



Department  
for Education

# **Schools and high needs funding reform**

**The case for change and consultation  
summary**

**March 2016**

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## The case for change

1. The government's objective is to provide world-class education that allows every child and young person to achieve to the best of his or her ability regardless of location, prior attainment and background. Fairness in the way that education provision is funded for all children is crucial to achieving this objective.
2. The 2015 spending review recognised that transforming education is central to the government's commitment to extending opportunity and delivering social justice. It therefore protected the national schools budget in real terms for the duration of the Parliament, allowing us to protect the dedicated schools grant schools block at flat cash per pupil, and the pupil premium at current rates. It also announced that the government will introduce the first ever national funding formula for schools, early years and high needs to match funding directly and transparently to need<sup>1</sup>.
3. This consultation sets out the government's plans for reforming funding for schools and for high-cost special educational needs and alternative provision.
4. The funding system for education should support the government's objective of enabling all schools to deliver excellence everywhere. Opportunity should be open to all, in all parts of the country: rural and urban, shire and metropolitan, north and south. It should be fair, with funding for schools based on the needs and characteristics of pupils, in a transparent, understandable way. It should be clear how much funding is following each pupil to their school, including disadvantaged pupils, and this should be the same everywhere, whilst reflecting higher costs in some areas. The allocation of high needs funding to local authorities should be equally rational.
5. The system should get funding straight to schools, allow school leaders to plan and prioritise their budgets with as much certainty as possible, and it should promote efficiency – to help schools bear down on back office costs and devote every possible pound to improving opportunity for their pupils. Fundamentally, the funding system should enable schools and local authorities to give the pupils in their charge the best possible opportunity to maximise their potential.
6. It is widely acknowledged that the current funding system fails to do this, and is unfair and opaque (see quotes below)<sup>2</sup>. For the most part, the dedicated schools grant

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<sup>1</sup> HM Treasury, '[Spending Review and Autumn Statement 2015](#)', 25 November 2015

<sup>2</sup> Association of School and College Leaders, '[ASCL policy: Education Funding](#)', May 2015 ;

Parish N, Bryant B, Isos Partnership, '[Research on funding for young people with special educational needs research report](#)', July 2015 ;

Kathryn James, National Association of Head Teachers, '[Fair funding – getting it right: a new national funding formula for schools](#)', January 2016

for each authority is not based on what its schools need now: it is based on decisions going back years. When the current system was introduced in 2006, the amount paid to each local authority was based on what they had planned to spend on schools in 2005. Ever since, each year's funding has started from this assessment of local need made over a decade ago.

“The distribution of the national education budget to educational institutions should be sufficient, sustainable and equitable.... A national fair funding formula should take into account the needs of educational institutions and their pupils. This should not be predicated on the historical way in which funding is allocated.”

**Association of School and College Leaders (ASCL)**

“Historic spend does not appear to match very closely with current levels of need. Furthermore, there was a strong feeling among the local authorities that took part in our research, and many of the national stakeholders, that the current distribution of the high needs block funding was not sufficiently transparent, objective or fair. We judged, therefore, that there was a strong argument in favour of moving from a distribution based on historic levels of spending to a formula-based allocation.”

**Isos Partnership**

“As our schools are expected to become increasingly autonomous and self-determining, it is important that they have control over their budget and, for that to be the case, there needs to be a level of certainty and equity over the income. The accountability regime for all schools is the same, the expectations of what they will deliver to their pupils is the same. It is only right that the funding schools receive for their pupils is the same, with recognition given for extreme differences.

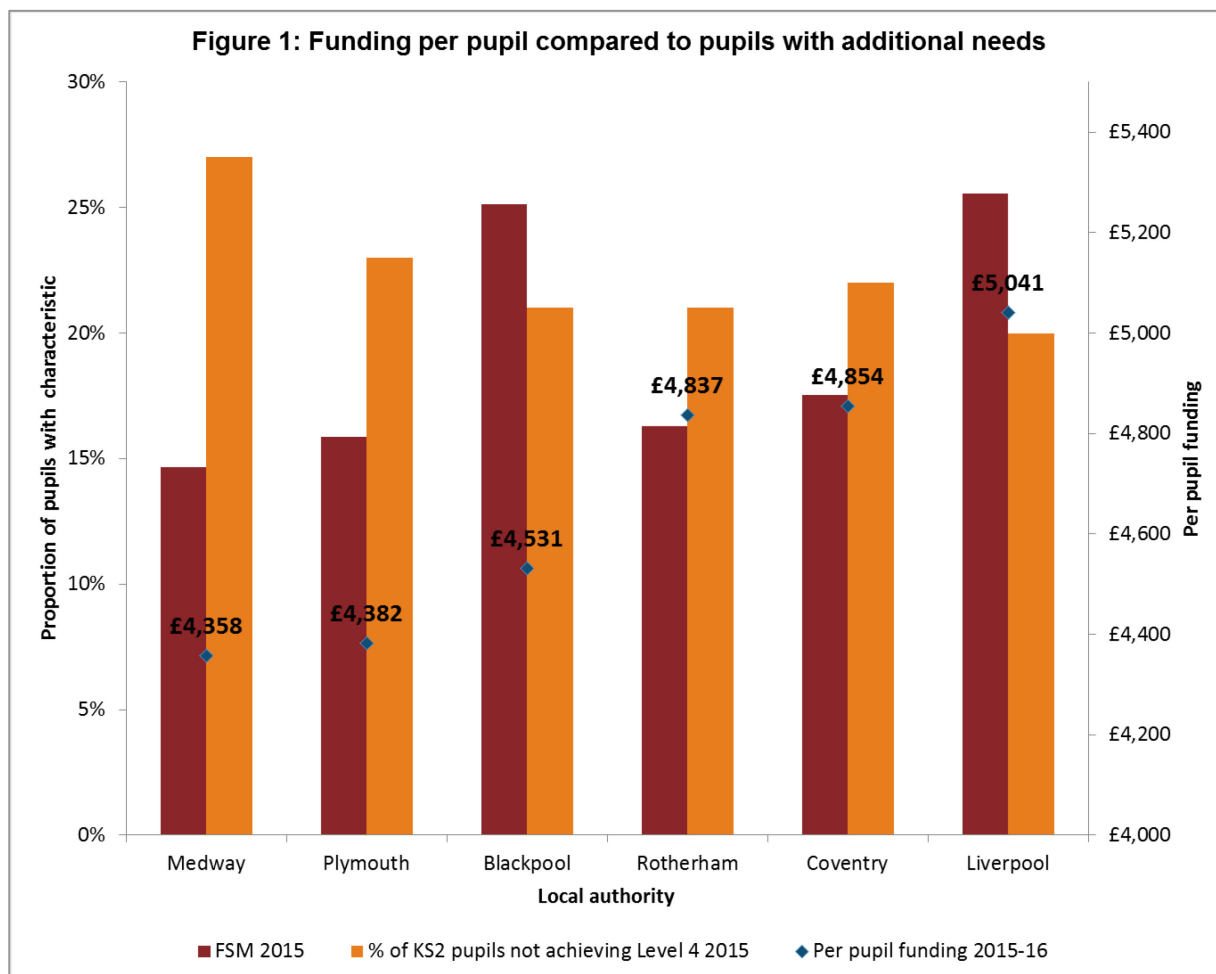
Should this funding go direct to schools linked to their pupil numbers? Absolutely, yes, it should. There is no reason for the local authority to act as a ‘staging post’ which skews the budget allocation.”

**Kathryn James, Deputy General Secretary of the National Association of Head Teachers**

7. In the last 10 years, governments have increased funding for schools, high needs and early years in a number of ways – specific grants, general uplifts, and to reflect demographic growth. In 2011 the pupil premium was introduced to provide extra, targeted funding for pupils from disadvantaged backgrounds. For the 2015-16 financial year, the previous government decided to top up the funding of the 69 authorities least fairly funded on their schools block by introducing minimum funding levels. This added £390 million to the funding for these authorities, in the biggest step forward in fairer funding for a decade. It represented a good start towards fair funding, but there remains much more to be done to make the system truly fair.

8. With the exception of the minimum funding levels uplift in 2015-16, funding allocations are based on data which is over a decade out of date. In that decade many things have changed, and consequently local authorities with similar characteristics receive very different levels of funding.

9. Figure 1 illustrates that there are authorities with higher proportions of pupils with additional needs that are funded below some authorities with lower numbers of pupils with additional needs. It shows for 6 local authorities the per-pupil funding in 2015-16 compared with the proportion of pupils eligible for free school meals and the proportion of pupils not achieving level 4 in reading, writing and maths at key stage 2.



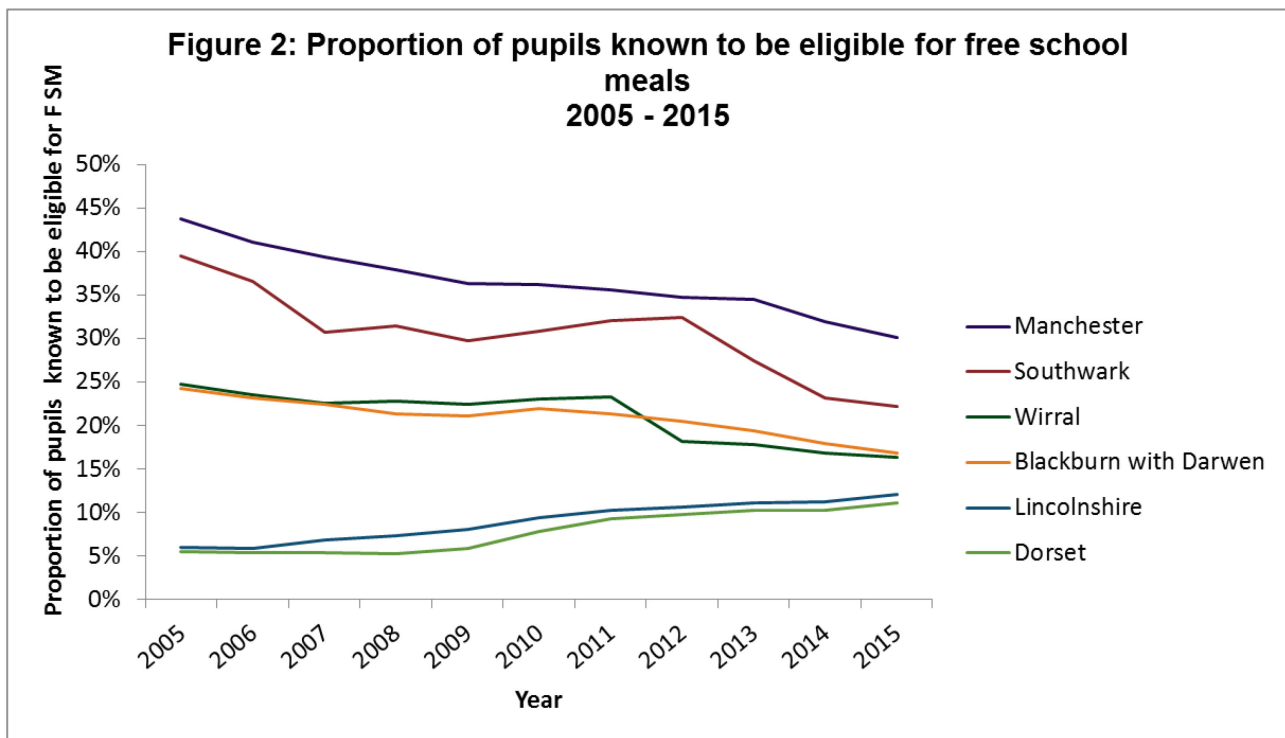
**Figure 1: Funding per pupil compared to pupil characteristics in 6 local authorities**  
**Current per-pupil levels of funding do not reflect pupils' characteristics.**

Source: Department for Education, '[Dedicated schools grant \(DSG\) 2015 to 2016: Updated February 2016](#)', – 2015-16 summary table, February 2016 ; '[Local authority and regional tables:SFR47/2015](#)'- Table 23, December 2015; '[Local authority and regional tables: SFR16/2015](#)'- Tables 8a and 8b, July 2015

10. For example, Medway receives over £650 less per pupil than Liverpool despite having a significantly higher proportion of pupils not achieving level 4 in reading, writing

and maths at key stage 2<sup>3</sup>. Similarly, Rotherham and Plymouth have comparable proportions of pupils eligible for free school meals (FSM), yet Rotherham receives nearly £500 more per pupil<sup>4</sup>.

11. Figure 2 shows that in the last 10 years, the proportion of pupils eligible for FSM in Lincolnshire and Dorset has more than doubled. In Southwark, the FSM rate has nearly halved. Outside London, the FSM rate in Wirral, Manchester and Blackburn have all fallen by around a third in the previous decade<sup>5</sup>.



**Figure 2: Proportion of pupils eligible for free school meals in 6 local authorities since 2005** FSM eligibility has not been static over the previous decade, falling in some local authorities and increasing in others. The needs of pupils today therefore do not reflect those of 10 years ago.

Source: Department for Education. Details of the sources used can be found in the reference list.

12. Whilst it is right for Southwark to receive a higher unit of funding than Lincolnshire, in recognition of the greater levels of deprivation and costs in inner London, figure 3

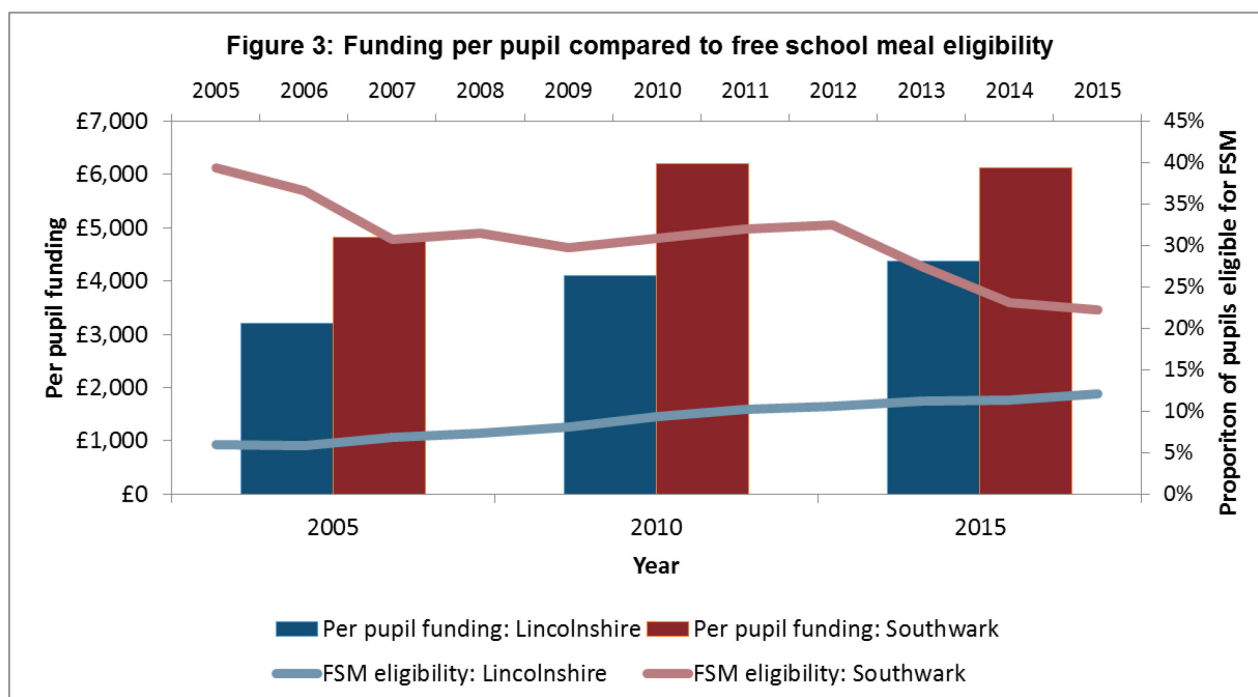
<sup>3</sup> Education Funding Agency, '[Local authority funding proforma data 2015 to 2016](#)', March 2015; Department for Education, '[Local authority and regional tables: SFR47/2015](#)' - Table 23, December 2015

<sup>4</sup> See footnote 3

<sup>5</sup> DfE, '[Schools, pupils and their characteristics](#)', 2005-2010, May 2010 ; '[Schools, pupils and their characteristics](#)', 2011-2015, June 2015

A full list of the sources used can be found under Figure 2 in the reference list.

shows that the funding system has not matched the demographic changes in these areas.



**Figure 3: Per-pupil funding in Lincolnshire and Southwark compared to the proportion of pupils eligible for free school meals**

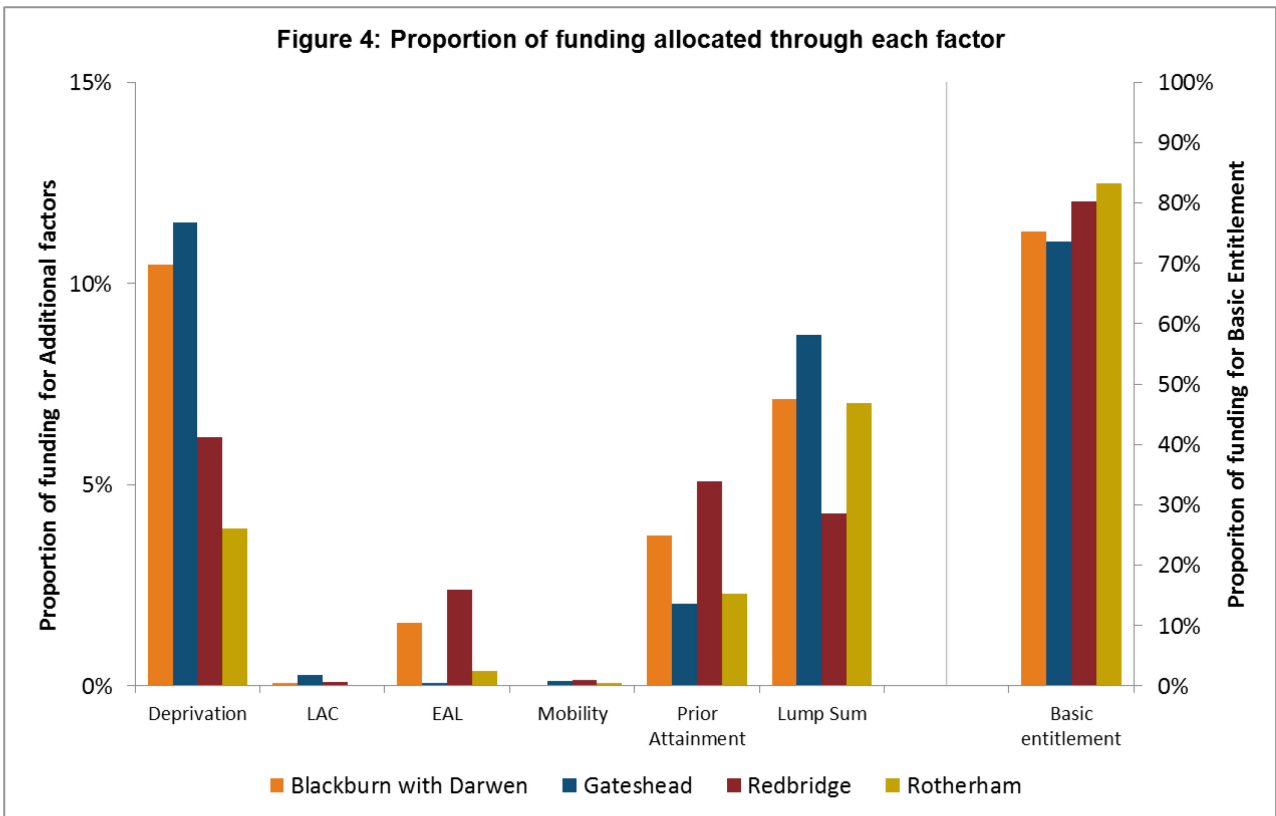
**The changes in per-pupil funding do not reflect that the proportion of pupils eligible for FSM in Lincolnshire has increased over the previous decade, whilst it has decreased in Southwark.**

Source: Department for Education. Details of the sources used can be found in the reference list.

13. A fair funding system does not mean all areas or schools getting the same amount. A fair system will recognise that funding depends on need, and so those schools and areas with the highest need should attract the most funding. It will also recognise the higher running costs for schools in some areas. But current variations in funding between local areas do not match the variation in need.

14. This unfairness is often made worse at school level because local authorities use different formulae to distribute funding locally, and can make very different decisions. So, for example, a secondary pupil with low prior attainment would attract £2,248 of additional funding in Birmingham, compared with £36 in Darlington. In 3 local authorities (Barnet, Central Bedfordshire and Northamptonshire), these pupils would not attract any additional funding<sup>6</sup>. Figure 4 illustrates the variation in different funding formulae across the country. In 4 authorities with similar levels of disadvantage and low prior attainment, the amount of funding allocated through these factors varies considerably.

<sup>6</sup> EFA, '[Local authority funding proforma data 2015 to 2016](#)'

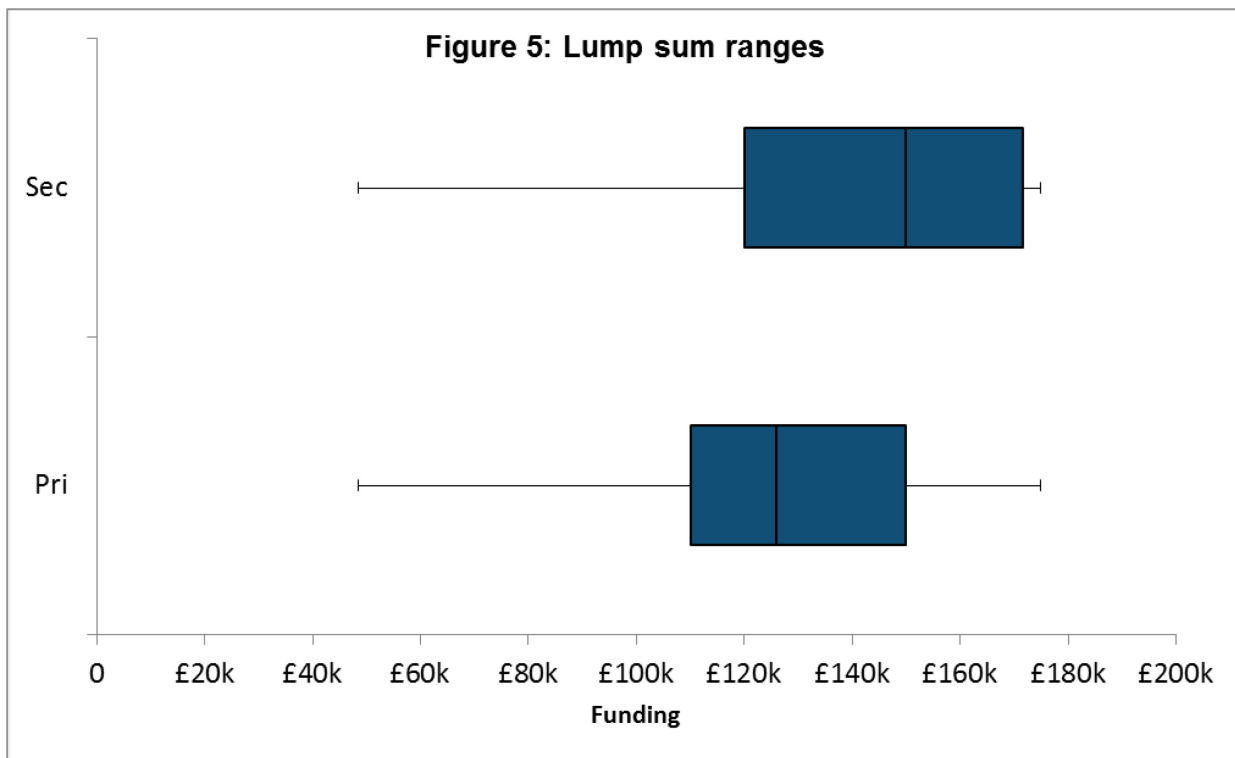


**Figure 4: Proportion of funding a sample of local authorities, with comparable levels of disadvantage and low prior attainment, allocated through different factors in 2015-16**  
**The large range in funding allocated for each factor indicates there is no national consistency in schools funding: different characteristics attract different levels of funding across the country.**

Source: Education Funding Agency, [‘Local authority funding proforma data 2015 to 2016’](#), March 2015

15. Even on core elements of schools funding, there is a very wide range of practice amongst local authorities. As an example, figure 5 shows the range of values authorities attach to the lump sum factor – the funding that reflects the core costs of running any school – for primary and secondary schools. Primary schools receive anything from £48,480 to £175,000. The range in the middle 50% of authorities is still large: £40,000. It is a similar story for secondary schools.





**Figure 5: Quartile ranges of local authority lump sum values in 2015-16**  
**The large range of values indicates that there is no consistent application of lump sum funding.**

Source: Education Funding Agency, [‘Local authority proforma data 2015 to 2016’](#), March 2015

16. Up to now, a degree of local discretion has been valuable and rational. Whilst local authorities are playing a key role in running the schools in their area, and indeed are accountable for many of them, it is right that they are able to reflect local circumstances and priorities. However, the degree of variation is well beyond anything that could be justified on the basis of differing local need. At the same time, local decision-making itself is increasingly out of date as more schools become academies, independent of local authority management and often operating in chains that cut across multiple local authority boundaries and regions. As we move towards an increasingly academised system, it makes sense for funding to be allocated on an increasingly consistent basis for all schools across the country.

17. Taking all of this together, it is hardly surprising that it is currently so difficult to understand why an individual school receives the amount it does. The examples below show the impact on 2 typical classes of 30<sup>7</sup>.

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<sup>7</sup> Other costs (pension and national insurance costs) have been taken into consideration.

EFA, [‘Local authority funding proforma data 2015 to 2016’](#) ; DfE, [‘Main tables: SFR21/2015’](#)- Table 7a, July 2015 ; Nick Gibb MP, [‘Classroom Assistants: Pay: Written question – 856’](#), June 2015

A primary school class has 30 pupils:

- 5 have English as an additional language
- 1 is looked after
- 10 receive free school meals

In Cornwall, this class would receive **£93,390**, but in Liverpool it would receive **£107,471** - over **£14,000 more**.

Across a whole primary school of 420 pupils this would mean the school in Cornwall would be able to employ 4 fewer teachers, or 10 fewer teaching assistants than the school in Liverpool.

A primary school class has 30 pupils:

- 6 have English as an additional language
- 3 have low prior attainment
- 5 receive free school meals

In Derby, this class would receive **£86,394**, but in Southend-on-Sea it would receive **£101,506** - over **£15,000 more**.

Across a whole primary school of 420 pupils this would mean the school in Derby would be able to employ 4 fewer teachers, or 11 fewer teaching assistants than the school in Southend-on-Sea.

18. Of course, many schools do an excellent job despite getting a low level of funding. York is one of the lowest funded authorities in the country; nonetheless 87% of its primary and 89% of its secondary schools are good or outstanding – above the national average<sup>8</sup>. But we recognise that they are doing an excellent job despite the funding system, not because of it.

19. At the same time, the current system also does little to incentivise efficiency. At present, some schools and areas are under-funded relative to others and therefore find it harder to respond to cost pressures and find efficiencies. Allocating funding fairly around the country - getting funding to those areas and schools that are most under-funded at the moment and gradually reducing the funding of schools that have been generously funded to date - would make it easier for schools collectively to be more efficient. The very fact of greater consistency of funding across the sector would also make it easier for headteachers to identify where money can be saved by making comparisons with other schools.

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<sup>8</sup> Office for Standards in Education, Children's Services and Skills, Regional data as at 31 August 2015, [Data view: compare local authority areas](#)

20. There is also a problem with the current distribution of high needs funding to local authorities, and the fact that local authorities with similar characteristics are spending very different amounts. Although a degree of local variation is to be expected when assessment of need is carried out locally, some low funded local authorities have argued persuasively that the distribution of high needs funding does not support them to secure good quality special educational provision in schools, early years providers, colleges and other institutions that meets the needs of children and young people. We are also concerned that others may be spending more than is needed to achieve good outcomes. Addressing this unfairness is our priority.

21. To help us decide how to tackle these high needs spending differences and what other changes should be considered, we commissioned research from Isos Partnership, and also issued a wider call for evidence. The report of the research, and summary of evidence gathered were published in July 2015<sup>9</sup>.

22. The research and analysis carried out by Isos showed that the current funding distribution between local authorities, which is based on what local authorities were spending in 2012-13, does not reflect need. In their report Isos proposed ways in which the current distribution of high needs funding could be improved, and in particular how a formula distribution – using a range of relevant factors – would be objective, easier to explain and understand, and would better match need than the current distribution. We have carefully considered the Isos research and concluded that the current funding distribution is not fair to children and young people with high needs across the country, because it directs money to the local authorities with the highest spending, not the highest needs. And we agree with the basic proposition that a formulaic method of distribution would be better.

23. There is an overwhelming case for reform of the funding system. The rest of this document summarises the first stage of consultation on the government's proposals to make funding fair, which are set out in more detail in the schools national funding formula and high needs funding formula and other reforms consultation documents.

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<sup>9</sup> Isos Partnership, [‘Research on funding for young people with special educational needs: Research report’](#); DfE, [‘Funding for children and young people with SEND’](#), July 2015

## What we are trying to achieve

24. Our proposals are based on a core set of principles for the future funding system. For schools, these point towards an objective, evidence-based, pupil-led funding system, with a funding formula that applies equally to all schools on the basis of indicators of costs that can be easily recognised and understood by parents, teachers, schools and local authorities. The factors used to calculate budgets should reflect the things that increase costs for schools and make use of evidence about attainment gaps to ensure that pupils are funded to meet their potential. We should make effective use of proxy measures for additional needs in order to increase funding to schools so that they can better support pupils who are likely to face additional barriers in reaching their full potential.

### Principles for a reformed funding system

We are seeking to create a funding system for schools and high needs that:

- **Supports opportunity.** Fundamentally the funding system should support schools and local authorities to extend opportunity to all pupils to achieve their potential
- **Is fair.** It should allocate funding to schools and local authorities on the basis of objective measures of the needs and characteristics of their pupils
- **Is efficient.** It should support efficiency within schools and local authorities, and across the system as a whole
- **Gets funding straight to schools.** It should maximise the resources available for teaching and learning and enable headteachers and local authorities to achieve value for money
- **Is transparent.** It should be easily understood and justified
- **Is simple.** It should rationalise funding streams as far as possible
- **Is predictable.** It should ensure schools and local authorities can manage and plan for year on year changes

25. For high needs funding, we recognise that local authorities are rightly focusing on the implementation of the new arrangements under the Children and Families Act. These changes offer the opportunity of developing new partnerships and new ways of providing support so we can achieve our vision for children and young people with special educational needs (SEN) and disabilities, enabling them to achieve their full potential. The changes to the funding arrangements proposed in this consultation are intended to support these SEN and disability reforms, bringing more equity of access to resources for children and young people with similar needs wherever they live, encouraging best practice and making sure that the available funds are spent in a way that achieves the best outcomes for children and young people.

26. We need to make sure that pupils and students with high needs who are settled in schools and other provision do not have their education disrupted because local authorities have to act too quickly. Authorities should have time to reshape provision for those with high needs coming into the system to achieve better outcomes at reduced cost. We will be providing access to capital funding so that, where there is a need for new special needs places, local authorities can “invest-to-save”. And where whole new special schools are needed, we will establish free schools.

27. In this new system schools and local authorities will be able to track their budget back to the national funding formula and understand how they are funded in relation to other schools and authorities.

28. The objectives above have led us to propose a series of reforms for consultation, in order to make funding fair.

Schools proposals	High needs proposals
<ul style="list-style-type: none"> <li>• To introduce a national funding formula for schools from 2017-18. Funding would be allocated to local authorities to distribute for the first 2 years, and then allocated directly to schools from 2019-20</li> <li>• To use 4 building blocks for the formula: per pupil costs; additional needs costs; school costs; and geographic costs</li> <li>• To allocate funding for premises factors, growth and business rates to local authorities in 2017-18 and 2018-19 on the basis of historic spend, for them to distribute at local level</li> <li>• To ensure stability by retaining the ‘minimum funding guarantee’</li> <li>• To provide practical help for schools, including through an ‘invest to save’ fund</li> <li>• To create a new ‘central schools block’ to fund the ongoing duties local authorities hold for both maintained schools and academies</li> </ul>	<ul style="list-style-type: none"> <li>• To introduce a national funding formula for high needs from 2017-18</li> <li>• To use factors in the formula including population; health; disability; low attainment; and deprivation</li> <li>• To continue to allocate funding to local authorities for high needs, but on a formula basis</li> <li>• To ensure stability by retaining a significant element of funding based on what local authorities are currently spending, and capping the gains and losses of local authorities each year</li> <li>• To provide financial and practical help to authorities to assist them in reshaping their provision, including capital funding for new specialist places and new special free schools</li> </ul>

## Reforming the school funding system

29. We are proposing some changes to the structure of the funding system:
- To introduce a school-level ('hard') national funding formula from 2019-20, significantly reducing the role of local authorities, and a local authority level ('soft') formula in 2017-18 and 2018-19
  - To require authorities, in 2017-18 and 2018-19, to pass on all of their schools block funding to schools
  - To create a fourth block of the dedicated schools grant (DSG) – the central schools block.
30. The pupil premium and the service premium will continue to operate through the separate pupil premium grant, unaffected by the proposals in this consultation. We are consulting on a proposal to increase the pupil premium plus rates instead of including a looked-after children factor in the national funding formula for schools<sup>10</sup>.

### A hard national funding formula

31. To meet our objectives and to reflect an increasingly academised system, we are proposing – over time – to move to a system in which a pupil would attract the same amount of funding to his or her school no matter where they are in the country. This requires a school-level (hard) national formula, in which the values that each pupil attracts to their school are determined nationally, with a much reduced role for local authorities in distributing funds.

32. A system that removes this local variation would be easily explainable to headteachers, teachers and parents, would be totally transparent and would allow school leaders to plan their budgets years in advance, enabling them to achieve greater efficiency. Most importantly, it would be fair for all parents and pupils – wherever they happen to live – and would end the current postcode lottery. Ultimately, there is little reason for the amount that a deprived pupil attracts to their school to be different in Sheffield, Stockport or Somerset.

However, we recognise the significant change a hard formula represents and the large role that many authorities still play for schools in their area. We are therefore proposing that local authorities would continue to set a local formula in 2017-18 and 2018-19, as we phase this school-level system in over time to reflect the increasing number of academies (the funding for local authorities would still be based on a national formula during this

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<sup>10</sup> Further information on the proposals affecting the pupil premium plus can be found in the schools national funding formula consultation.

period, so we call this a soft formula). We will use this transitional phase to look closely at how local formulae have responded to the introduction of the national funding formula, and to consider further how best the national funding formula can distribute funding for factors that are more difficult to allocate on a formulaic basis.

## **The schools national funding formula**

33. We are proposing 4 building blocks for the schools formula, using factors to reflect: per-pupil costs; additional needs costs (where we use pupil characteristics data to increase funding to schools that are likely to have pupils who face additional barriers in reaching their full potential); school costs; and a geographic adjustment.

### **A – Per pupil costs**

34. Schools are responsible for supporting every pupil to reach their potential, regardless of their location or background. We think it is essential that schools know they will get a basic amount of funding for each pupil in their school. In the current funding system, the biggest factor in local funding formulae is ‘basic entitlement funding’, which accounted for 76% of schools’ budgets in 2015-16<sup>11</sup>. We propose the first building block of our schools national funding formula should be a basic unit of funding that we would give every school for every pupil. We think that this basic per-pupil funding should be weighted by pupils’ ages to reflect increasing costs as pupils move from primary through secondary.

### **B – Additional needs costs**

35. We propose that the national funding formula would also use additional needs to increase funding for schools so that they can better support pupils who face additional barriers in reaching their full potential. We plan to use 3 additional needs factors: deprivation, low prior attainment and English as an additional language. These factors would be used to determine schools’ core funding, but we will not dictate how this funding is used. School leaders will remain responsible for deciding how to use their budget to support every pupil: the inclusion of these factors in the formula would not mean that we expect schools to spend in a specific way for specific pupils.

36. The pupil premium will remain as a separate grant for the duration of this parliament in order to maintain a clear focus on its original purpose – raising the attainment of disadvantaged pupils.

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<sup>11</sup> EFA, [‘2015 to 2016 funding for schools and academies at provider level’](#)

## C – School costs

37. The next building block of the formula reflects costs associated with premises and overheads, rather than pupils' characteristics. Having certainty over a level of funding that will not vary with pupil numbers is particularly important for small schools, where the lump sum currently makes up a more significant proportion of their overall funding. Under the national funding formula, we are proposing that every school's funding should include a lump sum. We remain firmly of the view that the majority of school funding should be driven by pupil numbers and characteristics, but we are mindful of the challenges faced by small schools, and so we are consulting on the size of lump sum funding that should be included in the national funding formula. We intend to include a sparsity factor to increase funding to small schools without which pupils would have to travel long distances to their next nearest appropriate school.

38. There are a number of elements of school funding that cannot be easily allocated on a formulaic basis, because they depend on specific information about a school: business rates, premises factors (split sites, private finance initiative costs and other exceptional premises costs) and funding for pupil growth that is not recognised by the lagged funding system. We intend to allocate funding for these factors to local authorities on the basis of historic spend in 2017-18 and 2018-19. Through this consultation we would like to explore whether this funding could be distributed on a formulaic basis from 2019-20.

## D – Geographic costs

39. Schools' costs are affected by their geographical location. Schools spend over 80% of their budgets on staffing, and about twice as much on teaching staff as on non-teaching staff<sup>12</sup>. Published data<sup>13</sup> shows the variation in teacher salaries across the country – although the historically unfair distribution of funding to schools has, in part, driven these differences. The Department for Communities and Local Government also publishes data on General Labour Market<sup>14</sup> variation, assessing the impact of geography on costs. The national funding formula would recognise variation in geographical costs by applying an area cost adjustment to schools' funding.

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<sup>12</sup> DfE, '[Main tables: SR48/2015](#)'- Tables 1 and 3, December 2015 ; '[Main tables: SFR 24/2014](#)'- Tables Raw Data SATs and Raw Data MATs, October 2014

<sup>13</sup> DfE, '[Main text: SFR21/2015](#)'- Table 2b, July 2015

<sup>14</sup> Department for Communities and Local Government, '[Technical Guide to the ACA](#)', 2013



## Transition to a reformed funding system

40. Our proposal to introduce a national funding formula is a clear departure from the current system, and so we have carefully considered our objective for predictability. It will be important to manage the transition to this new system carefully and give schools and local authorities adequate time to adjust to new funding levels, and to accommodate changes in responsibilities and accountability.

41. As set out above, we are proposing to implement a hard national funding formula from 2019-20, and a soft formula in 2017-18 and 2018-19. Chapter 3 of the schools national funding formula consultation document sets out how local authorities' and schools' funding would be calculated during this transition period.

## Local authority funding

42. An important part of the transition arrangements will be to ensure that we reflect how local authorities have chosen to spend their money up to now. To do this, we will use as our starting point for the new formulae allocations the pattern of what local authorities are actually spending on schools, early years, high needs and central services, rather than the pattern in which the Government funds them, which is very often different.

43. We will shortly carry out an exercise to 're-baseline' the 4 blocks of the DSG for each local authority so that each block aligns with the pattern of each authority's spending in 2016-17, rather than how the Government allocated the funding to them. For example, if an authority chooses to put funding from its allocated high needs block into its schools block in 2016-17 to pay for high needs provision in mainstream schools, then we will use that spending pattern as the baseline against which we calculate the schools and high needs funding allocations, through the formulae, for 2017-18.

44. The amount that each local authority would receive in 2017-18 would be an aggregate of the notional funding of all the schools in their area once the national minimum funding guarantee and cap on gains have been applied, plus funding for growth, premises and the other factors described in [paragraph 38](#).

## School funding

45. We are proposing largely to retain the current system for setting the local formula during 2017-18 and 2018-19, so authorities will be able to use the same formula factors

as now<sup>15</sup>, even if we do not use them in the national funding formula. However there are 2 changes we are proposing to make.

46. As we introduce national funding formulae across schools and high needs, funding for each will be better matched to need. We are therefore proposing to require local authorities to pass on all of their schools block funding to schools. They would no longer be able to transfer funding to early years or high needs, and they would not be able to transfer to the new central schools block. The reasons for this are set out in more detail in chapter 3 of the schools national funding formula consultation document.

47. Because there will be a slightly reduced timetable for local authorities to set their local formula in 2017-18 ([see paragraphs 66-67 below on timetable](#)), and because some authorities that are losing funding would have less flexibility over their budget, we are also considering the option to allow some local flexibility on the minimum funding guarantee and cap on gains at a local level. Further detail is set out in chapter 3 of the schools national funding formula consultation document.

### **Phasing in gains and losses over time**

48. We will keep the minimum funding guarantee for schools – so that schools are guaranteed not to lose more than a certain percentage of their per-pupil budget every year.

49. In order to distribute the gains from the formula, we are minded to introduce a simple cap at the maximum that we can afford each year.

### **Support for school efficiency**

50. We will also provide practical help to secure efficiency gains and ensure a manageable transition for schools.

51. Support for schools to manage pressures on their budgets by becoming more efficient and financially healthy already includes being able to draw on some excellent practice in schools, and a wide range of training and tools offered by organisations in the sector. In a school-led system we believe this peer to peer and other expert support within the sector is crucial for performance improvement.

52. Working with the sector, we are providing further support and guidance for schools. A new collection on GOV.UK has brought together financial health and efficiency information in one place for schools to access<sup>16</sup>.

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<sup>15</sup> With the exception of the sixth form factor.

<sup>16</sup> DfE and EFA, [‘Schools financial health and efficiency’](#), February 2016

53. This website also links to other useful sites, for example Teaching Schools offering financial health advice and support.

54. In the run up to the introduction of the national funding formula, we will continue to support schools to become financially healthier and more efficient. This will include better signposting of the support available in the sector; the launch of a procurement strategy to help schools achieve savings in their procurement spend; and building capability within individual schools, including training for school leaders and governors and sharing best practice.

55. We will also launch an 'invest to save fund' in 2016-17, to allow schools to invest in ways to save money in future, helping them manage the transition to the national formula. Schools will be free to decide how best to use this money: this might include financial, legal and HR advice, the cost of re-training teachers to cover new areas of expertise, or in extreme cases, the cost of restructuring a school's workforce.

## **Funding that will remain with local authorities**

56. Local authorities will continue to be funded for their ongoing duties for both maintained schools and academies. We propose that funding for these responsibilities be provided to local authorities through the new central schools block of the DSG, which would bring together DSG funding currently held centrally by local authorities and the retained duties element of the education services grant. This funding would be distributed according to a simple per-pupil formula. The central schools block would include funding for admissions, asset management, pupil welfare and statutory and regulatory duties.

57. However the vast bulk of schools funding would be allocated through the national funding formula.

## **High needs national funding formula**

58. There is a clear case for reforming the distribution of high needs funding to local areas so that it is on a more consistent and equitable basis. Local authorities will continue to have important duties and responsibilities for children and young people with SEN and disabilities, and they need to be able to exercise discretion in discharging those. In this context, we are proposing a formula to distribute funding for high needs at a local authority level. It would continue to be for authorities to decide on the pattern of provision in their area, consistent with their statutory responsibilities. We are also taking the opportunity to respond to a number of proposals for improvements to the current high needs funding arrangements that were included in the report from Isos Partnership, following the research that we commissioned last year.

59. Our proposal for a high needs formula draws from that research, and the analysis that Isos Partnership carried out. They looked at a range of measures that indicated what local authorities needed, for their pupils with statutory education, health and care plans and special educational needs that were recognised in other ways. They then looked at a wide range of factors (a shortlist of 24 from a much longer list) that could be used in a formula, focusing on proxy indicators that related to health, disability, attainment, educational development and deprivation. Their analysis resulted in a proposal that a small number of factors relating to health, disability, low attainment and deprivation could be used in a formula distribution that correlated much more closely to the measures of need than the current distribution.

60. We have built on their proposal, and are now consulting on formula factors including a population element, reflecting that in any population cohort there will be a small percentage of children and young people with high needs. Proportions of the overall funding would flow through the health and disability factors that Isos Partnership proposed. As a large proportion of children with high needs do not achieve the level of attainment of their peers, we are also proposing to include indicators of low attainment for each local authority. And because there is a correlation between levels of deprivation and high needs we are proposing to reflect that in the formula as well. Finally there would be elements of the formula that reflect that local authorities are not only responsible for funding pupils resident in their area, but also provide the core funding for special schools in their area.

## **Transition to the high needs formula**

61. Our ambition to distribute high needs funding more fairly through a formula is tempered with the recognition that current levels of spending will not be easy to change without local authorities looking carefully at how they are meeting their statutory duties, and working out what they need to do differently to improve outcomes for children in a way that achieves better value for money. Authorities will need time and help to do this.

62. Our proposal is therefore that for at least the first 5 years the formula should contain a significant element of funding based on what each local authority is currently spending on high needs. This would not only allow time for local authorities to make the adjustments that are needed for the future, whilst protecting the special provision for those children and young people already settled in schools and colleges; but it will also allow the Department to undertake further research and evaluation before taking a decision on whether and how to progress further with formulaic distribution.

63. We would also protect authorities against large annual changes in their high needs funding. In addition, we are proposing help, including capital funding, to assist local authorities in making the changes necessary to reshape their provision in a way that maintains and improves the outcomes for those with SEN and disabilities.

64. We intend to provide practical help to local authorities, schools and other institutions providing special and alternative provision. Some of this will be in the form of extra guidance and examples of good practice, in particular responding to some of the proposals in the Isos research report.

65. We will be encouraging local authorities to work together in regional and sub-regional groups, where commissioning of specialist provision makes sense at that level. Increasingly local authorities will be seeking more efficient ways of operating by sharing expertise and some functions, and we will be providing examples of where such collaboration is working well in the high needs area.

## **Timetable for consultation and implementation**

66. This is the first of 2 planned consultations on schools and high needs funding. The consultation will close on 17 April. During March and April we will also be gathering information from local authorities on their 2016-17 baselines and their historic commitments. The government's response to the first stage consultation will then be published, followed by a second stage consultation. The second stage of the consultation will be the point at which we consult on the values attached to the formula factors and show the indicative impact on the funding of schools and local authorities.

67. We are aware that this timetable means that local authorities and schools forums will face some uncertainty about setting their local schools formula for 2017-18. However, we will ensure that authorities have confirmation of the operational guidance and their indicative allocations for 2017-18 in enough time to allow them to prepare their local formula and submit it to the EFA. Individual schools' funding will be confirmed to the same timetable as usual.

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## Figure 5: Lump sum ranges

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