



Department
for Education

Schools and high needs national funding formulae

Executive summary

December 2016

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Foreword

This Government is committed to creating a country that works for everyone. No matter where they live, whatever their background, ability or need, children should have access to an excellent education that unlocks talent and creates opportunity. We want all children to reach their full potential and to succeed in adult life.



The current funding system does not support this aspiration. It is unfair, untransparent and out of date. Similar schools and local areas receive very different levels of funding, with little or no justification. Patchy and inconsistent decisions have built up over many years, and mean resources are not getting to the schools and pupils that need them most. Underfunded schools do not have access to the same opportunities to do the best for their children, and it is harder for them to attract the best teachers and to afford the right support. That is why introducing fair funding was a key manifesto commitment.

This unfairness is seen right across the country. For example, as we said in the first stage of our consultation, a school in Barnsley could receive 50% more funding, with no changes to its circumstances, if it were situated in Hackney instead. Coventry received nearly £500 more per pupil than Plymouth, despite having the same proportion of pupils eligible for the pupil premium.

For schools, this unfairness is made even worse at local level, because each local authority sets a different formula to distribute funding. As a result, a primary school in Cornwall teaching a pupil eligible for free school meals with English as an additional language would receive £3,389, whereas if the same child was educated in Devon, their school would receive £4,718 – a difference of £1,329. Our national funding formula aims to address this unfairness. That is why we are confirming that we want to move towards a ‘hard’ national funding formula that distributes the vast majority of funding directly to schools. It is the only way we can be sure that the same child, with the same needs, will attract the same funding regardless of where they happen to live; and the only way that parents can be sure there is a level playing field. It fits squarely with our vision for a school led system, with as much funding as possible reaching the front-line and headteachers benefiting from more transparent and predictable budgets that allow schools to plan ahead and ensure every pound has maximum impact for their pupils.

We also want to ensure high needs funding improves the life chances of our most vulnerable children and young people. There is just as great, and as arbitrary, a variation in the funding that the Government currently provides to support children with special

educational needs and disabilities across the country. We similarly need to deliver a high needs funding system that properly reflects the needs of every child.

We set out the first stage of our proposals for a fairer system for funding schools and high needs in March. Over 6,000 people, including headteachers, teachers, governors, school business managers, parents and representative groups took the time to respond to the consultation.

Our vision, principles and the proposed structure for the formulae were all met with strong support, and we are now consulting on how we propose to weight funding across the factors in the formulae. Where concerns have been raised, we have considered these carefully and improved our proposals. We know that it is important that we get the formulae and system right so that every pound of the investment we make in education has the greatest impact. Our proposals sit alongside and complement the new early years funding formula arrangements that were announced in December.

Introducing fair national funding formulae will be an historic reform - the biggest change to school and high needs funding for well over a decade. For the first time, we would have a clear, simple and transparent system that matches funding to children's needs and the schools they attend. Areas and schools across the country that have been underfunded for too long will begin to see increases that will help them achieve more for their pupils.

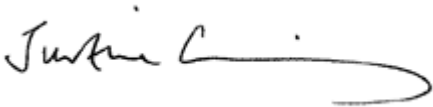
On average, schools in the historically lowest-funded local authority areas will gain 3.6% as a result of this formula. Schools serving large numbers of pupils who live in areas of deprivation but who are not eligible for free school meals – those whose families are just about managing – will benefit from our proposals. Schools in areas of sustained educational underperformance will also gain.

It is vital that we provide sufficient stability for schools as we implement a fair formula. Our proposals will therefore include an absolute floor so that no school will face an overall reduction of more than 3% per pupil as a result of this formula. The minimum funding guarantee (MFG) of minus 1.5% per pupil year on year will continue, providing additional stability for schools. And the transition year of 2018-19 will allow local authorities to continue to set local formulae, in preparation for 2019-20, when the national funding formula will set the vast majority of each school's individual funding.

We know that stability for high needs is even more important, because of the need to provide consistency for individual placements for young people. On high needs, our proposals ensure that no local authority would see any reduction in funding as a result of the formula.

Parents can have assurance that wherever they live in the country their children will attract funding that reflects their needs. Schools and teachers will receive a consistent and fair share of the funding available, so they can help every child to reach their full

potential. In summary, fairer funding will equip all schools to play their part in an education system that works better for everyone.



Rt Hon Justine Greening MP

About the consultations

How to get involved

To help us analyse responses to the consultation please use the online system wherever possible. To submit your response visit:

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

If for exceptional reasons you are unable to use the online system, for example because you use specialist accessibility software that is not compatible with the system, please contact us at:

- SchoolsNationalFundingFormula.CONULTATION@education.gov.uk
- HighNeedsFundingReform.CONULTATION@education.gov.uk

The consultation closes on 22 March 2017.

Enquiries

If you have a question about the consultation please email us at the mailboxes listed above. If your question is about the data or calculations involved in illustrating the impact of our proposals for a particular school or local authority, please include 'NFF data query' in the subject line.

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

The response

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

Introduction

1. The Government is committed to creating a country that works for everyone. Introducing fair funding across schools and high needs is essential to support opportunity for all children, irrespective of their background, ability, need or where in the country they live.
2. We have protected the national core schools budget since 2010, and we will continue to do so, in real terms overall, to 2020. This year we are spending over £40 billion on schools, the highest amount in history. However, the current system for distributing this funding is unfair, untransparent and out of date. Similar schools and local areas receive very different levels of funding, with little or no justification. Unfairness and discrepancies in funding levels are seen right across the country. That is true both of funding for schools, and the funding the government provides to support the life chances of our most vulnerable children and young people with special educational needs (SEN) and disabilities.
3. We set out many examples of the unfairness we see in the current system of school and high needs funding in the document published as part of the first stage of our consultation, [Schools and high needs funding reform. The case for change and consultation summary](#). The response we received to that consultation, and the vision, principles and proposed structure for the national funding formulae that it set out, demonstrated that the unfairness of the current system and the case for reform is widely accepted. We are now consulting on how we propose to weight funding across the factors in the formulae. These proposals sit alongside and complement the new early years funding formula arrangements announced in December.
4. A fairer funding system will help to provide all schools with the resources needed to ensure an excellent education for all pupils. The national funding formula will help schools to manage cost pressures, by directing resources where they are most needed and by creating greater certainty and transparency in the funding system to allow schools to plan ahead with confidence. We know that how schools spend their money is as important as the amount of funding they receive. So we will support all schools to become more efficient and manage their budgets well, helping them to achieve the highest standards for their pupils.
5. This summary accompanies a suite of documents covering our response to the first stage of the schools and high needs consultations and detailed proposals for consultation on the national funding formulae for schools, high needs and the central school services block¹. It also explains what will happen next. Namely, it:

¹ This was referred to as the central schools block in the March 2016 consultation. We have changed the name to better distinguish it from the schools block.

- a. Confirms that we will introduce national funding formulae for schools, high needs and local authority services for schools in 2018-19;
- b. Confirms the design of the funding system. We will split the dedicated schools grant (DSG) into 4 blocks – for schools, high needs, early years (on which we have consulted separately) and central school services;
- c. Confirms that we will have a school-level ('hard') formula for the schools block from 2019-20. In the interim, schools will still be funded according to a local formula. The schools block will be ring-fenced for spending on schools, but there will be some limited scope for movement before 2019-20, and some continuing local flexibility from 2019-20;
- d. Confirms that the schools national funding formula will comprise the 12 factors we proposed in the first stage of our consultation, with the addition of a mobility factor in light of consultation responses, and summarises our proposals for the relative weighting of the factors;
- e. Confirms that the high needs formula will comprise the 9 factors we proposed in the first consultation, and summarises our proposals for the relative weighting of the factors;
- f. Explains the approach to transition, including how quickly we propose to distribute gains and our plans to provide stability and financial security by limiting reductions. In particular:

For schools we propose:

- i. To provide up to **3% per pupil increases** in 2018-19 for schools due to gain under the formula, and up to 2.5% increases in 2019-20;
- ii. To include a floor in our schools formula that will **limit the overall reduction to any individual school's budget as a result of the introduction of this national funding formula to 3% per pupil**; and
- iii. That the MFG for schools of **minus 1.5% per pupil** year on year will continue - limiting annual reductions to manageable levels.

For high needs we propose:

- i. To provide up to **3% increases** in 2018-19 and 2019-20 respectively for local authorities due to gain under the formula; and
- ii. That there will be **no cash losses** to local authorities as a result of the high needs formula.

For central school services we propose:

- i. to allow local authorities **increases of up to 2.4%** in 2018-19; and

- ii. that no local authority will **lose more than 2.5%** of its per pupil funding in either 2018-19 or 2019-20.
 - g. Summarises the illustrative impact of the formulae on local authorities and schools; and
 - h. Sets out our plans for implementation; including summarising our support to schools on efficiency and financial health, and to local authorities on managing their high needs budgets.
6. We are also publishing full details of the impact of our proposed formulae as part of the consultation. This is so that headteachers, governors, local authorities and parents can see how our proposals would affect them – supporting a full and open consultation process.

The overall budget

7. The DSG provides the core budgets for all schools, early years provision, and additional support for children and young people with high needs. It also covers some of local authorities' continuing duties in education. The national core schools budget has been protected in real terms since 2010, and we are continuing to protect it in real terms overall, to 2020.
8. Our proposals are concerned with how to distribute the total funding within the different blocks of the DSG. New formulae will result in changes to budgets and a redistribution of funding between local areas and institutions, but will not reduce the national total provided to schools and local authorities.
9. The real terms protection on the national core schools budget means we can invest resources – over and above flat cash per pupil – in 2018-19 and 2019-20 to increase the rate at which we can allocate gains. We are able to allocate around £200 million in each year above flat cash per pupil, allowing us to combine significant protections for those facing reductions and more rapid increases for those set to gain.
10. As set out in the first stage of our consultation, the pupil premium, pupil premium plus, and service premium will continue to operate through the separate pupil premium grant; and we have already separately committed to retain the early years pupil premium in its current form. With the exception of an adjustment to the pupil premium plus (explained in the government's response to the stage one consultation), these grants are unaffected by our proposals.

The design of the funding system

11. The dedicated schools grant (DSG) is the main source of government funding to local authorities for education provision in their area. It is currently allocated to local authorities from the Education Funding Agency of the Department for Education in three notional blocks: schools, high needs, and early years. In consultation with their schools forum, local authorities make decisions about the split in funding between the blocks, and the local formulae that determine the allocations for individual schools and early years providers. Initial allocations of high needs funding to local authorities are the source of the majority of place funding for special schools and units, colleges and other post-16 providers, and of the top-up funding for children and young people with high-cost SEN and disabilities. Local authorities also hold some DSG centrally to spend on schools and central services.
12. The first stage of consultation set out our proposal to create a fourth block of the DSG, to fund those duties that local authorities carry out for both maintained schools and academies, such as admissions and education welfare services. We are confirming that we will introduce this new block – the **central school services block** — from 2018-19.
13. We also proposed a school-level formula (a hard national funding formula) from 2019-20, where each school's budget would be set nationally. This would apply to the funding for 5-16 year olds for all mainstream schools (special schools would continue to be funded as they are now). A hard formula would mean that all schools would be funded through a single, national approach, removing the additional layer of variation and complexity created by the current existence of a different formula in every local authority.
14. We are now confirming our intention that a school-level formula will be used to calculate the vast majority of a mainstream school's budget from 2019-20. We confirmed in July that the formula would begin in 2018-19 not 2017-18, to allow us to give certainty to local authorities who were starting to plan budgets for 2017-18. In 2018-19 (only) we will calculate notional budgets for schools according to the national formula. These will then be aggregated and allocated to local authorities as the schools block for distribution to schools according to the locally agreed formula.
15. However, even under the school-level formula arrangement (from 2019-20 and beyond), we expect local authorities to continue to have flexibility on some limited parts of the formula, particularly in relation to funding for pupil growth.
16. Local authorities currently decide how to divide their total DSG across the three blocks: they are not obliged to set schools, high needs or early years budgets in line with the notional allocations they receive for each from the department. Under a hard formula, local authorities will continue to make decisions about how to spend their

high needs, early years² and central school services blocks. The difference under a hard formula is that there will be limited flexibility for local authorities in how they allocate the schools block funding. To prepare for this in advance of introducing a hard formula, we proposed to apply a ring-fence around the schools block requiring local authorities to pass all of their schools block funding to schools and not to move it to other DSG blocks in 2018-19. A majority of respondents supported the proposal for a ring-fence around mainstream schools funding, though some raised concerns about potential impacts for pupils with high needs.

17. We are confirming that we will ring-fence the schools block in 2018-19, but with additional arrangements that will address the risks highlighted during the consultation about support for pupils with SEN and disabilities. We are proposing that local authorities would have a limited ability to move funding between the schools and high needs blocks in 2018-19, following local consultation and with the explicit agreement of the schools forum and a majority of their schools. As now, they will continue to be able to provide additional support through their high needs block and outside the main school budget share to schools supporting large numbers of pupils with high needs. We also intend to develop some continuing local flexibility from 2019-20, and will work with the sector to make sure that such arrangements properly take account of schools' and local authorities' collective responsibilities for children and young people with SEN and disabilities.

18. We are taking further steps to make sure that local authorities are supported in other ways to develop the quality of provision for children and young people with SEN and disabilities. We will:

- a. Protect each local authority's high needs block from any loss as a result of the introduction of this formula;
- b. Fund all local authorities to prepare and implement strategic plans that enable them to spend their high needs funding in a way that achieves the best outcomes for children and young people with high needs; and
- c. Provide capital funding to support the expansion of special provision in schools (including mainstream schools) and other institutions, and progress a new route for more special schools to be established through the free schools programme.

² We will require that all local authorities pass 93% in 2017-18 then 95% from 2018-19 onwards of early years funding to providers.

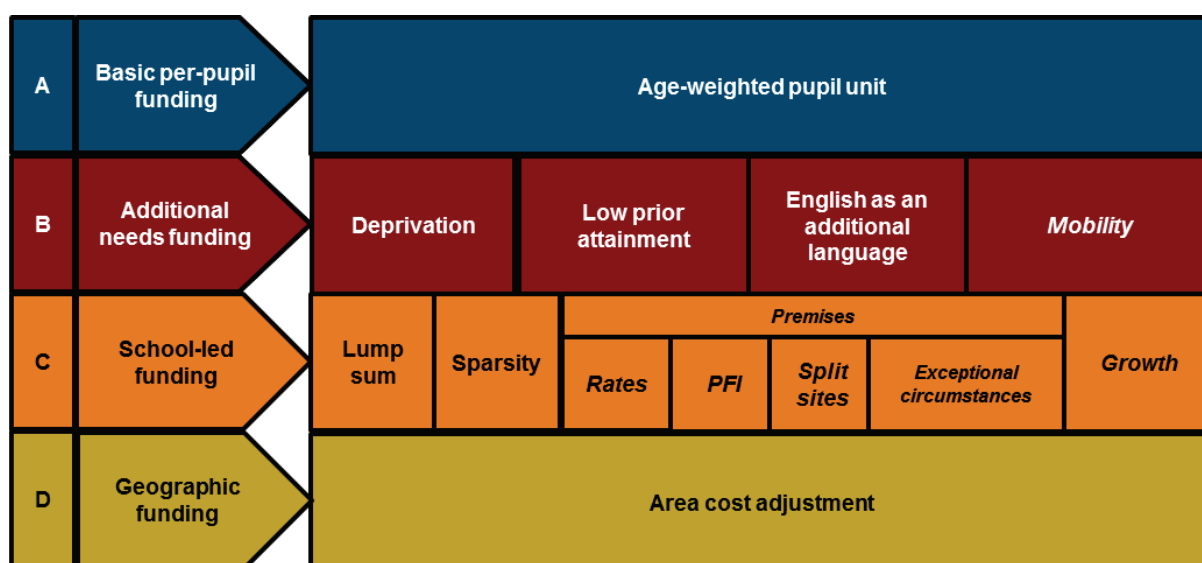
The content of the national funding formulae

19. In our first stage of consultation we set out the factors we proposed to include in the national funding formulae for the schools, high needs and central school services blocks. The strong support and feedback we received about our proposals gave us a good basis to proceed and develop more detailed proposals. The consultations launched alongside this summary set out the full composition of the formulae and how we propose to weight the different factors.
20. The sections below set out our plans for the schools, high needs and central school services block formulae, and summarise our proposals on weighting.

National funding formula for the schools block

21. Following the first stage of our consultation, we are confirming that the schools national funding formula will include all the factors we proposed, with the addition of a factor for mobility. The costs to schools associated with in-year pupil mobility were highlighted consistently during consultation. We have listened to these concerns and concluded that we should include a mobility factor to recognise that some schools face additional pressures. The formula factors are illustrated in Figure 1 below.

Figure 1 – schools national funding formula factors



This diagram illustrates the 13 different factors that will be taken into account when calculating DSG Schools Block funding allocations through the national funding formula. It is not designed to scale. Funding for factors in italics will be allocated to local authorities in 2018-19 on the basis of historic spend.

22. The focus of this stage of consultation is the weightings we propose to give the different factors within the formula. We have considered the key principles for the national funding formula that we set out in the first stage of our consultation. We want

to achieve a fair and transparent formula, which is simple while reflecting relative need, and which ensures sufficient stability.

23. Our starting point for developing the formula weightings has been the collective formulae used by local authorities to distribute funding to schools. This represents the conclusions made over a number of years by local authorities and their schools forums; and in many instances there are similarities between the choices made locally. We know, however, that the funding system is complex, and that looking at national averages can only be a starting point. In this consultation, therefore, we propose the ways in which we believe the national funding formula should vary from that current distribution of funding. The changes we propose reflect the best available evidence about the impact of resources on outcomes and our ambition of achieving an education system that works for all children.
24. The formula we propose represents our overall view on how best to balance competing priorities. We want to hear from respondents whether this balance is broadly right.
25. The schools funding formula will distribute a core amount of funding to schools at a consistent rate for every pupil, increasing in value as pupils progress through the key stages. This will be the largest individual factor, accounting for over £23 billion of core schools funding. We are proposing to set the balance in funding between the primary and secondary phases in line with the current national average. We have not found conclusive evidence to suggest that shifting the current balance would lead to better outcomes for pupils.
26. The formula will recognise educational disadvantage in its widest sense, including those who will not be benefiting from the pupil premium but whose families may be just about managing. It increases the total spent on additional needs factors compared to the funding explicitly directed through these factors in the current system. Within this, our proposed formula places a greater emphasis on pupils' prior attainment, so that schools receive additional funding to ensure no child – regardless of background – is left behind.
27. Over and above the pupil premium – worth £2.5 billion this year – we are proposing that the national funding formula allocates a total of £5.8 billion through the additional needs factors in total – including £3.0 billion in support of deprived pupils and £2.4 billion in support of pupils with low prior attainment. Under these proposals, a secondary school pupil with significant additional needs could attract over £10,000 to their school through the national funding formula and the pupil premium as follows:
 - a. £4,312 as the basic secondary school KS4 pupil rate:
 - b. £2,160 extra for FSM eligibility (£1,225 through the formula and £935 through the pupil premium);

- c. An extra £810 for living in the most deprived areas³;
- d. An extra £1,550 for having low prior attainment; and
- e. An extra £1,385 for having English as an additional language (EAL).

28. The new mobility factor will recognise some of the pressures schools face in accommodating in-year pupil mobility. An important issue in developing a mobility indicator for use in the national funding formula is that the underpinning data is not sufficiently robust for local authorities that do not currently use this as a factor. We are looking at ways in which this could be addressed for the longer-term, but in the interim, we are proposing to allocate funding to local authorities on an historic basis, reflecting the amount of money they put through the mobility factor in the previous year.

29. The formula includes a significant lump sum factor to help schools meet costs that do not vary with pupil numbers. We want to maximise the proportion of funding allocated to pupil-led factors, so are proposing to spend less on the lump sum than local authorities are spending currently. We know that for small and remote schools it is sometimes a particular challenge to find efficiencies and partnerships, and that the lump sum alone may not be sufficient. The formula therefore also includes an enhanced sparsity factor that will target additional funding to support these schools.

30. As we proposed in the first stage of the consultation we will allocate funding for private finance initiatives (PFI), rates, split-sites, exceptional premises and growth to local authorities in 2018-19 on the basis of what has been spent on these factors in the past.

31. The final element of the schools formula is the area cost adjustment, which reflects geographic variation in labour market costs. The formula uses the 'hybrid' area cost adjustment methodology, which reflects variation in both the general labour market and the teacher labour market, and which commanded the most support in the first stage of the consultation. Area cost adjustment uplifts are calculated depending on the location of the school.

32. There was strong support in the first stage of our consultation for including explicit additional funding for areas expected to face significant growth in pupil numbers as a factor in the formula. Although a majority disagreed with our specific proposal to allocate it in 2018-19 on the basis of historic funding as this may not reflect future growth, there was no consensus on a better method.

33. We are confirming that funding for growth will be allocated to local authorities in 2018-19 on the basis of spend in 2017-18: this will be an interim arrangement. We recognise that this will not match need exactly, but it represents a significant

³ Pupils living in IDACI Band A. See chapter 2 of the [consultation document](#) for more information.

improvement on the current system where local authorities are expected to absorb all the costs of growth without additional funding.

34. We are consulting on a different, long-term approach that could be introduced from 2019-20. This would allocate funding based on the pupil growth local authorities actually experienced in the year before. We think that this 'lagged' funding approach would be a further improvement on historic spend. Our evidence tells us it would be a better predictor of future growth, and over time, will mean the right amount of funding will reach local authorities, albeit with a one-year lag.

Protection and transition - schools

35. The schools funding formula we are proposing in this consultation will, rightly, see new levels of funding across the country as funding is better matched to need. However, the need for stability and security for schools was a consistent theme in the responses we received to the first consultation. We are clear that we want the impact on losing schools to be fully manageable, while allowing under-funded schools to move towards their formula allocations as quickly as possible. We have proposed a number of measures to support this:

- **Schools due to gain under the formula will see per pupil increases of up to 3% in 2018-19, and up to a further 2.5% in 2019-20.** The real terms protection of the schools budget allows us to increase the rate we can allocate gains beyond a redistribution of flat cash per pupil;
- **Inclusion of a floor that will limit the overall reduction to any individual school's budget as a result of the introduction of this national funding formula to 3% per pupil.** This means that any school that would have seen a reduction greater than this will be protected; and
- The national MFG for schools of **minus 1.5% per pupil** year on year will continue – limiting annual reductions to manageable levels. **This means that the annual level of losses felt by individual schools will be no greater than are currently allowed through local formula changes.**

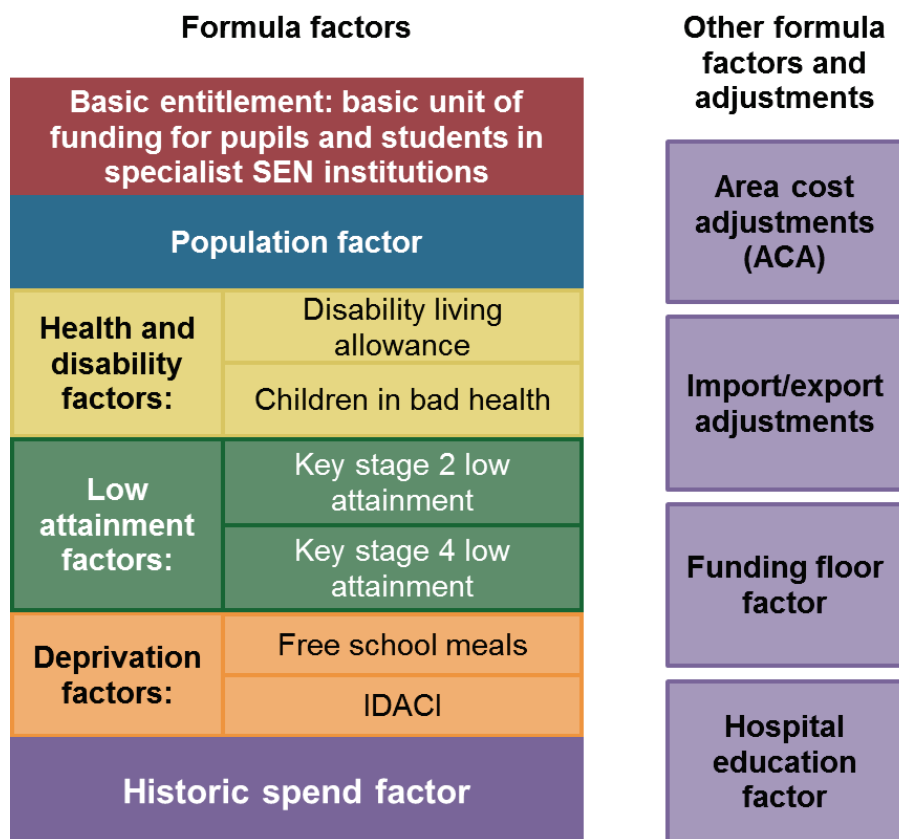
National funding formula for the high needs block

36. The first stage of our consultation sought views on proposed improvements to the way that high needs funding is distributed, and other ways in which we can support the administration of funding for pupils and students with SEN and disabilities and for those who are in alternative provision.
37. We received over 1,000 responses and there was strong support for our proposals for a high needs national funding formula. Over two thirds agreed that the principles on which we are basing our reforms are right, and a majority supported each of the proposed factors we set out for the formula. A significant concern raised during the first stage of the consultation was about how high needs pressures might be

managed if a ring-fence was applied to the schools block. Our plans to address those concerns are set out in paragraphs 17 and 18 above. The limited local flexibility we are proposing will enable local areas to reflect the balance in the numbers of pupils with high needs in mainstream and special schools, where the formulae for schools and high needs do not fully reflect those numbers.

38. Based on the response to the first stage of the consultation, we believe we are right to proceed in building the formula on the basis proposed. We are therefore confirming that the formula will comprise of 9 factors as set out in Figure 2 below.

Figure 2 – high needs national funding formula factors



This diagram illustrates the 9 different factors that will be included in the high needs national funding formula. It is not designed to scale.

39. As for the schools block, high needs funding will include a hybrid area cost adjustment; however, the balance in the weighting given to general labour market costs and teacher labour market costs will be adjusted to reflect the different balance of spending in special schools.

40. As well as ensuring that no local authority will lose funding as a result of the high needs formula, we are proposing that for the next four years there will be a significant element of funding allocated to local authorities to reflect their historic spending levels and actual costs of maintaining the provision for those with high needs already placed in schools and colleges. This element of the formula will be a cash amount for each authority, set at half of their current spend. Around half of the funding will be based on resident population projections (50%), deprivation factors (20%), health and disability factors (15%) and low attainment factors (15%). These are all proxy factors that

together correlate with the measures of the distribution of actual SEN and disability that we have available. The use of proxy indicators avoids the risk of creating perverse incentives for the over-identification of high needs and consequent inflationary pressures.

41. Although we believe it is important to retain an element of historic spending in the formula for the next four years, we will review how the high needs formula should work subsequently, looking carefully at:
- a. Whether the factors in the formula need any adjustment;
 - b. Whether and the extent to which, in the longer term, the formula should continue to reflect local authorities' actual spending decisions; and,
 - c. Whether any particular approaches that local authorities take secure better outcomes for young people, and better value for the taxpayer. We will explore and gather evidence on how specific kinds of investment in children and young people with SEN and disabilities can achieve outcomes that enhance their lives as they move into adulthood, both to inform future distribution and to help aid local areas commissioning decisions.

Protection and transition – high needs

42. The pressure local authorities are facing on their high needs budgets was a recurring theme throughout the first stage of consultation. We have listened to these concerns and are setting out our plans for protection and transition to support local authorities to deliver high quality provision for young people with high needs. We propose:
- **To provide up to 3% increases in 2018-19 and 2019-20 for local authorities due to gain from our formula.** This means that 75% of local authorities will be on or above their formula allocation by 2019-20; and
 - **There will be no cash losses to local authorities at all as a result of the high needs formula.** We recognise that local authorities' current spending is dependent on a range of factors that have determined the local pattern of provision, and that protection will be needed to enable authorities to manage future cost pressures effectively.

National funding formula for the central school services block and the future of the Education Services Grant

43. In the first stage of consultation, we proposed creating a central school services block by merging two existing funding streams that support the role of the local authority in education – the schools block funding currently held centrally by local authorities, and the retained duties part of the Education Services Grant (ESG). The second stage of the consultation confirms that local authorities' continuing responsibilities will be funded through the central school services block according to a per pupil rate,

adjusted by area costs, with the addition of a deprivation factor to recognise the challenges of providing some central services in areas of high socio-economic deprivation. Local authorities' historic commitments will also be recognised on the basis of their actual costs, and for the most part will unwind over time⁴. There will be no protection for the removal of funding where historic commitments have either finished or are not compliant with regulations.

44. In removing the general funding element of the ESG, we are aware that local authorities may need to use alternative sources of funding to pay for education services for maintained schools. Our proposal to allow local authorities to retain some of their maintained schools' DSG centrally for duties currently funded by the general funding rate was supported by a majority of respondents, including 63% of the responses from maintained schools. Further details of this arrangement are set out in the [2017-18 operational guidance for local authorities](#).

45. We have also set out our plans to support local authorities to continue to monitor and broker school improvement support for weaker maintained schools by introducing a new £50 million per year grant to begin in September 2017 at the point at which the ESG general funding rate is fully withdrawn. In addition, in recognition that the school-led system of school improvement is not yet sufficiently mature in all areas, maintained schools will have the option to decide to transfer funding for further school improvement support from their own school's budgets back to the local authority through the 'de-delegation' process. This transitional option will be available until the hard formula begins in 2019-20, after which time we expect that all school improvement provision by local authorities at no cost to schools will have ended or will be offered through a traded service⁵.

Transition – central school services block

46. We want to make sure that the move towards a per pupil formula for local authorities for central education services is fully manageable. We are therefore proposing that no local authority will lose more than 2.5% of funding in 2018-19 and 2019-20. This allows us to allocate gains of up to 2.4% in 2018-19 and 2019-20. We believe our proposals strike the right balance between manageable change, and moving towards a fairer basis for funding local authority central services for schools in the long term.

⁴ A full list of historic commitments can be found in Annex 1 of the schools national funding formula government consultation, and include combined budgets contributing to wider children's services, staff redundancy, costs relating to decisions taken before 2013, and the back pay associated with equal pay legislation. These are commitments which were entered into before April 2013, and the expectation is that these costs will unwind over time.

⁵ Further detail on new funding arrangements for school improvement can be found online at www.gov.uk/government/news/new-funding-for-school-improvement--2

Support for efficiency

47. Effective schools make the best use of resources – ensuring every pound is used efficiently to improve standards and have maximum impact for their pupils. Managing school finances is not an ‘additional’ responsibility or requirement – it is core and fundamental to each and every school. For schools to deliver high standards, they must start from a position of strong financial management. In practice, this means schools can invest more of their resources in the classroom, making even more of a difference to the children that need it most. Effective school leaders know that this is a key part of their role, and taxpayers across the country expect nothing less. We already see great examples of schools delivering high quality education at lower cost than others, so we know from schools in the sector that this is achievable.
48. Schools can already draw on much excellent practice in other schools. In a school-led system, this is the most important source of advice and guidance, but the department has an important role in supporting capacity-building in the system. We have put in place, and continue to develop, a comprehensive package of support to help enable schools to make efficiency savings while continuing to improve the quality of education for their pupils. We have published a collection of tools and guidance including benchmarking information; advice on how to minimise spend on procurement and back-office services; and guidance on how to achieve workforce efficiencies by reviewing staffing structures – including a significant number of case studies of schools delivering savings in practice. This can be found on [the schools financial health and efficiency website](#).
49. We have published a directory of organisations who offer services to help schools identify if, where and how they can make improvements in financial management and use of resources in the [schools financial health checks supplier directory](#). We will also shortly be publishing a procurement strategy to help support a step change in school buying and underpin significant savings in non-pay costs across the system.
50. The first stage of the consultation set out our intention to launch an ‘invest to save’ fund to allow schools to invest in ways to save money in future, helping them manage the transition to a national formula. Our proposed floor will mean that no school will lose more than 3% of its funding per pupil overall as a result of this formula. Rather than creating a specific ‘invest to save’ fund, we have prioritised this floor, alongside allocating gains more quickly to schools that are due increases. In addition, we have announced £140 million per year for a new Strategic School Improvement Fund to support school improvement - building school-led capacity in parts of the country where it is needed. This includes support for improving financial health and the use of resources.

Impact assessment – how our new formulae would change current budgets

51. The tables we are publishing alongside our consultation documents show how our proposed formulae would impact on school and local authority funding allocations⁶.
52. It is important that headteachers, teachers, governors, parents, local authorities and representative bodies are able to understand our proposed formulae in detail and respond meaningfully to our consultations. To help with this, we are releasing data to illustrate how the proposed formulae for each of the blocks would change how much each local area would receive for its schools and high needs pupils. We are enabling individual schools – through our tables and in detail through the COLLECT system – to get a sense of how their funding might change under the national funding formula. These cannot show exactly what each school would get under the national funding formula, as local authorities will continue to determine local formulae during the soft year (2018-19), and, of course, the number of pupils attending each school, and their characteristics, will change, but it will allow schools and local authorities to understand the likely overall impact of what we are proposing⁷.
53. It is important to note that all figures are shown in cash terms per pupil. Like many organisations, schools are facing pressures – for example from pay increases and employers contributions to National Insurance and pensions. These are discussed further in the schools national funding formula consultation document, alongside the steps we are taking to help schools to improve efficiency and secure their financial health, but it is not possible to translate these pressures into individual school level estimates. That is partly because many schools will see significant increases in pupil numbers over the coming period, feeding through into increased total budgets. It is also because the circumstances of every school are unique – with different pay and non-pay costs and very different staffing structures. Every school will need to understand and plan for their own situation. Illustrating core funding levels in cash

⁶ The tables show what would happen under the proposed formula if pupil numbers and characteristics stayed exactly as they were in 2016-17 and the formula was implemented in full. This will not represent schools' actual final formula position for a number of reasons – in particular, pupil numbers and characteristics will change for many schools. It should also be noted that in 2018-19 under the soft formula arrangement, schools' allocations will be notional and aggregated into the total schools block to be distributed according to a local formula.

⁷ The formula is based on schools having pupils in all year groups. To apply the formula fairly to schools without some classes yet established we need to calculate their allocation in a different way. This is relevant for maintained schools, free schools or academies that local authorities have told us have opened in the last 7 years, and do not have pupils in all year groups yet. We will use the early phase of the consultation period to gather the necessary information and work with schools that are not yet full. We will provide relevant schools with an illustration of their funding level under the proposed national funding formula in January 2017, and publish these at the same time. Further details are set out in the consultation document on the schools national funding formula.

terms per pupil – based on real 2016-17 data – is the clearest and most helpful way of enabling them to do so.

54. We have analysed the impact of our proposed formulae and highlighted key changes below. The impact is explained in more detail in the relevant chapters of the consultation documents published in parallel. The [equalities impact assessment](#) sets out the impact of our proposals on the eight protected characteristics identified in the Equalities Act 2010.

Schools formula

55. In designing our formula, we have taken careful steps to balance the competing principles of fairness and stability. To achieve fairness, we believe that our formula should:

- a. Distribute the majority of funding on the basis of pupil numbers and characteristics rather than types of schools or their premises;
- b. Direct more funding than is currently explicitly directed towards pupils with additional needs and recognise educational disadvantage in its widest sense;
- c. Recognise that some schools face additional costs because they are small and serving rural communities.

56. Achieving these priorities means that funding will need to be redistributed around the country. Our proposal to include a funding floor and to use headroom available within our overall DSG settlement means that we can do this with a manageable impact for schools.

57. The proposed formula would result in 10,740 schools gaining funding. 3,379 schools would see increases to their budgets of more than 5%. For 6,487 schools the changes would be limited to plus or minus 2%. The MFG means that reductions would be limited to 1.5% year on year, and the floor means that schools cannot lose more than 3% per pupil overall. 5,500 schools will benefit from the minus 3% per pupil funding floor protection.

58. The highest funded schools would – rightly – remain those in areas with the highest concentration of socio-economic deprivation. There are also some specific groups of schools that gain as follows:

- a. Schools that have high numbers of pupils living in disadvantaged areas that are not necessarily eligible for free school meals – these are identified using area-level deprivation data. These pupils may have additional needs as they face levels of deprivation, but may not necessarily attract the pupil premium. Outside London, these schools gain 1.4% on average;
- b. Schools with the highest proportion of pupils with low prior attainment but which are not in areas of high deprivation. These gain 2.8% on average;

- c. Small, rural schools – as a group, these schools gain 1.3% on average; and
- d. Primary schools in sparse communities. These schools gain 5.3% on average.

59. At local authority level, 101 areas will see gains and 49 will see reductions. The 10 least well-funded local authorities will, as a group, gain on average 3.6%. This is on top of £390 million of additional funding, which was introduced through the minimum funding levels arrangement in 2015-16 and has remained in the baseline for the national core schools budget.
60. London, along with other inner city areas, faces high levels of deprivation and pupils with EAL. Under our formula, schools in inner London will attract 30% more funding per pupil than the national average. This is because funding will be matched to need, and so London schools will continue to receive significant funding to help them support their pupils with additional needs. They will also receive additional funding to reflect the higher cost base they face being in London. They will, however, see some reductions as a result of our formula, reflecting the reduction in levels of deprivation that have been seen in London in recent years⁸. The floor we have proposed will limit these to 3% per pupil.
61. It is our expectation that schools would start to move towards these new funding levels in 2018-19. In 2018-19, however, it will be up to local authorities to decide funding allocations locally, so allocations will not necessarily mirror our formula allocations, nor the illustrations in this consultation. If local authorities were to adopt the national funding formula proposed, as we would encourage them to do, we would expect around 4,215 of those schools due to be funded at a higher level to reach their new per pupil level in 2018-19.

High needs formula

62. Under our proposed formula 72 local authorities would see an immediate increase of up to 3% in 2018-19. 98 local authorities would have an allocation equal to their formula allocation in the first year, and 113 authorities by the second year.
63. Our proposed formula would distribute funding on the basis of the local demography and proxy factors that indicate the level of need amongst children and young people in an area. This would mean, for example, that funding is targeted towards areas of deprivation, reflecting the evidence of a link between deprivation and high needs. We are planning research on the costs and outcomes resulting from different types of provision, which will inform a review of the factors in the high needs funding formula after four years. In the meantime, the historic spending factor and protection we are

⁸ Over the last 10 years, the percentage of pupils eligible for FSM in London has dropped from 27% to 18%.

offering will reflect the existing pattern of provision that has developed in response to parents' preferences, local circumstances and other factors.

64. A high needs strategic planning fund is being allocated this year, to encourage all local authorities to review their special provision and plan ahead in light of what this consultation indicates about the level of high needs funding they will receive in future years. Our expectation is that local authorities will produce strategic plans for SEN and disability provision, working with schools (mainstream and special), early years providers and further education providers, and involving parents and young people as well. We know that many local authorities are already planning ahead, and their experience has informed the guidance that we are offering alongside this fund.
65. Early in 2017 we will provide more information on the allocation of capital funding for special provision, and set out next steps in the process for establishing new special schools, where they are needed, funded through the free schools programme.

Central school services formula

66. Under the proposed formula, 84 local authority areas would see their funding increase. Per pupil funding for 66 local authorities would reduce gradually (at up to 2.5% in 2018-19 and 2019-20), to bring funding for those areas in line with the formula.



Department
for Education

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