



BRIEFING PAPER

Number 06702, 20 March 2017

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

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Summary

School funding reform – a planned national funding formula

The Government is planning to introduce a national funding formula (NFF) to calculate the amount of core revenue funding that mainstream schools in England will attract in respect of primary and secondary (but not sixth form) pupils.

There isn't currently a national formula like this. Local authority areas get different amounts of money per pupil in the Schools Block element of the Dedicated Schools Grant, or DSG. They then draw up their own local funding formulas to share the money out between schools, although they have to do this following DfE guidance.

What is the national funding formula (NFF) and how will it work?

This is the formula that will be used to calculate and distribute core revenue funding for mainstream schools in England.

There will be separate formulas to calculate early years funding and high need funding (largely this is for high-cost provision for children with SEND), as well as for some services still centrally provided by local authorities.

As well as money from the NFF, schools will also get income from other sources, including: the Pupil Premium which will remain outside of the NFF; 16-19 funding if they have a sixth form; early years funding if they have nursery classes; voluntary contributions and fundraising, to varying degrees; and capital funding for maintenance, renovations and new places, where appropriate.

When is the formula due to be introduced?

The NFF is due to be introduced in as a 'soft' format in 2018-19 and a 'hard' format from 2019-20. In 2018-19, the formula will be used to work out how much funding a school should attract. This will then be aggregated up to local authority level and distributed according to a local authority-determined funding formula, as now. From 2019-20 the formula would be used to calculate schools' core revenue funding directly, and the role of the local authority in deciding how funding is shared out would be significantly reduced.

The Government is currently consulting on the weightings in the NFF, and its phased introduction. The consultation closes on 22 March 2017; a parallel consultation on high need funding is due to close then, too.

The DfE's illustrative figures on impact of the proposed NFF and other funding reforms

Alongside the second stage NFF consultation, the DfE has published illustrative figures showing how schools and local authorities might fare in two hypothetical scenarios under the proposals:

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- If the NFF had been implemented in full this year, 2016-17, without any transitional protections, with funding estimated using 2016-17 pupil data (2016/17 data for academies). The illustrative figure is then compared to a 2016-17 funding baseline. Figures are expressed in cash terms.
- If the NFF were implemented with transitional arrangements (maximum increase of 3% and maximum cut of 1.5% per pupil) as is planned, in the first year of transition, in 2018-19. Again, the figures are based on 2016-17 pupil data (2016/17 for academies). Results are then compared to 2016-17 baseline funding, and again, figures are expressed in cash terms.

These illustrative figures don't show what any school will get in any particular year, but are intended to inform the consultation and give an idea of how the formula might work.

The DfE hasn't provided illustrations for future years beyond 2018-19, but has said that no school would see annual cuts in per-pupil funding of more than 1.5% in any one year and more than 3% overall (i.e. across more than one year) as a result of the NFF. Increases at individual schools will be capped at 3.0% per pupil in 2018-19 and 2.5% in 2019-20.

Allocations relating to the NFF in any particular year will depend on a range of variables including:

- changes to pupil numbers and characteristics at individual schools;
- the overall school funding envelope;
- any changes made to the formula post-consultation;
- what transitional arrangements and protections are adopted;
- In 2018-19, what local funding formula the relevant local authority adopts.

Potential impact of the NFF

The DfE says that as a result of its proposals:

- 54% of schools would be funded at a higher level than in 2016-17. 73% of these schools are due to gain up to 5.5% per pupil and would be likely to be on 'full formula' by 2019-2020.
- The remaining quarter of 'gainers' are due greater increases and consequently would take longer to attain their 'target rates'.
- 46% of all schools would be funded at a lower level. For the majority of these schools, the reduction would be between 1- 3% per pupil.

Groups of schools the DfE says are more likely to gain are:

- Schools with low prior attainment.
- Schools with pupils who live in areas with above average levels of deprivation but who have not been heavily targeted through historic funding decisions.

- Schools in areas where funding levels have historically been low – but not every school in historically 'low funded' areas and not every 'low funded' area.
- Small rural schools. (see section 3 of the main consultation document)

The DfE says that the main group of schools likely to see reductions are:

Those in Inner London and some other urban areas that have particularly benefitted from historic funding decisions and where underlying levels of deprivation have fallen over recent years [...] 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.¹

Cost pressures and the wider school funding context

On 14 December 2016, the National Audit Office (NAO) published a [report](#) on the financial sustainability of schools in England.

This said that mainstream schools, overall, would need to find £3 billion of efficiency savings by 2019-20. This equated to a net real-terms reduction in per-pupil funding of around 8% for mainstream schools between 2014-15 and 2019-20. The NAO reported that:

- The overall schools budget overall is protected in real terms between 2015-16 and 2019-20, but this does not provide for funding *per pupil* to increase in line with inflation.
- This is partly because pupil numbers will rise significantly over the same period, and partly because schools are facing cumulative cost pressures from things such as pay rises, increased pension and national insurance contributions, and inflation.

Speaking in response to a debate of 25 January 2017, Schools' Minister Nick Gibb said that core schools funding was being protected for the duration of the Parliament. The Government accepted schools were facing cost pressures.

He went on to say that the funding reforms were not about the overall level of school funding or the cost pressures that schools were facing, but about ending the "postcode lottery" and making funding fairer. Some of the cost pressures had "already materialised" and the DfE was providing high-quality advice to schools on better procurement, and budget management.²

¹ Department for Education, [Schools national funding formula. Government consultation - stage 2](#). 14 December 2016, p52

² [HC Deb 25 January 2017 cc403-4](#)

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

1.1 Stage 1: the Dedicated Schools Grant

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

The overall value of the DSG in 2016-17 (as at November 2016) was £40.7 billion. The DSG is notionally divided into three non-ring-fenced blocks:

- The largest block, the Schools Block: £32.7 billion or 80%.
- The High Needs Block: £5.3 billion or 13%.
- The Early Years Block £2.7 billion or 7%.

Information on local authorities' Schools Block, High Needs Block and provisional Early Years Block allocations for 2016-17 can be found at:

- [EFA, Dedicated schools grant allocations: 2016 to 2017 financial year, updated November 2016](#)

How are local authorities' DSG allocations worked out?

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

In discussions of how much funding different local authorities receive, per pupil, the figure that's usually referenced is what's known as the 'Schools Block Unit of Funding', or SBUF. In 2016-17, local authorities' SBUFs varied from just over £4,000 in Wokingham to just under £7,000 in Tower Hamlets. There are, however, other sources of income for schools including post-16, high need, early years and pupil premium funding.

For 2016-17 local authorities' Schools Block allocations were calculated by carrying forward the previous year's allocation, subject to adjustment for the number of pupils on roll and a small number of other factors. Similarly, Schools Block allocations in 2015-16 were based largely on the previous year's allocation, but with some formulaic 'fairer school funding' uplifts for what the DfE described as the 'least fairly funded' areas.

‘Fairer school funding’ in 2015-16 and subsequent years

The Coalition Government provided an additional £390 million in funding in 2015-16 to what it described as the least fairly funded local authorities. This fairer schools funding was baselined or ‘rolled forward’ in future years.

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

Finding information on how DSG is calculated and conditions of grant

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

- [EFA, Dedicated schools grant. Conditions of grant 2016 to 2017, December 2015](#)
- [EFA, Dedicated schools grant. Technical note for 2016 to 2017, December 2015](#)
- [EFA guidance, Schools Block units of funding 2016-2017. Technical note, July 2015](#)

Guidance on how DSG will be calculated for 2017-18 can be found in the following document collection:

- [EFA, Schools funding arrangements 2017 to 2018](#)

Provisional allocations and accompanying guidance and technical documents are listed at:

- [Dedicated schools grant \(DSG\): 2017 to 2018, December 2016](#)

History of the Dedicated Schools Grant

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

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

Calculation of funding prior to 2006-07

The system for allocating funding to local authorities for their education functions prior to 2006-2007 was partially based on a consideration of area needs, taking into account factors such as deprivation and additional educational needs (using local area data on income-related benefits, ethnicity, language and birth weight), population sparsity (to

account for higher costs of small mainly rural primary schools) and area costs (generally higher wage costs in and around London).

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

1.2 Stage 2: the local funding formula

Local authorities do not pass DSG funding straight on to schools. In allocating funding, they must consult with their local schools forum and with all maintained schools and academies in their area. Schools forums are statutory bodies that must have representatives from schools and the local authority, and can also have other members. Schools forums have decision-making powers in some circumstances.

The local authority, in consultation with the forum, determines the overall individual schools budget for schools in the area, any funding to be centrally retained, and whether any funding should be moved between the three blocks of the DSG. It also determines a local funding formula which is used to distribute the individual schools budget between local schools.

Factors used in local funding formulas

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

Mandatory factors include:

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

Optional factors include things like:

- A lump sum payment (in 2015-16 this was used by all local authorities)³
- Children in care
- Prior attainment
- English as an Additional Language (EAL)
- Sparsity (schools serving rural areas)

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

Application of local funding formula to academies and free schools

The EFA calculates academies' shares of the individual schools budget using the local funding formula, and recoups this from local authorities.

³ See: EFA, [School revenue funding 2016-17. Operational guide version two](#), December 2015, Pp. 7. All websites last accessed 20 March 2017 unless otherwise stated.

The recouped funding is then paid to academy trusts via the General Annual Grant (GAG).

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

Revenue funding for some free schools in their first year of opening is currently not included in the DSG. They get their funding directly from the EFA. However, the Government is changing this, making all free schools recoupable from their first year of opening. A consultation response published on 15 December 2016 provides more details on the rationale for this, and how this will work in practice.⁴

1.3 Capital funding

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

1.4 Other school revenue funding

Pupil Premium

Schools receive additional funding each year for disadvantaged pupils and qualifying children from service families via the pupil premium. In 2016-17 the pupil premium is worth £2.4 billion, the large majority (92%) of which is the deprivation element of the premium. This money is given to local authorities who pass it on to their maintained schools, and is given directly to academies and free schools. Funding for looked after and previously looked after children is overseen by local authorities' virtual school heads.

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

- [Commons Library briefing paper, School funding: pupil premium](#)

Education Services Grant

The November 2015 Spending Review announced that further savings of around £600 million would be made from the Education Services Grant (ESG). This is additional funding that academies and local authorities receive for centrally provided services such as human resources, school improvement and education welfare services. ESG allocations for 2015-16, as at March 2016, totalled £563 million, down from £717 million in 2014-15.

⁴ DfE, [Adjustments to local authority funding related to free schools. Government consultation response](#), 15 December 2016.

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

- [Education Services Grant allocations 2015-16, updated 21 March 2016](#)

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

- [Education Services Grant allocations 2016-17, last updated 25 November 2016.](#)

Transitional 2017-18 ESG allocations, covering the period up to August 2017, will be paid to local authorities. This funding will then be removed although a smaller element of funding for ESG duties will be paid through the schools block of DSG. Transitional allocations for 2017-18 and background information can be found at:

- [Education services grant \(ESG\) transitional grant 2017 to 2018, December 2016](#)

Self-generated income

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

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

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

Dedicated Schools Grant allocations

Spreadsheets setting out local authorities' final DSG allocations for 2016-17 and provisional 2017-18 allocations can be found on the Gov.uk website:

- [EFA, Dedicated Schools Grant 2016-17, updated November 2016.](#)
- [Dedicated schools grant \(DSG\): 2017 to 2018, December 2016](#)

Schools Block allocations

An EFA spreadsheet provides headline data on the per pupil funding each school receives through the Schools Block of the DSG only. The data for maintained schools are for the financial year 2016-17. The figures for academies are for the academic year 2016-17:

- [EFA, Schools Block funding allocations 2016-17, 10 November 2016.](#)

Pupil premium allocations

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

- Gov.uk website article, '[Pupil premium: funding and accountability for schools](#)'.

3. Proposals for change under Conservative Government

3.1 A note on earlier Coalition Government reforms and consultations

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

3.2 Conservative General Election Manifesto pledge and November 2015 spending review

The Conservative Party Manifesto for the 2015 general election stated:

[...] we will make schools funding fairer. We have already increased funding for the 69 least well-funded local authorities in the country, and will make this the baseline for their funding in the next Parliament.⁵

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

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

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

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

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

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

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

It would be tough to do it for 2016-17 as we don't want to rush it, but then we are looking at how quickly we can bring it in thereafter. I'm determined we will make progress on this.⁶

The Spending Review of November 2015 confirmed that the Government would consult on the introduction of a national funding

⁵ Conservative Party, [Conservative Manifesto 2015](#), p34

⁶ ['Morgan: We're working hard on a national fair funding formula, but it won't be ready for at least two years'](#), *Schools Week*, 29 June 2015

formula for schools, early years and high needs early in 2016. Announcing the plans, Chancellor George Osborne said:

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

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

In its place, we will introduce a new national funding formula. I commend the many MPs from all parties who have campaigned for many years to see this day come.⁷

3.3 f40 group

The f40 group describes itself as a representative organisation for the lowest funded education authorities in England.⁸ It is currently chaired by Cllr. Ivan Ould; vice chairs are Vernon Coaker MP and Alex Chalk MP. Information about f40's position on school funding can be found on the group's website:

- [F40 Campaign's website](#)

3.4 March 2016 – DfE publishes consultation on a national funding formula

On 7 March 2016, then-Education Secretary Nicky Morgan announced the launch of two initial consultations on the future of school funding and on the funding of high need provision. Both consultations closed on 17 April 2016. A Written Statement to Parliament provided further detail on the consultations:

- [Nicky Morgan, Funding for Schools: Written statement - HCWS584, 7 March 2016.](#)

The consultation documents can be downloaded from the Gov.uk website:

- [DfE consultation document, Schools national funding formula, 7 March 2016.](#)
- [DfE consultation document, High needs funding reform, 7 March 2016](#)

Proposals for the national funding formula

To summarise, the March 2016 consultations proposed:

- A national formula, with phased implementation. The formula would be made up of the following basic elements:
 - A per-pupil cost factor

⁷ [HC Deb 25 Nov 2015, c1370](#)

⁸ See: [f40 group website homepage](#)

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- Additional needs funding based on low prior attainment, deprivation and English as an Additional Language indicators, among other things.
- School costs factor – including a lump sum for e.g. fixed costs, and sparsity (rurality) factors.
- Geographic costs factor – i.e., higher average wage costs.

The original proposal was to introduce a 'soft' formula in 2017-18, to distribute central government funding to local authorities. For a two year transition period, local authorities would then continue to share out this money on the basis of a locally-determined formula.

This first stage consultation proposed that from 2019-20, a 'hard' version of the formula would be used to distribute most funding directly to schools. The main exception was high need funding, which local authorities would continue to distribute.

Other proposals in the March 2016 consultation document

The first stage national funding formula consultation document also proposed:

- Retaining the pupil premium, pupil premium plus and service premium as a separate grant and, from 2017-18, increasing the premium payable in respect of looked after children and those who have left care via adoption, special guardianship or child arrangements order.
- Allocating some funding to local authorities where local flexibility is required, as well as to fund authorities' statutory responsibilities.
- Caps on both losses and gains under the new formula.
- An 'invest to save' fund to support schools.

The DfE also proposed some other changes, including:

- The addition of a fourth central schools block of funding to cover some central services.
- Reducing the existing flexibility to move money between different DSG blocks and, specifically, requiring LAs to pass on all of its Schools Block to schools from 2017-18.

Proposals for high need funding

The first-stage consultation proposals on reform to high need funding were complex, but included:

- The introduction of a national formula to distribute high need funding to local authorities. This would include a basic unit of funding for pupils in specialist SEN provision. It would also be based on proxy measures of need such as disability and health indicators, prior attainment, deprivation and a 'population factor'. There would also be an area cost adjustment.
- For at least the next five years the high needs formula would include an element of planned local authority spending on SEN in 2016-17. This would be to minimise funding turbulence and disruption to pupils' established placements.
- Local authorities would retain responsibilities for distributing high need funding locally in most cases.

- Funding for infrastructure changes and restructuring as local authorities and providers adjust to the new funding arrangements.
- Changes to the way post-16 SEN provision was funded.

The system of funding high need will remain largely unchanged in 2017-18 while details of the reformed system are finalised. Details on how high need funding will operate in 2017-18 can be found in:

- [Gov.uk guidance, High needs funding: operational guide 2017 to 2018](#), 30 November 2016

3.5 Reaction to March 2016 proposals

In a press notice released alongside their consultation response, the National Association of Head Teachers (NAHT) and the National Association of School Business Management (NASBM) “welcomed [the]... proposals overall” while raising some specific concerns:

[...] Russell Hobby, general secretary of school leaders’ union NAHT, says: “NAHT has campaigned for a funding formula for schools for a long time, so we welcome an opportunity to help make this a reality.

“Our response to the consultations highlights concerns school leaders have, and ways in which these can be remedied. The weighting of factors within the formula will be crucial, and for schools the devil will be in the detail. We’re disappointed not to see a pupil mobility factor within the formula, as this presents an enormous challenge for some schools.

“The high needs funding formula has not gone far enough. Proposals fail to tackle the discrepancy in how different local authorities allocate top up funding to meet the needs of children with SEND needs. This creates some of the greatest inequities in school funding.

“The demise of the Education Services Grant (ESG) will also be a concern to academies, who will have to cover the auditing and administrative costs this currently covers. At a time when budgets are at breaking point, this is an unwelcome additional cost for schools.”

Stephen Morales, Chief Executive of NASBM, says: “We welcome plans to move to a national funding formula for schools. This is the right thing to do. We have long argued for as much funding to go directly to schools as possible, empowering the profession.

“However, we would like to see further detail on the relationship between high needs funding and the schools block, ensuring that funding adequately meets the needs of both mainstream and high needs pupils - we want to avoid robbing Peter to pay Paul. If pupil mobility is removed as a factor, we would seek assurances that this crucial aspect of funding is reflected elsewhere within the funding mechanism.

“For school business managers a big issue will be how quickly we move to a new formula. Too quickly and this will cause turbulence in education; too slowly and we risk a drawn out transition that

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delays the delivery of a fair funding system. We'd like to see sensible, well thought-out milestones put in place."⁹

The f40 campaign group welcomed the consultation, saying that it would "be a relief to get rid of the irrational and unfair allocation arrangement that has created incredible inconsistencies in funding for individual schools with similar characteristics across the country":

"After 20 years of making the case for change we have finally reached the point where something concrete is to be done to give fairer funding to all children, no matter where they are educated", said f40 Chairman, Councillor Ivan Ould.

"We have won the argument for fair funding and the end is nigh for the existing arbitrary and unfair system that has disadvantaged hundreds of thousands of children for too many years.

[...]

F40 Vice Chairman Graham Stuart MP, who has led a major Parliamentary campaign calling for reform throughout the last year, added: "It's excellent news that ministers have unveiled their proposals to start delivering fair school funding, with the process hopefully beginning as early as next year. Tens of thousands of people up and down England signed Fair School Funding petitions last year, reflecting their desire to end a system where children have thousands of pounds less spent on their education if they happen to live in the wrong place – like the East Riding of Yorkshire.

"Establishing consistent core funding to which every pupil is entitled represents a huge step forward and shows ministers are delivering on their promises to end this long-standing unfairness. I now look forward to reviewing the proposals in detail with colleagues and funding experts. We need to keep up the momentum for this final crucial stage of the process and secure the best possible outcome."

However, whilst f40 member authorities are delighted that fair funding is finally on the cards, there is dismay that their involvement in allocating funding to schools may be ended. Ivan Ould said, "Local authorities have provided essential management and accountability to ensure the most appropriate allocation of resources in the light of local knowledge and experience. Taking local authorities out of the funding equation is not the answer and we will argue that this idea is unnecessary."¹⁰

Jonathan Simons, Head of Education at think tank Policy Exchange, observed:

This isn't as lightweight a consultation as I and some others had feared – although the principles themselves of how to build the formula are relatively uncontroversial (an amount per pupil, more funding for pupils with additional needs, extra funds for some schools based on their characteristics and a geographic uplift), the detail of indicators is genuinely a question for discussion (for example, the mixture of pupil level and area level factors for measuring deprivation

[...]

⁹ ['Joint response to school funding consultation'](#), NAHT press release, 15 April 2016

¹⁰ ['Consultation presents real opportunity for fair funding for schools'](#), F40 blog post, 9 March 2016

2. This isn't all about London vs the rest, or even deprived urban areas vs shires. The current funding system means that similar LAs by type of population and deprivation allocate their total budgets very differently, as illustrated below; meaning similar schools in different LAs can get wildly varying sums.

[...]

3. The biggest policy decision that has been proposed is to route all funding through schools directly, rather than through LAs. This makes sense if you believe in an all Academised system, as I do, and if you want all pupils in identical situations in different areas to be funded the same way. It does mean a significantly reduced role for LAs (following the reduction in ESG funding already announced) and you can expect considerable pushback from them on this – the F40 group of low funded LAs has already flagged this as a concern. In steady state, DfE are proposing a new separate block of funding which will stay with LAs even under a hard formula, to pay for central services they will still provide for all schools like admissions, pupil welfare services (like educational psychology and attendance services) and other statutory and regulatory duties.

[...]

And finally,

10. London LAs will still claim that this should be solved by everyone getting as much money as them. A press release from London Councils this morning set out the position that “we will be responding to the government’s consultation on the basis that there should be a levelling up of schools funding across the country. By providing extra investment the government would be giving all schools the tools to be able to match London’s best performing schools.” File that one under “well you can’t blame them for trying” ...¹¹

3.6 July 2016 – Government announces delay to implementation of national funding formula

On 21 July 2016, Education Secretary Justine Greening announced that while the Government remained committed to the introduction of the formula, it would not be implemented until 2018-19.¹² Other announcements included that:

- The Government would set out its response to the March 2016 consultation and publish second stage consultation documents in autumn 2016.
- In recognition of schools’ needs for stability and predictability, no local authority would see a reduction on adjusted 2016-17 per-pupil school block funding, or the high need block cash amount, in 2017-18.
- The current 1.5 % minimum funding guarantee for schools would be retained – local flexibility on this would not be implemented in 2017-18, as originally planned.

¹¹ [‘Ten quick thoughts on the schools fair funding consultation’](#), Jonathan Simons article on Policy Exchange website, 8 March 2016

¹² [School Funding, Written Statement, HCWS98](#), 21 July 2016

Reaction to July 2016 statement on delayed introduction of the formula

The f40 group welcomed the Government's ongoing commitment to the principle of reform, but expressed concern about the potential impacts on children in 'lower funded' areas:

It's good and disappointing news in one announcement, said f40 Chairman, Councillor Ivan Ould. "We welcome the commitment to a new funding formula that Justine Greening has made and we think this is an important announcement by the new Secretary of State. But we are disappointed that the process of change is being extended yet again. The delay between the 1st and 2nd Stage consultations has already been far too long and now we are facing further delay of two to three months, and a delay in implementation to 2018-19 – a year later than promised.

"However, the group recognises the political difficulties that the government has had to navigate over the last four months and in many authorities there will be a degree of relief that an almost impossible timetable for introduction in 2017-18 has now been avoided.

"As we have been campaigning for a fairer funding system for over twenty years we can handle this delay, though many schools will feel cheated as they were anticipating a funding lift in the next financial year. They will now need to take urgent action to find ways of managing with insufficient funding for a further year [...]"¹³

The National Association of Head Teachers (NAHT) said that the delay was "disappointing" but that it was now too late to introduce changes for 2017/18 and as such, the announcement was not "unexpected or unwise".¹⁴ It would nevertheless disappoint many head teachers:

School budgets are being pushed to breaking point, so today's announcement of a further delay will disappoint many school leaders. We know from the IFS [analysis](#) that budgets will see a real terms cut of 8% between now and 2020; flat budgets are not taking account of rising costs, regardless of the distribution of funding. [...]

We welcome the announcement that for 2017-18, the current minimum funding guarantee for schools will be retained but we need more money rather than a guarantee that we won't lose a lot. We would press the government to ensure that the most poorly funded schools actually receive more during this transition period.¹⁵

In an article in *Schools Week*, Jonathan Simons of Policy Exchange is quoted as saying delaying the formula's introduction was:

[...]"[T]he right thing to do, under the circumstances – the delay caused by various elections and the referendum and subsequent

¹³ '[f40 Group reacts to school funding announcement](#)', F40 Group blog post, 21 July 2016

¹⁴ '[Delay to school funding reforms disappointing, says NAHT](#)', NAHT press notice, 21 July 2016

¹⁵ *Ibid.*

political changes meant that the timing would have been unreasonably tight. Better to do it right, than do it in a rush.”¹⁶

Other school leaders quoted in the same article, however, warn of potential staff redundancies in the context of the delay.¹⁷

¹⁶ [‘School leaders warn of more redundancies in wake of funding formula delay’](#) in Schools Week (online), 21 July 2016

¹⁷ *ibid.*

4. December 2016 – second phase consultations published

On 14 December 2016, the DfE published the second stage consultations on the school national funding formula (NFF) and high needs funding:

- [DfE, Schools national funding formula - stage 2](#)
- [DfE, High needs funding reform - stage 2](#)

The consultations will close on 22 March 2016.

The second stage NFF consultation proposes:

- The introduction of the formula from 2018-19. At first, this will be a 'soft' version. This means the formula will be used to calculate local authorities' allocations, who will then in turn apply their local formula. The formula will not be used in this year to allocate money *to individual schools*.
- A 'hard' version of the formula for the Schools Block would then be introduced from 2019-20, when a national formula would be used to distribute the bulk of schools' funding directly.
- There will be transitional arrangements that will limit gains and losses at school level, and in 2018-19 the local authority will still use its own local funding formula to apportion funding between schools.
- The 12 factors proposed in the original consultation would be used, but that an extra one – mobility – would be added, in light of consultation responses.
- That defined weightings would be attached to the various factors.
- That a new, fourth, block – the Central Schools Services Block – will be allocated to LAs on a formulaic basis, to support some centrally provided local authority functions.

The second stage High Need formula consultation proposes:

- The use of a 'historic spend' factor. This would mean that around half of the total high needs allocation "would be allocated according to existing spending patterns".¹⁸
- The remainder of high need funding would be calculated according to a national formula.
- There would be a funding floor, so that the high need formula would not result in any local authority losing funding. The Government says this "replaces, and offers significantly more protection than, our previous proposals for a minimum funding guarantee."¹⁹

¹⁸ DfE, [High needs national funding formula and other reforms. Government response and new proposals for consultation – stage two](#), 14 December 2016, p. 30

¹⁹ *Ibid.*, p. 24

4.1 Elements of the proposed Schools Block formula

Chapter 2 of the consultation sets out the Government's proposed national formula in some detail. The general principles are to:

- maintain the current primary to secondary ratio
- maximise the proportion of funding allocated to pupil-led factors
- continue to increase the basic per-pupil funding element as pupils progress through the key stages
- increase the total spend on additional needs factor -deprivation, low prior attainment, English as an additional language and mobility
- reduce the size of the lump sum payment to schools
- provide additional funding for small and remote schools
- fund rates and premises factors on the basis of historical spend
- seek views on better ways to allow for substantial year to year variations in pupil numbers
- continue to recognise higher salary costs faced in London and elsewhere

The consultation sets out how individual factors were used across all local authorities in 2016-17 and uses this as the baseline. The table opposite summarises the weighting given to the main formula factors in the baseline and the proposed national formula. The reduction in the basic per-pupil weighting is clear, as are some of the other outcomes set out above including a lower weighting for the lump sum element and higher weightings for additional needs factors and sparsity.

The proposed NFF would allocate around £2,700 in basic per-pupil funding for primary aged pupils, £3,800 for secondary at Key Stage 3 and just over £4,300 at Key Stage 4. Overall secondary aged pupils would attract 29% more than primary pupils (as in the baseline) for this basic element.

The overall weighting given to the combined additional needs elements increases from 12.9% in the baseline to 18.1% under the proposals. The Government explicitly states that this funding would be aimed at 'struggling' families even if they did not have the lowest incomes:

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

The proposals give a weighting to free school meal eligibility of 5.4% and 3.9% to area-level deprivation. The latter is based, as now, on the Income Deprivation Affecting Children Index (IDACI). This balance is

Weighting of Schools Block funding elements

	2016-17 baseline	NFF proposals
Pupil-led factors	89.5%	90.6%
Basic per-pupil funding	76.6%	72.5%
Additional needs elements	12.9%	18.1%
<i>Deprivation</i>	7.6%	9.3%
<i>Low prior attainment</i>	4.3%	7.5%
<i>English as an additional language</i>	0.9%	1.2%
<i>Mobility</i>	0.1%	0.1%
School-led factors	10.6%	9.5%
Lump Sum	8.2%	7.1%
Sparsity	0.05%	0.08%
Premises	1.8%	1.8%
Growth	0.5%	0.5%

Source: Schools national funding formula. Government consultation - stage 2

broadly similar to that in the baseline, although values for individual levels of IDACI are different. The consultation states:

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.

IDACI measures deprivation in small local areas and assigns each one to a band. In 2016-17 the majority of local authorities used IDACI data to allocate some deprivation funding, but only one-third used all six (allowable) bands. The NFF proposes to use all six which would cover 44% of all pupils. It also changes the value of each band compared to those used in the baseline.

The consultation does not make a direct comparison of the value of each band with those used in the baseline. This is not straightforward as a new banding system was introduced ahead of the 2017-18 budgets. Under the NFF proposals pupils from areas in the most deprived IDACI band attract almost three times as much funding as those from the least deprived band that can be used to allocate this funding. This is substantially smaller than the difference in what local authorities actually allocated in 2016-17 where the top band attracted more than five times as much.²⁰ This, combined with the use of all six IDACI bands helps to explain why the NFF, despite allocating more funding overall to deprivation, results in expected cuts in funding in some of the most deprived areas.

4.2 Implications of December 2016 school funding announcements for individual schools, constituencies and local authorities

Alongside the main consultation documents, the DfE published data illustrating the potential implications of the proposals for schools and local authorities, in two hypothetical scenarios:

- If the NFF proposals had been implemented in full in 2016-17, using current school data to calculate funding. This is then compared against a 2016-17 funding baseline.
- If the NFF was implemented with transitional caps on gains and losses (a maximum increase of 3% and a maximum reduction of 1.5% per pupil) in 2018-19. Again, this is compared against 2016-17 funding baselines.

The illustrations are available to download from the DfE's consultation website, **but they do not represent actual allocations for any**

²⁰ [Schools block funding formulae 2016 to 2017. Analysis of local authorities' schools block funding formulae](#), DfE

specific year. They are intended to help inform the consultation and actual allocations under the NFF will be based on pupil numbers/ characteristics at the time and any changes to the formula and overall school funding:

- [DfE consultation website, Schools national funding formula – stage 2](#)

These are illustrations based on 2016-17 data. Actual allocations for future years will reflect the final formula (following this consultation). As a school's characteristics and pupils change, their funding allocation will be adjusted accordingly.

According to the Government's plans, a 'hard' national funding formula to allocate money directly to schools, on the basis of a single national formula, will not be introduced until 2019-20. For 2018-19, the schools national funding formula will be used to generate only notional budgets at school level; these notional budgets will then be aggregated up to local authority level. Local authorities will then allocate the funding using a locally-determined formula, as now.

Changes to funding in 2018-19 and 2019-20 will be limited by caps on gains and losses. For the main school national funding formula, the proposal is that gains up to 3% per pupil at school level will be incorporated in 2018-19, and gains of up to 2.5% per pupil will be allowed for in 2019-20. Losses will be limited to a maximum of 1.5% per pupil in each of 2018-19 and 2019-20. This means that at some schools –the biggest 'winners' and 'losers'- transitional protection will apply for some years. The full impact of the new funding formula will not be felt at these schools until this transition period is over.

The school-level illustration tables only cover the main Schools Block of the DSG. They do not include the Early Years and High Needs Blocks of the DSG, the new proposed Central School Services Block, or the pupil premium. Nor do they reflect 16 to 19 funding, which is outside the scope of the consultations.

The local authority-level summary table published by the DfE covers the Schools Block of the DSG, the High Needs block, and the new proposed Central School Services block, but excludes some other income.

Final allocations from 2018-19 onwards will reflect the transitional arrangements, the latest pupil data, and any changes to the formulas that are made after the consultation.

The illustrative data does not provide information on allocations for 2016-17 or 2017-18 - i.e., before the funding changes start being phased in. More information on how DSG will be allocated in 2017-18 can be found via the [School and college funding and finance section of the DfE website](#). See Section 2 of this note for help with finding funding data for 2016-17 and earlier years.

The consultation lists the following broad types of schools that are due to be funded at a higher level under the NFF:

- Schools with low prior attainment.
- Schools with pupils who live in areas with above average levels of deprivation but who have not been heavily targeted through historic funding decisions.
- Schools in areas where funding levels have historically been low.
- Small rural schools.

Those types due to be funded at lower levels are:

- Schools in Inner London and some other urban areas that have particularly benefited from historic funding decisions.
- Some smaller schools in urban rather than rural areas.

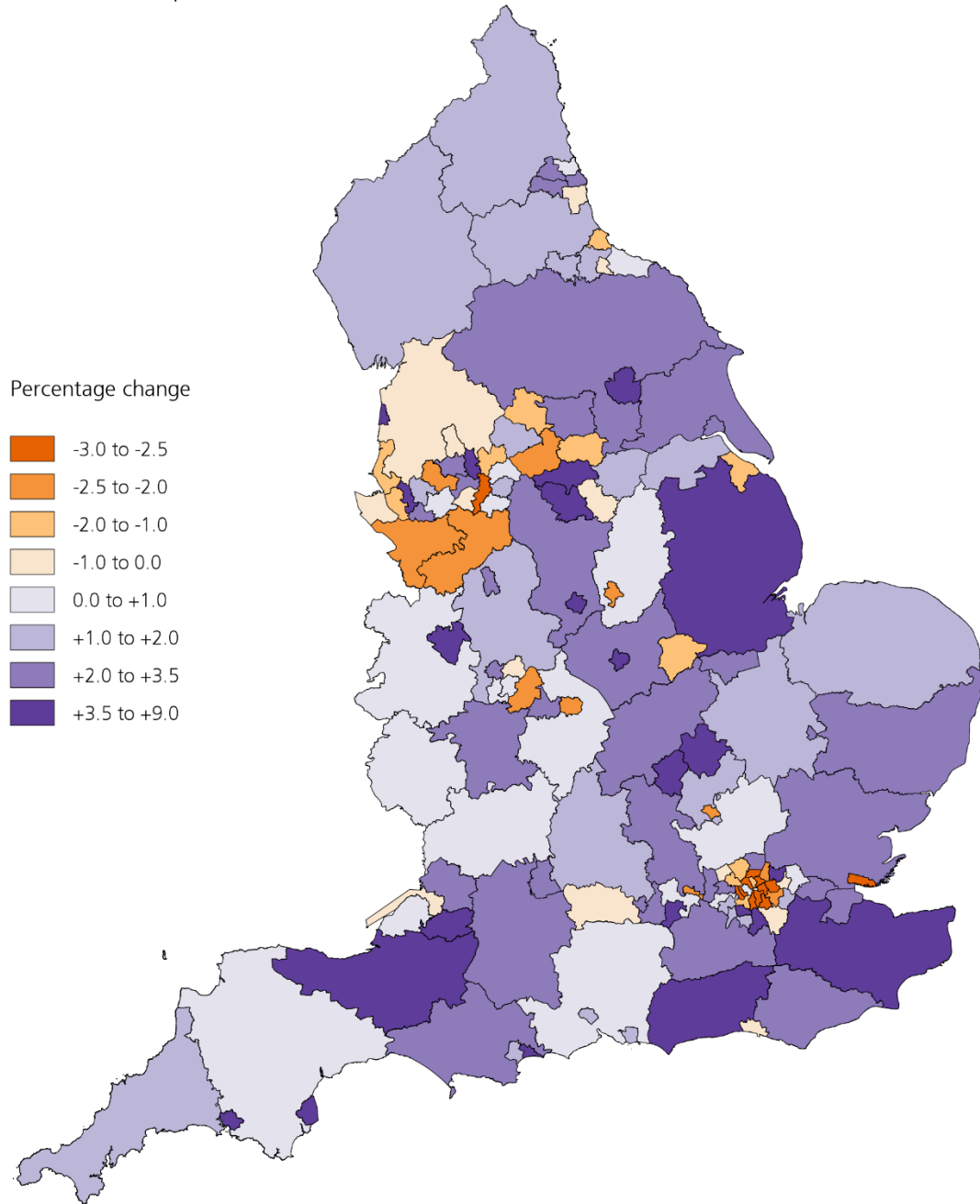
Overall 54% of schools would be funded at a higher level and 46% a lower level under the proposals. Around three quarters of those gaining would see an increase of up to 5.5% per pupil, the rest would eventually see larger increases. Around one in six of those funded at a lower level would see cuts of up to 1% per pupil, the rest would see larger cuts.

4.3 Impact of the NFF by local authority and constituency

The spreadsheet produced alongside this briefing paper includes tables summarising the impact of the two hypothetical scenarios, set out above, at a local authority and constituency level. These are entirely based on the DfE illustrations and hence all the limitations of these figures (set out earlier) need to be considered when interpreting this data. The tables include the overall change in funding for each scenario as well as the number of schools receiving more or less funding and the range of these changes. The maps on the next two pages summarise the overall change data for local authorities and constituencies under the first scenario (without transitional protection) only.

Change in funding by local authority

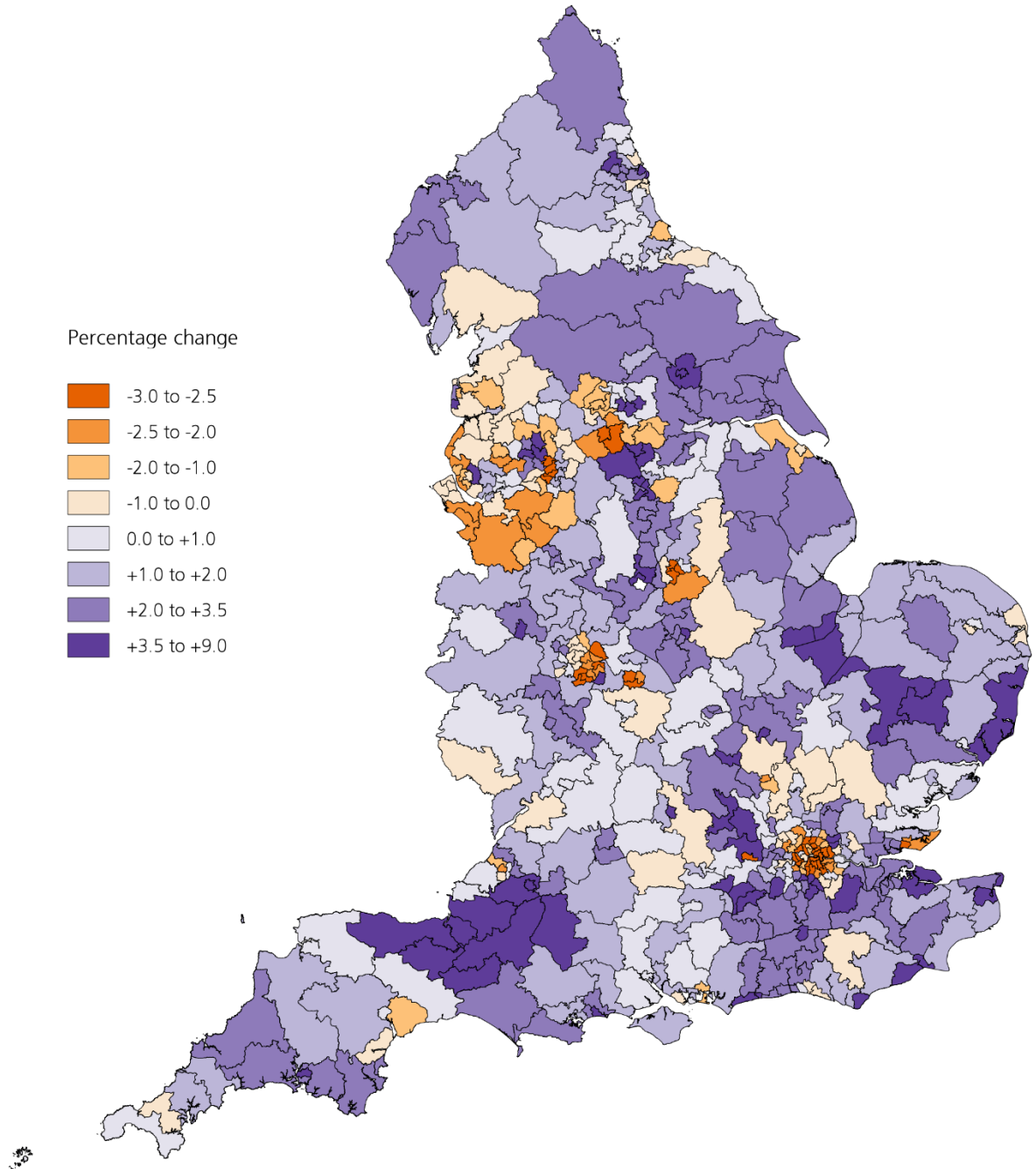
Illustrative NFF funding compared to baseline if formula implemented in full in 2016-17, without transitional protections



Boundary data: Open Government Licence. Contains National Statistics data © Crown copyright. House of Commons Library (OS) 100040654 (2016).

Change in funding by Parliamentary Constituency

Illustrative NFF funding compared to baseline if formula implemented in full in 2016-17, without transitional protections



Boundary data: Open Government Licence. Contains National Statistics data © Crown copyright. House of Commons Library (OS) 100040654 (2016).

4.4 Education Policy Institute report, March 2017

On 17 March 2017, the Education Policy Institute (EPI, formerly Centre Forum) published a report, [The implications of the national funding formula for schools](#). This concluded:

- There was a “strong case” for introducing a new national funding formula and “more consistent funding is arguably even more important when budgets are under pressure”.²¹
- The significant total amount of funding for students with additional needs in the proposed NFF was welcome, but would mean “moving less money out of London and other urban areas than some of the lower funded local authorities would have preferred [...] many lower funded authorities are not likely to see the level of gains they hoped for”.²²
- Owing to the design of the proposed NFF, “funding actually shifts from the most disadvantaged pupils and schools towards the so called ‘just about managing’ group.”²³

On this latter issue, EPI summarised (emphasis in original):

As a result of the proposed formula:

- Primary and secondary schools with less than 30 per cent of pupils on free school meals are expected to gain, on average, around 1.0 per cent and 0.9 per cent respectively – **totalling around an additional £275m for these schools, many of which have low proportions of disadvantaged pupils.**
- However, disadvantaged primary schools (those with over 30 per cent of pupils eligible for free school meals) are expected to gain only around 0.4 per cent on average while disadvantaged secondary schools are set to lose around 0.3 per cent, on average. **This equates to a net increase of around £5.6m for the most disadvantaged primary and secondary schools many of which will actually see reductions to their budgets.**
- **The most disadvantaged primary and secondary schools in London are expected to see an overall loss of around £16.1m by 2019-20.**
- In addition, the distribution of funding based on area deprivation (IDACI) shows that **pupils who live in the least deprived areas experience the highest relative gains.**

²¹ Education Policy Institute, [The implications of the national funding formula for schools](#), 17 March 2017, p5

²² *Ibid.*

²³ *Ibid.*

- The additional funding for low prior attainment means that **the lowest performing schools in the country are set to gain £78.5m more than the top performing schools.** This is particularly acute in London, where we find a net loss to the highest performing primary schools of around £16.6m.
- **Small primary schools are due to experience an average gain of 3.5 per cent (or £22.7m overall).** Small secondary schools, however, are not likely to see any changes to their budgets, on average.

Overall, however, there is no clear trend to the pattern of gaining or losing areas under the planned formula. We find that there is significant variation of losing and gaining schools within local authorities and there are not any local authorities in which no schools lose.²⁴

EPI's report also attempted to gauge the potential impact of the proposed NFF, factoring in inflationary pressures and the removal of the Education Services Grant, ESG. They concluded that between 2016-17 and 2019-20 "there are unlikely to be any schools in England which avoid real per-pupil cuts in funding".²⁵ For more on the wider funding context and cost pressures, see the next section of this note.

²⁴ Education Policy Institute, [The implications of the national funding formula for schools](#), 17 March 2017, p6

²⁵ *Ibid.*, p7

5. The wider school funding context

Schools in England report that they are facing rising cost pressures, especially from increased staff costs.²⁶

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

Budget 2016 outlined some additional funding for implementing school reform and a commitment to “accelerate the move to fairer funding” (emphasis in original):

The government will:

[...]

accelerate the move to fairer funding for schools. The arbitrary and unfair system for allocating school funding will be replaced by the first National Funding Formula for schools from 2017-18. Subject to consultation, the government’s aim is for 90% of schools who gain additional funding to receive the full amount they are due by 2020. **To enable this the government will provide around £500 million of additional core funding to schools over the course of this Spending Review, on top of the commitment to maintain per pupil funding in cash terms.** The government will retain a minimum funding guarantee.²⁷

On 21 July 2016, Education Secretary Justine Greening MP gave assurances that, for 2017-18:

No local authority would see a reduction from their 2016 to 2017 funding (adjusted to reflect authorities’ most recent spending patterns) on the schools block of the dedicated schools grant (per pupil funding) or the high needs block (cash amount).²⁸

Additionally, the Government would “retain the current minimum funding guarantee for schools, so that no school can face a funding reduction of more than 1.5% per pupil next year in what it receives through the local authority funding formula”.²⁹

The *School Cuts* campaign

In November 2016, the NUT and ATL launched the [School Cuts](#) website. A press notice said the site aimed to predict how schools were “likely to

²⁶ See e.g.: ‘[Survey reveals impact of budget pressures as school leaders look to balance the books](#)’, Association of School and College Leaders (ASCL) website, 20 November 2015

²⁷ HM Treasury, [Budget 2016](#), 16 March 2016, p. 32

²⁸ [School Funding, Written Statement, HCWS98](#), 21 July 2016

²⁹ *Ibid.*

fare between now and 2020 and how [...] estimated funding loss equates into numbers of teacher posts.”³⁰

The School Cuts website makes a number of assumptions when making its estimates. The methodology used in its calculations for English schools is explained in a website article:

We used published Department for Education data to calculate cuts to England’s primary and secondary schools over this Parliament, 2015 — 2020.

Using the 2015/16 funding as the baseline, we calculated the impact of the cash freeze on the amount of funding for each pupil, the proposed cut to the Education Services Grant and the proposed introduction of a National Funding Formula.

The calculations were made using the following evidence:

- That the national funding formula due to be introduced in April 2018 will be that proposed by the Secretary of State on Wednesday 14 December 2016.
- That inflation for schools will amount to 8.7% over the lifetime of this Parliament. This figure is in “Financial sustainability of schools” published by the National Audit Office on 14 December 2016.
- That the Government will cut the Education Services Grant (ESG) by 75%, as George Osborne announced in the 2015 Autumn Statement.

We have only measured the ESG cut to academy and free school budgets. For all other schools, the ESG goes to the local authority to fund services for schools. These services are now being cut.

Calculating school funding for 2019/20

Figures for 2019/20 have been calculated from a dataset provided by the Department for Education through the COLLECT system. The dataset contains sensitive information which is why it is not generally available. We were able to make accurate calculations for 2019/20 and also calculate the level of cuts after 2020 in schools where this is the case.

All the figures are in 2016/17 prices.³¹

As the above makes clear, the School Cuts website estimates are based on a specific set of presumptions, with results expressed in real terms, per pupil.

5.1 NAO report on financial sustainability of schools, December 2016

On 14 December 2016 the National Audit Office (NAO) published a report on the financial sustainability of schools in England:

- [NAO Report – financial sustainability of schools, 14 December 2016](#)

Among other things, the report concluded:

³⁰ NUT press release, '[New School Cuts interactive website shows devastating effects of Government's school funding plans](#)', 4 November 2016

³¹ School Cuts website article, "[Data and methodology](#)", 16 March 2017.

- Mainstream schools would be required to find £3 billion of savings by 2019-20, to counteract cost pressures. This would equate to a real-terms reduction of 8% per pupil between 2014-15 and 2019-20. The DfE expected around £1.7 billion of this to come from workforce savings, by 2019-20, and the rest to come from procurement savings.³²
- Although the DfE could demonstrate, on the basis of benchmarking, that savings should be achievable, it could not conclusively demonstrate that the savings would be achievable in practice. Schools told the NAO that their ability to make changes was often constrained by practical considerations.³³
- The DfE's work on how schools could make savings was not complete as the NAO's report was being prepared for publication.
- There were some concerns about the EFA not intervening quickly or frequently enough in maintained schools, in the light of financial concerns. Further, the agency's record-keeping about intervention in academy schools made it "difficult to gain assurance that all academies at potentially high risk have been dealt with consistently".³⁴

The DfE's second-stage consultation on the funding formula, published the same day as the NAO report, also noted that schools were facing rising costs and per pupil funding reductions. It was not possible, the DfE said, to say how particular individual schools were affected by this:

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.

[...]

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.³⁵

³² NAO, [Financial sustainability of schools, HC 850 Session 2016-17](#), 14 December 2016, p. 4

³³ *Ibid.*, p. 29

³⁴ *Ibid.*, p. 42

³⁵ [DfE, Schools national funding formula. Government consultation - stage 2](#), 14 December 2016, p. 46

5.2 Institute for Fiscal Studies (IFS) report, February 2017

On 27 February 2017, the Institute for Fiscal Studies (IFS) published a report, [Long-run comparisons of spending per pupil across different stages of education](#). On the IFS's measure, and taking into account Government spending plans, per-pupil spending on 5-16 year olds is expected to fall by around 6.5% in real terms between 2015-16 and 2019-20. This would be the "biggest real-terms fall in school spending per pupil for at least the last 30 years" but the falls followed on from "very significant growth over the 2000s":

Primary and secondary school spending per pupil are expected to fall by around £300 and £400 per pupil, respectively, between 2015-16 and 2019-20. This is only around one-fifth of the growth in spending per pupil that occurred over the 2000s.³⁶

Overall, spending on 5-16 education had been relatively protected, the IFS said. On the IFS's measure, spending on 16-18 year-old students in further education colleges, sixth form colleges and school sixth forms had been the "big loser from education spending changes over the last 25 years" and "the only major area of education spending to see cuts since 2010."³⁷

5.3 What has the Government said about cost pressures in the context of the funding reforms?

Speaking in response to a debate of 25 January 2017, Education Secretary Justine Greening stressed again that the Government had protected the core schools budget in real terms over the current spending period.³⁸

In the same debate, School Standards Minister Nick Gibb said he accepted schools were facing cost pressures, and that the Government had put in place support for this. He went on to say that the funding reforms and the proposed national funding formula were not about the overall level of school funding or the cost pressures that schools were facing, but about ending the "postcode lottery" and making funding fairer:

My hon. Friend the Member for Louth and Horncastle (Victoria Atkins) was right to say that the new national funding formula is resulting in the cake being cut a little more fairly [...] The Government are not cutting school spending; it is at an all-time high. [...]

Accepting that a new formula, by definition, produces winners and losers, accepting that we will ensure that the losing schools lose no more than 1.5% per pupil in any year and no more than 3% in total, accepting that the gaining schools will see their gains expedited by up to 3% in 2018-19 and by up to 2.5% in 2019-

³⁶ Institute for Fiscal Studies, [Long-run comparisons of spending per pupil across different stages of education](#), 27 February 2017, p18

³⁷ *Ibid.*, p7

³⁸ [HC Deb 25 January 2017 c362](#)

20, and accepting in principle that the factors of deprivation and low prior attainment are right, what is left is the question whether the weightings are right. These weightings are crafted to drive social mobility. They are calculated to help children who are falling behind at school, and they are motivated by our desire to do more for children from disadvantaged backgrounds.

The national funding formula is not about the overall level of school funding or the cost pressures that schools are facing over the three years from 2016-17 to 2019-20. The formula is about creating a nationally delivered and fair school funding system. We wanted to grasp the nettle—a nettle that previous Governments have assiduously avoided—and introduce a new national funding formula, ending the postcode lottery and ensuring that over time we have a much fairer funding system.

Despite all the pressures to tackle the budget deficit that we inherited from the last Labour Government—an essential task if we are to continue to deliver the strong economic growth, the high levels of employment and the employment opportunities for young people that we want—we have managed to protect core school spending in real terms. Indeed, in 2015-16 we added a further £390 million, and for 2018-19 and 2019-20 there will be a further £200 million to expedite the gains to those historically underfunded schools that the new formula seeks to address.

Despite this, we know that schools are facing cost pressures as a result of the introduction of the national living wage and of increases to teachers' salaries, to employer national insurance contributions, to teachers' pensions and to the apprenticeship levy. Similar pressures are being faced across the public sector—and, indeed, in the private sector—and they are addressed by increased efficiencies and better procurement. It is important to note that some of these cost pressures have already materialised. The 8% that people refer to is not an estimate of pressures still to come. In the current year, 2016-17, schools have dealt with pressures averaging 3.1% per pupil. Over the next three years, per-pupil pressures will average between 1.5% and 1.6% a year. To help to tackle those pressures, the Department is providing high quality advice and guidance to schools about their budget management, and we are helping by introducing national buying schemes for products and services such as energy and IT.

We are consulting, and we are listening to the responses to the consultation and to the concerns raised by my hon. Friends and by Opposition Members. The Secretary of State and I have heard representations from some low-funded authorities about whether there is a de minimis level of funding that their secondary schools need in circumstances where few of their pupils bring with them the additional needs funding. We will look at this, and at all the other concerns that right hon. and hon. Members have raised.³⁹

6. Annex A: school funding reform under the 2010 Government

6.1 Consultations on school funding reform in 2010 and 2011

The Coalition Government published its White Paper, [The Importance of Teaching](#), in November 2010, followed by [A consultation on school funding reform: Rationale and principles](#) in April 2011.

In the White Paper, the DfE criticised the existing arrangements, referring to an “opaque, anomalous and unfair school funding system which reflects the historic circumstances of local authorities rather than the specific needs of individual schools and pupils”.⁴⁰

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

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

3.3. The amount spent in 2005-06 was determined by two things: an assessment of what the local authorities’ needs were at that time (often using data that was already becoming out of date); and

the amount local authorities each chose to spend on schools (itself a result partially of decisions made several years previously).

3.4. So, current levels of school funding are based on an assessment of needs which is out of date, and on historic decisions about levels of funding which may or may not reflect precisely what schools needed then. It is inevitable that over time needs have changed and historic local decisions may no longer reflect local or national priorities.⁴¹

The DfE added that the DSG methodology as it stood then “[fell] well short” of the Government’s view of the “ideal school funding system”.⁴²

⁴⁰ DfE, [The Importance of Teaching](#), Cm 7980, November 2010, p82, para 8.10

⁴¹ DfE, [A consultation on school funding reform: Rationale and principles](#), April 2011, pp3–4

⁴² *Ibid*, p4, para 3.5

Prior to publication of the Importance of Teaching White Paper, there was speculation in the media that there would be a wholesale reform of the school funding system. The *Financial Times* reported that drafts of the White Paper proposed that “state schools in England will be directly funded from Whitehall for the first time” through a “single ‘national funding formula’”, a move which, the *FT* said, would “sideline local authorities from managing education spending”.⁴³

It was subsequently reported that the reform would not be pursued, with the then Education Secretary, Michael Gove, saying in advance of the White Paper’s publication that, “we will be funding schools through local authorities as we do at the moment”. It was reported that “local councillors [had] come out strongly against the proposals” for direct funding from Whitehall.⁴⁴

The November 2010 White Paper

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

- Consult on developing and introducing a clear, transparent and fairer national funding formula based on the needs of pupils, to work alongside the Pupil Premium.
- In the meantime, increase the transparency of the current funding system by showing both how much money schools receive on a school-by-school basis and how they spend their funds.
- Devolve the maximum amount of funding to schools, making information and tools available to governors and head teachers which will support them in making good spending decisions.⁴⁵

It noted that it intended to move towards a “national funding formula” for schools in the long-term.⁴⁶

April 2011 consultation

In April 2011, the DfE published [A consultation on school funding reform: Rationale and principles](#),⁴⁷ setting out the DfE’s view of an “ideal school funding system”:

- It would distribute money in a fair and logical way [...]
- It would distribute extra resources towards pupils who need them most. [...]
- It would be transparent and easy to understand and explain. [...]
- It would support a diverse range of school provision. [...]
- It would provide value for money and ensure proper use of public funds [...].⁴⁸

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

⁴³ [“Schools face shake-up to funding”](#), *Financial Times*, 12 November 2010

⁴⁴ [“Gove drops school funding plans”](#), *Financial Times*, 21 November 2010

⁴⁵ Department for Education, [The Importance of Teaching](#), Cm 7980, November 2010, pp78–79, paras 8.3 and 8.5

⁴⁶ *Ibid.*, p82, paras 8.9 – 8.11

⁴⁷ Department for Education, [A consultation on school funding reform: Rationale and principles](#), April 2011, p1, para 1.2

⁴⁸ *Ibid.*, p2, para 2.1

- a "Fair Funding Formula", which would "give a clear national basis for funding schools" and "ensure that schools serving similar intakes would receive similar levels of funding", although issues of local flexibility were noted;
- the DfE's aim of ensuring that all deprived pupils have the same level of funding for their education, including through the Pupil Premium, and improving the current funding system "to deliver on this aim more effectively";
- the role of local authorities, as a national funding formula would mean "it will be necessary to have a clear divide between these responsibilities and the funding for them";
- "elements of a fair funding formula". The DfE said "following this first part of the consultation process on a fair funding formula, we would expect to consult in more detail on possible indicators and the balance between them. However, there are some key principles on which we are seeking views now", including "pupil vs school characteristics", "what pupil factors should a formula contain", and "complexity vs simplicity";
- managing the transition to a new funding system.⁴⁹

In addition, the DfE acknowledged that funding for two of the key areas needed handling outside of a national funding formula for schools: 'High Cost' pupils including some with Special Educational Needs (SEN); and nursery (early years) provision.⁵⁰

Responses to the consultation

In July 2011, the Government published its response to the consultation.⁵¹ This reported:

Nearly all correspondents (98%) agreed with some or all of the stated characteristics of an ideal school funding system. Some respondents raised issues about the balance between a simple and transparent system and one that is able to include the diverse needs of individual schools. Whilst most respondents agreed that transparency should be an aim of a future funding system and recognised the complex nature of the current system, some however felt that it was more important to ensure that the funding system is fit for purpose and able to meet the needs of all children.⁵²

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

⁴⁹ DfE, [A consultation on school funding reform: Rationale and principles](#), April 2011, pp5–7 and 10–12, paras 4.3, 5.1–5.5, 6.1–6.2, 9.1, 9.2, 9.5, 9.7, 10

⁵⁰ *Ibid.*, p7, para 6.3

⁵¹ Department for Education, [Consultation on school funding reform: rationale and principles 13 April 2011 to 25 May 2011 – Summary of consultation responses](#), July 2011, p1

⁵² *Ibid.*, p3

Other issues included local flexibility, issues for rural areas, local salaries, and school and pupil characteristics.⁵³

On local flexibility, “just over 70% of respondents thought that there needed to be at least some degree of flexibility for local authorities in any new funding arrangement” – 38% thought there should be “some local flexibility”, and 34% thought there should be “a lot of local flexibility”. Just under half of respondents but well over half of schools thought that local flexibility should be limited. Just under a third of all respondees but well over a half of local authorities responding were against any such action.⁵⁴

While the consultation found that “some respondents considered that the Dedicated Schools Grant methodology needs review but that the local authority formula element of the system is fit for purpose, particularly given the Schools Forum role”, 80% of respondents agreed with “the case for reforming the system”: “respondents felt that the current differential levels of funding between similar schools are unfair and unjustified”.⁵⁵

6.2 Further July 2011 consultation

In July 2011, the DfE launched a second, related consultation on its proposal, seeking views on when to implement the national funding formula.⁵⁶ The consultation also proposed to split the DSG into three blocks (Schools, High Needs and Early Years) plus a small fourth block for some other services not suitable for delegation.

Proposal for the national funding formula for the Schools Block

In terms of the formula for the Schools Block, the DfE proposed including the following factors:

- a) A basic amount per pupil;
 - b) Additional per pupil funding for deprivation;
 - c) Additional funding to protect small schools;
 - d) An adjustment for areas with higher labour costs [Area Cost Adjustment].
9. In addition, we are consulting on including additional funding for pupils who have English as an Additional Language (EAL) and sometimes need additional support to help them to achieve.⁵⁷

The consultation proposed that local authorities would still be able, with their schools forums, to set local funding formulas, albeit using a rationalised number of factors.⁵⁸ The DfE recognised that “there are

⁵³ Department for Education, [Consultation on school funding reform: rationale and principles 13 April 2011 to 25 May 2011 – Summary of consultation responses](#), July 2011, p1

⁵⁴ *Ibid.*, pp9–10

⁵⁵ *Ibid.*, pp5–6

⁵⁶ DfE, [Consultation on school funding reform: Proposals for a fairer system](#), July 2011.

⁵⁷ *Ibid.*, p3

⁵⁸ *Ibid.*, p3, para 10

likely to be specific needs that need to be met which may not be possible to accommodate in any national formula".⁵⁹

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

Institute for Fiscal Studies analysis of July 2011 proposals

Following the publication of the DfE's July 2011 consultation document, in November 2011 the Institute for Fiscal Studies (IFS) published a report, [School funding reform: an empirical analysis of options for a national funding formula](#), the purpose of which was to "describe the options for a national funding formula for schools and examine how different options would affect the finances of different schools or areas of the country". This noted that the DfE's second consultation document did not include such analysis.⁶⁰

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

- The funding formula must be designed extremely carefully. Features currently proposed could, for example, redistribute funding from secondary to primary schools.
- Changes in funding would be concentrated in particular local authorities, with some seeing average gains or losses of 10 per cent or more. In some areas changes to primary and secondary budgets would 'offset' each other but some authorities would see changes across the board.
- Whatever formula was chosen, it would lead to a large number of winners and losers relative to existing policy
- Any transition period of less than a decade would involve significant, sustained losses for some schools.
- While there were some issues with implementing a national formula, maintaining the status quo was not appropriate either.⁶¹

6.3 March 2012 strategy paper

In March 2012, the then-Secretary of State for Education announced the publication of the document, [School funding reform: Next steps towards a fairer system](#) in a written ministerial statement. This said that while "support for reform was widespread", feedback suggested that the model presented in the July 2011 consultation "would need refinement and careful implementation".⁶² The then-Secretary of State noted that: "getting the components and implementation of a fair

⁵⁹ DfE, [Consultation on school funding reform: Proposals for a fairer system](#), July 2011 p4, para 15

⁶⁰ Institute for Fiscal Studies, [School funding reform: an empirical analysis of options for a national funding formula](#), November 2011, p3

⁶¹ *Ibid.*, pp2–3

⁶² HC Deb 26 March 2012 c88WS

national funding formula right is critical and we need to manage transition carefully so there is the minimum disturbance for schools. In the current economic climate, stability must be a priority".⁶³

Changes confirmed included:

- Simplifying local funding formulas and arrangements
- Splitting the DSG into three notional non-ringfenced blocks.
- Reforms to funding for students with special educational needs
- Support for local authorities in funding early years provision and ensure greater transparency.
- The DfE concluded that "overall, the reforms will mean we are well placed to introduce a national funding formula during the next Spending Review period" (i.e., from 2015-16, as opposed to in 2013-14).⁶⁴

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

- 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);
- Deprivation measured by FSM and/or the Income Deprivation Affecting Children Index (IDACI);
- Looked after children;
- Low cost, high incidence SEN;
- English as an additional language (EAL) for 3 years only after the pupil enters the compulsory school system;
- A lump sum of limited size;
- Split sites;
- Rates;
- Private finance initiative (PFI) contracts; and,
- 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.⁶⁵

There would be discretion for the EFA to consider exceptional circumstances relating to premises.⁶⁶

6.4 Further funding changes for 2014–15

The DfE published [School Funding Reform: Findings from the Review of 2013-14 Arrangements and Changes for 2014-15](#) in June 2013. This announced further incremental steps towards a national funding formula.⁶⁷

⁶³ HC Deb 26 March 2012 c88WS.

⁶⁴ DfE, [School funding reform. Next steps toward a fairer system](#), 2012, Pp.7

⁶⁵ *Ibid.*, p13

⁶⁶ The EFA would play a role in upholding the fairness of local decision-making [Department for Education, [School funding reform: Next steps towards a fairer system](#), March 2012, p5, footnote 3]

⁶⁷ DfE, [School Funding Reform: Findings from the Review of 2013-14 Arrangements and Changes for 2014-15](#), p5

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

- local authorities would be required to allocate a minimum of 80% of their funding on the basis of pupil characteristics;
- the setting of a minimum per pupil amount;
- local authorities would be able to provide additional funding for schools in sparsely populated areas;
- new flexibilities to provide different amounts of funding to cover the fixed costs of primary and secondary (as well as middle and all-through) schools;
- targeted support for deprived and vulnerable pupils: local authorities will be required to target additional funding to deprived pupils in addition to the pupil premium, and extra funding to those under-attaining.⁶⁸

6.5 2015-16 'fairer schools funding'

In March 2014, the then Schools Minister, David Laws, announced in an [Oral Statement](#) that the Coalition Government intended to take two further steps, but again stopped short of announcing the implementation of a full national funding formula. In 2015-16, it would make an additional £350 million school funding available to areas that were currently the 'least fairly funded'. From March 2014 to 30 April 2014, it ran a consultation on distributing this money, which it described as "the biggest step toward fairer funding for schools in a decade".⁶⁹

The DfE explained the rationale as follows:

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

Although these proposals do not represent implementation of a national funding formula, this is the biggest step towards fairer funding for schools in a decade. The proposals we are announcing today put us in a much better position to implement a national funding formula when the time is right. This will be when the government has set spending plans over a longer period of time, allowing us to give schools and local authorities more certainty about how the formula will affect them over a number of years.⁷⁰

In terms of determining which local authorities would receive the extra money, the Government said those where pupils and schools already

⁶⁸ See: [HC Deb 4 June 2013 cc89WS–90WS](#)

⁶⁹ DfE, [Fairer schools funding in 2015-16](#), 13 March 2014, Pp. 3.

⁷⁰ *Ibid.*, Pp. 3

attracted a determined minimum funding level (MFL) would not attract extra money; those not receiving the MFL would.

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

- a per pupil amount ('age weighted pupil unit');
- pupils who are from deprived backgrounds;
- pupils who have been looked after, for example in foster care;
- pupils with low attainment before starting at either their primary or secondary school;
- pupils who speak English as an additional language.⁷¹

There would be two other minimum funding levels for:

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

Reaction to 'fairer schools funding' proposals and next steps

Following the publication of the March 2014 consultation, the f40 group said it "warmly welcomed [the] ... announcement that extra funding will be made available by the government to begin the process of making the allocation system fairer".⁷²

In its consultation response, the Association of School and College Leaders (ASCL) gave a more mixed response, saying that while the money was welcome, it had concerns about aspects of the proposals; the funding, it said, may also do little to address the budget difficulties some areas were experiencing.⁷³

While welcoming the additional fairer funding, the National Association of Head Teachers (NAHT) urged the Government to recognise the cost pressures on schools, and to press ahead with the development of a fair national funding formula.⁷⁴

In their joint consultation response, London Councils and the Association of London Directors of Children's Services welcomed the announcement of the additional money, but called on the DfE to make a number of changes to their proposals.⁷⁵

On 17 July 2014, David Laws confirmed in a [Written Statement](#) that the DfE would allocate an extra £390 million - £40 million more than

⁷¹ DfE, [Fairer schools funding in 2015-16](#), 13 March 2014, Pp. 4

⁷² F40 press notice, [F40 welcomes extra funding for poorest-funded schools](#), 17 March 2014.

⁷³ ASCL, [Fairer schools funding in 2015-16. Response of the Association of School and College Leaders](#), 30 April 2014. Pp. 1 -2.

⁷⁴ NAHT, [NAHT welcomes David Laws' £350m increase in school budgets](#), 13 March 2014.

⁷⁵ London Councils/ ALDCS, [Fairer schools funding in 2015-16 Consultation. Response by London Councils and the Association of London Directors of Children's Services](#), Pp. 1-2.

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originally indicated – to sixty nine qualifying local authorities.⁷⁶ The Minister said that priorities for the next Parliament would be introducing a full national funding formula and reforming funding for high-cost special educational needs provision and early years provision.⁷⁷

⁷⁶ David Laws, Written Statement, [Fairer school funding](#), 17 July 2014

⁷⁷ *Ibid.*

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