



Department  
for Education

# **School revenue funding**

**Current funding arrangements**

**March 2016**

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## The current funding system

Core revenue schools funding is distributed through the dedicated schools grant (DSG), which will total £40.22 billion in 2016-17<sup>1</sup>.

As depicted in figure 1 below, the dedicated schools grant is split into 3 blocks: the schools block, the high needs block and the early years block. These blocks are notional, and local authorities are free to move funds between them.

Local authorities also currently receive funding through the education services grant, for education services provided to all pupils or to maintained school pupils only. The education services grant is also allocated to academies to provide the equivalent services.

Additional funding includes:

- 16-19 funding
- pre- and post-opening grants for new academy convertors, sponsored academies and new free schools
- other specific grants for schools

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<sup>1</sup> Education Funding Agency, '[Dedicated schools grant allocations: 2016 to 2017 financial year](#)', December 2015

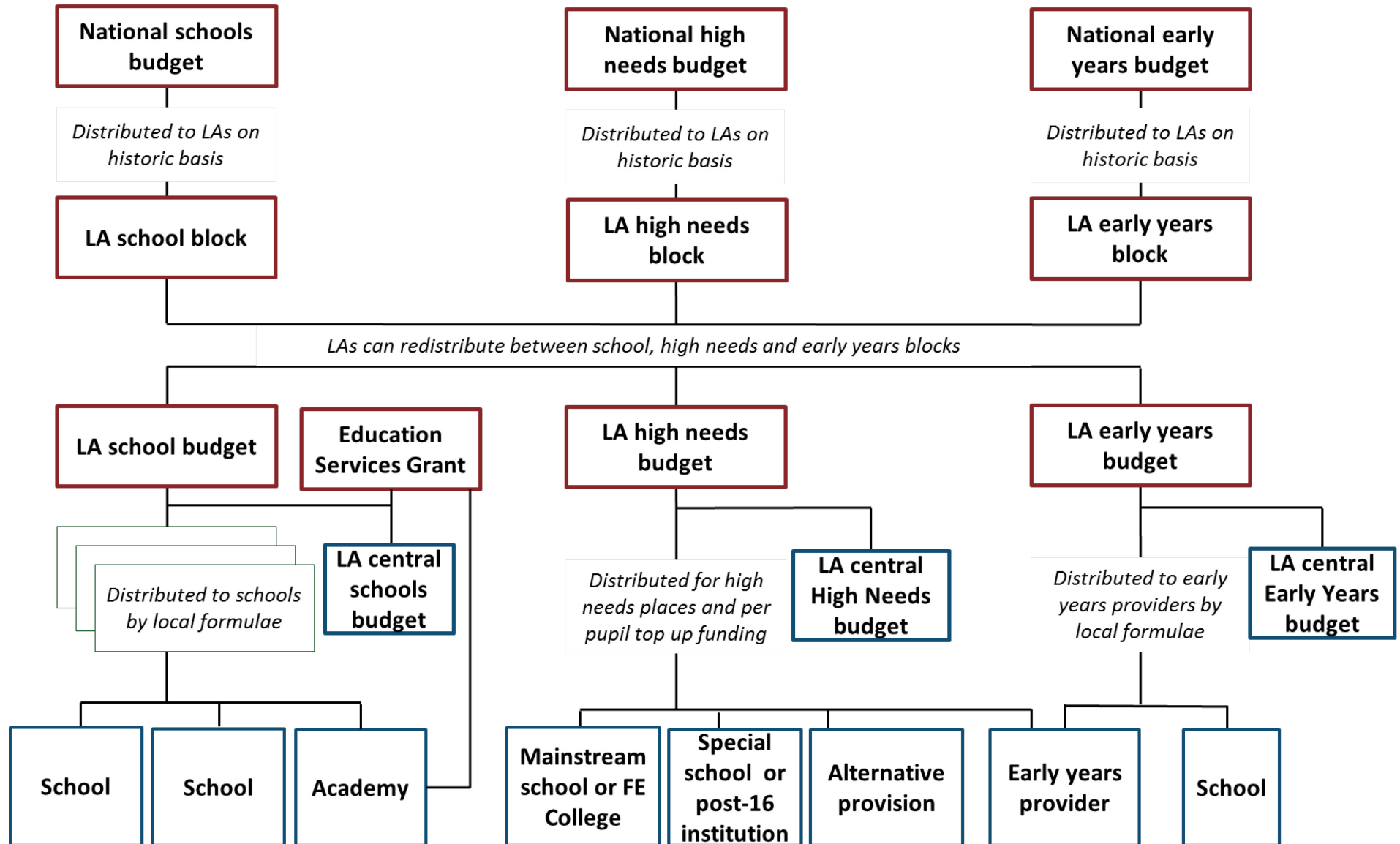
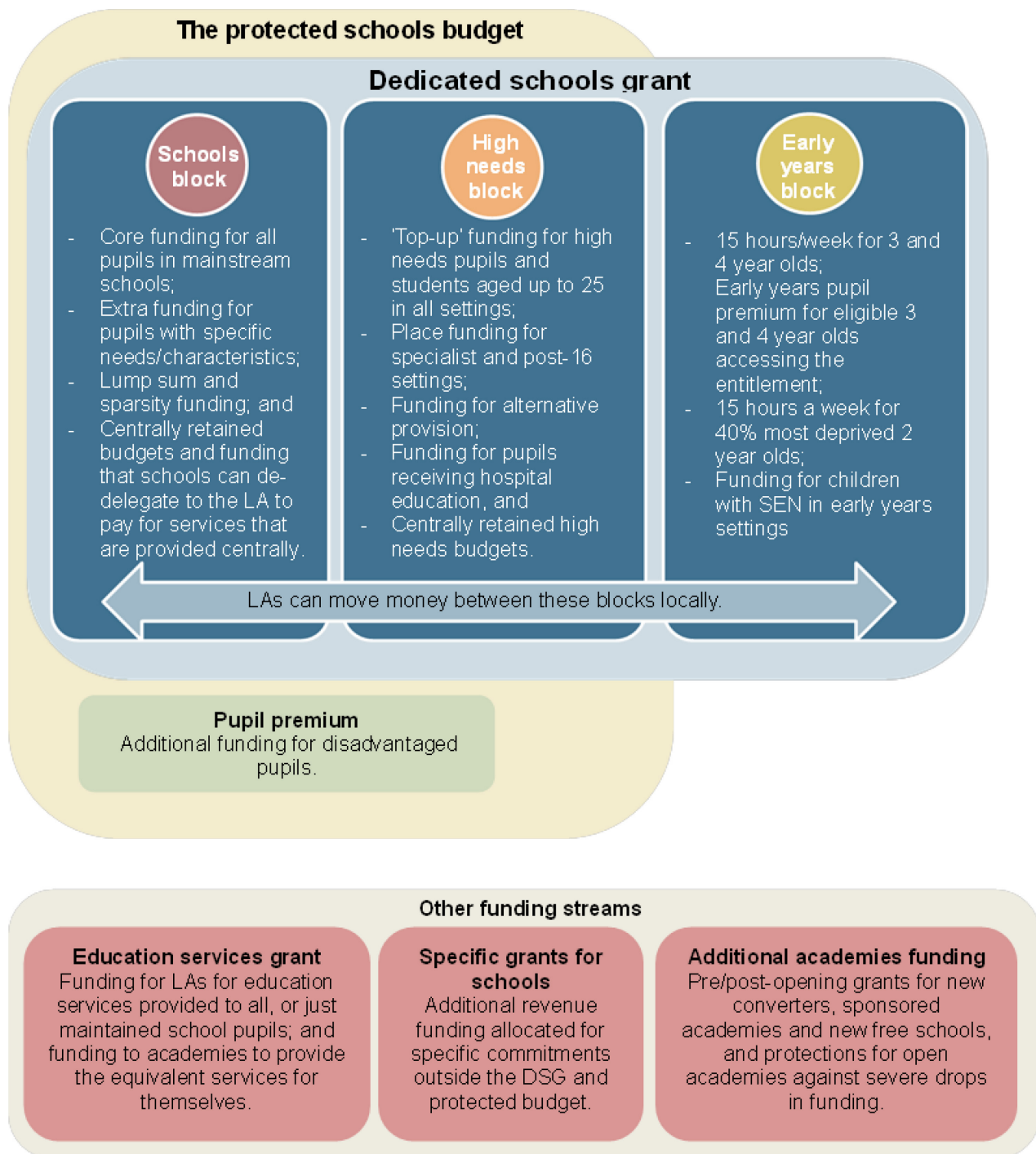


Figure 1: Current distribution of the dedicated schools grant (DSG) and education services grant (ESG)



**Figure 2: Current school revenue funding streams**

## Schools block

1. A per-pupil amount is set for each local authority, called the 'schools block unit of funding' (SBUF). This SBUF is multiplied by the number of pupils in each local authority as reported in the annual October pupil census to calculate the total schools block funding for each local authority for the following financial year.

2. To allocate funding to individual schools in their area, each local authority, in consultation with the local schools forum, designs its own funding formula. Local authorities may use the factors set out in the table below in their local formulae and are required to allocate at least 80% of funding through pupil-led factors (factors 1-6). There are also 2 compulsory factors which must be included in any formula: an age-weighted pupil unit and a deprivation factor.

Factor	Further information
<p><b>1. Basic entitlement</b></p> <p>A compulsory factor</p>	<p>Funding allocated to individual pupils according to an age-weighted pupil unit (AWPU). There must be a single rate for primary age pupils, of at least £2,000. There may be different rates for key stage 3 and key stage 4, with a minimum of £3,000 for each.</p>
<p><b>2. Deprivation</b></p> <p>A compulsory factor</p>	<p>Local authorities may choose to use free school meals and/or the Income Deprivation Affecting Children Index (IDACI). Free meals can be measured either at the previous October census or “ever 6” - which reflects pupils entitled to free meals at any time in the last 6 years – but not both. The IDACI measure uses 6 bands and different values can be attached to each band. Different unit values can be used for primary and secondary.</p>
<p><b>3. Prior attainment</b></p> <p>An optional factor (although it is used by almost all local authorities).</p>	<p>May be applied for primary pupils identified as not achieving the expected level of development within the early years foundation stage profile (EYFSP) and for secondary pupils not reaching L4 at KS2 in either English or maths. It acts as a proxy indicator for low level, high incidence special educational needs.</p> <p>The EYFSP changed in 2013, so a weighting may be used to ensure that funding delivered through the primary prior attainment factor is not disproportionately affected by the year groups (years 1 to 3) assessed under the new framework.</p>
<p><b>4. Looked-after children</b></p> <p>An optional factor</p>	<p>A single unit value may be applied for any child who has been looked after for one day or more.</p>
<p><b>5. English as an additional language (EAL)</b></p> <p>An optional factor</p>	<p>EAL pupils may attract funding for up to 3 years after they enter the statutory school system. Local authorities can choose to use indicators based on one, two or three years and there can be separate unit values for primary and secondary.</p>
<p><b>6. Pupil mobility</b></p> <p>An optional factor</p>	<p>This measure counts pupils who entered a school during the last three academic years, but did not start in August or September (or January for reception pupils).</p> <p>For a school to be eligible, more than 10% of its pupils in the past three years must be ‘mobile’.</p>

Factor	Further information
<p><b>7. Sparsity</b> An optional factor</p>	<p>A sparsity distance is calculated for each school. Pupils for whom it is their closest compatible school are identified, and then the average (mean) distance to the second nearest compatible school for these pupils is calculated.</p> <p>In addition, the number of pupils in a school is divided by the number of year groups to determine the size of the average year group.</p> <p>Two qualification criteria for attracting sparsity funding must be met if schools are to attract sparsity funding:</p> <ul style="list-style-type: none"> <li>• Primary schools qualify if the sparsity distance is greater than 2 miles and the average size of the year group is less than 21.4.</li> <li>• Secondary schools qualify if the sparsity distance is greater than 3 miles and the average size of the year group is less than 120.</li> <li>• Middle schools qualify if the sparsity distance is greater than 2 miles and the average size of the year group is less than 69.2.</li> <li>• All-through schools qualify if the sparsity distance is greater than 2 miles and the average size of the year group is less than 62.5.</li> <li>• Local authorities can reduce the pupil numbers and increase the distance criteria. The maximum amount which can be allocated to an individual school through this factor is £100,000 (including fringe uplift) and the value can be different for each phase of school.</li> <li>• Local authorities can choose whether to use a single amount for all sparse schools, or to use a tapered amount which increases the smaller the school.</li> <li>• Local authorities can apply for an exceptional factor to allocate up to an additional £50,000 of sparsity funding at very small secondary schools where the total number on roll is 350 or less, where the sparsity distance is 5 miles or more, and where pupils in years 10 and 11 are present.</li> </ul>
<p><b>8. Lump sum</b> An optional factor (although in 2015 to 2016 it was used by all local authorities)</p>	<p>Local authorities can set different lump sums for primary and secondary (middle schools receive a weighted average based on the number of year groups in each phase). The maximum lump sum is £175,000, including London fringe uplift.</p> <p>Where schools amalgamate, they will retain 85% of the combined lump sums in the year after the amalgamation instead of receiving just a single lump sum immediately. Local authorities may apply to vary the additional payment</p>



Factor	Further information
	<p>in exceptional circumstances.</p> <p>Local authorities may apply to use an exceptional factor to pay a further allowance to amalgamating schools in the second year after amalgamation.</p>
<p><b>9. Split sites</b> An optional factor</p>	<p>The purpose of this factor is to support schools which have unavoidable extra costs because the school buildings are on separate sites. Allocations must be based on objective criteria, both for the definition of a split site and for how much is paid.</p>
<p><b>10. Rates</b> An optional factor (although in 2015 to 2016 it was used by all local authorities)</p>	<p>These must be funded at the authority's estimate of the actual cost. Adjustments to rates may be made during the financial year but outside of the funding formula.</p> <p>The effect on the school would be zero since any rates adjustment will be offset by a change in the cost of the rates.</p>
<p><b>11. Private Finance Initiative (PFI) contracts</b> An optional factor</p>	<p>The purpose of this factor is to support schools which have unavoidable extra premises costs because they are a PFI school and/or to cover situations where the PFI "affordability gap" is delegated and paid back to the local authority. Allocations must be based on objective criteria, capable of being replicated for any academies in the authority area.</p>
<p><b>12. London fringe</b> An optional factor, but only for the five local authorities to which it applies (Buckinghamshire, Essex, Hertfordshire, Kent and West Sussex)</p>	<p>The purpose of this factor is to support schools which have to pay higher teacher salaries because they are in the London fringe area, and where only part of the authority is in this area. It is applied as a multiplier of 1.0156 to the relevant factors.</p>
<p><b>13. Post-16</b> An optional factor, but can only be used where the local authority had such a factor in 2015-16</p>	<p>A per-pupil value which continues funding for post-16 pupils up to the per pupil level that the authority provided in 2015-16.</p>
<p><b>14. Exceptional premises factors</b> Local authorities can apply to EFA to use exceptional factors relating to premises. The most frequently approved factors are for rents and</p>	<p>The exceptional factors must relate to premises costs and applications should only be submitted where the value of the factor is more than 1% of a school's budget and applies to fewer than 5% of the schools in the authority's area.</p>

Factor	Further information
for joint-use sports facilities.	

**Table 1: Current allowable local formula factors**

Source: EFA (2015), [‘Schools funding 2016 to 2017: operational guide’](#), July 2015

3. The local authority set funding formula is used to allocate funding to both maintained schools and academies. However, the Education Funding Agency allocates funding directly to academies and not the local authority.
4. For pre-16 pupils with special educational needs (SEN) at mainstream schools and academies without specialist provisions, local authorities must provide these schools and academies with sufficient funding in their delegated budget to enable them to support these pupils’ needs, up to the cost threshold of £6,000 per pupil per year. This is called the notional SEN budget. Local authorities must specify how much of the funding a school receives through the school funding formula constitutes its notional SEN budget. Should a pupil require further support which costs more than £6,000, the additional funding required should be met by top-up funding from the local authority placing the child at the school. Top-up funding rates are agreed locally.

## Minimum funding levels

5. In 2015-16, the department allocated an additional £390 million to the 69 local authorities considered to have been unfairly funded in previous years as part of the Minimum Funding Level (MFL) reforms.
6. The methodology for calculating minimum funding levels for the schools block, and the allocation of the additional £390m, was developed to allocate funding according to need.
7. A minimum level of funding was set for certain pupil and school characteristics, such as a core amount of funding for each pupil, an additional amount each deprived pupil should attract, and an amount each school should attract as a lump sum for fixed costs (see below for a full list). The department then looked at the characteristics of pupils and schools in each local authority, and calculated the funding they should receive based on the MFLs that had been set. Local authorities who would otherwise have received an amount below this minimum level of funding received an uplift to their budgets to meet it.
8. Minimum funding levels were set for:
  - basic per-pupil funding
  - deprivation

- low prior attainment
- English as an additional language
- Looked-after children
- lump sum
- sparsity

9. In July 2016, the per-pupil funding rates for each local authority for 2016-17 were announced. It was confirmed that the additional £390 million had been included in the baselines for school funding allocations for 2016-17, meaning that the 69 local authorities who received additional funding in 2015-16 will continue to receive this.<sup>2</sup>

## Minimum funding guarantee

10. The minimum funding guarantee is a protection for schools against significant year-on-year changes in pupil-led funding. For 2016-17, it limits the reduction in a school's pupil-led schools block funding to 1.5%. The MFG only applies to pupils in age ranges 5-16, and therefore excludes funding for early years children and young people over 16.

11. Gains in schools' per-pupil funding may be capped and scaled back to ensure that the funding of other schools in a local authority does not decrease by more than 1.5%. Capping and scaling may only be applied to the extent that it offsets the costs of the Minimum Funding Guarantee and it must be applied on the same basis to all schools.

## Centrally retained budgets

12. With the agreement of the local schools forum, local authorities can retain funding centrally for some services before allocating funding to individual schools through the formula. However, for most services local authorities cannot increase the amount they have retained centrally above the value agreed in the previous funding period and they cannot enter into new commitments to retain funding for certain services if they did not already centrally retain funding for these services.

13. Schools forums are also required to decide whether funding is pooled centrally, and held by the local authority, to cover the provision of school support services for maintained schools, otherwise termed as 'de-delegated services.' By default, funding for these services are delegated to individual school budgets, so there has to be a collective decision to centrally pool funds. For academies and free schools (schools not maintained by the local authority) funding for these services is routinely included in their

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<sup>2</sup> Sam Gyimah MP, ['School funding for 2016 to 2017'](#), July 2015

individual budgets. However, these schools can choose to 'buy back' these services from the local authority.

## High needs block

14. High needs funding supports 0-25 year olds with SEN and disabilities. It also supports those of school age who are not in school because they are excluded or otherwise not able to attend school. Alternative provision (AP) for such children and young people includes pupil referral units and hospital schools.

15. A child has 'high needs' if their education costs more than approximately £10,000 per year.

16. Funding is allocated to local authorities based on their past spending patterns, with some adjustments to take into account the expanded 0-25 age range and to reflect other funding changes introduced in 2013.

17. The distribution of high needs funding to schools, colleges and other institutions has two main components:

1) **Core funding:** this is allocated in a number of ways, including mainstream schools' and academies budgets, derived from the schools block and the local funding formulae. All post-16 providers, including schools and further education (FE) colleges, receive an allocation of funding through the 16-19 national funding formula (sometimes called element 1), plus an amount per high needs place of £6,000 (sometimes called element 2). Special schools and academies, and special units within mainstream schools and academies, receive place funding of £10,000 per place, which is drawn from the high needs block. The core funding is paid either by local authorities, for maintained schools and other maintained institutions, or by the Education Funding Agency (EFA).

2) **Top-up funding:** allocated by local authorities from their high needs budgets. If the cost of providing for a pupil with high needs is more than allocated through the core funding or place funding, the local authority will allocate the institution additional funding to enable a pupil or student with high needs to participate in education and learning. It is for the local authority to determine how much top-up funding it allocates, but top-up funding rates should reflect the additional support costs an institution incurs.

18. Local authorities also use their high needs budget to pay for central services relating to SEN and disability, and AP.

19. The following table sets out the arrangements for funding high needs provision in different types of institution.

Type of Provision	Pre-16		Post-16	
	Core funding	Top-up funding	Core funding	Top-up funding
Mainstream schools Mainstream academies	Funding to meet first £6,000 of additional support costs, delegated within school budget and academy grant derived from local formula.	Agreed per-pupil top-up funding paid by commissioning local authority (LA)	Element 1 (based on 16-19 national funding formula), plus element 2 (£6,000) based on number of places to be funded <sup>3</sup>	Agreed per-pupil top-up funding paid by commissioning LA
Special units and resourced provision in mainstream schools Special units and resourced provision in mainstream academies	£10,000 per place based on number of places to be funded <sup>3</sup>	Agreed per-pupil top-up funding paid by commissioning LA	Element 1 (based on 16-19 national funding formula), plus element 2 (£6,000) based on number of places to be funded <sup>3</sup>	Agreed per-pupil top-up paid by commissioning LA
Maintained special schools Special academies Non-maintained special schools	£10,000 per place based on number of places to be funded <sup>3</sup>	Agreed per-pupil top-up funding paid by commissioning LA	£10,000 per place based on number of places to be funded <sup>3</sup>	Agreed per-pupil top-up paid by commissioning LA
Independent special schools and AP	N/A	Agreed per-pupil funding paid by commissioning LA	N/A	Agreed per-pupil funding paid by commissioning LA
Pupil referral units – maintained AP academies	£10,000 per place based on number of places to be funded <sup>4</sup>	Agreed per-pupil top-up funding paid by commissioning school or LA	N/A	N/A

<sup>3</sup> The methodology for determining the number of places to be funded has changed from year to year since 2013, and varies according to the type of institution. Information sources have included place number data collected from local authorities and institutions, school census (for schools) and individualised learner records (for FE institutions), and use of the previous year's numbers.

<sup>4</sup> Since 2015 the number of places to be funded has been determined by LAs, taking into account any AP required by their maintained schools and academies. In the first 2 years of an AP free school, the number of places is determined by the EFA on the basis of estimated and actual places required.

Type of Provision	Pre-16		Post-16	
	Core funding	Top-up funding	Core funding	Top-up funding
FE and sixth form colleges, special post-16 institutions and commercial and charitable providers	N/A	N/A	Element 1 (based on 16-19 national funding formula), plus element 2 (£6,000) based on number of places to be funded <sup>3</sup>	Agreed per-pupil top-up paid by commissioning LA

**Table 1: Funding arrangements for high needs provision**

20. Hospital education is a form of AP and is provided in an institution or at the child's or young person's home because that is where a medical practitioner has decided that the child is to receive his or her health care. It is funded either on the basis of an amount per place, or as a centrally funded local authority service. In both cases the per-place and service funding levels are based on the amounts that the local authority was spending in 2012-13, with some adjustments since then to reflect changing hospital provision.

21. Funded hospital education places can be found in maintained special schools (typically referred to as hospital schools), in pupil referral units or PRUs maintained by a local authority (sometimes known as medical PRUs), and in special and AP academies. Some local authorities may commission the delivery of hospital education services through such institutions, or may provide them directly. Local authorities' duties may also require them to commission hospital education from independent providers.

## Education services grant

22. The education services grant funds local authorities to fulfil statutory duties that they retain for pupils in both maintained schools and academies, and to provide education services to maintained schools. Academies also receive education services grant to provide the equivalent services for themselves. The grant is intended to cover the provision of the following services:

- statutory and regulatory duties
- school improvement
- education welfare services
- central support services
- asset management
- premature redundancy and retirement

- therapies
- monitoring national curriculum assessment

23. ESG is paid on a simple national per pupil rate (the 'general funding rate') to local authorities for the services they carry out for pupils in maintained schools; and to academies directly. Local authorities receive an additional £15 per pupil to cover statutory duties they retain for pupils in both maintained schools and academies (the "retained duties" rate).



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