



# Proposals for a schools national funding formula

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# The principles of the funding system



- To develop a funding system that supports every child to achieve their potential, whatever their background
- It should;
  - be fair
  - be efficient
  - get funding straight to schools
  - be transparent
  - be simple
  - be predictable



# Fairer Funding - consultation

- 2 stage consultation:
  - Stage 1: a vision for the future funding system as a whole and the principles that underpin it
    - the design of the system
    - the role of the local authority
    - the factors to include for each block
  - Stage 2: detailed proposals for factor weightings and the impact of the new formulae on local authorities and schools
- Stage 1 consultation now open, to **17 April 2016**
- White Paper *Educational Excellence Everywhere* announced 17 March 2016,
- You can view the Department for Education press release here: <https://www.gov.uk/government/news/nicky-morgan-unveils-new-vision-for-the-education-system>
- Early Years consultation to follow later this year

# The structure of the funding system

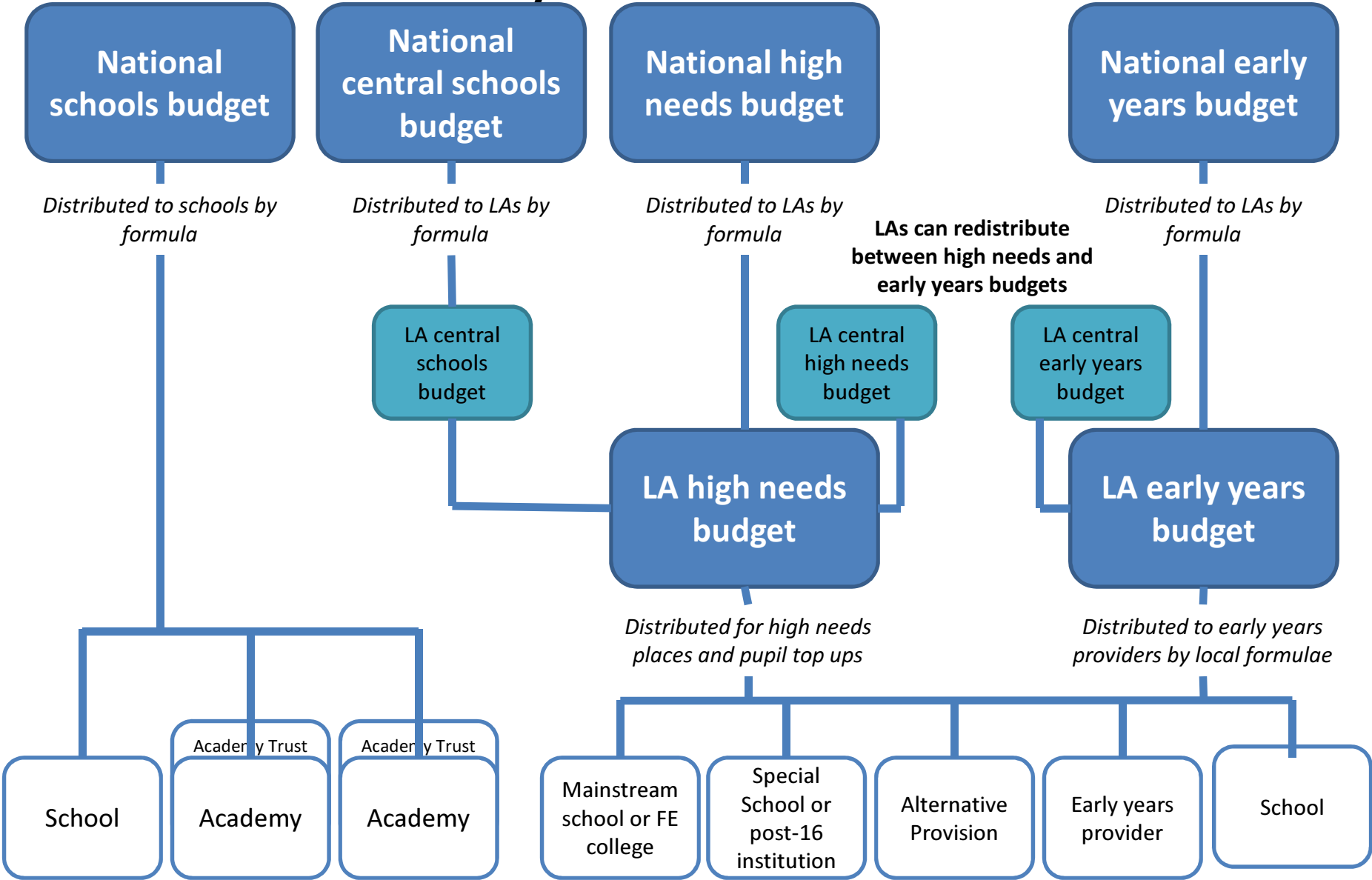


The consultation is considering proposals to:

- Move to a school-level ('hard') national funding formula from 2019-20, after two years' transition where local authorities still set formulae locally (a 'soft' formula)
- Ring-fence the schools block during the transitional years so that all schools block funding goes to schools
- Introduce a new 'central schools block', so the Dedicated Schools Grant will have **four** blocks in total (schools, central schools, high needs and early years)
- And 're-baseline' local authorities' DSG blocks to reflect current practice and create the new block

The pupil premium will remain a separate grant.

# Fairer funding – design of the system



# Fair funding – ‘hard’ schools formula



- Aims to ensure that schools in the same circumstances attract the same funding across the country, moving to a single, national formula for schools from 2019-20
- Fundamental review of Schools Forum in that time
- Two years of transition, with local formulae in 2017-19
- Fit with the Government’s wider ambition for all schools to become academies
- Ring-fence around the Schools Block from 2017-18, accompanied by creation of a Central Schools Block for funding in respect of local authorities’ continuing duties

# The schools national funding formula

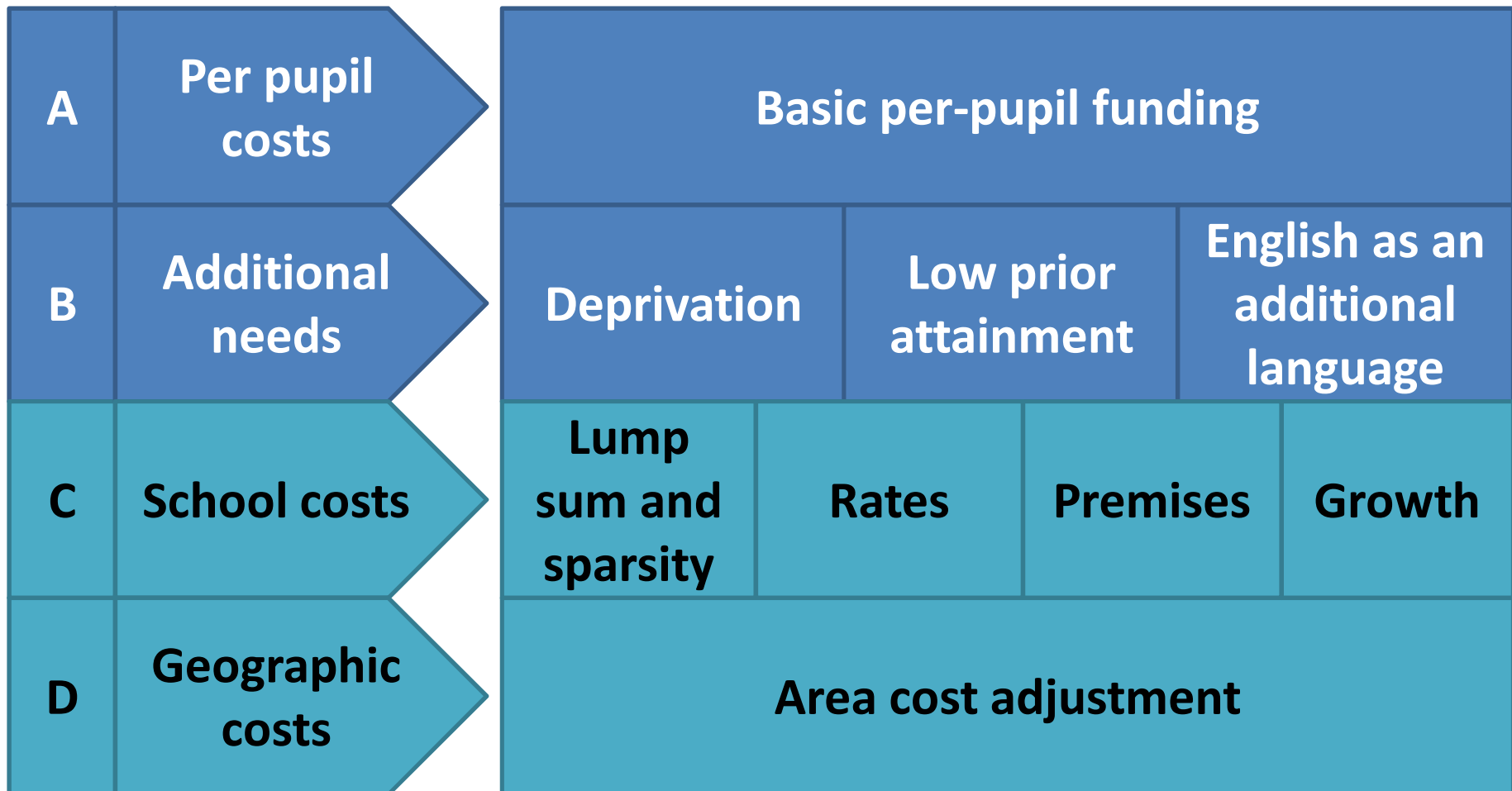


The starting point for the school national funding formula is the factors currently allowed in local formulae. To be included in the formula, the department believes a factor should:

- be linked to significant costs in schools – not necessarily costs faced by every school, but things that are commonly recognised as significant drivers of cost at national level
- make a significant difference to the distribution of funding between schools
- be based on data which is accurate at school-level, up to date and appropriately quality-assured, with no perverse incentive to increase funding
- be clearly tied to pupil characteristics, as far as is possible

# The building blocks and factors

Proposed formula factors are grouped into four ‘building blocks’:





# Basic per-pupil and additional needs factors



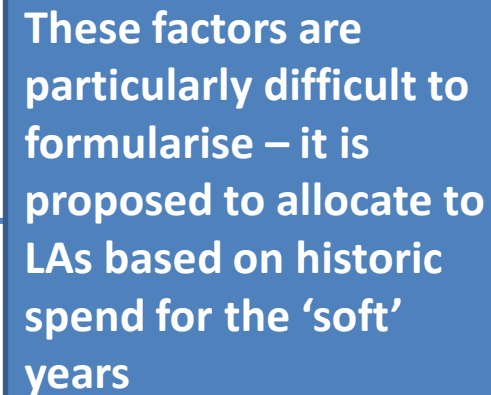
The proposal is to include the following pupil-led factors:

- Basic per-pupil: different basic rates for primary, key stage 3 and key stage 4
- Deprivation: pupils' current and past free school meal eligibility  
area-level deprivation data (IDACI)
- Low prior attainment: pupils who didn't reach expected standard at the previous stage (EYFSP/key stage 2)
- English as an additional language: EAL pupils who entered the state education system within the last 3 years

# School and area costs

The proposal is to include the following factors:

- A lump sum for all schools
- Sparsity funding for some schools, based on current criteria (size and distance)
- Rates
- Private finance initiative
- Split sites
- Exceptional circumstances
- Growth
- An area cost adjustment, either based on general labour market (GLM) only, or the 'hybrid' methodology used in 2015-16.

A blue rectangular callout box with a white border, containing text. A blue bracket on the left side of the box points to the list items: Rates, Private finance initiative, Split sites, Exceptional circumstances, and Growth.

These factors are particularly difficult to formularise – it is proposed to allocate to LAs based on historic spend for the 'soft' years

# How the NFF factors vary from local formula factors



## **New** additions:

- A new 'growth' factor in the formula taking into account LAs' growth funds, adjustments for growth in the authority proforma tool and the falling rolls fund
- Area costs handled explicitly through the formula

## Currently allowable factors that are **omitted**:

- Looked After Children factor – instead an increase in the pupil premium plus
- Mobility factor
- Post-16 factor



# The new central schools block

It is being proposed to introduce a fourth 'block' to the Dedicated Schools Grants – the central schools block, to reflect ongoing duties that LAs hold for both maintained schools and academies:

- the central schools block brings together two existing funding streams through which local authorities receive funding for their responsibilities:
  - centrally retained Dedicated Schools Grant
  - retained duties Education Services Grant
- the proposal is to distribute funding using a simple per pupil formula
- evidence will be collected from local authorities about historic commitments this spring

# Education Services Grant – general funding rate



At the 2015 Spending Review the Chancellor announced plans to make a saving of £600 million from the Education Services Grant general funding rate (paid to both academies and local authorities):

- the first step towards this is an efficiency saving of £72m in 2016-17. Stage 2 of the consultation will set out proposals for 2017-18 and beyond
- views are being sought on statutory duties that could be removed or reformed to support the move to a school-led system
- a proposal is being consulted on to allow local authorities to retain some of their maintained schools' DSG to cover the statutory duties they carry out for them

# The transition period (school block)



The proposal is to:

- allocate schools block funding at local authority level in 2017-18 and 2018-19, using the national funding formula as follows:
  - i. calculate each school's formula allocation
  - ii. apply the minimum funding guarantee
  - iii. aggregate individual schools' (formula + MFG) allocations at local authority level
  - iv. add funding for premises and growth factors based on historic spend
- require LAs to pass on all their schools block funding to schools – so work is required to 're-baseline' the DSG blocks
- leave the local formula arrangements mostly un-touched in 2017-18, but remove the post-16 factor. It is being consulted on whether LAs should have more discretion over the local MFG



# The transition period (school block)

- Minimum funding guarantee for schools
- Level of the protection; and therefore speed of transition (both gains and losses) to be covered in Stage 2 consultation
- “Invest to Save” fund for schools – details to follow
- Other support for financial health and efficiency

# The context for changes to high needs funding



## **Special education needs (SEN) and disability**

- The Children and Families Act 2014
- The SEN and Disability Code of Practice
- Local authorities' implementation of the SEN and disability reforms

## **Alternative provision**

- A mixed landscape of provision
- Considering options for future changes to make AP more rigorous





# Rationale for Reform

- Current high needs spending levels have evolved partly as a result of the variation which each local authority has developed with the schools, colleges and early years settings in its area
- ISOS Partnership undertook research and reported with proposals published in July 2015
  - Their research showed that children and young people with a similar description of their needs and circumstances would attract very different levels of funding in different local authorities
  - They suggested factors that could be used in a more formulaic distribution of high needs funding to local authorities to ensure that funding more closely matches need



# What changes are needed

- Following the ISOS research, it was concluded that in order to support the improvement of outcomes for children and young people with SEN and those in alternative provision, further changes to high needs funding should be made:
  - To move to a distribution of high needs funding from central to local government that is more formula-driven
  - To improve current funding arrangements at local level, including changes to the way funding is distributed to various types of institution

# High needs funding distribution

**Recognising the statutory responsibilities of local authorities, it is being proposed that:**

- a system that continues to distribute the majority of high needs funding to local authorities rather than directly to schools or other institutions

**To avoid over-identification of high needs:**

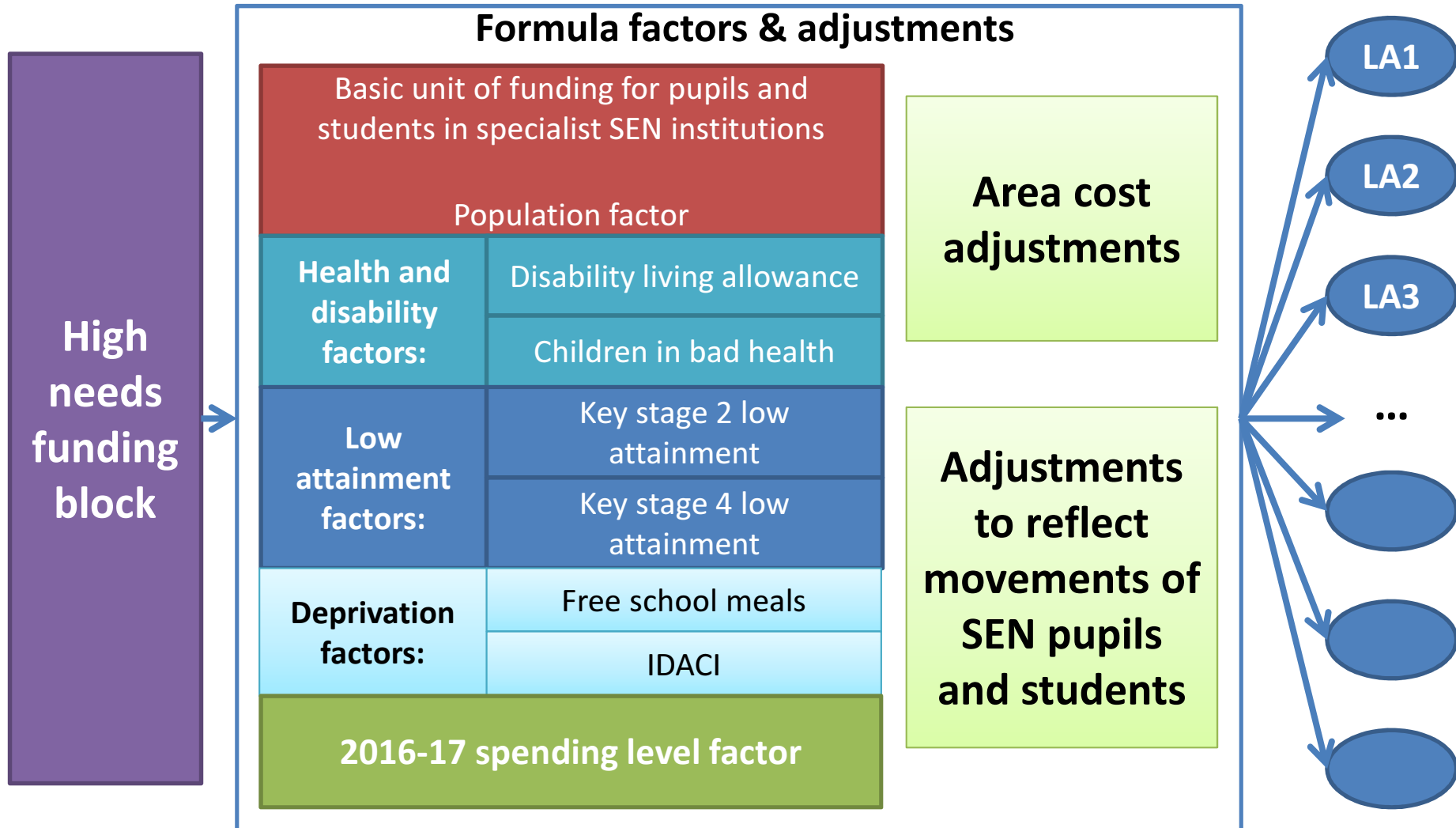
- a high needs formula based on proxy measures of need, not the assessed needs of individual children and young people



# High needs in summary

- High Needs block continues to be allocated to local authorities
- Factors:
  - Population
  - Health and disability (Children in ill health, DLA)
  - Low attainment (KS2 and KS4)
  - Deprivation (FSM and IDACI)
  - Existing spend
- The consultation also covers some more technical aspects of how high needs funding is distributed locally, building on the proposals in the recent ISOS report
- It sets out help that will be offered to local authorities to manage pressures in future, include capital funding for new infrastructure

# High needs funding formula design



# High needs funding formula factors



It is proposed that a high needs formula is based on the following factors:

- **Low attainment factors:** pupils not achieving level 2 in reading at the end of KS2, and pupils not achieving 5 A\*-G GCSEs at KS4, or equivalent standards as changes are made
- **Health and disability:** use of “children not in good health” population census data and disability living allowance data as indicators
- **Deprivation:** use of pupils eligible for free school meals (FSM), and the IDACI measure currently used in local schools formulae
- **Population factor:** use of the ONS data – estimated number of children and young people in the 2 to 18 range. Increase in population will be reflected in increased allocations to local authorities

# High needs funding formula factors



- **Basic entitlement for pupils/students in special schools and post-16 institutions:** to provide a basic per pupil/student entitlement (e.g. £4k per pupil/student) for each child or young person in a special school, special academy and special post-16 institution (SPI)
  - Funding for maintained special schools and academies goes to local authorities, and for non-maintained special schools and SPIs to the EFA
  - Remainder of £10,000 per place funding (e.g. £6k) for maintained special schools and academies to be determined by the local authority from their high needs allocation (plus net “import/export” adjustments)
- **Area cost adjustment:** general labour market data or taking account of the relative costs of teachers’ pay in different areas



# Alternative provision funding

- Areas with higher proportions of pupils eligible for FSM, and the most deprived areas according to the IDACI measure, are more likely to have higher proportions of excluded pupils
- Therefore it is proposed to use the population and deprivation factors in the allocation of funding for alternative provision
- There are yet to be specific proposals on hospital education, but a way forward is currently being developed with sector representatives
- Hospital education funding will continue to be distributed on information about local authorities' and academies' current spend



# The transition period (high needs)



- Include an element of 2016-17 planned spending on SEN and AP in the national formula for at least the next 5 years to give local authorities time to plan and implement changes. Information will be collected from local authorities on the 2016-17 high needs budgets
- An overall minimum funding guarantee that would not reduce local authorities' high needs funding by more than a specified percentage in each year
- Practical help will be provided to local authorities, schools and other institutions providing special and alternative provision

# Pressures for the future

Despite protecting the core schools budget in real terms, schools will still have to manage pressures from:

- Pay costs
- Non-pay inflation
- Increases in employer pensions contributions from September 2015: typically 0.55% 15/16 and 0.38% 16/17
- Increases national insurance employer contributions April 2016: 1.67% in 2016/17
- Any changes in funding resulting from the new NFF
- Removal of the general funding rate of the Education Services Grant