



Department  
for Education

# **The national funding formula for schools and high needs**

**Executive summary**

**September 2017**

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## Introduction

1. All children, wherever they are growing up, should have an education that unlocks their potential and allows them to go as far as their talent and hard work will take them. This will provide them with the foundation they need to succeed in adult life, and to support the country's future economic prosperity, and is key to improving social mobility.
2. Schools have made significant progress towards achieving this goal. More schools are currently judged as good or outstanding by Ofsted than ever before, the attainment gap between disadvantaged students and those who are better off is closing and we have launched 12 opportunity areas to drive improvement in parts of the country that we know can do better.
3. But this has been achieved against the backdrop of a funding system that is unfair, opaque and out of date. The right resources are not reaching the schools that need them most. It is right that we hold all our schools to the same standards; but it cannot be right that some schools have so much less to invest in teachers and resources than other schools with similar pupils and needs. In addition, the way in which we distribute funding to local authorities to support children and young people with high needs is just as out of date and unresponsive.
4. The need to address these problems is longstanding and well recognised across the school system. Changes are urgent, but it is important that such significant reforms are approached with care. We have consulted extensively, in both 2016 and earlier this year, on proposals for reforming the funding system.
5. We have had a truly national debate, with an unprecedented response to our proposals. We are grateful to everyone who took the time to share their views and to respond to the consultations. Over the course of the two stages of consultation, we heard from over 26,000 individual respondents and representative organisations, making almost a quarter of a million individual comments in response to our detailed proposals. We have carefully considered them all, and are now ready to deliver on the government's commitment, and take the historic step of introducing national funding formulae for schools and high needs.
6. This executive summary gives an overview of our response to the second stage consultation and explains our final decisions, taking account of the views we have heard. It sets out the final national funding formulae that will allocate funding for schools and high needs for the next two years. This document is published alongside:
  - a policy document setting out the details of the structure of the reformed funding system and our final formulae for schools, high needs and central school services;
  - the full response to the second stage of the consultation on schools and central school services;
  - the full response to the second stage of the consultation on high needs;

- illustrative tables that show the impact of the national funding formulae over the next two years; and
- an updated equalities impact assessment.

## Our investment in schools and high needs

7. Our final decisions are underpinned by significant investment. On 17 July we announced an additional £1.3 billion for schools and high needs across the next two years, over and above the schools budget set at Spending Review 2015. This further funding will support the introduction of the national funding formulae in 2018-19 and 2019-20.
8. As a result of this investment, core funding for schools and high needs will rise from almost £41.0 billion in 2017-18 to £42.4 billion in 2018-19. In 2019-20 it will rise again to £43.5 billion. The core schools and high needs budget will therefore increase by £2.6 billion between 2017-18 and 2019-20, maintaining the schools and high needs blocks of the dedicated schools grant (DSG) in real terms per pupil up to 2019-20. Spending plans beyond 2019-20 will be set out in a future Spending Review.
9. This additional investment will allow us to increase the basic amount of funding that each pupil will attract through the formula, and provide for a minimum per-pupil funding level, in 2019-20, of £4,800 for every secondary school and £3,500 per pupil for every primary school. In 2018-19, as a step towards these minimum funding levels, secondary schools will attract at least £4,600, and primary schools £3,300. It will provide for up to 6% gains per pupil for underfunded schools by 2019-20, and, as a minimum, a 0.5% per pupil cash increase in 2018-19, and a 1% increase by 2019-20 compared to their baselines, in respect of every school.
10. The schools national funding formula will therefore provide for higher core per-pupil funding in every local area, compared to the funding schools are receiving in 2017-18. These changes, building on the proposals that we set out in December 2016, give us confidence that our historic and vital reforms to the funding system will strike the right balance between fairness and stability for schools.
11. The additional investment will also allow us to make similar increases in the funding for children and young people with high needs. Underfunded local authorities will receive up to 3% gains a year for the next two years, and by 2019-20 every local authority will be receiving more than their current planned spending from 2017-18 DSG, in proportion to their population changes.
12. Of course, how schools spend their money is just as important as the fair allocation of funding. Parents and taxpayers expect schools to look carefully at how they can use their funding so that as much resource as possible is focused on enabling teachers to improve outcomes for pupils. We will continue to increase the support offered to schools to maximise their efficiency – both for individual schools and across the system as a whole.

## The structure of the funding system

13. We have already confirmed much of the basic architecture of the new funding system, building on the first stage consultation in spring 2016.
14. The DSG is currently allocated in three blocks – the schools block, the high needs block and the early years block. Our response to the first stage of the consultation confirmed that we will create a fourth block, the central school services block. This will allocate funding to local authorities for their ongoing responsibilities towards both maintained schools and academies. Each of the four blocks of the DSG will be determined by a separate national funding formula from 2018-19, building on the early years block which has been allocated through a national funding formula since 2017-18.
15. Our intention is that individual school budgets should ultimately be set on the basis of a single national formula (a ‘hard’ funding formula), following a sensible transition period. But we recognise the importance of stability, which was raised throughout the consultation, and it is vital as we move towards fully implementing these significant reforms. Therefore, total schools funding received by each local authority will be calculated fairly and transparently according to our national funding formula. We are publishing notional school-level allocations for 2018-19 to demonstrate the school-level impact of the formula. However, local authorities will continue to set local formulae for determining individual schools’ budgets in 2018-19 and 2019-20, in consultation with schools in their area.
16. In the past, local authorities have had discretion on the movement of funding between the DSG blocks (since 2017-18 local authorities have been required to pass the great majority of their early years block to early years providers). To prepare for the future introduction of a hard formula, and to ensure the vast majority of funding allocated through the national formula reaches schools directly, the schools block will be ring-fenced from 2018-19. Local authorities will be expected to distribute their full schools block allocation through the local formula. Nevertheless, in our consultation, we recognised that a degree of flexibility would be needed to ensure that local authorities could manage other budgets funded through the DSG - for instance their high needs budget – and they will therefore be able to transfer up to 0.5% of their schools block, with the agreement of their schools forum.

## A national funding formula for schools

17. The diagram in figure 1 below sets out the basic design of the schools funding formula and the factors we have decided to include.

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

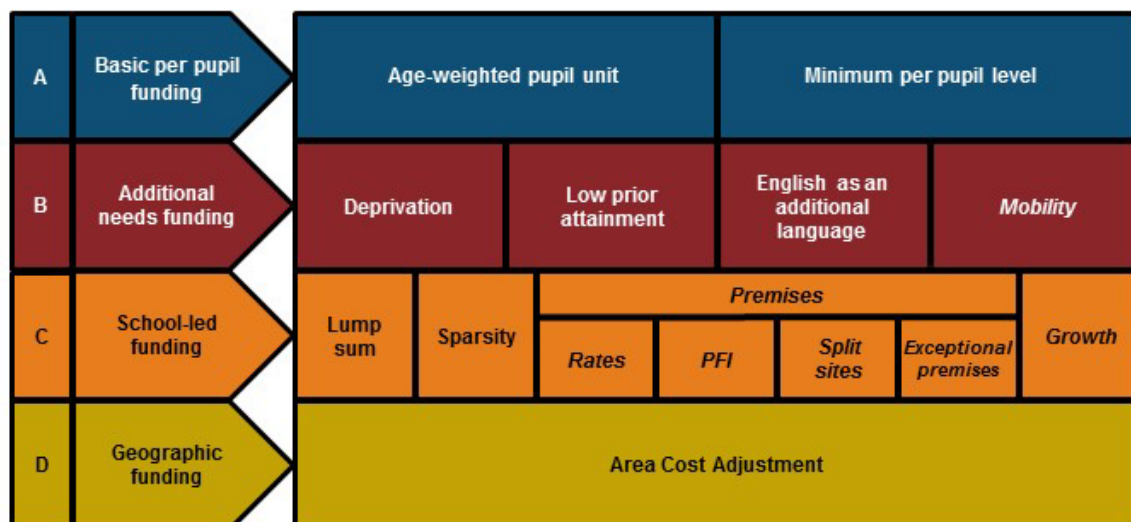


Figure 1: This illustrates the factors that will be taken into account when calculating schools block DSG funding allocations through the national funding formula. It is not designed to scale. Funding for factors in italics will be allocated to local authorities in 2018-19 on the basis of historic spend.

18. Our proposals in December 2016 would have allocated the majority of funding through the basic per-pupil allowance, while protecting the funding directed towards children with additional needs. While we continue to believe that it is right to protect funding for additional needs, there were many representations through the course of the consultation that our proposals for basic per-pupil funding needed to be higher – particularly for the lowest funded schools. With the additional £1.3 billion that we are now investing in overall schools funding, we have prioritised responding to these concerns.

### More money for all pupils

19. Basic per-pupil funding is the fundamental starting point of the formula, accounting for 72.9% of the total formula or £24.2 billion based on 2017-18 pupil numbers. The additional £1.3 billion investment allows us to move forward from our original consultation proposals in three ways:

- (i) **Increasing the age weighted pupil units** to £2,747 for primary, £3,863 for key stage 3, and £4,386 for key stage 4. This means that the amount spent on basic per-pupil funding will rise over the next two years compared to our December 2016 proposals;

- (ii) **Targeting the lowest funded schools by introducing a minimum level of per-pupil funding.** Under the national funding formula all secondary schools will attract minimum per-pupil funding of £4,800 in 2019-20, and all primary schools £3,500<sup>1</sup>. In 2018-19, as a step towards these minimum funding levels, secondary schools will attract at least £4,600 and primary schools at least £3,300. We have made this change following representations received during the consultation that there is a level of additional need in every school that may not be picked up by our proxy indicators of deprivation and low prior attainment. Through this targeted boost over the next two years, schools that attract little additional needs funding through the formula – and are therefore the lowest funded – will be better placed to support the individual needs of all their pupils.
- (iii) **Providing a minimum cash increase in respect of every school.** Every school will attract at least 0.5% more per pupil in 2018-19, and 1% more in 2019-20, than its baseline. This goes over and above the commitment that no school will lose funding as a result of the introduction of the national funding formula.

## Protecting funding for additional needs

20. The consultation confirmed the importance of funding for additional needs – deprivation, low prior attainment, English as an additional language and mobility. Evidence shows that pupils with these characteristics are more likely to fall behind, and so need extra support to reach their full potential. We proposed values and weightings for these that:

- **Protect the actual spend on additional needs by local authorities.** This includes increasing the proportion of spending explicitly allocated to additional needs, to recognise that in areas of high 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.
- **Distribute that funding more fairly and in line with the evidence on attainment,** by:
  - Using both pupil level and area level measures of deprivation. This allows us to reach more than 44% of pupils, with the strongest support for the most deprived, but also reaching more ordinary working families further up the income scale; and
  - Increase the proportion of additional needs spending allocated on the basis of low prior attainment, to give additional support to those pupils

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<sup>1</sup> Middle and all-through schools will attract minimum per pupil funding levels calculated by reference to the year groups they teach.



who may not be economically deprived but who still need help to catch up.

21. We are protecting the values of all the additional needs factors at the level we proposed in our December 2016 consultation with a total spend of £5.9 billion and overall weighting of 17.8%.

## School-led funding

22. We are also confirming our proposals for school-led funding, which totals £3.1 billion or 9.3%. Every school will be allocated a lump sum through the national funding formula of £110,000. For the smallest, most remote schools, we are confirming we will distribute a further £26 million through the sparsity factor. Only 47% of eligible schools received sparsity funding in 2017-18 because some local authorities chose not to use this factor. Under our national funding formula, all eligible schools will attract sparsity funding to their local authority.
23. In 2018-19, the formula will recognise premises costs by allocating funding for schools for business rates, split sites and exceptional premises factors on the basis of historic spend. The formula will also allocate funding for private finance initiative costs (PFI) on the basis of historic spend, with PFI amounts uprated in line with inflation to recognise costs built into PFI contracts.
24. Funding for growth and mobility in the formula will also be allocated on the basis of historic spend. We will consider further how to allocate funding for premises, mobility and growth, to move away from historic spending levels in the longer term, taking account of the consultation responses we received in relation to these areas.
25. As confirmed following the first stage consultation, we will also apply an area cost adjustment to the formula to take account of variation in costs between different parts of the country.

## Transition

26. We have set out our formula for 2018-19 and 2019-20. Spending plans beyond 2019-20 will be set in a future Spending Review. The additional investment we have announced enables us to allocate gains for underfunded schools of up to 3% per pupil per year in each of 2018-19 and 2019-20, whereas our original proposals would have limited gains to 2.5% in 2019-20.
27. As set out above, following the representations we received during the consultation, all secondary schools will attract minimum per-pupil funding of £4,800 in 2019-20, and all primary schools will attract minimum per-pupil funding of £3,500 in 2019-20. The formula will provide a transitional minimum amount of £4,600 in 2018-19 in respect of secondary schools, and a transitional minimum amount of £3,300 in 2018-19 in respect of primary schools.

28. We consulted on including a floor in the formula that would limit reductions to a maximum of 3% per pupil. Because of our additional £1.3 billion investment, we can ensure that no school will lose funding as a result of the formula; instead, the formula will provide a minimum 0.5% cash increase per pupil in 2018-19 and 1% by 2019-20, in respect of every school, compared to their baselines.
29. Under a soft formula, local authorities will determine individual school budgets according to local formulae, following local consultation. They will also have a new discretion over the level of the minimum funding guarantee (MFG), which plays a similar role in local formulae to the funding floor in the national funding formula. From 2018-19 local authorities will be allowed to set the MFG between 0% and minus 1.5% per pupil, following local consultation. This protects schools from excessive turbulence, but ensures local authorities have the flexibility to move towards the national funding formula values whilst reflecting other local circumstances where necessary.

## Impact

30. The additional £1.3 billion we are investing in schools and high needs means that all local authorities will receive some increase per pupil in 2018-19, over the amount they plan to spend on schools in 2017-18. The increase to the basic per-pupil amount means that every school will attract a higher level of per-pupil funding than it would have done under the December 2016 proposals. Under our national funding formula, all schools will attract higher funding in 2018-19, compared to their baseline.
31. If the national funding formulae was fully implemented, without transition:
- The lowest funded secondary schools (schools which would have below the minimum per-pupil funding level, under our December 2016 proposals) will gain on average 4.7% compared to a gain of 0.3% in our December 2016 proposals;
  - Rural schools will gain on average 3.9%, compared to a gain of 1.3% in our December proposals, with sparse schools gaining 5.0% compared to 3.3%
  - Schools with the lowest prior attainment will gain 3.8% on average, compared to 1.8% in our December 2016 proposals;
  - All local authorities will have one or more schools who are gaining through the formula as a result of the decision to raise the funding floor to 0.5% in 2018-19, and 1% in 2019-20.
32. We published a detailed equalities impact assessment in December 2016 and have updated this to reflect our final formula. For further details please see the equalities impact assessment, which is published alongside this document.

## A national funding formula for high needs

33. The diagram in figure 2 below sets out the basic design of the high needs funding formula and the factors we have decided to include.

Figure 2: The factors and calculations in the national funding formula

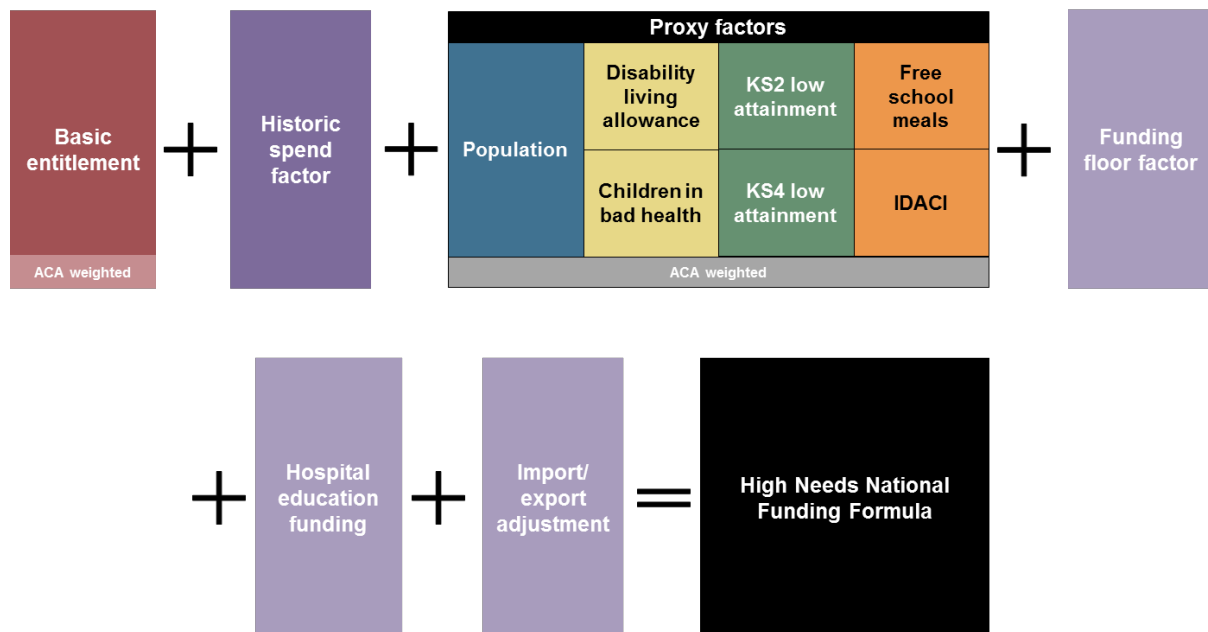


Figure 2: This diagram shows how the factors are added together to give the formula allocation, with an area cost adjustment applied to the proxy factors and basic entitlement.

34. The basic entitlement ensures that local authorities receive resources for all the pupils that they fund in their area, with £4,000 for each pupil in a special school. It provides an equivalent to the funding that mainstream schools get for all their pupils, and that colleges receive through the 16-19 national funding formula.

35. The historic spend factor attracts £2.7 billion in 2018-19, based on 50% of local authorities' existing high needs spending. This reflects both the importance of giving local authorities stability as we move towards a fairer distribution of funding, and the importance of recognising that some of the factors driving current spending will take time to change, as local authorities review and develop their local offer, plan ahead and decide carefully where to spend more and where to spend less.

36. The proxy factors are designed to target funding to local authorities in proportion both to their size, as indicated by their population of 2 to 18 year olds, and to their relative level of need. The small collection of measures relating to deprivation,

low attainment and health and disability we are using have been found to offer an appropriate way of matching funding to the level of need in different areas.

37. As a result of the overall increase in funding for high needs that is available for distribution, and taking account of responses we received to the consultation, we are able to:
- raise the funding floor to provide an uplift of 0.5% per head in 2018-19 and 1.0% per head by 2019-20 over the relevant 2017-18 high needs spending baseline (the equivalent of the funding floor in the schools formula), while keeping the gains cap at 3% in each year;
  - ensure that the funding floor and gains cap reflect any year-on-year increase in population by using a per head calculation; and
  - prevent any local authority with a falling 2-18 population from going below their 2017-18 baseline in cash terms.

## Transition

38. We have set out our formula for 2018-19 and 2019-20. Spending plans beyond 2019-20 will be set in a future Spending Review.
39. As well as the increases that 81 local authorities will receive through the funding floor factor in the formula, those that are underfunded according to the formula will be able to gain up to 3% a year, in proportion to any increase in their 2-18 population, in 2018-19 and 2019-20.

## Impact

40. The distribution of gains under the high needs formula is broadly similar to that illustrated in the December 2016 consultation. 56 local authorities are due to receive gains of more than 3% by 2019-20. The funding floor will protect all local authorities over the next two years to a greater extent than was proposed in the consultation. By calculating both the funding floor and the gains on the basis of population projections, we are making sure that those local authorities with population growth will not be disadvantaged. This is an important change reflecting comments received during the consultation.
41. We published a detailed equalities impact assessment in December 2016 and have updated this to reflect the final high needs funding formula. For further details please see the equalities impact assessment, which is published alongside this document. The final formula will distribute additional funding to local authorities, and offer greater protection because of the changes to the funding floor. This will benefit children and young people with high needs, including those with disabilities and other protected characteristics.

## A national funding formula for central school services

42. The central school services block is designed to reflect the ongoing local authority role in education. We are confirming that we will distribute £241m in 2018-19 for local authorities' ongoing responsibilities using a simple formula which distributes 90% of funding according to a per-pupil factor and 10% of funding according to a deprivation factor. Both elements will be adjusted for area costs. We have already confirmed that funding for historic commitments will be allocated based on evidence, with the expectation that historic commitments will unwind over time, for example when a contract has reached its end point.

### Transition

43. Given the extremely wide range in current expenditure for ongoing responsibilities, it is important that we balance the rate of change against the need to make progress towards the formula.
44. The transition to the formula for ongoing responsibilities will be gradual. As set out in the second stage consultation, we will put in place a protection that restricts reductions to minus 2.5% per pupil in 2018-19 and 2019-20. In order to afford the protection, year-on-year gains will be capped annually and will depend on the precise composition of the central school services block in each year. In 2018-19, gains of up to 2.5% per pupil will be allowed.

### Impact

45. Under the central school services block formula, 87 local authority areas will see funding increase. Local authorities that have been spending considerably more than the average, per pupil, will typically see reductions in funding. The protection will however ensure that no local authority will face losses of more than 2.5% per pupil in 2018-19 or 2019-20.

## Implementation and next steps

46. Alongside this document, we are confirming the primary and secondary per-pupil rates – derived from the national funding formulae – that will be used to set local authority schools block allocations in 2018-19. In December, we will confirm final local authority allocations by multiplying these per-pupil rates by the final pupil numbers from the October census. All local authorities will see an increase in their funding for schools, compared to their 2017-18 baselines.
47. Local authorities will continue to set local school formulae to distribute the funding provided by the national funding formula, in consultation with schools in their area in 2018-19 and 2019-20. Local authorities are currently developing their formulae for 2018-19, based on the schools revenue funding [operational guide](#) we published in August. They will continue to develop formulae and consult, before finalising school budgets in the spring of 2018.
48. We have also published allocations of high needs funding, indicating how much each local authority will receive in 2018-19 for the great majority of its allocation, and clear per-pupil rates for the remainder. This is the first year that we have been able to provide such detail and certainty on high needs funding allocations in advance of the December DSG announcement, showing the increases that each local authority will receive over what they planned to spend from their 2017-18 DSG allocation.
49. We will also publish the high needs revenue funding operational guide later in September, setting out the detailed operational arrangements for the distribution of high needs funding to schools, colleges and other institutions.

## Conclusion

50. The need for reform of the unfair system for funding schools and high needs cannot be resisted any longer, especially for a government which has social mobility at its heart. Our extensive consultation on these reforms, and the additional investment that we are making, have allowed us to finalise and improve on the proposals we published in December 2016, with every school's and every local authority's allocation now rising once the formula is introduced. As we move to implement these changes, and to provide more support to make the best use of the resources that will be available, we are confident that we are providing a strong foundation upon which all those on the front line will be able to continue to build a world-class education system that raises standards for all and helps to drive real social mobility.



Department  
for Education

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