

# School Funding Reform: Next steps towards a fairer system

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## Background

Prior to 2006/07 Schools funding came via Formula Grant with the distribution to counties being decided by a national spending assessment. Historically, local authorities had been free to determine how much of their income would be spent on schools but in more recent years Government introduced “passporting”. Passporting required local authorities to reflect any national increase in schools funding in their local schools budget, regardless of whether a local authority spent above or below its spending assessment. For example a 3% increase in an authority’s spending assessment would have required an increased schools budget of at least 3%.

The formula spending for schools contained a basic amount per pupil (which differed with age) with top-ups for various “additional need” measures. Final allocations attracted an area cost adjustment to compensate for an increased cost of living in certain areas, mainly London and the South East.

The Dedicated Schools Grant (DSG) was introduced from 2006/07. Funding for DSG was separated from council funding and distributed as a specific, ring-fenced grant. DSG used historic spending levels to obtain the per-pupil funding amounts for each local authority area. This figure was increased each year, depending on the economic climate. On top of this basic amount there were additional funding streams for various “ministerial priorities”. This produced “Guaranteed Units of Funding” for pupils which were then multiplied by pupil numbers obtained from the January pupil census to determine the amount of DSG received.

DSG also included additional funding for those authorities who, in the past, had spent less than their needs assessment. Herefordshire benefitted from additional £1m phased over three years from 2007.

DSG has continued since 2006/07 (with some minor adjustments) whilst all authorities “caught-up” with their spending assessment. It has long been the Department for Education’s overall aim to revert back to a more formulaic means of distribution.

## Recent Consultations

The DfE held two consultations in 2011; [Rationale and principles](#), and [Proposals for a fairer system](#). The second consultation proposed replacing the current schools funding distribution mechanism with something more transparent, fairer and less complex. The proposals centred around a per-pupil basic amount with additional top-ups to compensate for additional needs, small schools, high area costs and possible English as an Additional Language (EAL). As before, funding would be allocated to local authorities whose schools forums would then decide how the money should be divided between the authority’s schools.

## This Consultation

The “Next steps towards a fairer system” consultation begins to build the details of how the “Proposals for a fairer system” will be implemented and operated. Full details of the consultation can be found on the Department for Education (DfE) [website](#).

## Problems with the Current System

In his introduction to the consultation Michael Gove, the Secretary of State for Education, writes that the current system is “*opaque, inconsistent and unfair with huge differences between areas*”. He goes on to say that the local schools formulae used by local authorities to divvy up the DSG between schools in their area can be so complicated that it is “*virtually impossible to understand why a school receives the funding it does*”.

The “Next Steps” proposals are aimed at achieving a simpler system of school funding that provides for similar sized schools with similar catchment area characteristics will receive similar levels of funding.

### **Summary of Proposals**

The “Next Steps” consultation paper’s proposals are intended for implementation from 2013/14 onwards. Local authorities will continue to receive DSG and the 2013/14 allocations will continue to be based on 2012/13.

However, DSG funding will now be split into three notional (unringfenced) blocks:

- Schools Block,
- Early Years Block and
- High Needs Block.

### **The Schools Block**

The DfE are proposing that all the funding in the Schools Block be delegated entirely to schools. There are three exceptions to this:

1. Where schools agree to pool to fund a service centrally (known as de-delegation) ;
2. Historic commitments to fund costs from the schools budget – e.g. redundancy. New commitments will not be allowed;
3. Statutory functions (e.g. admissions scheme and Schools Forum administration)

Delegating all services in the first instance to all schools (who can chose to “buy-back” services) will mean an end to the Local Authority Central Spend Equivalent Grant (LACSEG) from 2013/14 onwards as the funding will already be in Academy budgets. DfE are considering funding central education services by a separate ring fenced grant from the DfE budget rather than through the current local government revenue grant system. This grant would be distributed pro-rata to pupil numbers direct to both the council and academies. Further consultation is expected over the summer.

### **Local Schools Formula**

Each council has an individually tailored local school funding formula to distribute DSG amongst schools which can currently have up to 37 (different) factors; DfE are proposing reducing this number to a common 10. These local formulae will then also be used to determine the budgets for Academies within the local authority area. The aim of the reduced number of factors is to obtain a more transparent, pupil-led formulae and “*stand us in good stead to introduce a national funding formula on a similar basis in the future*”.

The ten factors are:

1. A basic per-pupil amount – either one for primary and secondary or one for primary, one for KS3 (age 11-14) and another for KS4 (age 14-16).
2. Deprivation – Free School Meals and/or Income Deprivation Affecting Children Index (IDACI) – different amounts will be allowed for primary and secondary children and for children with differing deprivation severity (see below)
3. Looked after children
4. Low cost, high incidence SEN
5. English as an additional language (EAL) for three years only after child enters education
6. Limited size lump sum
7. Split sites
8. Rates
9. PFI Contracts
10. Higher cost of teaching for 5 local authorities<sup>1</sup> who have some but not all schools within the London Fringe area.

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<sup>1</sup> Buckinghamshire, Essex, Hertfordshire, Kent and West Sussex

The Education Funding Agency will have discretion to consider additional factors in exceptional circumstances – but these must apply to less than 5% of the area’s schools but account for more than 1% of costs.

There will be protections to limit the falls in schools budgets as a result of these changes (see below). Schools Forum can also introduce a capping system to limit the gains in school budgets in order to meet the costs of protection for the losers.

**Basic Per pupil funding**

The DfE have examined the current proportions of funding that are distributed as the basic per pupil amount. As local authorities are currently permitted to determine their own schools formula, unsurprisingly there is some variation across the country. The DfE proposes three options:

- a) Setting a minimum threshold for the basic pupil entitlement only – 60% is considered;
- b) Setting a minimum threshold for all pupil-led factors (basic, deprivation, looked after children, EAL, and SEN) – 80% is proposed
- c) No thresholds – allowing variation across the country

**Deprivation funding**

Local Authorities may only use FSM, FSM Ever 6 or IDACI or both as a deprivation measure in their formula. If selecting IDACI as a measure a banding system should be used to determine the funding relative to severity of deprivation, for example:

Band	IDACI score lower limit	IDACI score upper limit	Number of pupils	Unit value	Total
1	0.20	0.25	40	£500	£20,000
2	0.25	0.30	50	£500	£25,000
3	0.30	0.40	59	£750	£44,250
4	0.40	0.50	47	£1,000	£47,000
5	0.50	1.00	44	£1,250	£55,000

Naturally, FSM is more black and white so will be expected to be attached to a fixed amount of funding.

**Low cost SEN funding**

Currently different local authorities use different methods of capturing low cost SEN (defined as upto £6,000 excluding basic per pupil funding) – the DfE want to replace them with a simpler version.

For primary pupils the DfE want to use achievement recorded by the Early Years Foundation Stage Profile (EYFSP) – the threshold will be if a child scores below 78 points. Past data shows that this will catch 61% of SEN Pupils.

For secondary pupils the DfE propose using Key Stage 2 results. The threshold will be if a pupil achieves level 3 or below in both English and Maths. Past data shows that this will catch just 38% of pupils with SEN.

SEN pupils achieving above these threshold levels are considered to be developing or achieving well.

Funding for pupils with English as an additional language will be limited to 3 years from entry to the school system.

**Small School Protection via a lump sum**

Currently local authorities are able to offer each school in their area an annual lump sum payment – primarily to support small or rural schools. The DfE proposes a single lump sum that

must be paid to all schools. The DfE also want to place an upper limit on the lump sum, as they want funding to be directed mainly through the per-pupil amounts.

Historically, local authorities have been able to fund small schools using separate formula factors in order that they can manage the effects of infant class size regulations and teachers on upper pay scales, where costs would exceed per-pupil funding. The DfE propose putting an end to separate formula factors and for these costs to be met from the lump sum or the per pupil funding. The maximum permitted rate for lump sum is expected to be between £100,000 and £150,000.

Additional funding for split sites will be allowed to continue. Rates can also continue to be funded at actual cost. Allowance for PFI schemes must also be reflected in the local formulae.

Currently secondary pupils receive more per head funding than primary pupils. The ratio spans from 1:1.1 to 1:1.5 and the average is 1:1.27. In 2013/14 local authorities will be able to pick their own ratios but from 2014/15 the DfE may specify a range for these ratios and have indicated a wish for a slow convergence to the norm of 1:1.27.

### **Documenting the Formula**

As of 2013/14 local authorities will be required to publish their schools funding formulae in a “pro-forma” so that “head teachers, principals, governors and parents can see clearly how the funding in the schools block has been distributed”.

The Education Funding Agency (EFA) will then use this pro-forma to calculate the funding due to an Academy within that local authority. Authorities must submit the pro-forma to the EFA by the end of October, who will check it meets all the DfE criteria and use it to calculate the area’s Academies’ budgets. The local authority will need to inform the EFA by the 3<sup>rd</sup> week in January of any changes as a result of final settlement.

The EFA will also have responsibility for ensuring fairness in local formulae – for example, ensuring that an Academy’s PFI costs were taken into account when developing the funding formula. If necessary the EFA will be able to determine an appropriate budget.

The DfE will help local authorities to simplify their formulae by publishing a “formula development tool” alongside characteristic data for each school and Academy.

### **Protection Arrangements**

The Minimum Funding Guarantee (MFG) will continue to operate at -1.5% per pupil for 2013/14 and 2014/15. The DfE will consider “looser” arrangements thereafter – i.e. allowing more changes to flow through.

The consultation paper also suggests a number of simplifications to the operation of the MFG from 2013/14 onwards:

Additional funding provided to maintained schools for previously centrally funded services will be excluded from the MFG. For Academies the 2012/13 LACSEG element of their budgets will be taken into account. This will enable a like-for-like comparison to be made between years. SEN allocations for named pupils and any other funding from the notional High Needs Block will continue to be treated separately and will not be afforded protection under the MFG. The lump sum will also be excluded as its per-pupil weighting will change depending on the school size.

Any other exclusions to the MFG will need to be considered only if there is a significant change, i.e. business rates revaluation.

Currently the Minimum Funding Guarantee also includes an adjustment to protect budgets from changing pupil numbers and for schools with less than 75 pupils. The DfE will remove these.

In order that the MFG is comparing like-with-like, and to reflect the move to using the October pupil count, schools’ 2012/13 budget will therefore be divided by its October 2011 pupil count to form a baseline against which the 2013/14 budget can be compared.

Local authorities will be free to decide whether or not they wish to implement caps or scaling on the per-pupil gains that a school can receive.

## **Schools Forums**

The DfE are not proposing any changes to the powers that the Schools Forum hold but they are suggesting the following amendments to the Regulations:

- Remove the requirement to have at least 15 members;
- Limit the number of other local authority attendees from participating in meetings unless they are a Lead Member, Director of Children's Services or providing specific technical or financial advice;
- Only schools members and providers from the private, voluntary and independent sector to vote on the funding formula;
- Require local authorities to publish Forum papers, minutes and decisions promptly on their websites; and
- Require Forums to hold public meetings.

EFA will also be given observer status at Forum meetings. They will not be required to attend every meeting.

DfE add that in the longer term they may consider further changes, including:

- Introducing a maximum cap on members;
- Slimming down non-school members; and
- Requiring an independent secretariat

## **Free Schools, University Technical Colleges (UTCs) and Studio Schools**

The DfE plans to fund all the above types of schools in the same way as Academies – using the local funding formula. This would replace the current simple formula which uses averages of schools budget shares and deprivation funding.

## **Funding for 14-16 year olds in further education colleges**

DfE propose that funding for 14-16 year olds who wish to study in FE colleges should, as far as possible, be distributed in the same way as funding for local schools. Therefore, the intention is that the pupils should be funded through the new simplified local funding formula, with some amendments. There will be no additional payments made in relation to premises or lump sums due to the fact that the *“funding is for a small number of pupils at the margin of the institution's activities”*.

## **Counting Pupils**

The Schools Block will now use the October pupil count rather than January. This will give schools and Academies more time to plan their budgets.

Early years' information is only collected once a year in January and providers have to be funded for actual pupil numbers during the financial year in order that small providers can cope with cash flow. Therefore, a national formula would need to be very responsive to changes in numbers. Hence, the DfE propose that Early Years Block funding remain based on the January pupil count. So 2013/14 would initially use the January 2012 numbers, then be updated in Summer 2013 with January 2013 numbers before being finally adjusted at the end of the financial year following the January 2014 count.

The DfE propose that the High Needs Block funding be based on historic budgeted spend – possibly adjusted for population (as local authorities are responsible for their residents, not just pupils). High Needs funding would not be based on either the Pupil Referral Unit or Alternative Provision Census.

## **Pupil Premium**

The Pupil Premium will continue as a grant separate to DSG, based on Free School Meals. It will now be extended to pupils who have claimed FSM in the last 6 years – to account for the drop in

take-up at secondary school. Eventually, once the national formula is in place, the DfE envisage that the Pupil Premium will become the main source of funding for deprivation. Work is underway to find a suitable measure of eligibility aligned with the Universal Credit.

### **Funding for High Need Provision**

Current funding mechanisms mean that in some cases there are financial incentives to place pupils with one provider over another, rather than in the most suitable setting for the pupil. The DfE plans to ensure that funding for high need provision is arranged on an equivalent basis across different types of providers. Annexes in the consultation document contain more information on the proposals in addition to further consultation questions.

The DfE are proposing a new way of funding high need provision called “place-plus”. There are three elements to “place-plus”:

**Element 1, or “core education funding”:** the mainstream unit of per-pupil funding

**Element 2, or “additional support funding”:** a clearly identified budget for providers to provide additional support for high need pupils with additional needs up to an agreed level.

**Element 3, or “top-up funding”:** funding above elements 1 and 2 to meet the total costs of the education provision required by an individual high needs pupil, based on the pupil’s assessed needs.

Mainstream settings will need to contribute from their element 2 funding the first £6,000 of any additional support required by an individual pupil above the element 1 core funding. Any further funding required will be provided as element 3.

The DfE propose that all state-funded Alternative Provision (AP) institutions (maintained Pupil Referral Units (PRU) and other maintained AP, AP Academies and AP Free Schools) would receive funding equivalent to elements 1 and 2 for mainstream settings for a specified number of planned places. The DfE are considering £8,000 per place.

The top-up funding (element 3) for both mainstream and AP institutions would come direct from the commissioner – either the local authority or mainstream school, depending on circumstances, and will be as a result of a discussion about the pupil’s needs, progress and results.

### **Transitional Protection**

Aside from the decision to base 2013/14 High Needs Block funding on the 2012/13 budgeted spend and pupil numbers from 2011, the DfE expects that funding for students that are part way through an education programme be honoured so as not to disrupt provision for the individuals.

In addition to the above protection, DfE are also examining protection where schools budgets are not allowed to fall by more than 1.5% between years.

### **Early Years Provision**

Currently the universal free entitlement of 15 hours a week of early education for three and four year olds is funded by the local authority via the Early Years Single Funding Formula (EYSFF). In turn, the local authority is funded via DSG.

Eventually, the DfE would like to implement a national funding formula for Early Years provision too. Until then the DfE would like local authorities to simplify their EYSFF. The formulae will be constrained in the same way the Schools Funding Formula factors are, with the additional permitted use of Early Years factors. From 2013/14 the deprivation element of the EYSFF must be based on the child rather than the setting.

Academies which opened post September 2010 already receive any Early Years funding direct from the Local Authority. For those Academies open prior to September 2010 their funding currently comes from the Young People’s Learning Agency (YPLA). The DfE propose that, from 2013/14, all Early Years funding should come direct from the local authority via EYSFF.