



BROMLEY CIVIC CENTRE, STOCKWELL CLOSE, BROMLEY BRI 3UH

TELEPHONE: 020 8464 3333

CONTACT: Philippa Gibbs  
*philippa.gibbs@bromley.gov.uk*

DIRECT LINE: 020 8461 7638

FAX: 020 8290 0608

DATE: 7 March 2017

## **EDUCATION BUDGET SUB-COMMITTEE**

**Meeting to be held on Wednesday 15 March 2017**

Please see the attached report(s) marked "to follow" on the agenda.

**5 RESPONSE TO THE NATIONAL FUNDING FORMULA SECOND  
CONSULTATION (Pages 3 - 170)**

*Copies of the documents referred to above can be obtained from  
<http://cde.bromley.gov.uk/>*

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Report No. ED17042      London Borough of Bromley

## PART 1 - PUBLIC

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Decision Maker:      **EDUCATION BUDGET SUB COMMITTEE**

Date:                      **15<sup>th</sup> March 2017**

Decision Type:      Non-Urgent                      Executive                      Non-Key

**TITLE:                      SCHOOLS NATIONAL FUNDING FORMULA AND  
HIGH NEEDS NATIONAL FUNDING FORMULA  
SECOND STAGE CONSULTATIONS**

Contact Officer:      David Bradshaw, Head of Education, Care and Health Finance  
Tel: 020 8313 4807 E - mail: [david.bradshaw@bromley.gov.uk](mailto:david.bradshaw@bromley.gov.uk)

Chief Officer:              Executive Director of Education, Care and Health Services

Ward:                      Borough wide

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### **1.      REASON FOR REPORT**

This report provides an overview of the second stage consultation documents including DfE presentation and worked examples relating to Bromley and to individual schools.

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### **2.      RECOMMENDATIONS**

**2.1      The sub committee are asked to consider the relevant information with a view to producing responses to the two consultations;**

**2.2      The Schools Forum will have formulated a response to the consultations and the sub committee is asked whether they would want to have a joint response with the schools forum or respond separately.**

## Corporate Policy

Policy Status: Existing Policy

BBB Priority: Excellent Council

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## Financial

1. Cost of proposal: N/A
  2. Ongoing Costs: N/A
  3. Budget head/performance centre: N/A
  4. Total budget for this head N/A
  5. Source of funding: N/A
- 

## Staff

1. Number of staff (current and additional): N/A
  2. If from existing staff resources, number of staff hours – N/A
- 

## Legal

1. N/A
  2. Call-in: N/A
- 

## Customer Impact

N/A.

## Ward Councillors Views

1. Have ward councilors been asked for comments? N/A
2. Summary of Ward Councillor comments: Council wide

### **3. Commentary**

- 3.1 The second stage of the DfE consultation on the proposed National Funding Formulas (NFF) for Schools and for High Needs was launched on the 14th December with a closing date of 22nd March 2017. LA Officers have recently attended a number of DfE led presentations and seminars which have helped with the understanding of the proposals which are very detailed and complex. The schools consultation is in Appendix 1 and the High Needs in Appendix 2.
- 3.2 It is proposed that the Sub Committee would benefit with having access to this information and to detailed modelling that that has since been carried out showing the impact on Bromley as a local authority and on individual schools. This will then allow committee members to contribute to the preparation of the LAs responses to the two consultation documents.
- 3.3 The Schools Forum also met to discuss the consultations on the 9<sup>th</sup> March 2017 and their responses will be circulated prior to the sub committee meeting on the 15<sup>th</sup> March 2017. It is proposed that these responses, together with the responses from London Councils form the basis of a response from the Council
- 3.4 The Sub committee are asked whether they would like to make a joint response with the Schools Forum or formulate their own response.

### **4. Schools Block National Funding Formula - Overview**

- 4.1 In December 2016 the DfE launched the second stage of the consultation regarding the Schools National Funding Formula. The government is committed to introducing a NFF by 2019/20 which will provide a system for distributing funding which is both fair and transparent.
- 4.2 The consultation states that 'Funding every school using the NFF will mean a fair settlement for each school and will determine whether, and to what extent, school will gain funding or will need to adjust to a lower level of funding. It is hoped that this will enable schools to become more efficient and manage their budgets well, helping them to achieve the highest standards for their pupils'.
- 4.3 The consultation is broken down into five sections as follows:
- Section 1: Our overall approach to constructing the NFF for schools
- Section 2: Detailed formula design proposals
- Section 3: The impact of the proposed NFF for schools
- Section 4: Implementation of the NFF for schools
- Section 5: Our proposals for the central school services block
- 4.4 Alongside this the DfE have published illustrative examples of how 2016/17 funding would look under the new formula, compared to 2016/17 actual funding – however schools should be aware that this is not necessarily an indication of their future funding

as pupil numbers and other demographics may change and therefore these comparisons should be used for illustrative purposes only.

### Section 1 - Our overall approach to constructing the NFF for schools

- 4.5 This section outlines the approach to deciding which elements should remain within the new NFF. It is proposed that there should be four basic funding blocks to incorporate various factors:
- A. Basic per pupil funding – previously referred to as Age Weighted Pupil Unit (AWPU) funding
  - B. Additional needs funding – to include deprivation, low attainment, English as an additional language and mobility
  - C. School-led funding – to include lump sum, sparsity, growth and premises related factors such as rates, PFI and split sites
  - D. Geographic funding – area cost adjustment
- 4.6 Having established the factors to be included in the formula, the DfE is outlining proposals regarding the relative weighting of each factor to establish the proposed levels of funding.
- 4.7 The starting point for this has been to look at the current balance of formula factors based on data from all local authorities. Some of the relevant statistics show as follows:
- The national average for the primary secondary ratio is 1:1.29 (which means that the funding per pupil is on average 29% higher in the secondary phase than in the primary phase) – Bromley ratio is currently 1:1.18 in 2016/17. Following funding changes made in 2017/18 this has moved to 1:1.24
  - LAs are required to distribute at least 80% of funding through pupil led factors but the current average is 90% - Bromley is currently 89.68%
  - The minimum levels for basic funding (AWPU) are £2,000 at primary and £3,000 at secondary however current funding levels are on average 49% higher – Bromley AWPU funding levels currently £2,938 for primary and £4,168/£4,559 for secondary
  - All authorities currently include a lump sum however this can vary significantly from £48,480 up to £175,000 – this can also vary between primary and secondary schools. Bromley lump sum is currently £155,000 for all schools.
- 4.8 In summary, the DfE is proposing
- To maintain the primary secondary ratio in line with the current national average of 1:1.29
  - To maximise the proportion of funding allocated through pupil led factors so that as much funding as possible is allocated in relation to pupils and their characteristics
  - To provide a basic amount for each pupil and to continue to increase the basic rate as pupils progress through the key stages

- To increase total spend on additional needs factors to recognise that pupils from disadvantaged backgrounds are currently being subsidised through the basic per pupil funding.
- To continue to provide every school with a lump sum but at a lower level than the current national average so that more funding can be directed at pupil led factors
- During the transitional years, to continue with a minimum funding guarantee of minus 1.5% to provide additional stability for schools
- To cap gains at 3% per pupil in 2018/19, and then up to a further 2.5% in 2019/20.

## Section 2 - Detailed formula design proposals

### 4.9 This section outlines the formula design proposals in detail

- Primary to secondary funding ratio to move towards 1:1.29. Local authorities will continue to be responsible for determining their own ratio in 2018/19 and will be encouraged to move towards the hard national funding formula in 2019/20 - Bromley is moving from 1:1.18 in 2016/17 to 1:1.24 in 2017/18.
- Proposals to reduce the proportion of funding allocated through the basic rate to around 73% - based on current pupil numbers this would equate to £2,712 for primary and £3,797 and £4,312 for secondary. These cannot be compared directly to Bromley figures as they do not include any area uplift i.e. to reflect inner or outer London weighting.
- Proposal to increase the amount of funding allocated through the deprivation factor and to use both pupil led and area level deprivation data - Bromley currently only uses pupil level data i.e. free school meal entitlement as a proxy indicator.
- Proposals to continue to use prior attainment to allocate funding to support those pupils who are likely to need extra support. In the longer term however, the DfE are looking to “tier” the secondary low attainment factor to differentiate between those pupils with the highest level of need.
- To extend the EAL factor to ensure all EAL pupils are supported on the same basis. Funding will be weighted towards secondary schools as evidence indicates that additional language acquisition becomes increasingly complex as children get older. This is reflected in Bromley’s current funding methodology.
- To include a mobility factor to support the challenges faced by schools when pupils join during the academic year, especially when the levels of pupil mobility are high. Currently Bromley does not have a mobility factor in the existing formula.
- Proposal to include a lump sum for every school that is lower than the current average – at £110,000 for all schools. Bromley lump sum is currently set at £155,000 but will be reduced for primary schools in 2017/18. Any changes to the lump sum will continue to be protected by the MFG.
- To continue to include a sparsity factor to support schools that are both small and remote – Bromley schools have historically not attracted this funding so it has not been included in the local funding formula.

- Proposal to continue to fund premises related factors such as rates, split sites , private finance initiative based on historic spend in the short term but will continue to consider and consult how these factors should be addressed in the hard formula.
- The national funding formula will include a growth factor that is responsive to significant changes in pupil numbers. This will initially be based on historic spend but the government will explore whether school capacity survey (SCAP) forecasts could provide a better basis for the growth factor in the longer term. SCAP data is based on local authority forecasts of growth and is currently used to allocate basic need capital funding.
- There will be an area cost adjustment in the schools funding formula to reflect the variation in labour market costs e.g. the impact of London Weighting. This will be applied to qualifying schools' allocations once the rest of the formula has been run. The government has not provided any information as to how this will be applied to each LA at this stage but nationally the area cost adjustment will provide for increases of up to 18%.
- Arrangements will be put in place to protect schools from unmanageable reductions in the long term whilst also allowing under funding schools to move towards their formula allocations as quickly as possible. Therefore the minimum funding guarantee will be set at -1.5% per pupil for schools that will lose funding with the addition of a "floor" to prevent schools losing more than 3% per pupil. There will also be a gains cap of 3% in the first year (reducing to 2% in 2019/20). Beyond that the gains cap will be subject to decisions taken at the next spending review.

### Section 3 - The impact of the proposed NFF for schools

- 4.10 The proposed national funding formula will mean for the first time, all schools being funded on the same basis. The general impact is summed up as follows:
- Although there is no change in the overall national distribution of funding between primary and secondary schools their funding may change due to the shift to the primary : secondary ratio.
  - Schools that will attract more funding - schools with low prior attainment, schools with pupils who live in areas with above average levels of deprivation, schools in areas where funding levels have historically been low and small rural schools.
  - Impact at LA level – 101 LAs will see funding for their schools increase while 49 LAs will be lower. The impact on LAs funding will depend on two main factors – historic funding levels received by the LA and how it chose to allocate these between the DSG funding blocks and the characteristics of individual schools.

### Section 4 - Implementation of the NFF for schools

- 4.11 The changes outlined in this document will represent a significant change for many schools, the greatest change in funding arrangements for over a decade.
- Funding arrangements will remain unchanged for 2017/18
  - In 2018/19 under the "soft" national funding formula the government will use the NFF to calculate LAs funding allocations but LAs will still determine individual schools

funding allocations through their local formula. The Schools Block will be ring-fenced but authorities will be able to transfer funding from the schools block to the high needs block with local agreement

- From 2019/20 the national funding formula will be used to calculate the vast majority of each individual schools budget

#### Section 5 - Our proposals for the central school services block

4.12 The government will create a new block within the DSG – the Central School Services Block – to be funded from two different government funding streams – the schools block funding that is currently held centrally by LAs and the retained duties element of the Education Services Grant (ESG).

- Funding will be distributed to local authorities using a simple formula based on a per pupil factor and a deprivation factor. Both elements will be adjusted for area costs. The indicative per pupil rate is £28.64 and the top up for deprived pupils will be £11.62
- The responsibilities to be funded from the central school services block are as follows:
  - Previously funded from centrally retained DSG – school admissions, servicing of schools forums, fees to independent schools for pupils without SEN
  - Previously funded from ESG – education welfare services, asset management, statutory and regulatory duties
- In addition to the above services, LAs may also fund historic commitments such as capital expenditure from revenue (CERA), Prudential borrowing costs, premature retirement costs for maintained school staff.

### **5. High Needs National Funding Formula Stage 2 - Overview**

5.1 The High Needs funding review focusses on the distribution of high needs funding to local areas and opposed to individual institutions, and aims to ensure that funding is distributed on a more rational and consistent basis, more closely aligned to the underlying needs of individual areas. DfE have now confirmed that LAs planned spending levels in 2016-17 will be used as the basis for high needs funding allocations for 2017-18, and that they would move to a national funding formula from 2018-19.

5.2 The formula will be based on the following factors:

- Population aged 2 – 18
- Low attainment
- Health and disability
- Deprivation
- A basic per pupil entitlement

5.3 It is also proposed that there is an area cost adjustment to the above factors to ensure fairness to those local authorities that have pupils from other authority areas in some of the high needs places they fund.

### Changes to funding of special units and resourced provision

- 5.4 Special units and resourced provision in mainstream schools are an important bridge between specialist and mainstream provision. The provision is designated by the LA as a place where the specific needs of pupils with education, health and care plans can be met. At present these units are funded by the LA (if they are a maintained school) or by the EFA (if they are an academy) on the basis of £10,000 per place, with the place numbers deducted from the pupil numbers used for the rest of the school's mainstream funding through the local formula to avoid double counting.
- 5.5 It is now proposed that places occupied by pupils on the roll of the school at the time of the school census return are funded at £6,000 per place but places not filled by pupils on the school roll at the time of the census will still be funded at £10,000 – in this proposal it assumed that the first £4,000 for “filled” places will come from the schools funding formula (i.e. basic funding plus and other relevant factors). This change will reduce how much of the funding for special units comes from the high needs block, and increase how much comes from the schools block – the EFA will transfer funding between the two blocks to reflect this.

### Proposed High needs funding formula factor weightings

Formula factor	Proposed weightings			Data used for illustrative allocations
	SEN (90%)	AP (10%)	Combined	
1. Population	50%	50%	50%	Latest population aged 2-18 projection for 2018 from the Office of National Statistics
2. Deprivation				
a. Free School Meal eligibility	8.3%	25%	10%	Number of children eligible for FSM
b. IDACI	8.3%	25%	10%	Number of children in bands A-F from 2014 ONS population estimates
3. Low attainment				
a. Key Stage 2 results	8.3%	0%	7.5%	Number of children not achieving level 3 or above in KS2 tests in 2011-15
b. Key Stage 4 results	8.3%	0%	7.5%	Number of children not achieving 5+ A* to G GCSEs in 2011-15
4. Health and disability				
a. Children in bad health	8.3%	0%	7.5%	Number of children and young people declared as in bad or very bad health in the 2011 census
b. Disability living allowance	8.3%	0%	7.5%	Number of children aged 0 -15 for whom parents receive DLA
Total	100%	100%	100%	

## 6. What does this mean for Bromley and Bromley Schools

6.1 In terms of overall funding Bromley illustrative NFF is as follows:-

### ILLUSTRATIVE NFF ALLOCATIONS

	<b>SCHOOLS</b>	<b>HIGH NEEDS</b>	<b>CENTRAL</b>	<b>TOTAL</b>	<b>TOTAL</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>% CHANGE</b>
2016/17 BASELINE	196,272,628	43,398,865	1,533,064	241,204,557	
NFF FUNDING IF THE FORMULAE FULLY IMPLEMENTED	195,677,084	43,398,865	1,445,322	240,521,270	-0.3%
NFF FUNDING IF FIRST YEAR TRANSITION APPLIED	196,494,706	43,398,865	1,494,737	241,388,308	0.1%

More detail of all local authorities is contained in Appendix 3. Indicative individual school funding is contained in Appendix 4.

- 6.2 This would indicate that although the illustrative allocation shows a small decrease in percentage terms, the various protections either on a LA or individual school basis would actually result in a very small increase in the first year.
- 6.3 In terms of individual school funding, the illustrative figures indicate that most primary schools would lose funding whereas all the secondary schools would see an increase ( please note there are no illustrative figures for the three primary free schools). This is as a result of the changes to the primary secondary ratio which is currently 1:1.18 - this is set to increase to 1:1.24 in 2017/18 which will reduce the impact of this the following years.
- 6.4 Funding overall for schools is looking fairly neutral. However no funding is as yet set in stone. Any figures given by DfE are indicative only.
- 6.5 DfE comparisons are with 2016/17 funding. LBB has had to make cuts in funding for 2017/18 so much of the reductions DfE are alluding to are already in place, it may not be in addition.
- 6.6 Secondaries will gain due to the movement of the ratio. In 2017/18 it is 1:1.24. DfE want it to go to 1:1.29. However protections will be in place to ensure that schools do not lose significant amounts of funding
- 6.7 In terms of the High needs block the indicative figures suggest that Bromley's funding will remain at a standstill and not increase. This will cause serious issues moving forward as the main pressures area are within this block and once the NFF is fully introduced Bromley will not be able to move funding between the blocks. The proposed funding methodology means that LBB could lose due to the increased factors around deprivation, etc.

6.8 The central block is small in comparison to the other blocks. However there will also be potential losses here that will have to be managed going forward.

## 7. Consultation Questions

7.1 The Consultation questions are listed in Appendix 5

7.2 London Councils response to the consultation is in Appendix 6

7.3 The Schools Forum are meeting on the 9<sup>th</sup> March 2017 to discuss and respond to the consultation. It is proposed, subject to the agreement of the Sub Committee on the comments of the Forum that a joint response be submitted. If this is not possible then a separate submission can be made. Submissions can then be made in time for the deadline of the 22<sup>nd</sup> March 2017

7.4 The comments of the Forum will be circulated prior to the meeting of the sub committee

<b>Non-Applicable sections</b>	<b>Policy, Personnel, Legal,</b>
<b>Background documents</b>	None



Department  
for Education

# **Schools national funding formula**

**Government consultation - stage 2**

**Launch date 14 December 2016**

**Respond by 22 March 2017**

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## About this consultation

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

## How to respond

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

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

## Deadline

The consultation closes on 22 March 2017.

## Enquiries

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

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

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

## The response

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

## Introduction

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

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

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

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

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

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

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

This consultation is structured as follows:

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

As part of this consultation, we are also publishing:

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

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

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

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

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

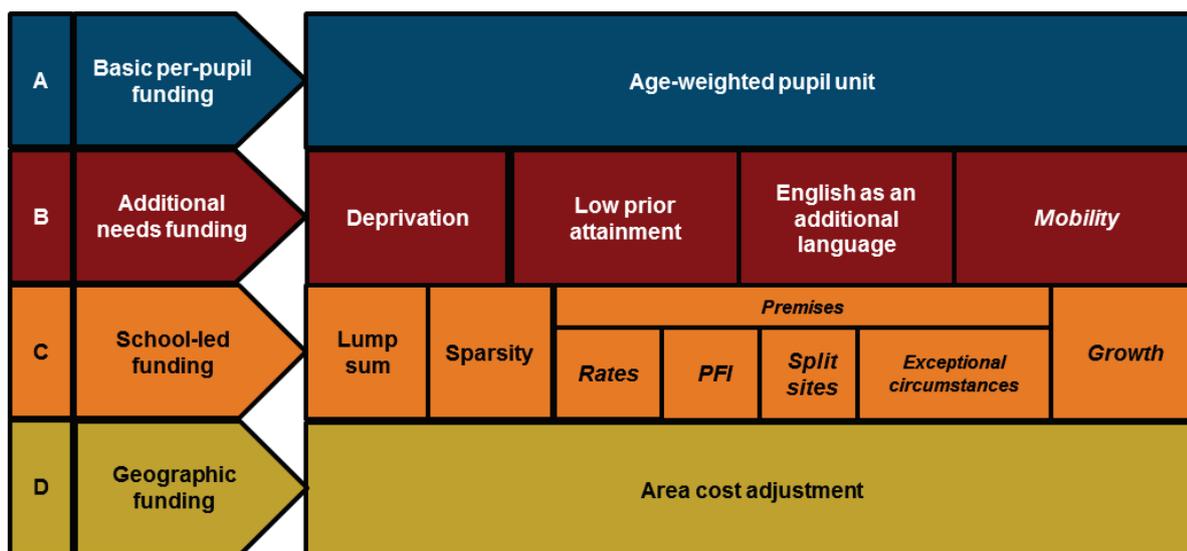
# Chapter 1: Our overall approach to constructing the national funding formula for schools

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<sup>6</sup> The growth figure included in this table takes into account local authorities' explicit spend on growth in 2016-17, through the growth fund and falling rolls fund. A further £109m of implicit growth spending is included within the other factor sub-totals in figure 2 above.

This table shows local authority spend through the factors included in the national funding formula, not all the factors local authorities can use in 2016-17 in their local formulae.

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

## Summary of our proposals

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***And during transition:***

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

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

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

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

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

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

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

## Chapter 2: Detailed formula design proposals

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

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

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

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

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

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has been updated in line with RPIX.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Increasing the funding distributed according to low prior attainment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

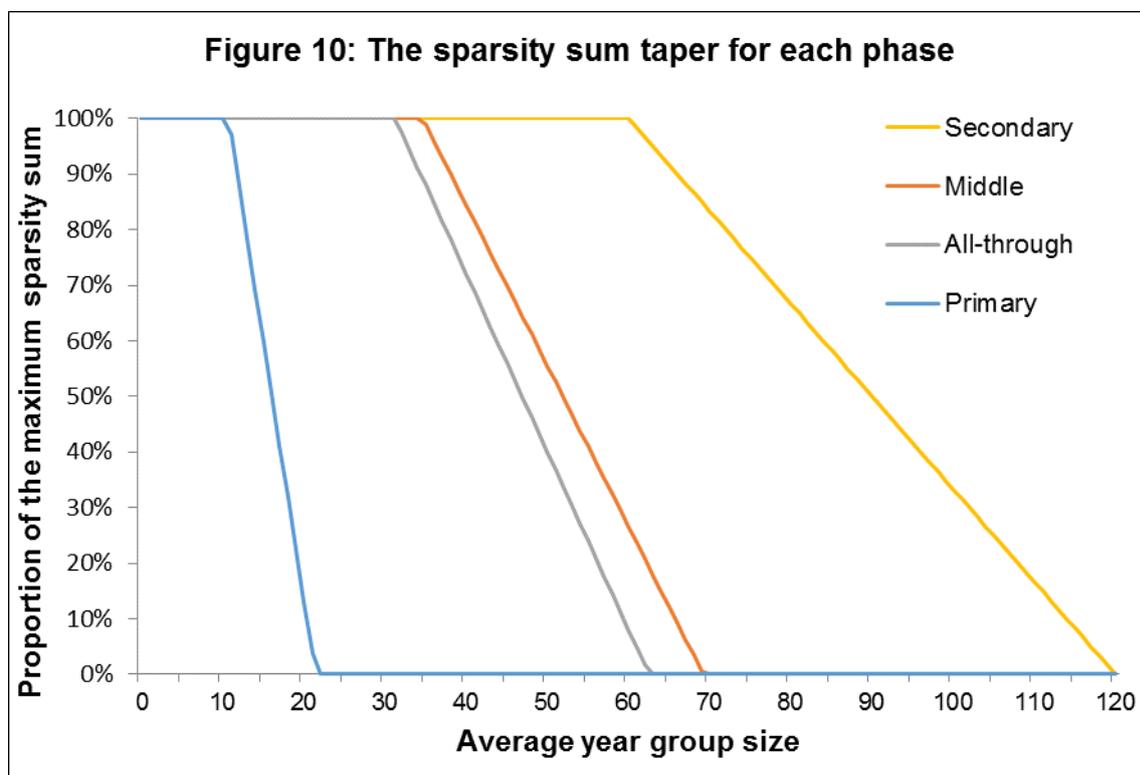


Figure 10: This graph shows the proportion of the sparsity sum a school will receive, by school type.

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

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

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

## Funding for premises-related factors

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

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

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

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

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

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

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

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

**Figure 12: Funding through the premises factors**

Factor		Proposed weighting	Total spend
Premises (allocated to LAs on basis of historic spend)	Rates	1.8%	£569m
	PFI		
	Split sites		
	Exceptional circumstances		

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

### The growth factor

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

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

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

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

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

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

## School capacity survey (SCAP) data

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

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

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

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

## **ONS Population projections**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Step 2: apply area cost adjustment**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Consultation questions

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

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

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

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

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

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

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

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

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

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

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

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

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

## Impact of the proposed formula on individual pupils

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

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

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

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

3.10 Under the proposed formula, there would be:

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

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

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

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

## Impact of the proposed formula on schools

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

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

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

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

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

## Change in funding between primary and secondary schools

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Impact at local authority level

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Local authority burdens**

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

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

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

## Impact of the proposed formula at regional level

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

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

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

## **Consultation question**

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

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

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

4.2 This chapter:

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

### School funding arrangements for 2017-18

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

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

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

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

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

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

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

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

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

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

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

The process will work as follows:

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

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

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

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

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

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

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

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

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

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

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

## Support for schools on efficiency

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Formula for allocating the central school services block

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

### Ongoing responsibilities

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

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

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

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

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

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

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

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

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

## Historic commitments

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

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

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

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

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

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

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

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

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

## Transition

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

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

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

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

## Impact of the central school services block

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Consultation questions

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

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

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

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



Department  
for Education

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About this publication:

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download [www.gov.uk/government/consultations](http://www.gov.uk/government/consultations)

Reference: DFE-00340-2016



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Department  
for Education

# **High needs national funding formula and other reforms**

**Government response and new  
proposals for consultation – stage two**

**Launch date 14 December 2016**

**Respond by 22 March 2017**

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## Foreword

Every child and young person deserves a world class education that allows them to reach their full potential and prepares them to succeed in adult life. That is as true for the most vulnerable who are supported by high needs funding as it is for every other child. Building on the foundations being laid by the combined efforts of local authorities, schools and others in implementing the Children and Families Act 2014, this government is determined to improve opportunities for these young people.



Earlier in 2016 we took a significant step forward by consulting on the framework for a new approach to distributing the funding for schools and high needs. We received over 6,000 responses to that consultation, including over 1,000 on our high needs funding reform proposals. We are most grateful to all who took the time to contribute their views, and have taken time to consider carefully the way forward.

The first consultation responses confirmed that we are right to introduce a new national funding formula for high needs, and provided a broad endorsement of the factors to include in that formula. We believe that the formula we are setting out in this document will create a better distribution of funding, much more closely matched to need. The many areas across the country that have been under-funded for too long will begin to see increases that will help them achieve more for their children and young people.

The majority of high needs funding will continue to be allocated to local authorities, reflecting their continuing responsibilities for vulnerable children and young people. This consultation includes information about the funding levels local authorities can expect in future years, and about the support we are offering to help them work collaboratively and strategically to plan ahead.

- The formula we propose would ensure that no local authority would face a reduction in high needs funding compared to their current spending. This reflects the priority this government attaches to supporting children and young people with high needs and the importance of ensuring that their current placements are protected. We propose not only to protect authorities against losses, but also to provide gains of up to 3% in each of the next two years for those authorities that are currently under-funded.
- Reflecting responses we received in the first stage of the consultation, we will allow for a degree of flexibility so that local areas can, through an agreement between local authorities and their maintained schools and academies, deploy some schools funding for high needs purposes. We are consulting on specific proposals for 2018-19, and indicating longer term arrangements from 2019-20, so that schools and local authorities can work together in meeting the needs of

children and young people with special educational needs, making best use of the combined resources at their disposal.

- This year we are allocating a separate additional grant to each local authority so that they can work with local schools, other providers, parents and young people, and with neighbouring authorities to review the way high needs funding is used and to consider how best to use mainstream and specialist provision across the area. Many local authorities have already started to plan in this way, and we intend to share good practice and guidance to help those just starting. This grant is over and above the extra funding we are making available this year and next year to help with local implementation of the Children and Families Act reforms.
- We will also be distributing at least £200 million of capital funding for places for pupils with special educational needs and disabilities. We want to give local authorities the flexibility to use this funding in a way that best meets needs in their local area, to build new places, and to improve existing ones in special and mainstream schools, and other institutions. This is in addition to funding for free schools: we have opened 23 new special schools so far<sup>1</sup>, and local authorities have also had the opportunity to indicate where a new special school would support their plans.

This document sets out the next steps on high needs funding reform. We recognise that that changes need to be carefully managed and that the pace of change should not create unhelpful turbulence. That is why we have emphasised the need for local review and planning, proposed a funding floor to prevent cash reductions, and committed to a review of the national formula within 4 years. Of course, funding reform on its own cannot be enough to deliver a better system of provision for our most vulnerable children and young people, but it is a vital part in that programme of change and improvement. We are confident that the proposals we set out in this document will give all those involved in supporting young people and children with high needs the best opportunity to help to make a positive impact to their lives. We look forward to receiving your views and responses.



**Edward Timpson MP**

**Minister of State for Vulnerable Children and Families**

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<sup>1</sup> Department for Education, '[Free schools: open schools and successful applications](#)', up to September 2016

## Introduction

This consultation follows an earlier consultation in 2016, and seeks views on further proposals on the way that high needs funding is distributed. High needs funding supports pupils and students with special educational needs (SEN) and disabilities, and those who are in alternative provision (AP).

## Who this is for

It is important that we have views from a range of organisations and individuals involved in providing services for children and young people with special needs, including:

- Local authorities (both finance departments and those leading service delivery)
- Early years providers
- Schools maintained by local authorities, including special schools and pupil referral units
- Academy schools, including special and AP academies
- Free schools, including special and AP free schools
- Multi-academy trusts
- Non-maintained and independent special schools
- Sixth form and general further education (FE) colleges
- Independent specialist colleges (also known as special post-16 institutions)
- Other FE providers
- Head teachers and principals of the above institutions
- Teachers and other professionals dealing with children and young people with special educational needs and disabilities, and with those in AP
- Parents of children and young people with special needs or in AP, and young people themselves
- Organisations representing the above or with a special interest in services for children and young people with special needs or in AP

## Issue date

The consultation was issued on 14 December 2016.

## Enquiries

If you have an enquiry about the policy content of the consultation, you can email the team at [HighNeedsFundingReform.CONULTATION@education.gov.uk](mailto:HighNeedsFundingReform.CONULTATION@education.gov.uk). If your question is about the data or calculations involved in illustrating the impact of our proposals for a particular school, please include 'NFF data query' in the subject line.

If you have an enquiry related to the Department for Education (DfE) e-consultation website or the consultation process in general, you can contact the DfE Ministerial and Public Communications Division by telephone on 0370 000 2288 or via the [DfE Contact us page](#).

## **Additional copies**

Additional copies are available electronically and can be downloaded from [GOV.UK DfE consultations](#).

## **The response**

The results of the consultation and the department's response will be published on GOV.UK later in 2017.

## **About this consultation**

We are consulting in two stages. The first consultation, which launched in March 2016, covered high level principles, key proposals on distributing high needs funding to local authorities through a national funding formula, and other options for change. Chapter 2 of this consultation sets out the government response following that initial consultation. The second consultation covers:

- the proposed values and weightings for the factors and adjustments in the high needs national funding formula;
- the introduction of a funding floor, such that no local authority will face a reduction in high needs funding as a result of the formula, and
- how we propose to operate some limited local budget flexibility that enables local areas, through an agreement between local authorities and schools, to move some schools funding into high needs budgets.

Accompanying information shows the impact of the new funding formula distribution for local authorities, including illustrative allocations for the first year of the formula and the position for authorities when their allocations are fully determined by the formula without any transitional arrangements. A separate technical note explains in detail how we have done the calculations to produce the illustrative allocations.

We are seeking views alongside this on detailed proposals for a national funding formula for schools, and on our equalities impact assessment.

## **Respond online**

To help us analyse the responses it is important that you use the online system wherever possible. It is not possible to disaggregate combined responses, for example, treating a

single response from a schools forum as a separate response from each member of the forum. We will, however, take note of single responses from organisations that represent their membership.

## **Other ways to respond**

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, you may request a word document version of the form and email it or post it.

### **By email**

To: [HighNeedsFundingReform.CONSULTATION@education.gov.uk](mailto:HighNeedsFundingReform.CONSULTATION@education.gov.uk)

### **Deadline**

The consultation closes on 22 March 2017.

# Chapter 1: What this consultation covers

## Background

1.1 The department's funding settlement to the end of the spending period (2019-20) provides the core funding for all schools, colleges and early years provision, and additional support for children and young people with high cost special educational needs (SEN) and disabilities. Schools and high needs funding has been protected since 2010, and we are continuing to protect it, in real terms, to 2020.

1.2 The dedicated schools grant (DSG) is the main source of government funding to local authorities for education provision. It is currently divided into three blocks: schools, high needs, and early years. In consultation with their schools forum, local authorities make decisions about how to split the DSG funding they receive between their budgets, and on the local formulae which determine the allocations for individual schools and early years providers. They are also responsible for deciding how many places for children and young people with high needs, in special schools and units, and in colleges, should be funded. Finally, they are responsible for allocating top-up funding for children and young people with high needs. These responsibilities are aligned with their statutory duties under the Children and Families Act 2014.

1.3 Because we have protected high needs funding over this spending period, the national high needs budget of more than £5 billion per annum is rising by over £90 million this year, and will continue to increase throughout this Parliament. However, while the total available has been protected, we recognise that the current system for distributing that funding is unfair and inadequate, providing significantly different levels of funding for high needs across the country, which simply cannot be justified by reference to any measure of need.

1.4 This failure to match funding to need creates a real barrier to ensuring that the education system is working for every child, and providing opportunities for all to succeed. It is therefore important that we make sure that the future distribution of funding is on a more rational and consistent basis, more closely aligned to the underlying needs in different areas.

1.5 As a result, and building on research by Isos Partnership ('Isos'), published in July 2015<sup>2</sup>, we consulted in March and April 2016 on the principles and basic framework of a formula that would make significant improvements to the distribution of high needs funding to local areas.

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<sup>2</sup> Department for Education, '[Funding for young people with special educational needs](#)', July 2015

## Allocations of high needs funding for 2017-18

1.6 In July 2016 we confirmed the government's intention to introduce a national funding formula for high needs. Although we are keen to make as much progress as possible, as fast as possible, we wanted to take time to listen carefully to responses to the first stage of our consultation, which stressed the importance of providing schools and local authorities with funding stability. We also recognised the importance of giving local authorities certainty and time to properly plan their budgets for the next financial year.

1.7 We therefore announced in July that we would use local authorities' planned spending levels in 2016-17 as the basis for high needs funding allocations for 2017-18, and move to a national funding formula from 2018-19<sup>3</sup>.

1.8 The protection in the DSG enabled us to issue each local authority a guaranteed high needs block allocation for 2017-18, making sure that no local authority will see a reduction in their high needs allocations<sup>4</sup>. Furthermore, we also confirmed that additional high needs funding would be allocated, and the amount of additional funding for each local authority will be confirmed in the 2017-18 DSG allocations published later in December.

## Consultation on the formula for 2018-19 and beyond

1.9 The rest of this consultation covers:

- the government's response to the first stage of our consultation on changes to high needs funding (chapter 2);
- detailed proposals on the weightings in the high needs funding formula that will determine funding allocations from 2018-19 (chapter 3);
- how we are proposing to support the implementation of the new funding arrangements in local areas, including support for local authorities, to make sure available resources have maximum effect, and how we will take forward the proposals we made in the first consultation for some changes to the way that funding is distributed to schools, colleges and other institutions (chapter 4).

1.10 Alongside this consultation, we are publishing illustrations of the impact of the proposed national funding formulae on local authority funding. They show the high needs allocations that local authorities would receive under the proposed formula, if all local

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<sup>3</sup> Department for Education, Education Funding Agency and the Rt Hon Justine Greening MP, '[Schools funding](#)', July 2016

<sup>4</sup> The baseline position for each local authority was calculated from the information on high needs planned spending in 2016-17 that authorities provided in April 2016.

authorities' circumstances are unchanged from 2016-17, taking account of the protections we propose to put in place. These illustrative allocations also reflect the operation of the funding floor, that would mean no authority would lose any high needs funding as a result of the move to the new formula, as well as showing how much local authorities are set to gain.

1.11 The technical descriptions of our underlying data sources and methodologies for each formula factor can be found in a technical note. We are also publishing a step-by-step calculation of the illustrative allocations. It is important to be clear that this provides an illustration of likely impact, rather than setting out the precise allocations that local authorities would actually receive in future. These illustrations make no assumption about changes to pupil numbers, or to any of the other data that will be used to calculate each local authority's allocation. As circumstances change, the formula will take account of the relevant data changes and re-calculate each authority's actual allocation accordingly. The step-by-step calculation and technical note also explain how the funding floor will operate in relation to such changes.

## Chapter 2: response to the first stage consultation

### Introduction

2.1 On 7 March, we launched the first stage of our consultation on a national funding formula for high needs, and other changes to high needs funding.

2.2 We asked 14 questions on the following areas:

- the structure of high needs funding;
- the basic design of a high needs national funding formula;
- the transition to a new distribution of high needs funding;
- changes to the way that funding for special educational needs (SEN) and disability is distributed to institutions.

2.3 This chapter briefly summarises our first stage consultation proposals, and outlines the responses we received on these proposals and our decisions on the basis of these responses. It focuses on the key themes arising from the consultation responses rather than a question by question analysis. There is a summary of responses to each question in annex A<sup>5</sup>.

### Number of responses received

2.4 In total there were 1075 responses to the consultation on high needs funding. School and college head teachers and principals made up the largest group of those who responded (28%), followed by local authority representatives (13%).

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<sup>5</sup> Annex A is a separate document published alongside this consultation document.

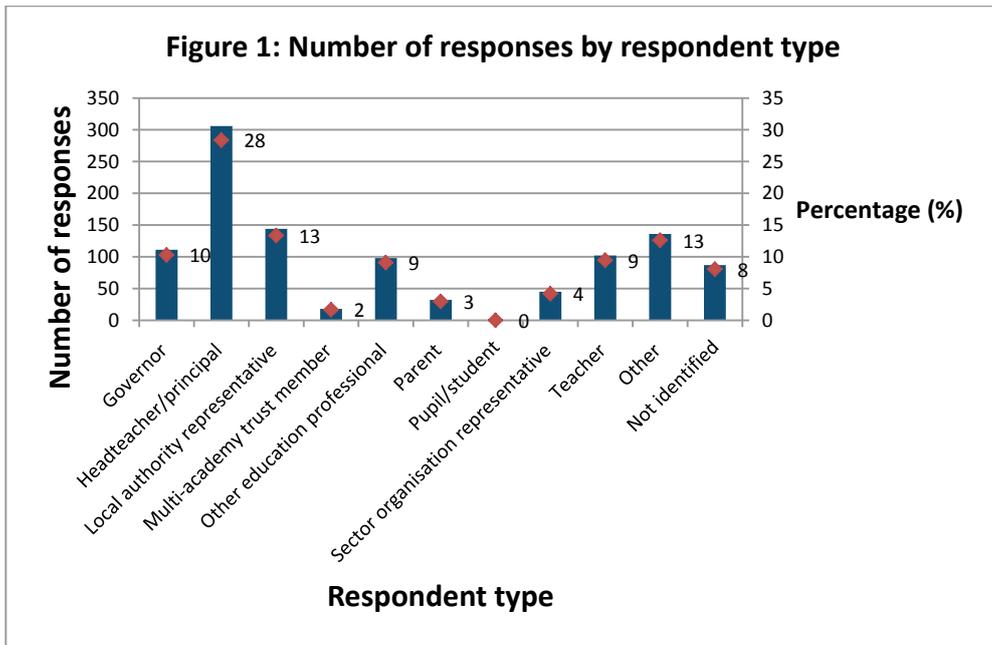


Figure 1: This chart shows the number of respondents to the first stage of the consultation, according to either their profession, or their relationship to the education sector.

2.5 By region, the largest proportion of responses was from London, making up 24% of the total number.

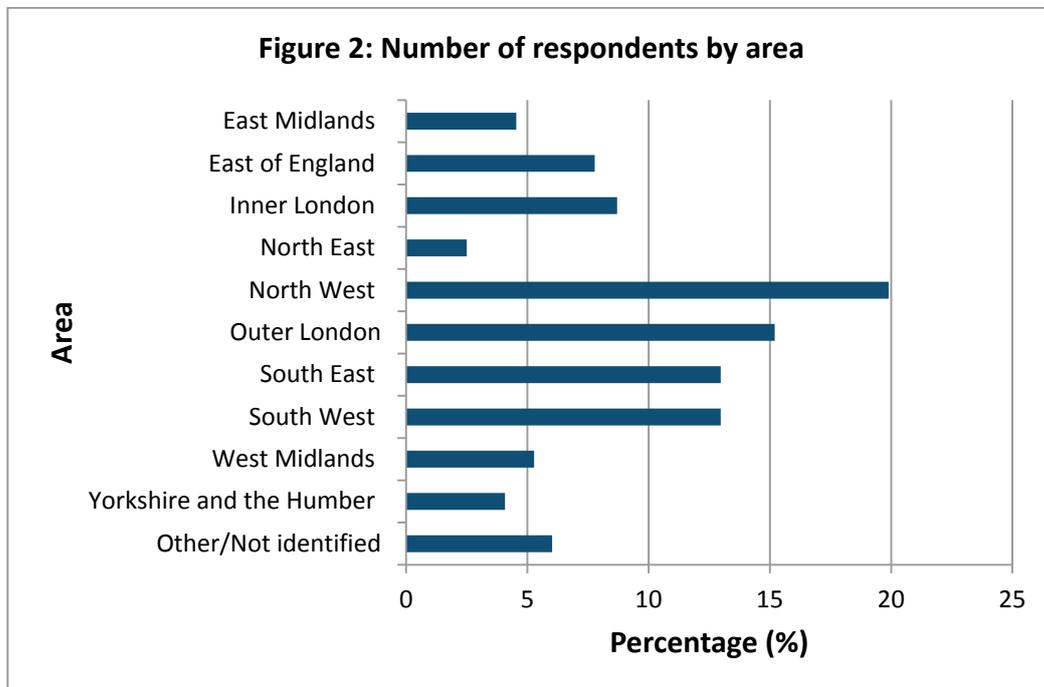


Figure 2: This chart shows the number of respondents to the first stage of the consultation by area.

2.6 A full list of the organisations that have responded can be found at annex A.

2.7 Some respondents chose only to answer a subset of the questions that were posed. Throughout this document the percentages are expressed as a proportion of all respondents so will not always add up to 100%. These percentages have not been weighted either to take account of responses from representative bodies, or where there were multiple identical responses (for example, from individual schools in the same area). We have, however, taken time to look carefully at responses from those individuals and organisations representing a significant number of others, and have where necessary followed up with meetings and further correspondence to make sure that we fully understand the views expressed.

## Structure of the high needs funding system

2.8 The government provides over £5 billion per annum to support children and young people with high needs. Currently we allocate the vast majority of this funding to local authorities on the basis of what they were spending in 2012-13, which in turn is derived from local authority decisions and spending patterns in 2005-06. This money is spent on special provision for children and young people with SEN and disabilities in schools and other institutions, and on alternative provision; and on specialist support and other services provided directly. We have updated the distribution for 2017-18 to reflect 2016-17 spending levels, but this remains directly linked to spending levels rather than to any estimate of levels of need.

2.9 Overall, there was strong support for our proposals for the structure of a new system of high needs funding distribution. In taking forward changes, we proposed 7 underpinning principles – that the funding system should:

- support opportunity
- be fair
- be efficient
- get funding to the front line
- be transparent
- be simple
- be predictable.

2.10 69% agreed with these principles. There was widespread agreement that funding should be distributed in a way that is fair, transparent and predictable. Responses rightly pointed out that there should be a balance between the principles: for example, a system that prioritised simplicity over fairness would not necessarily get funding to where it was needed. The government is committed to achieving real social justice and social mobility. Introducing fairer funding for high needs is important to support opportunity for all children and young people, irrespective of their background, ability, need or where in the country they live. Taking that into account, we believe that the new funding system should support opportunity for all, underpinning social mobility and social justice, and that

the principles outlined above will provide a sound basis on which to proceed with our funding reforms, including those relating to high needs.

2.11 We proposed that the majority of high needs funding should continue to be distributed from central government to local authorities rather than directly to schools and other institutions, as this would align with their statutory responsibilities for children and young people with SEN and disabilities. A large majority (79%) of respondents agreed with this proposal.

2.12 A minority of respondents argued that all high needs funding, including that currently directed through the Education Funding Agency (EFA), should go to local authorities. Conversely, some respondents argued for a more centralised system of direct funding for high needs, bypassing local authorities. These views were most commonly expressed by representatives of colleges and schools who were concerned about losing centres of specialist expertise (and the access to specialist teachers and professional development they provide), cited particular problems in reaching agreement with local authorities on the places they were commissioning or the funding for individual placements, or were dealing with many local authorities. Some argued that there was a potential conflict between assessment of need and decisions on funding.

2.13 We understand that practice varies across different local authorities, but do not consider that a centralised system would work better. Detaching local assessment decisions from the financial consequences of those decisions – particularly at this stage of implementing the Children and Families Act 2014 – would make it much harder to manage the costs from the overall high needs budget. We will therefore continue to distribute high needs funding as part of the dedicated schools grant (DSG) that is allocated to local authorities. They will continue to make statutory education, health and care (EHC) needs assessments and plans, taking account of the wishes of parents and young people, and making sure that the associated spending decisions represent an efficient use of resources.

2.14 We acknowledge, however, that meeting the costs of some children and young people with low-incidence needs, including those with the most complex needs whose support costs can exceed £100,000 per annum, can create difficulties for local authorities, particularly if existing specialist provision attracts families with such children and young people into the area. We also acknowledge the other issues raised. We will consider how best to undertake further research to inform future development of the high needs funding formula, and will investigate these issues as part of that research.

2.15 We proposed to distribute high needs funding to local authorities on the basis of a national funding formula based on proxy measures of need. Opinion was more divided on this. More agreed than disagreed (48% as opposed to 45%), and we have taken into account that most of those who disagreed were from schools or other institutions, who may have answered the question from the perspective of how institutions receive funding

for their pupils and students with high needs from the local authority, rather than how it is distributed to local areas from central government.

2.16 We acknowledge that proxy indicators of need would not reflect every type of SEN or disability, and that the distribution of funding to individual institutions needs to be based on individual need. That is why we are proposing to retain the system of top-up funding at the local level, based on the specific needs of individual pupils, so that resources are linked directly to the support that institutions will be providing.

2.17 For a formulaic distribution of funding from central government to local authorities, though, we believe that using proxy indicators is most appropriate. This would avoid any perverse incentive for a local authority to identify SEN to secure additional funding. Furthermore, we believe that proxy indicators can work well at the level of distribution to local authorities – where need across a significant population is aggregated together – as distinct from the much more specific needs that are relevant for funding individual institutions.

2.18 Concerns were also raised about the proposal to ring-fence the funding that is passed through to schools, which would mean that local authorities could no longer transfer any of that funding to their high needs budgets.

2.19 We understand the risks for local authorities in managing their high needs budgets without recourse to this particular flexibility, and have looked carefully at how we should help them to mitigate those risks without denying schools the funding they should receive under a formulaic distribution. As well as allowing local authorities flexibility to transfer funding between their schools and high needs budgets in 2017-18, our proposals on this for the longer term are set out in chapter 4 below.

## **Factors in the high needs national funding formula**

2.20 Building on research undertaken by Isos, which looked at how closely a number of proxy indicators correlated with various measures of need, we proposed a formula based on:

- population aged 2-18
- low attainment
- health and disability
- deprivation
- a basic per-pupil entitlement.

2.21 We also proposed an area cost adjustment to the above factors, as well as adjustments to ensure fairness to those local authorities that have pupils and students from other authority areas in the some of the high needs places they fund.

2.22 We proposed not to change the distribution of funding for hospital education until we had further considered options with representatives of the hospital education sector.

2.23 A majority of consultation respondents agreed with our proposed formula factors and adjustments. Having carefully considered the responses, we are confirming the factors we proposed in the consultation, whilst making some small adjustments to our original proposals in light of the feedback received.

2.24 The feedback and amendments are summarised in the table below. More detail on the feedback is in annex A. The proposed weightings and values for each formula factor, and the impacts on local authorities, are set out in chapter 3.

**Figure 3: Responses to the factors in the formula and our actions<sup>6</sup>**

Formula factor	Key issues raised in responses	What we have decided to do, taking into account the responses
<b>Population</b>	<p><b>Agreed 67%</b> <b>Disagreed 19%</b></p> <p>A significant majority agreed to the use of a population indicator. The main issue raised was that limiting the population count to 2-18 year olds would ignore the 19-24 year olds with SEN or disabilities for whom local authorities were also responsible.</p>	<p>We have decided to use the proposed 2-18 age range for this factor, having looked carefully at whether we could include the 19-24 age range. The problem with including 19-24 year olds is that the total numbers in each local area are not necessarily proportionate to the number with high needs, as some enter higher education (which leads to higher populations of this age group in university towns and cities).</p>

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<sup>6</sup> Percentages are only given for those respondents who agreed and disagreed, so may not add up to 100%.

Formula factor	Key issues raised in responses	What we have decided to do, taking into account the responses
<p><b>Low attainment at key stage 2</b></p>	<p><b>Agreed 75%</b> <b>Disagreed 12%</b></p> <p>There was strong agreement on the use of a low attainment proxy, as the strongest available indicator of likely SEN, but there were concerns around the consistency and reliability of data, particularly in light of the potential impact of a changing assessment regime.</p> <p>Some also argued for the use of a low attainment measure at an earlier age.</p> <p>Others argued that a low attainment measure could be perceived as rewarding failure, and was not a good proxy for some types of SEN.</p>	<p>We have decided to use this factor in the formula. We are confident that this is the best available proxy indicator for the types of SEN that typically result in low attainment.</p> <p>We have decided to make this factor more representative of the full range of children and young people for whom funding is allocated (not just the latest annual cohort), by taking the key stage 2 test results over the previous 5 years. This will also smooth any differential impact of previous assessment changes, and mean that we can take time to consider the implications of future changes.</p>
<p><b>Low attainment at key stage 4</b></p>	<p><b>Agreed 73%</b> <b>Disagreed 12%</b></p> <p>Along with the strong agreement to using this factor, similar concerns were expressed as in the responses on low attainment at key stage 2.</p>	<p>We have decided to use this factor as well but, as for key stage 2, will use the results over the last 5 years.</p> <p>This will reflect the characteristics of the 16-24 year old cohort most likely to require high needs funding.</p>
<p><b>Children in bad health</b></p>	<p><b>Agreed 69%</b> <b>Disagreed 18%</b></p> <p>Although a majority agreed with this factor, it generated a slightly more mixed response. There were some concerns expressed that it depends on parental reporting, may not pick up mental health issues, or is out of date.</p> <p>Sometimes low birth weight data was cited as an alternative.</p>	<p>We have decided to use this factor as proposed. We are confident this is a reasonable proxy indicator for health aspects of SEN.</p>

Formula factor	Key issues raised in responses	What we have decided to do, taking into account the responses
<b>Disability living allowance (DLA)</b>	<p><b>Agreed 80%</b> <b>Disagreed 7%</b></p> <p>A large majority of responses agreed with this factor, although some raised concerns that it does not cover the post-16 age group, and that benefit take-up could be low for some groups.</p>	<p>We have decided to use this factor as proposed.</p> <p>We considered extending it to cover the post-16 age group. However, a system of Personal Independence Payments is replacing DLA for the post-16 age group, and this – together with the fact that some of the cohort will be in higher education rather than further education – would add significant complications in extracting and using the data sets, with minimal benefit as we would not expect any significant difference in the distribution of pre- and post-16 high needs.</p>
<b>Free school meal (FSM) eligibility</b>	<p><b>Agreed 76%</b> <b>Disagreed 12%</b></p> <p>There was strong agreement to the use of this factor.</p> <p>Some expressed concerns that FSM take-up has been affected by the introduction of free meals for all infants, with the potential for further issues arising with the introduction of universal credit.</p> <p>Some argued for using the Ever6 FSM measure used in the schools formula.</p>	<p>We have decided to use this factor as proposed.</p> <p>We remain satisfied that FSM is a good proxy for deprivation for the foreseeable future, although we will keep this factor under review as eligibility rules and take-up change.</p> <p>We demonstrated in our first consultation that – for high needs – there is no added value in using FSM eligibility over a 6-year period.</p>

Formula factor	Key issues raised in responses	What we have decided to do, taking into account the responses
<b>Income deprivation affecting children index (IDACI)</b>	<p><b>Agreed 71%</b> <b>Disagreed 16%</b></p> <p>Whilst a significant majority of responses agreed with using this area deprivation factor, there were some concerns about the infrequent updates.</p> <p>Its usefulness in picking up rural deprivation was also questioned.</p>	<p>We have decided to use IDACI as a deprivation factor.</p> <p>We have decided to use 6 IDACI bands, to reflect a wide range of deprivation – including the just about managing group. We have also updated the bands using the latest data, and this is explained in more detail in paragraphs 2.28-29 below and in the technical note.</p> <p>As the dataset used for this factor is not updated frequently, this will increase the stability of the formula from year to year. We note, however, the concerns raised in the consultation about the turbulence created by the last IDACI dataset update. We are looking at how we can manage future data updates.</p>
<b>Basic pupil/student entitlement</b>	<p><b>Agreed 83%</b> <b>Disagreed 5%</b></p> <p>A large majority agreed with this factor.</p> <p>Some responses argued that this factor should include pupils in independent special schools.</p>	<p>We have decided to use this factor, but in the light of consultation responses accept that to be fair to local authorities using independent schools, we should include in the count children whom the local authority is placing in independent schools. This way, every child will attract the equivalent of the basic entitlement, no matter where they are.</p>
<b>Import/export adjustments</b>	<p><b>Agreed 67%</b> <b>Disagreed 17%</b></p> <p>Many comments from local authorities supported these adjustments, in order to reflect cross-border movement of pupils and students resident in one area and attending a school or college in another.</p>	<p>We have decided to use these adjustments as proposed.</p>
<b>Alternative provision factors</b>	<p>We proposed in the consultation that the population and deprivation factors would be used to reflect the need for high needs funding for alternative provision. Some responses expressed concern that only these factors would be used.</p>	<p>We have decided to use these factors as proposed, in view of the correlation between these proxy indicators and the need for alternative provision, pending further proposals on how alternative provision is organised and funded in future (see paragraphs 4.43-44 in chapter 4 below).</p>

Formula factor	Key issues raised in responses	What we have decided to do, taking into account the responses
<b>Hospital education</b>	There was widespread acknowledgment that this is a unique area of funding and a broad consensus around the interim measure of leaving the funding arrangements as they are for now.	We will move forward on hospital education as proposed.  We have produced illustrative allocations of high needs funding to include the level of spending on hospital education, as indicated in local authorities' budget statements for 2016-17.
<b>Area cost adjustment – the question asked which method should be used</b>	<p><b>In favour of:</b>  <b>general labour market 26%</b>  <b>hybrid 61%</b></p> <p>A range of views were expressed, in part reflecting the perceived benefits of different approaches to different areas of the country and, for example, whether using living costs was better than salary costs. A majority of responses came out in favour of the hybrid methodology.</p>	<p>We have decided to use the hybrid methodology, adjusted for special school staffing ratios, recognising that for high needs, a greater proportion of the resource goes on non-teaching staff. This adjustment will therefore give the general labour market a greater weighting than in the equivalent adjustment we have decided to use for mainstream schools in the schools national funding formula.</p> <p>The area cost adjustment is intended to reflect areas with high costs, but is not intended to meet these costs exactly. We believe that including a variety of proxies would over-complicate this measure without increasing accuracy or fairness. We continue to believe that salaries are an appropriate proxy of cost in our area cost adjustment.</p>

**Figure 3: This table shows the percentages of respondents who agreed and disagreed with each proposed factor, the key issues raised, and our decisions on the basis of the responses.**

## Funding to reflect deprivation

2.25 The first deprivation indicator is free school meals (FSM) eligibility. We are intending to use the data from the school census and alternative provision census information collected in the January of each year, and to use pupil postcodes to calculate the number of pupils resident in each local authority area. So for the 2018-19 allocations we would use the January 2017 school census information. For the illustrative allocations included with this consultation we have used January 2016 school census information.

2.26 Prior to the first consultation, we compared just using this FSM eligibility data with the much larger data set containing each pupil's history of FSM eligibility – Ever6 FSM. This is the data set used for the pupil premium, capturing any child who has been eligible

for FSM at any point in the previous six years. At local authority level, however, the differences between using the larger data set and current FSM eligibility were not significant, and we took the view that only the latter should be used. We are confirming that this is the approach we will take, in order to keep the formula simple.

2.27 We are also confirming a second deprivation indicator which uses area-level deprivation data from the income deprivation affecting children index (IDACI). This formula factor adds a measure of deprivation that reflects localities that are more deprived, rather than the socio-economic circumstances of particular households.

2.28 In the light of the consultation responses, and discussions with local authorities since the update of the IDACI dataset in September 2015, we published new IDACI bands for local authorities to use in their local formula, and these are explained in the [2017-18 schools revenue funding operational guidance](#).

2.29 We have decided to use, in the high needs national funding formula, 6 IDACI bands, to reflect a wide range of relative deprivation, including the areas with families that are just about managing as well as those from the most deprived neighbourhoods. The 6 bands together capture 42% children living in areas with an IDACI score of 0.20 or above.

### **Low attainment formula factor**

2.30 The low attainment factor will be based on the number of pupils not achieving level 3 or above in the key stage 2 tests, and the number not achieving 5 or more A\* to G GCSE grades at key stage 4. Instead of taking a snapshot of the latest data each year, we think a better approach would be to take data from results over the last 5 years, as this more accurately represents low attainment across the whole cohort of children and young people for whom high needs funding is being allocated.

2.31 This approach will parallel the treatment of low prior attainment within the schools formula, where pupils identified as having low prior attainment continue to attract funding throughout the relevant phase of education (i.e. primary or secondary).

2.32 The new key stage 2 tests, introduced in summer 2016, are deliberately more challenging than the previous tests and, as expected, have resulted in more pupils being identified as not having met the expected standard, probably largely due to an increase in our expectation of the standard, rather than because the pupils sitting these tests have achieved less than previous cohorts. We will look carefully at how to identify those pupils with the lowest levels of attainment from the assessment data we have available, so we can incorporate the 2016 assessments in the low attainment data set for this factor in future.

## **Health and disability**

2.33 We are not proposing any changes to the children in bad health and disability living allowance factors as, having investigated alternatives, we are satisfied that these, together with the deprivation and low attainment factors, are reasonable proxies for high needs.

2.34 The children in bad health data will not change until we can see what changes come through in the next population census. The illustrative allocations included in this consultation use the 2011 census data and the data on disability living allowance claims that was available before November 2016. The latter will be updated as new data becomes available.

## **Area cost adjustment**

2.35 We received strong support for our proposal to include an area cost adjustment in the high needs funding formula to reflect the variation in labour market costs. The majority of respondents thought we should use the 'hybrid' area cost adjustment methodology which takes into account general labour market trends, but also the particular salary variations in the teaching workforce. And in the first consultation we explained that, if we adopted this model, we proposed to reflect the different proportions of teaching and other staff that are in special schools. Our area cost adjustment methodology is explained in more detail in the technical note.

## **'Import/export' adjustment**

2.36 Many of the comments received from local authorities in response to the first consultation welcomed the adjustments we proposed to make sure that the formula properly reflects costs that differ depending on whether the authority places more children in schools and colleges in other local authority areas than it receives into its local schools and colleges from other areas, or vice versa. Local authorities that import more pupils than they export face higher costs because the costs of the place funding and other core funding for schools and colleges in their area – in excess of the basic entitlement (i.e. £6,000 per annum) – are met from their high needs allocations, regardless of which local authorities the children taking those places live in.

2.37 The data we intend to use for this adjustment is, in each local authority, a comparison of the number of pupils and students with high needs who are resident in the area with the number with high needs who are attending institutions in the area. In each case the number of pupils and students with high needs is identified using data from the January school census and individualised learner record (ILR) which records those pupils and students attending a maintained special school or special academy, or those attending other institutions for whom the institution receives top-up funding.

2.38 We are sharing this data with local authorities as part of this consultation. We will offer authorities the opportunity to scrutinise the detail of the data to be used in the actual allocations, to make sure that schools and colleges are correctly recording the information.

## **Transition to a new distribution of high needs funding**

2.39 We proposed two elements that would help smooth the transition to a new formulaic distribution of funding to local authorities. The first was that the formula allocations should include a proportion of each authority's planned spending on high needs in 2016-17.

2.40 The second was to have an overall minimum funding guarantee (MFG) that would mean local authorities' high needs funding would not reduce by more than a specified percentage each year.

2.41 We recognise the importance of making sure that local authorities both know how their funding levels will change in future years, so they can plan ahead, and have time to make changes that secure improvements to special and alternative provision which are affordable. We have been clear that the transitional arrangements proposed are intended to ensure that those children and young people with SEN and disabilities who are already placed in schools, colleges and other institutions can remain in those placements, where that is best for their needs. Any changes to special educational provision for individual children and young people (for example through the annual review of statutory education, health and care plans) considered by local authorities should be driven by the appropriateness and effectiveness of the provision for the individual. Changes to the range of provision across an area should primarily ensure that what is on offer is of good quality and suitable for those coming into the system or reaching points of educational transition.

2.42 This is the main reason why we proposed to have in the formula an element of funding based on what local authorities are currently spending, as well as a minimum funding guarantee. Most responses were in favour of the former (77%); even more favoured the latter (89%). Overall, the response to the consultation was clear that respondents placed a particularly high value on giving local authorities and schools protections against unmanageable changes to their high needs funding as a result of the introduction of the national funding formula.

2.43 We believe it is important to keep a significant element of local authorities' current spending in the formula, at least until we next review the formula. As well as smoothing the transition, this also reflects the views expressed by those who sought a formula that took into account the actual costs that local authorities are currently facing. This will remain as a cash amount that will not be updated from year to year. We are therefore referring to this element of the formula as the historic spend factor.

2.44 The strong support for a minimum funding guarantee also reflects the importance of keeping year-on-year changes to a manageable level. A significant number of responses argued that no local authority should lose funding for high needs, as this was the best way to make sure that there was no adverse impact on children and young people.

2.45 In recognition of the importance we place on supporting children and young people with high needs, and the responses on this issue we received in the consultation, we are now proposing a funding floor, such that the national funding formula distribution will not result in any local authority losing funding. This replaces, and offers significantly more protection than, our previous proposals for a minimum funding guarantee.

2.46 Our detailed proposals on the historic spend factor and this funding floor are set out in chapter 3, and we have also set out in chapter 4 a range of additional support to help local authorities manage and deliver best value from their high needs spending.

## **Changes to the way that funding for SEN and disability is distributed to institutions**

2.47 We also sought views and information on a range of issues relating to how the funding for SEN and disability is distributed to individual institutions, including changes to the funding of institutions with students aged 16-25 who have high needs. As explained in chapter 4, we will be consulting in 2017 on the detail of proposals relating to special free schools and post-16 institutions. In this part of the first consultation, there were two specific schools proposals on which we are now able to respond.

- We proposed changes to the funding of special units attached to mainstream schools.
- We also proposed a change to the way that some independent special schools receive their funding.

## **Funding of special units and resourced provision**

2.48 A majority of respondents (55%) agreed with our proposal to change the way that schools with special units are funded, on the grounds that it would be simpler and more transparent. Specifically, they agreed that including the pupils in the main school pupil count would avoid complicated adjustments in applying the main school formula.

2.49 Special units and resourced provision in mainstream schools are an important bridge between specialist and mainstream provision. The provision is designated by the local authority, as a place where the specific needs of pupils with education, health and care plans can be met. Often these units provide specialist support for particular types of learning difficulty or disability, and are recognised as local centres of excellence, drawing

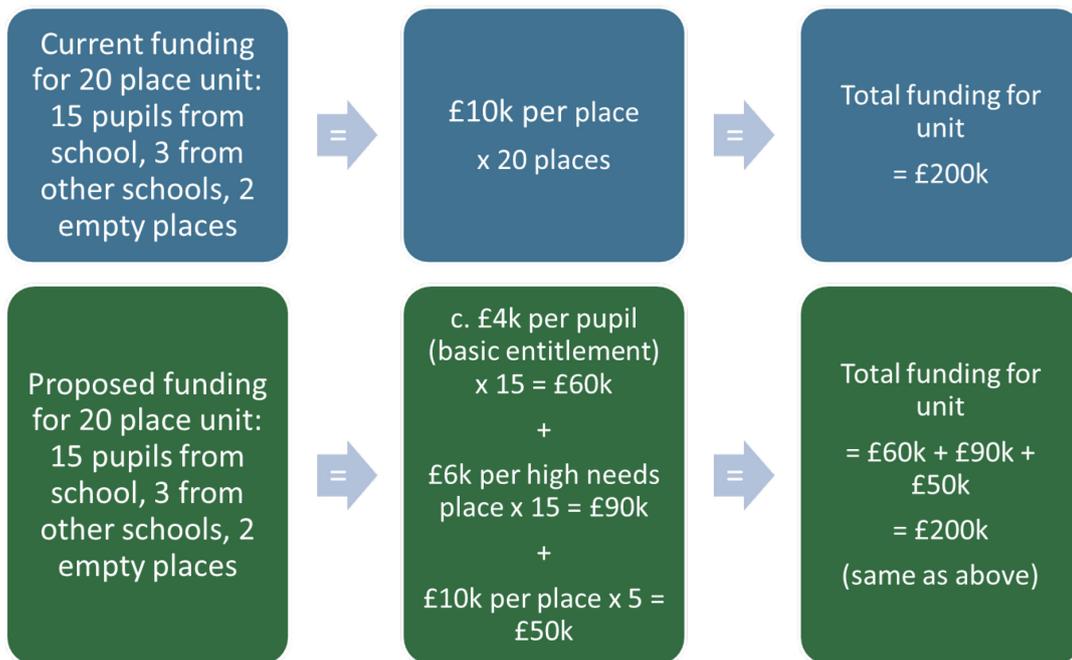
in children and young people from a wider area. They also provide the opportunity for pupils with SEN and disabilities to be integrated into mainstream education, and it is therefore important that they are seen as part of the school, and are under the same overall management and budget structure as the rest of the school.

2.50 This is one of the reasons why we proposed a change to the methodology for funding these units. At present these units are funded by the local authority (if they are a maintained school) or the EFA (if they are an academy) on the basis of £10,000 per place, with the place number deducted from the pupil number used for the rest of the school's mainstream funding through the local formula to avoid double-counting. From 2018-19 this deduction will not be made: instead the school's budget share (or the equivalent academy funding) will be determined on the basis of the full number of pupils on the roll of the school, including those in the special unit or resourced provision. The balance of funding for this kind of special provision will come from the place funding (at £6,000 per place), decided in accordance with the local authority's commissioning decisions, and the top-up funding for individual pupils.

2.51 There were concerns that the proposed change would disadvantage schools accepting pupils into their units in-year or from other schools (because pupils admitted would not be on the relevant school census count determining the school's mainstream funding for the following year).

2.52 We have therefore decided on a change to the original proposal, so that places occupied by pupils on the roll of the school at the time of the school census return are funded at £6,000 per place, as originally proposed, but places not filled by pupils on the school roll at the time of the census count are still funded at £10,000. As an example of how this would work, figure 4 below shows how the change will be accommodated without adversely affecting a school's budget.

**Figure 4: Funding of special units in mainstream schools: example**



**Figure 4: This diagram shows how funding would be calculated for an example unit under current arrangements, and under the new proposal.**

2.53 Operational guidance for 2018-19 will explain how the data required to implement this change will be collected.

2.54 This change will reduce how much of the funding of special units comes from the high needs block, and increase how much comes from the schools block. For the purpose of the illustrative allocations included with this consultation, we have transferred £92 million from the high needs funding block to the schools block to reflect this change, with a corresponding deduction to the 2016-17 high needs baseline for each local authority and a corresponding addition to individual schools' baselines. Our illustrative allocations, based on the schools and high needs national funding formulae, are therefore on this basis.

### Funding of independent special schools

2.55 We also proposed offering independent special schools on the section 41<sup>7</sup> list the opportunity to receive a combination of place funding from the EFA and top-up funding from local authorities, instead of the current arrangement whereby they receive all of their

<sup>7</sup>Joining the list of approved institutions under section 41 of the Children and Families Act 2014 allows independent special schools to come under the same statutory admission arrangements as maintained special schools, special academies and non-maintained special schools. The section 41 approved list can be found at: Department for Education, '[Independent special schools and colleges](#)', September 2016.

funding from local authorities. Of the 54% who disagreed, some were concerned about the high cost of some independent school places, and the mechanism for getting the funds from local authorities. Bearing in mind these costs, some respondents thought funding could be wasted if places were not filled or became vacant during the year. Only 33% of respondents agreed with this proposal. The National Association of Independent Schools and Non-maintained Special Schools and the Independent Schools Council were generally supportive, but there was not significant support from those independent special schools on the section 41 list.

2.56 Having considered these responses, on balance we have decided not to offer independent schools the option of place funding direct from the EFA at this stage.

# Chapter 3: new proposals on the high needs funding formula for consultation

## Introduction

3.1 As set out in the preceding chapter, we can now confirm that the national funding formula will comprise the following factors and adjustments as proposed, and with the addition of a funding floor adjustment – see figure 4 below.

**Figure 5: The building blocks and factors in the high needs national funding formula**

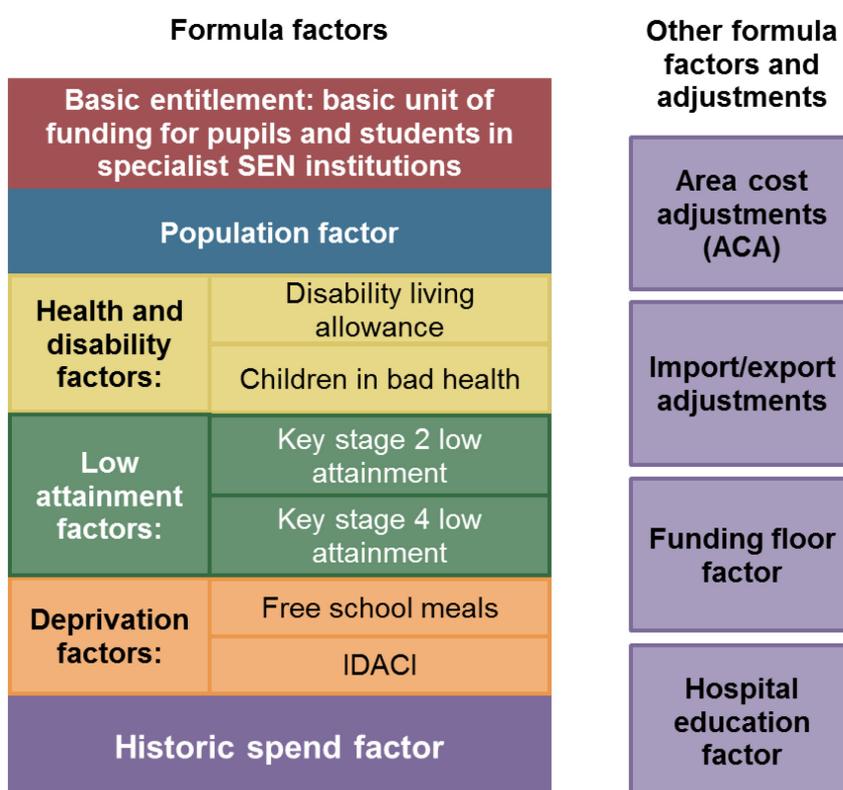
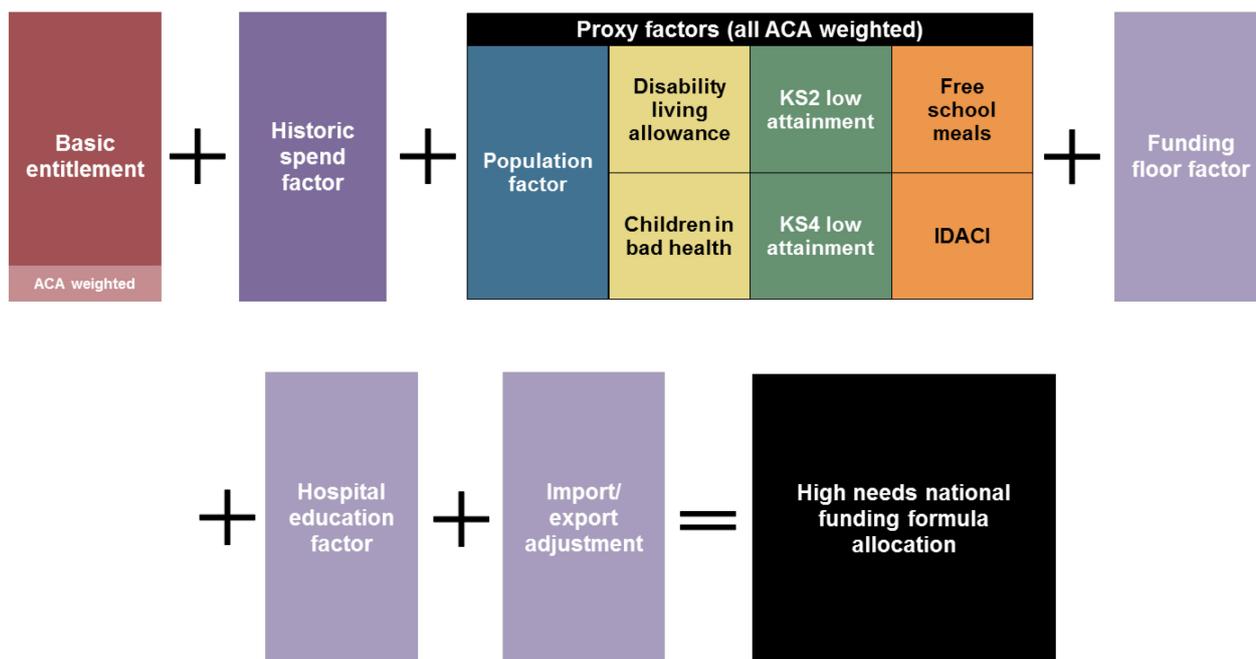


Figure 5: This diagram shows that the formula is comprised of the following: a basic entitlement; factors for population, health and disability, low attainment, deprivation, historic spend, a funding floor and hospital education; and adjustments for area costs and imports/exports.

3.2 The diagram in figure 6 below shows the basic steps that will be taken in the formula calculations and how the factors will be applied in the national funding formula. Chapter 2 explains the changes we have made to the data we proposed in the first consultation, and more detail on the data sources and how the formula will work is provided in the technical note.

**Figure 6: How the national funding formula will be calculated**



**Figure 6: This diagram shows how the factors will be added together to give the formula allocation, with an area cost adjustment applied to the proxy factors and basic entitlement.**

3.3 We are now consulting on the relative weighting of each factor. Once this consultation has concluded and we confirm the final formula weightings, local authorities' high needs allocations for 2018-19 and beyond will be calculated by applying the formula and the transitional arrangements outlined later in the consultation.

## The current distribution of funding is an important consideration in developing a national funding formula

3.4 As we explained in the first stage of consultation, our initial reference point for introducing a national funding formula is the current high needs funding system. We need to move to a formulaic distribution of funding, but without creating undue and unmanageable turbulence. Sufficient stability is one of our core principles for funding reform, and this was reinforced by the response we received to the first stage of the consultation. We have looked closely at how high needs are funded presently and the choices local authorities have made to arrive at those differing spending patterns.

3.5 The incorporation of an historic spend factor in the formula is therefore where each allocation calculation will start. This will be a cash sum, derived from local

authorities' baseline information<sup>8</sup>. We propose to calculate the cash sum for each local authority at 50% of this baseline amount. Broadly, this means that about half of the total high needs allocations would be allocated according to existing spending patterns.

3.6 This amount would be held as a cash flat amount in the formula until the formula is reviewed, which will be in 4 years. On the basis of the illustrative allocations included in this consultation, the overall funding for this factor would amount to £2.5 billion.

3.7 As we explained in the first consultation, funding hospital education will also be allocated to local authorities on the basis of historic spending. For the purposes of the allocations illustrated in this consultation we are using the information about planned spending in 2016-17 on hospital education, reported by local authorities in their section 251 budget statements. The overall amount required for this hospital education factor, using the data currently available, is £73 million.

3.8 The funding floor is intended to ensure the current level of provision for children and young people with high needs is protected. Our intention therefore is to use 2017-18 planned spending baselines in the formula for 2018-19. We will carry out a further baseline exercise with local authorities in order to gather information about the split of the planned spending of the 2017-18 dedicated schools grant (DSG) (excluding the early years funding block for which the baselines have already been set) between high needs, schools and central schools services. Given the re-baselining we have already carried out, and the imminence of the national funding formula, we would not expect significant movements between the various blocks. Where there have been significant changes we will liaise with local authorities to understand them, and to ensure the revised amounts are appropriate to use as baselines for the high needs national funding formula, or consider whether the 2016-17 position provides a better starting point.

## Remaining funding formula factors

3.9 The next element that will be included in each local authority's allocation of high needs funding is a flat rate per pupil in a special school or special post-16 institution, to mirror what mainstream schools receive through the schools national funding formula for their pupils with high needs, and all institutions receive through the post-16 national funding formula.

3.10 Each local authority will receive this basic entitlement through the high needs formula<sup>9</sup>. It is appropriate that this element of funding is directed first to local authorities,

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<sup>8</sup> For the purpose of the illustrative allocations in this consultation, we have used the 2016-17 planned spending baseline information, collected from local authorities earlier in 2016. We have adjusted the baselines to reflect spending on high needs that is not reported by local authorities and to remove some aspects of funding that will be funded through the rest of the formula, as explained further in the technical note.

as an initial contribution towards the total cost of the places that they determine in accordance with their commissioning decisions and plans.

3.11 We have considered the level at which this basic entitlement should be set. The equivalent in schools currently varies between local authority formulae and between phases<sup>10</sup>, and under the schools national funding formula will continue to vary between key stages, with separate age-weighted pupil unit values for the primary and secondary phases<sup>11</sup>. The current equivalent basic entitlement in the 16-19 national formula is £4,000. The advantage of a standard amount for all age groups is simplicity. Given this is a proxy factor, to contribute to the place funding, and not intended as an amount that is passed through directly to institutions, or for identified pupils and students, we think that it is better to keep to a simple standard amount. We therefore propose that the amount to be distributed through this element of the formula is £4,000 per pupil/student.

3.12 Some of the responses to the first consultation argued that the amount that should be distributed through this factor should be the full value of the place funding, i.e. £10,000, as nothing less would fully compensate local authorities for the costs of the place funding. This would not be the right approach, however, as it would create a perverse incentive in the funding system for local authorities to place a higher proportion of their children and young people with special educational needs (SEN) and disabilities in special schools. So far as is possible, we want the funding system to be neutral on the question of where those children and young people with SEN and disabilities receive their special provision, and to avoid creating any perverse incentives that lead local authorities to favour particular types of provider. Authorities should be making decisions about provision in accordance with their statutory duties, and primarily on the basis of what is suitable for meeting the child's or young person's needs. So the funding for the additional £6,000 required to meet the total £10,000 for each place will come through the historic spend factor, and formula factors and adjustments described later in this chapter.

3.13 The £4,000 per-pupil basic entitlement would be calculated on the basis of the school census and individualised learner record (ILR) data from the academic year prior to the December in which the local authority high needs allocations are calculated. So for the high needs formula calculations of local authorities' 2018-19 DSG we would use the January 2017 school census (recognising that many special schools do not reach full place occupancy in the first term of the academic year) and, for post-16 institutions, the final ILR return for the 2016/17 academic year. In response to questions raised in the first

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<sup>9</sup> Because we are proposing to continue the arrangement whereby non-maintained special schools and special post-16 institutions are funded directly by the Education Funding Agency (EFA) on the basis of school census and individualised learner record (ILR) data respectively, for the purpose of this element of the formula we are intending to treat the EFA in the same way as a local authority.

<sup>10</sup> The primary values in local formulae range from £2,345 to £4,993, and the secondary values from £3,287 to £7,291.

<sup>11</sup> The schools national funding formula consultation proposes £2,712 for key stages 1 and 2, £3,797 for key stage 3 and £4,312 for key stage 4.

consultation, we are also adding in data from the alternative provision census supplied by local authorities on the number of pupils placed in independent special schools. On the basis of the calculations we have made for the illustrative allocations included with this consultation, this element of high needs funding amounts to about £470 million.

3.14 The remainder of the high needs funding block – £2.5 billion – would be distributed through the remaining formula factors, according to proposed weightings set out in the table below. These are derived from a separate consideration of those factors that are relevant to the funding for SEN and disability, which comprises about 90% of total spending, and those that are relevant to alternative provision, which comprises about 10% (these percentages exclude spending on hospital education)<sup>12</sup>.

**Figure 7: High needs national funding formula factor weightings**

Formula factor	Proposed weightings			Data we have used for illustrative allocations
	SEN (90%)	AP (10%)	Com-bined	
1. Population	50%	50%	50%	Latest population aged 2-18 projection for 2018 from the Office for National Statistics (ONS)
2. Deprivation				
a. Free school meals (FSM) eligibility	8.3%	25%	10%	Number of children eligible for FSM
b. Income deprivation affecting children index (IDACI)	8.3%	25%	10%	Number of children in bands A-F from 2014 ONS population estimates
3. Low attainment				
a. Key stage 2 (KS2) results	8.3%	0%	7.5%	Number of children not achieving level 3 or above in KS2 tests in 2011-15
b. Key stage 4 results	8.3%	0%	7.5%	Number of children not achieving 5+ A* to G GCSEs in 2011-15
4. Health and disability				
a. Children in bad health	8.3%	0%	7.5%	Number of children and young people declared as in bad or very bad health in the 2011 census
b. Disability living allowance (DLA)	8.3%	0%	7.5%	Number of children aged 0-15 for whom parents receive DLA

<sup>12</sup> These proportions are derived from the totals of local authorities' planned expenditure figures as reported in their section 251 2016-17 budget statements: Education Funding Agency, '[Section 251: 2016 to 2017](#)', updated December 2016.

**Figure 7: This table shows the weighting proposed for each of the formula factors and the data we have used for the illustrative allocations**

## **Population factor**

3.15 Distributing funding by reference to the population of children and young people resident in the local authority area reflects that in every given population of a certain size there will be a proportion of those with high needs. If we take an area the size of even the smallest local authority, we know that there is a minimum incidence that should be funded through a general population factor.

3.16 We have carried out analysis on what proportion of funding it would be appropriate to allocate through this factor. First, we have assumed that the national incidence of pupils with statements of SEN and education, health and care (EHC) plans is a reasonable approximation for the incidence of high needs across the country. We know that 2.8% of the overall pupil population has a statement of SEN or EHC plan, so if all local authorities were at this point, it would be possible to allocate the vast majority of funding simply according to the population in each area. Apart from two particular outliers, the local authorities with the lowest proportion pupils with statements of SEN or EHC plans have about half the average<sup>13</sup>.

3.17 To reflect this association between population and incidence of high needs, we propose that the population factor weighting is set at 50%. £1.3 billion will be allocated through this factor.

## **Deprivation, low attainment, health and disability factors**

3.18 The Isos research argued for a basket of measures that together represented a reasonable proxy for the extent of high needs in the area, and it was apparent from their analysis that there was no rationale to give any particular factor within that basket of measures more weighting than the others. We have looked at more recent data and we agree with their conclusion on this. Like Isos, we have considered other weightings, but have found that changes to the relative weightings between these factors has little effect to the overall distribution. In general, we do not think there is any reason to prefer higher weightings for one factor over the others. We therefore propose the simple approach of giving equal weighting to most of the formula factors.

### **Deprivation**

3.19 For the deprivation factor, however, we have also taken into account that 10% of high needs funding is spent on alternative provision and that, of all the factors other than population, deprivation is most closely correlated to the need for alternative provision as

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<sup>13</sup> Department for Education, [‘Special educational needs in England’](#), January 2016

a result of school exclusions. The other factors in the formula do not display any significant correlation to the need for alternative provision. As indicated in the table above, we are therefore proposing to give proportionately more weighting to the deprivation factor, accounting for 20% of the amount allocated through the population and other proxy indicators. The funds distributed using deprivation factors will amount to about £510 million.

3.20 The distribution of funding for alternative provision is necessarily subject to review as we consider how it should be organised and funded in future. We will make proposals about any new approach to this element of funding in due course.

3.21 In the first stage of consultation a majority of respondents supported our proposal to use both pupil and area deprivation information in the national funding formula. The deprivation factor will therefore comprise two, equally weighted indicators, in order to make the most of the different strengths these data sources.

3.22 The first deprivation indicator is free school meals (FSM) eligibility. The second is area-level deprivation, measured by the income deprivation affecting children index (IDACI). Chapter 2 explains the intention to use 6 IDACI bands. We have decided that the best approach for weighting these bands is to use the same weightings that are used in the schools national funding formula, as there is little justification for an alternative approach for the high needs formula. Further information about how these measures will work in the high needs formula is set out in the technical note.

### **Low attainment**

3.23 We are proposing to allocate 15% of the amount allocated through this part of the formula (about £380 million) on the basis of low attainment data at key stages 2 and 4, with equal weighting given to each.

### **Health and disability**

3.24 We are proposing to allocate 15% (about £380 million) through these factors as well, with half allocated on the basis of the children in bad health data from the 2011 population census and half using the latest disability living allowance data.

3.25 The data used in the calculation of the low attainment and health and disability formula factors, and an explanation of how the calculation works, is set out in the technical note.

## **Adjustments to reflect geographical costs, cross-border placements and the funding floor**

### **Area cost adjustment**

3.26 The area cost adjustment is applied to all the factors in the formula, except those based on historic spending, as higher area costs will already implicitly be reflected in historic spending levels, hospital education funding and the import/export adjustments. The area cost adjustment equates to an increase of up to 20.4% for local authorities (mainly in London) where schools face the highest salary costs.

### **'Import/export' adjustment**

3.27 As indicated in the first consultation, the adjustment will be the net difference in pupil and student numbers, multiplied by £6,000, resulting in an increase for the importing local authorities and a decrease for the exporting authorities. The technical note contains more information about the adjustments and how they are applied in the formula.

### **Funding floor adjustment**

3.28 The final adjustment in the formula is a funding floor such that local authorities that would otherwise lose funding under the other factors in the formula are protected. The funding floor will be set so that no local authority sees a reduction, compared to their spending baseline.

3.29 The basic entitlement factor, hospital education funding and import/export adjustment will be excluded from the funding floor calculation so that year-on-year changes to these data sets, which closely match the actual movement of pupils and students and therefore direct costs on local authorities, flow through in full to each local authority's allocation. The illustrative allocations included in this consultation are based on the 2016-17 planned spending baseline, using the information collected from local authorities in March/April 2016. We intend to collect similar information relating to local authorities' planned spending in 2017-18, with a view to using this as the baseline for calculating the funding floor adjustment for 2018-19 and subsequent years<sup>14</sup>.

3.30 The funding floor adjustment effectively replaces – and offers significantly more protection than – the stage 1 consultation proposal for a minimum funding guarantee that no local authority would lose more than a certain percentage from their planned spending year-by-year. The department's spending review settlement last year provided a real terms protection, which enables a year-on-year increase in high needs funding in each year of the current spending period to 2019-20. This increase allows us to make sure

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<sup>14</sup> As noted in paragraph 3.8 above, where there are significant changes we will liaise with local authorities.

both that there are no losses through the funding floor, and that those gaining receive a fairer allocation as quickly as possible.

## **Funding increases under the high needs national funding formula**

3.31 We will use the additional funding available in 2018-19 and 2019-20 to make sure that all local authorities due to gain funding under the formula will see an increase. To remain affordable, we will allow gains of up to 3% per year. On the basis of the illustrative allocations for the first year of the formula, published alongside this consultation, we expect that 20 local authorities due to gain up to 3% will get their gains in full in 2018-19, and a further 15 authorities due to gain will get their increases in full by 2019-20. We cannot commit to a level of subsequent increases for the remaining local authorities, as the additional funding available for such increases will be subject to decisions taken in a future spending review.

3.32 We recognise that local authorities due to gain most through the formula will not receive their full gains straight away. We could have scaled the gains in proportion to the amount by which they are under-funded according to the formula, rather than imposing a limit on the gains, but we believe that the 3% limit is the best way to get the majority of authorities onto their formula allocation within the first 2 years.

## **Illustrations of how high needs funding will change over time**

3.33 We have calculated illustrative allocations in the first year of the operation of the formula (2018-19), taking account of our proposals for the funding floor and the level at which we can afford to pay out gains. These are also calculated on the basis of no change to pupil numbers or other data. Local authorities can anticipate changes in data, and will be able to use the published formula to estimate the effect that such changes would have on their funding levels. We have also illustrated final formula allocations on the same basis.

3.34 Our assessment of the impact of the formula and other proposals on individual pupils and students with certain (protected) characteristics can be found in the equalities impact assessment<sup>15</sup>. The formula will affect the distribution of high needs funding between local authorities and chapter 4 explains how we will support local authorities, and those schools, colleges and other institutions making special and alternative provision, in the move to these new national funding formula arrangements.

3.35 We have also assessed the impact of the proposed formula at regional level. Figure 8 shows how the gains in our illustrative allocations are distributed between the regions. The Yorkshire and Humber region gains the most overall in both cash and

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<sup>15</sup> The equalities impact assessment is available on our [consultation page](#).

percentage terms, at £49 million, or 11.6% above its gains baseline. The inner London region gains the least above its current level, with an overall gain of £3 million, or 0.7% above its baseline.

**Figure 8: Gains under the proposed formula by region**

LA grouping	High needs formula			
	No. of LAs	Number (%) of LAs gaining	Largest % gain*	Total gains
Inner London	13	5 (38%)	4.7%	£3m
Outer London	19	5 (26%)	19.7%	£10m
East Midlands	9	3 (33%)	22.9%	£17m
South East	19	5 (26%)	19.3%	£16m
Yorkshire and the Humber	15	13 (87%)	20.0%	£49m
North West	23	13 (57%)	17.6%	£26m
South West	15	4 (27%)	11.3%	£5m
East of England	11	6 (55%)	12.7%	£20m
West Midlands	14	11 (79%)	12.4%	£36m
North East	12	7 (58%)	19.0%	£8m

\* Above gains baseline

**Figure 8: This table shows, for each region under the proposed formula, the number and percentage of local authorities that would gain, the largest percentage gain a local authority would experience, and the sum of gains for all local authorities.**

3.36 The funding floor means that no authority will face a reduction in high needs funding, compared to their planned spending baseline. This level of protection should minimise the impact on those providing places and services, and make sure that the focus is on securing improvements in the quality and efficiency of what is provided. Some local authority areas will see gains because historically the authority has directed more of its DSG to mainstream schools. Chapter 4 explains how local authorities can continue to support schools from their high needs budget.

3.37 We believe that the formula now proposed will enable a fairer distribution of high needs funding, but we will consider changes to the formula in the light of data that may become available in future, and we will undertake further research. In particular, we will:

- investigate whether there is scope for more data sharing between government departments and agencies to improve the indicators that are used in the high needs funding formula, and
- explore the complex relationship between costs, provision and outcomes for children and young people with SEN and disabilities to see if the results of this work point to the use of more appropriate formula factors or data.

## Question 1

In designing our national funding formula, we have taken careful steps to balance the principles of fairness and stability. Do you think we have struck the right balance?

*We ask respondents to bear in mind with the following two questions that we are redistributing funding. Any money that we put into one factor will have to come from another factor. We have indicated what we think is the right proportion or amount for each factor.*

## Question 2

We are proposing a formula comprising a number of formula factors with different values and weightings. Do you agree with the following proposals?

- Historic spend factor – to allocate to each local authority a sum equal to 50% of its planned spending baseline
- Basic entitlement – to allocate to each local authority £4,000 per pupil

## Question 3

We propose to use the following weightings for each of the formula factors listed below, adding up to 100%. Do you agree?

- Population – 50%
- Free school meals eligibility – 10%
- IDACI – 10%
- Key stage 2 low attainment – 7.5%
- Key stage 4 low attainment – 7.5%
- Children in bad health – 7.5%
- Disability living allowance – 7.5%

**Question 4**

Do you agree with the principle of protecting local authorities from reductions in funding as a result of this formula? This is referred to as a funding floor in this document.

**Question 5**

Do you support our proposal to set the funding floor such that no local authority will see a reduction in funding, compared to their spending baseline?

## Chapter 4: introducing a new formula distribution to local areas

4.1 This chapter considers some of the implications of implementing new funding formulae for high needs and schools, in the context of the legal framework under which local authorities, schools and other education providers operate.

- We set out some proposals for local budget flexibility, on which we would welcome views, and offer some guidance on how we envisage this will work best through stronger local partnership arrangements.
- We also set out information about the importance of strategic reviews of special and alternative provision, and planning ahead, and about the financial help that we are providing to support this activity.
- Finally, there is a section that focuses on the roles and responsibilities of some of the different types of education provider who cater for children and young people with high needs, and on any planned changes to their funding.

4.2 The new formula, with increases for the under-funded local authorities and the protection of the funding floor, will direct high needs funding towards the areas where it is most needed, while providing necessary stability. But we recognise that local authorities will need to keep their high needs spending under review, to ensure they continue to support children and young people within the budgets available, and identify more efficient ways of promoting excellence. So we have considered further how best to provide support which will help local authorities, working in partnership with others, manage cost pressures and spend their high needs allocation more efficiently.

### Meeting the needs of all children and young people

4.3 The Children and Families Act 2014 is clear that children and young people with special educational needs (SEN) should be educated in mainstream schools and other mainstream provision unless their SEN require more specialist provision<sup>16</sup>. 14.4% of school pupils in England are identified as having SEN; 2.8% have more complex needs, requiring a statement of SEN or an education, health and care (EHC) plan. This means that 11.6% – some 992,000 pupils – receive SEN support through their mainstream school<sup>17</sup>.

4.4 Primary and secondary schools – together with mainstream early years settings and general further education (FE) colleges – therefore have a central role to play in meeting the needs of their pupils with SEN and those who are disabled. They need to

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<sup>16</sup> Department for Education and Department of Health, '[SEND Code of Practice](#)', pages 25-26, paragraphs 1.26-29, updated May 2015

<sup>17</sup> Department for Education, '[Special educational needs in England](#)', January 2016

work together with their local authority in making suitable provision, and to integrate pupils so far as is possible, giving them the same opportunities to achieve good outcomes as all other pupils.

## Local budget flexibility

4.5 As set out in the parallel consultation on the national funding formula for schools, we intend to move to a system in which, by 2019-20, mainstream schools will have their funding determined centrally. Local authorities will, therefore, have a very limited role in deciding what schools receive in respect of their mainstream pupils. Such an approach – which we have called a 'hard' formula – is the best way of funding schools on a comparable basis, no matter where they are in the country.

4.6 Because a hard formula would determine the funding for each school, the effect is to ring-fence the schools funding block, preventing the transfer of that funding into the authority's high needs budget, as is now possible. To prepare authorities for this, and make sure that mainstream schools were funded as closely as possible in line with the national formula, in the first consultation we proposed a ring-fence around mainstream schools' funding for the years before the hard national funding formula. In the responses to that consultation, schools were generally in favour of that approach.

4.7 A number of respondents, however, raised concerns about our proposal to ring-fence the schools block within the dedicated schools grant (DSG). They argued that the separation of the schools and high needs blocks would have an adverse impact on local authorities' and schools' willingness to work in partnership, to take collective responsibility for making special provision for those with SEN and disabilities, and to co-operate as required by the Children and Families Act. They also thought this ring-fence would significantly affect local authorities' ability to manage their high needs budgets.

4.8 The high needs funding block was established in 2013 on the basis of local authorities' spending patterns in 2012-13. The recent baseline exercise showed that since this point, 113 authorities have moved a total of £327 million into their high needs budgets, and 36 authorities have moved £57 million from their high needs budgets into schools and early years<sup>18</sup>. These shifts in spending to some extent reflect changing patterns of provision over time (see paragraph 4.45 below and figure 9). They also demonstrate that, although many local authorities have managed certain cost pressures by transferring funds from their mainstream schools, a small number of others are spending less than we have allocated for high needs, choosing instead to move that

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<sup>18</sup> Movements of funding have been calculated by comparing the 2016-17 baselines agreed with local authorities through the 2016 baseline exercise, and published in July 2016, with the 2016-17 allocations first published in December 2015: Education Funding Agency, '[Schools funding arrangements 2017 to 2018](#)', updated December 2016; Department for Education and Education Funding Agency, '[Dedicated schools grant \(DSG\): 2016 to 2017](#)', updated November 2016

Correction on 22 December 2016: from 114 and 37 authorities to 113 and 36 authorities.

funding into schools. This may be because the schools in those areas are generally taking more responsibility for meeting the needs of pupils with SEN without recourse to extra funding from the local authority's high needs budget.

4.9 Given this variation in approach and the cost pressures some local authorities face, we accept that some continuing local flexibility will be important in making sure and that the funding system is responsive to changes in the balance of mainstream and specialist provision within a local area, and that schools and local authorities can work together effectively and efficiently in making provision for children and young people with high needs.

## **Local flexibility in the funding arrangements**

4.10 The arrangements we are proposing would allow limited local flexibility so that the distribution of resources reflects the way children and young people with high needs are placed.

4.11 Schools can be disadvantaged financially if they admit a disproportionate number of pupils with high needs. In the current funding system, local authorities can use funding from their high needs budgets to support mainstream schools that are particularly inclusive, as well as expanding special schools or units, and many authorities already do this. Local authorities will continue to have flexibility to target additional high needs funding to mainstream schools, over and above the funding provided by the schools national funding formula.

4.12 We are also confirming two further local flexibilities in the funding arrangements:

- a. As announced in July 2016, there will be no ring-fence on the schools block in 2017-18. Local authorities are able to transfer funding between their schools and high needs budgets. We will monitor this carefully and in March 2017 will collect more information to establish new planned spending baselines on schools and high needs, as explained in paragraph 3.8.
- b. In 2018-19 and subsequent years there will be no restrictions on the transfer of funding between the high needs funding block, the central schools services block and the elements of early years funding that local authorities are allowed to retain for central spending. It will also remain possible for local authorities to transfer funds into their high needs budgets from sources other than their DSG allocation.

4.13 Furthermore, in 2018-19 we propose to provide an opportunity for local authorities to transfer funds, from the funding that schools are due to receive through the schools formula, to their high needs budget. To exercise this flexibility, local authorities would have to get the agreement of their schools forum and a majority of primary and/or secondary schools and academies (with transfers confined to the primary and secondary elements of the schools block as agreed by phase). We will review the degree of movement in 2017-18 through a second baseline exercise and, in the light of that,

consider whether there should be a limit on transfers in 2018-19, amounting to no more than, say, 2% or 3% of the high needs block allocation. In any case local authorities would continue to be obliged to meet the minimum funding guarantee for mainstream schools.

4.14 It is important that over the next two years this budget flexibility is used with care, and in the context of the local strategic review and planning they are carrying out to ensure the sustainability of future special provision (see below). It should be used to help reshape the local offer, to prepare for future funding levels, and not to postpone planning decisions and the benefits that can accrue from taking such decisions early. We could publish guidance on what would constitute a good reason to consider making use of this flexibility (for example, to reflect a real movement of pupils from mainstream to specialist provision), in order to strengthen schools' ability to reach a sensible judgement on local authority proposals.

### **Question 6**

Do you agree with our proposals to allow limited flexibility between schools and high needs budgets in 2018-19?

### **Continuing local flexibility and partnership working**

4.15 From 2019-20, once mainstream schools' budgets are predominantly determined by the hard national funding formula, the funding system must respond fairly in areas which make extensive use of specialist provision. We propose to provide a mechanism whereby schools in an area could agree, with their local authority, to pool some funding that could then be directed towards those schools that need it most for their pupils with SEN – both more inclusive mainstream provision, and specialist provision (for example special units, resourced provision or special schools) funded from the authority's high needs budget. This local budget could be created by a small charge on each school's budget which, together with funding from the local authority's high needs budget, would deliver support to children and young people with high needs, regardless of where they are placed. Such an approach could make a real difference to the support that can be given to children and young people with high needs.

4.16 We think such arrangements would present an opportunity for schools to demonstrate how, in partnership with the local authority, they are discharging their responsibilities for meeting the needs of all children and young people with SEN and disabilities. We believe local decisions on the arrangements would best be taken by schools working collectively, either across a local authority area or in smaller groups. Crucially, such decisions should be made in the context of the local authority's overall strategy for making special and alternative provision (see paragraphs 4.17ff below). The first consultation has started a helpful debate on these issues, and we will continue to work with stakeholders on the future of the schools forum, the shape of local partnership

arrangements, and the funding flexibility outlined above that would support such arrangements. We will be seeking to introduce such arrangements from 2019-20 onwards.

### **Question 7**

Do you have any suggestions about the level of flexibility we should allow between schools and high needs budgets in 2019-20 and beyond?

## **Local strategic planning for SEN and disability provision**

4.17 Local authorities, schools and other education providers have important responsibilities for children and young people with SEN and disabilities, set by the Children and Families Act 2014, and for those who need alternative provision. We believe that these responsibilities are discharged most effectively when there is a strong partnership between the local authority and education providers (in particular its mainstream and special schools, and alternative provision), and a shared understanding of where different types of need are best met. This must be reflected in the published local offer of SEN provision and services.

4.18 Sometimes such partnership arrangements work well in a single local authority area, and elsewhere they can work better where smaller clusters of schools work together, with responsibilities and funding devolved by the local authority. Partnerships can also be productive where education providers and local authorities work across authority boundaries and across phases – for example, schools working with early years or further education providers on packages of support that help with the crucial transition points that children and young people, and their families, often find difficult to manage.

4.19 In addition, engagement with parents and young people is crucial, to ensure that the range and quality of provision reflects the needs and aspirations of children and young people in the area.

### **Keeping special educational provision under review**

4.20 The Children and Families Act 2014 requires local authorities to keep the provision for children and young people with SEN and disabilities under review (including its sufficiency), working with parents, young people, and providers<sup>19</sup>. The Act is clear that, when considering any reorganisation of provision, decision makers must be clear how they are satisfied that the proposed alternative arrangements will lead to improvements in the standard, quality and/or range of educational provision for children with SEN.

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<sup>19</sup> Department for Education and Department of Health, '[SEND Code of Practice](#)', chapter 4, updated May 2015

4.21 Local authorities must involve children and young people with SEN and disabilities, and their parents, in reviewing the special educational provision in their area. Local authorities should do this in a way which ensures that children, young people and parents feel they have participated fully in the process and have a sense of co-ownership or 'co-production'. Local authorities should ensure that their arrangements for involving children, young people and parents include a broadly representative group of the children and young people with SEN and who are disabled in their area. Effective parent participation can lead to better outcomes for children and young people and other benefits: a better fit between families' needs and the services provided; higher satisfaction with services; reduced costs (as long-term benefits emerge); better value for money, and better relationships between those providing services and those using them.

4.22 When reviewing the services and provision in this way, local authorities must work with key partners, including a range of education providers. The partners who are required to co-operate with the local authority include:

- the governing bodies of maintained schools and proprietors of academies and free schools in the local authority's area;
- the proprietors of non-maintained special schools, and of independent special schools and special post-16 institutions which have been included on the section 41 list of institutions approved by the Secretary of State, and which are in the local authority's area or provide education or training for children and young people in the area;
- the governing bodies of further education colleges and sixth form colleges that are in the local authority's area or are attended or likely to be attended by young people from their area;
- any other person (other than a school or college) that makes special educational provision for children or young people for whom the local authority is responsible, including providers of relevant early education.

4.23 As indicated above, the review of special educational provision must include provision outside the local area that the local authority expects is likely to be used by children and young people with SEN for whom they are responsible. Such provision must be included in the published local offer. This could, for example, be provision in a further education college in a neighbouring area or support services for children and young people with particular types of SEN that are provided jointly by local authorities. It should include relevant regional and national specialist provision, such as provision for children and young people with low-incidence and more complex SEN.

4.24 Such review activity is particularly important when local authorities anticipate receiving different levels of high needs funding in future or where they anticipate that needs in their area are changing. Accordingly, the forthcoming changes to high needs funding mean such a review should be given priority in all areas.

#### 4.25 Local authorities may wish to consider:

- data on the range of SEN in the area, recent trends and likely changes in the future (for example arising from demographic growth);
- evidence for how effectively the current pattern of special educational provision meets needs in the area. It may be helpful to consider feedback from parents and young people on the local offer (including the quality of existing provision and any gaps);
- evidence for how effectively the current pattern of special educational provision prepares children and young people for adult life (particularly employment and/or higher education; independent living; participation in society; and being as healthy as possible);
- the range of special educational needs which would generally be met by mainstream providers, including early years settings, mainstream schools and academies, and post-16 institutions (further education and sixth form colleges), and the way in which these institutions access the specialist training and workforce development they need;
- the range of SEN and disabilities which would generally be met by specialist providers, including special units or resourced provision in mainstream schools, special schools and academies, non-maintained and independent special schools and special post-16 institutions;
- the range of SEN and disabilities which would generally be met by highly specialised providers, including those operating at a regional or national level such as residential special schools, non-maintained and independent special schools and special post-16 institutions;
- how best to address any gaps in provision identified by the review;
- how best to allocate resources to deliver this provision.

#### 4.26 We envisage three key outcomes emerging from these reviews:

- a. A strategic plan for high needs provision that makes sure there is an attractive offer for parents and young people which will meet the needs of future cohorts, at a cost that is sustainable. This might include, for example:
  - i. measures to support mainstream schools in meeting the SEN of a wider range of pupils, for example through workforce training or clear routes to access specialist expertise;
  - ii. changes to the focus of existing specialist places, to cater for different or more complex needs;

- iii. the creation or expansion of specialist provision attached to mainstream schools (special units or resourced provision);
  - iv. identification of the need to the create or expand special schools, and
  - v. strategic engagement with specialist providers in the non-maintained and independent sector, to make sure that the places they are offering reflect the changing needs of children and young people.
- b. More effective collaboration between local authorities to secure efficient delivery of:
- i. SEN assessment and support services;
  - ii. specialist provision for more complex needs;
  - iii. more standardised approaches to high needs top-up funding that facilitate better cost control and reductions in bureaucracy.
- c. Better value for money in special schools and other specialist institutions. For example, where an institution is operating with empty places, the review may secure better value through a change to commissioning; or where a school is not as efficient as it could be, the review may support better procurement of utilities, benchmarking of costs and other measures that release more resources that can be focused on improving the quality of provision and outcomes.

### **Working with health and social care partners**

4.27 Local authorities should link reviews of education, health and social care provision to the development and review of their local offer. This will help to identify gaps in provision and ensure that the local offer is responsive to the needs of local children and young people and their families.

### **Strategic planning**

4.28 If they have not already done so, having reviewed their provision for children and young people with SEN and disabilities, local authorities should develop and publish strategic plans that set out how such provision should be made, using the high needs funding they expect to receive in future, in a way that works for parents and young people. They need to make sure the pattern of provision is suitable to meet changing needs, that parents and young people find it attractive, and that it will be affordable within future allocations.

4.29 These plans should cover the special educational provision offered by early years providers, mainstream and special schools (including academies, and non-maintained and independent special schools), and the range of post-16 institutions (including further education and sixth form colleges, and special post-16 institutions) and the way in which those mainstream and special schools and other institutions access the training and

workforce development relating to SEN and disabilities they need. They should be developed in consultation with neighbouring authorities, particularly where children with SEN and disabilities from one local authority area receive their special provision in another.

4.30 Many local authorities have carried out such reviews and planning recently or are currently consulting with providers, parents and young people, to explore the extent to which special provision needs to be adjusted. In paragraphs 4.35ff below we set out the financial support that is available so that all local authorities can take forward their reviews and preparation of strategic plans.

### **Collaboration between local authorities**

4.31 We would encourage local authorities to work together when reviewing their special educational provision, using the extra resources that we are making available. The Children and Families Act is clear that the local offer must include provision outside the local area that is likely to be used by children and young people with SEN and disabilities. Many local authorities are already developing such collaborative approaches.

4.32 Local authorities may wish to consider combining specialist SEN and disability services, for example for expert professionals such as educational psychologists and specialist teachers, so that sustainable centres of expertise are created, providing schools and other institutions with the extent and quality of specialist support they need.

4.33 Children and young people with SEN and disabilities from one local authority area frequently receive provision in another, for example at a special school or further education college. Neighbouring local authorities should work together when considering the quality and sufficiency of such provision. It may be more efficient for a group of local authorities to develop and share a single centre of excellence.

4.34 We would particularly encourage local authorities to work together when considering provision to meet low incidence but high complexity SEN. Such provision is frequently offered by providers which operate at a regional or national level, often through independent or non-maintained special schools and specialist post-16 institutions. It may be much more efficient for a group of local authorities to take a combined approach when engaging with such highly specialist providers. Sharing intelligence across a region would allow a group of local authorities to develop a strategic plan for meeting low incidence but high complexity needs, reviewing the quality and sufficiency of existing provision and working with providers to ensure the provision available meets both current and anticipated needs. This would offer a number of benefits, including reducing costs by removing duplication in the commissioning and quality assurance process. It would also allow highly specialised providers to plan ahead, ensuring the provision they offer reflects the likely demand from commissioning local authorities.

## Support for local authorities in managing change

4.35 We are providing additional funding to support local authorities, both their review of their special educational provision and their preparation and implementation of strategic plans.

- The department is providing additional revenue funding in 2016-17 to help local authorities conduct a strategic review of their special educational provision, and/or to implement any changes (see paragraphs 4.36-38 below).
- Where the plans require capital funding to build new places or improve existing ones to make them more suitable, the costs could be supported by the new special provision capital fund (see paragraphs 4.39-40 below). In addition, the department is considering expressions of interest from local authorities to seek proposals for special free schools (see paragraph 4.42 below), which would also attract central capital funding.

## High needs strategic planning fund

4.36 We are allocating £23 million of additional funding in 2016-17, to increase local authorities' capacity to undertake this strategic review and planning activity. We intend that this high needs strategic planning fund will be used both to fund high-quality collaborative review and planning of special provision (where appropriate, jointly with neighbouring authorities) and, particularly where such review and planning work has already been undertaken along the lines envisaged, to help implement the outcomes of the reviews.

4.37 The funding will be distributed in 2016-17, as it is anticipated that most local authorities will wish to start or develop their review and planning this financial year, if they have not already done so, but as the funding will not be ring-fenced they will be able to carry forward the funding. We will not only expect a review to be carried out (if one has not already been done) but also, to encourage transparency and engagement with local communities on these issues, for the outcome to be published. And we will of course expect the review to lead to changes that are deliverable in practice and implemented effectively, with support from the local community of parents, schools and other institutions.

4.38 We are publishing details of the level of allocations of this strategic planning fund alongside this consultation.

## Capital investment

4.39 Local authorities may identify a need for capital investment for new places in special and mainstream schools and academies, or improvements to special and mainstream schools and academies that make them more suitable for pupils with SEN and disabilities. The new places could be in new or existing schools.

4.40 Capital funding of at least £200 million (over and above basic need funding which can also be spent on SEN places) will be allocated to help build new places at mainstream and special schools, and to improve existing places to benefit both current and future pupils. Local authorities, through consultation with local stakeholders, will decide how best to spend their allocation to meet local needs. We will set out more information about the fund in early 2017. The use of this capital funding should be consistent with the overall strategic plans that authorities have drawn up or will be developing.

4.41 Local authorities are also able to commission new schools (both special and mainstream) via the free school presumption route, drawing on the basic need and special provision capital funding sources. We also approve and fund new mainstream and special schools via the central free schools route, drawing on other departmental capital funding. In the case of special free schools we only approve these where the local authority supports the application.

4.42 We recently created an additional, one-off process giving local authorities a more proactive role in commissioning new special free schools that would be funded centrally. We invited local authorities to identify whether they believe a new special school would be a beneficial way of providing some of their new places, and we are currently reviewing the expressions of interest received, in order to decide which are the most compelling cases. The most compelling cases will then be advertised for free school proposers to apply for, and where proposals come forward that meet both the local authority's and the department's requirements they will be funded in the same way as other central free schools.

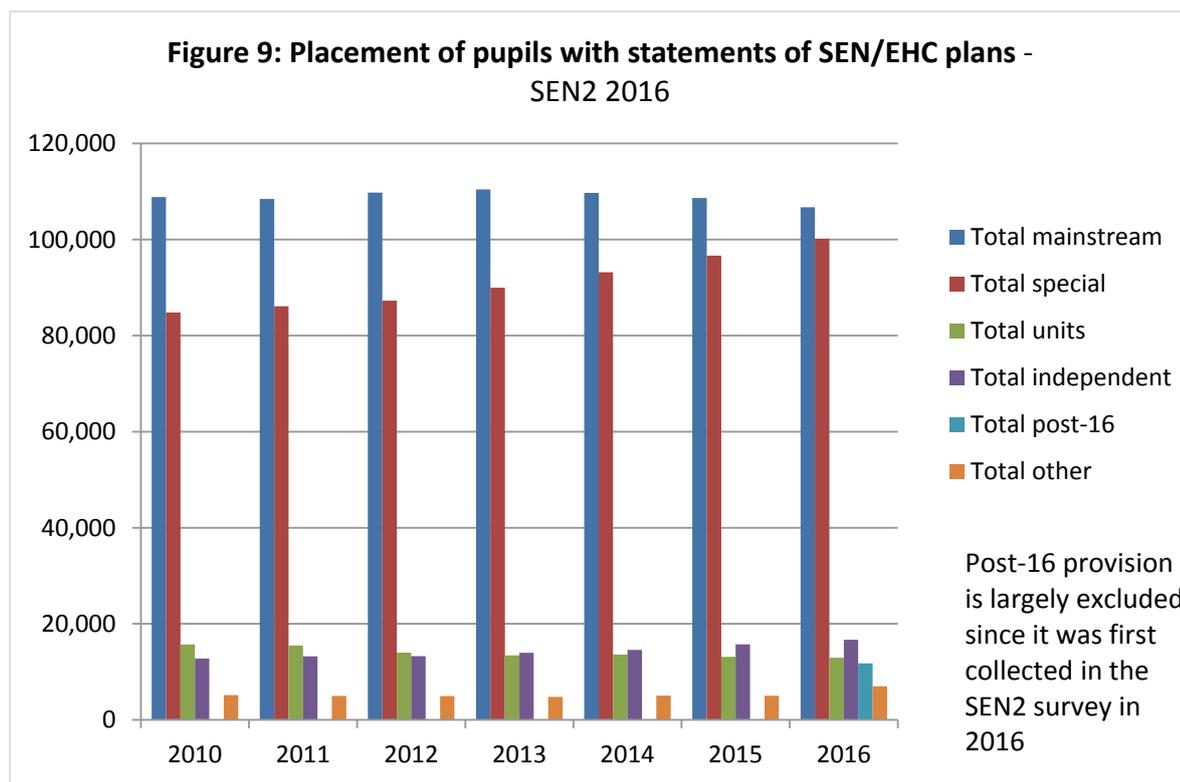
### **Alternative provision funding**

4.43 Much of what we have said about local budget flexibility, and strategic review and planning activity in the preceding sections of this chapter is as relevant to alternative provision as to provision for children and young people with SEN and disabilities. Local authorities and schools should bear in mind that we have set out our intention for schools to have more responsibility in future for commissioning alternative provision that is required for their pupils, including any whom they have permanently excluded. This would be accompanied by accountability for pupils' educational attainment while they are in alternative provision. Any increase in responsibility for commissioning alternative provision would mean that schools should have more control over the funding.

4.44 We are taking the necessary time to properly consider various funding models, including the approaches already being taken in some local authorities where funding for alternative provision is distributed to schools or groups of schools. We will be able to say more on this in due course.

## Support for schools, colleges and other providers

4.45 As part of the statutory EHC needs assessment process, when drafting an EHC plan, the local authority should consider what provision will best meet the individual's needs. Nationally just under half of pupils with statements of SEN or EHC plans are in mainstream schools<sup>20</sup>. Some in mainstream schools receive their support in special units or resourced provision (which is a type of special provision involving more integrated teaching and learning). Although for many years the number of pupils with EHC plans or statements of SEN has remained fairly constant, at about 2.8% of overall pupil numbers, the proportions in mainstream and special schools has changed.



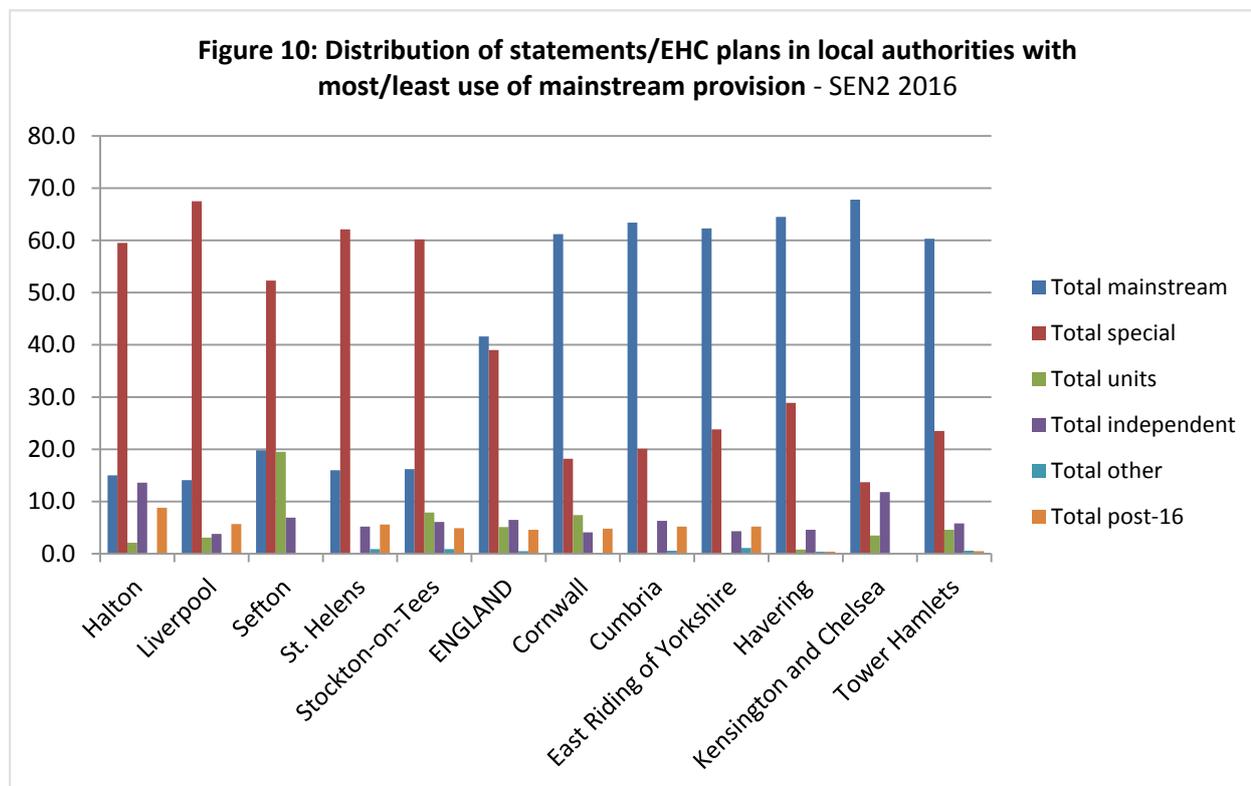
**Figure 9: This chart shows how the number of pupils with statements of SEN/EHC plans in each type of provision has changed from 2010-16.**

Source: Department for Education, '[Statements of SEN and EHC plans: England, 2016](#)', updated June 2016

4.46 The pattern of high needs spending, which provides the baseline for the new funding arrangements, partly reflects the variety of ways in which provision for SEN has developed and been organised in local areas, over time. Some areas take a highly inclusive approach, with the majority of children and young people with SEN placed in mainstream schools, and the local authority providing additional resource, for example through spending on central services or targeting extra funding to individual schools. Other areas have more specialised provision, and have needed to transfer money from

<sup>20</sup> Department for Education, '[Statements of SEN and EHC plans: England, 2016](#)', updated June 2016

schools to their high needs budgets to fund places in special schools or other specialist provision. Figure 10 highlights those local areas with the most and least use of mainstream provision for meeting SEN.



**Figure 10: This chart shows the local authorities with the most use of mainstream provision (Cornwall, Cumbria, East Riding of Yorkshire, Havering, Kensington and Chelsea, Tower Hamlets) and the least (Halton, Liverpool, Sefton, St. Helens, Stockton-on-Tees).**

Source: Department for Education, '[Statements of SEN and EHC plans: England, 2016](#)', updated June 2016

4.47 Taking into account the wide range of education providers who are responsible for making provision for children and young people with SEN and who are disabled, in the first consultation we set out some proposals for changes to the way that schools, colleges and other providers receive high needs funding for those with more complex needs. We are not asking further questions about these in this consultation. The following paragraphs set out how we intend to proceed, including those aspects of special provision funding on which we will undertake more detailed consultation at a later stage.

## Changes to early years SEN and disability funding

4.48 We have already consulted on some specific funding changes that will enable more focused support for young children with SEN and disabilities, and the government response to this early years funding consultation was published in December 2016<sup>21</sup>.

<sup>21</sup> Department for Education, '[Early years funding: changes to funding for 3- and 4-year-olds](#)', updated December 2016

There will be a new disability access fund of £615 per child per year to support access to early years provision. This fund will be for three- and four-year olds who are taking up their free entitlement and are in receipt of disability living allowance. In addition, we will legislate to require all local authorities to build on existing good practice by having a local SEN inclusion fund, by April 2017, to support providers in improving outcomes for young children with SEN. Local authorities will need to include this in their local offer.

## Helping schools to be more efficient

4.49 We have put in place a comprehensive package of support to help schools improve their efficiency and financial health, including a collection of tools and guidance<sup>22</sup> to help school leaders, governing boards and business management professionals improve their financial management and make the most of the funding they receive. It covers subjects such as budget planning, financial governance and procurement. Just as this will help mainstream schools with the transition to the schools national funding formula, it will also help special schools as they seek to make sure that as much of their funding as possible is going towards helping their pupils achieve the outcomes identified in their EHC plans. There may also be a case for more fundamental restructuring of provision, for example, through the creation of multi academy trusts.

## Mainstream school funding

4.50 Earlier in this chapter we have emphasised the important role and responsibilities of mainstream schools in meeting the needs of children and young people with SEN and who are disabled. We acknowledge, however, that teachers and practitioners do not always feel equipped to meet the wide range of SEN. It is particularly important that mainstream schools are able to draw on specialist support and advice so they are confident in offering high-quality education to all. The schools, colleges and early years settings in an area should work together to ensure that good practice is shared and that they have access to effective support and expertise in identifying and meeting particular needs (for example, sensory impairment, autism or behaviour support).

4.51 We have proposed significant changes to the way that mainstream schools are funded, as part of the separate consultation on the national funding formula for schools. To reflect pupils' additional needs, we have included deprivation and low prior attainment factors in the new funding formula. To some extent these will also reflect the extra costs that mainstream schools face in making provision for pupils with SEN and disabilities, and local authorities usually calculate each schools' notional SEN budget<sup>23</sup> to include

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<sup>22</sup> Department for Education and Education Funding Agency, '[Schools financial health and efficiency](#)', updated July 2016

<sup>23</sup> The notional SEN budget is an amount that local authorities are required to identify and include in their notification to each school of its total budget share, as calculated by the local funding formula. It is a notional amount: schools should use their total budget for all their pupils, including those with SEN, and the amount of the notional SEN budget is no substitute for schools' own assessment of how much they need to spend on their pupils with SEN.

some or all of the funding allocated through these factors in their local formula. We accept, however, that local authorities with a high proportion of mainstream places for those pupils with high needs will not need to resource as many high needs places elsewhere, and that this should be reflected in the local distribution of high needs funding.

4.52 As part of our further work to prepare for the 'hard' national funding formula for schools in 2019-20, we will therefore look carefully at:

- how, in the absence of a locally determined notional SEN budget, schools can be reassured that their resources, as determined both through the national funding formula and any local flexibility, are sufficient for making special provision for their pupils with SEN and disabilities, and in particular to meet the costs of additional support, up to £6,000 per annum, for those with high needs; and
- how local authorities are currently compensating mainstream schools which are particularly inclusive of children and young people with high needs. It may be feasible, as the Isos research report proposed, to publish more specific guidance about what local authorities can do to make sure that schools are appropriately funded if they take a disproportionate share of pupils with SEN and disabilities.

4.53 Similarly, in proceeding with the local flexibility proposed in paragraphs 4.15-16 above, we will provide more guidance on how that can reflect areas where the pattern of provision for children and young people with SEN and disabilities is weighted towards specialist places, rather than mainstream places.

### **Funding of special units and resourced provision**

4.54 In the first consultation we proposed changes to the funding of special units and resourced provision in mainstream schools. As set out in paragraphs 2.48-54 of chapter 2, we are intending to introduce this change from 2018-19, with a modification in response to concerns expressed during the consultation, and continue the new methodology into the arrangements for subsequent years.

### **Special school funding**

4.55 Special schools educate pupils for whom mainstream education is not appropriate. We indicated in the first consultation that we are not proposing to make any substantive changes to the way they are funded. As now, all except independent special schools (see paragraph 4.64 below) will continue to receive place funding at £10,000 per place, with the rest of their budgets made up from local authorities' top-up funding in respect of individual children and young people occupying the places.

4.56 As in the allocations process for 2017-18, we will expect local authorities to agree with all the special schools located in their area how many places should be funded in each school, based on the number of pupils already in the school who will still need

places, and any changes envisaged as a result of the commissioning plans of the local authority and any neighbouring authorities.

4.57 The Education Funding Agency (EFA) will continue to have a process by which local authorities provide information about those places to be funded in special academies, with arrangements for settling disputed place numbers. The funding for those places will then be deducted from local authorities' high needs allocations before the dedicated schools grant (DSG) is finalised at the end of March, and paid by the EFA to the special academies directly. More information about how this process will operate leading up to the 2018-19 DSG allocations will be provided in the autumn of 2017.

### **Special free schools**

4.58 To help local authorities manage the demand for more SEN places, the department has increased the high needs funding block within their DSG allocations in each year since 2013, when the new high needs funding system was introduced.

4.59 Despite these increases there have been no recoupment deductions made for extra SEN places in special free schools. Instead, special free schools have been funded for their places directly by the department, with funding outside the DSG. New free schools receive funding based on estimates of the places needed for their pupils in order to give them sufficient funding when they open. The EFA collects data from special free schools and looks at school census data to decide on appropriate levels of place funding for subsequent years. In the 2016/17 academic year, special free schools' place funding amounted to just under £13 million<sup>24</sup>. None of this is recouped from local authorities, even though the number of pupils at a special free school depends mainly on local authorities' placement decisions.

4.60 Currently, special free schools are only established with the support of local authorities prepared to commission places as part of the evidence of demand for the new SEN places that will be created. Furthermore, local authorities have recently been asked to express interest in establishing new special free schools, where they are needed to expand the specialist provision available locally.

4.61 In the context of the implementation of a distribution of high needs funding according to a national formula which recognises any increase in the number of pupils in special schools and academies, we are considering carefully how the place funding for special free schools should work in future. There is certainly a case for arrangements that more closely align the funding of special free schools both with the funding of special academies, and with local authorities' strategic role in organising and securing suitable provision for children and young people with SEN and disabilities in their area.

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<sup>24</sup> Education Funding Agency, '[High needs: allocated place numbers](#)', updated December 2016

4.62 We will consult next year on detailed proposals for changes to the source of special free schools' place funding from 2018-19, and on how that would work with the high needs national funding formula baselines, factors, methodology and distribution. In the meantime, not least because they will need to bear the cost of special free schools' top-up funding from their high needs budgets, local authorities should take into account in the review and planning of special provision in their area, the cost of provision in these special schools.

### **Non-maintained and independent special schools**

4.63 We are intending to continue the arrangements established last year, that the place funding of £10,000 per place for non-maintained special schools should be determined and allocated by the EFA on the basis of pupil number data collected directly from schools, rather than as a result of a separate data collection from local authorities. We have decided on this approach because this type of special school typically serves a larger number of local authorities than other types of special school, and we wanted to keep the data collection and collation exercise as simple as possible.

4.64 As indicated in chapter 2, we are not proposing at this stage to incorporate independent special schools into the arrangements for place and top-up funding. Local authorities will remain responsible for funding the full costs of placements in independent schools, subject to the school being named in an EHC plan.

### **Changes to SEN and disability funding for colleges and other FE institutions**

4.65 In the first consultation we set out how high needs funding for post-16 institutions might change in future and undertook to consult further on specific proposals, once further work had been done to look at the impact. We suggested two changes:

- a. to pay the place funding for special post-16 institutions on the basis of a flat rate of £10,000 per place, so that it is consistent with what special schools get<sup>25</sup>; and
- b. to distribute the high needs place funding in mainstream provision (currently paid at £6,000 per place) through the main post-16 national funding formula, with adjustments to the factors in that formula, except in the case of schools and colleges with a special unit designated by the local authority, and FE institutions with 10 or more places<sup>26</sup>.

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<sup>25</sup> Currently special post-16 institutions receive funding through the post-16 national funding formula, consisting of a basic entitlement (full-time) of £4,000 per annum, and funding for disadvantaged students (on the basis of their prior attainment in English and maths and a measure of deprivation), plus funding of £6,000 per annum for the number of high needs places.

<sup>26</sup> Currently all post-16 provision for students with high needs is funded through the arrangements described in footnote 25 above: funding through the post-16 national funding formula and funding for a number of high needs places at £6,000 per place.

4.66 We have done some further work on this and discussed the implications of the changes with a number of organisations representing different providers. Although they have not considered the changes to be particularly problematic for the majority of general FE and specialist colleges, we want to take time to get this right and carry out some further analysis.

4.67 In addition, since we first consulted:

- a. The area reviews of FE are resulting in a number of college mergers and rationalisation of provision. We need to make sure these can be reflected in modified funding arrangements without disrupting the flow of funding to the new institutions.
- b. The EFA and Skills Funding Agency are working more closely together, under the umbrella of a single government department, and this will provide an opportunity to consider whether there is a better approach to the funding of 19-25 year olds, for whom the existence of an EHC plan determines the source of funding available to the student and the type of study programme they are on. Furthermore, some local authorities are having difficulties in promptly transferring students previously subject to a learning difficulty assessment on to the new EHC plans, and this has highlighted more issues with this dual funding system that need to be addressed.
- c. And finally, the government has published its post-16 skills plan, accepting the recommendations made by the Independent Panel on Technical Education, headed by Lord Sainsbury. We want to better understand the impact of these recommendations before proceeding with further changes to high needs funding for post-16 institutions.

4.68 Taking these developments into account, we want to reflect further before making specific proposals. We will therefore consult later with the post-16 sector on any changes to be brought in from the 2018/19 academic year.

### **Question 8**

Are there further considerations we should be taking into account about the proposed high needs national funding formula?

### **Question 9**

Is there any evidence relating to the eight protected characteristics as identified in the Equality Act 2010 that is not included in the Equalities Analysis Impact Assessment and that we should take into account?

## Chapter 5: Looking ahead – what happens next

5.1 We think it is important for local authorities and schools to have sight of the changes we will be making to the funding system, and to understand when they will get new information about how they will be implemented.

### Process for setting 2018-19 allocations

5.2 Final 2017-18 dedicated schools grant (DSG) allocations to local authorities, including high needs funding, are being published in December 2016. As part of this consultation, authorities are also being notified of allocations of the high needs strategic planning fund, which will be paid in January 2017.

5.3 The consultations on the national funding formulae for high needs and schools will run until 22 March 2017.

5.4 During this time we expect local authorities to start their strategic reviews and planning of special and other high needs provision, if they have not already started or completed such activity. In early 2017 we will also notify local authorities of special provision capital funding allocations.

5.5 The department will undertake further consultations on high needs funding changes for special free schools and post-16 providers and will carry out a further baseline exercise with local authorities, which will include collecting information about budget movements between the high needs and schools funding blocks.

5.6 Following these consultations and the baseline exercise, the department will finalise the national funding formula for high needs and announce allocations for 2018-19 in the summer.

### Research into outcomes, benefits and costs of high needs provision

5.7 As indicated in paragraph 3.37 above, we intend to make better use of research to help to inform our planned review of the high needs national funding formula, and to inform local authorities and schools as they consider how to develop future provision to achieve the greatest impact on the lives of vulnerable children and young people. We are exploring how best to do this through existing ongoing research in the short term, and commissioned external research in the longer term. Such research would aim to:

- a. investigate the complex relationship between costs, provision and outcomes for children and young people with special educational needs (SEN) and disabilities;
- b. recommend any consequential changes to the high needs funding formula that could be included in the department's formula review, including the use of more appropriate formula factors; and

- c. consider whether more needs to be done to protect and fund national and regional centres of specialist provision and expertise, including provision for those with the most complex needs.



Department  
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Reference: DFE-00363-2016



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**NFF consultation: summary of illustrative NFF allocations for LAs (schools block, high needs block and central school services block)**

KEY:	Baseline Funding	Illustrative NFF funding	Illustrative NFF year 1	Explanation
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This table shows illustrative LA funding for the schools block, high needs block and central school services block, based on the proposed NFF.

This table explains:

- **baseline funding** for each block based on planned patterns of spend as reported by LAs following the 2016-17 baselines exercise and historic commitments exercise (technical adjustments and data sources are explained in more detail in the step-by-step guides and technical notes, and (for the schools block) through COLLECT)
- illustrative funding if the **NFFs were implemented in full in 2016-17 and without any transitional protections**, and percentage change from the LA's baseline
- illustrative funding in the **first year of transition towards the NFF**, and percentage change from the LA's baseline

The following sheets provide a summary of each block individually.

Region (alphabetical order)	LA number	LA name (alphabetical order within region)	These columns show the LA baselines against which illustrative NFF funding is				These columns show illustrative NFF funding at LA level if the formulae were fully implemented in					These columns show illustrative NFF allocations in the first year of transition for each of the				
			Baselines				Illustrative NFF allocations if formulae were fully implemented in 2016-17					Illustrative NFF funding in first year of transition				
			Schools block baseline	High needs block baseline	Central school services block baseline (Excludes funding for historic commitments)	LA total baseline for schools, high needs and central school services blocks (Excludes funding for historic commitments)	Illustrative NFF schools block	Illustrative NFF high needs block	Illustrative NFF central school services block (Excludes funding for historic commitments)	Illustrative NFF allocations for the schools, high needs and central school services blocks (Excludes funding for historic commitments)	Percenta ge change if NFF fully imple mented	Illustrative NFF year 1 schools block	Illustrative NFF year 1 high needs block	Illustrative NFF year 1 central school services block (Excludes funding for historic commitments)	Illustrative NFF year 1 allocations for schools, high needs and central school services blocks (Excludes funding for historic commitments)	Percenta ge change in NFF year 1
			[a]	[b]	[c]	[d]	[e]	[f]	[g]	[h]	[i]	[j]	[k]	[l]	[m]	[n]
			= schools block table column [f]	= high needs block table column [c]	= central school services block table column [a]	= [a] + [b] + [c]	= schools block table column [k]	= high needs block table column [d]	= central school services block table column [g]	= [e] + [f] + [g]	= ([h] / [d]) - 1	= schools block table column [j]	= high needs block table column [i]	= central school services block table column [l]	= [j] + [k] + [l]	= ([m] / [d]) - 1
		<b>England total</b>	<b>£31,771,884,733</b>	<b>£5,602,199,173</b>	<b>£233,012,283</b>	<b>£37,607,096,189</b>	<b>£32,116,547,912</b>	<b>£5,792,243,453</b>	<b>£233,012,283</b>	<b>£38,141,803,648</b>	<b>1.4%</b>	<b>£31,955,901,680</b>	<b>£5,667,950,676</b>	<b>£233,012,283</b>	<b>£37,856,864,639</b>	<b>0.7%</b>
EAST MIDLANDS	831	Derby	£153,858,424	£33,523,318	£1,011,954	£188,393,697	£167,043,931	£33,523,318	£1,181,611	£201,748,860	7.1%	£158,011,735	£33,523,318	£1,036,706	£192,571,760	2.2%
EAST MIDLANDS	830	Derbyshire	£413,604,517	£67,101,868	£2,362,418	£483,068,803	£424,124,598	£67,101,868	£3,007,405	£494,233,871	2.3%	£417,574,472	£67,101,868	£2,420,202	£487,096,542	0.8%
EAST MIDLANDS	856	Leicester	£218,163,716	£46,687,826	£1,649,298	£266,500,840	£226,858,955	£46,687,826	£1,577,932	£275,124,713	3.2%	£221,830,615	£46,687,826	£1,608,066	£270,126,506	1.4%
EAST MIDLANDS	855	Leicestershire	£359,619,978	£60,902,086	£2,241,198	£422,763,262	£368,795,694	£60,902,086	£2,670,712	£432,368,493	2.3%	£364,660,212	£60,902,086	£2,296,017	£427,858,315	1.2%
EAST MIDLANDS	925	Lincolnshire	£384,383,500	£74,201,713	£3,113,112	£461,698,325	£400,681,098	£74,201,713	£2,874,771	£477,757,582	3.5%	£393,059,536	£74,201,713	£3,035,285	£470,296,533	1.9%
EAST MIDLANDS	928	Northamptonshire	£426,752,864	£63,065,407	£3,063,825	£492,882,096	£436,089,750	£63,065,407	£3,170,899	£507,770,219	3.0%	£432,005,649	£64,742,993	£3,138,766	£499,887,408	1.4%
EAST MIDLANDS	892	Nottingham	£192,966,805	£28,588,623	£1,661,622	£223,217,050	£188,200,131	£34,447,749	£1,292,256	£223,940,136	0.3%	£190,582,938	£29,356,612	£1,620,082	£221,559,631	-0.7%
EAST MIDLANDS	891	Nottinghamshire	£443,281,952	£58,860,000	£3,146,685	£505,288,637	£446,852,249	£64,422,011	£3,250,926	£514,525,186	1.8%	£445,634,579	£60,532,467	£3,223,652	£509,390,698	0.8%
EAST MIDLANDS	857	Rutland	£22,551,640	£3,644,309	£178,765	£26,374,714	£22,318,470	£3,644,309	£159,942	£26,122,721	-1.0%	£22,455,675	£3,644,309	£174,296	£26,274,280	-0.4%
EAST OF ENGLAND	822	Bedford	£100,585,808	£20,484,953	£1,039,024	£122,109,785	£106,913,007	£21,484,953	£786,072	£128,184,033	5.0%	£102,724,370	£20,484,953	£1,013,048	£124,222,371	1.7%
EAST OF ENGLAND	873	Cambridgeshire	£319,022,647	£62,291,372	£2,041,284	£383,355,303	£325,317,847	£62,291,372	£2,457,781	£390,067,000	1.1%	£323,478,786	£62,291,372	£2,091,273	£387,861,371	1.2%
EAST OF ENGLAND	823	Central Bedfordshire	£157,290,451	£26,231,400	£1,126,090	£184,647,941	£159,235,974	£26,231,400	£1,172,538	£186,639,872	1.1%	£158,084,355	£26,231,400	£1,133,311	£185,469,389	0.4%
EAST OF ENGLAND	881	Essex	£790,890,883	£125,867,440	£7,010,653	£923,768,976	£811,615,538	£125,867,440	£9,942,469	£911,558,026	2.5%	£802,860,157	£129,349,841	£6,835,387	£939,045,385	1.7%
EAST OF ENGLAND	919	Hertfordshire	£703,406,021	£99,669,943	£4,912,816	£807,988,779	£706,711,877	£105,004,168	£5,371,172	£811,087,216	1.1%	£705,826,248	£102,301,376	£5,032,982	£813,161,606	0.6%
EAST OF ENGLAND	821	Luton	£167,249,617	£24,633,405	£1,161,770	£193,044,752	£163,134,940	£25,616,261	£1,181,885	£189,941,086	-1.6%	£165,010,883	£25,538,514	£1,189,885	£191,539,282	-0.8%
EAST OF ENGLAND	926	Norfolk	£454,224,094	£72,943,918	£2,488,276	£529,656,288	£458,969,888	£74,793,119	£3,210,368	£536,973,675	1.4%	£457,785,679	£74,793,119	£2,549,139	£535,128,137	1.0%
EAST OF ENGLAND	874	Peterborough	£142,124,136	£26,568,596	£1,108,033	£169,800,768	£145,909,032	£26,568,596	£1,060,302	£173,537,929	2.2%	£144,409,705	£26,568,596	£1,080,335	£172,055,634	1.3%
EAST OF ENGLAND	882	Southend-on-Sea	£113,046,001	£17,116,066	£90,419	£130,965,526	£110,171,612	£18,644,782	£800,641	£129,616,035	-1.0%	£11,524,178	£17,552,834	£800,641	£129,877,653	-0.8%
EAST OF ENGLAND	935	Suffolk	£382,734,554	£52,306,507	£1,032,421	£437,133,482	£393,135,415	£58,405,594	£2,810,280	£454,351,289	1.9%	£390,091,749	£53,751,767	£2,143,601	£445,987,117	2.0%
EAST OF ENGLAND	883	Thurrock	£106,846,058	£20,591,479	£800,103	£128,340,570	£109,021,821	£20,694,409	£828,775	£130,561,723	1.7%	£108,110,697	£20,694,409	£819,673	£129,624,779	1.0%
INNER LONDON	202	Camden	£115,975,949	£21,210,685	£685,780	£148,893,414	£127,818,354	£21,210,685	£803,004	£145,803,343	-2.1%	£114,363,008	£23,231,685	£702,554	£147,297,247	-1.1%
INNER LONDON	204	Hackney	£190,649,172	£40,644,302	£1,187,897	£232,481,371	£165,346,584	£40,644,302	£1,255,407	£167,246,293	-2.3%	£187,993,068	£40,644,302	£1,216,953	£229,854,323	-1.1%
INNER LONDON	205	Hammersmith and Fulham	£98,477,929	£19,642,000	£1,125,908	£119,245,838	£95,804,718	£20,277,437	£677,375	£116,759,530	-2.1%	£97,146,161	£20,117,668	£1,097,761	£118,361,589	-0.7%
INNER LONDON	309	Haringey	£187,220,647	£35,032,063	£833,833	£223,086,543	£182,077,520	£35,032,063	£1,193,921	£218,303,504	-2.1%	£184,632,859	£35,032,063	£854,229	£220,519,150	-1.2%
INNER LONDON	206	Islington	£124,861,024	£26,225,988	£959,227	£152,046,238	£122,977,834	£26,496,763	£931,017	£150,405,615	-1.1%	£123,594,520	£26,496,763	£935,246	£151,026,529	-0.7%
INNER LONDON	207	Kensington and Chelsea	£62,733,873	£15,451,464	£375,552	£78,560,888	£61,124,638	£15,451,464	£453,813	£77,029,914	-1.9%	£61,893,952	£15,451,464	£384,737	£77,730,153	-1.1%
INNER LONDON	208	Lambeth	£205,680,557	£38,905,575	£986,267	£245,572,400	£200,004,404	£38,905,575	£1,368,817	£240,278,796	-2.2%	£202,820,083	£38,905,575	£1,010,391	£242,736,050	-1.2%
INNER LONDON	209	Lewisham	£208,764,476	£48,651,975	£1,424,454	£258,840,905	£203,006,261	£48,651,975	£1,512,596	£253,170,831	-2.2%	£205,870,018	£48,651,975	£1,459,296	£255,981,289	-1.1%
INNER LONDON	316	Newham	£312,134,231	£44,817,231	£1,858,529	£358,809,991	£304,072,984	£44,817,888	£1,944,831	£350,835,704	-2.2%	£307,884,926	£44,817,888	£1,903,988	£354,606,802	-1.2%
INNER LONDON	210	Southwark	£179,952,675	£43,673,242	£1,729,458	£225,355,375	£175,082,914	£43,673,242	£1,508,165	£220,264,321	-2.3%	£177,511,529	£43,673,242	£1,686,222	£222,870,993	-1.1%
INNER LONDON	211	Tower Hamlets	£248,220,395	£43,105,294	£1,365,888	£292,691,577	£241,463,981	£44,995,712	£1,618,129	£288,077,822	-1.6%	£244,858,797	£44,312,692	£1,399,297	£290,570,786	-0.7%
INNER LONDON	212	Wandsworth	£144,076,414	£40,656,096	£970,908	£185,703,418	£141,952,898	£40,656,096	£1,096,424	£183,705,418	-1.1%	£143,106,249	£40,656,096	£994,656	£184,757,001	-0.5%
INNER LONDON	213	Westminster	£107,555,772	£23,499,351	£982,575	£132,037,699	£108,316,874	£23,639,675	£806,179	£132,762,728	0.5%	£108,087,299	£23,639,675	£958,011	£132,684,985	0.5%
NORTH EAST	841	Darlington	£62,576,414	£11,585,329	£463,631	£74,625,374	£63,212,004	£11,585,329	£469,002	£75,266,335	0.9%	£62,986,923	£11,585,329	£469,002	£75,041,255	0.6%
NORTH EAST	840	Durham	£286,796,608	£47,798,419	£2,211,191	£336,806,217	£289,919,324	£47,798,419	£2,554,584	£342,633,499	1.7%	£288,104,792	£49,057,900	£2,155,911	£339,318,603	0.7%
NORTH EAST	390	Gateshead	£104,670,087	£21,181,349	£750,959	£126,602,395	£106,786,067	£21,181,349	£756,505	£128,723,920	1.7%	£106,439,648	£21,181,349	£756,505	£128,377,502	1.4%
NORTH EAST	805	Hartlepool	£61,102,913	£10,014,093	£448,624	£71,565,629	£60,229,688	£10,408,586	£439,466	£71,077,740	-0.7%	£60,602,630	£10,291,808	£439,466	£71,333,905	-0.3%
NORTH EAST	806	Middlesbrough	£94,953,197	£21,349,887	£713,388	£117,016,472	£94,704,079	£21,772,181	£675,684	£117,151,943	0.1%	£95,071,051	£21,772,181	£695,553	£117,538,785	0.4%
NORTH EAST	391	Newcastle upon Tyne	£150,166,543	£34,349,130	£1,048,869	£185,564,543	£154,361,950	£34,575,724	£1,089,359	£190,027,033	2.4%	£151,826,314	£34,575,724	£1,074,525	£187,476,563	1.0%
NORTH EAST	392	North Tyneside	£112,769,766	£18,791,480	£747,545	£132,308,792	£113,408,178	£19,123,519	£822,279	£133,353,976	0.8%	£113,107,102	£19,123,519	£765,830	£132,996,451	0.5%
NORTH EAST	929	Northumberland	£173,538,595	£31,293,262	£1,312,747	£206,144,605	£175,614,220	£31,293,262	£1,225,524	£208,133,007	1.0%	£174,821,940	£31,293,262	£1,279,928	£207,395,131	0.6%
NORTH EAST	807	Redcar and Cleveland	£86,574,486	£15,584,888	£581,869	£102,741,243	£86,579,888	£15,584,888	£618,550	£102,783,32						

NORTH WEST	895	Cheshire East	£199,587,061	£31,992,565	£1,198,181	£232,777,806	£195,490,542	£31,992,565	£1,441,926	£228,925,033	-1.7%	£197,339,944	£31,992,565	£1,227,488	£230,559,997	-1.0%
NORTH WEST	896	Cheshire West and Chester	£190,116,855	£35,396,794	£1,883,210	£227,396,859	£185,885,392	£35,396,794	£1,349,492	£222,631,677	-2.1%	£187,722,655	£35,396,794	£1,836,130	£224,955,579	-1.1%
NORTH WEST	909	Cumbria	£274,355,637	£38,378,675	£2,128,402	£314,862,714	£278,900,455	£38,378,675	£1,886,989	£319,166,119	1.4%	£275,109,729	£38,378,675	£2,075,192	£315,563,596	0.2%
NORTH WEST	876	Halton	£81,467,536	£15,034,126	£426,088	£96,927,750	£83,279,715	£15,191,184	£589,474	£99,060,372	2.2%	£81,953,361	£15,191,184	£436,510	£97,581,055	0.7%
NORTH WEST	340	Knowsley	£84,152,547	£19,156,808	£617,082	£103,926,437	£88,906,052	£19,524,710	£606,315	£109,037,077	4.9%	£85,802,075	£19,524,710	£606,315	£105,933,100	1.9%
NORTH WEST	888	Lancashire	£697,340,313	£104,066,486	£4,485,438	£805,892,237	£697,074,696	£108,538,669	£4,932,998	£810,546,363	0.6%	£697,092,940	£106,860,281	£4,595,150	£808,548,372	0.3%
NORTH WEST	341	Liverpool	£287,264,978	£43,776,975	£1,789,792	£332,831,745	£284,170,582	£50,064,842	£1,950,689	£336,186,113	1.0%	£285,889,320	£44,929,519	£1,833,570	£332,652,409	-0.1%
NORTH WEST	352	Manchester	£366,364,518	£68,701,504	£2,965,251	£438,031,272	£356,717,194	£70,267,469	£2,474,442	£429,459,106	-2.0%	£361,380,378	£70,267,469	£2,891,119	£434,538,967	-0.8%
NORTH WEST	353	Oldham	£178,243,955	£26,795,269	£1,784,256	£206,823,480	£180,005,336	£26,818,144	£1,279,023	£210,506,470	1.8%	£179,884,431	£27,501,830	£1,739,650	£209,125,910	1.1%
NORTH WEST	354	Rochdale	£151,582,740	£20,655,261	£835,344	£173,073,344	£149,792,513	£23,280,831	£1,052,926	£174,342,697	0.7%	£150,897,000	£21,225,206	£855,776	£172,977,982	-0.1%
NORTH WEST	355	Salford	£147,426,101	£29,964,986	£784,733	£178,175,820	£151,309,074	£26,866,746	£1,047,466	£182,321,526	2.3%	£149,547,203	£29,964,986	£803,927	£180,316,116	1.2%
NORTH WEST	343	Sefton	£155,729,398	£25,626,172	£970,224	£182,325,794	£152,791,285	£25,534,509	£1,111,624	£179,544,790	-1.5%	£154,075,205	£25,641,881	£993,956	£180,711,042	-0.9%
NORTH WEST	342	St. Helens	£101,180,764	£18,022,808	£629,647	£119,833,219	£102,836,972	£18,364,006	£756,396	£121,957,374	1.8%	£102,268,153	£18,364,006	£645,048	£121,277,207	1.2%
NORTH WEST	356	Stockport	£155,663,137	£28,590,909	£1,191,854	£185,445,899	£156,991,367	£28,590,909	£1,181,575	£186,763,851	0.7%	£156,875,936	£28,590,909	£1,181,575	£186,648,420	0.6%
NORTH WEST	357	Tameside	£148,327,766	£18,220,112	£2,573,993	£169,847,724	£149,984,472	£19,863,252	£1,217,871	£172,241,741	1.8%	£149,471,546	£18,724,607	£2,509,643	£170,705,797	0.9%
NORTH WEST	358	Trafford	£143,420,369	£24,025,662	£1,531,997	£168,978,028	£142,898,065	£24,025,662	£1,068,392	£167,992,119	-0.6%	£143,380,230	£24,025,662	£1,493,697	£168,899,589	0.0%
NORTH WEST	877	Warrington	£121,824,791	£19,706,612	£1,037,339	£142,568,743	£122,585,369	£19,706,612	£911,113	£143,203,094	0.4%	£122,465,514	£19,706,612	£1,011,405	£143,183,531	0.4%
NORTH WEST	359	Wigan	£193,011,726	£26,627,727	£870,404	£220,509,857	£188,878,090	£28,717,263	£1,391,224	£218,986,576	-0.7%	£190,880,505	£27,353,581	£891,694	£219,125,780	-0.6%
NORTH WEST	344	Wirral	£189,223,963	£33,225,003	£1,056,228	£223,505,194	£188,227,643	£34,917,315	£1,385,952	£224,530,910	0.5%	£188,988,401	£34,086,313	£1,082,063	£224,156,777	0.3%
OUTER LONDON	301	Barking and Dagenham	£195,491,012	£25,673,308	£1,357,346	£222,521,666	£195,285,032	£30,352,944	£1,308,007	£226,945,983	2.0%	£195,570,154	£26,387,000	£1,323,412	£223,280,567	0.3%
OUTER LONDON	302	Barnet	£228,484,349	£46,101,071	£1,423,362	£276,008,783	£226,096,119	£46,101,071	£1,719,249	£273,916,439	-0.8%	£227,738,336	£46,101,071	£1,458,178	£275,297,586	-0.3%
OUTER LONDON	303	Bexley	£171,605,854	£30,465,880	£946,720	£203,018,454	£173,394,114	£30,465,880	£1,293,116	£205,153,110	1.1%	£173,121,952	£30,465,880	£969,877	£204,557,708	0.8%
OUTER LONDON	304	Brent	£225,207,821	£52,170,130	£1,148,098	£278,526,049	£220,977,724	£52,170,130	£1,514,026	£274,620,880	-1.4%	£223,026,148	£52,170,130	£1,176,180	£276,372,458	-0.8%
OUTER LONDON	305	Bromley	£196,272,628	£43,398,865	£1,533,064	£241,204,557	£195,677,084	£43,398,865	£1,445,322	£240,521,270	-0.3%	£196,494,706	£43,398,865	£1,494,377	£241,388,308	0.1%
OUTER LONDON	306	Croydon	£225,111,292	£56,425,229	£3,070,323	£284,606,844	£237,641,353	£56,425,229	£1,765,312	£295,831,894	3.9%	£229,826,307	£56,425,229	£2,993,565	£289,245,101	1.6%
OUTER LONDON	307	Ealing	£219,801,468	£49,666,377	£2,166,219	£271,634,065	£224,940,617	£49,666,377	£1,624,951	£276,231,945	1.7%	£222,764,798	£49,666,377	£2,112,064	£274,543,239	1.1%
OUTER LONDON	308	Enfield	£247,234,058	£39,793,146	£1,954,668	£288,981,872	£253,529,742	£42,036,174	£1,786,975	£297,352,890	2.9%	£250,117,776	£40,933,427	£1,905,801	£292,957,004	1.4%
OUTER LONDON	203	Greenwich	£194,771,354	£43,730,103	£1,276,692	£239,778,149	£190,331,222	£43,730,103	£1,441,152	£235,502,477	-1.8%	£192,572,240	£43,730,103	£1,307,920	£237,610,263	-0.9%
OUTER LONDON	310	Harrow	£145,612,133	£30,233,598	£1,170,239	£177,015,970	£144,553,466	£30,233,598	£1,112,839	£175,899,903	-0.6%	£145,135,886	£30,233,598	£1,140,983	£176,510,467	-0.3%
OUTER LONDON	311	Havering	£165,854,358	£21,461,236	£1,375,762	£188,691,356	£166,925,762	£23,215,369	£1,212,455	£191,353,585	1.4%	£166,761,750	£22,067,638	£1,341,368	£190,170,756	0.8%
OUTER LONDON	312	Hillingdon	£200,496,732	£33,352,311	£1,213,167	£235,062,210	£205,637,792	£34,362,910	£1,537,432	£241,538,134	2.8%	£223,026,148	£34,278,000	£1,242,841	£239,394,412	1.8%
OUTER LONDON	313	Hounslow	£170,713,190	£41,355,331	£1,296,712	£213,365,234	£171,171,966	£41,355,331	£1,290,013	£213,817,311	0.2%	£171,304,710	£41,355,331	£1,290,013	£213,950,055	0.3%
OUTER LONDON	314	Kingston upon Thames	£92,779,646	£17,575,405	£776,667	£111,131,718	£93,746,511	£17,575,405	£721,823	£112,043,738	0.8%	£93,355,299	£17,575,405	£757,251	£111,767,954	0.6%
OUTER LONDON	315	Merton	£114,451,646	£31,105,465	£803,835	£146,360,946	£119,404,216	£31,105,465	£866,126	£151,375,807	3.4%	£116,713,881	£31,105,465	£823,496	£148,642,842	1.6%
OUTER LONDON	317	Redbridge	£201,600,371	£40,006,914	£2,094,142	£243,701,427	£209,859,805	£40,006,914	£1,576,646	£251,443,366	3.2%	£205,890,859	£40,006,914	£2,041,788	£247,939,561	1.7%
OUTER LONDON	318	Richmond upon Thames	£99,454,511	£22,700,302	£717,475	£122,872,289	£100,655,692	£22,700,302	£817,602	£124,173,596	1.1%	£100,217,199	£22,700,302	£735,025	£123,652,526	0.6%
OUTER LONDON	319	Sutton	£137,998,872	£32,653,263	£1,166,893	£171,819,028	£140,600,481	£32,653,263	£1,060,207	£174,313,952	1.5%	£139,639,097	£32,653,263	£1,137,720	£173,430,081	0.9%
OUTER LONDON	320	Waltham Forest	£196,074,695	£34,306,694	£1,569,811	£231,951,200	£192,056,133	£35,038,208	£1,329,129	£228,423,469	-1.5%	£193,856,090	£35,038,208	£1,530,566	£230,424,863	-0.7%
SOUTH EAST	867	Bracknell Forest	£63,798,860	£15,185,356	£643,176	£79,627,392	£67,038,916	£15,185,356	£531,315	£82,755,587	3.9%	£65,231,834	£15,185,356	£627,096	£81,044,287	1.8%
SOUTH EAST	846	Brighton and Hove	£129,265,267	£24,072,248	£998,882	£154,336,398	£128,902,044	£24,072,248	£945,736	£153,920,028	-0.3%	£129,361,218	£24,072,248	£973,910	£154,407,376	0.0%
SOUTH EAST	825	Buckinghamshire	£288,501,119	£74,003,681	£3,630,701	£366,135,502	£298,480,184	£74,003,681	£2,322,754	£374,806,609	2.4%	£294,728,730	£74,003,681	£3,539,934	£372,272,345	1.7%
SOUTH EAST	845	East Sussex	£262,007,533	£44,638,064	£1,595,055	£308,240,653	£268,529,136	£46,064,056	£1,943,896	£316,537,088	2.7%	£265,984,902	£45,877,283	£1,634,070	£313,496,255	1.7%
SOUTH EAST	850	Hampshire	£699,293,055	£97,846,721	£4,586,842	£801,726,618	£703,826,225	£106,852,618	£5,332,140	£816,010,984	1.8%	£703,956,333	£100,402,270	£4,699,035	£809,057,638	0.9%
SOUTH EAST	921	Isle of Wight	£66,892,740	£13,983,670	£596,455	£81,472,865	£67,781,727	£13,983,670	£510,550	£82,275,947	1.0%	£67,693,545	£13,983,670	£581,544	£82,258,759	1.0%
SOUTH EAST	886	Kent	£823,029,471	£182,454,260	£6,838,302	£1,012,322,033	£852,575,679	£182,454,260	£6,274,319	£1,041,304,258	2.9%	£835,964,868	£182,454,260	£6,667,344	£1,025,086,472	1.3%
SOUTH EAST	887	Medway	£163,239,678	£34,884,703	£1,033,088	£199,157,469	£167,656,349	£34,884,703	£1,222,041	£203,763,093	2.3%	£165,754,197	£34,884,703	£1,058,357	£201,697,257	1.3%
SOUTH EAST	826	Milton Keynes	£173,694,872	£35,775,040	£1,597,682	£211,067,594	£181,111,010	£35,775,040	£1,355,471	£218,241,522	3.4%	£177,512,397	£35,775,040	£1,557,740	£214,845,177	1.8%
SOUTH EAST	931	Oxfordshire	£342,530,445	£56,850,853	£2,470,308	£401,851,607	£347,095,128	£57,988,686	£2,656,866	£407,740,680	1.5%	£345,612,328	£57,988,686	£2,530,732	£406,131,746	1.1%
SOUTH EAST	851	Portsmouth	£107,103,766	£17,821,151	£768,643	£125,693,559	£108,434,207	£20,714,902	£810,911	£129,960,020	3.4%	£108,292,878	£18,271,991	£787,443	£127,352,313	1.3%
SOUTH EAST	870	Reading	£78,767,051	£17,281,088	£646,368	£96,694,507	£80,920,088	£17,281,088	£635,937	£98,837,114	2.2%	£79,814,233	£17,281,088	£635,937	£97,731,259	1.1%
SOUTH EAST	871	Slough	£114,080,433	£20,572,176	£681,437	£135,334,045	£111,502,172	£20,572,176	£867,756	£132,942,104	-1.8%	£112,753,202	£20,572,176	£698,105	£134,023,483	-1.0%
SOUTH EAST	852	Southampton	£131,368,484	£21,811,054	£993,631	£154,173,169	£133,006,246	£23,559,298	£987,398	£157,552,941	2.2%	£132,472,868	£22,391,164	£987,398	£155,851,430	1.1%
SOUTH EAST	936	Surrey	£57													

YORKSHIRE AND THE HUMBER	381	Calderdale	£134,835,902	£17,077,545	£917,499	£152,830,945	£136,523,891	£18,731,942	£1,008,196	£156,264,029	2.2%	£136,065,237	£17,555,002	£939,941	£154,560,180	1.1%
YORKSHIRE AND THE HUMBER	371	Doncaster	£184,633,173	£28,343,435	£1,260,520	£214,237,128	£187,909,431	£30,346,383	£1,335,399	£219,591,213	2.5%	£186,167,067	£29,129,358	£1,291,352	£216,587,777	1.1%
YORKSHIRE AND THE HUMBER	811	East Riding of Yorkshire	£173,769,552	£20,198,000	£1,590,896	£195,558,447	£178,950,068	£22,316,895	£1,271,470	£202,538,434	3.6%	£177,294,087	£20,773,460	£1,551,123	£199,618,670	2.1%
YORKSHIRE AND THE HUMBER	810	Kingston upon Hull City of	£156,974,744	£26,500,000	£1,584,256	£185,058,999	£161,660,671	£29,137,951	£1,143,262	£191,941,885	3.7%	£159,251,322	£27,211,360	£1,544,649	£188,007,331	1.6%
YORKSHIRE AND THE HUMBER	382	Kirklees	£278,480,273	£32,611,496	£2,065,735	£313,157,504	£272,092,202	£38,573,597	£1,922,201	£312,588,001	-0.2%	£275,127,364	£33,508,040	£2,014,091	£310,649,495	-0.8%
YORKSHIRE AND THE HUMBER	383	Leeds	£454,735,082	£59,961,057	£3,272,162	£517,968,301	£467,375,915	£68,801,432	£3,332,450	£539,509,796	4.2%	£461,497,989	£61,608,684	£3,332,450	£526,439,123	1.6%
YORKSHIRE AND THE HUMBER	812	North East Lincolnshire	£98,588,822	£16,832,000	£779,713	£116,200,536	£97,383,023	£17,634,830	£695,764	£115,713,618	-0.4%	£98,122,908	£17,295,860	£760,221	£116,178,988	0.0%
YORKSHIRE AND THE HUMBER	813	North Lincolnshire	£99,181,582	£15,269,780	£501,124	£114,952,487	£100,456,807	£15,892,790	£714,166	£117,063,763	1.8%	£99,765,002	£15,691,814	£513,381	£115,970,197	0.9%
YORKSHIRE AND THE HUMBER	815	North Yorkshire	£320,406,144	£46,944,003	£2,561,703	£369,911,851	£327,851,698	£46,944,003	£2,238,131	£377,033,833	1.9%	£323,750,718	£46,944,003	£2,497,660	£373,192,382	0.9%
YORKSHIRE AND THE HUMBER	372	Rotherham	£183,989,271	£24,941,644	£816,262	£209,747,178	£183,343,934	£27,842,073	£1,251,405	£212,437,412	1.3%	£183,588,919	£25,606,433	£836,228	£210,031,580	0.1%
YORKSHIRE AND THE HUMBER	373	Sheffield	£304,260,173	£50,728,975	£1,973,675	£356,962,823	£318,398,655	£57,309,316	£2,235,760	£377,943,730	5.9%	£308,892,076	£52,086,625	£2,021,950	£363,000,652	1.7%
YORKSHIRE AND THE HUMBER	384	Wakefield	£204,081,198	£25,924,070	£1,320,266	£231,325,534	£200,715,748	£29,894,308	£1,437,264	£232,047,320	0.3%	£202,250,469	£26,628,522	£1,352,559	£230,231,551	-0.5%
YORKSHIRE AND THE HUMBER	816	York	£87,812,438	£17,557,833	£696,058	£106,066,329	£92,529,308	£17,557,833	£674,013	£110,761,153	4.4%	£89,954,562	£17,557,833	£678,656	£108,191,051	2.0%

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National funding formula consultation: Impact of the proposed schools NFF (all schools)

KEY:			Baseline Funding	Illustrative NFF funding	Illustrative NFF year 1	Explanation
School Name	Phase	Has data for this school been excluded, because it is a new school that is still filling in?	Baseline funding	Illustrative NFF funding if formula		Illustrative NFF funding in the
			Funding the school received in 2016-17 or 2016/17	Illustrative total NFF funding	Percentage change compared to baseline	Illustrative NFF year 1 funding
Alexandra Junior School	Primary	No	£1,058,000	£1,029,000	-2.7%	£1,043,000 -1.3%
Alexandra Infant School	Primary	No	£907,000	£883,000	-2.6%	£895,000 -1.3%
Balgowan Primary School	Primary	No	£2,452,000	£2,382,000	-2.9%	£2,417,000 -1.4%
Bromley Road Primary School	Primary	No	£968,000	£943,000	-2.6%	£956,000 -1.3%
Churchfields Primary School	Primary	No	£1,649,000	£1,605,000	-2.7%	£1,627,000 -1.4%
Hawes Down Junior School	Primary	No	£1,166,000	£1,135,000	-2.7%	£1,151,000 -1.3%
Hawes Down Infant School	Primary	No	£840,000	£818,000	-2.6%	£829,000 -1.3%
Harris Primary Academy Orpington	Primary	No	£1,859,000	£1,806,000	-2.8%	£1,832,000 -1.4%
Marian Vian Primary School	Primary	No	£2,470,000	£2,400,000	-2.9%	£2,435,000 -1.4%
Gray's Farm Primary Academy	Primary	No	£1,897,000	£1,844,000	-2.8%	£1,870,000 -1.4%
Oak Lodge Primary School	Primary	No	£2,319,000	£2,253,000	-2.8%	£2,286,000 -1.4%
Stewart Fleming Primary School	Primary	No	£1,897,000	£1,844,000	-2.8%	£1,870,000 -1.4%
Wickham Common Primary School	Primary	No	£1,602,000	£1,558,000	-2.8%	£1,580,000 -1.4%
Burnt Ash Primary School	Primary	No	£1,995,000	£1,939,000	-2.8%	£1,967,000 -1.4%
Harris Primary Academy Kent House	Primary	No	£1,887,000	£1,834,000	-2.8%	£1,861,000 -1.4%
Pickhurst Infant Academy	Primary	No	£1,466,000	£1,426,000	-2.8%	£1,446,000 -1.4%
Pickhurst Junior School	Primary	No	£1,934,000	£1,880,000	-2.8%	£1,907,000 -1.4%
Southborough Primary School	Primary	No	£1,833,000	£1,783,000	-2.8%	£1,808,000 -1.4%
Harris Primary Academy Crystal Palace	Primary	No	£1,828,000	£1,776,000	-2.8%	£1,802,000 -1.4%
Valley Primary School	Primary	No	£2,051,000	£1,993,000	-2.8%	£2,022,000 -1.4%
Red Hill Primary School	Primary	No	£2,812,000	£2,733,000	-2.8%	£2,772,000 -1.4%
St John's Church of England Primary School	Primary	No	£1,172,000	£1,141,000	-2.7%	£1,156,000 -1.3%
Mottingham Primary School	Primary	No	£2,082,000	£2,023,000	-2.8%	£2,052,000 -1.4%
Castlecombe Primary School	Primary	No	£1,057,000	£1,029,000	-2.7%	£1,043,000 -1.3%
Dorset Road Infant School	Primary	No	£438,000	£428,000	-2.2%	£433,000 -1.1%
Harris Primary Academy Beckenham	Primary	Yes				
Chelsfield Primary School	Primary	No	£533,000	£521,000	-2.3%	£527,000 -1.1%
Harris Primary Academy Shortlands	Primary	Yes				
La Fontaine Academy	Primary	Yes				
Crofton Infant School	Primary	No	£2,147,000	£2,087,000	-2.8%	£2,117,000 -1.4%
Darrick Wood Junior School	Primary	No	£1,532,000	£1,490,000	-2.7%	£1,511,000 -1.4%
Darrick Wood Infant School	Primary	No	£1,150,000	£1,119,000	-2.7%	£1,135,000 -1.3%
Downe Primary School	Primary	No	£468,000	£457,000	-2.2%	£462,000 -1.1%
Farnborough Primary School	Primary	No	£1,033,000	£1,006,000	-2.7%	£1,019,000 -1.3%
Green Street Green Primary School	Primary	No	£1,687,000	£1,640,000	-2.8%	£1,664,000 -1.4%
Pratts Bottom Primary School	Primary	No	£446,000	£437,000	-2.2%	£442,000 -1.1%
The Highway Primary School	Primary	No	£965,000	£941,000	-2.5%	£953,000 -1.3%
Warren Road Primary School	Primary	No	£3,021,000	£2,934,000	-2.9%	£2,978,000 -1.4%
St. Mary Cray Primary Academy	Primary	No	£1,175,000	£1,144,000	-2.7%	£1,159,000 -1.3%
Trinity Church of England Primary School	Primary	No	£2,235,000	£2,171,000	-2.8%	£2,203,000 -1.4%
James Dixon Primary School	Primary	No	£2,205,000	£2,143,000	-2.8%	£2,174,000 -1.4%
Leasons Primary School	Primary	No	£1,302,000	£1,266,000	-2.7%	£1,284,000 -1.4%
Mead Road Infant School	Primary	No	£505,000	£494,000	-2.3%	£499,000 -1.1%
Midfield Primary School	Primary	No	£1,682,000	£1,635,000	-2.8%	£1,659,000 -1.4%
Worsley Bridge Primary School	Primary	No	£1,662,000	£1,615,000	-2.8%	£1,639,000 -1.4%
Edgebury Primary School	Primary	No	£940,000	£916,000	-2.6%	£928,000 -1.3%
Scotts Park Primary School	Primary	No	£2,104,000	£2,045,000	-2.8%	£2,074,000 -1.4%
Oaklands Primary Academy	Primary	No	£1,990,000	£1,934,000	-2.8%	£1,962,000 -1.4%
Clare House Primary School	Primary	No	£1,297,000	£1,263,000	-2.7%	£1,280,000 -1.3%
Perry Hall Primary School	Primary	No	£1,669,000	£1,623,000	-2.8%	£1,646,000 -1.4%
Poverest Primary School	Primary	No	£1,315,000	£1,280,000	-2.7%	£1,297,000 -1.3%
Bickley Primary School	Primary	No	£1,665,000	£1,620,000	-2.7%	£1,642,000 -1.4%
Manor Oak Primary School	Primary	No	£992,000	£966,000	-2.6%	£979,000 -1.3%
Keston Church of England Primary School	Primary	No	£1,021,000	£994,000	-2.7%	£1,007,000 -1.3%
Parish Church of England Primary School	Primary	No	£2,263,000	£2,198,000	-2.8%	£2,230,000 -1.4%
St George's, Bickley, Church of England Primary School	Primary	No	£1,547,000	£1,504,000	-2.7%	£1,526,000 -1.4%
Unicorn Primary School	Primary	No	£1,630,000	£1,585,000	-2.8%	£1,607,000 -1.4%
Cudham Church of England Primary School	Primary	No	£499,000	£488,000	-2.3%	£494,000 -1.1%
St Paul's Cray Church of England Primary School	Primary	No	£1,282,000	£1,248,000	-2.7%	£1,265,000 -1.3%
St Mark's Church of England Primary School	Primary	No	£1,741,000	£1,692,000	-2.8%	£1,716,000 -1.4%
Chislehurst Church of England Primary	Primary	No	£877,000	£854,000	-2.6%	£865,000 -1.3%
St Joseph's Catholic Primary School	Primary	No	£874,000	£851,000	-2.6%	£863,000 -1.3%
St Vincent's Catholic Primary School	Primary	No	£990,000	£963,000	-2.6%	£976,000 -1.3%
St Philomena's Primary School	Primary	No	£925,000	£901,000	-2.6%	£913,000 -1.3%
St Anthony's Roman Catholic Primary School	Primary	No	£975,000	£950,000	-2.6%	£963,000 -1.3%
St Peter and St Paul Catholic Primary School	Primary	No	£981,000	£955,000	-2.6%	£968,000 -1.3%
St James' Roman Catholic Primary School	Primary	No	£865,000	£843,000	-2.6%	£854,000 -1.3%
Blenheim Primary School	Primary	No	£1,115,000	£1,085,000	-2.6%	£1,100,000 -1.3%
Biggin Hill Primary School	Primary	No	£1,463,000	£1,422,000	-2.8%	£1,442,000 -1.4%
Harris Academy Beckenham	Secondary	No	£5,349,000	£5,305,000	-0.8%	£5,305,000 -0.8%
Harris Girls Academy Bromley	Secondary	No	£3,641,000	£3,827,000	5.1%	£3,747,000 2.9%
Bishop Justus CofE School	Secondary	No	£4,744,000	£4,922,000	3.8%	£4,883,000 2.9%
Crofton Junior School	Primary	No	£2,538,000	£2,466,000	-2.9%	£2,502,000 -1.4%
Holy Innocents Catholic Primary School	Primary	No	£910,000	£886,000	-2.6%	£898,000 -1.3%
St Mary's Catholic Primary School	Primary	No	£1,609,000	£1,564,000	-2.8%	£1,586,000 -1.4%
Highfield Infants' School	Primary	No	£1,101,000	£1,072,000	-2.7%	£1,087,000 -1.3%
Highfield Junior School	Primary	No	£1,396,000	£1,357,000	-2.7%	£1,376,000 -1.4%
Hayes Primary School	Primary	No	£2,398,000	£2,330,000	-2.9%	£2,364,000 -1.4%
Raglan Primary School	Primary	No	£1,707,000	£1,660,000	-2.8%	£1,683,000 -1.4%
Tubbenden Primary School	Primary	No	£2,465,000	£2,395,000	-2.9%	£2,430,000 -1.4%
Bullers Wood School	Secondary	No	£5,281,000	£5,386,000	2.0%	£5,386,000 2.0%
Coopers School	Secondary	No	£5,978,000	£6,244,000	4.4%	£6,154,000 2.9%
Langley Park School for Boys	Secondary	No	£5,206,000	£5,218,000	0.2%	£5,218,000 0.2%
Ravens Wood School	Secondary	No	£5,445,000	£5,552,000	2.0%	£5,552,000 2.0%
Newstead Wood School	Secondary	No	£3,445,000	£3,493,000	1.4%	£3,493,000 1.4%
Kemnal Technology College	Secondary	No	£2,867,000	£3,031,000	5.7%	£2,949,000 2.9%
Hayes School	Secondary	No	£5,710,000	£5,768,000	1.0%	£5,768,000 1.0%
Chislehurst School for Girls	Secondary	No	£4,927,000	£5,166,000	4.8%	£5,071,000 2.9%
Charles Darwin School	Secondary	No	£5,406,000	£5,557,000	2.8%	£5,557,000 2.8%
St Olave's and St Saviour's Grammar School	Secondary	No	£2,890,000	£2,916,000	0.9%	£2,916,000 0.9%
Langley Park School for Girls	Secondary	No	£5,666,000	£5,712,000	0.8%	£5,712,000 0.8%
The Ravensbourne School	Secondary	No	£5,867,000	£6,079,000	3.6%	£6,040,000 2.9%
Darrick Wood School	Secondary	No	£6,277,000	£6,347,000	1.1%	£6,347,000 1.1%
Harris Academy Orpington	Secondary	No	£4,817,000	£5,030,000	4.4%	£4,958,000 2.9%

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## Schools national funding formula –Questions

1. In designing our national funding formula, we have taken careful steps to balance the principles of fairness and stability. Do you think we have struck the right balance?
2. Do support our proposal to set the primary to secondary ratio in line with the current national average of 1:1.29, which means that pupils in the secondary phase are funded overall 29% higher than pupils in the primary phase?
3. Do you support our proposal to maximise pupil-led funding, so that more funding is allocated to factors that relate directly to pupils and their characteristics?
4. Within the total pupil-led funding, do you support our proposal to increase the proportion allocated to the additional needs factors (deprivation, low prior attainment and English as an additional language)?
5. Do you agree with the proposed weightings for each of the additional needs factors?
6. Do you have any suggestions about potential indicators and data sources we could use to allocate mobility funding in 2019-20 and beyond?
7. Do you agree with the proposed lump sum amount of £110,000 for all schools?
8. Do you agree with the proposed amounts for sparsity funding of up to £25,000 for primary schools and up to £65,000 for secondary, middle and all-through schools?
9. Do you agree that lagged pupil growth data would provide an effective basis for the growth factor in the longer term?
10. Do you agree with the principle of a funding floor that would protect schools from large overall reductions as a result of this formula? This would be in addition to the minimum funding guarantee.
11. Do you support our proposal to set the floor at minus 3%, which will mean that no school will lose more than 3% of their current per-pupil funding level as a result of this formula?
12. Do you agree that for new or growing schools the funding floor should be applied to the per-pupil funding they would have received if they were at full capacity?
13. Do you support our proposal to continue the minimum funding guarantee at minus 1.5% per pupil? This will mean that schools are protected against reductions of more than 1.5% per pupil per year.
14. Are there further considerations we should be taking into account about the proposed schools national funding formula?
15. Are there further considerations we should be taking into account about the impact of the proposed schools national funding formula?

**16. Do you agree that we should allocate 10% of funding through a deprivation factor in the central school services block?**

**17. Do you support our proposal to limit reductions on local authorities' central school services block funding to 2.5% per pupil in 2018-19 and in 2019-20?**

**18. Are there further considerations we should be taking into account about the proposed central school services block formula?**

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## High needs national funding formula – Questions

1. In designing our national funding formula, we have taken careful steps to balance the principles of fairness and stability. Do you think we have struck the right balance?
2. We are proposing a formula comprising a number of formula factors with different values and weightings. Do you agree with the following proposals?
3. We propose to use the following weightings for each of the formula factors listed below, adding up to 100%. Do you agree? • Population – 50% • Free school meals eligibility – 10% • IDACI – 10% • Key stage 2 low attainment – 7.5% • Key stage 4 low attainment – 7.5% • Children in bad health – 7.5% • Disability living allowance – 7.5%
4. Do you agree with the principle of protecting local authorities from reductions in funding as a result of this formula? This is referred to as a funding floor in this document.
5. Do you support our proposal to set the funding floor such that no local authority will see a reduction in funding, compared to their spending baseline?
6. Do you agree with our proposals to allow limited flexibility between schools and high needs budgets in 2018-19?
7. Do you have any suggestions about the level of flexibility we should allow between schools and high needs budgets in 2019-20 and beyond?
8. Are there further considerations we should be taking into account about the proposed high needs national funding formula?
9. Is there any evidence relating to the eight protected characteristics as identified in the Equality Act 2010 that is not included in the Equalities Analysis Impact Assessment and that we should take into account?

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### Schools national funding formula – draft response

#### 1. In designing our national funding formula, we have taken careful steps to balance the principles of fairness and stability. Do you think we have struck the right balance?

- 1.1 Following a positive policy shift since the first consultation, particularly with the introduction of additional funding and the 3% cap on overall funding reductions, the proposed national funding formula now strikes a better balance between fairness and stability. However, the delivery of a fairer system of school funding has been undermined by an inadequate level of overall funding.
- 1.2 Whilst the mechanics and financial impact of the new funding system are set out in detail, the government does not provide evidence that thousands of schools have the ability to maintain or improve performance levels with reduced cash budgets. This is a real concern for schools at a time when savings of 8 per cent are already required to meet wider cost pressures by 2019/20<sup>1</sup>.
- 1.3 Over 1,500 London schools are set to face funding cuts as a result of the funding formula, typically of 2 per cent or more. Additional funding for schools set to gain will not be sufficient to meet wider cost pressures. Neither fairness nor stability can be achieved under a redistributive model.
- 1.4 Our analysis of illustrative school-level allocations suggests that £335 million of additional funding – just 1 per cent of the schools block – could be used to protect all schools from a cash cut and enable gainers to reach their formula allocations sooner. London Councils believes that this relatively modest amount of additional investment is the fairest approach to delivering such a far-reaching reform, mirroring arrangements for the high needs national funding formula.
- 1.5 The proposed national funding formula is just one of several pressures on school budgets in London. As the National Audit Office identifies, reform of pension and national insurance contributions, the apprenticeship levy, pay rises, the national living wage and general inflation will all lead to additional costs for schools. London faces a particularly acute challenge around teacher recruitment and retention at all levels, which will only intensify if schools do not have the resources to attract the new teachers needed for a rapidly rising pupil population. These pressures will mean that schools will have to find significant savings from their budgets, which have already been reduced since 2010. This will make it difficult for schools to maintain standards, which poses a real threat to London's school improvement trajectory.
- 1.6 In addition to protecting schools from the impact of the funding formula, we believe that government has a broader responsibility to cushion schools against the impact of wider cost

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<sup>1</sup> *Financial Sustainability of Schools*, National Audit Office

pressures, particularly those that are a direct result of government policy such as the apprenticeship levy.

**2. Do you support our proposal to set the primary to secondary ratio in line with the current national average of 1:1.29, which means that pupils in the secondary phase are funded overall 29% higher than pupils in the primary phase?**

- 2.1 Illustrative allocations show that the primary / secondary ratio is a key driver of funding changes at individual school level. Whilst national guidance on the appropriate ratio has been in place for some time, the decision to set this ratio solely through a national average still creates a high degree of turbulence in some areas and for some smaller schools.
- 2.2 For the primary / secondary ratio and the formula more generally, funding would correspond more closely with need if the proposals were underpinned by a much stronger evidence base on school cost drivers. The formula often has the effect of rebalancing funding between different types of school within an area (e.g by phase, school size or selection policy), which can appear arbitrary or unfair at an individual school level when it is the result of an unsophisticated national average approach.

**3. Do you support our proposal to maximise pupil-led funding, so that more funding is allocated to factors that relate directly to pupils and their characteristics?**

- 3.1 Yes. Local authorities already aim to channel as much funding as possible through pupil-led factors locally, in line with national guidelines. Whilst this should continue under a national formula, it is equally important that schools with exceptional characteristics - such as split sites and PFI contracts - continue to be recognised fairly in the new funding system.

**4. Within the total pupil-led funding, do you support our proposal to increase the proportion allocated to the additional needs factors (deprivation, low prior attainment and English as an additional language)?**

- 4.1 Yes. We support the principle of channelling a higher level of funding through additional needs factors in comparison to the proportion of funding currently allocated through these factors locally.
- 4.2 As the consultation recognises, under the current system a local authority might not use a particular factor if data does not vary significantly between schools in its area. For example, if all schools have equally high rates of EAL, funding could be channelled through the base rate instead of the EAL factor. The weightings in local formulas are therefore likely to underestimate the extent to which additional needs drive actual costs.
- 4.3 Under the proposed funding system, there would be an inconsistency between deprivation funding within the formula and deprivation funding channelled through the pupil premium outside of the formula. Whilst deprivation factors based on free school meals (FSM) within the national funding formula will be area cost adjusted, the pupil premium grant based on the same criteria is currently distributed through a flat per pupil rate. London Councils believes that the pupil premium should be protected and adjusted for area costs, in line with other education funding streams.

## **5. Do you agree with the proposed weightings for each of the additional needs factors?**

- 5.1 English as an Additional Language data is currently the best available proxy for language proficiency, a key cost driver for many London schools. We agree that a more nuanced and direct measure of language proficiency would better align funding with need and support the ambition to move towards a system that uses data from the new school census question.
- 5.2 Updates to IDACI data will need to be managed carefully. Unlike the most recent update of IDACI data, local authorities will no longer be in a position to manage any turbulence once a 'hard' formula has been introduced. Similarly, the impact of the introduction of Universal Credit on the FSM will need to be recognised in the new formula.
- 5.3 The high weighting proposed for prior attainment nationally is likely to redistribute funding away from relatively high-performing areas such as London.
- 5.4 It is important that pupil premium funding continues to be allocated to disadvantaged pupils alongside the NFF. This funding provides vital additional support to children who do not have access to the educational advantages of their more-affluent peers.

## **6. Do you have any suggestions about potential indicators and data sources we could use to allocate mobility funding in 2019-20 and beyond?**

- 6.1 London Councils strongly supports the inclusion of mobility as a formula factor, in line with our first round consultation response. The decision to distribute mobility funding based on historic spend is a sensible interim measure, but we agree that a more sustainable methodology is required in the longer-term. Using a historic spend methodology, only 0.1% of funding will be channelled through the mobility factor, which is unlikely to capture the true cost of pupil mobility in London
- 6.2 London Councils commissioned the Education Datalab to produce detailed research into the impact of pupil mobility on London's schools. The report provides evidence of the higher levels of mobility in the capital and provides estimates of the per pupil costs of different types of mobility based on interviews with schools. Practical proposals for the design of a national funding formula factor, based on the national pupil database, are also outlined.
- 6.3 London Councils would therefore like to be involved in further discussions about how to design a pupil mobility factor that captures accurately the true cost of mobility to schools.

## **7. Do you agree with the proposed lump sum amount of £110,000 for all schools?**

- 7.1 Especially following the opening of a number of small free schools in London the financial viability of small schools is not just an issue in rural areas. Given the challenges around securing large sites for new schools in the capital, this is likely to become increasingly relevant at secondary level: 40 secondary schools with fewer than 750 pupils are located in London, representing a relatively proportionate 11 per cent share of the national total.

- 7.2 The proposed formula could be challenging for schools with a particular faith or community focus, some of which can be as small as 1 FE. The impact on these schools should be considered specifically as part of the equalities impact assessment.
- 7.2 To support school place planning, the revenue and capital funding systems should work together to encourage the creation of new schools that are of an efficient size and able to deliver a full curriculum. The level of the lump sum is an important part of this incentive, so clearer national guidance on the minimum size of a sustainable new school would be beneficial.

**8. Do you agree with the proposed amounts for sparsity funding of up to £25,000 for primary schools and up to £65,000 for secondary, middle and all-through schools?**

n/a

**9. Do you agree that lagged pupil growth data would provide an effective basis for the growth factor in the longer term?**

- 9.1 No. Unfunded pupil growth is a significant challenge in London and we do not agree that the proposal to use lagged pupil growth data is an effective solution.
- 9.2 Under the current system, pupils who enter new or expanded schools essentially receive no funding for the first seven months of the academic year (September to March). Pupil growth within the financial year can only be met by recycling existing funding, redirecting funding away from other schools in the area. London Councils analysis suggests that unfunded in-year growth currently costs the capital's education system around £50 million each year.
- 9.3 The cost of pupil growth will not be met by a system with a one year lag included. A fair funding system cannot allow the continuation of unfunded pupils and we believe that in-year contingency funding should be made available for any pupil growth that has not been forecast through the growth factor itself.
- 9.4 London Councils is predicting that the capital needs an additional 113,000 school places between 2015-2020 to cope with rising demand. This amounts to 78,275 places at primary level and 34,835 at secondary. This is the largest increase in demand for places in the country and will put incredible strain on the school system to create these new places.
- 9.5 Whilst we agree that ONS population forecasts are not suitable for the growth factor, we believe that school capacity survey (SCAP) data could be more promising. Since the department already uses this data for the distribution of basic need funding, it could also be used as part of the growth factor on the revenue side.

**10. Do you agree with the principle of a funding floor that would protect schools from large overall reductions as a result of this formula? This would be in addition to the minimum funding guarantee.**

- 10.1 Yes. We support the principle of a floor funded by additional investment. The decision to introduce a 'hard' formula creates a very high degree of volatility, with the impact of the

formula varying significantly between and within local authority areas. A permanent funding floor is therefore essential.

10.2 As the consultation recognises, schools in some areas would experience reductions of “over 10 per cent” without the inclusion of a funding floor. Whilst a permanent funding floor is necessary within the current overall schools budget, it will create challenges and distortions for both ‘winners’ and ‘losers’. For those schools that would experience the largest losses under the formula, the floor could lead to a prolonged and unmanageable funding freeze continuing into the next parliament – this would affect schools in London disproportionately unless there is a sustained investment of additional funding each year to raise all schools up to their final formula allocation more rapidly.

**11. Do you support our proposal to set the floor at minus 3%, which will mean that no school will lose more than 3% of their current per-pupil funding level as a result of this formula?**

11.1 According to the National Audit Office, schools will be required to make £3 billion of savings by 2019/20. In this challenging financial context, the consultation does not demonstrate that a further 3 per cent cash cut can be delivered without impacting on school standards.

11.2 Without conclusive evidence showing that schools are able to keep pace with existing cost pressures, we do not believe that a redistributive model is suitable for the new national funding formula. London Councils analysis shows that the introduction of a stronger funding floor is an efficient mechanism for providing cash protection to all schools in the country whilst ensuring that gainers reach their formula allocation sooner. A funding floor of zero per cent would cost just £335 million, equivalent to 1 per cent of the schools block.

**12. Do you agree that for new or growing schools the funding floor should be applied to the per-pupil funding they would have received if they were at full capacity?**

12.1 As the consultation recognises, effective per-pupil rates are much higher whilst a school is still filling up because the fixed lump sum makes up a greater share of the overall school budget. It would not be appropriate to use the same per-pupil baseline for schools filling up, because funding would be over-allocated to these schools. Further clarity is needed on the exact methodology and proposed data sources.

**13. Do you support our proposal to continue the minimum funding guarantee at minus 1.5% per pupil? This will mean that schools are protected against reductions of more than 1.5% per pupil per year.**

13.1 Yes, the MFG should continue as under the current system. With allocations set centrally for each school in the country, there are likely to be outlying schools that face significant changes in funding each year as data updates. A protection mechanism is necessary in addition to the funding floor, especially once the local authority role managing turbulence is removed under a ‘hard’ formula.

**14. Are there further considerations we should be taking into account about the proposed schools national funding formula?**

- 14.1 The system of funding new schools from 2018/19 will need to be considered carefully and separate arrangements are likely to be required. Without a baseline against which to apply floors and caps, an unadjusted application of the new formula would lead to severely distorted funding levels for new schools.
- 14.2 Factors based on historic spend are unlikely to meet actual costs in high growth areas such as London. For example, the business rates factor will not meet the cost of bills for new and expanding schools. A mechanism for retrospective or in-year adjustment should be introduced for these factors.

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

- 15.1 Many of the cost pressures facing schools, as identified by the National Audit Office, are the direct result of government policy, such as changes to national insurance and pension contributions. Any action the government can take to ease these cost pressures would make the introduction of a fair funding formula less challenging.
- 15.2 For example, the apprenticeship levy will apply inconsistently across schools. Whilst standalone academies are likely to be exempt, community and voluntary schools will be eligible for the levy because the local authority is classed as the employer. London Councils does not believe that this different approach can be justified and we call on the government to apply a consistent exemption to all schools with a pay bill under £3 million.
- 15.3 London has a higher number of unaccompanied asylum seeking children (UASCs) than other regions and some areas have specific funding arrangements in place locally for this potentially key cost driver. UASCs are an example of an exceptional school-level pressure that a 'hard' formula will struggle to capture accurately at a national level but are currently picked up locally. The impact of the formula on similar cost drivers – uncommon, but highly significant for individual schools - will need to be considered carefully.
- 15.4 London's schools are facing considerable pressure to recruit high quality teaching staff across a range of subjects, as well as retaining them in the long term. TES reports in *A Question of Quality: TES Teacher Recruitment Index*<sup>2</sup> that London is the region that has the most difficulty currently recruiting teaching staff. Funding reductions could further exacerbate this situation and impact on pupil outcomes.

**16. Do you agree that we should allocate 10% of funding through a deprivation factor in the central school services block?**

- 16.1 Yes. Local authorities in more deprived areas are likely to incur higher costs.

**17. Do you support our proposal to limit reductions on local authorities' central school services block funding to 2.5% per pupil in 2018-19 and in 2019-20?**

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<sup>2</sup> *A Question of Quality: TES Teacher Recruitment Index*, TES, April 2016

- 17.1 We support the inclusion of a funding floor in the new central school services block, but the protection that this isolated mechanism provides in 2018/19 will be insignificant when compared to the cuts to funding for central functions in 2017/18.
- 17.2 Our analysis suggests that London boroughs face an effective £38.1m (46 per cent) cut in funding for central functions in 2017/18 as a result of savings to the education services grant, assuming that schools forums approve the central retention of retained duties funding<sup>3</sup>. The government has recognised that this cannot be achieved through efficiencies alone.
- 17.3 To meet the shortfall, boroughs are forced to choose between reducing core school funding (either through a top-slice or buy-back model) or redirecting funding away from other key services through the use of general council funds. Neither option is a sustainable or sufficient solution at a time of unprecedented funding cuts for local government. The significant funding gap for statutory functions that this leaves is an acute risk to school standards and pupil welfare in the capital. Therefore London Councils is calling on the government to reinstate this funding into the education services grant.
- 18. Are there further considerations we should be taking into account about the proposed central school services block formula?**
- 18.1 Following the effective end of the education services grant and the decision to roll retained duties funding into the schools block, a new system of funding for central functions begins in 2017/18. One year later, a second system of funding central functions will be introduced through the new fourth block of DSG.
- 18.2 The introduction of two new systems in two years appears to lead to an uneven transition path for local authorities. A very large cut to funding for central functions from September 2017 will be followed by small losses or gains from 2018/19. London Councils does not agree with the proposed reduction in funding for central functions but, if the savings do go ahead, this would be an unnecessarily disjointed transition.

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<sup>3</sup> Factoring in the transitional ESG grant and the new school improvement grant – assumes the top-slicing of former retained duties funding is approved in all boroughs.

## High needs national funding formula – draft response

- 1. In designing our national funding formula, we have taken careful steps to balance the principles of fairness and stability. Do you think we have struck the right balance?**
  - 1.1 Pressures on high needs budgets are amongst the most acute of any local government service area in the capital. London Councils is disappointed that the scale and urgency of this financial challenge has not been recognised in the second round consultation.
  - 1.2 Boroughs are already spending significantly more than the allocations provided by central government through the high needs block, which has failed to keep pace with rapid and unpredictable demand pressures in recent years. Reserves and general council funds are not a sustainable funding stream for high needs at a time of unprecedented funding cuts for local government, with core funding from central government to councils falling 63 per cent in real terms over the decade by 2019/20.
  - 1.3 Although the effective resources available for high needs have been substantially reduced, the government has not provided evidence to show that the required savings are deliverable without harming standards. London Councils is concerned that insufficient funding from central government is now a serious risk to the welfare and educational outcomes of high needs pupils in the capital and elsewhere.
  - 1.3 Whilst we agree with the principle of reforming high needs funding, it will be impossible to achieve fairness through the redistribution of an insufficient funding pot. The acute pressure on high needs budget will only intensify and efficiencies alone will not meet the growing funding gap. We believe that an injection of additional funding into the high needs block is required urgently to keep pace with the triple pressure of rapidly rising demand, rising prevalence rates and changing types of need.
- 2. We are proposing a formula comprising a number of formula factors with different values and weightings. Do you agree with the following proposals?**
  - **Historic spend factor – to allocate to each local authority a sum equal to 50% of its planned spending baseline**
  - **Basic entitlement – to allocate to each local authority £4,000 per pupil**
  - 2.1 Yes, we support the inclusion of a historic spend factor and basic entitlement factor.
- 3. We propose to use the following weightings for each of the formula factors listed below, adding up to 100%. Do you agree? • Population – 50% • Free school meals eligibility – 10% • IDACI – 10% • Key stage 2 low attainment – 7.5% • Key stage 4 low attainment – 7.5% • Children in bad health – 7.5% • Disability living allowance – 7.5%**
  - 3.1 The weightings appear to be reasonable, but it is difficult to comment further without a stronger evidence base on high needs cost drivers. We therefore welcome the department's commitment to commission further research into high needs outcomes and costs.

- 4. Do you agree with the principle of protecting local authorities from reductions in funding as a result of this formula? This is referred to as a funding floor in this document.**
- 4.1 Yes. The impact of the high needs funding reform is likely to be particularly volatile, so a strong protection mechanism is essential.
- 5. Do you support our proposal to set the funding floor such that no local authority will see a reduction in funding, compared to their spending baseline?**
- 5.1 Given the acute demand pressures on high needs budgets and the lack of evidence that cash savings are deliverable without affecting outcomes, a redistributive model would not have been appropriate for high needs. We believe that the same argument applies to the schools national funding formula.
- 5.2 The spend baselines are not a true reflection of actual spend and therefore do not provide true protection. Overspends on high needs are widespread in London as a result of a sustained period of the high needs block failing to keep pace with intense demand pressures, but protection is only applied against planned levels of spend. We believe that protection should be applied against actual level of spend.
- 6. Do you agree with our proposals to allow limited flexibility between schools and high needs budgets in 2018-19?**
- 6.1 We would support maximum flexibility between blocks in order to manage high needs pressure and reinforce incentives for the entire education system to improve high needs outcomes.
- 6.2 We do not agree with proposals to restrict the transfer of funding between blocks. It is not clear why Schools Forum approval would not be sufficient to approve the transfer of funding between blocks. This is an established and proven mechanism for making decisions in the interests of the entire local education community, so we do not agree that the approval of a majority of schools by phase should also be necessary.
- 7. Do you have any suggestions about the level of flexibility we should allow between schools and high needs budgets in 2019-20 and beyond?**
- 7.1 The optimal level of flexibility in the long-term will be dependent on the extent to which high needs allocations keep up with actual costs. Given the acute pressure on high need budgets, we would support maximum flexibility between DSG blocks.
- 7.2 A flexible relationship between the schools and high needs block also reinforces incentives to control high needs spend and improve high needs outcomes across the entire local education system. For example, schools that put forward pupils for EHC plans or permanent exclusions do so with the knowledge that funding may be redirected away from the schools block if the high needs block overspends. Mainstream schools currently benefit when high needs spend is spent efficiently and this financial incentive would be weakened under a system of standalone blocks.

7.3 Beyond 2019-20, Schools Forum approval should be an appropriate and sufficient mechanism for the transfer of funding between blocks.

**8. Are there further considerations we should be taking into account about the proposed high needs national funding formula?**

8.1 There is a clear link between cost pressures on the revenue side and the sufficient provision of new high needs places. Special schools and units are facing particularly severe pressure as part of London's broader school place challenge, with the number of pupils educated in dedicated SEND places in the capital increasing 23 per cent between 2011 and 2016. The type of need is changing rapidly, which compounds the difficulty of providing sufficient places. For example, whilst the number of special school pupils with a physical disability fell 36 per cent over the same period in London, the number of special school pupils with autism spectrum disorder increased by over 50 per cent.

8.2 The introduction of a dedicated £200 million SEN capital pot is welcome and we believe that this pot should increase to meet the full costs of providing sufficient SEN places. Short-term investment in providing new special school places is likely to be offset by reduced spend on more costly placements in the independent sector in the long-term.

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