



## School funding: annual settlements under the Coalition Government

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This note provides a summary of some of the key changes made in each of the annual school budget setting rounds under the current Government.

The national funding formula for schools is expected to be introduced in 2015–16. In preparation for this, the DfE has used the annual funding round for schools to make changes to how local authorities are allocated their schools budget. Key changes have included:

- rolling a number of grants into the main Dedicated School Grant (DSG);
- splitting the DSG into three notional (and unringfenced) blocks;
- reducing the number of local formula factors that local authorities may use to distribute the Schools Budgets, which included:
  - an optional single capped lump sum payable to all schools; and
  - an optional sparsity factor.

It should be noted that the current Government came to power in May 2010, after the start of 2010-11 financial year (which was also the last year of a three year settlement under the previous Government); therefore, the first changes it could make to core school revenue funding were in 2011-12.

This note is one in a series of Library Standard Notes on school funding, see also:

- [School funding: Pupil Premium](#) (SN/SP/6700)
- [School funding: moving towards a national funding formula](#) (SN/SP/6702)

For information on the funding of academies, see section 7 of the Library Standard Note, [Academies](#) (SN/SP/6484).

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# 1 The Dedicated School Grant (DSG)

## 1.1 What is the DSG

The Department for Education (DfE) explained that:

The grant is paid in support of the local authority's Schools Budget. It is the main source of income for the Schools Budget.

[...]

[Designated School] Grant will be paid as a ring-fenced specific grant and must be used in support of the Schools Budget as defined in the School and Early Years Finance (England) Regulations 2012. It can be used for no other purpose.

[...]

Local authorities can add to the Schools Budget from local sources of income.<sup>1</sup>

## 1.2 DSG formula

The DfE explained that “the amount of DSG per pupil for each authority is calculated based on what the local authority received the previous year” – this is known as the “spend plus” approach:

‘Spend plus’ was started in 2006-07 and represented a reform from the previous method of school funding. When the DSG was created, in 2006-07, its initial level for pupils in each local authority was based on what each authority planned to spend on schools in 2005-06 – the last year before the introduction of the DSG and ‘spend plus’. Therefore, because we still base funding from the DSG on the previous year, current levels of school funding are, in fact, based largely on those in 2005-06.<sup>2</sup>

The Government has said that it will introduce a new national funding formula in the next spending review period, stating it “will consult on how best to introduce a fair national funding formula for schools in 2015-16”.<sup>3</sup>

## 1.3 DSG: from DfE to local authority to school

While the DSG is itself ring-fenced, local authorities have considerable scope to determine how to allocate the funding to the schools for which they are responsible. As the DfE explains:

The DSG is a ring-fenced grant paid by the Department. The DSG is paid to LAs [local authorities], who must use it for the purposes of their schools budget. It is for each LA to distribute funding - in consultation with its schools forum - to the schools it maintains using its locally agreed formula (drawn up in line with schools finance regulations). It is for the schools' governing body to decide how to spend their available resources.<sup>4</sup>

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<sup>1</sup> Department for Education, *Dedicated Schools Grant – Guidance for local authorities on the operation of the grant*, p1, paras 2, 3 and 5

<sup>2</sup> Department for Education, *A consultation on school funding reform: Rationale and principles*, April 2011, pp2–3, paras 3.1 and 3.2

<sup>3</sup> HM Treasury, *Spending Round 2013*, Cm 8639, June 2013, p33, para 2.2

<sup>4</sup> Department for Education, *21: How are schools funded?*, website [as of 15 July 2011]

## 2 2011–12

The total value of DSG (before recoupment for academies) was £36.5 billion in 2011-12. DSG per pupil was held at (adjusted) 2010-11 values in cash terms in each local authority. Details of the DSG allocation by local authority can be found on the DfE's [Schools funding settlement 2011-12 and Pupil Premium](#) pages.

The Government observed that the *School Finance (England) Regulations 2011* (SI 2011/371) “to a large degree ... re-enact provisions in the *School Finance (England) Regulations 2008*”, although there were “some significant changes, relating particularly to ... the incorporation of a number of grants within the Dedicated Schools Grant, which were previously paid as separate grants”.<sup>5</sup>

A number of specific grants for education were paid alongside the DSG up to 2010/11. The effect of the *School Finance (England) Regulations 2011* was to mainstream the following grants into the DSG:

- School Standards Grant and Schools Standards Grant (Personalisation)
- School Development Grant (includes SDG Main, Post-LIG Deprivation and Transition, City Learning Centres, Specialist Schools and High Performing Specialist Schools). It does not include the amount previously paid through Area Based Grant (ABG)
- School Lunch Grant
- Ethnic Minority Achievement (EMAG)
- 1-2-1 Tuition
- Extended Schools – Sustainability
- Extended Schools - Subsidy
- Targeted Support for the Primary National Strategy allocated to schools (consisting of Universal and Targeted elements, Leading Teachers, Every Child elements, Early Years Foundation Stage, and Modern Foreign Languages)
- Targeted Support for the Secondary National Strategy allocated to schools (consisting of Universal and Targeted elements and Leading Teachers)
- Diploma Formula Grant
- London Pay Addition Grant.<sup>6</sup>

Some of these grants were ring-fenced to a specific purpose; this ‘protection’ was removed through mainstreaming the grants into the DSG. The DfE said: “we believe that head teachers are best placed to know the needs of their school and where their money needs to be spent. By removing ring fences we have given them complete autonomy over their budgets, so that they are able to spend their money where they know it will make the best impact on the education of their pupils”.<sup>7</sup>

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<sup>5</sup> [School Finance \(England\) Regulations 2011 \(SI 2011/371\) – Explanatory Memorandum](#), pp2–3

<sup>6</sup> Department for Education, [Dedicated Schools Grant Q and A](#), p1

<sup>7</sup> As above, p2

### 3 2012–13

The total value of DSG (before recoupment for academies) was £36.9 billion in 2012-13. DSG per pupil was held at the previous year's values in cash terms. Details of the DSG allocation by local authority can be found on the DfE's [Schools Funding Settlement 2012-13 including Pupil Premium](#) pages.

In its July 2011 consultation paper, [Consultation on school funding reform: Proposals for a fairer system](#), the Department for Education cited that the majority of respondents to an earlier consultation were unsure when the new national funding formula should be introduced. It was determined, therefore, that the current funding system would be maintained in 2012–13 “to enable further consultation and sufficient time for local authorities, Schools Forums, schools and Academies to interpret the reforms and the settlement”.<sup>8</sup>

In a written parliamentary statement in December 2011, the Education Secretary, Michael Gove, told the House:

As set out in the “Consultation on School Funding Reform”, issued in July, we will continue with the current methodology for funding schools in 2012-13 through the dedicated schools grant (DSG). The underlying school budget will be kept at flat cash per pupil for 2012-13.

To protect local authorities with falling pupil numbers we will continue with arrangements to ensure that no authority loses more than 2% of its budget in cash terms.

Although the overall schools budget will stay at the same level on a per pupil basis before the addition of the pupil premium, the actual level of each school's individual budget will vary. It will depend on local decisions about how best to meet needs and priorities. This does mean that some schools will see budget reductions, either because they have fewer pupils or local changes to funding distribution. To protect schools from significant budget reductions, we will continue with a minimum funding guarantee that ensures no school sees more than a 1.5% per pupil reduction in 2012-13 budgets (excluding sixth form funding) compared to 2011-12 and before the pupil premium is added.

Details of these arrangements, including per pupil funding for each local authority, are being sent to local authorities today and have been published on the Department for Education's website.<sup>9</sup>

The *School Finance (England) Regulations 2012* (SI 2012/335) came into force on 15 March 2012, and the DfE noted that “to a large degree, the 2012 Regulations re-enact provisions in the *School Finance (England) Regulations 2011*”, which in turn re-enacted provisions in previous regulations, although there were some “minor changes”,<sup>10</sup> namely:

- the circumstances in which a local authority can vary its MFG, with the approval of its schools forum and without applying to the Secretary of State, were extended;
- the pupil premium should move between schools and other providers where a pupil is excluded; and

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<sup>8</sup> Department for Education, [Consultation on school funding reform: Proposals for a fairer system](#), p48, para 9.1

<sup>9</sup> [HC Deb 13 December 2011 cc92WS–93WS](#)

<sup>10</sup> SI 2012/335, [Explanatory Memorandum](#), p1, para 2.3

- in terms of definitions of allowable expenditure within the schools budget, remission of boarding fees and the deficits of closing schools can be charged to the schools budget.<sup>11</sup>

The following parameters were set (and were the same as in 2011-12):

- school funding per pupil (i.e. Guaranteed Units of Funding) to be flat;
- Minimum Funding Guarantee at -1.5%;
- cash floor of -2%.

The DfE provided the following explanation of how these parameters interacted:

**You've said school funding is at cash flat per pupil, yet the Minimum Funding Guarantee is minus 1.5%. Which is it?**

The national schools budget is protected at cash flat per pupil, meaning every local authority will get the same per pupil amount of schools grants as they did in 2011-12. In the current fiscal context, this is a good settlement for schools. However, the budgets of individual schools are set by local authorities using local formulae. This means that within local areas, some schools will receive increases while others will receive decreases. The Minimum Funding Guarantee ensures that no school will receive a reduction in its budget of more than 1.5% per pupil. The Pupil Premium is entirely in addition to this.

**What does a cash floor of minus 2% mean?**

The cash floor provides some support to local authorities with falling rolls. A cash floor of minus 2% means that no local authority will see more than a 2% cash drop in its budget, regardless of falling pupil numbers.<sup>12</sup>

A breakdown of per pupil funding levels by local authority can be found on the DfE website on its webpage [Guaranteed Unit of Funding \(GUF\) including cash baselines](#).

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<sup>11</sup> As above, p2, paras 7.3–7.5

<sup>12</sup> Department for Education, [Dedicated Schools Grant Q and A](#), p2

## 4 2013–14

The total value of DSG (before recoupment for academies) was £38.0 billion in 2013-14. Changes to how DSG is calculated and presented are detailed below, but funding per pupil for schools and early years was held at the previous year's adjusted values in cash terms. Details of the DSG allocation by local authority can be found on the DfE's [Schools Funding Settlement 2013-14 including Pupil Premium](#) pages.

For 2013–14, the Government announced in a consultation paper, [School funding reform: Next steps towards a fairer system](#) published in March 2012, that the new “fair national funding formula” would be further delayed as “getting the components and implementation of [it] is critical”; it was stated that it would be introduced “during the next Spending Review period with the minimum disturbance for all schools and Academies”.<sup>13</sup> In the meantime:

9. In order to support movement towards a national funding formula in the next Spending Review period, from 2013-14 we will simplify the local arrangements for distributing funding to schools and other providers. We will also ensure that the money that is intended for schools reaches schools and the pupils that need it most.
10. The considerable flexibility that is currently allowed in the distribution of funding locally has resulted in the generation of very complex local formulae. In some areas these formulae take account of scores of different elements, many of which have no direct impact on pupil attainment. Whilst highly sensitive formulae may be popular among schools that benefit, they have many disadvantages. They do not necessarily target funds where they are most needed; they create greater inconsistencies in the way schools are funded across the country; the complexity means it can be impossible to see why a school receives the funding it does; and they do not drive efficiency and innovation.<sup>14</sup>

The document set out a number of changes to in order to move to achieve the objectives set out above.

In [School funding reform: Arrangements for 2013-14](#), published in June 2012, the DfE confirmed the approach that would be taken, taking into account the findings of the consultation. The Government noted that “most of the next steps we set out in March remain unchanged”, although some important aspects of detail ... have been clarified or firmed up”.<sup>15</sup>

The arrangements for 2013–14 included the following changes for local authorities to allocate the new Schools Block element of the DSG to schools:

1. “maximum delegation”, meaning that “only in exceptional circumstances will funding from the Schools Block be held by the local authority for the provision of central education services”;
2. a “significant reduction” in the number of factors that local authorities can use in their formulae for allocating funding to schools; “the allowable factors are weighted towards pupil characteristics rather than school organisation or premises characteristics”;

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<sup>13</sup> Department for Education, [School funding reform: Next steps towards a fairer system](#), March 2012, p4, para 8

<sup>14</sup> As above, pp4–5

<sup>15</sup> Department for Education, [School funding reform: Arrangements for 2013-14](#), June 2012, p2, para 4

3. strengthening of the Schools Forum arrangements “to ensure fairer decision-making for all the pupils in the area”.<sup>16</sup>

The sections below highlight some of the key changes made for 2013–14.

#### 4.1 Funding levels

The 2013–14 included an MFG of -1.5% per pupil (which would also apply in 2014–15). The DfE explained that:

The development of new local formulae under these arrangements is highly likely to result in changes to each school’s budget share. In order to limit the impact of these changes and to provide stability and protection for schools, a minimum funding guarantee of minus 1.5% per pupil in 2013-14 and 2014-15 will be put in place.<sup>17</sup>

The following are “automatically excluded” from the calculation of MFG “as including them could result in excessive or insufficient protection for schools”:

- a. post-16 funding;
- b. allocations from the notional High Needs Block, including those for named pupils with SEN;
- c. the lump sum;
- d. allocations made through the early years single funding formula;
- e. allocations for rates.<sup>18</sup>

#### 4.2 Three notional DSG blocks

The March 2012 consultation proposed that the DSG should be split into three notional blocks: schools, early years and high needs. The DfE explained that: “The size of each notional block is not what we think should be spent: indeed the size of the funding passed to local authorities for each block will be based on previous local authority decisions on spend. The blocks will not be ring-fenced but we will continue to ring-fence the DSG as a whole so that it is spent on the functions for which it is meant”.<sup>19</sup>

The 2013–14 funding arrangement document confirmed this approach.<sup>20</sup> Out of a total DSG allocation of £38.0 billion the schools block made up £30.4 billion (80%), the early years block £2.1 billion (6%) and the high needs block £4.9 billion (13%). These totals were derived from adjusted notional blocks for 2012-13, uprated for changes in pupil numbers and to include post-16 high needs funding. The technical note published alongside the settlement gives more details of how these blocks were calculated.<sup>21</sup> An additional £0.6 billion was added to DSG to pay for additions outside these three blocks, largely funding for early years places for two year olds from lower income households.<sup>22</sup>

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<sup>16</sup> As above, p3, para 1

<sup>17</sup> As above, p3, para 2

<sup>18</sup> As above, p10, paras 50–51

<sup>19</sup> Department for Education, *School funding reform: Next steps towards a fairer system*, p29, para 2.2.1

<sup>20</sup> Department for Education, *School funding reform: Arrangements for 2013-14*, p15, para 80

<sup>21</sup> Department for Education, *Dedicated Schools Grant: Technical Note for 2013-14*

<sup>22</sup> Department for Education, *Dedicated Schools Grant: 2013-14 allocations*



### 4.3 The Schools Block

#### ***Reduced number of formula factors***

The DfE said that it sought to “strike the right balance between a formula that is simple and easy to understand, and one which is responsive to genuine need”, adding that “we believe that the vast majority of funding should be pupil-led and not driven by the history, organisation or premises of the school”.<sup>23</sup>

The DfE noted that the 2012–13 school funding regulation “give local authorities power to apply 37 different formula factors when distributing the Schools Budget”, and the factors could also be “interpreted and applied in a variety of ways and this has resulted in some local authorities having complex and opaque local formulae that take account of scores of sub-factors”. The DfE argued that “having highly complex formulae makes it very difficult for head teachers, principals, governors and parents to understand how their schools are funded”.<sup>24</sup>

Instead, the Government proposed shrinking the number of formula factors from 37 to ten in order to “ensure that most funding is pupil-led and that decisions taken locally are transparent and easily understood”, and also to “stand us in good stead to introduce a national funding formula on a similar basis in future”.<sup>25</sup> The ten factors are listed below:

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

The DfE noted that of the ten, two are mandatory (basic per-pupil entitlement and deprivation) and one is only applicable to the five specific local authorities.<sup>26</sup>

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<sup>23</sup> Department for Education, [School funding reform: Next steps towards a fairer system](#), p12, para 1.3.2

<sup>24</sup> As above, pp12–13, para 1.3.3

<sup>25</sup> As above, p13, para 1.3.4

<sup>26</sup> Department for Education, [School funding reform: Arrangements for 2013-14](#), p6, para 23

## **Lump sum**

In their March 2012 consultation, the DfE considered the prevailing system of lump sum payments, noting that “many local formulae currently allocate a lump sum to schools. This could be for a variety of reasons including to help small schools, particularly those in rural areas, which are not otherwise able to operate from just their per-pupil funding [or] to take account of funding that was previously distributed through a range of other targeted grants”.

The DfE observed that “this often means that within a local authority, the amount of funding distributed through the lump sum can differ significantly between schools”, making it “difficult to know whether schools are being funded fairly”. It therefore proposed that local authorities would only be able to apply a single lump sum, the same for each school in the area, with the majority of funding variation coming through the funding factors instead.<sup>27</sup> A universal lump sum would, the DfE acknowledged, be “a significant change to the current arrangements”, but argued that “it is important that we can provide a transparent system, which allows the public to see clearly where money has been spent”. They added that the lump sum “is predominantly aimed at supporting small schools but for simplicity each primary, secondary, middle and all-through school would receive the same lump sum”.

The DfE acknowledged that the variable lump sum system benefitted smaller schools who faced funding issues beyond their control, and that under the new single lump sum approach smaller schools might wish to consider more efficient organisational structures and operations for instance, federating, merging or becoming part of an Academy chain”.<sup>28</sup>

The DfE proposed an upper limit to the lump sum, adding in the consultation document that it should “probably fall somewhere between £100k and £150k, and is certainly no higher than £150k”; views were sought on this matter.<sup>29</sup>

In the subsequent [School funding reform: Arrangements for 2013-14](#) document, the DfE summarised the 551 responses to the consultation question on lump sum funding:

Nearly half of respondents preferred the maximum level of the lump sum to be set at £150,000. Respondents who agreed with this level suggested that a high upper limit was necessary to provide sufficient protection to small schools and to allow different authorities to set a lump sum which best targeted resource in their area.

Those that responded ‘none’ included a number who indicated that they felt £150,000 was too low and lower than many current lump sums.

A number of respondents suggested that there should be flexibility for schools to petition for a larger lump sum in exceptional circumstances.

12% of respondents indicated that there should be a separate primary and secondary lump sum.<sup>30</sup>

The DfE confirmed the new one-size-fits-all approach for lump sums payments within a local authority area, although it raised the lump sum limit to £200,000 per school “in order to provide local authorities with additional flexibility in this first year of reform”, although it

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<sup>27</sup> Department for Education, [School funding reform: Next steps towards a fairer system](#), p19, paras 1.1.38 and 1.1.39

<sup>28</sup> As above, pp19–20

<sup>29</sup> As above, pp19–20, paras 1.3.38–1.3.44

<sup>30</sup> Department for Education, [School funding reform: Arrangements for 2013-14](#), p26

cautioned this figure would be reviewed, adding “we may use a different cap for the 2014/15 allocations”.<sup>31</sup>

Responding to objections to the approach, the DfE stated:

41. Some schools and local authorities are concerned that the single lump sum approach would advantage some schools over others. We believe that the transparency of a single lump sum (which reflects fixed costs and no more) strongly supports the move to a fair and transparent funding system. Schools have historically been allocated funding through various grant programmes or because they offered different types of facilities or teaching staff. This has led to a system where some schools offer a rich and varied curriculum while others offer only the basics. Not all pupils can go to the first type of school. That is why we are ensuring that more funding will follow pupils, so that those schools that attract pupils (either because of their curriculum or ethos or quality of teaching) will also attract the funding they need and, in turn, this will lead to pupils having greater choice over better schools.

42. Small rural schools can play an important role in local communities. We remain firmly committed to supporting them wherever they represent an efficient use of a local area's funding. That is why we are not only allowing a lump sum with an appropriate limit but we have also continued with our policy of a presumption against the closure of rural schools as set out in section 15 of the Education and Inspections Act 2006.

43. As with any school, small schools may have to consider alternative arrangements to remain viable. As we set out in March, shared governance, federation and joining an Academy chain are just some solutions which might help small schools to continue to succeed. It would be unfair to allow subsidies to continue to reach schools with a few pupils, at a significant cost to the schools with the majority of pupils.<sup>32</sup>

It should be noted that the payment of a lump sum is optional.<sup>33</sup>

The *School and Early Years Finance (England) Regulations 2012* (SI 2012/2991)<sup>34</sup> stated that “A single sum of an equal amount to be given to each school of up to £200,000 per school” under Schedule 3.<sup>35</sup>

### ***Low cost, high incidence special educational needs***

The March consultation noted that while funding arrangements for pupils with high Special Educational Needs (SEN) are dealt with through separate funding arrangements, for those pupils whose SEN are not so severe the DfE observed that the prevailing funding distribution was “distribute[d] in a number of different ways” and that “because SEN is sometimes hard to pin-point, the methods used are wide-ranging and variable”, adding that the Department “believe they need simplifying”.

The DfE acknowledged that there is “no ‘perfect’ way of identifying pupils with low-cost SEN”, and continued that it was therefore “not keen on allowing a measure which is based on direct identification of pupils as having SEN as this can be subjective. It is for this reason that we will remove factors from the regulations that allow formula funding to be targeted to pupils on

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<sup>31</sup> As above, p8, para 40

<sup>32</sup> As above, pp8–9

<sup>33</sup> Department for Education, *Frequently Asked Questions – Version 10*, p19, Q87

<sup>34</sup> See:

<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding/financeregulations/a00218106/school-and-early-years-finance-regulations>

<sup>35</sup> SI 2012/2991, Schedule 3, Part 1, paragraph 1

the basis that they are on School Action or School Action Plus”. Instead, the following were proposed as “safeguards to ensure that the system is not subject to misuse”:

- for primary schools, funding to be distributed to pupils based on their achievement as recorded by the Early Years Foundation Stage Profile (EYFSP) – the threshold would be 78 points;
- for secondary schools, local authorities will be able to use Key Stage 2 results to identify those pupils – the threshold would be attainment at Level 3 or below in both English and mathematics.<sup>36</sup>

In the *School funding reform: Arrangements for 2013-14*, the DfE noted that the factor based on prior attainment would be “available but its use is not compulsory”. Following representations from local authorities, the DfE decided to amend the thresholds as follows:

- for primary schools, either all pupils who do not achieve 78 points or all pupils who do not achieve 73 points or more in the EYFSP. This will be a temporary measure until the review of EYFSP has concluded; and
- for secondary schools, all pupils who fail to achieve Level 4 (rather than Level 3) or above in both English and mathematics at Key Stage 2.<sup>37</sup>

#### **Two additional factors added**

In addition to the ten formula factors, there are two additional factors which local authorities can take into account as follows:

- post-16 – the DfE stated that “where local authorities have used DSG for sixth forms, in the past, they will be allowed to honour this commitment in 2013-14, but no new commitments or increases in expenditure will be allowed”;
- pupil mobility, in regard to the total movement in and out of schools by pupils other than at usual times of joining and leaving – “local authorities will therefore be able to apply a factor for pupil mobility that is based on the number of pupils entering schools at non-standard entry points”.<sup>38</sup>

#### **4.4 The role of the Education Funding Agency (EFA) and oversight of funding decisions**

As the DfE noted, the EFA has a “key role” in overseeing the school funding system:

- it distributes the DSG and Pupil Premium to local authorities;
- calculates and pays Academy budgets;
- calculates sixth form funding for schools and Academies; and
- will have a role in overseeing local funding arrangements.<sup>39</sup>

On this latter point, the DfE explained that:

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<sup>36</sup> Department for Education, *School funding reform: Next steps towards a fairer system*, pp17–18, paras 1.3.26–1.3.34

<sup>37</sup> Department for Education, *School funding reform: Arrangements for 2013-14*, p7, paras 33–34

<sup>38</sup> Department for Education, *School funding reform: Arrangements for 2013-14*, p9, para 46

<sup>39</sup> As above, pp11–12, para 60

essentially there are three main components to the EFA oversight role:

- a. a right to send an observer to Schools Forums;
- b. reviewing each local authority's pro-forma to ensure the formula is compliant with the new arrangements; and
- c. ensuring that local formulae have been constructed in a reasonable way that enables the variety of provision in the area to be funded equitably.<sup>40</sup>

In regard to point c, it would appear that the EFA would act as an appeals body for schools or Academies that believe they will be “unreasonably funded as a result of the local authority not applying an allowable formula factor or not requesting an exceptional factor”. In such cases, the EFA “will explore the matter further. After investigation the EFA may ask the local authority to apply the factor in question”.<sup>41</sup>

The DfE added:

The EFA will not consider general representations from individual schools that have lost funding under the new formula arrangements. The EFA will, however, monitor the impact of the new formulae on different types of schools – for instance in the primary to secondary funding ratio – and look for trends. This kind of information will be of value in the development of a national funding formula.

The EFA will respond to schools and Academies that indicate potential infringements of those regulations and DSG grant conditions which ensure maximum delegation, create restrictions on use of funding for central services, and ensure that any centrally retained funding is used equitably. The EFA may wish to seek to verify such complaints by securing evidence and information from the local authority.<sup>42</sup>

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<sup>40</sup> As above, p12, para 61

<sup>41</sup> As above, p12, para 65

<sup>42</sup> As above, p12, paras 66–67

## 5 2014–15

On 4 June 2013, the Minister for Schools, David Laws, announced further changes which will be implemented in the 2014–15 funding settlement. Noting that the 2013–14 settlement included a “number of changes to the school funding system to pave the way for a national funding formula”, Mr Laws said that “following consultation with the sector a number of improvements to the initial arrangements need to be made”. The 2014–15 settlement included the following points:

- “we will require local authorities to allocate a minimum of 80% of their funding on the basis of pupil characteristics and we will also be setting a minimum amount that each pupil should receive”;
- “we will enable local authorities to provide additional funding for schools in sparsely populated areas”;
- “new flexibilities will ensure local authorities can act to take account of varying fixed costs between different types of school”;
- “we will continue to target support on deprived and vulnerable pupils”;
- “we also want to encourage local authorities to provide the right level of additional funding for schools to enable them to support looked-after children, regardless of how long the child has been in care”.<sup>43</sup>

### 5.1 Funding levels

The DfE confirmed that “we will continue in 2014-15 to operate an MFG set at the same level as for 2013-14 - minus 1.5%”.<sup>44</sup> The Department added:

The only formula factors which will be automatically excluded from the MFG baseline are:

- Post 16 funding (sixth form factor)
- The lump sum, excluded by deducting the 2014-15 figure from the 2013-14 baseline (see example below). The lump sum is protected because it is added back in both years but is excluded from this calculation because it is not appropriate to treat this as a per pupil amount;
- The sparsity factor, excluded by deducting the 2014-15 figure from the 2013-14 baseline.<sup>45</sup>

Per pupil units of funding in the schools and early years blocks will remain at the same levels as 2013-14 for all local authorities and the DfE says it has no plans to change the formal boundary of the high needs block.<sup>46</sup> In effect this means that DSG per pupil has remained at its cash level per pupil in each local authority since 2010-11.

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<sup>43</sup> [HC Deb 4 June 2013 cc89WS–90WS](#)

<sup>44</sup> Department for Education, [School Funding Reform: Findings from the Review of 2013-14 Arrangements and Changes for 2014-15](#), p30, para 5

<sup>45</sup> Department for Education, [2014-15 Revenue Funding Arrangements: Operational Information for local Authorities](#), July 2013, p11, para 35

<sup>46</sup> As above, para 3

## 5.2 Pupil-led funding

Noting that in 2012–13 “all but two local authorities allocated 80% or more of their delegated DSG (schools block) funding in 2013-14 through the pupil-led factors”, which the DfE described as “significant progress towards our goal of a pupil-led funding system”,<sup>47</sup> for 2014–15 the Government decided that:

We want to ensure all local authorities allocate the vast majority of funding next year on a per-pupil basis. We will therefore be requiring in 2014-15 that in all local authority areas (with the exception of the Isles of Scilly), a minimum of 80% of delegated schools block funding is allocated through an appropriate and locally determined combination of the pupil-led factors<sup>48</sup>

where the pupil-led factors are:

- the Age Weighted Pupil Unit (AWPU),
- deprivation,
- prior attainment,
- looked after children (LAC) and
- English as an additional language (EAL).<sup>49</sup>

## 5.3 Review of formula factors

Before the 2013–14 funding settlement had been implemented, the Schools Minister, David Laws, told the House in October 2012 that “we have decided to carry out a thorough review in early 2013, starting now effectively, of the impact of simpler formula factors [introduced in the 2013–14 funding settlement]. We will work with local authorities to explore the effect of the different factors that we have, including the lump sum”.<sup>50</sup>

## 5.4 Review of the lump sum and the new sparsity factor

Further information was provided in a written parliamentary answer by the Schools Minister in March 2013:

**Justin Tomlinson:** To ask the Secretary of State for Education what recent representations he has received on the effects on smaller schools of changes in school funding. [145428]

**Mr Laws:** We have received representations from a few local authorities (including hon. Members representing, and head teachers working, in schools in those authorities) about the effects of the new funding arrangements for 2013-14 on small schools. These are mainly large rural authorities with several small schools. We recognise the vital role of small schools in rural communities and the new funding arrangements are not designed to disadvantage small schools in any way.

We are currently conducting a review of the new funding arrangements for 2013-14. Officials from the Department of Education have visited Bradford, Cumbria, East

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<sup>47</sup> Department for Education, *School Funding Reform: Findings from the Review of 2013-14, Arrangements and Changes for 2014-15*, June 2013, p7, para 4

<sup>48</sup> As above, p8, para 9

<sup>49</sup> As above, p8, footnote 1

<sup>50</sup> [HC Deb 23 October 2012 c253WH](#)



Sussex, Norfolk, North Yorkshire, Somerset, Staffordshire and Worcestershire to discuss how the new funding arrangements has impacted their schools.

On 12 February, we published a document, 'Review of 2013-14 School Funding Arrangements', which summarises how the 2013-14 reforms have been implemented. We are seeking views from governors, head teachers and local authorities on a number of specific issues, including on small schools in sparsely populated areas, that have been raised. A copy of this document is available at:

<http://tinyurl.com/schoolsrevenuefunding>

On the basis of this review, which also includes analysis of all local authority funding formulae, we will consider whether we need to make small changes in 2014-15 in order to address some of the issues raised.<sup>51</sup>

The Review the Minister referred to, *Review of 2013–14 School Funding Arrangements* was published in February 2013 and included consideration of the new lump sum arrangements under section 2, "Areas of concern and possible changes for 2014-15".

The Review noted concerns about the new arrangements in regard to smaller schools, and sought views on a number of issues. In particular, it noted that it had "become apparent that the current lump sum arrangements are causing concerns, particularly in relation to small schools in rural areas", adding:

It is not our intention that any necessary small school should be forced to close as a result of these reforms, and we acknowledge the need to support unavoidably small but necessary schools, for example in very sparsely populated areas. In seeking to achieve this, we are considering the possibility of introducing an optional school-level sparsity factor for 2014-15, specifically to target funding at necessary small schools in rural areas.<sup>52</sup>

The review posed a number of questions for consultation about the sparsity factor, and also the lump sum, including:

- Would having the ability to apply a separate primary and secondary lump sum avoid necessary small schools becoming unviable?;
- If we continued with one lump sum for both primary and secondary, what would be the minimum level of cap needed to ensure the sustainability of necessary small schools?
- If we had separate lump sums for primary and secondary, what would be the minimum cap needed for each in order to ensure the sustainability of necessary small schools?<sup>53</sup>

The consultation closed on 26 March 2013.

In the subsequent *School Funding Reform: Findings from the Review of 2013-14, Arrangements and Changes for 2014-15* the DfE announced the following changes:

- the maximum lump sum would be reduced to £175,000; and

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<sup>51</sup> [HC Deb 11 March 2013 cc91W–92W](#)

<sup>52</sup> Department for Education, *Review of 2013–14 School Funding Arrangements*, February 2013, p9, para 33

<sup>53</sup> As above, pp9–10, Qq7 and 8



- local authorities will be able to differentiate the lump sum by phase for 2014-15.<sup>54</sup>

The DfE continued to insist that a single lump sum be applied by local authorities (albeit now with the option of different levels across phases):

We know, however, that many respondents believe that the lump sum needs to be responsive to size as well as phase. We want lump sum funding to support schools which are unavoidably small and require this support because per pupil funding alone is not sufficient. We do not want lump sum funding to offer additional funding to schools which have fewer pupils on roll because they are unpopular. We also want to avoid adding complexity to this factor. For these reasons we do not intend to allow local authorities to vary the lump sum value according to the size of the school.<sup>55</sup>

In terms of the reduced maximum lump sum, the DfE explained that “now that we have a sparsity factor ... which will enable local authorities to target small rural schools, we think there is a strong case for lowering the lump sum cap ... Reducing the size of the lump sum supports our aim of moving towards a more pupil-led funding system”.<sup>56</sup>

For 2014–15, following the March 2013 consultation, the DfE announced the introduction of an “optional sparsity factor” as set out below:

In rural areas where schools are few and far between, pupils could face the choice of either attending their nearest school or travelling a long way to the second nearest. In some cases, the distance to their second nearest school can be unacceptably long, putting a premium on ensuring that the pupil’s nearest school stays open. Therefore, we think it is appropriate to enable local authorities to target additional funding to support these schools where per pupil funding alone may not be enough to ensure their viability.<sup>57</sup>

In terms of financial support, the sparsity factor allows for “a fixed or variable amount may be applied to small schools where the average distance to pupils’ second nearest school is more than 2 miles (primary) or 3 miles (secondary). The maximum value for the sparsity factor is £100,000 per school (including fringe uplift)”.<sup>58</sup>

Further information is set out in [paragraphs 20 to 25](#) of the DfE’s operational guidance to local authorities.

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<sup>54</sup> Department for Education, *School Funding Reform: Findings from the Review of 2013-14, Arrangements and Changes for 2014-15*, June 2013, p21, paras 80 and 81

<sup>55</sup> As above, p21, para 82

<sup>56</sup> As above, p21, paras 79 and 80

<sup>57</sup> As above, p17, para 59

<sup>58</sup> Department for Education, *2014-15 Revenue Funding Arrangements: Operational Information for local Authorities*, July 2013, p5