found in the following documents:

- EFA, Dedicated schools grant. Conditions of grant 2016 to 2017, December 2015
- EFA, Dedicated schools grant. Technical note for 2016 to 2017, December 2015
- EFA/Gov.uk website article, ‘Schools funding arrangements 2016 to 2017, updated 17 July 2015

History of the Dedicated Schools Grant

The Dedicated Schools Grant system was introduced in 2006-07. This was a pivotal point in determining how much local authorities would receive in future years. On the introduction of the DSG, the then Labour Government took the decision to peg 2006-07 DSG allocations to what a local authority had spent per pupil in 2005-06. 2005-06 can therefore be considered the baseline year for the current funding system in many respects, with differences in funding levels at that point carried forward from 2006-07 onward.

In the years after 2006-07, the method of calculating LA funding was called spend plus which, as the name suggests, worked by providing per pupil funding at the level received in the previous year, subject to various adjustments and uplifts.

Calculation of funding prior to 2006-07

The system for allocating funding to local authorities for their education functions prior to 2006-2007 was partially based on a consideration of area needs, taking into account factors such as deprivation and additional educational needs (using local area data on income-related benefits, ethnicity, language and birth weight), population sparsity (to account for higher costs of small mainly rural primary schools) and area costs (generally higher wage costs in and around London).

Most of the authorities with the lowest levels of funding in 2005-06 had relatively low levels of deprivation, additional needs, or additional area costs on the measures used. Therefore, their funding was among the lowest in the 2005-06 baseline used for the DSG and this position has, to a large extent, been locked in to the system ever since.

1.2 Stage 2: the local funding formula

Local authorities do not pass DSG funding straight on to schools. In allocating funding, they must consult with their local schools forum and with all maintained schools and academies in their area. Schools forums are statutory bodies that must have representatives from schools and the local authority, and can also have other members. Schools forums have decision-making powers in some circumstances.
The local authority, in consultation with the forum, determines the overall individual schools budget for schools in the area, any funding to be centrally retained, and whether any funding should be moved between the three blocks of the DSG. It also determines a local funding formula which is used to distribute the individual schools budget between local schools.

**Factors used in local funding formulas**

Local funding formulas must use certain factors, and can use a number of optional ones. For 2016-17, there are fourteen allowable factors.

Mandatory factors include:

- Per pupil amount – there are minimum amounts for primary and secondary pupils
- Deprivation – LAs can use either Income Deprivation Affecting Children Index (IDACI) or free school meals data.

Optional factors include things like:

- A lump sum payment (in 2015-16 this was used by all local authorities1)
- Children in care
- Prior attainment
- English as an Additional Language (EAL)
- Sparsity (schools serving rural areas)

Since 2014-15, the Education Funding Agency (EFA) has required 80 per cent of delegated funding to be allocated based on ‘pupil-led’ factors.

**Application of local funding formula to academies and free schools**

The EFA calculates academies’ shares of the individual schools budget using the local funding formula, and recoups this from local authorities. The recouped funding is then paid to academy trusts via the General Annual Grant (GAG).

Academies also receive Education Services Grant (ESG) funding to cover the cost of services that local authorities would otherwise provide, for example, human resources and school improvement services. The November 2015 Spending Review announced that savings of around £600 million would be made via cuts to the ESG. In 2015-16, £564 million has been allocated via ESG, down from £717 million in 2014-15.

Revenue funding for free schools in their first year of opening is not included in the DSG. This comes directly from the EFA.

**1.3 Capital funding**

The EFA provides separate grants to local authorities, maintained schools and academy trusts for building maintenance, refurbishment and rebuilds. These funding streams are covered in a separate House of Commons Library briefing paper, School buildings and capital funding (England), updated 10 November 2015.

---

1.4 Other school revenue funding

Pupil Premium

Schools receive additional funding each year for disadvantaged pupils and qualifying children from service families via the pupil premium. In 2015-16 the pupil premium is worth £2.5 billion, the large majority (93%) of which is the deprivation element of the premium. This money is given to local authorities who pass it on to their maintained schools, and directly to academies and free schools. Funding for looked after and previously looked after children is overseen by local authorities’ virtual school heads.

A separate Library briefing paper gives information on the pupil premium:

- Commons Library briefing paper, School funding: pupil premium, updated 26 November 2015

Education Services Grant

The Spending Review announced that further savings of around £600 million would be made from the Education Services Grant (ESG). This is additional funding that academies and local authorities receive for centrally provided services such as human resources, school improvement and education welfare services. ESG allocations for 2015-16, as at November 2015, totalled £564 million, down from £717 million in 2014-15.

Information on ESG allocations for 2015-16 can be found on the Gov.uk website:

- Education Services Grant allocations 2015-16, updated November 2015

On 17 December 2015 the EFA announced ESG allocations for 2016-17:

- Education Services Grant allocations 2016-17, published 17 December 2015

Self-generated income

Most schools – whether maintained and academy – generate a proportion of their income themselves. Fundraising activities include asking for parental contributions, leasing out premises for community use, or even sponsorship from business.

The proportion of income raised in this way varies substantially between schools. Schools cannot charge for education during school hours and must make clear that parental contributions, where requested, are voluntary.

1.5 The wider school funding context

In the November 2015 Spending Review, the Government said that the core schools budget would be protected in real terms over the Spending Review period, and that per pupil funding levels will be maintained in cash terms. Funding for the pupil premium would also be protected in cash terms, but further savings of £600 million would be made from the Education Services Grant (ESG) as discussed above.

Schools in England report that they are facing rising cost pressures, especially from increased staffing costs. Following the November 2015 Spending Review, the Institute for Fiscal Studies (IFS) estimated that despite the commitment to protect the core schools budget in real terms between now and 2019-20, this was likely to translate into a 7.5 per cent real-terms per pupil spending cut over the Spending Review period.

---

2 See e.g.: ‘Survey reveals impact of budget pressures as school leaders look to balance the books’, Association of School and College Leaders (ASCL) website, 20 November 2015.

2. Finding information on local schools’ and local authorities’ current funding levels

Dedicated Schools Grant allocations
Spreadsheets setting out local authorities’ DSG allocations for 2016-17 can be found on the Gov.uk website:

- EFA, Dedicated Schools Grant 2016-17, published 17 December 2015.

Schools Block allocations
An EFA spreadsheet provides headline data on the per pupil funding each school receives through the Schools Block only. The data for maintained schools are for the financial year 2015-16. Then figures for academies are for the academic year 2015-16:

- EFA, Schools Block funding allocations 2015-16, 15 October 2015.

Pupil premium allocations
Information on the pupil premium, including allocations to schools and conditions of grant, can be found on the Gov.uk website:

3. Proposals for change: ‘fairer schools funding’ and a national funding formula

3.1 Conservative Government reforms

The Conservative Party Manifesto for the 2015 general election stated:

[...] we will make schools funding fairer. We have already increased funding for the 69 least well-funded local authorities in the country, and will make this the baseline for their funding in the next Parliament. ⁴

It was reported that in response to questions at the National Governors’ Association summer conference on 27 June 2015, the Education Secretary stated that a new funding formula would not be ready until after 2016-17. A Schools Week article quoted Ms Morgan as saying:

I’m well aware of issues of inequity in our funding system. We made a manifesto commitment to implement fairer funding.

It can’t be right there are thousands of pounds difference between neighbouring authorities and we have to iron this out.

We took the first step with approving the additional £390m to the lowest funded authorities. We are working on it.

We have to come up with the right system. We’ve already made the case on the need to restore balance and have proper fairness in the funding formula.

But it’s not straightforward and in a climate where you don’t have lots of money, we have to do this in a way that deals with the problems but doesn’t cause lots of turbulence. We will have to look at the impact on areas that have been overly funded.

We also want to look at high needs funding and we are working hard. We will then have to consult on it.

It would be tough to do it for 2016-17 as we don’t want to rush it, but then we are looking at how quickly we can bring it in thereafter. I’m determined we will make progress on this. ⁵

The Spending Review of November 2015 confirmed that the Government would consult on the introduction of a national funding formula for schools, early years and high needs early in 2016. Announcing the plans, Chancellor George Osborne said:

We will phase out the arbitrary and unfair school funding system that has systematically underfunded schools in whole swathes of the country.

Under the current arrangements, a child from a disadvantaged background in one school can receive half as much funding as a child in identical circumstances in another school.

In its place, we will introduce a new national funding formula. I commend the many MPs from all parties who have campaigned for many years to see this day come. ⁶

⁴ Conservative Party, Conservative Manifesto 2015, p. 34
⁵ ‘Morgan: We’re working hard on a national fair funding formula, but it won’t be ready for at least two years’, Schools Week, 29 June 2015
⁶ HC Deb 25 Nov 2015, c1370
3.2 Coalition Government reforms and consultations

The current proposals for reform follow on from earlier changes and consultations undertaken by the Coalition Government. More detailed information about funding reforms and policy proposals consulted on during this period can be found in Annex A to this note.

3.3 Potential impacts of new funding arrangements

It is not possible to model the likely impacts of any new funding arrangements on particular local authorities, schools or constituencies until more details are available on the DfE’s preferred approach and in particular on:

- What factors will be included in any national funding formula, and the relative value given to each.
- What funding arrangements may be in place in relation to early years and high needs funding.
- What level of discretion there will be at the local authority level.
- What transitional arrangements and protections there might be for schools and local authorities.

3.4 f40 group

The f40 group describes itself as a representative organisation for the lowest funded education authorities in England. It is currently chaired by Cllr. Ivan Ould; vice chairs are Graham Stuart MP, former chair of the Education Committee and Nic Dakin MP.

Information about f40’s proposals and preferred funding approach can be found on the campaign group’s website:

- F40 Campaign’s website

On 20 October 2015 Graham Stuart MP wrote to David Cameron calling for “urgent action to deliver fairer schools funding”:

- Letter from Graham Stuart MP/ f40 Campaign to David Cameron, 20 October 2015.

The letter was signed by 111 other MPs. It continued:

> It is widely acknowledged that the existing school funding model is a muddle and that funding for individual schools with similar pupil characteristics is arbitrary and unfair. As a result, schools around the country that are similar can get very different budgets and children with the same needs can receive very different levels of financial support, depending on where they go to school.

It went on to reiterate the f40 group’s previous calls for the introduction of a new national funding formula and outlined the factors that should be taken into consideration.
Annex A: school funding reform under the 2010 Government

3.5 Consultations on school funding reform in 2010 and 2011


In the White Paper, the DfE criticised the existing arrangements, referring to an “opaque, anomalous and unfair school funding system which reflects the historic circumstances of local authorities rather than the specific needs of individual schools and pupils”.9

In the April 2011 consultation, the DfE provided a more detailed critique of the DSG funding system the Coalition Government had inherited saying that “the amount of DSG per pupil for each authority is calculated based on what the local authority received the previous year”, adding:

3.2. This method – called ‘spend plus’ - was started in 2006-07 and represented a reform from the previous method of school funding. When the DSG was created, in 2006-07, its initial level for pupils in each local authority was based on what each authority planned to spend on schools in 2005-06 – the last year before the introduction of the DSG and ‘spend plus’. Therefore, because we still base funding from the DSG on the previous year, current levels of school funding are, in fact, based largely on those in 2005-06.

3.3. The amount spent in 2005-06 was determined by two things:

- an assessment of what the local authorities’ needs were at that time (often using data that was already becoming out of date); and
- the amount local authorities each chose to spend on schools (itself a result partially of decisions made several years previously).

3.4. So, current levels of school funding are based on an assessment of needs which is out of date, and on historic decisions about levels of funding which may or may not reflect precisely what schools needed then. It is inevitable that over time needs have changed and historic local decisions may no longer reflect local or national priorities.10

The DfE added that the DSG methodology as it stood then “[fell] well short” of the Government’s view of the “ideal school funding system”.11

Setting the strategy (November 2010)

Prior to publication of the Importance of Teaching White Paper, there was speculation in the media that there would be a wholesale reform of the school funding system. The Financial Times reported that drafts of the White Paper proposed that “state schools in England will be directly funded from Whitehall for the first time” through a “single ‘national funding formula’”, a move which, the FT said, would “sideline local authorities from managing education spending”12.

It was subsequently reported that the reform would not be pursued, with the then Education Secretary, Michael Gove, saying in advance of the White Paper’s publication that, “we will be funding schools through local authorities as we do at the moment”. It

---

9 DfE, The Importance of Teaching, Cm 7980, November 2010, p82, para 8.10
10 DfE, A consultation on school funding reform: Rationale and principles, April 2011, pp3–4
11 Ibid, p4, para 3.5
12 “Schools face shake-up to funding”, Financial Times, 12 November 2010
was reported that “local councillors [had] come out strongly against the proposals” for direct funding from Whitehall.  

3.6 The November 2010 White Paper

In the Importance of Teaching White Paper, the DfE said “[our] aim is that money is distributed more fairly so that it is the schools most able to make efficiencies which are asked to do”, adding it would:

- Consult on developing and introducing a clear, transparent and fairer national funding formula based on the needs of pupils, to work alongside the Pupil Premium.
- In the meantime, increase the transparency of the current funding system by showing both how much money schools receive on a school-by-school basis and how they spend their funds.
- Devolve the maximum amount of funding to schools, making information and tools available to governors and head teachers which will support them in making good spending decisions.

It noted that it intended to move towards a “national funding formula” for schools in the long-term.

3.7 April 2011 consultation

In April 2011, the DfE published A consultation on school funding reform: Rationale and principles, setting out the DfE’s view of an “ideal school funding system”:

- It would distribute money in a fair and logical way […]
- It would distribute extra resources towards pupils who need them most. […]
- It would be transparent and easy to understand and explain. […]
- It would support a diverse range of school provision. […]
- It would provide value for money and ensure proper use of public funds […].

In order to help achieve the “ideal school funding system”, the then-Government considered several elements including:

- a “Fair Funding Formula”, which would “give a clear national basis for funding schools” and “ensure that schools serving similar intakes would receive similar levels of funding”, although issues of local flexibility were noted;
- the DfE’s aim of ensuring that all deprived pupils have the same level of funding for their education, including through the Pupil Premium, and improving the current funding system “to deliver on this aim more effectively”;
- the role of local authorities, as a national funding formula would mean “it will be necessary to have a clear divide between these responsibilities and the funding for them”;  
- “elements of a fair funding formula”. The DfE said “following this first part of the consultation process on a fair funding formula, we would expect to consult in more detail on possible indicators and the balance between them. However, there are

---

13 “Gove drops school funding plans”, Financial Times, 21 November 2010
14 Department for Education, The Importance of Teaching, Cm 7980, November 2010, pp78–79, paras 8.3 and 8.5
15 Ibid., p82, paras 8.9 – 8.11
16 Department for Education, A consultation on school funding reform: Rationale and principles, April 2011, p1, para 1.2
17 Ibid., p2, para 2.1
some key principles on which we are seeking views now”, including “pupil vs school characteristics”, “what pupil factors should a formula contain”, and “complexity vs simplicity”;

- managing the transition to a new funding system.18

In addition, the DfE acknowledged that funding for two of the key areas needed handling outside of a national funding formula for schools: ‘High Cost’ pupils including some with Special Educational Needs (SEN); and nursery (early years) provision.19

Responses to the consultation

In July 2011, the Government published its response to the consultation.20 This reported:

Nearly all correspondents (98%) agreed with some or all of the stated characteristics of an ideal school funding system. Some respondents raised issues about the balance between a simple and transparent system and one that is able to include the diverse needs of individual schools. Whilst most respondents agreed that transparency should be an aim of a future funding system and recognised the complex nature of the current system, some however felt that it was more important to ensure that the funding system is fit for purpose and able to meet the needs of all children.21

However, 83% of respondents were of the view that there were “further characteristics the system should have”, although opinions varied. For example, on the rigidity of budgets, “some called for the setting of 3 year budgets but others stressed the need for budgets to be flexible and responsive depending on the schools circumstances. Some suggested in-year adjustments to cater for influxes of pupils and the distribution of funding based on a termly, rather than annual, census”. Other issues included local flexibility, issues for rural areas, local salaries, and school and pupil characteristics.22

On local flexibility, “just over 70% of respondents thought that there needed to be at least some degree of flexibility for local authorities in any new funding arrangement” – 38% thought there should be “some local flexibility”, and 34% thought there should be “a lot of local flexibility”. Just under half of respondents but well over half of schools thought that local flexibility should be limited. Just under a third of all respondees but well over a half of local authorities responding were against any such action.23

While the consultation found that “some respondents considered that the Dedicated Schools Grant methodology needs review but that the local authority formula element of the system is fit for purpose, particularly given the Schools Forum role”, 80% of respondents agreed with “the case for reforming the system”: “respondents felt that the current differential levels of funding between similar schools are unfair and unjustified”.24

3.8 Further July 2011 consultation

In July 2011, the DfE launched a second, related consultation on its proposal, seeking views on when to implement the national funding formula.25 The consultation also proposed to split the DSG into three blocks (Schools, High Needs and Early Years) plus a small fourth block for some other services not suitable for delegation.
Proposal for the national funding formula for the Schools Block
In terms of the formula for the Schools Block, the DfE proposed including the following factors:

a) A basic amount per pupil;
b) Additional per pupil funding for deprivation;
c) Additional funding to protect small schools;
d) An adjustment for areas with higher labour costs [Area Cost Adjustment].

9. In addition, we are consulting on including additional funding for pupils who have English as an Additional Language (EAL) and sometimes need additional support to help them to achieve.26

The consultation proposed that local authorities would still be able, with their schools forums, to set local funding formulas, albeit using a rationalised number of factors.27 The DfE recognised that “there are likely to be specific needs that need to be met which may not be possible to accommodate in any national formula”.28

Timing for the implementation of the new national funding formula
In the July 2011 consultation, the DfE proposed to maintain the current system of funding in 2012–13 “to enable further consultation and sufficient time for local authorities, Schools Forums, schools and Academies to interpret the reforms and the settlement”. At this stage, it planned to issue ‘shadow allocations’ in 2012-13, to illustrate to LAs what they could expect to receive once the fully reformed system was implement.

3.9 Institute for Fiscal Studies analysis of July 2011 proposals
Following the publication of the DfE’s July 2011 consultation document, in November 2011 the Institute for Fiscal Studies (IFS) published a report, School funding reform: an empirical analysis of options for a national funding formula, the purpose of which was to “describe the options for a national funding formula for schools and examine how different options would affect the finances of different schools or areas of the country”. This noted that the DfE’s second consultation document did not include such analysis.29

Based on a number of assumptions, the report found the following:

- The funding formula must be designed extremely carefully. Features currently proposed could, for example, redistribute funding from secondary to primary schools.
- Changes in funding would be concentrated in particular local authorities, with some seeing average gains or losses of 10 per cent or more. In some areas changes to primary and secondary budgets would ‘offset’ each other but some authorities would see changes across the board.
- Whatever formula was chosen, it would lead to a large number of winners and losers relative to existing policy
- Any transition period of less than a decade would involve significant, sustained losses for some schools.

---

26 DfE, Consultation on school funding reform: Proposals for a fairer system, July 2011., p3
27 Ibid., p3, para 10
28 Ibid., p4, para 15
29 Institute for Fiscal Studies, School funding reform: an empirical analysis of options for a national funding formula, November 2011, p3
While there were some issues with implementing a national formula, maintaining the status quo was not appropriate either.\(^{30}\)

3.10 March 2012 strategy paper

In March 2012, the then-Secretary of State for Education announced the publication of the document, *School funding reform: Next steps towards a fairer system* in a written ministerial statement. This said that while “support for reform was widespread”, feedback suggested that the model presented in the July 2011 consultation “would need refinement and careful implementation”.\(^{31}\) The then-Secretary of State noted that: “getting the components and implementation of a fair national funding formula right is critical and we need to manage transition carefully so there is the minimum disturbance for schools. In the current economic climate, stability must be a priority”.\(^{32}\)

Changes confirmed included:

- Simplifying local funding formulas and arrangements
- Splitting the DSG into three notional un-ringfenced blocks.
- Reforms to funding for students with special educational needs
- Support for local authorities in funding early years provision and ensure greater transparency.

The DfE concluded that “overall, the reforms will mean we are well placed to introduce a national funding formula during the next Spending Review period” (i.e., from 2015-16, as opposed to in 2013-14).\(^{33}\)

Local flexibility and School Forums

The Next Steps document confirmed there would only be ten allowable factors in local funding formula, rather than the existing 37. The ten factors were:

1. A basic per pupil entitlement – which allows a single unit for primary aged pupils and either a single unit for secondary pupils or a single unit for each of Key Stage 3 and Key Stage 4 (see below);
2. Deprivation measured by FSM and/or the Income Deprivation Affecting Children Index (IDACI);
3. Looked after children;
4. Low cost, high incidence SEN;
5. English as an additional language (EAL) for 3 years only after the pupil enters the compulsory school system;
6. A lump sum of limited size;
7. Split sites;
8. Rates;
9. Private finance initiative (PFI) contracts; and,
10. For the 5 local authorities who have some but not all of their schools within the London fringe area, flexibility to reflect the higher teacher cost in these schools.\(^{34}\)

---

\(^{30}\) Institute for Fiscal Studies, *School funding reform: an empirical analysis of options for a national funding formula*, November 2011, pp2–3

\(^{31}\) HC Deb 26 March 2012 c88WS

\(^{32}\) *Ibid.*


\(^{34}\) *Ibid.*, p13
There would be discretion for the EFA to consider exceptional circumstances relating to premises. 35

3.11 Further funding changes for 2014–15

The DfE published School Funding Reform: Findings from the Review of 2013-14 Arrangements and Changes for 2014-15 in June 2013. This announced further incremental steps towards a national funding formula. 36

In an accompanying written statement, the then-Minister for Schools, David Laws, highlighted the following changes for 2014–15 which included:

- local authorities would be required to allocate a minimum of 80% of their funding on the basis of pupil characteristics;
- the setting of a minimum per pupil amount;
- local authorities would be able to provide additional funding for schools in sparsely populated areas;
- new flexibilities to provide different amounts of funding to cover the fixed costs of primary and secondary (as well as middle and all-through) schools;
- targeted support for deprived and vulnerable pupils: local authorities will be required to target additional funding to deprived pupils in addition to the pupil premium, and extra funding to those under-attaining. 37

3.12 2015-16 ‘fairer schools funding’

In March 2014, the then Schools Minister, David Laws, announced in an Oral Statement that the Coalition Government intended to take two further steps, but again stopped short of announcing the implementation of a full national funding formula. In 2015-16, it would make an additional £350 million school funding available to areas that were currently the ‘least fairly funded’. From March 2014 to 30 April 2014, it ran a consultation on distributing this money, which it described as “the biggest step toward fairer funding for schools in a decade”. 38

The DfE explained the rationale as follows:

We are now determined to provide additional funding to the least fairly funded local authorities in 2015-16. After we have met our commitment to fund all local authorities at the same cash level per pupil as in 2014-15, we have decided to add a further £350m to fund schools in the least fairly funded authorities. This will be the first time in a decade that funding has been allocated to local areas on the basis of the actual characteristics of their pupils and schools, rather than simply their historic levels of spending. No local authority or school will receive less funding as a result of this proposal.

Although these proposals do not represent implementation of a national funding formula, this is the biggest step towards fairer funding for schools in a decade. The proposals we are announcing today put us in a much better position to implement a national funding formula when the time is right. This will be when the government has set spending plans over a longer period of time, allowing us to give schools and local authorities more certainty about how the formula will affect them over a number of years. 39

35  The EFA would “play a role in upholding the fairness of local decision-making [Department for Education, School funding reform: Next steps towards a fairer system, March 2012, p5, footnote 3]
37  See: HC Deb 4 June 2013 cc89WS–90WS
38  DfE, Fairer schools funding in 2015-16, 13 March 2014, Pp. 3.
39  Ibid, Pp. 3
In terms of determining which local authorities would receive the extra money, the Government said those where pupils and schools already attracted a determined minimum funding level (MFL) would not attract extra money; those not receiving the MFL would.

In determining the overall minimum funding level, the DfE would set minimum funding levels also for five pupil characteristics:

- a per pupil amount ('age weighted pupil unit');
- pupils who are from deprived backgrounds;
- pupils who have been looked after, for example in foster care;
- pupils with low attainment before starting at either their primary or secondary school;
- pupils who speak English as an additional language.  

There would be two other minimum funding levels for:

- a per-school ‘lump sum’ in addition to per pupil funding
- small schools essential to serving rural areas.

**Reaction to ‘fairer schools funding’ proposals**

Following the publication of the March 2014 consultation, the f40 group said it “warmly welcomed [the] ... announcement that extra funding will be made available by the government to begin the process of making the allocation system fairer”.  

In its consultation response, the Association of School and College Leaders (ASCL) gave a more mixed response, saying that while the money was welcome, it had concerns about aspects of the proposals; the funding, it said, may also do little to address the budget difficulties some areas were experiencing.

While welcoming the additional fairer funding, the National Association of Head Teachers (NAHT) urged the Government to recognise the cost pressures on schools, and to press ahead with the development of a fair national funding formula.

In their joint consultation response, London Councils and the Association of London Directors of Children’s Services welcomed the announcement of the additional money, but called on the DfE to make a number of changes to their proposals.

**Next steps**

On 17 July 2014, David Laws confirmed in a Written Statement that the DfE would allocate an extra £390 million - £40 million more than originally indicated – to sixty nine qualifying local authorities. The Minister said that priorities for the next Parliament would be introducing a full national funding formula and reforming funding for high-cost special educational needs provision and early years provision.

---

40 DfE, *Fairer schools funding in 2015-16*, 13 March 2014, Pp. 4
41 F40 press notice, *F40 welcomes extra funding for poorest-funded schools*, 17 March 2015.
43 NAHT, *NAHT welcomes David Laws’ £350m increase in school budgets*, 13 March 2014.
46 Ibid.
School funding in England. Current system and proposals for ‘fairer school funding’
About the Library

The House of Commons Library research service provides MPs and their staff with the impartial briefing and evidence base they need to do their work in scrutinising Government, proposing legislation, and supporting constituents.

As well as providing MPs with a confidential service we publish open briefing papers, which are available on the Parliament website.

Every effort is made to ensure that the information contained in these publicly available research briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

If you have any comments on our briefings please email papers@parliament.uk. Authors are available to discuss the content of this briefing only with Members and their staff.

If you have any general questions about the work of the House of Commons you can email hcinfo@parliament.uk.

Disclaimer

This information is provided to Members of Parliament in support of their parliamentary duties. It is a general briefing only and should not be relied on as a substitute for specific advice. The House of Commons or the author(s) shall not be liable for any errors or omissions, or for any loss or damage of any kind arising from its use, and may remove, vary or amend any information at any time without prior notice.

The House of Commons accepts no responsibility for any references or links to, or the content of, information maintained by third parties. This information is provided subject to the conditions of the Open Parliament Licence.