



Department  
for Education

# **Schools national funding formula**

**Government consultation - stage 2**

**Launch date 14 December 2016**

**Respond by 22 March 2017**

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## About this consultation

This consultation seeks views on detailed proposals for the design of the new national funding formulae for schools, and for the central school services block for local authorities. It builds on the consultation we launched in March 2016 about the principles and structure of the new funding system.

## How to respond

To help us analyse responses please use the online system wherever possible. Visit <https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2> to submit your response.

If for exceptional reasons you are unable to use the online system, for example because you use specialist accessibility software that is not compatible with the system, please contact us at [SchoolsNationalFundingFormula.CONULTATION@education.gov.uk](mailto:SchoolsNationalFundingFormula.CONULTATION@education.gov.uk).

## Deadline

The consultation closes on 22 March 2017.

## Enquiries

If you have a question about the consultation please email us at [SchoolsNationalFundingFormula.CONULTATION@education.gov.uk](mailto:SchoolsNationalFundingFormula.CONULTATION@education.gov.uk)

If your question is about the data or calculations involved in illustrating the impact of our proposals for a particular school, please include 'NFF data query' in the subject line.

If you have a general enquiry you can contact the DfE Ministerial and Public Communications Team by telephone on 0370 000 2288 or via the [DfE Contact us page](#).

## The response

The results of the consultation and the Government's response will be [published on GOV.UK](#) in Summer 2017.

## Introduction

The Government is committed to creating a country that works for everyone. No matter where they live, whatever their background, ability or need, children should have access to an excellent education that unlocks talent and creates opportunity. We want all children to reach their full potential and to succeed in adult life, but the current school funding system does not support this aspiration.

We have protected the national core schools budget since 2010, and we will continue to do so, in overall real terms, to 2020. This year we are spending over £40 billion on schools, the highest amount ever. We need to ensure that the system for distributing this funding is fair. The current funding system is not – it is unfair, untransparent and out of date. Similar schools and local areas receive very different levels of funding, with little or no justification. Patchy and inconsistent decisions over many years mean resources are not getting to the schools and pupils that need them most. Underfunded schools do not have access to the same opportunities to do the best for their children, and it is harder for them to attract the best teachers and to afford the right support. That is why introducing fair funding was a key manifesto commitment.

We set out many examples of the unfairness we see in the current system of school and high needs funding in our first stage of consultation<sup>1</sup>. These examples cover both funding for schools, and the funding the Government provides to support the life chances of our most vulnerable children and young people with special educational needs. The response we received to our first consultation, and the vision, principles and proposed structure and funding factors for the national funding formulae that it set out, demonstrated that the unfairness of the current system and the case to reform it are widely accepted. To deliver that reform, we are now consulting on how to weight funding across the factors in the formulae. These proposals sit alongside and complement the [new early years funding formula arrangements](#) that we announced in December<sup>2</sup>.

The money that we invest in our schools has the potential to make a real difference, if targeted accurately and spent effectively. We know that the socio-economic circumstances in which a child grows up still play far too great a role in determining the opportunities they can access later on. We know too that high quality education can help to break this link, extending opportunities to all pupils, whatever their background and wherever they live. Through the work of the Education Endowment Foundation and many other organisations, we are learning a great deal about the interventions and use of resources that can best support pupils to reach their full potential. Our funding system needs to support that growing understanding.

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<sup>1</sup> Department for Education [‘The case for change and consultation summary’](#) and [‘The current funding system’](#), March 2016

A fairer funding system will help to provide all schools with the resources needed to ensure an excellent education for all pupils. The national funding formula will help schools to manage cost pressures, by directing resources where they are most needed and by creating greater certainty and transparency in the funding system to allow schools to plan ahead with confidence. We know that how schools spend their money is as important as the amount of funding they receive. So we will support all schools to become more efficient and manage their budgets well, helping them to achieve the highest standards for their pupils.

Funding every school using the national funding formula will mean a fair settlement for each school. The formula will determine whether, and to what extent, schools are due to gain funding or will need to adjust to a lower level of funding. We have always been clear that a fairer system will require some redistribution. In fulfilling our objective of fairness, however, we have not lost sight of the need for stability. The arrangements we put in place to help schools manage the transition to their new budgets under the national funding formula are just as important as the relative weighting of factors within that formula. The protection arrangements in turn affect the pace at which schools due to be funded at a higher level will be able to reach their new settlement.

This consultation is structured as follows:

- Chapter 1: Our overall approach to constructing the national funding formula for schools
- Chapter 2: Detailed formula design proposals
- Chapter 3: The impact of the proposed national funding formula for schools
- Chapter 4: Implementation of the national funding formula for schools
- Chapter 5: Our proposals for the central school services block

As part of this consultation, we are also publishing:

- Illustrative funding allocations for schools and local authorities, if the proposed formulae had been implemented in full and without any transitional protections in 2016-17, and in the first year of transition towards the formulae. Illustrative funding from the national funding formula is shown alongside actual funding in 2016-17, so that clear comparisons can be made
- An equalities impact analysis
- Technical notes explaining in detail the methodology used to calculate school and local authorities funding levels under the proposed formulae

It is important to note that the illustrative national funding formula allocations we are publishing as part of this consultation are not actual allocations for any specific year: they are illustrations based on 2016-17 data (and 2016/17 data for academies) to help

inform the consultation. Actual allocations for future years will reflect the final formulae (following this consultation) and will be updated for the latest pupil numbers and characteristics data.

Illustrative national funding formula allocations have been calculated using pupil characteristics data provided to us by local authorities through the 2016-17 Authority Proforma Tool. 2016-17 funding baselines data for maintained schools comes from the 2016-17 Authority Proforma Tool. Funding baselines data for academies is taken from the General Annual Grant 2016/17. Illustrative national funding formula allocations for maintained schools will not reflect any changes since March 2016. For academies, they will not reflect any changes since May 2016.

The proposals outlined in this consultation are based on the total national core schools budget available up to 2019-20. They make no assumption of any further change in the funding available after 2019-20, which will be determined through future spending reviews.

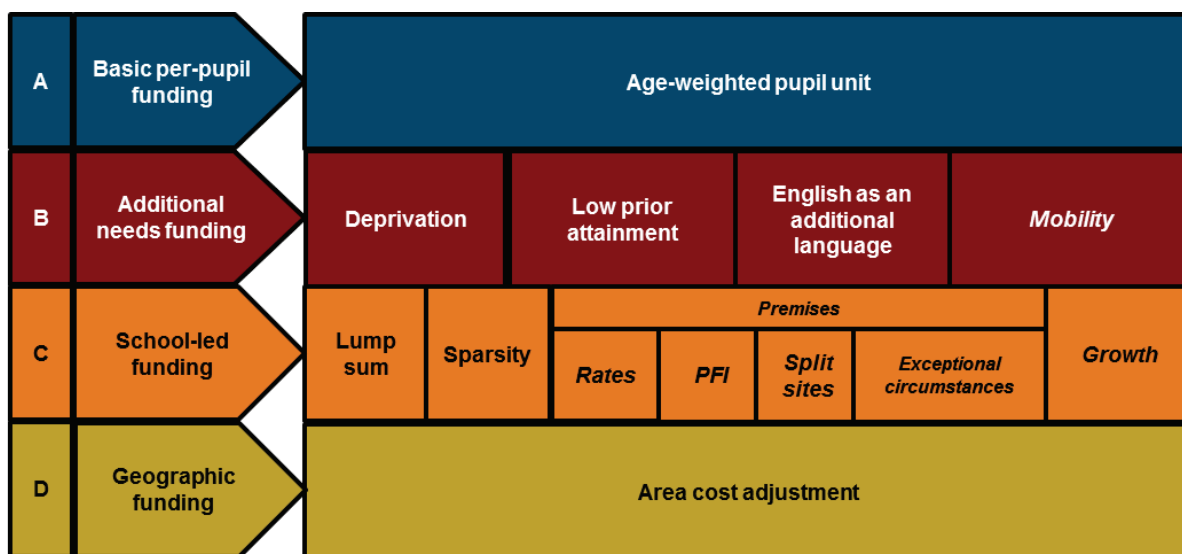
# Chapter 1: Our overall approach to constructing the national funding formula for schools

1.1 This chapter explains the overall approach we have taken to determine the relative weightings of the different factors in the national funding formula for schools. It builds on the first stage consultation where we sought views on the building blocks and factors that should be included in the formula. Our proposals are discussed in more detail in chapter 2, along with our questions for consultation.

1.2 In the first stage consultation, we proposed the principles that should underpin funding reform and the structural changes needed to allocate funding directly to schools from 2019-20. We proposed that the building blocks of the national funding formula for schools should be basic per-pupil funding, additional needs funding, school-led funding and geographic funding.

1.3 Following the first stage consultation, figure 1 shows the 13 factors that we are now confirming will be included in the national funding formula for schools.

**Figure 1: The building blocks and factors in the national funding formula for schools**



**Figure 1: This diagram illustrates the 13 factors that will be taken into account when calculating the schools block of the dedicated schools grant (DSG) funding allocations through the national funding formula. It is not designed to scale. Funding for factors in italics will be allocated to local authorities in 2018-19 on the basis of historic spend.**

1.4 Having established the factors that will be included in the formula, we are now putting forward detailed proposals for the relative weighting of each factor, and therefore the per-pupil unit values we have used to work out schools' estimated funding levels under the proposed formula. Our starting point for developing the formula weightings has been the collective formulae used by local authorities to distribute funding to schools. This represents the conclusions made over a number

of years by local authorities and their schools forums; and in many instances there are similarities between the choices made locally.

1.5 We know, however, that the funding system is complex, and that as well as similarities locally, there is also variation. Looking at national averages can only be a starting point. The next section explores some of the local trends, variations and complexity – including the different ways in which funding is targeted to pupils with additional needs and how pupil- and school-led funding is balanced.

1.6 We have also looked at the best available evidence on the impact of resources on outcomes. The formula we propose is grounded in the current distribution of funding, but includes a number of proposals to vary from that where we believe doing so would better support fairness and opportunity for all. In particular, we propose increasing total spend on the additional needs factors, and recognising disadvantage in a broader sense, including targeting more resource towards schools serving the just managing group. The rationale for our proposed formula is set out in detail in the following sections.

1.7 In summary, our proposed formula will mean that every school is funded on a consistent and fair basis, with significant additional funding following the pupils who are likely to need the most support. We know that there will be differing views about whether we have achieved the correct balance between the different factors. We want to hear from consultation respondents whether the balance we propose is broadly right – and where respondents believe the balance should be different, we are keen to understand their reasoning and evidence.

## **We have started from the current balance of formula factors**

1.8 In constructing the national funding formula, our starting point has been the formulae used by local authorities to distribute funding to schools. Key parts of the formula are anchored in the average allocation of funding through factors in the current system, and deliberately so. Local authorities, in consultation with their schools forums, devise their own formulae each year, shaping them so they can get funding to the schools that need it most. We have sought to learn from this process and take account of the decisions that local authorities have made, collectively, over the years<sup>3</sup>.

1.9 Since local formulae were simplified in 2013-14, and the Department has collected formula data on a consistent basis, we have been able to monitor the ratio in funding between the primary and secondary phases. Over this period, the average primary

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<sup>3</sup> For detailed analysis of local authorities' formulae in 2016-17, please see Department for Education, '[Schools block funding formulae 2016 to 2017](#)', March 2016



to secondary ratio has remained relatively stable and some areas have – as encouraged in our operational guidance – chosen to move their ratio towards the national average, which is 1:1.29 in 2016-17 (which means funding per pupil is on average 29% higher overall in the secondary phase than in the primary phase).

- 1.10 Local authorities distribute the vast majority of funding through pupil-led factors. While regulations require them to allocate at least 80% of funding to these factors, all local authorities go further, distributing 90% on average. This tells us that significant investment in pupil-led factors helps get funding to the right place, and we have reflected this in the national formula.
- 1.11 Pupil-led factors are made up of the age-weighted pupil unit (AWPU, which we refer to in this consultation as ‘basic per-pupil funding’) and the additional needs factors. We ask local authorities to set basic per-pupil funding rates of at least £2,000 per pupil at primary and £3,000 at secondary. Again, we see all local authorities going further here, setting the rates at least 10% higher, and on average 49% higher, than the minimum required.
- 1.12 We know that some local authorities – especially those in areas of high deprivation – have chosen to set high basic per-pupil funding rates and distribute very little through the deprivation factor, as a separate factor is less relevant when there are high numbers of pupils with similar deprivation characteristics. This means that there is a significant sum of money which is currently being targeted to pupils from a deprived background, but through basic per-pupil funding. Under the national funding formula, we are proposing to spend more through the additional needs factors than is currently the case in local authority formulae, so that this funding continues to go to schools with pupils from a deprived background.
- 1.13 We have also looked closely at how local authorities currently allocate funding between the additional needs factors for schools with pupils likely to need extra support. It is clear that the deprivation factor should be significant, with 80% of local authorities targeting at least 5% of all funding through it. In total, over £2.4 billion was allocated through the deprivation factor in 2016-17. This is in addition and separate to the funding allocated directly to schools through the pupil premium – worth £2.5 billion in 2016-17.
- 1.14 Local authorities, however, make very different decisions about the shape and size of their deprivation factor. Of those local authorities that target funding to pupils living in the most deprived neighbourhoods (through the Income Deprivation Affecting Children Index - IDACI), values range from £42 per pupil to £4,342 per

pupil<sup>4</sup>. In the local authorities where funding is targeted to Ever6 FSM pupils<sup>5</sup>, a pupil can attract as little as £237, and as much as £3,292. Unit values for particular local authorities can be very high if they only choose to use a limited number of factors.

1.15 Local authorities also make considerable use of both the low prior attainment and English as an additional language factors. All but 4 local authorities used the low prior attainment factor in 2016-17, spending £1.4 billion in total. For most authorities, low prior attainment was the main factor contributing to their notional special educational needs (SEN) budget in 2016-17, as in previous years. 136 local authorities used the English as an additional language factor in 2016-17, spending £282 million in total. Collectively, local authorities use the mobility factor to a lesser degree than the other additional needs factors, but we heard through the first stage consultation that for those areas it is an important way of getting additional funding to schools with a high proportion of pupils joining the school partway through the academic year.

1.16 Although it is an optional factor, all authorities chose to include a lump sum in their formula in 2016-17, as was the case in 2015-16. The range in lump sums is wide, from £48,480 to the maximum allowable lump sum of £175,000, which a quarter of local authorities choose. We cannot see any clear patterns in the specific lump sum values chosen by local authorities. We do see some consistency when it comes to how local authorities treat primary and secondary schools, with a majority (86) setting lump sums at the same level for primary and secondary; 54 setting a higher secondary lump sum; and 12 setting a higher primary lump sum.

1.17 Figure 2 summarises how funding was distributed by local authorities in 2016-17. It shows the percentage weighting given to each factor at a national level, along with total spend. These can be compared with the proposed weightings and total spend for each factor under the national funding formula, outlined in the next section.

1.18 We have not included average per-pupil amounts in local authority formulae, because these cannot be compared meaningfully with the national funding formula proposals. In the current system, local authorities can choose which factors to use, which means the number of pupils funded, and therefore the per-pupil amounts, vary widely. For example, a local authority that allocates funding using both free school meals (FSM) eligibility and IDACI is likely to have lower unit values than one that only uses FSM. In the national funding formula, by contrast, all the factors will be used and will be applied consistently to all eligible pupils in every school. The local

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<sup>4</sup> These figures are the range of values allocated to IDACI Band 6 (the highest deprivation band) in 2016-17

<sup>5</sup> These are pupils who have been eligible for free school meals at any point in the last 6 years

authority factor values also include the extra resources some local authorities have received as a result of area cost adjustments, whereas the national funding formula unit values do not, as it is more transparent to show this adjustment separately. This means a like for like comparison of current factors and national funding formula factors is not possible, but it is possible to compare total spend and percentage weighting.

**Figure 2: Summary of local authority spend through formula factors in 2016-17**

Factor		Total weighting given by local authorities in 2016-17	Total spent by local authorities in 2016-17	
Basic per-pupil funding		76.6%	£24,369m	
Deprivation	Current FSM	7.6%	£1,432m	£2,424m
	Ever6 FSM			
	IDACI A			
	IDACI B			
	IDACI C			
	IDACI D			
	IDACI E			
IDACI F	£992m			
Low prior attainment		4.3%	£1,367m	
English as an additional language		0.9%	£282m	
Mobility		0.1%	£23m	
Lump sum		8.2%	£2,610m	
Sparsity		0.05%	£15m	
Premises	Rates	1.8%	£567m	
	PFI			
	Split sites			
	Exceptional circumstances			
Growth		0.5%	£174m	

**Figure 2: This table summarises published data on local authority spend through the factors that will be included in the national funding formula, and the total weighting given by local authorities (i.e. the percentage of the total schools budget that was spent on each factor by local authorities collectively)<sup>6</sup>.**

Source: Education Funding Agency, [Local authority funding proforma data 2016 to 2017](#), July 2016

<sup>6</sup> The growth figure included in this table takes into account local authorities' explicit spend on growth in 2016-17, through the growth fund and falling rolls fund. A further £109m of implicit growth spending is included within the other factor sub-totals in figure 2 above. This table shows local authority spend through the factors included in the national funding formula, not all the factors local authorities can use in 2016-17 in their local formulae.

1.19 Our proposed formula reflects some of the common decisions local authorities have made over the years. However, to base the whole formula on local authority averages would be too simplistic. The building of a national funding formula is an opportunity to reflect everything we know about the funding system and the evidence base on the links between funding and attainment. For example, the way some local authorities have channelled their deprivation funding through basic per-pupil funding means that an approach based solely on local authority averages would give a false picture of how much funding is truly allocated on the basis of additional needs. And crucially, when it comes to weighting one factor against another, it is essential that we take stock of the best available evidence about factors that most affect attainment, and reflect it in the decisions we make.

## Summary of our proposals

1.20 Chapter 2 explains each of our proposals in detail and asks a consultation question on each key decision. In summary, we are proposing:

### **Across the whole formula, to:**

- maintain the primary to secondary ratio in line with the current national average
- maximise the proportion of funding allocated to pupil-led factors compared to the current funding system, so that as much funding as possible is spent in relation to pupils and their characteristics

### **With regard to basic per-pupil funding, to:**

- reflect that the majority of funding is used to provide a basic amount for every pupil, but that some of this funding is at present specifically supporting pupils from disadvantaged backgrounds. To do this, we propose increasing the total spend on the additional needs factors in the national funding formula
- continue to increase the basic rate as pupils progress through the key stages

### **With regard to additional needs funding, to:**

- increase total spend on the additional needs factors (socio-economic deprivation, low prior attainment, English as an additional language, and mobility) to recognise that some basic per-pupil funding is currently supporting pupils from disadvantaged backgrounds, and recognise disadvantage in a broader sense
- continue to have a substantial deprivation factor, in addition to the pupil premium, to ensure schools with pupils from a socio-economically disadvantaged background attract significant extra funding, and within this:
  - increase the amount of funding explicitly targeted towards deprivation

- include a greater weighting towards areas with high concentrations of just managing families who do not typically qualify for FSM deprivation funding, through the use of a significant area-level deprivation factor (using the Income Deprivation Affecting Children Index, IDACI). This will help to ensure that we are supporting all those whose background may create a barrier to their education, not only those with a history of free school meal (FSM) eligibility
- increase substantially the weighting of the low prior attainment factor, because we know that attainment data is one of the strongest indicators of how children are likely to do later, and we want to target funding to schools to help all pupils catch up
- continue to have an English as an additional language factor, increased in terms of total spend in comparison to the current system because the national funding formula will fund all eligible pupils consistently
- protect local authorities' spend on the current mobility factor, while we develop a more sophisticated mobility indicator for use in the national funding formula from 2019-20 onwards, as discussed in our response to the stage one consultation

**With regard to school-led funding, to:**

- continue to provide every school with a lump sum, but at a lower level than the current national average so that we can direct more funding to the pupil-led factors
- provide small and remote schools with additional funding, over and above the lump sum, to recognise that they can face greater challenges in finding efficiencies and partnering with other schools
- proceed with our proposal to fund rates and premises factors (PFI; split sites; exceptional circumstances) in 2018-19 on the basis of historic spend, but with an adjustment to the PFI factor so that it is automatically uprated in line with inflation, using the RPIX measure<sup>7</sup>
- proceed with our proposal to fund the growth factor on an historic basis for 2018-19, and seek views through this consultation on what we think would be a better approach for the long term, using lagged growth data

**With regard to geographic funding, to:**

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<sup>7</sup> For more information, please see Office for National Statistics, ['Inflation and price indices'](#), November 2016

- recognise the higher salary costs faced by some schools, especially in London, by making an area cost adjustment. We will use the hybrid area cost adjustment methodology, which takes into account variation in both the general and teaching labour markets

**To ensure sufficient stability, we also propose:**

- to build in an overall ‘funding floor’, so that no school will face a reduction of more than 3% per-pupil overall as a result of this formula

***And during transition:***

- The minimum funding guarantee of minus 1.5% per-pupil in any year will continue, providing additional stability for schools
- schools will receive gains of up to 3% per-pupil in 2018-19, and then up to a further 2.5% in 2019-20. The real terms protection on the national core schools budget means we can invest resources – over and above flat cash per-pupil – in 2018-19 and 2019-20 to increase the rate at which we can allocate gains. We are able to allocate around £200 million in each year above flat cash per-pupil, allowing us to combine significant protections for those facing reductions and more rapid increases for those set to gain.

1.21 Figure 3 shows the proposed weightings (the percentage of the total budget spent on each factor) and total spend through each factor in the national funding formula. Also included are the individual factor values (i.e. amount per-pupil or school) that follow from the proposed weightings. The factor weightings and total spend can be compared to the equivalent figures for 2016-17 in figure 2<sup>8</sup>. Please note that, as discussed earlier, the proposed national funding formula unit values cannot be compared directly to average local authority formula factor values in 2016-17.

1.22 In figure 3, the amount spent on the area cost adjustment overall is shown in italics, because it is already included in the total spend for each factor. Factor values are shown before the area cost adjustment has been applied, so these are the unit values that would be used for schools with an area cost adjustment of 1.00.

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<sup>8</sup> The quantum in figure 3 differs from the quantum in figure 2. The differences are that figure 2 excludes funding for the MFG, sixth form factor and fringe factor but these amounts are included in the NFF quantum; figure 2 includes one-off funding which is not included in figure 3; figure 3 includes the high needs transfer in and the pupil premium plus transfer out; and also excludes additional funding that is provided through the funding floor

<b>Figure 3: The factor values and weighting we propose for the national funding formula</b>								
Factor		Proposed weighting for the national funding formula	Total we propose to spend through factor in the formula. NB These include area cost adjustment funding		Per-pupil/school funding under the proposed national funding formula. NB These exclude area cost adjustment funding.			
					Primary		Secondary	
Basic per-pupil funding (£ per pupil)		72.5%	£23,255m		KS1	£2,712	KS3	£3,797
					KS2		KS4	£4,312
Deprivation (£ per pupil)	Ever6 FSM	9.3%	£1,746m	£2,985m	£540		£785	
	Current FSM				£980		£1,225	
	IDACI A				£575		£810	
	IDACI B		£1,239m		£420		£600	
	IDACI C				£360		£515	
	IDACI D				£360		£515	
	IDACI E				£240		£390	
IDACI F	£200		£290					
Low prior attainment (£ per pupil)		7.5%	£2,394m		£1,050		£1,550	
English as an additional language (£ per pupil)		1.2%	£388m		£515		£1,385	
Mobility (allocated to LAs on basis of historic spend)		0.1%	£23m		N/A			
Lump sum (£ per school)		7.1%	£2,263m		£110,000		£110,000	
Sparsity (£ per school)		0.08%	£27m		£0 - £25,000		£0 - £65,000	
Premises (allocated to LAs on basis of historic spend)	Rates	1.8%	£569m	N/A				
	PFI							
	Split sites							
	Exceptional circumstances							
<i>Area cost adjustment</i>			£792m		<i>A multiplier that is applied to certain factors. Shown in italics because it is already included in the total spend through each factor.</i>			
Explicit spend on growth (allocated to LAs on basis of historic spend)		0.5%	£167m		N/A			
<b>Total</b>			£32,071m					

Figure 3: This table shows the weightings we propose for each factor in the national funding formula; the total spent through each factor in our published illustrative national funding formula allocations; and the per-pupil or per-school amounts that follow from the proposed weightings for each factor<sup>9</sup>.

<sup>9</sup> The NFF premises factor spend is greater than local authority spend in 2016-17 because the PFI factor

## Chapter 2: Detailed formula design proposals

2.1 This chapter explains our schools national funding formula design proposals in detail. Consultation questions can be found at the end of the chapter, rather than throughout, because it is important to consider the factors in relation to each other.

### Maintaining the overall primary to secondary funding ratio in line with the current national average

2.2 A key consideration in designing the national funding formula for schools is the ratio of funding between the primary and secondary phases. The balance in funding between the primary and secondary phases has been relatively stable since the reforms to local funding formulae in 2013-14, with the secondary phase consistently funded higher than the primary phase overall. In 2016-17, no local authority chose to fund primary higher than secondary. Although there are still some significant individual differences from the national average, the average has remained steadily around 1:1.29 (i.e. secondary funding being on average 29% higher overall than primary funding) and some areas have moved their ratio towards the national average over this period.

2.3 The Institute for Fiscal Studies has noted that the primary to secondary ratio is one of the key decisions that would determine the impact of the national funding formula<sup>10</sup>. The range of local decisions made about this ratio play an important role in the variability of funding currently received by similar schools. By setting a national primary to secondary ratio, we bring primary and secondary schools across the country onto a more equal footing.

2.4 Our view is that the present evidence base does not provide a compelling reason for a significant shift in the overall balance of school funding either towards primary or secondary. A recent review of the existing evidence on the impact of investment across phases (Gibbons and McNally, 2013) found that the impact of additional spend is similar across primary and secondary. The review concluded that early investment needs to be backed up by later investment otherwise the impact fades,

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has been updated in line with RPIX.

The total in figure 3 is different to the total that can be calculated from figure 2 due to adjustments made to the overall quantum for NFF illustrative funding calculations (including a transfer from the high needs block; and the inclusion of academies' premises factor funding), and as figure 2 does not show local authority spend through all allowable factors in 2016-17 (only those factors included in the national funding formula).

<sup>10</sup> Belfield C and Sibieta L, Institute for Fiscal Studies, '[Long-run trends in school spending in England](#)', April 2016



and that there is no strong case to make significant change to the current balance between the phases<sup>11</sup>.

2.5 We are therefore proposing that the national funding formula should maintain the current national average distribution of funding between the primary and secondary phases. This means that the formula would allocate 29% more funding overall to secondary compared to primary, to reflect the higher costs in the secondary phase. That represents a national ratio across the whole formula. It does not mean that every secondary pupil attracts 29% more funding than every primary pupil – the exact amount each pupil attracts to their school will depend on their characteristics.

2.6 Local authorities will continue to be responsible for determining the local funding ratio in 2018-19. We would encourage local authorities to move their formulae towards the national funding formula in preparation for the move to a hard national funding formula from 2019-20.

## **Maximising the proportion of funding allocated through pupil-led factors, and reducing spend through school-led factors**

2.7 Another important decision in designing the national funding formula is the balance between pupil-led factors (the basic per-pupil funding factor and the additional needs factors) and school-led factors (funding that contributes to fixed costs or specific costs related to the school's circumstances). In the current system, local authorities are required to allocate at least 80% of their funding through pupil-led factors. In 2016-17 the range was 82% to 96%, and 90% on average<sup>12</sup>. We propose to allocate 91% of total funding through per-pupil factors in the national funding formula.

2.8 The key factors for determining the split between pupil-led and school-led spending are the premises factors (rates, split sites, private finance initiative (PFI) and exceptional circumstances) and the lump sum. In the interests of securing a funding system where funding is matched transparently to need, and relates to the characteristics of the pupils in that school, we intend to reduce spending on school-led factors where possible, in order to maximise spending on pupil-led factors. As we set out in the first stage of the consultation, we intend to maintain funding for premises factors in the first year of the national funding formula on the basis of historic spend<sup>13</sup>. It is important that local authorities know that funding for such costs

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<sup>11</sup> Gibbons, S and McNally, S, '[The effect of resources across school phases: a summary of the recent evidence](#)', 2013

<sup>12</sup> With one exception: the Isles of Scilly, which has a single school, allocated 65% to pupil-led factors

<sup>13</sup> Except for PFI spending, where we will uplift allocations in 2017-18 in line with RPI(X). Our approach to the historic spend factors is explained more fully in the implementation chapter

will remain stable, while we continue to consider options for allocation in the context of a hard national funding formula.

2.9 While we are protecting spend on the premises factors in cash terms, we do intend to reduce the total spend on lump sums. In 2016-17, local authorities spent £2.6 billion on lump sums. But some schools received over three times as much lump sum funding as similar schools elsewhere<sup>14</sup>. Our proposals for the lump sum factor are discussed in more detail later in this chapter. In our proposed formula, funding freed up from the lump sum factor has been re-invested into pupil-led funding.

## **Retaining the significant majority of funding for a basic amount for every pupil, as in the current system, while reflecting that some of this funding is specifically supporting pupils with additional needs**

2.10 The national funding formula must include a basic amount that every pupil attracts to their school. As is the case in the current funding system, we believe this should be the largest formula factor. The rates of basic per-pupil funding that local authorities currently set are determined in part by their allocation from central government, and by local decisions about the right balance between pupil- and school-led formula factors. The highest basic primary per-pupil funding rate is more than double the lowest, ranging from £2,345 to £4,993<sup>15</sup>. This wide range in basic per-pupil funding received by schools is an acute reflection of the unfairness in the current distribution of funding.

2.11 Under the national funding formula, we are proposing to spend slightly less on the basic per-pupil funding factor compared to current local authority spend, setting it at just under three quarters of the total schools block (73% or £23.3 billion<sup>16</sup>). We are making a corresponding change to increase the amount spent through the additional needs factors. This is to reflect that some spend through local authority basic per-pupil funding factors is actually intended for pupils with additional needs. For example, the local authorities that set the highest 10 basic per-pupil funding rates at secondary are all in the top third in terms of the proportion of secondary

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<sup>14</sup> In 2016-17, schools received lump sums ranging from £48,480 to the maximum allowable lump sum of £175,000

<sup>15</sup> The highest basic per-pupil funding rates are seen in Inner London schools. It should be noted that the quoted rates include implicit area cost adjustment uplifts (because historic approaches to the area cost adjustment are baked into current funding allocations) and that they include some funding which we understand to be intended for socio-economic deprivation (but is allocated simply through the basic per pupil funding rate, because the vast majority of pupils are from a disadvantaged background anyway)

<sup>16</sup> In 2016-17, local authorities allocated 77% of the schools budget (£24.4 billion) to the basic per-pupil funding factor

pupils in their area who are eligible for free school meals. In these areas, basic per-pupil funding has much the same effect as funding through the deprivation factor, as a consistently high proportion of pupils are from disadvantaged backgrounds.

## Continuing to increase the basic rate as pupils progress through the key stages

2.12 In the first stage consultation, we proposed that we should continue to differentiate basic per-pupil funding between key stages. Most respondents felt there should be separate basic per-pupil funding rates for primary, key stage 3 and key stage 4. Reasons cited included the increase in complexity of the curriculum from primary to key stage 3 and then key stage 4; the need to employ more subject experts and have specialist teaching facilities; and the additional cost of examination fees at key stage 4. This is evidenced in the decisions made by local authorities in their local formulae: in 2016-17, no local authority funded primary pupils higher than secondary; three quarters increased their per-pupil funding with each key stage, and all but one of the rest used a flat rate for all secondary pupils.

2.13 In the national funding formula, we are proposing to maintain stepped rates between primary, key stage 3 and key stage 4, to reflect the higher costs as pupils progress. We have explored whether to differentiate funding rates between key stages 1 and 2, and have taken into account views expressed during the first stage of consultation. At this point, we do not see a strong case to differentiate between these key stages, and instead prefer the simplicity and predictability of a single rate across primary. We intend to keep this under review and will retain the ability to differentiate in future if there is evidence to support such a change.

2.14 Our proposed basic per-pupil factor weighting of 73% means that – based on the 2016-17 pupil numbers – we have modelled basic per-pupil unit values as per figure 4.

Figure 4: Unit values for the basic per-pupil factor						
Factor	Proposed weighting	Total spend	Per-pupil funding			
			Primary		Secondary	
Basic per-pupil funding	72.5%	£23,255m	KS1	£2,712	KS3	£3,797
			KS2		KS4	£4,312

Figure 4: This table shows the unit values for the basic per-pupil factor; the proposed weighting for this factor; and total spend through this factor. We are proposing to spend the majority of funding through this factor.

- 2.15 We have set the individual per-pupil rates with reference to the national averages, although it is important to note that the national funding formula basic per-pupil funding rates do not include the area cost adjustment, so appear lower than the average 2016-17 spend reported by local authorities.
- 2.16 In the current system, local authorities can choose to include a 'reception uplift' adjustment in their local funding formula, as a way of capturing additional pupils who join a school after the October census. This adjustment adds complexity to the funding system, while having a very small impact on schools' budgets. We do not think it necessary to include a reception uplift adjustment once we move to a hard national funding formula. In 2018-19, when local authorities are determining funding through local formulae, they will be able to continue using the reception uplift if they choose.
- 2.17 When calculating the baselines against which we protect schools' budgets when we move to the national funding formula allocations, we have removed reception uplift pupils from schools' pupil counts (where the reception uplift has been applied), but left any funding resulting from it in the schools' funding baselines. This means that, where necessary, schools will be protected by the minimum funding guarantee as the reception uplift is phased out.

## **Increasing total spend on the additional needs factors, and using broad measures of educational disadvantage, to reach more pupils who are likely to need extra support**

- 2.18 The 4 additional needs factors used by local authorities in their formulae are deprivation, low prior attainment, English as an additional language and mobility. As discussed later in this chapter, we will be allocating funding for mobility on an historic basis in 2018-19, pending development of a more sophisticated indicator; so we have excluded it from the following discussion.
- 2.19 Evidence tells us that if a pupil is eligible for one of these factors, they are highly likely to face barriers to their education which can impact on their attainment at school, access to university, an apprenticeship or other advanced study, and to their chosen career<sup>17</sup>. Investment in this area is vital to promote social mobility, and to support those who are just about managing as well as those from the most deprived backgrounds. Schools told us in their response to our first stage consultation that they find these additional needs factors to be the most suitable proxies for pupils who need extra support and resources. This view is reflected in local authority

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<sup>17</sup> Social Mobility Commission, '[Non-graduate pathways in the UK's labour market](#)', May 2016; '[State of the nation 2016: social mobility in Great Britain](#)', November 2016

formulae, with £4.1 billion, or 13% of their total budgets, allocated to the additional needs factors in 2016-17<sup>18</sup>.

2.20 We understand that this £4.1 billion local authority spend is not the only funding that is intended for pupils with additional needs. As discussed earlier, in areas of highest deprivation, some local authorities have chosen to set high basic per-pupil funding, and relatively low deprivation funding, because all their schools typically have a high proportion of disadvantaged pupils<sup>19</sup>. Simply matching current spend explicitly targeted on additional needs to these factors in the national funding formula would significantly under-estimate current spend allocated on the basis of educational disadvantage.

2.21 We want to support schools as they continue to work to break the link between these factors and attainment, and we think significant investment in the additional needs factors is an important part of this. We are therefore proposing to raise the profile and overall weighting of the additional needs factors, increasing them to 18%, or £5.8 billion, of the total national schools block budget. Taking into account the pupil premium, funding for pupils with additional needs would account for over a fifth of the core schools budget. A pupil with low prior attainment and eligibility for free school meals would attract at least an additional £3,350 to their primary school, and £3,710 to their secondary school, on top of their basic per-pupil funding; and more if they also lived in an area of deprivation, or had English as an additional language<sup>20</sup>.

2.22 This Government is committed to supporting families who struggle to access the same opportunities as others, even if they are not in the lowest income households. We have thought carefully about how we can measure and balance the additional needs factors so that we maintain focus on the most disadvantaged while also identifying and targeting a broader range of pupils who are likely to need additional support. Our proposed formula therefore has a broader definition of disadvantage than is typical in the current system, as set out in detail in the section below.

## **Increasing funding allocated through deprivation factors, using both pupil- and area-level deprivation data to support**

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<sup>18</sup> Deprivation, low prior attainment and English as an additional language

<sup>19</sup> For example, despite having one of the highest proportions of deprived pupils, Hackney allocates a low proportion of its funding through the deprivation factor (3.9% compared to 7.6% nationally). Of all local authorities, it allocates the highest proportion of its budget to basic per-pupil funding (89% compared to 77%)

<sup>20</sup> This is on the basis of a pupil being eligible for the current FSM factor, Ever6 FSM factor and low prior attainment factor in the national funding formula, and the pupil premium<sup>21</sup> Education Endowment Foundation, '[Teaching & Learning Toolkit](#)'. These are average cost per pupil figures, calculated assuming implementation in a class of 25 pupils.

## all those whose background may create a barrier to education

2.23 Disadvantage has a significant impact on pupils' attainment. This impact is seen throughout the school system and compounded in areas of higher deprivation. Through the work of the Education Endowment Foundation there is increasing evidence of what works in raising the attainment of disadvantaged pupils. The Education Endowment Foundation assesses the impact of different interventions on attainment and considers their cost-effectiveness. The cost of interventions identified as being most effective ranges from around £80 (for example for improving feedback) to more than £1,200 (for example, for one-to-one tuition and early years intervention)<sup>21</sup>. With research highlighting that additional, effective spending on deprived pupils can help to improve their attainment, we are committed to having deprivation funding as a key part of the national funding formula.

2.24 We are proposing that the deprivation factor should be the biggest additional needs factor, accounting for £3.0 billion. This would be 9.3% of the national schools block budget and half of all funding distributed through the additional needs factors. We will also continue to provide the pupil premium – worth £2.5 billion this year – to schools on top of their national funding formula allocation.

2.25 In the first stage of consultation we proposed using both pupil- and area-level deprivation data in the national funding formula. There was strong support for this proposal, and the illustrative allocations we are publishing therefore include funding allocated on the basis of current free school meals (FSM) eligibility, Ever6 FSM eligibility, and the Income Deprivation Affecting Children Index (IDACI). Pupils will attract funding for each separate indicator they qualify for.

2.26 We are proposing that pupil-level and area-level deprivation data both play a significant role in the formula. Pupil-level deprivation data has been shown to predict children's later attainment more strongly, so we have weighted it at 5.4% of the national schools block budget compared to 3.9% for area-level data. This balance means that we maintain the focus on the most disadvantaged pupils, targeting funding to those pupils who have been eligible for free school meals in the last 6 years, with additional support if they face the double disadvantage of living in a deprived area. The use of area-level data gives us a broader measure of deprivation, targeting additional funding to pupils who might not be eligible for free school meals, but whose families are still struggling to get by.

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<sup>21</sup> Education Endowment Foundation, '[Teaching & Learning Toolkit](#)'. These are average cost per pupil figures, calculated assuming implementation in a class of 25 pupils.

2.27 Figure 5 shows the unit values we have used for the national funding formula, based on the factor weightings for pupil (5.4%) and area-level (3.9%) deprivation.

<b>Figure 5: Unit values for the NFF deprivation factor</b>						
<b>Factor</b>		<b>Proposed weighting</b>	<b>Total spend</b>		<b>Per-pupil funding</b>	
					<b>Primary</b>	<b>Secondary</b>
<b>Deprivation</b>	Ever6 FSM (pupils eligible for FSM at any point in the last 6 years, but not the most recent academic year)	5.4%	£1,746m	£2,985m	£540	£785
	Current FSM (includes an additional £440 on top of the Ever6 rate to reflect the cost of the meal)				£980	£1,225
	IDACI A (the highest deprivation band)	3.9%	£1,239m		£575	£810
	IDACI B				£420	£600
	IDACI C				£360	£515
	IDACI D				£360	£515
	IDACI E				£240	£390
	IDACI F				£200	£290

**Figure 5: This table shows the unit values for the deprivation factor at primary and secondary; the proposed weighting for the pupil-level and area-level elements; and total spend through this factor.**

2.28 The first deprivation indicator is history of FSM eligibility – Ever6 FSM. This uses the same data source as the pupil premium, capturing all children who have been eligible for FSM at any point in the previous 6 years. The link between family income and children’s attainment does not necessarily disappear once a child ceases to receive free school meals, and we want the national funding formula to reflect that. In the national funding formula, we have set the Ever6 FSM rate higher at secondary than at primary. This reflects our decision on the overall primary to secondary ratio, as well as typical local authority practice; it also acknowledges the balance of pupil premium rates, whereby primary pupils attract the higher rate of £1,320 compared to £935 at secondary.

2.29 The second indicator in the deprivation basket is current FSM eligibility, based on the number of pupils who were eligible for FSM at the previous year’s census. Schools have to meet the costs of providing a free meal to eligible children from their

core budget. The national funding formula should therefore recognise that FSM eligibility itself directly drives some costs. The factor value is calculated using the Universal Infant Free School Meals methodology, recognising the average annual cost of providing a meal (£440 per pupil), and is the same for primary and secondary. Pupils who are currently eligible for free school meals will attract this amount in addition to the Ever6 FSM unit value.

2.30 This third deprivation indicator is area-level, measured by IDACI. Area-level deprivation data has an important role to play in the national funding formula, recognising the double disadvantage that pupils can face when they grow up in a disadvantaged area and in a disadvantaged household. It also allows us to target additional support to children in families who face significant obstacles to accessing the same educational opportunities as their peers, but whose family income means they are not eligible for free school meals.

2.31 IDACI measures the level of deprivation in the area where a child lives, and matches each area to a band. We have thought carefully about how we treat the IDACI bands in a national funding formula. Local authorities can allocate different levels of funding for up to 6 bands; and they make very different decisions about the number of bands they use and how they weight them. Of the 122 local authorities that use IDACI in their formula, only 49 assign money to all 6 bands.

2.32 We recognise that IDACI raises some methodological challenges and we have made a significant change to our banding methodology to help address them. In the first stage consultation, respondents expressed concerns about IDACI data updates. As IDACI data is only updated on a five-year cycle, the 2015 update generated significant turbulence in budgets. In response, we reset the IDACI bands ahead of local authorities setting their budgets for 2017-18 so that they capture a similar proportion of pupils as they did before the 2015 update<sup>22</sup>. The IDACI scores for each area will now be constant for 5 years, making it a relatively steady way of identifying around 40% of pupils. This will include many of the just about managing families we want to support. We are conscious of the danger of turbulence in our national funding formula when IDACI data is next updated, expected in 2020. We will consider ways to smooth the introduction of new IDACI data, if necessary, in due course.

2.33 By using all 6 IDACI bands, we identify 44% of pupils in our schools. While the individual experiences of these pupils will vary widely, as a group, they are more likely to suffer the effects of deprivation to some extent. Allocating funding to all IDACI bands means that every pupil who lives in a deprived area will attract

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<sup>22</sup> Further explanation of this change and the updated bandings are found in annex 2 of the [operational guide for 2017-18](#).



additional funding to their school, whether or not they live in one of the 49 local authorities which choose to use all IDACI bands currently. Reflecting current local authority practice, we propose to apply different unit values within the bands, so pupils attract more funding if they live in a more deprived area.

## Increasing the funding distributed according to low prior attainment

2.34 Research has shown that a pupil’s prior attainment is the strongest predictor of their likely later attainment. High quality provision from age 2 has a lasting impact on children’s attainment and behaviour, and performance at key stage 2 is the strongest predictor of a child’s performance later on<sup>23</sup>. Prior attainment data is therefore an important tool for schools to identify pupils who are likely to need extra support. To reflect this in the formula, we propose to allocate 7.5% of the total national schools block budget to low prior attainment (£2.4 billion), compared to 4.3% in the current system.

2.35 Based on a factor weighting of 7.5%, the unit values we have modelled for the national funding formula are shown in figure 6 below.

Factor	Proposed weighting	Total spend	Per-pupil funding	
			Primary	Secondary
Low prior attainment (for pupils who didn’t reach the expected standard at the previous stage: EYFSP for primary schools and key stage 2 for secondary schools)	7.5%	£2,394m	£1,050	£1,550

Figure 6: This table shows the unit values for the low prior attainment factor at primary and secondary; the proposed weighting for this factor; and total spend through this factor.

<sup>23</sup> Taggart B and others, UCL Institute of Education, University College London, + Birkbeck, University of London, University of Oxford, ‘[Effective pre-school, primary and secondary education \(EPPSE 3-16+\)](#)’, 2008; Sutherland A, Ilie S, Vignoles A, RAND Europe and the University of Cambridge, ‘[Factors associated with achievement: key stages 2 and 4](#)’, November 2015

- 2.36 The low prior attainment factor directs additional funding to each pupil who did not reach the expected standard at the previous stage. It takes into account every pupil in the school, and eligible pupils continue to attract this additional funding for as long as they remain in the primary or secondary phase. Importantly, as well as helping schools to support all pupils who need to catch up with their peers, this factor directs funding to schools likely to be supporting pupils with special educational needs in mainstream provision.
- 2.37 In the first stage of the consultation we noted the interaction between the low prior attainment factor for primary schools and ongoing consideration of primary assessment policy. In October 2016, the Secretary of State confirmed that the Early Years Foundation Stage Profile (EYFSP) will remain in place at least until the 2017/18 academic year, which means that EYFSP will continue to form the basis of the primary low prior attainment factor for 2018-19 and 2019-20. The government will be consulting on primary assessment early in 2017 and we will keep the primary low prior attainment factor under review as proposals develop.
- 2.38 Our decision to invest more in the secondary low prior attainment factor is driven by our objective to better match funding to need, led by available evidence, and not by the change to secondary assessment. The new key stage 2 tests, introduced in summer 2016, are deliberately more challenging than the previous tests and, as expected, have resulted in more pupils being identified as having low prior attainment<sup>24</sup>. We expect that this is largely due to an increase in our expectation of the standard, rather than because the pupils sitting these tests have achieved less than previous cohorts.
- 2.39 This recent change to the key stage 2 assessment has required us make a technical adjustment to the secondary low prior attainment factor, so that the new year 7 cohort does not have a disproportionate influence on the distribution of low prior attainment funding. This technical change is described in further detail in the [operational guide for 2017-18](#). In 2018-19 we would expect to apply the technical change again for the new cohort.

## **Changes to secondary low prior attainment funding in the longer-term**

- 2.40 In the longer-term, we think we could make a further change to the secondary low prior attainment factor that might improve our targeting of funding to need. Currently, low prior attainment funding is the same for all pupils who did not reach the expected standard, whether they narrowly missed the standard or were in the lowest few per cent of their cohort.

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<sup>24</sup> In the funding system, a pupil is identified as having low prior attainment if they did not reach the expected standard in any one of reading, writing or maths

2.41 With the new key stage 2 tests, it would be possible to ‘tier’ the secondary low prior attainment factor, differentiating funding by likely level of need. With a tiered low prior attainment factor, we could continue to target additional funding at all pupils who do not reach the standard, while providing a higher unit value to pupils in, for example, the lowest 10 or 20%. Such an approach might better target funding to the schools with the highest level of need, and would make the factor an even more effective proxy for the likely distribution of pupils with special educational needs. We would want to work closely with the sector in developing any tiered secondary low prior attainment factor, and would introduce any change from 2019-20 at the earliest after further consultation.

## **Uplifting current spend on English as an additional language and targeting funding to eligible pupils for three years after they join the school system**

2.42 The third additional needs factor in the national funding formula targets funding to pupils who speak English as an additional language (defined on the census as pupils whose first language is other than English). Pupils will attract extra funding to their school if they meet this criterion, and have entered the state education system during the last three years (known as EAL3).

2.43 Along with the deprivation and low prior attainment factors, the EAL factor is also weighted more heavily in our proposals than current local authority spend. Our proposed EAL factor is 1.2% of the total national schools block budget, compared to 0.9% in the current system. Not all local authorities use the EAL factor at both phases, and not all fund EAL pupils for three years (they can choose to use one, two or three years). We want to extend the factor to cover all EAL pupils across the country on the same basis, without reducing the average per-pupil spend in the current system.

2.44 In October 2016, the school census included a new question, asking for the level of English language proficiency of each pupil recorded as EAL. Further information about this additional census question is found at the [guidance for the school census 2016 to 2017](#). The question will be included annually in the spring census from 2017. This will allow us to better identify pupils who are in the early stages of English proficiency, and who therefore need more support than those who are bilingual. We will keep this data under review to assess its appropriateness for inclusion in the funding system in the future, although we would not plan to do so until 2019-20 at the earliest, and following further consultation.

2.45 Three-quarters of the proposed £388 million allocated to the EAL factor would be allocated to primary schools, reflecting the much high number of EAL pupils in the primary phase. We propose to set the unit value higher for secondary pupils, as

evidence indicates that per-pupil costs are much higher in secondary, as additional language acquisition becomes increasingly complex and intensive as children get older.

2.46 Current local authority practice reflects this pattern – overall spend through the EAL factor is higher in the primary phase, but average per-pupil funding is higher for secondary pupils. The factor values we are proposing for the EAL factor are shown in figure 7.

<b>Figure 7: Unit values for the English as an additional language factor</b>				
<b>Factor</b>	<b>Proposed weighting</b>	<b>Total spend</b>	<b>Per-pupil funding</b>	
			<b>Primary</b>	<b>Secondary</b>
<b>English as an additional language (pupils recorded on the School Census whose first language is recorded as any other than English, and who have entered the English state education system in the last three years)</b>	1.2%	£388m	£515	£1,385

Figure 7: This table shows the unit values for the English as an additional language factor at primary and secondary; the proposed weighting for this factor; and total spend through this factor.

## Protecting spend to support schools with the costs of pupils joining the school during the academic year through a new mobility factor

2.47 Following our initial proposal to exclude the mobility factor from the national funding formula, we have listened to concerns raised during the consultation about the challenges faced by schools when pupils join during the academic year, especially when the levels of pupil mobility are high. We recognise that there are costs associated with pupils who join their school midway through the academic year, and that these can be significant for schools with a high proportion of mobile pupils. We have therefore concluded that our formula will be strengthened by the addition of a mobility factor.

2.48 An important issue in developing a mobility indicator for use in the national funding formula is that the underpinning data that we currently hold is not sufficiently

robust for local authorities that do not currently use this as a factor. We are looking at ways in which this could be addressed for the longer-term, but in the interim, we will allocate funding to local authorities on an historic basis, reflecting the amount of money they put through the mobility factor in the previous year.

2.49 We want to work with stakeholders to explore options for an improved mobility factor from 2019-20. We are not convinced – and neither are many who responded to the first consultation – that the current mobility factor is designed in a way that targets funding most effectively to the pupils and schools that need it most. In its current form, the mobility factor targets funding at pupils who join the school in any month other than August or September (or January for reception pupils), and continues for 3 years. The factor applies to schools where the proportion of mobile pupils is at least 10% of the total cohort.

2.50 We would like to hear views about the costs associated with mobile pupils, both in terms of administration and the additional needs that these pupils might present. This will help determine our approach to the mobility factor in future, so that it is more effective in matching funding to need.

<b>Figure 8: Funding through the mobility factor</b>		
<b>Factor</b>	<b>Proposed weighting</b>	<b>Total spend</b>
<b>Mobility (allocated to LAs on basis of historic spend)</b>	0.1%	£23m

**Figure 8: This table shows the proposed weighting for mobility factor and total spend through this factor. We are proposing to allocate funding to local authorities on an historic basis, reflecting the amount of money they put through the mobility factor in the previous year.**

## **Lump sum factor: a sum for every school, that is lower than the current average so that more funding is pupil-led**

2.51 We consulted previously on whether the funding formula should include a lump sum. This factor is intended to contribute to the costs that do not vary with pupil numbers, and to give schools (especially small schools) certainty that they will receive a certain amount each year in addition to their pupil-led funding. We received strong support for this proposal.

2.52 A number of responses cautioned that the lump sum should not be so large that it removes the incentive for schools to seek to grow, form partnerships and find efficiencies. Where we set the lump sum value, therefore, must balance the need to

recognise the fixed costs of running a school and to provide an element of financial certainty, with a broad objective to reduce reliance on funding that is not pupil-led.

2.53 While there is general agreement that schools face fixed costs, the evidence available suggests there is no agreement on the scale of those costs, or that they are the same for all schools. In the evidence put forward through the consultation process so far we have found no consensus about the amount of lump sum funding schools require. We have also found no clear trend to explain the wide variation in the lump sum values local authorities set – for example, the lump sums in local authorities that also use the sparsity factor still vary from £59,500 to £175,000, and we have found no significant relationship between the lump sum and the average school size in an area. We consider that lump sum funding should therefore be considered as a contribution to the fixed costs that schools are likely to face, rather than a sum that is specifically matched to a set of precise costs.

2.54 We have considered whether the lump sum should be differentiated by phase. In the current system the majority of local authorities set equal lump sums for primary and secondary schools, and we are proposing to take the same approach in the national funding formula. The lump sum is more significant for primary schools, which are typically smaller and more reliant on an element of funding that is not driven by pupil numbers. A single rate will also bring greater simplicity for middle and all-through schools.

2.55 We are proposing to set the national funding formula lump sum at £110,000, lower than the current average set by local authorities, particularly in relation to secondary schools. The amount we are proposing reflects our objective to encourage schools to share services and functions where possible so that resources are freed up for teaching and leadership, and to make more funding available to invest in pupil-led factors. But we recognise that schools that have low pupil numbers because they are in remote areas will find it more difficult to share services in this way, and they will therefore receive additional support through the sparsity factor, explained below.

2.56 Changes to the lump sum will continue to be protected by the minimum funding guarantee (MFG) as they are now. The MFG takes into account any difference in lump sum funding between years, so schools in areas with a high lump sum will be protected. In addition, schools that might otherwise lose significantly as a result of the lump sum will – as with other factors – benefit from protection through the overall 3% funding floor in the formula. The current arrangements for lump sum payments to amalgamating schools will remain in place in 2018-19.

<b>Figure 9: Lump sum unit values</b>			
<b>Factor</b>	<b>Proposed weighting</b>	<b>Total spend</b>	<b>Per-school funding</b>
Lump sum	7.1%	£2,263m	£110,000

**Figure 9: This table shows the unit value for the lump sum; the proposed weighting; and total spend through this factor.**

## **Our approach to sparsity funding in the national funding formula**

2.57 The majority of respondents agreed with our proposal to include a sparsity factor in the formula, to target extra funding to schools that are both small and remote. These schools are especially important to their local communities and ensure children do not have to travel long distances to school. Their location, however, means they can find it more difficult to achieve savings by working with other schools to share services and functions. While we encourage all schools to continue seeking ways to spend more efficiently and effectively, we recognise that small and remote schools face particular challenges.

2.58 The amount of sparsity funding allocated to schools that have similar circumstances varies significantly in the current system. Of those schools that could qualify for sparsity funding, 676 receive no extra funding at all, because sparsity has not been included in the local formula. Of those that choose to use the sparsity factor, the extra amounts they receive range from £5,000 to the maximum £100,000.

2.59 In 2018-19 we will use the current sparsity criteria to calculate funding in the national funding formula, but local authorities will continue to be able to adjust the criteria locally as they do now. The detailed calculations that sit behind the sparsity factor are explained in [the schools block technical note](#). In summary, we first look at the average distance, as the crow flies, that pupils would need to travel to the nearest alternative school, to judge how remote a school is. We then look at the average year group size to see if it is sufficiently small. If the school meets both the distance and size criteria it qualifies for sparsity funding.

2.60 Local authorities are currently able to choose to apply sparsity funding either as a fixed sum or with a taper, where the amount of funding is lower for schools with more pupils. We are proposing to use a taper in the national funding formula to avoid cliff edges, where small pupil number changes would otherwise result in schools moving from significant additional funding to no sparsity funding. But we also propose building in a floor to the sparsity factor, so that the smallest remote schools (i.e. those whose average year group size is less than 50% of the year group

threshold for that phase) receive the full sparsity sum. Sparsity funding for schools above this floor will be tapered as the average year group size increases. Figure 10 shows how the proportion of the sparsity sum schools receive will vary by average year group size.

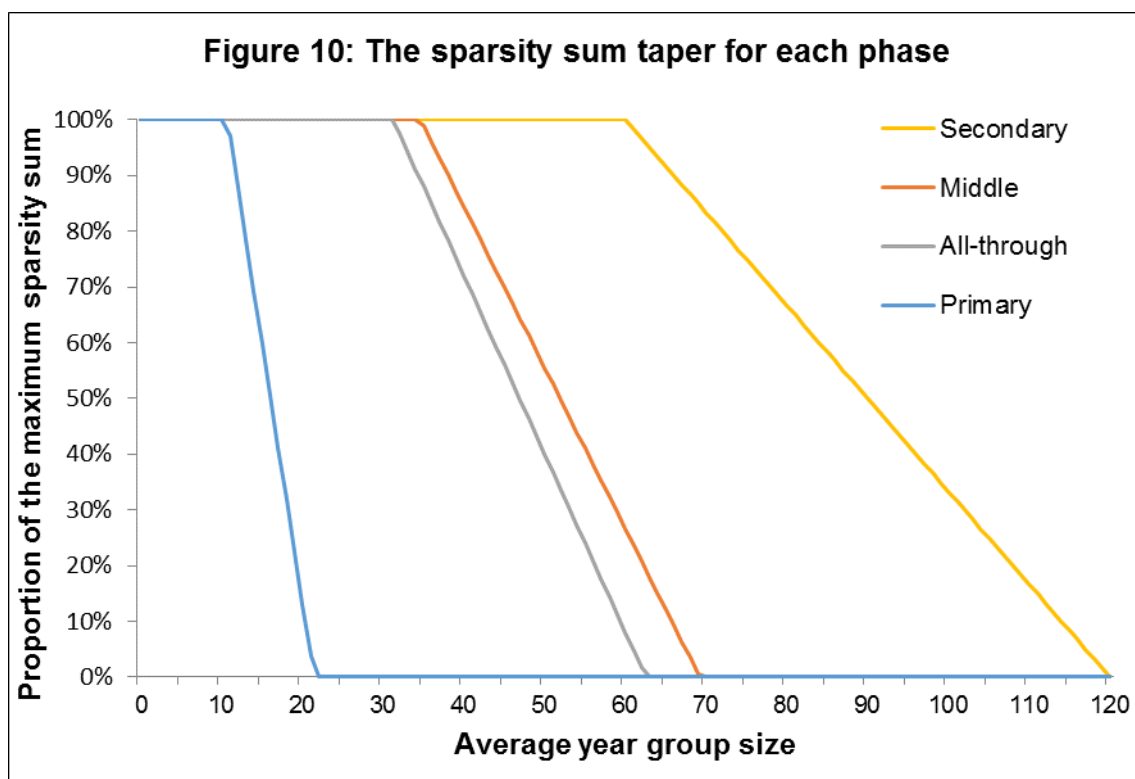


Figure 10: This graph shows the proportion of the sparsity sum a school will receive, by school type.

2.61 We have set the level of sparsity funding in the national funding formula in conjunction with our proposal to reduce the lump sum compared to the current national average. This means that, overall, while we reduce reliance on funding that is not pupil-led and encourage efficiency, we continue to target significant additional resources to small schools in remote areas. We are proposing that primary schools qualifying for sparsity funding would receive up to £25,000 and secondary schools (as well as middle and all-through schools) up to £65,000. We are allocating more funding overall to sparsity (0.08% of the total national schools block, compared to 0.05% currently), so that we can reach all qualifying schools. As they can now, in 2018-19, local authorities will be able to apply to include an exceptional factor for very small sparse secondary schools. We are not proposing to continue that arrangement in the national funding formula.



<b>Figure 11: Funding through the sparsity factor</b>				
<b>Factor</b>	<b>Proposed weighting</b>	<b>Total spend</b>	<b>Per-school funding</b>	
			<b>Primary</b>	<b>Secondary</b>
<b>Sparsity</b>	0.08%	£27m	£0 - £25,000	£0 - £65,000

**Figure 11: This table shows the per school sparsity funding for primary and secondary; the proposed weighting; and total spend through this factor. Amounts are tapered depending on size, with the full sum allocated to schools whose average year group is smaller than half the maximum size for a sparse school.<sup>25</sup>**

## Funding for premises-related factors

2.62 In the first stage of the consultation we proposed to retain the group of factors that relate to specific premises costs: rates, split sites, private finance initiative (PFI) and exceptional circumstances.

2.63 We will allocate funding for the premises factors to local authorities on the basis of historic spend for the first year of the formula in 2018-19. We think this is appropriate in the short term as the distribution of these costs is unlikely to change significantly year-on-year. We will consider and consult further on how these factors should be funded when we move to a hard formula from 2019-20.

2.64 We have made one modification to our initial proposals, which is to uprate funding for PFI in line with inflation, following a number of comments in response to the first stage consultation that PFI contracts are often index-linked. We will up-rate allocations annually using RPI[X]<sup>26</sup>.

2.65 In the published exemplifications, we have used data on local authority spend through these factors in 2016-17. Our intention is to use 2017-18 data for 2018-19 allocations. We would not expect to see significant changes to historical patterns of spend. Where significant changes do occur, we will liaise with local authorities to understand them to ensure they are appropriate to use as baselines for the national funding formula, or whether the 2016-17 position provides a better starting point.

2.66 The total spent on premises factors in 2016-17 was £567 million. Before we calculate schools' formula funding, we set this money aside, including a further £2 million to uprate PFI in line with RPI[X]. It is then allocated to local authorities for

<sup>25</sup> Amounts are tapered depending on size, with the full sum allocated to schools whose average year group is smaller than half the maximum size for a sparse school. The maximum average year group sizes are set out in the [schools revenue funding operational guidance](#).

<sup>26</sup> RPIX is the retail price index all items excluding mortgage interest. For more information, please see [www.ons.gov.uk/economy/inflationandpriceindices/timeseries/chmk/mm23](http://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/chmk/mm23)

them to distribute to their schools. For the purpose of illustrating the national funding formula impact on individual schools, we assume that each school receives the same funding for premises costs as they did in 2016-17 (with PFI allocations uprated by RPIX). In practice, local authorities will continue to determine the funding that schools receive for premises factors locally in 2018-19.

<b>Figure 12: Funding through the premises factors</b>			
<b>Factor</b>		<b>Proposed weighting</b>	<b>Total spend</b>
<b>Premises (allocated to LAs on basis of historic spend)</b>	<b>Rates</b>	1.8%	£569m
	<b>PFI</b>		
	<b>Split sites</b>		
	<b>Exceptional circumstances</b>		

**Figure 12: This table shows the proposed weighting of the premises factors and the total spend. We will allocate funding to local authorities on the basis of historic spend in the first year of the formula, and uprate funding through the PFI factor in line with inflation.**

## The growth factor

2.67 The national funding formula will include a growth factor, so that it is responsive to significant changes to pupil numbers that are not recognised by lagged funding. Small changes in pupil numbers from year to year will not typically create significant costs for schools, and we consider that the funding certainty provided by the use of lagged pupil numbers – particularly for those with falling rolls – is more beneficial than reflecting the precise number of pupils by seeking to adjust schools’ budgets in-year. But we recognise this will not be the case for schools where numbers grow substantially from year to year, and the national funding formula will recognise the need to ensure such schools can be funded fairly.

2.68 In 2018-19 we will allocate funding for growth to local authorities on the basis of historic spend in line with our approach to the premises and mobility factors. The way we calculate historic spend for growth, however, is slightly different to other premises factors. In addition to the explicit funds for growth and falling rolls that local authorities can top-slice from their dedicated schools grant (DSG), authorities often recognise growth by making adjustments to their schools’ data to reflect the number of pupils they expect to arrive at individual schools. We have added this ‘implicit’ growth to each authority’s explicit spend to determine their total growth funding in 2018-19. As with other premises factors, we set this funding aside before calculating

schools' budgets under the national funding formula, so that we can allocate it back to local authorities for them to distribute locally.

2.69 As we recognised in the first stage of the consultation, we know that historic spend on growth will not necessarily predict the amount of funding that will be needed for future growth accurately. We have explored whether school capacity survey (SCAP) forecasts or Office for National Statistics (ONS) population forecasts could provide a better basis for the growth factor (discussed further below). Our conclusion is that historic spend is still the best approach for 2018-19: it is a significant improvement on the current arrangements where growing local authorities receive no additional support; and we have found that the correlation between historic and future growth spend is reasonably strong. We know that a different approach is needed in the longer term, however, and the next section explores the different options.

<b>Figure 13: Funding through the growth factor</b>		
<b>Factor</b>	<b>Proposed weighting</b>	<b>Total spend</b>
<b>Growth (allocated to LAs on basis of historic spend)</b>	0.5%	£167m

**Figure 13:** This table shows the proposed weighting of the growth factor and the total spend, based on local authorities' explicit growth spending. In 2018-19, this factor will be allocated according to historic spend, and we will also take into account implicit growth spend (a further £109 million).

## School capacity survey (SCAP) data

2.70 SCAP data is based on local authority forecasts of growth and is currently used to allocate basic need capital funding. The methodology and data sources used vary by local authority.

2.71 SCAP forecasts will, of course, not always accurately reflect the level of growth that a local authority experiences. In some instances, local authorities have forecast significantly less growth than would be implied by their historic spend. For capital funding, forecasts are made three years ahead and can be adjusted to rectify over- and under-forecasts. Local authorities are expected to use capital funding over a longer time period and, in the event that more places are funded than are needed in the short term, they are expected to use the funding to support need in subsequent years.

2.72 We do not believe that using SCAP data to underpin revenue funding for growth is appropriate. It would mean that the amount of funding a local authority received

would depend directly on their forecasts, risking incentives to increase these. We also know that the forecasting approach varies, for example with respect to the size of planning areas. To deal with this would necessitate a complex system of claw-back that we do not think is desirable for schools.

## **ONS Population projections**

2.73 Some respondents suggested population projections from the Office for National Statistics (ONS) could be used to allocate growth. These projections are only available at an overall local authority level, however, and would not necessarily show specific areas of growth within a local authority area – particularly if these are offset by falling rolls elsewhere. Given the size of the largest local authorities, in particular, the ONS population projections are very likely to mask such local variation.

2.74 Further, ONS data is rounded to the nearest 100, which we do not think is sufficiently accurate given that a smaller number of additional pupils arriving at an individual school could still constitute grounds to provide growth funding. The ONS data is updated on a schedule set by the ONS, so there would also be a risk that the data we use in the national funding formula became out of date. We have therefore ruled out the use of ONS forecasts.

## **Our proposal for the longer term: a growth factor based on lagged pupil growth data**

2.75 We have also looked into the possibility of allocating growth funding based on historic levels of pupil growth (rather than on historic levels of spending on growth, as we proposed in the first stage of the consultation). The lagged growth method would count all pupil number increases in every school at a year-group level between the 2 previous years<sup>27</sup> and use this to calculate the total amount of pupil growth in each local authority area. The total amount of funding available nationally for growth would be allocated to local authorities on a per-pupil basis, based on the distribution of the lagged pupil growth across the country.

2.76 This approach would mean local authorities receive broadly the right amount of funding for the growth they experience, but with a one-year lag – i.e. a local authority would receive funding to reflect pupil growth for the year after that growth occurred. They would therefore need to manage the growth funding they receive from year-to-year, recognising that higher levels of growth in one year could create a pressure for which they would be recompensed the next year. We believe that this could provide

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<sup>27</sup> This could involve counting pupil growth only above a set threshold, to ensure we are counting only growth that is likely to result in an extra class, rather than lower levels of growth that are more likely to be accommodated in existing classes.

a better and more effective long-term solution, but recognise that this is a particularly complex area and we are keen to gather further information and suggestions for alternatives through this consultation.

## **Reflecting area-related costs in schools' allocations**

2.77 We received strong support for our proposal to include an area cost adjustment in the schools funding formula to reflect the variation in labour market costs. The majority of respondents thought we should use the 'hybrid' area cost adjustment methodology which takes into account both General Labour Market trends and the particular salary variations in the teaching workforce, and we have decided to follow that approach.

2.78 The area cost adjustment is applied to qualifying schools' allocations once the rest of the formula has been run. It depends on the local district area in which the school is located. Some local authorities – in 'London Fringe' areas – contain both districts that receive an area cost adjustment, and districts that do not, for example, Kent and Essex. Whether schools in these local authorities receive an uplift will depend on their specific location. Nationally, the area cost adjustment will provide for increases of up to 18%.

2.79 The area cost adjustment methodology for the schools national funding formula is explained in more detail in the [technical note](#).

## **To ensure stability, we propose building in an overall 'floor' at minus 3% per pupil, along with a minimum funding guarantee and a gains cap**

2.80 So far we have discussed our proposals for the balance between the different formula factors. The arrangements that we put in place to protect schools from unmanageable reductions in the long-term, as well as to ensure a stable transition towards the formula, are also important.

2.81 In developing proposals for moving towards the formula, we are considering both the situation of schools due to gain funding and of schools due to be funded at a lower level. We are determined that under-funded schools should move towards their formula allocations as quickly as possible, but equally that there is sufficient stability for schools undergoing reductions in funding so they are able to cope with the pace and scale of those reductions.

2.82 In the first stage consultation, we confirmed that the minimum funding guarantee will remain in place under the national funding formula. The minimum funding guarantee is a mechanism which ensures that year-on-year change in funding

happens at a manageable pace. Since 2011-12, it has ensured that no school's per-pupil funding can reduce by more than 1.5% in any given year. We are now confirming that, under the national funding formula, the minimum funding guarantee will continue to operate at minus 1.5% per pupil, in the same way it does currently.

2.83 The minimum funding guarantee will play an important role in managing the transition towards new funding levels. But we do not believe that on its own it would provide sufficient stability for schools. As the current distribution of funding to schools is so out-of-date, some schools could – without further protection – be facing funding reductions of over 10% per pupil. We are clear that there is significant scope for such schools to make efficiency savings, and we are committed to helping them to do so. However, reductions at these levels – combined with cost pressures on per-pupil funding – would require very substantial changes to schools' operating models, to a degree that could be unmanageable for school leaders and disruptive to pupils.

2.84 We therefore believe that a 'floor' should be included in the formula to limit the reduction to per-pupil funding that any school can incur as a result of this formula. We are proposing to set the floor at minus 3% per pupil, compared to the funding level currently received. This means that the greatest overall reduction any school will face as a result of this formula will be minus 3% per pupil, compared to their existing level of funding. The floor will operate under a similar methodology to the minimum funding guarantee<sup>28</sup>. Our exemplifications use 2016-17 funding levels, but our intention is to update this data to set the floor against 2017-18 school baselines.<sup>29</sup>

2.85 We recognise that the inclusion of a floor in the formula means some schools will continue to receive more funding than they would have done otherwise. In deciding to introduce a funding floor, we have considered carefully the right balance between the principles of fairness and stability for schools. Our view is that a minus 3% per pupil funding floor strikes such a balance. It will provide appropriate stability for schools undergoing funding reductions, who will lose no more than 3% of their per pupil funding overall as a result of this formula, while allowing other schools to gain as much as 5.5% in the first two years of the formula, meaning that – on the basis of the illustrative national funding formula allocations we have published using 2016-17

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<sup>28</sup> The minimum funding guarantee methodology is explained in '[School revenue funding 2017 to 2018: operational guide](#)'. Local authorities will continue to use this methodology to calculate the MFG in 2018-19. We have used a slightly different methodology to calculate the floor and the MFG in our formula illustrations. Any difference between the previous and new lump sum and sparsity sum will be included in the MFG and floor (as now), so schools currently receiving a higher lump sum or sparsity sum than under the proposed formula would be protected against significant change. The difference is that premises factors will be excluded from these calculations, because we are allocating them on the basis of historic spend, so there is no change to protect against. A worked example can be found in the technical note.

<sup>29</sup> Our full approach to updating baselines is set out in the implementation chapter.

data – 54% of schools would reach their formula allocation by 2019-20. Actual allocations will of course be updated in line with the latest pupil numbers and characteristics data. We believe that the inclusion of a floor in the national funding formula will ensure much greater fairness, while providing the stability that schools need.

2.86 It is important to be clear that schools' funding will still fluctuate in response to changes in pupil numbers, as is the case in the current funding system. The minimum funding guarantee and the funding floor are applied to the school's per-pupil funding level, not its overall funding allocation. This means that if pupil numbers in a school fall, so too will the school's overall funding allocation. But the floor will limit reductions that are a direct result of the introduction of the national funding formula and that are the result of changing pupil characteristics. And, through the transition, the minimum funding guarantee will still limit the extent of any year-on-year reduction to minus 1.5% per pupil.

## **Increasing funding for schools due to be funded at a higher level**

2.87 In the first stage consultation, we discussed the approach we intend to take to distributing gains to schools due to be funded at a higher level under the formula. In order to remain within the total budget available, and to ensure stability for schools facing reductions, there will be a maximum level of gain for individual schools each year.

2.88 In the current system, local authorities can choose how to manage gains. They can 'cap' gains, which means they pay out all gains up to the level that they can afford. If the cap is, for example, 2%, every school due to gain up to 2% receives their gains in full; but schools due to gain more than 2% have their year-on-year gain capped at 2%. They can also choose to 'scale' gains, so that schools receive a certain proportion of the gains they are due (e.g. a 50% scaling factor means schools receive 50% of their gains). Some choose to cap and scale gains, so that all schools receive a certain percentage, and any school due to gain more than that gets the same proportion of its remaining gains.

2.89 Our view (as set out in the stage one consultation) remains that a straight gains cap is the simplest and fairest approach. We have therefore built a gains cap into the national funding formula, set at 3% in 2018-19; and 2.5% in 2019-20. The level at which any gains caps are set beyond 2019-20 will be subject to decisions taken at the next spending review.

2.90 In the illustrations we have published, national funding formula year 1 illustrative allocations for schools due to gain funding include gains up of to 3%. If schools are due to gain above 3%, we would then expect them to receive up to a further 2.5% in

the second year if their formula gains exceed 3%. These are illustrative allocations, based on 2016-17 data, so actual allocations will depend on the latest pupil numbers and characteristics data. Local authorities will be responsible for determining funding locally in 2018-19, so schools' allocations in that year will also depend on decisions taken locally about the funding formula.

2.91 The level at which we have set the gains cap is determined by two factors: firstly, by where the minimum funding guarantee is set; and secondly, by the overall size of the available budget. The overall protection of the core schools budget in real terms over the spending review period allows us to spend more on getting funding increases to the schools that deserve them, whilst still ensuring a stable transition for those facing funding reductions as a result of the formula. We are able to spend around an additional £200 million above flat cash per pupil in 2018-19 and 2019-20, allowing us to combine significant protections for those facing reductions and more rapid increases for those set to gain.

## How the national funding formula is applied to work out a school's funding allocation

2.92 To work out a school's funding level under the national funding formula, we apply each of the formula factors to its pupils and circumstances. We then multiply the resulting funding allocation by the relevant area cost adjustment for the school's location. At this point, we compare the school's national funding formula per-pupil funding level to the per pupil funding level they receive currently. If it is more than 3% below their current per-pupil funding level, the school is protected from any reduction beyond 3% per pupil. This, along with the school-led funding, gives the school's total funding under the national funding formula in 'steady state' (assuming no change to pupil numbers or characteristics).

2.93 We then work out the school's per-pupil funding level in the first year of the national funding formula (again, assuming no change to pupil numbers or characteristics) and its school-led funding. To do so we take into account the level of both the gains cap and the minimum funding guarantee. A school due to gain will receive up to 3% per pupil in the first year; while a school due a funding reduction will be protected by the minimum funding guarantee, so will lose a maximum of 1.5% per pupil.

2.94 Figures 14 and 15 show simplified examples of the illustrative national funding formula calculation for hypothetical primary and secondary schools. These are complex calculations, and they are explained in much more detail in the [technical note](#). Schools can also look at a step-by-step explanation of the calculation for their school through COLLECT, and local authorities can view the data for all the schools in their area.



**Figure 14: a simplified example of the NFF funding calculation for a hypothetical primary school.** The school has 210 pupils and received £908,000 in core funding through the schools block in the baseline year. The area cost adjustment score is 1.06 as the school is located in an area of higher labour market cost.

**Step 1: calculate illustrative NFF pupil-led and NFF school-led funding**

<b>NFF factor</b>	<b>NFF factor value</b>	<b>No. of pupils</b>	<b>Total funding</b>
Basic per pupil funding	£2,712	210	£569,520
FSM	£980	40	£39,200
Ever6 FSM	£540	60	£32,400
IDACI A	£575	4	£2,300
IDACI B	£420	8	£3,360
IDACI C	£360	8	£2,880
IDACI D	£360	12	£4,320
IDACI E	£240	14	£3,360
IDACI F	£200	16	£3,200
Low prior attainment	£1,050	40	£42,000
EAL	£515	10	£5,150
<i>NFF pupil-led funding</i>			<i>£707,690</i>
Lump sum	£110,000		£110,000
Sparsity	Up to £25,000		£0
<i>NFF school-led funding</i>			<i>£110,000</i>

**Step 2: apply area cost adjustment**

Apply ACA to NFF pupil-led funding	£750,151
Apply ACA to NFF school-led funding	£116,600

**Step 3: calculate whether additional funding is needed through the funding floor**

School's original lump sum	£150,000
School's adjusted baseline funding in 2016-17 (per pupil)	£3,769
this includes protecting the reduction in the lump sum	
NFF pupil-led funding (per pupil)	£3,572
% change from the school's baseline	-5.2%
Additional funding so that school loses no more than -3% overall (per pupil): 97% * baseline - NFF amount	£83

**Step 4: calculate total illustrative NFF funding**

Add funding floor funding to NFF pupil-led funding (per pupil)	£3,656
Final % change in per pupil funding	-3.0%
Multiply by number of pupils to reach total NFF pupil-led funding	£767,658
Add NFF school-led funding to reach illustrative NFF funding	£884,258
School's total baseline: adjusted baseline per pupil plus NFF lump sum	£908,000
% change from the school's baseline	-2.6%

**Figure 15: a simplified example of the NFF funding calculation for a hypothetical secondary school.** The school has 750 pupils and received £3,485,000 in total core funding through the schools block in the baseline year. The area cost adjustment score is 1.00.

**Step 1: calculate illustrative funding through each NFF factor**

<b>NFF factor</b>	<b>NFF factor value</b>	<b>No. of pupils</b>	<b>Total funding</b>
Basic per pupil funding (KS3)	£3,797	450	£1,708,650
Basic per pupil funding (KS4)	£4,312	300	£1,293,600
FSM	£1,225	100	£122,500
Ever6 FSM	£785	140	£109,900
IDACI A	£810	20	£16,200
IDACI B	£600	20	£12,000
IDACI C	£515	30	£15,450
IDACI D	£515	30	£15,450
IDACI E	£390	40	£15,600
IDACI F	£290	50	£14,500
Low prior attainment	£1,550	90	£139,500
EAL	£1,385	40	£55,400
<i>NFF pupil-led funding</i>			<b>£3,518,750</b>
Lump sum	£110,000		£110,000
Sparsity	Up to £65,000		£0
<i>NFF school-led funding</i>			<b>£110,000</b>

**Step 2: apply area cost adjustment to reach NFF per pupil funding**

Apply ACA to NFF pupil-led funding	£3,518,750
Apply ACA to NFF school-led funding	£110,000

**Step 3: calculate whether additional funding is needed through the funding floor**

School's original lump sum	£110,000
School's adjusted baseline funding in 2016-17 (per pupil)	£4,500
NFF pupil-led funding (per pupil)	£4,692
% change from the school's baseline	4.3%
Additional funding so that school loses no more than -3% per pupil	£0

**Step 4: calculate total illustrative NFF funding**

Add funding floor funding to NFF pupil-led funding (per pupil)	£4,692
Final % change in per pupil funding	4.3%
Multiply by number of pupils to reach total NFF pupil-led funding	£3,518,750
Add NFF school-led funding to reach illustrative NFF funding	£3,628,750
School's baseline total funding	£3,485,000
% change from the school's baseline	4.1%

## National funding formula calculations for schools that are still filling up

2.95 The formula is based on schools having pupils in all year groups. We propose to take a tailored approach for new schools that are still filling up, to make sure they are funded fairly. These are maintained schools, free schools, or academies that the local authority has told us have opened within the last 7 years, and do not have pupils in all year groups yet. They receive high per-pupil funding in their first years because the lump sum inflates their per-pupil funding. As the school expands, their overall budget grows as well, but their per-pupil funding falls because the lump sum becomes a smaller part of their budget.

2.96 If we were to calculate illustrative end point national funding formula allocations for schools that are still filling up on the basis on which we have calculated them for all schools (i.e. using data about pupil numbers and funding baselines from 2016-17), we would not be funding these schools fairly. Instead we propose to take into account the fact that they have not yet filled all year groups. We propose to work out the baseline funding and eventual national funding formula allocations the school would receive if they had pupils in all year groups, and then apply the 3% funding floor. We need to confirm the data to support this calculation as part of the early phase of the consultation period. Data for these schools has therefore not been included in the national funding formula illustrative allocations – we will provide relevant schools with illustrations of their funding levels under the proposed national funding formula in January 2017, and publish these at the same time.

2.97 For new free schools that are not yet open but which are in the pipeline (and therefore set to open from September 2017 and beyond), we propose to apply the same principle of working out the baseline funding and national funding formula allocations the school would receive if they had pupils in all year groups, and then apply the 3% funding floor. The difference is that these schools do not yet have a baseline, so we would use the indicative rates set out in the free school financial template.

## Consultation questions

1. In designing our national funding formula, we have taken careful steps to balance the principles of fairness and stability. Do you think we have struck the right balance?
2. Do support our proposal to set the primary to secondary ratio in line with the current national average of 1:1.29, which means that pupils in the secondary phase are funded overall 29% higher than pupils in the primary phase?

3. Do you support our proposal to maximise pupil-led funding, so that more funding is allocated to factors that relate directly to pupils and their characteristics?
4. Within the total pupil-led funding, do you support our proposal to increase the proportion allocated to the additional needs factors (deprivation, low prior attainment and English as an additional language)?
5. Do you agree with the proposed weightings for each of the additional needs factors?
6. Do you have any suggestions about potential indicators and data sources we could use to allocate mobility funding in 2019-20 and beyond?
7. Do you agree with the proposed lump sum amount of £110,000 for all schools?
8. Do you agree with the proposed amounts for sparsity funding of up to £25,000 for primary schools and up to £65,000 for secondary, middle and all-through schools?
9. Do you agree that lagged pupil growth data would provide an effective basis for the growth factor in the longer term?
10. Do you agree with the principle of a funding floor that would protect schools from large overall reductions as a result of this formula? This would be in addition to the minimum funding guarantee.
11. Do you support our proposal to set the floor at minus 3%, which will mean that no school will lose more than 3% of their current per-pupil funding level as a result of this formula?
12. Do you agree that for new or growing schools the funding floor should be applied to the per-pupil funding they would have received if they were at full capacity?
13. Do you support our proposal to continue the minimum funding guarantee at minus 1.5% per pupil? This will mean that schools are protected against reductions of more than 1.5% per pupil per year.
14. Are there further considerations we should be taking into account about the proposed schools national funding formula?

## Chapter 3: the impact of the proposed national funding formula for schools

3.1 This chapter sets out our assessment of the impact of the proposed national funding formula for schools. It is supported by the summary data tables published<sup>30</sup> alongside this consultation, which show the illustrative outcome under the proposed formula for every school and local authority area, compared to the funding they received in 2016-17.

3.2 The proposed national funding formula will mean, for the first time, all schools being funded on the same basis. The current levels of funding for individual schools have been reached through years of successive decision making by local and central government. For example, the dedicated schools grant (DSG) has its original basis in local authority spending patterns in 2005-06; schools benefitted from many separate additions through the DSG and separate grants before these were consolidated in 2011-12; and each local authority has had markedly different formulae in place during this time. There is therefore no rationale for why any individual school receives the funding level it does, compared to other similar schools across the country. This is one of the key reasons for the introduction of the national funding formula. The same reasons make it very difficult to explain the full gain or loss that individual schools and areas would see under a fair and consistent funding system. However, there are clear themes to the types of schools and areas that would gain and lose – and we have looked very closely at the distributional impact in designing the national funding formula.

3.3 This chapter highlights some of the main reasons why some types of schools or areas gain or lose, looking at particular features of the existing funding system and the policy decisions to increase or decrease funding through a particular factor that have been discussed in the earlier chapter.

3.4 To assess the impact of the proposed formula, we use actual pupil and school characteristics data from 2016-17, rather than projections for future years. We

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<sup>30</sup> Individual schools and local authorities can see a more detailed breakdown of the formula calculation and underpinning characteristics data via COLLECT. Pupil characteristics data and the underlying NFF calculations for individual schools have not been published, due to data confidentiality restrictions. Subject to approval, school-level NFF illustrative funding calculations and the aggregate data underpinning them are available for use by any organisation or person who, for the purpose promoting the education or well-being of children in England, is conducting research or analysis, producing statistics, or providing information, advice or guidance. To request access to this data, please email [SchoolsNationalFundingFormula.CONULTATION@education.gov.uk](mailto:SchoolsNationalFundingFormula.CONULTATION@education.gov.uk) with 'NFF data access request' in the subject line. You will be asked to complete an electronic confidentiality declaration explaining the purpose for which the information is required, and undertaking that you/your organisation intend to use the data only for the specified purpose in your request; you/your organisation will keep the data only as long as it is needed for this purpose; and that you/your organisation will not share the data without our prior written approval. Completed declarations should be returned to the mailbox. We will inform you of all decisions relating to the release of the data, and ask you to provide more information if required. We will also give feedback explaining reasons why we have rejected a request.

believe it is clearer to illustrate the formula using real data, so that schools can compare the formula's impact to the funding they are currently receiving. We look at what would happen once the formula was implemented in full, assuming the same pupil and school characteristics as in 2016-17. These are therefore not actual allocations for any specific year: they are illustrations to support the consultation. Actual allocations will reflect the final formula (following this consultation) and will be updated for the latest pupil numbers and characteristics data.

3.5 We have also calculated illustrative allocations in the first year of transition towards the formula, taking account of our proposals for the minimum funding guarantee and the level at which we can afford to pay out gains. These are also calculated on the basis of no change to pupil or school characteristics from 2016-17. Where schools are anticipating changes in pupil numbers or characteristics, they will be able to use the published formula to estimate the effect that such changes would have on their budgets.

3.6 It is important to note that we have illustrated all national funding formula figures in cash terms per pupil. Like many organisations, schools are facing pressures – for example from pay increases and employers contributions to National Insurance and pensions. On a per pupil basis, these pressures are estimated at around 8% between 2016-17 and 2019-20, including around 1.6% in each of 2018-19 and 2019-20 – the first two years of the national funding formula. They are discussed further in chapter 4, alongside the steps we are taking to help schools to improve efficiency and secure their financial health. But it is not possible to translate these pressures into individual school level estimates. That is partly because many schools will see significant increases in pupil numbers over the coming period, feeding through into increased total budgets. It is also because the circumstances of every school are unique – with different pay and non-pay costs and very different staffing structures. Every school will need to understand and plan for their own situation. Illustrating core funding levels in cash terms per pupil – based on real 2016-17 data – is the clearest and most helpful way of enabling them to do so.

3.7 The following sections set out the key impacts of the proposed national funding formula at pupil level, school level, local authority level and regional level.<sup>31</sup>

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<sup>31</sup> Please note that the analysis in this chapter excludes new schools that are filling up, for the reasons set out in Chapter 2. All figures are calculated on the basis of 2016-17 pupil and school characteristics data, and compared to actual funding received in 2016-17 (or 2016/17 for academies). The figures throughout this chapter are now specific allocations or funding changes for particular years: they are illustrations based on 2016-17 to inform the consultation.

## Impact of the proposed formula on individual pupils

3.8 The introduction of a national funding formula will result in pupils attracting funding on a comparable basis wherever they are in the country.

3.9 The formula itself is designed to ensure that the level of funding that schools receive will reflect the degree to which their pupils are likely to need extra help to overcome barriers to their success. Evidence shows that particular characteristics are strong predictors of later outcomes and schools with high proportions of children with additional needs face the greatest challenges in enabling every pupil to leave the school system equipped with the knowledge they need to succeed in adult life. We propose that the additional needs factors (which increase funding to schools serving such pupils) should be weighted more heavily than in the current system. In particular, we have increased the amount of funding that will explicitly follow pupils with low prior attainment and made sure that all pupils in the most deprived areas of the country will attract extra support. Overall, our proposals mean that, taking the pupil premium into account, a pupil with additional needs could attract twice as much funding as a pupil attracting only the basic per-pupil amount. Figure 16 shows the additional amounts that different types of pupil will attract into their school through the core national funding formula. In addition, pupils eligible for free school meals in the last 6 years will continue to attract additional funding through the pupil premium of £1,320 (primary) and £935 (secondary).

<b>Figure 16: Amount of funding per pupil allocated to schools with pupils with the following characteristics under the national formula</b>				
<b>NFF funding on the basis of pupils' characteristics</b>		<b>Funding allocated</b>		
		<b>Primary</b>	<b>KS3</b>	<b>KS4</b>
Basic per-pupil funding		£2,712	£3,797	£4,312
And if pupil also has the following characteristics:	Ever6 FSM	£3,252	£4,582	£5,097
	Current FSM	£3,692	£5,022	£5,537
	English as an additional language (EAL)	£3,227	£5,182	£5,697
	Low prior attainment	£3,762	£5,347	£5,862
	FSM and EAL	£4,207	£6,407	£6,922
	FSM and low prior attainment	£4,742	£6,572	£7,087
	FSM and EAL and low prior attainment	£5,257	£7,957	£8,472

**Figure 16: Amount of funding per pupil allocated to schools with pupils with the above characteristics under the national formula. This excludes national funding formula school-led factors.**

3.10 Under the proposed formula, there would be:

- 1.1 million pupils (15% of all pupils) attending schools that would gain 5% or more, per pupil, as a result of the national funding formula;

- 2.5 million pupils (36%) attending schools that would gain 2% or more, per pupil, as a result of the national funding formula;
- 2.2 million pupils (31%) attending schools that lose between 2% and 3%, per pupil, as a result of the national funding formula; and
- 2.3 million (33%) pupils attending schools whose funding would be within 2% of their current level.

3.11 We have considered carefully the potential impact on pupil attainment in schools likely to face reductions as a result of these reforms. Adjusting to a new, lower, funding level will require schools to find economies and efficiencies in non-pay spend and find efficiencies in deploying and using staff. In the current funding system, however, we see excellent schools at all points of the funding spectrum, confirming that how schools spend money is as important as the amount of funding they receive. With the inclusion of both the minimum funding guarantee, and the funding floor, we are confident that the introduction of the national funding formula will put all schools on a more equal footing to meet the challenge of delivering educational excellence for all their pupils, with levels of funding that are matched to their needs.

3.12 The [equalities impact assessment](#) sets out the impact of our proposals with regard to the eight protected characteristics identified in the Equalities Act 2010.

## Impact of the proposed formula on schools

3.13 As a result of these proposals, 10,740 schools would be funded at a higher level than in 2016-17 – 54% of all schools. Just under three-quarters (73%) of these schools are due to gain up to 5.5% per pupil and are likely to be funded on the proposed national funding formula by 2019-20<sup>32</sup>; the remaining quarter are due greater increases to their per-pupil funding under the proposed formula. 9,128 schools would be funded at a lower level under the proposed formula – 46% of all schools. For 1,525 schools, the reduction would be between 0 and 1% per pupil; for 7,603 schools the reduction would be between 1% and 3%.

3.14 Our intention is that schools will start to move towards these new funding levels in 2018-19. In 2018-19, however, local authorities will decide funding allocations locally (and of course pupil and school data may change), so allocations will not necessarily mirror our illustrations. If local authorities were to adopt or move towards the national funding formula proposed here, as we would encourage them to do, we would expect 4,215 of those schools due to be funded at a higher level to reach their new per-pupil funding level in 2018-19; and 2,884 in 2019-20. We would expect the

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<sup>32</sup> The exact funding a school receives in 2019-20 will be affected by local authority formula decisions in 2018-19 and any changes to individual schools' pupil characteristics



remaining 3,641 schools to reach their new funding level during the next Parliament, but that will be subject to decisions made at future spending reviews.

- 3.15 Of those schools due to be funded at a lower level, we would expect 1,963 schools to reach their new per-pupil funding level in 2018-19; and an additional 1,653 to get there in 2019-20. The remaining schools due to be funded at a lower level will benefit from the 3% funding floor.

## Change in funding between primary and secondary schools

- 3.16 There is no change in the overall national distribution of funding between primary and secondary schools, because we have deliberately retained the existing national average primary to secondary ratio in the formula. However, schools in local authority areas that have chosen to set a different primary to secondary ratio would – over time – see their funding allocations move towards the national average. Individual schools in these areas will therefore gain or see reductions in funding accordingly.
- 3.17 There are 1,935 primaries in local authorities where the current primary to secondary ratio is greater than 1:1.34, and 469 secondaries in local authorities where the ratio is lower than 1:1.24. These schools will, on average, gain from the national funding formula, and in 2018-19, we would encourage local authorities to move their formulae towards the national funding formula values. Conversely, there are 2,563 primaries and 397 secondaries in areas that fund their phase significantly more generously than the proposed national funding formula would do and thus these schools, on average, are more likely to lose from the national funding formula.

## Schools due to be funded at a higher level under the proposed formula

- 3.18 Gaining schools are spread around the country, reflecting that in all areas there are schools that are particularly disadvantaged by the historical succession of funding decisions.
- 3.19 Through a combination of historical funding decisions and the policy proposals we are making in this consultation for the national funding formula, certain types of schools are more likely to see their funding increase as a result of the proposed formula. These include:
- **Schools with low prior attainment.** Our proposed formula allocates more funding through this factor than local authorities collectively do now and thus schools with high levels of low prior attainment are more likely to see their

funding increase. Schools with the highest levels<sup>33</sup> of low prior attainment will gain on average 1.8%. The schools with the highest levels of pupils with low prior attainment, but not in areas of high deprivation<sup>34</sup>, gain on average 2.8%.

- **Schools with pupils who live in areas with above average levels of deprivation** but who have not been heavily targeted through historic funding decisions. The inclusion of a wide definition of deprivation through the IDACI area-level deprivation data allows us to target funding more widely, to those who are more likely to have additional needs. Combined with the increased emphasis on low prior attainment, this means our proposed formula has a broader definition of additional need. This will particularly support schools to address the needs of pupils from families that are just managing. Outside London, these schools<sup>35</sup> gain 1.4% on average.
- **Schools in areas where funding levels have historically been low.** The proposed national formula will typically give these schools higher levels of funding than can be afforded from their local authority's current funding allocation. Schools in the historically lowest-funded local authority areas<sup>36</sup> would gain on average 3.6% under the proposed formula. It is of course not the case that every school in a relatively low-funded local authority area will gain funding – the precise outcome for an individual school will depend on the characteristics of their pupils, as well as their overall current funding position.
- **Small rural schools.** Small schools in districts identified as rural by the Department for Environment, Food and Rural Affairs<sup>37</sup> would gain on average 1.3% under the formula through our combined proposals on the lump sum and sparsity which ensure that the higher costs of these inevitably small schools are recognised. Of these, schools meeting the criteria for the sparsity factor would gain on average 3.3%. Some of these schools are in local authority areas which, through not including a sparsity factor, have never recognised their additional needs.

3.20 Amongst the schools that would see the greatest increases to their per-pupil funding are some schools in Knowsley, Barnsley and Derby that have been heavily

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<sup>33</sup> With more than 38% of pupils not achieving the expected level in key stage 2 and 29% at key stage 4 (schools in the top 25% of low prior attainment)

<sup>34</sup> Schools in areas of high deprivation are those in the top 25% for Ever6 FSM: (more than 35% in primary and 41% in secondary)

<sup>35</sup> Schools with high numbers of pupils from families that are just about managing are those in the top 25% for IDACI bands D to F (more than 38% in primary and 37% in secondary)

<sup>36</sup> The 10 lowest funded local authorities in 2016-17, on the basis of average per pupil funding to schools through the local authority formula

<sup>37</sup> Small schools are primaries with fewer than 161 pupils and secondary schools with fewer than 582 pupils. This threshold means that a quarter of primary schools and a quarter of secondary schools are classed as small schools. For the Department for Environment and Rural Affairs categorisation of 'rural', please see [www.gov.uk/government/collections/rural-urban-classification](http://www.gov.uk/government/collections/rural-urban-classification)

affected by PFI. Under the national funding formula, we will fund local authorities for PFI on the basis of historic spend, uprated for inflation. At the same time, per-pupil funding for all schools will be calculated based on the same, national formula. This means that schools where per-pupil funding is currently affected by PFI costs (because the local formula has had to include a substantial PFI factor, tying up funding that would otherwise be invested in the pupil-led factors) will be funded more fairly under the national funding formula. This is much more comparable to treatment under other capital funding programmes such as the Priority Schools Building Programme, which allocate funding without disadvantaging the recipient's revenue funding. We will review how revenue funding to support PFI should work from 2019-20.

### **Under the national funding formula, inner city schools would continue to attract the highest levels of funding**

3.21 Under our proposed national funding formula, it will remain the case that the highest funded schools in the country are schools in Inner London, followed by schools in other urban areas with higher levels of socio-economic deprivation – Manchester, Liverpool and Birmingham. Under the proposed formula, schools in (inner and outer) London would still be funded, on average, 17.4% higher than schools elsewhere. This higher funding is a proportionate reflection of the higher labour market costs and higher concentration of pupils with additional needs in these areas. The data shows that, in spite of recent economic growth, schools in these areas remain the most likely to have pupils with additional needs – in particular, pupils from a socio-economically disadvantaged background. For example, although absolute and comparative deprivation levels are falling, inner London still has the highest concentration of pupils from a disadvantaged background (while London has 5.1% of all pupils; it has 8.8% of all the pupils in England with a history of eligibility for free school meals) and 47.2% of pupils in inner London are eligible for funding through the Ever6 FSM factor. Schools in London in particular also face higher general and teaching labour market costs, which is particularly important as between 70 and 80% of schools' spending is, on average, directed to staffing costs.

### **Schools due to be funded at a lower level than in 2016-17 under the proposed formula**

3.22 Our analysis indicates that, under the proposed formula, 9,128 schools would be funded at a lower level per pupil than in 2016-17. Of those, 1,525 would receive a minimal reduction of between 0 and 1% per pupil. All schools will continue to be protected from substantial reductions to per-pupil funding year-on-year through the continuation of the minimum funding guarantee at minus 1.5%. We have also proposed a floor that would mean no school loses more than 3% against their current per-pupil funding level.

- 3.23 The schools most likely to face reductions under the proposed formula are those in Inner London and some other urban areas that have particularly benefited from historic funding decisions and where underlying levels of deprivation have fallen over recent years. As set out above, even after this reduction has fully taken effect, inner London schools would still be funded at the highest level of all schools, and would continue to receive the greatest share of pupil premium funding of any region relative to their size. Manchester, Nottingham, Liverpool, Birmingham would be the highest funded areas outside of London.
- 3.24 The main reason that this formula would reduce funding to schools in these areas is that we are using the most recent data about relative levels of socio-economic deprivation. For example, while inner London schools still have the highest concentration of disadvantaged pupils in the country, the gap is narrowing and London is becoming more affluent overall. Over the last 10 years, the percentage of pupils eligible for FSM in the capital has dropped from 27% to 18% (compared to the national average, which has dropped from 16% to 14%). These changes have not been reflected by the current funding system, which has ignored such changes in pupil characteristics since 2005-06.
- 3.25 Historically, schools in Inner London and many other highly deprived areas also received a number of targeted revenue funding grants, such as the Excellence in Cities and Specialist Schools Grant. Grants totalling £4.9 billion were rolled into the single Dedicated Schools Grant in 2011-12, and were subsequently added to local authorities' funding allocations. Since then, funding allocations have been rolled forward, without revisiting underlying data about underlying levels of need. Under the national funding formula, the total available quantum in the DSG schools block will be allocated fairly through the national formula. This means that some funding that was disproportionately or indeed only received by a limited number of areas is now spread consistently and fairly across the country as a whole, in line with the latest data about socio-economic deprivation and levels of need.
- 3.26 Another factor explaining the reduction in funding to London is how area costs are calculated. Historically these used a general labour market approach, assuming that the additional costs of recruiting teachers across the capital would parallel the additional costs of recruiting general workers. However, we know the differentials on teachers' pay between London and the rest of the country are smaller than general labour market differentials and thus the historical GLM ACA gave higher levels of funding to London than could be justified by the actual costs faced by schools. Moving to the hybrid approach better reflects actual costs, slightly reducing the level of additional funding provided to London.
- 3.27 Some smaller schools in urban rather than rural areas would be funded at a lower level as a result of the proposed formula. This is primarily a result of our proposal to set the lump sum factor at a somewhat lower level than the current national average, so that we are able to focus as much funding as possible on the pupil-led factors. It is important to note the discussion in chapter 2 about the

particular arrangements we propose to put in place to protect new schools that are still filling up, many of which are urban. These will ensure that such schools are not disadvantaged in comparison to schools that are already full.

## Impact at local authority level

3.28 Under the proposed schools national funding formula, 101 local authority areas would see funding for their schools increase, while per-pupil funding for schools in 49 local authority areas would be lower<sup>38</sup>. The percentage change in per-pupil funding that would be seen at local authority area would vary between +8.6% and -2.8%. The majority of local authorities 81% would experience change in overall funding of between -3% and +3% per-pupil. The table below shows the percentage change in per-pupil funding at local authority level under the proposed formula.

<b>Figure 17: Percentage change in funding at local authority level, if the formula were implemented in full</b>		
<b>Percentage change in per-pupil funding under the national</b>		<b>Number of local authorities</b>
<b>Increase in funding</b>	7+%	1
	6-7%	2
	5-6%	8
	4-5%	8
	3-4%	9
	2-3%	29
	1-2%	24
	0-1%	20
<b>Reduction in funding</b>	0-1%	14
	1-2%	12
	2-3%	23

**Figure 17: This table shows the percentage change in per-pupil schools block funding that local authorities would experience as a result of the proposed formula. More local authorities will see an increase in per-pupil funding under the national funding formula, than the number of local authorities where it will be lower.**

3.29 The impact of the national funding formula on local authorities' schools funding as a whole depends on two main factors:

- The historic funding levels received by the local authority and how it chose to allocate these between the DSG funding blocks; and

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<sup>38</sup> The Isles of Scilly and City of London are both funded outside the national funding formula, as each has only a single schools.

- The characteristics of individual schools, given that the national formula is calculated on a school-by-school basis. In this respect, the impact at local authority level will be similar to the impact on groups of schools discussed previously.

## **Local authority areas where schools are likely to be funded at a higher level than 2016-17 under the proposed formula**

3.30 There are 81 local authority areas where schools would – on average – be funded more than 1% higher under the proposed formula. It is important to note that in all local authority areas, there are schools that would be funded higher or lower than in 2016-17 under the proposed formula, depending on their particular characteristics. The following assessment is done on the basis of the average impact at local authority level, as we have already discussed the impact on particular types of school.

3.31 Local authorities which have previously received low levels of funding relative to their need are likely to see their schools gain as a whole from our proposed national formula. This low level of funding will have reflected historic spend levels by the local authority at the time the DSG was created and the distribution of additional funding since this point. With the move to a single national formula, such authorities are likely to gain as funding which previously reflected a myriad of unconnected decisions is now all allocated on a single basis. So the lowest funded local authority areas would gain on average 3.6% under the proposed formula<sup>39</sup>.

3.32 Some local authority areas will see their schools gain as a whole because historically the local authority has directed more of its DSG through non-schools funding blocks such as through higher central spend or high needs. The move to a national formula will remove differences in funding between areas from these factors.

3.33 In addition, local authorities are more likely to gain as a whole if they have a high number of schools with pupil or school characteristics which will attract higher levels of funding under the national funding formula than current local authority formulae provide (as discussed above). So for example:

- Local authority areas with high numbers of schools with low prior attainment.
- Local authority areas with higher levels of socio-economic deprivation, under the national funding formula's broader understanding of deprivation, which have not benefitted where funding has been historically focused on a narrower definition of deprivation.

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<sup>39</sup> The 10 lowest funded local authorities in 2016-17, on the basis of average per pupil funding to schools through the local authority formula

- Local authority areas with a high concentration of small, remote schools, who benefit particularly from the national application of the sparsity factor.
- Areas with high historic PFI costs, as these will be treated separately to schools' per-pupil funding under the national funding formula– ensuring schools in these areas are funded fairly and not bearing high PFI costs.

### **Local authority areas where schools are likely to be funded at a lower level than 2016-17 under the proposed formula**

3.34 There are 49 local authority areas where schools would – on average – be funded at a lower level as a result of the proposed formula. As with gaining areas, it is important to note that the individual outcome for schools will depend on their particular circumstances, whereas the following assessment is given at local authority aggregate level. All schools will be protected from excessive year-on-year reductions by the minimum funding guarantee; and all schools will be protected from any reduction beyond 3% per pupil by the proposed formula floor.

3.35 The following types of local authority area are more likely to see their schools funded at a lower level per pupil under the proposed formula:

- All but one local authority area in Inner London would be funded at up to 3% less per pupil than in 2016-17. The reasons for these funding reductions are discussed earlier in this chapter: changing levels of relative socio-economic deprivation in England, and the application of a fair formula to historically unfair funding allocations that had previously rolled over unchecked.
- In Manchester, Liverpool and Birmingham, per-pupil funding would decrease on average by 2.2%, again as a result of using up to date data about relative levels of socio-economic deprivation.
- Local authorities which have previously funded their schools block at a particularly high level are more likely to see their schools face reductions. However, such authorities are more likely to gain through our high needs funding proposals (see the parallel consultation document on high needs). Where the existing pattern of provision reflects the particularly inclusive nature of schools then local authorities will be able to provide additional funding to such schools from their high needs block.

### **Local authority burdens**

3.36 We have also considered the impact of the proposed reforms to the school funding system with regard to local authority burdens. The impact of our proposals for the central school services block, through which local authorities will be funded for the responsibilities they will continue to carry out when the national funding formulae are introduced, is discussed in chapter 4. Our conclusion is that by setting the total amount of funding for local authorities' ongoing funding equal to current

spending by local authorities, we are protecting local authorities overall, and therefore the national funding formula would create no net burden on the system overall. The central school services block will be updated in future in line with pupil numbers, so local authorities will be compensated for costs that increase with pupil numbers.

3.37 Our proposals for a national funding formula for schools would reduce local authorities' role in determining school funding formulae locally. In 2018-19, local authorities will be responsible for setting formulae locally, but we would encourage them to move their formula towards the national funding formula (once final policy is confirmed, following this consultation). As set out in our response to the first stage consultation, in 2019-20 it is our intention that the vast majority of schools' funding will be determined by the national funding formula, with certain elements of funding continuing to be agreed locally.

## Impact of the proposed formula at regional level

3.38 We have also assessed the impact of the proposed formula at regional level. Figure 18 shows the extent to which per-pupil funding to each region would change under the proposed national funding formula. The greatest increases in per-pupil funding would be in the East Midlands and South East. The greatest reduction in per-pupil funding for schools would occur in Inner London, as discussed previously. The North West would see little change overall, but would see funding reducing for more schools than those receiving gains. Figure 18 also shows the number of schools in each region due to be funded at a higher and lower level.

<b>Figure 18: Impact of the proposed national funding formula at regional level</b>			
<b>Region</b>	<b>% change in per-pupil funding under formula-only NFF</b>	<b>Number of schools for which funding would increase</b>	<b>Number of schools for which funding would reduce</b>
East of England	1.5%	1,485	875
East Midlands	2.5%	1,208	705
Inner London	-2.4%	29	802
North East	1.0%	622	422
North West	0.1%	1,187	1,695
Outer London	1.0%	611	737
South East	2.3%	1,853	1,195
South West	2.2%	1,600	591
West Midlands	0.3%	1,010	1,163
Yorkshire and the Humber	1.5%	1,135	943



**Figure 18: This table shows the percentage change in per-pupil funding for schools in each region. Within each region, the impact for individual schools will vary as this table shows the total percentage change.**

## **Consultation question**

15. Are there further considerations we should be taking into account about the impact of the proposed schools national funding formula?

## Chapter 4: Implementation of the national funding formula for schools

4.1 The proposals set out in this consultation will create a fairer funding system for schools. They represent the greatest change in funding arrangements for over a decade. For some schools, the change will be significant, as they adjust to a new funding level. For many, there may be little change to their funding level, but the introduction of a national funding formula will mean they have more clarity about their future funding, so will be better able to plan their finances strategically for the long term. In this context, we are clear that changes must be introduced with consultation; a clear forward plan; and support for schools to make the best use of resources and improve efficiency.

4.2 This chapter:

- explains the school funding arrangements for 2017-18, in the run-up to the implementation of the national funding formula;
- sets out what will happen in 2018-19 under the 'soft' national funding formula;
- discusses what will happen in 2019-20 under the 'hard' national funding formula and the issues on which we will be consulting further; and,
- explains the support we are providing for schools on efficiency, to help ensure every pound goes as far as possible in improving outcomes for pupils.

### School funding arrangements for 2017-18

4.3 In July 2016, the Department confirmed the funding arrangements that would be in place for 2017-18, including publishing local authorities' indicative funding levels for 2017-18 and operational guidance. This operational guidance was updated on 1 December to give further details about the arrangements that have been put in place following the removal of the Education Services Grant (ESG) from September 2017<sup>40</sup>. As usual, in December we are publishing local authorities' final allocations for the Dedicated Schools Grant (DSG) in 2017-18. Local areas are currently working through the process of developing, consulting on and finalising local formulae for 2017-18. That process will continue separately to this consultation process.

4.4.6 The first stage of the consultation set out our intention to launch an 'invest to save' fund to allow schools to invest in ways to save money in future, helping them manage the transition to a national formula. Our proposed floor will now mean that

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<sup>40</sup> Education Funding Agency, '[Schools funding arrangements 2017 to 2018](#)', December 2016

no school will lose more than 3% of its funding per pupil, ensuring this transition is manageable for schools. We have prioritised providing this protection, alongside allocating gains to schools that are due increases, above creating a specific 'invest to save' fund. In addition, we have announced £140m per year for a new Strategic School Improvement Fund to support school improvement (including in relation to financial health and the use of resources) alongside building school-led capacity in parts of the country where it is needed.

## **What will happen in 2018-19 under the 'soft' national funding formula**

- 4.5 In the Government's response to the first stage consultation, we have confirmed that we will move to a 'soft' national funding formula in 2018-19. This means that although we will use the national funding formula (once it has been finalised following this consultation) to calculate local authorities' funding allocations, local authorities will still determine individual schools' funding allocations through their local formula.
- 4.6 The funding allocation timetable in 2018-19 will be similar to 2017-18. The Government's response to this consultation (which we expect to publish in summer 2017) will confirm final policy decisions and therefore the national funding formulae that will be used to determine local authorities' allocations for each block of the DSG in 2018-19.
- 4.7 In summer 2017 we will publish local authorities' indicative schools block funding levels for 2018-19 (indicative because they will be updated with the latest pupil numbers after the October 2017 school census). The 2018-19 schools blocks will be set by calculating notional budgets for each school in the local authority according to the national formula and then aggregating them. We propose to include gains of up to 3% per pupil for any school due to gain under the formula and reductions will be limited to minus 1.5% per pupil in line with the minimum funding guarantee.
- 4.8 Our intention is to use 2017-18 baselines for 2018-19 allocations. We will carry out a further baseline exercise with local authorities in order to gather information about the split of the 2017-18 DSG between schools, high needs and the central school services block. Given the re-baselining we carried out earlier this year, we would not expect to see significant movements between blocks, or significant movements between schools. Where there have been significant changes, we will liaise with local authorities to understand them to ensure they are appropriate to use as baselines for the national funding formula, or whether the 2016-17 position provides a better starting point.
- 4.9 It will be for local authorities to agree their individual formulae for 2018-19, according to the usual rules including the MFG of minus 1.5% per pupil. We do not intend to make any substantive changes to the arrangements for local formula construction. The balance of gains and reductions to individual schools in 2018-19 will therefore

be determined locally, and will not necessarily reflect the patterns set out in our published 'year one' exemplifications (where we have shown what every school would receive if they were funded according to the national funding formula).

- 4.10 We would, however, encourage local authorities to move their local formulae towards the national funding formula so that their schools' allocations in 2018-19 are on a sensible trajectory for the longer term. The calculation process is explained fully in the technical note, and schools and local authorities can see a full breakdown of their formula calculations through COLLECT.
- 4.11 Local authorities will be responsible for consulting locally on their proposed schools funding formula and complying with the Education Funding Agency (EFA) Authority Proforma Tool process. Requirements for local formulae will be detailed in the School Finance and Early Years Regulations for 2018-19. EFA will publish Operational Guidance detailing the Authority Pro forma Tool process for 2018-19 next year.
- 4.12 In December 2017, we will confirm local authorities' final DSG allocations for 2018-19, by applying the national funding formula per-pupil funding levels to the latest pupil numbers from the October 2017 census. Local authorities will then confirm final 2018-19 allocations to maintained schools in line with the usual timetable, and EFA will determine academy allocations for 2018/19 based on the relevant local formula.

#### **How will 2018-19 allocations work in practice?**

Currently, the Department publishes the schools block unit of funding for each local authority for each financial year in the preceding summer, allowing local authorities to plan their budgets for the coming year. Final allocations are confirmed in December, taking account of the October pupil census count.

The timetable and process for 2018-19 will be similar, with local authorities receiving in the summer of 2017: (i) a guaranteed per-pupil amount, and (ii) a fixed cash amount for the factors being allocated on a historic basis. Final allocations following the October census count will be published in December.

The process will work as follows:

- following this consultation, we will finalise our national funding formula
- we will calculate indicative 2018-19 schools block allocations for each local authority in the summer of 2017. These indicative allocations will be set by calculating notional budgets for each school in the local authority according to the national formula (including the minimum funding guarantee (MFG) calculation and gains cap) and then aggregating them.
- the funding floor and MFG calculation for academies will be based on their baseline on the authority proforma tool, since this calculation will be used

to fix the local authority's schools block, not individual academy budgets

- using these indicative allocations, we will announce and fix 2 amounts:
  - a national funding formula amount. This per-pupil amount will cover all pupil-led funding plus school-led funding (the lump sum and sparsity amounts). It will be calculated by taking the total pupil-led funding for all the schools in the local authority plus the total school-led funding for all the schools in the local authority from the notional budgets, and dividing them by the total pupil numbers for all the schools.
  - A fixed cash amount for any funding that is to be distributed on an historic basis for 2018-19: premises, mobility and growth. This funding will be confirmed in summer 2017 and not updated for later pupil numbers.
- the national funding formula per-pupil amount will not be comparable with the current schools block units of funding, as funding for premises, mobility and growth would instead be included in the fixed cash amount.
- local authorities will use these fixed amounts to plan their budgets and set individual school allocations for 2018-19. The EFA will collect the APT in the same way as now and use this information to set academy budgets for 2018/19 according to the usual timetable.

### **In 2018-19 the schools block will be ring-fenced, but we will enable local authorities to transfer funding from their schools block into their high needs block with local agreement.**

4.13 In the first stage consultation, we set out our proposal to ring-fence the schools block from the first year of the national funding formula to help pave the way towards a hard national funding formula, when the vast majority of a school's budget will be determined by the national formula. During the consultation we heard from some respondents that there needs to be more flexibility to support children and young people with special educational needs (SEN) and disabilities – whose provision is primarily funded through the high needs block – than would be possible with a fully ring-fenced schools block. We believe that many of these barriers can be overcome and that a national funding formula requires, in principle, that the great majority of funding designated for schools should be allocated to schools. However, we do recognise the points raised through the consultation process on this issue.

4.14 While we are confirming that the schools block will be ring-fenced in 2018-19, we are proposing additional arrangements that will address the risks highlighted by respondents. We propose some flexibility to transfer funds from the schools block to the high needs block if necessary in 2018-19, following local consultation and with

the explicit agreement between the local authority, their schools forum and a majority of primary and/or secondary schools and academies (with transfers confined to the primary and secondary elements of the schools block as agreed by phase). More detail of our proposals are contained in the [high needs consultation](#).

## **What will happen in 2019-20 under the hard national funding formula**

- 4.15 From 2019-20, the national funding formula will be used to calculate the vast majority of each individual school's budget. This will mean that all schools are predominantly funded through a consistent national approach, removing the additional layer of variation and complexity created by the current existence of a different formula in every local authority. We will be bringing forward legislation to implement this change to the funding system in due course.
- 4.16 While the vast majority of funding will be determined by the national funding formula, we anticipate local authorities continuing to have flexibility on some parts of the formula, particularly in relation to funding for pupil growth. We will consult on the precise arrangements for the hard formula (in particular, the arrangements for allocating funding to factors such as premises which we will fund on the basis of historic spend in 2018-19) in due course. In parallel, we will be considering the role of schools forums under the hard national funding formula.
- 4.17 We also want to ensure some opportunity for local flexibility, where that will help schools and local authorities to work together in making provision for children and young people with high needs. Our proposals are set out in more detail in the [high needs consultation](#), and summarised here.
- 4.18 We believe that local authorities' responsibilities for children and young people with SEN and disabilities are discharged most effectively when there is a strong partnership between the authority and its mainstream and special schools, with a shared understanding of where different types of need are best met. Sometimes such partnership arrangements work best at local authority level, or as clusters of schools working together in a devolved framework. As part of reviewing the future composition and role of schools forums, we will consider what alternative framework could be put in place to best support effective partnerships in the new funding system.
- 4.19 It is also important that the funding system is responsive to the balance of mainstream and specialist provision within a local area. In the current funding system, local authorities can use funding from their high needs budgets to support mainstream schools that are particularly inclusive. They will still be able to do so under the national funding formula. We want to ensure that the funding system also responds fairly where some schools are less inclusive, once schools' budgets are predominantly determined by the national formula. We propose to provide a mechanism whereby schools in an area could agree, with their local authority, to

pool some funding that could then be directed towards those schools that need it most for their pupils with SEN and disabilities (e.g. more inclusive mainstream provision, schools with more specialist support and/or special schools). We think such decisions will best be taken by schools working together in partnership, in the context of the local authority's overall strategy for making special provision. We intend to discuss how such a mechanism could work, from 2019-20, with stakeholders; in the meantime, the [high needs stage consultation](#) asks respondents for their initial thoughts.

4.20 We will consult on detailed proposals for the implementation of the 'hard' national funding formula in due course. Amongst the issues for consideration will be the arrangements for updating the formula to reflect the latest data on pupil and school characteristics, and the longer term approach to the factors that will be funded initially on a historic spend basis.

## Support for schools on efficiency

4.21 Effective schools make the best use of resources – ensuring every pound is used efficiently to improve standards and have maximum impact for their pupils.

Managing school finances is not an 'additional' responsibility or requirement – it is core and fundamental to each and every school. For schools to deliver high standards, they must start from a position of strong financial management. In practice, this means schools can invest more of their resources in the classroom, making even more of a difference to the children that need it most. Effective school leaders know that this is a key part of their role, and taxpayers across the country expect nothing less. We already see great examples of schools delivering high quality education at lower cost than others, so we know from schools in the sector that this is achievable.

4.22 At the same time, like many organisations, schools are facing pressures – for example from pay increases and employers contributions to National Insurance and pensions. On a per pupil basis, these pressures are estimated at around 8% between 2016-17 and 2019-20, including around 1.6% in each of 2018-19 and 2019-20 – the first two years of the national funding formula. They sit alongside very significant scope for efficiency in the system – on non-pay and procurement, where we have set an ambition of a least £1 billion of savings by 2019-20, and through better deployment and use of the workforce.

4.23 The national funding formula will help schools to make the best use of resources and manage cost pressures, by directing resources where they are most needed and by creating greater certainty and transparency in the funding system to allow schools to plan ahead with confidence. We are also committed to providing practical support for all schools to become more efficient and manage their budgets well, helping them to achieve the highest standards for their pupils.

4.24 Schools can already draw on much excellent practice in other schools. In a school-led system, this is the most important source of advice and guidance. We know from the best schools what good practice on financial health and efficiency looks like:

- ensuring that financial planning is based on delivering educational outcomes, not a separate bolt-on consideration
- undertaking strategic financial planning – setting a 3-5 year budget based on a clear vision for delivering school improvement
- prioritising the most effective and efficient use of staff – as staffing costs usually comprise 70% to 80% of school expenditure
- benchmarking and limiting spend on back office and procurement
- ensuring that staff managing school finances, such as finance directors and school business managers, have the right skills
- putting in place financial systems and processes across the school that are transparent and encourage constructive challenge from governing boards and head teachers

4.25 The decisions on how to use available resources must be for schools themselves – ensuring every pound is spent in the best possible way to support their pupils. Schools will want to work directly with other schools to achieve greater efficiencies, whether through multi-academy trusts; individual schools working together to negotiate deals and share services; or simply by sharing good practice. But the Department also has an important role – working with national head teacher, governor, school business manager, and other sector associations – to build capacity and provide the right tools, guidance and resources.

4.26 We have published, and continue to develop, a comprehensive collection of tools and guidance<sup>41</sup>. This encourage schools to improve their efficiency and financial health in 3 main ways:

- to **review** their level of efficiency – with an efficiency metric that provides schools with an indication of their relative efficiency compared to similar schools
- to **investigate** their levels of spend – for example with a Benchmarking Report Card that encourages schools to make more comparisons with similar schools and a list of top ten questions for governors to ask. The site also includes a structured approach to financial health checks for schools, with an open list of suppliers to help schools more easily identify potential sources of external advice

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<sup>41</sup> Department for Education, '[Schools financial health and efficiency](#)', July 2016



- To **take action** to improve efficiency – with access to low-cost framework deals, for example on energy and on printers; contact details for similar schools and case studies<sup>42</sup> to help leaders learn from the practical steps that have been taken elsewhere to deliver savings; and videos and guidance across a range of areas, including collaborative procurement and setting 3-5 year budgets.

4.27 The first stage of the consultation set out our intention to launch an ‘invest to save’ fund to allow schools to invest in ways to save money in future, helping them manage the transition to a national formula. Our proposed floor will mean that no school will lose more than 3% of its funding per pupil overall as a result of this formula. Rather than creating a specific ‘invest to save’ fund, we have prioritised this floor, alongside allocating gains more quickly to schools that are due increases. In addition, we have announced £140m per year for a new Strategic School Improvement Fund to support school improvement (including in relation to financial health and the use of resources) alongside building school-led capacity in parts of the country where it is needed.

4.28 We will continue to develop the package of support that is available. In particular, we will shortly be publishing a procurement strategy to help support a step change in school buying and underpin significant savings in non-pay costs across the system. This includes building on existing school business manager networks to ensure that all school business managers can share knowledge and good practice, making it easier for schools to access national-level deals which offer considerable savings, and testing an online tool to simplify the buying process for schools. We have developed the strategy in close consultation with a range of schools and suppliers. Upcoming products also include planning guidance to help school leaders to develop the most effective staff structures for their school and financial training for school leaders.

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<sup>42</sup> Department for Education, ‘[Schools financial efficiency: case studies](#)’, July 2016

## Chapter 5: Our proposals for the central school services block

- 5.1 Local authorities have an important role in supporting the provision of excellent education for all children of compulsory school age. They do this by ensuring every child has a school place; ensuring the needs of vulnerable pupils are met; and acting as champions for all parents and families.
- 5.2 In the first stage of consultation, we proposed creating a central schools block within the dedicated schools grant (DSG) to reflect the ongoing local authority role in education. We are renaming this the **central school services block** to distinguish it more clearly from the schools block. We proposed to create this from 2 different government funding streams: the schools block funding that is currently held centrally by local authorities and the retained duties element of the Education Services Grant (ESG), and to distribute it on a simple formulaic basis. 64% of respondents agreed with our proposal.
- 5.3 This chapter confirms that we will proceed with the creation of the central school services block as planned, and sets out the proposed formula for its allocation from 2018-19 onwards. It also sets out our proposals for transition from current arrangements. Illustrative examples of central school services block funding allocations are included in the [step-by-step table](#).
- 5.4 The central school services block will include funding for responsibilities previously included within ESG and responsibilities previously funded through centrally retained DSG. We will make the necessary changes to the financial regulations and conditions of grant in order to make this possible. Further detail on the functions funded through the central school services block is included in annex 1.
- 5.5 In addition to the responsibilities that will be funded through the central school services block, local authorities have other responsibilities in respect of education, for which they use funding from other sources. These responsibilities include the provision of home to school transport, assessing pupils with SEN, and planning for and supply of sufficient school places. The funding for these responsibilities is not within the scope of this consultation.

5.6 In the first consultation, we stated that we expected local authorities to step back from running school improvement from the end of the 2016/17 academic year and would therefore not require funding for this role. While we are still committed to a school-led system, we recognise that it is not fully mature and we need to take pragmatic steps to support an effective transition. We have recently announced a number of measures to fund school improvement<sup>43</sup>, none of which are in scope of this consultation.

## Formula for allocating the central school services block

5.7 The central school services block will be created from two existing funding streams: the DSG funding that is held centrally by the local authority for central services<sup>44</sup>, and the retained duties element of the ESG<sup>45</sup>. Funding will cover two distinct elements which will be handled separately within the formula: **ongoing responsibilities** such as asset management and admissions and **historic commitments**.

### Ongoing responsibilities

5.8 The total amount of funding that will be distributed through this block for ongoing responsibilities will be calculated by adding the funding available for ESG retained duties and the centrally held DSG spent on ongoing responsibilities. Further detail on the calculation of the total funding available in the central school services block is set out in the [technical note](#).

5.9 We propose to distribute funding to local authorities using a simple formula which distributes an element of funding according to a per-pupil factor and an element according to a deprivation factor. Both elements will be adjusted for area costs.

5.10 We are proposing that the largest factor should be simple per-pupil funding which means that each local authority will receive an amount for every pupil in the schools block. In the first stage of the consultation, 64% of respondents agreed with our proposal to distribute funding on a per-pupil basis.

5.11 The indicative per-pupil rate will be £28.64. The rate has been calculated so that – once the ACA has been applied – 90% of the total funding for the central school services block will be allocated according to pupil numbers.

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<sup>43</sup> Further detail on our school improvement strategy can be found at [www.gov.uk/government/news/new-funding-for-school-improvement--2](http://www.gov.uk/government/news/new-funding-for-school-improvement--2)

<sup>44</sup> As defined in Schedule 2, Part 1 of *The School and Early Years Finance (England) Regulations 2015* (Statutory Instrument 2015 No.2033)

<sup>45</sup> In 2017-18 the retained duties rate of ESG will be paid through the DSG

## Our new proposal to include a deprivation factor for ongoing responsibilities

- 5.12 We are proposing to include a deprivation factor to allocate funding for ongoing responsibilities. This is to recognise the importance of particular central services for schools, such as education welfare services, in areas with high levels of socio-economic deprivation. We are proposing to use Ever6 FSM<sup>46</sup> as our deprivation measure to reflect the number of pupils who have some history of socio-economic deprivation.
- 5.13 We know there is a cost to delivering education welfare services everywhere, so it would not be appropriate to suggest that the entire spend on education welfare services is spent on deprived pupils. We are therefore proposing to weight the deprivation factor at 10% of the total funding for ongoing responsibilities. This results in a national per-pupil top-up for deprived pupils of £11.62.
- 5.14 In the first stage of consultation, we proposed using the same area cost adjustment that had been proposed for the schools formula, which is the 'hybrid area cost adjustment' methodology. The hybrid area cost adjustment consists of two elements: teachers' pay costs and non-teaching staff costs. We have reflected further on this proposal and given that the central school services block is not affected by teachers' pay, we do not believe it is reasonable to use an area cost adjustment which contains a teachers' pay cost element. Therefore, we intend to use the general labour market (GLM) methodology. The GLM measure reflects differences in labour costs between different areas, but does not include the added element of teachers' pay costs.
- 5.15 Further detail on the calculation of funding in the central school services block for ongoing responsibilities is included in annex 1.

## Historic commitments

- 5.16 Centrally retained DSG is also currently used to fund a number of historic commitments. These commitments are listed in full at annex 1, and include combined budgets contributing to wider children's services, staff redundancy costs relating to decisions taken before 2013, and the back pay associated with equal pay legislation.
- 5.17 In the first stage of consultation, we proposed to provide funding for historic commitments through the central school services block if they were entered into before April 2013, with the expectation that these costs will unwind over time. 67% of

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<sup>46</sup> Pupils eligible for free school meals at any point in the last 6 years

respondents agreed with this approach. We proposed to allocate funding for these based on evidence.

5.18 We remain convinced that this is the fairest and most appropriate way to provide funding for historic commitments. In keeping with current policy, no new commitments will be allowed.

5.19 Earlier this year, the Education Funding Agency (EFA) collected evidence from local authorities about their historic commitments, and the ongoing costs. The EFA reviewed all returns and produced guidance which will enable local authorities and their schools forums to ensure that the appropriate evidence is in place for each historic commitment and that they meet the criteria set out in the first stage of the consultation<sup>47</sup>.

5.20 Now the historic commitments data received from local authorities has been assessed, we know the baseline total spend for historic commitments in the central schools services block formula. We expect local authorities to use the guidance to ensure that only eligible historic commitments are funded in 2017-18 and to reflect these when completing the Section 251 returns for 2017-18. Funding for historic commitments will then be allocated on this basis.

5.21 We expect that historic commitments will unwind over time, for example because a contract has reached its end point. Where this is the case, we would expect local authorities to reflect this in Section 251 returns. The EFA will monitor historic spend year-on-year and will challenge Section 251 returns where spend is not reducing as expected.

5.22 In 2018-19, we would expect local authorities to recycle money that is no longer needed for historic commitments into schools, high needs or early years. We will set out our long-term intention for funding released from historic commitments at a later point.

5.23 Further detail on historic commitments funding in the central school services block is included in annex 1.

## Transition

5.24 Moving to a national formula for allocating funding for these central functions is likely to result in local authorities receiving a different allocation to what they currently spend on these functions. The extremely wide range in current expenditure for ongoing responsibilities (the lowest planned expenditure for one local authority in

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<sup>47</sup> EFA Schools funding arrangements 2017 to 2018, [www.gov.uk/government/publications/schools-funding-arrangements-2017-to-2018](http://www.gov.uk/government/publications/schools-funding-arrangements-2017-to-2018), November 2016

2016-17 was £19 per pupil, with the highest being £222 per pupil) means that we need to balance the rate of change against the need to make progress towards the formula. It is also important that we move towards this formulaic distribution at a pace that allows local authorities to plan for and accommodate any savings that might be required.

- 5.25 The transition to the formula for ongoing responsibilities will be gradual. We are proposing to put in place a protection that minimises reductions to 2.5% per pupil in 2018-19 and 2019-20. This will ensure that the rate of transition is manageable for all local authorities and no local authority will lose more than 5% per pupil in this Parliament.
- 5.26 In order to afford the protection, we are proposing to allow gains of up to 2.4% per pupil in 2018-19. The level of gains will be set annually and will depend on the precise composition of the central school services block in each year. Further detail on the calculation of gains and reductions can be found in the [technical note](#).
- 5.27 Funding for historic commitments will be based on the actual cost of the commitment. Funding will reduce as commitments cease. There will therefore be no protection for historic commitments in the central school services block.
- 5.28 Where local authorities face considerable gains, we would expect them to have a transparent and fair discussion with their schools forum to decide how any surplus funding should be used. Local authorities will have flexibility to move funding between the central school services block, high needs block and early years block. They will also be able to move funding into the schools block.

## Impact of the central school services block

- 5.29 This section describes the impact of the proposed central school services block formula for local authorities, as illustrated in the tables published alongside this consultation. They show what would happen under the proposed formula if pupil numbers, deprivation levels and historic commitments stayed exactly as they were in 2016-17 and the formula was implemented in full. They will not represent the actual budgets local authorities will receive, for 4 reasons:
- The formula for 2018-19 and beyond is **subject to this consultation** and will not be finalised until the consultation response in 2017
  - As described in the transition section above, we will need to adjust the levels of gains to afford the protection that **no local authority's budget will reduce by more than 2.5% per pupil in 2018-19 and 2019-20** until the end of the spending period
  - The level of **funding allocated for historic commitments will reduce over time**, as historic commitments themselves unwind

- Local authorities' actual allocations in 2018-19 will be confirmed in the December before the start of the financial year, taking into account the **latest pupil numbers and FSM eligibility from the October census and Section 251 data on historic commitments. These will vary year on year**

5.30 Nonetheless, the figures we are publishing give local authorities a good illustration of the overall impact of the proposed formula on their allocation in future years. We have also published a detailed technical explanation of the methodology and calculations we have undertaken to produce these illustrative allocations. This can be found in the [technical note](#).

5.31 Under the proposed formula, 84 local authority areas would see their funding increase.

5.32 The formula would likely reduce the gap between the highest and lowest spending local authorities, according to spend on ongoing responsibilities, by £189 per pupil. Under the current system, per-pupil spend on ongoing responsibilities varies from £19 per pupil in Walsall to £222 in Kingston upon Thames.

5.33 The central school services block increases funding for many of the local authorities who currently spend the least on education services. A combination of national and local decisions going back over a decade have led to a significant imbalance in spend. The central school services block formula now recognises local authorities' needs on an equal basis across the country.

5.34 The gaining areas are all in different regions and have made different decisions about how to fund central services. The top three gainers are Walsall, Wigan and South Tyneside. However, the amount of money that is spent in these areas is significantly lower than similar local authorities in other areas of the country, which is why on average they are gaining. As set out above, gains will be limited year on year in order to be affordable.

5.35 Local authorities who have been spending considerably more than the central school services block allocates will see reductions in funding. As a result of our proposal for no local authority to face a reduction more than 2.5% per pupil in 2018-19 and 2019-20, progress towards the formula will be gradual.

5.36 Section 251 data shows that local authorities with similar characteristics spend very different amounts delivering the same services<sup>48</sup>. We believe that higher spending local authorities should be able to adjust their spend to bring them in line with other local authorities that spend less delivering the same services.

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<sup>48</sup> Education Funding Agency, [Section 251: 2016 to 2017](#), February 2016

## **Implementation of the central school services block**

5.37 The proposals set out in this chapter will create a fairer, more transparent funding system for local authority central spend on schools. We will update regulations and provide detailed operational guidance next year. We have also set out below the high level detail of how this block will work in practice.

### **Funding allocation timetable for 2018-19**

5.38 The funding allocation timetable in 2018-19 will be similar to 2017-18. The Government's response to this consultation in 2017 will confirm final policy decisions and therefore the funding formula that will be used to determine local authorities' allocations for the central school services block in 2018-19.

5.39 In summer 2017 we will publish local authorities' indicative central school services block funding levels for 2018-19 (indicative because they will be updated with the latest pupil numbers from the October School Census and the latest historic commitments spend later in the year).

5.40 We propose that 2018-19 funding levels will include gains of up to 2.4% per pupil for any local authority due to gain under the formula, and funding to protect any local authority due a reduction, in line with the 2.5% per pupil limit proposed in the previous section.

5.41 Local authorities will be responsible for consulting their schools forums on how to allocate their central school services block funding and complying with the EFA's Authority Pro forma Tool process. Restrictions on how to spend their allocations will be detailed in the School Finance and Early Years Regulations for 2018-19. The EFA will publish operational guidance detailing the Authority Pro forma Tool process for 2018-19 next year.

5.42 Local authorities will have the flexibility to move money from the central school services block into other blocks. Further guidance on this will be set out in the 2018-19 guidance which we will publish next year.

5.43 In December 2017, we will confirm local authorities' final central school services block allocations for 2018-19, by applying the central school services block formula to the latest pupil numbers from the October census.

### **Funding arrangements in 2019-20 and beyond**

5.44 The total amount of funding in the central school services block is based on the current duties held by local authorities. If we make changes to local authorities' legal obligations in future, the total amount of funding for the central school services block will need to change to reflect this.



5.45 We will also consider how to treat funding released from the historic commitments element of the central school services block and will confirm our approach at a later date.

## Consultation questions

16. Do you agree that we should allocate 10% of funding through a deprivation factor in the central school services block?
17. Do you support our proposal to limit reductions on local authorities' central school services block funding to 2.5% per pupil in 2018-19 and in 2019-20?
18. Are there further considerations we should be taking into account about the proposed central school services block formula?

## Annex 1: Shape and content of the central school services block

The table below shows the responsibilities that will be funded from the central school services block.

Allocation route	Previously funded from centrally retained DSG	Previously funded from ESG
Central school services block per pupil rate	School admissions Servicing of schools forums Fees to independent schools for pupils without SEN	Education welfare services Asset management Statutory and regulatory duties
Central school services block historic commitments funding	Contribution to combined budgets: costs of providing combined education and children’s services Termination of employment costs: premature retirement or dismissal costs for maintained school staff Equal pay – back pay: costs of meeting equal pay commitments in schools Capital expenditure from revenue (CERA): where the authority uses revenue funding to meet capital costs Prudential borrowing costs: for repayment of some authority loans Exceptions agreed by the Secretary of State: centrally retained schools budget expenditure that has been approved by application to the Secretary of State	



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