



Department
for Education

Schools national funding formula

Government consultation – stage one

Launch date 7 March 2016

Respond by 17 April 2016

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Foreword by Sam Gyimah MP

Education lies at the heart of this government's social justice agenda. We are committed to providing world-class education to allow every child and young person to achieve to the best of their ability regardless of location, prior attainment and background. That's why at the spending review 2015 we ensured there was a real terms protection for the national schools and high needs budgets over the parliament, and an extra £300 million to increase early years funding.

However, the system we have for distributing this funding to schools is holding us back. It is out of date, arbitrary and unfair. Schools receive very different levels of funding, often for no good reason. There is no level playing field: it matters where you live.

The process of reform started in the previous parliament. £390 million was added to the funding of the least fairly funded areas. Schools in areas as varied as Devon, Sutton, Bolton, Barnsley, Bromley and Medway all benefitted.

But there's still further to go. The additional £390 million was a first step towards a fair solution that covers all of school funding. Not just funding for mainstream schools but for pupils with high-cost special educational needs as well. Now this consultation and the parallel document on funding for pupils with high needs set out our plans for national funding formulae, so that funding is matched to all pupils', schools' and areas' needs, and not merely handed out on the basis of their circumstances a decade ago.

These are important and significant reforms to get right and that is why we will be consulting in two stages. First, we will debate the principles that must underpin a fairer system, and the building blocks for the national formulae. In the second stage, informed by the debate, we will set out the detail of the formulae and illustrate the impact on schools. Later this year we will also say more about our important plans for a national funding formula for early years.

The reforms we are proposing here are transformative. It will no longer be possible for a pupil with low prior attainment to attract an additional £2,248 to their school in one area, and just an additional £36 in another. Instead of 152 different local funding formulae for schools, there will be one, national formula, reflecting the increasing number of academies outside of local control. It will end the current postcode lottery and ensure all pupils are given the best opportunity to achieve to the best of their ability. This is at the heart of making us One Nation.



Sam Gyimah MP

Introduction

We are consulting on the introduction of a national funding formula for schools. The consultation sets out how we propose to deliver a fair, transparent funding system where the amount of funding children attract for their schools is based on need and is consistent across the country.

Who this is for

- maintained schools
- academies
- local authorities
- multi-academy trusts
- schools forums
- headteachers and teachers
- school governors
- parents
- representative bodies and special interest groups

Issue date

The consultation was issued on 7 March 2016.

Enquiries

If your enquiry relates to the policy content of the consultation you can contact the team by emailing SchoolsNationalFundingFormula.CONSULTATION@education.gsi.gov.uk.

If your enquiry relates to the DfE e-consultation website or the consultation process in general, you can contact the DfE Ministerial and Public Communications Division by email at consultations.coordinator@education.gsi.gov.uk, 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 this year.

About this consultation

This is the first of 2 planned consultations on the national funding formula for schools. At this stage we are seeking views on:

- the principles that underpin the formula
- the building blocks we use to construct the formula
- the factors we include in the formula

We are also seeking views on the structure of the formula, in particular on our proposals to:

- introduce a school-level national funding formula where the funding each pupil attracts to their school is determined nationally
- implement the formula from 2017-18, allocating funding to local authorities to distribute according to a local formula for the first 2 years, and then setting each school's funding directly from 2019-20
- allocate some funding to local authorities to distribute where there is a need for local flexibility, and to create a central funding block for local authorities' ongoing duties
- ensure stability for schools through the minimum funding guarantee and by providing practical help, including an 'invest to save' fund

The second consultation will cover how we propose to balance different factors in the national funding formula, and the impact of the formula on funding for individual areas and schools.

We are seeking views alongside this on proposals to introduce a high needs national funding formula for children and young people with special educational needs.

Respond online

To help us analyse the responses please use the online system wherever possible.

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 download a word document version of the form and email it or post it.

By email

- SchoolsNationalFundingFormula.CONSULTATION@education.gsi.gov.uk

By post

Funding Policy Unit
Department for Education
Great Smith Street
London
SW1P 3BT

Deadline

The consultation closes on 17 April 2016.

Chapter 1: reforming the funding system

1.1. We want to develop a system for funding schools that is fair and transparent, with resources matched to pupils' and schools' characteristics consistently across the country. Achieving fairness in the way that educational provision is funded for all children is crucial to this government's objective of providing world-class education that allows every child and young person to achieve to the best of his or her ability regardless of location, prior attainment and background.

1.2. A significant step was made towards this in 2015-16, when £390 million was added to the funding of relatively under-funded local authorities to bring them up to minimum funding levels¹. But the case for further reforming the school funding system, as outlined in the case for change and consultation summary, is strong and the need to do so is pressing. The reforms that we are proposing in this consultation are underpinned by the following 7 principles:

- **A funding system that supports opportunity**

The funding system should support schools and local authorities to extend opportunity to all pupils. Reliable and robust data about pupils' characteristics should determine the resources their schools receive, in a consistent way around the country. The funding system should support educational excellence everywhere.

- **A funding system that is fair**

Each school's funding should directly relate to the characteristics of the pupils in it. Variations in funding should be due to differences in pupil characteristics and specific circumstances – not due to historic allocations based on out-of-date data. We do not believe it is possible to achieve true fairness while we have 152 different local school funding formulae. Instead, the great majority of each school's funding should be determined by a single, national formula which uses objective and robust measures of pupil and school characteristics.

- **A funding system that is efficient**

Schools and local authorities should be operating on a level playing field, where funding is matched to need. At the moment, some schools and areas are under-funded relative to others and so find it harder to respond to cost pressures. Greater consistency of funding across the education sector would make it easier for head teachers, governing bodies, multi-academy trusts and local authorities to compare their spending and outcomes with other schools and areas and identify ways in which they could improve. It

¹ Department for Education, '[Fairer schools funding: arrangements for 2015 to 2016](#)', March 2015

will direct resources to where they are most needed, allowing the school system as a whole to be more efficient. Calculating funding using a single national funding formula will – over time – create a level playing field.

- **A funding system that gets funding straight to schools**

The 2015 spending review protected the national schools budget in real terms. Every pound of that budget matters: costs are rising and we must work harder than ever to make sure the education budget delivers educational excellence everywhere. The funding system should get as much funding as possible straight to schools, empowering school leaders to maximise the resources available for teaching and learning.

- **A funding system that is transparent**

Schools, multi-academy trusts and local authorities should be able to understand how their funding has been constructed and why it varies compared to other similar schools and areas. In the current system local authorities themselves are starting from very different places. The funding that we allocate to local authorities has not kept pace with demographic change over time. The differing decisions local authorities have taken in the past about local spending priorities are reflected in formulae and school funding today. With a single national formula schools will know the funding they are going to receive and how that is likely to change over time.

- **A funding system that is simple**

The current funding system is unnecessarily complicated. A national funding formula would help to achieve the right balance between simplicity and a system that is able to respond to changes in need. When considering the building blocks of the national funding formula, we have been mindful of the need to balance simplicity with accuracy, where more detailed factors are required to ensure funding is properly aligned to need.

- **A funding system that is predictable**

Introducing a national funding formula will be a clear departure from the current system. This is the right thing to do, but we are determined to introduce change at a pace that is manageable, and to give schools and local authorities sufficient notice so that they can manage and plan for year on year changes.

1.3 As set out in the case for change and consultation summary, the current system for funding schools fails to meet these principles. The rest of this consultation sets out our proposals for reforming the system so that it does.

Question 1

Do you agree with our proposed principles for the funding system?

The structure of the funding system

1.4 The dedicated schools grant (DSG) is the main grant that the government gives to local authorities for education provision in their area. The future of the DSG is the main focus of these funding reforms – **the pupil premium, pupil premium plus and the service premium will continue to operate through the separate pupil premium grant²**, and will be unaffected by the proposals in this consultation. [Paragraphs 2.71 to 2.75](#) outline a proposal that would affect the pupil premium plus.

1.5 The DSG is currently divided into 3 blocks: schools; high needs; and early years. The first change propose to make is to **create a fourth block of the DSG, the ‘central schools block’**. This block would contain funding for central schools services, historic local authority spending commitments on schools and the retained rate of the education services grant. Proposals for the central schools block are set out in [chapter 4](#).

1.6 We propose to calculate the schools block according to a national funding formula, and intend that this would be at **school level from 2019-20**. This means that the vast majority of funding each pupil attracts to their school would be determined nationally, not according to a local formula. There is more detail on this in the following section ([paragraphs 1.8 to 1.11](#)). For 2017-18 and 2018-19, the national funding formula would be used to calculate the schools block, but local authorities would continue to distribute this funding according to their local formula. The national funding formula would replace the current schools block unit of funding (SBUF) that local authority funding has been based on since 2013-14.

1.7 Finally, we are proposing to require authorities to **pass on all of their schools block funding to schools**. Local authorities, in consultation with their schools forum, are currently able to divide their total DSG across the DSG blocks as they see fit – that is, they can spend schools block funding on high needs, or early years block funding on schools. As we move towards a fair funding system based on need, then there is a strong case for restricting this flexibility, which is discussed in more detail in [chapter 3](#).

² The pupil premium and service premium are unaffected by proposals in this consultation. [Paragraphs 2.71 to 2.75](#) explain a proposal to increase the pupil premium plus rates instead of including a looked-after children factor in the national funding formula for schools.

A school-level national funding formula

1.8 In order to meet our objectives of fairness, efficiency, devolution and transparency, and to reflect the increasing number of academies, we are proposing – over time – to move to a system whereby a pupil would attract the same amount of funding to his or her school no matter where they are in the country. This requires a **school-level national formula**, in which the funding that each pupil attracts to their school is determined nationally, with a much reduced role for local authorities in determining schools' funding. We call this a 'hard' national funding formula.

1.9 A system that removes local variation and allocates school funding according to a national formula would be easily explainable to head teachers, teachers and parents because it would be totally transparent. It would allow school leaders to plan their budgets years in advance, enabling them to achieve greater efficiency. It would reflect the increasing number of schools operating outside of local authority control as academies. Most importantly, it would be fair for all parents and pupils – wherever they happen to live – and would end the current postcode lottery.

1.10 A hard national funding formula would set the budget for each school. There would be no requirement for a local formula at this point. Removing the requirement for local authorities to set local formulae to allocate school funding would require a change to the School Standards and Framework Act 1998, and we intend to bring forward legislation at the next opportunity. We are proposing that this change should come into effect from 2019-20.

1.11 We recognise that it is important to maintain stability for schools and local authorities, and so the transition to a hard national funding formula would be phased in gradually. For the first 2 years – 2017-18 and 2018-19 – we would continue to allocate the schools block to local authorities, aggregating the budgets of the schools within each authority (each calculated according to the national formula) to create authorities' schools block. We call this a 'soft' national funding formula. During the 2 years of a soft formula, local authorities would continue to distribute funding to schools according to local formulae (which would also set local academies' funding), within parameters set nationally. We will use this transitional phase to look closely at how local formulae have responded to the introduction of the national funding formula. We will also use the transitional phase to consider further how best the national funding formula can distribute funding for factors that are more difficult to allocate on a formulaic basis, as set out in [chapter 2](#). **We are not proposing to make any significant changes to the**

factors that are currently allowable in local formulae in 2017-18³. There is more detail on this in [chapter 3](#).

Question 2

Do you agree with our proposal to move to a school-level national funding formula in 2019-20, removing the requirement for local authorities to set a local formula?

³ The only change we are proposing to the factors that are currently allowable in local formulae in 2017-18 is to remove the post-16 factor. Our proposals for this are set out in detail at [paragraphs 2.79 - 2.80](#).

Chapter 2: The schools national funding formula

This chapter explains our proposals for the **building blocks** of the schools national funding formula and the **factors** we think each block should include. The building blocks reflect major types of costs schools face that we think must be taken into account when setting schools' funding through a national formula: pupil costs, additional needs, school costs and geographic costs. Under a national funding formula, as in the current funding system, we believe that the vast majority of a school's funding should be determined by the pupil-led factors. Once we have taken into account consultees' views on the proposed funding factors, we will then consult on how to balance different factors in the national funding formula and the impact of the formula on funding for individual areas and schools.

The building blocks of the national funding formula for schools

2.1 We are proposing to construct the national funding formula based on 4 building blocks, to reflect types of schools' costs:

- **per-pupil costs:** We are proposing that the first building block of a national funding formula should be a core funding allocation per pupil. In the current funding system, the biggest factor in local funding formulae is 'basic entitlement funding', which accounted for 76% of schools' budgets in 2015-16⁴. We believe it is important that schools should have certainty about the minimum amount of funding each pupil will attract, and that their budgets will grow in line with pupil numbers. There is more detail on this in [paragraphs 2.6 to 2.8](#).
- **additional needs:** Local authorities use pupil characteristics data to target funding to schools likely to have pupils with additional needs. We are proposing that the second building block of a national funding formula should be based on pupil characteristics that are linked to a likely need for additional educational, pastoral or administrative support. Although we are proposing that a national funding formula should use such data to determine overall funding, there would be no change to schools' decision-making powers – school leaders will continue to determine how best to use their full budget to support all their pupils. There will be no requirement to spend a particular amount on specific pupils under the national funding formula. Our proposals for additional needs can be found in [paragraphs 2.9 to 2.34](#).

⁴ Education Funding Agency, '[2015 to 2016 funding for schools and academies at provider level](#)', October 2015

- **school costs:** In the current funding system, all schools receive a lump sum to contribute towards their fixed costs. Some schools in particular geographic circumstances also receive funding to ensure they remain viable with small pupil numbers. Many schools also receive funding from their local authority to meet specific premises costs – for example private finance initiative commitments, or the extra costs involved in running a split site school. In areas of pupil growth, schools can receive extra funding from their local authority so that they can accommodate extra classes and unexpected resourcing pressures. As these costs are not directly related to pupil characteristics, we are grouping them together as ‘school costs’. [Paragraphs 2.37 to 2.60](#) detail our proposals on school costs.
- **geographic costs:** In recognition of the fact that schools’ costs vary by geographical location, we are proposing that the national funding formula should include an area cost adjustment. This would be a multiplier applied to every factor so that schools’ funding is increased if they are situated in areas of higher cost. [Paragraphs 2.61 to 2.66](#) contain more detail on this.

Our approach to identifying the factors that should be included in the schools national funding formula

2.2 Under the current system, schools’ funding is determined by local authorities in line with rules set out by government in the Schools and Early Years Finance Regulations⁵. Since 2013-14, the government has limited the number of factors local authorities can include in their formulae. Local authorities have been required to have a basic per-pupil unit of funding, a deprivation factor, and to ensure that at least 80% of their formula is based on pupil characteristics⁶. Funding through certain factors has been restricted (such as the lump sum and sparsity factors where we operate caps). Although the current regulations have brought some consistency, local practice still varies significantly. Figure 1 below shows the proportion of local authorities with qualifying pupils/schools that chose to use each allowable factor in 2015-16.

⁵ [‘The School and Early Years Finance \(England\) Regulations 2015’](#), January 2015

⁶ EFA, [‘Schools revenue funding 2015 to 2016: operational guide’](#), March 2015

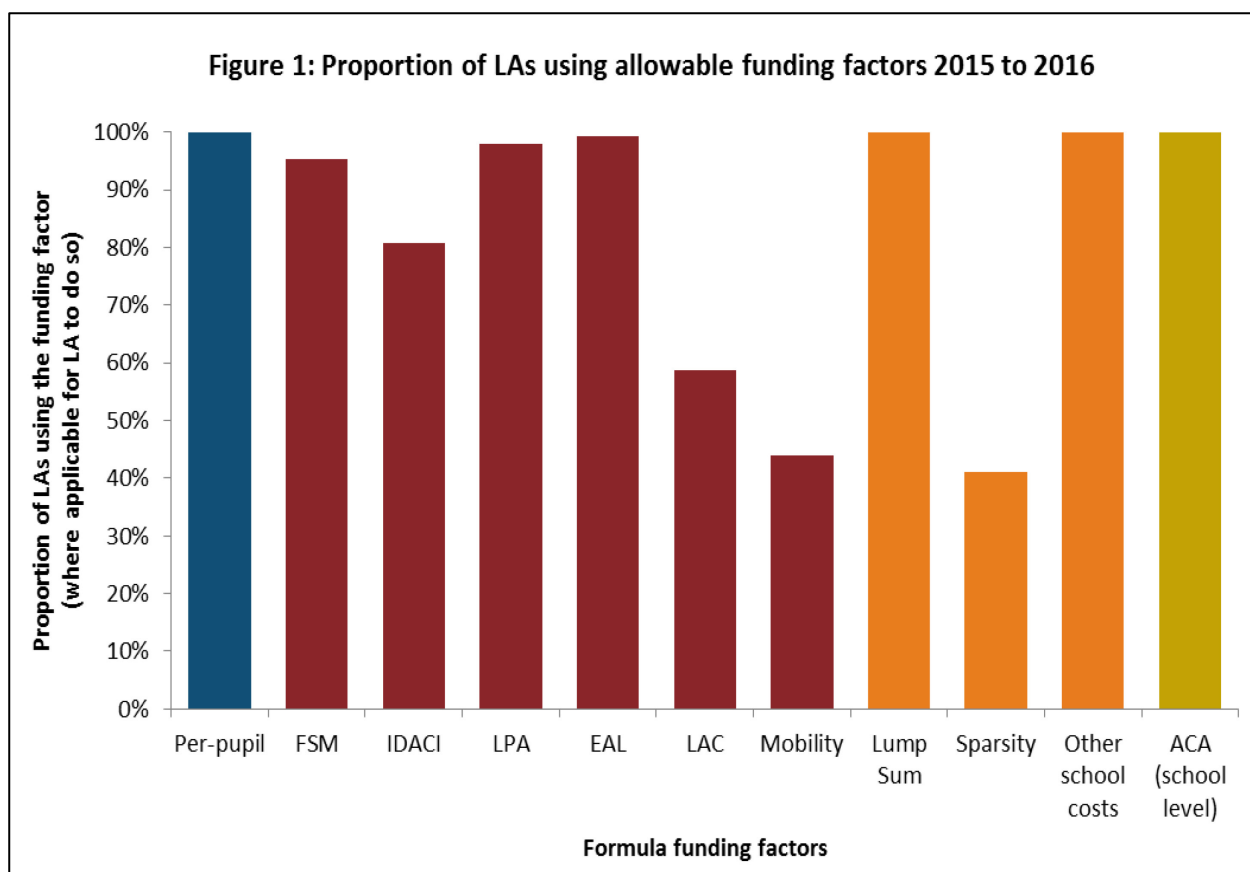


Figure 1: Proportion of local authorities choosing to use the allowable funding factors in 2015-16

The large variation in the proportions of local authorities (which were eligible to do so) choosing to allocate funding through each factor, indicates that there is still wide variation in schools funding across the country. Local authorities choose to allocate funding to different characteristics. The table below outlines how we have grouped the factors.

Source: Education Funding Agency, '[Local authority funding proforma data 2015 to 2016](#)', March 2015

Factor		Description
Per - pupil (mandatory factor)		Basic unit of funding for every pupil weighted according to age
Deprivation (mandatory factor)	Free School Meals (FSM)	Funding for schools based on pupils' entitlement to FSM (current FSM entitlement and/or entitlement during the last 6 years)
	Income deprivation affecting children index (IDACI)	Funding for schools based on the relative socio-economic deprivation of the areas in which their pupils live
Low prior attainment (LPA)		Funding for schools with pupils who did not reach the expected standard at the previous stage
English as an additional language (EAL)		Funding for schools with pupils whose first language is recorded as being a language other than English
Looked-after children (LAC)		Funding for schools with children who have been looked after for one day or more as recorded by the local authority
Mobility		Funding for schools where more than 10% pupils entered a school during the last 3 academic years, but did not start in August or September (January for reception)
Lump sum		A fixed amount allocated to each school in a local authority area

Factor		Description
Sparsity		Funding to support small schools without which pupils would have to travel long distances to their nearest appropriate school
Other school costs	Private finance initiative	Funding to support schools with unavoidable extra premises costs arising from PFI
	Rates	Funding to meet the cost of business rates
	Split sites	Funding to support schools with unavoidable extra premises costs because school buildings are on separate sites
	Post-16	Funding to continue historic arrangements for funding post-16 pupils
	Exceptional circumstances	Local authorities can apply to the Education Funding Agency to use exceptional factors related to premises
Area cost adjustment (ACA)		An adjustment to support schools which have to pay higher teacher salaries because they are in the London fringe area

2.3 Our proposed funding formula uses the factors currently allowed in local formulae as its starting point. We believe the national funding formula should be formed of the minimum number of factors relating to pupil and school characteristics in order to be clear and understandable, but we are equally aware of the need to balance simplicity and accuracy so that we align funding with need. To be included in the formula, we believe that a factor should:

- be linked to significant costs in schools — not necessarily costs that are faced by every school, but things that are commonly recognised as significant drivers of cost at a 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. Schools should not be faced with perverse incentives to increase their funding
- be clearly tied to pupil characteristics, as far as is possible

2.4 Following these principles, we have looked carefully at the rationale for each of these factors and considered whether they ought to be included in the national formula. We propose to keep 11 of the 14 factors that local authorities can currently include in their local funding formula, and to add a new factor to recognise in-year growth in pupil numbers. We are proposing to exclude 3 factors that are currently optional in local formulae: looked-after children (where we have an alternative proposal for targeting funding through the pupil premium plus), mobility and post-16.

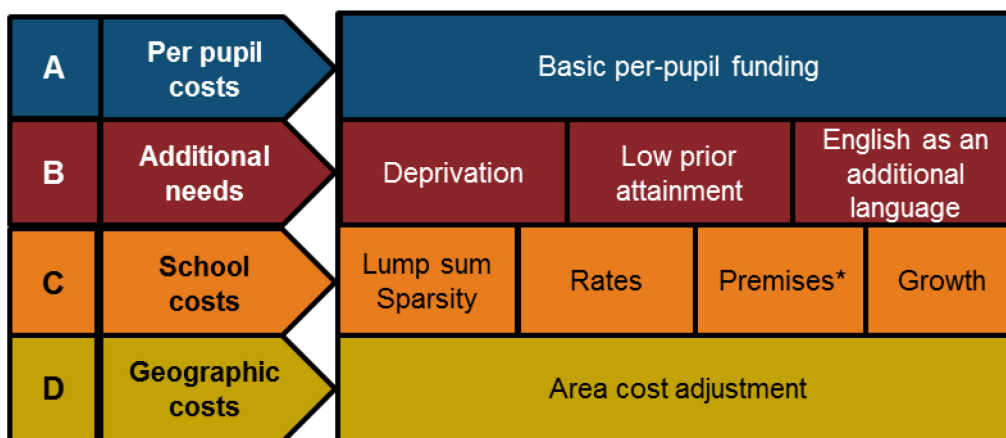


Figure 2: The proposed building blocks and factors of the schools national funding formula

*Private finance initiative commitments, split sites and exceptional premises circumstances.

2.5 The next section explains each of the factors we are proposing to include and exclude from each building block of the national funding formula in more detail.

Building block A: per-pupil costs

Factor 1: Basic per-pupil funding

2.6 Schools are responsible for supporting every pupil to reach their potential, regardless of their location or background. In the current funding system, the biggest factor in local funding formulae is 'basic entitlement funding'. All local authorities are required to include a basic unit of funding for every pupil in their formula, and can vary the ratio for primary, key stage 3 and key stage 4, as long as they comply with the minimum amounts specified by government in regulations.

2.7 Under a national funding formula, we think it is essential that schools know they will get a basic amount of funding for each pupil in their school. We are therefore proposing that the first factor in the national funding formula should be **basic per-pupil funding**. We intend to use 3 different year groupings in the national funding formula, reflecting the current arrangements for local funding formulae:

- Basic funding for each primary pupil (covering key stages 1 and 2)
- Basic funding for each key stage 3 pupil
- Basic funding for each key stage 4 pupil

2.8 We do not think there is a case for increasing the complexity of primary school funding by creating separate basic per-pupil funding rates for key stages 1 and 2. Our view is, however, that we should continue to differentiate between key stages 3 and 4, as costs increase with curriculum complexity, staffing requirements and the additional requirements of external assessment at key stage 4. We welcome further evidence through this consultation on the case for differentiating between key stages.

Question 3

Do you agree that the basic amount of funding for each pupil should be different at primary, key stage 3 and key stage 4?

Building block B: additional needs

2.9 We believe that the national funding formula should use data about pupil characteristics to target funding to schools so that they can better support pupils who are likely to face additional barriers in reaching their full potential⁷. Pupils with additional needs can particularly benefit from additional teaching, specialist intervention or materials, extra pastoral support, involvement in multi-agency working and many other types of support from their school. A funding formula that only allocated a flat amount to each pupil would make it extremely difficult for schools to support fully all pupils to reach their potential, and deliver educational excellence everywhere.

2.10 No funding formula – whether national or local – can match funding precisely to each individual pupil’s needs. Every child is different and teachers know much more about their pupils than any dataset can tell local authorities or government. But we can use the data we collect about pupils to target funding where it is most likely to be needed – using pupil characteristics that can be clearly linked to a likely need for additional educational, pastoral or administrative support. School leaders will continue to be responsible for deciding how best to use their core budget to meet the needs of all pupils in the school and will not be required to spend a specific amount on any particular pupil.

2.11 We propose to use socio-economic deprivation, low prior attainment and English as an additional language (EAL) as factors to allocate funding for additional needs in the national funding formula.

Factor 2: Socio-economic deprivation

2.12 Deprivation is a strong predictor of future attainment⁸ and acts as a proxy for a range of barriers to education, including low parental education, low aspirations for future success and special educational needs. These barriers can create additional costs for schools, such as providing pupils with additional support or competing to recruit high quality staff, who are shown to have a positive impact on improving the

⁷ Allen R, The Sutton Trust, [‘Missing Talent’](#), June 2013

⁸ Sutherland A, Ilie S, Vignoles A, RAND Europe and the University of Cambridge, [‘Factors associated with achievement: key stages 2 and 4’](#), November 2015

attainment of deprived pupils⁹. Attainment data shows that deprived pupils of all abilities are at a greater risk of underachievement. The gap in attainment between pupils from a deprived background and their peers – while closing – remains significant. Deprived pupils who do well at primary school often fall behind other pupils during secondary school¹⁰. This underachievement translates into poor future life chances, with pupils from deprived backgrounds much less likely to take A-levels¹¹, and those that do less likely to progress to a top university¹². Research shows that additional, effective spending on deprived pupils can help to improve their attainment¹³.

2.13 We believe the national funding formula should include a deprivation factor so that all pupils from a deprived background are funded on an equal basis. But unlike the pupil premium, which we intend to keep separate for the duration of this parliament so that this funding continues to be identified for a particular purpose, the national funding formula would use deprivation as a broader proxy measure for schools likely to have pupils with additional needs.

2.14 We have looked carefully at the deprivation indicators we could use in a national funding formula. Our proposal is to use a combination of **pupil-level** and **area-level** deprivation data, using current and past free school meals (FSM) status and the income deprivation affecting children index dataset (IDACI). In the current funding system, local authorities are able to choose whether to use FSM status (either current or past eligibility) and/or an area-level deprivation measure – IDACI – for their mandatory deprivation factor. Local practice varies – in 2015-16, 80% of local authorities chose to use IDACI to some extent, but the amounts they chose to spend ranged from £10 to £4,205 per pupil¹⁴. 93% of authorities chose to use either FSM or Ever6 FSM¹⁵ in their formula, and again there was a large range in funding – from £5 to £5,094 per pupil¹⁶.

Pupil-level deprivation data

2.15 There is a strong link between eligibility for FSM and low attainment. Last year we published research by Cambridge University and RAND Europe which considered the factors that best predict later attainment. The research project concluded that FSM history is the most practical socio-economic predictor of later attainment, and that its predictive power is slightly, but statistically significantly, strengthened by adding an

⁹ The Sutton Trust, '[Improving the impact of teachers on pupil achievement in the UK – interim findings](#)', September 2011

¹⁰ RaiseOnline, '[Key stage 2 to key stage 4 Transition Matrices by Disadvantage Characteristic](#)', 2015

¹¹ Sammon P, Toth K, Sylva K, The Sutton Trust, '[Background to Success](#)', November 2015

¹² DfE, '[SFR05/2016: Key stage 5- national and local authority tables \(including characteristics\)](#)'- Table NA12 (FSM), January 2016

¹³ McNally S, '[Schools: the evidence on academies, resources and pupil performance](#)', March 2015

¹⁴ EFA, '[Local authority funding proforma data 2015 to 2016](#)', March 2015

¹⁵ Pupils who have been eligible for free school meals at some point in the last 6 years.

¹⁶ EFA, '[Local authority funding proforma data 2015 to 2016](#)', March 2015

area-based measure of deprivation like IDACI¹⁷. In 2015, 33% of pupils who were currently eligible for FSM, and 37% of pupils who were eligible for free school meals at some point in the last 6 years (Ever6 FSM)¹⁸, achieved 5 A* to C at GCSE, including English and maths, compared with the national average of 57%¹⁹. At key stage 2, 66% of pupils currently eligible for FSM and 70% of Ever6 FSM pupils achieved the expected standard compared with the national average of 80%²⁰.

2.16 We are proposing to use Ever6 FSM as our primary measure of deprivation at pupil-level. But we recognise that when pupils are entitled to FSM, schools are responsible for funding those free meals, which creates an extra cost pressure. We are therefore proposing to use both Ever6 FSM and current FSM data in the national funding formula so that schools' budgets reflect both the number of pupils for whom they are providing FSM, and the number of pupils who have some history of socio-economic deprivation.

2.17 A child's FSM status is determined by the household's eligibility for specified benefits²¹, including Universal Credit, which is rolling out in stages across the country. The government has committed to introducing a new set of earnings thresholds to determine eligibility to FSM and other similar 'passport' benefits²². We are working closely with the Department for Work and Pensions to determine the level of household earned income at which children in households in receipt of Universal Credit will become entitled to FSM. We will set out our proposals in due course, but we anticipate that the new earnings threshold will – over time – further strengthen the FSM measure by relating it more directly to household income.

Area-level deprivation data

2.18 Research has shown that area-level data can provide a broader measure of deprivation, by capturing the additional disadvantage experienced by pupils living in a deprived area²³. It has also been shown to add small predictive gains when combined with FSM history. In the current funding system, 73%²⁴ of local authorities use area-level data in collaboration with pupil-level deprivation data. Taken together with the fact that we want the deprivation factor in the national funding formula to act as a broad

¹⁷ RAND Europe and the University of Cambridge, '[Factors associated with achievement: key stages 2 and 4](#)'

¹⁸ The Ever6 figure also includes pupils who are looked-after for at least one day or are adopted from care.

¹⁹ DfE, '[Characteristics national tables: SFR 01/2016](#)'- Characteristics Summary, January 2016

²⁰ DfE, '[National tables: SFR47/2015](#)'- Table 9a, December 2015

²¹ DfE, '[Apply for free school meals](#)', October 2015

²² A 'passport benefit' is a benefit to which some groups are entitled, depending on their entitlement to other benefits and tax credits.

²³ The Sutton Trust, '[Missing Talent](#)'

²⁴ EFA, '[Local authority funding proforma data 2015 to 2016](#)'

proxy for additional needs, these factors suggest that a composite measure of deprivation could be more effective than a single deprivation measure.

2.19 The area-based measure that is used in current funding arrangements is IDACI. This dataset is a subset of the indices of multiple deprivation and is currently updated every 5 years. IDACI measures the proportion of children in an area living in income-deprived families, including those in receipt of Working Tax Credit or Child Tax Credit with an equivalised income below 60 per cent of the national median before housing costs. IDACI operates at 'lower super output area' (LSOA) level. LSOAs are commonly used across UK official statistics for the collection and publication of small area statistics. LSOAs on average have a population of around 1,500 residents and vary in geographical size.

2.20 Since 2013-14, the Department for Education (DfE) has used a 'banding' methodology to create a series of steps in the IDACI dataset, to which local authorities can attach differing amounts of funding (so that they can increase per-pupil funding where pupils are more likely to live in a deprived area)²⁵. The DfE provides local authorities with a school-level IDACI dataset each year, which shows the proportion of pupils in each school in each IDACI band based on the LSOA within which their home postcodes fall. The DfE dataset therefore reflects any change in the home addresses of a school's pupils between years, but the underlying score for each LSOA is only updated every 5 years.

2.21 Until this year, IDACI was a source of stability in local funding formulas. However, between 2010 and 2015, the level of deprivation (as defined by the IDACI dataset) in many areas has changed significantly. This meant local authorities then saw big differences in their school-level IDACI data when a new IDACI dataset was released in December 2015. We are aware that the updated data has affected some local authorities' 2016-17 formulae significantly, creating turbulence in schools' funding that has, in some cases, resulted in complex formula adjustments. Figure 3 illustrates the change (increases and decreases) in IDACI scores for LSOAs at local authority level between 2015-16 (IDACI scores were still based on the 2010 IDACI dataset) and 2016-17 (IDACI scores based on the 2015 IDACI dataset). It shows that IDACI scores changed a great deal between the 2010 and 2015 datasets.

²⁵ DfE, '[School funding reform: arrangements for 2013-14](#)', June 2012 ; EFA, '[Schools revenue funding 2015 to 2016: operational guide](#)'

Figure 3: Volatility of IDACI scores within local authorities

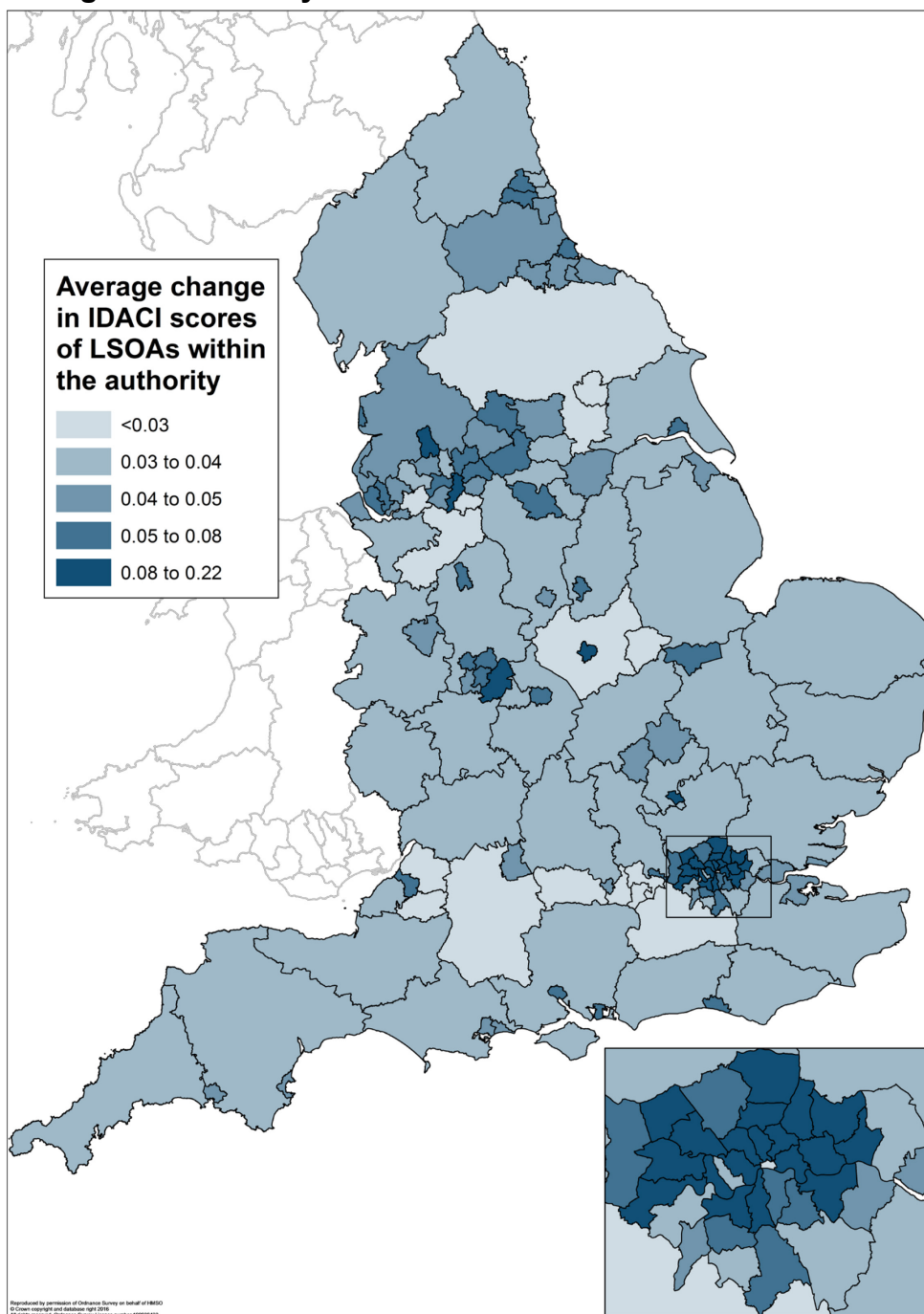


Figure 3: Average absolute change in IDACI scores for lower super output areas, at local authority level, between 2010 and 2015 datasets

The map shows the average change in the proportion of children living in income deprived families within local authorities. The light blue regions show areas where there is small change, and the dark blue regions represent those that experience larger changes. The map shows that many local authorities have seen a significant change in the IDACI scores (i.e. the relative deprivation) of their area as a result of the 5-yearly update of the IDACI dataset. The changes in London are magnified in the additional box.

Source: Department for Education, '[File 5: scores of the indices of deprivation](#)', '[File 6: population denominators](#)' September 2015 ; '[English indices of deprivation 2010: supplementary indices - children and older people](#)', March 2011

2.22 Overall, our view is that area-level deprivation data could be a useful way of recognising the impact of ‘double deprivation’ but that the updated dataset requires an updated banding methodology – for example revising the cut-off points for each band or changing the number of bands which trigger funding. But because it is not updated annually, including IDACI in the national funding formula is likely to introduce a degree of turbulence in schools’ allocations in the year after each update becomes available. We welcome responses on the relative roles of pupil-level and area-level deprivation data in the national funding formula for schools, and on any changes we should consider making to the current IDACI banding methodology, if including it in a national funding formula.

The pupil premium

2.23 In addition to deprivation funding within the national funding formula, schools will continue to receive the pupil premium grant, which is protected until 2019-20 (the end of the spending review period). As highlighted in [paragraph 2.12](#), children from disadvantaged backgrounds face considerable additional barriers to achieving their potential. The pupil premium was introduced as a separate grant in 2011 in order to place a specific focus on raising the attainment of these pupils. Over the last 5 years progress has been made. A National Audit Office report in 2015 on funding for disadvantaged pupils²⁶ concluded the early signs are that the Pupil Premium has potential, although it will take time for its full impact to become clear. It noted that the gap is narrowing and the pupil premium has increased school leaders’ focus on improving outcomes for disadvantaged children, with 94% of school leaders that the NAO surveyed saying they targeted support at disadvantaged pupils, compared with 57% before the creation of the pupil premium²⁷.

2.24 We recognise that there is more to do support all disadvantaged pupils to achieve at a similar level to their peers. This is particularly true at secondary school, where disadvantaged pupils have not yet experienced the full benefit of the pupil premium throughout their primary and secondary education. Recent research by the National Foundation for Educational Research²⁸ identified that there are examples of highly effective practice in raising the attainment of disadvantaged pupils, though schools are at different points in developing their pupil premium strategies.

2.25 We intend to build on the progress to date by keeping the pupil premium separate to the national funding formula for the duration of this parliament. Retaining the pupil premium as a separate grant will maintain schools’ focus on the intended purpose of this additional funding. This focus will be reinforced by ongoing specific accountability

²⁶ National Audit Office, ‘[Funding for disadvantaged pupils](#)’, June 2015

²⁷ See footnote 26

²⁸ Macleod S and others, National Foundation for Education Research, Ask Research and Durham University, ‘[Supporting the attainment of disadvantaged pupils: articulating success and good practice](#)’, November 2015

arrangements for eligible pupils, helping to ensure that the pupil premium continues to have a significant impact on disadvantaged pupils' outcomes.

2.26 The eligibility criteria for the pupil premium will remain unchanged. The majority of pupil premium will therefore be allocated on the basis of the Ever6 FSM deprivation measure, with eligibility for the pupil premium plus determined on the basis of whether a child is looked after or left care through adoption or other defined routes²⁹. The service premium will continue to operate with the same eligibility criteria³⁰.

2.27 Deprivation funding within the national funding formula would play a different role to the pupil premium, acting as a broader proxy measure for schools that are most likely to need extra resources to support their pupils in reaching their full potential.

Question 4

- a) Do you agree that we should include a deprivation factor?
- b) Which measures for the deprivation factor do you support?
 - Pupil-level only (current FSM and Ever6 FSM)
 - Area-level only (IDACI)
 - Pupil- and area-level

Factor 3: Low prior attainment

2.28 The next additional needs factor that we propose to use in the national funding formula for schools is pupils' attainment at the previous stage. We believe that it is important for a national funding formula to adjust schools' funding in response to the attainment characteristics of their pupils. We are proposing that the national funding formula should include factors based on low prior attainment for both primary and secondary schools.

2.29 At present, the school funding system relies on 2 measures of pupils' prior attainment. Local authorities are able to allocate funding to primary schools based on whether pupils met the expected level of development in the early years foundation stage profile (EYFSP), completed by the end of the reception year. In 2015-16, 142

²⁹ Pupils attract the pupil premium plus if: they have been looked-after for 1 day or more; adopted from care; or left care under a special guardianship order, a residence order or a child arrangements order.

³⁰ Pupils attract the service premium if: one of their parents is serving in the regular armed forces; they have been registered as a 'service child' in the school census at any point since 2011; one of their parents died while serving in the armed forces and the pupil receives a pension under the Armed Forces Compensation Scheme or the War Pensions Scheme.

local authorities chose to include a primary low prior attainment factor in their formula³¹. For secondary schools, the data source for prior attainment is pupils' attainment at key stage 2. Pupils can attract low prior attainment funding if they did not attain level 4 in English or maths at key stage 2. In 2015-16, 148 local authorities used a low prior attainment factor for secondary schools³².

2.30 There is a particularly strong relationship between prior attainment and later attainment at secondary. Research by the University of Cambridge and RAND published by the Department in 2015³³ indicates that prior achievement at the end of primary school is the most powerful available predictor of secondary school attainment. In 2015, only 7% of pupils who did not reach level 4 at key stage 2 went on to achieve the expected standard at key stage 4 (5 A* to C including English and maths), compared with 52% of pupils who achieved level 4 and 91% of pupils who achieved above level 4 at key stage 2³⁴. We recognise that the secondary prior attainment factor would need to be adjusted in response to the new key stage 2 tests and the increase in the expected standard which is due to take effect this year. We would expect to use the new expected standard as the trigger for secondary low prior attainment funding. Once the new standard has been established in summer 2016, we will set out plans for revising the low prior attainment factor accordingly.

2.31 We are also proposing to allocate funding to primary schools on the basis of pupils' prior level of development. We know that high quality provision from age 2 has a lasting impact on children's attainment and behaviour³⁵. The EYFSP is currently the best available dataset on early years development and we propose that we continue to use it in the funding system until it becomes non-statutory from September 2016. After this point, we intend to use an alternative data source for pupils in reception. In our response to the primary assessment and accountability consultation in 2014³⁶ we signalled our intention to use the reception baseline assessment to trigger low prior attainment funding. As changes to primary accountability are finalised and take effect, we will keep the primary low prior attainment factor and its data source under review. We will publish further proposals for revising the low prior attainment factor for primary schools in due course.

2.32 In the current funding system, the low prior attainment factor is commonly used by local authorities as the main factor for determining how much of the core funding a mainstream school receives is notionally intended to support its SEN provision (the

³¹ EFA, '[Local authority funding proforma data 2015 to 2016](#)'

³² EFA, '[Local authority funding proforma data 2015 to 2016](#)'

³³ RAND Europe & the University of Cambridge, '[Factors associated with achievement: key stage 4](#)'

³⁴ DfE, '[Main national tables: SFR01/2016](#)'- Table 6a, January 2016

³⁵ Sylva K and others, University of Oxford, Birbeck, University of Nottingham and Institute of Education, '[Effective pre-school, primary and secondary education \(EPPSE\)](#)', 2008

³⁶ DfE, '[Reforming assessment and accountability for primary schools](#)', March 2014

'notional SEN budget'). Paragraphs 4.5 to 4.7 of the high needs funding formula and other reforms consultation explains our proposals for the future of notional SEN budgets. We agree with the recent Isos report which argued that the way in which local authorities calculate their schools' notional SEN budget is varied and not particularly meaningful or helpful for schools. We do not think it would be helpful to try and calculate at national level a notional SEN budget for each school when operating a hard national funding formula for schools. However, we do think that schools might find it helpful to have tools and guidance so that they can identify how much of their budget might be appropriate to spend on children with SEN. We are proposing to keep the concept of a notional SEN budget in the short term and to do further work with SENCOs, school business managers and head teachers to find out how best to help schools decide how much to spend on SEN support.

Question 5

Do you agree we should include a low prior attainment factor?

Factor 4: English as an additional language

2.33 In current funding arrangements, local authorities can choose to use an English as an additional language (EAL) factor for primary and secondary schools. In 2015-16, 132 areas chose to do so, and again local formula values varied significantly (from £65 to £4,500 per pupil)³⁷.

2.34 EAL funding is determined on the basis of census data which records whether or not a pupil's first language is English. As such, it is not a precise measure of language proficiency at pupil-level. 'First language' is the language to which a child was initially exposed during early development and continues to be exposed to in the home or in the community. It does not mean that pupils are necessarily fluent in a language other than English, or that they cannot speak English fluently³⁸. Pupils can therefore be identified in the census as EAL when they are bilingual and have no specific need of support to access mainstream education in English. We are looking at the robustness of the data we collect and whether there is scope to target funding more effectively by gathering and utilising data on the English language proficiency of EAL pupils.

2.35 In the interim, we believe that there is a strong case for including an EAL factor in the national funding formula. Research suggests that EAL status increases costs for schools and that there is a strong relationship between a pupil's fluency in English and

³⁷ EFA, '[Local authority funding proforma data 2015 to 2016](#)'

³⁸ DfE, '[Main text: SFR 01/2016](#)', January 2016

their educational attainment³⁹. Although the overall attainment of EAL pupils by the end of key stage 4 is broadly in line with that of their non-EAL peers⁴⁰, EAL can act as a short-term barrier to accessing education, and therefore pupils often need dedicated support.

2.36 At the moment, local authorities can choose to allocate EAL funding on the basis of those pupils with EAL who entered the state education system at any point during the previous 3 years. In 2015-16, EAL3 (pupils registered as EAL at any point during the last 3 years) was the most common choice of EAL indicators by local authorities that used this factor⁴¹. We are proposing to use EAL3 in the national funding formula rather than EAL1 or EAL2. We believe that this measure would target funding to schools likely to have pupils in need of targeted support to increase language proficiency, and that it is right to apply a longer-lasting measure given that some pupils will need sustained support over a longer period of time⁴².

Question 6

- a) Do you agree that we should include a factor for English as an additional language?
- b) Do you agree that we should use the EAL3 indicator (pupils registered at any point during the previous 3 years as having English as an additional language)?

Building block C: school costs

2.37 In the current funding system, schools receive varying amounts of funding to reflect costs associated with their premises and overheads, rather than their pupils' characteristics. There are currently no mandatory school costs factors, but all local authorities used at least 2 school costs factors in their formula in 2015-16⁴³. However, local practice varies hugely. As an example, figure 4 below shows the variation in the primary lump sum amounts chosen by local authorities in 2015-16.

³⁹ Demie F, Hau A, Lambeth Council, '[English as an Additional Language: An empirical study of stages of English proficiency](#)', January 2013 ; PricewaterhouseCoopers, '[Review of the distribution formula for DSG](#)', September 2009

⁴⁰ KS2: 77% EAL pupils achieved expected standard at compared with 81% of non-EAL pupils. KS4: 54.6% EAL pupils achieved expected standard compared to 57.5% of non-EAL pupils. DfE, '[National tables: SFR47/2015](#)'- Summary ; '[Characteristics national tables: SFR 01/2016](#)'- Characteristics Summary

⁴¹ 99 local authorities choose EAL3 at primary; 100 choose EAL3 at secondary. EFA, '[Local authority funding proforma data 2015 to 2016](#)'

⁴² Demie F, '[English as an Additional Language: An empirical study of stages of English proficiency](#)'

⁴³ EFA, '[Local authority funding proforma data 2015 to 2016](#)'

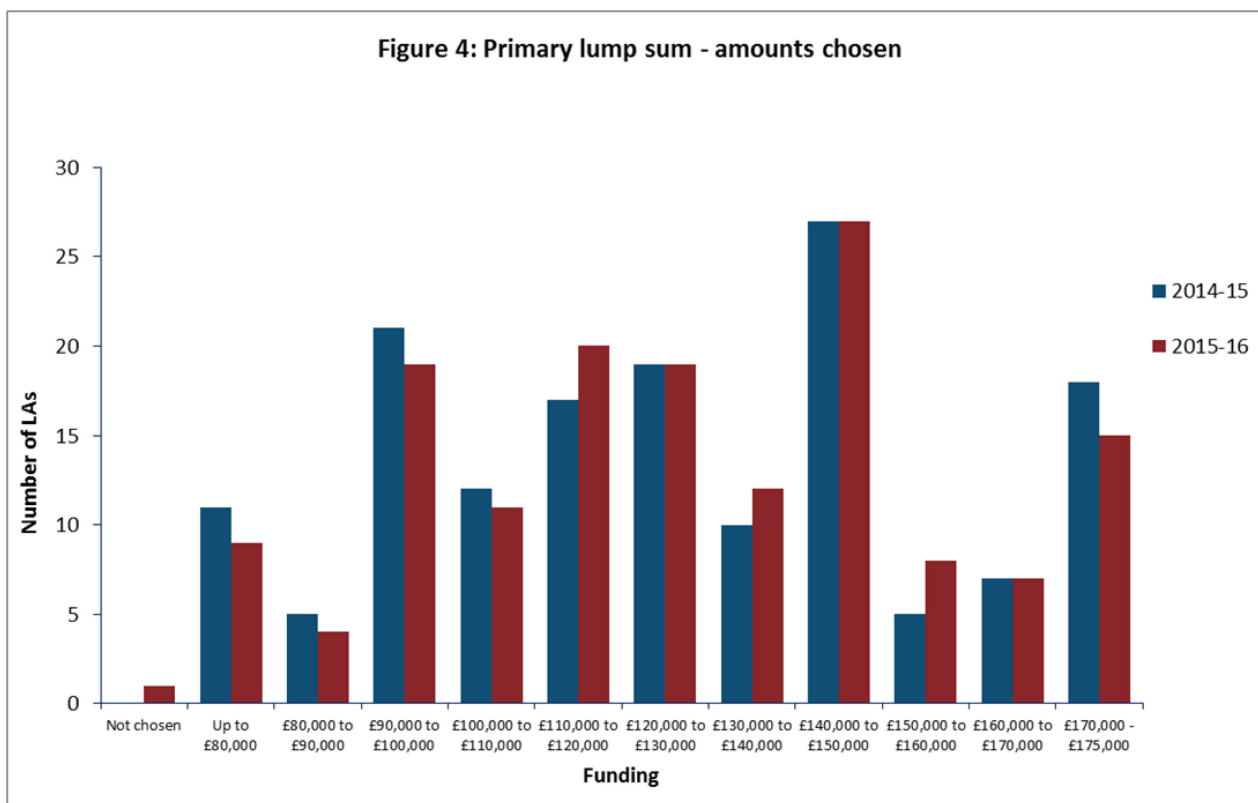


Figure 4: Primary lump sum amounts chosen by local authorities in 2015-16 and 2014-15

The large variation in the amounts local authorities chose to allocate as lump sums to primary schools shows that there is no consistency in the use of lump sums. The local authority that chose not to allocate a primary lump sum, Isle of Scilly, only has a single school and so chose to allocate a secondary lump sum.

Source: Education Funding Agency, '[Schools block funding formulae 2015 to 2016: Analysis of local authorities' schools block funding formulae](#)', March 2015

2.38 We believe that a national funding formula should take account of costs that do not vary in direct proportion to pupil numbers, so we are proposing that the third building block of the formula should reflect **school costs**. When considering how to approach this block, we have split the relevant factors allowed in local formulae into 2 groups:

- School cost factors that we are proposing should form part of the national funding formula – lump sum and sparsity
- School cost factors that we think cannot easily be allocated on a formulaic basis and we are therefore proposing to allocate to local authorities on the basis of historic spend in 2017-18 and 2018-19 – business rates, premises factors (including split sites, PFI and exceptional circumstances) and growth.

Factor 5: Lump sum

2.39 Under the national funding formula, we are **proposing that every school should receive a lump sum**. Having certainty over a level of funding that will not vary with pupil numbers is particularly important for small schools, where lump sum funding

makes up a much more significant proportion of their overall funding. On average, in 2015-16 ‘school cost’ factors accounted for 29% of the funding of a primary school with fewer than 150 pupils, compared with 10% for a primary school with 400 pupils⁴⁴. In 2015-16, primary schools with fewer than 150 pupils received lump sums ranging from £48,000 to £175,000⁴⁵.

2.40 In the current funding system, local authorities can decide whether to include a lump sum in their local formula, and the value of this lump sum, up to a maximum of £175,000. In 2015-16, every⁴⁶ local authority chose to use either a primary or secondary lump sum but the values chosen varied widely. We have looked at whether there are any particular patterns that might explain the variation in lump sum values. We are not aware of any clear trends emerging from the national data – for example, the lump sums chosen by local authorities that also use a sparsity factor still vary significantly, and figure 5 shows there is no particularly strong relationship between the average size of school in local authority area and the lump sum value.

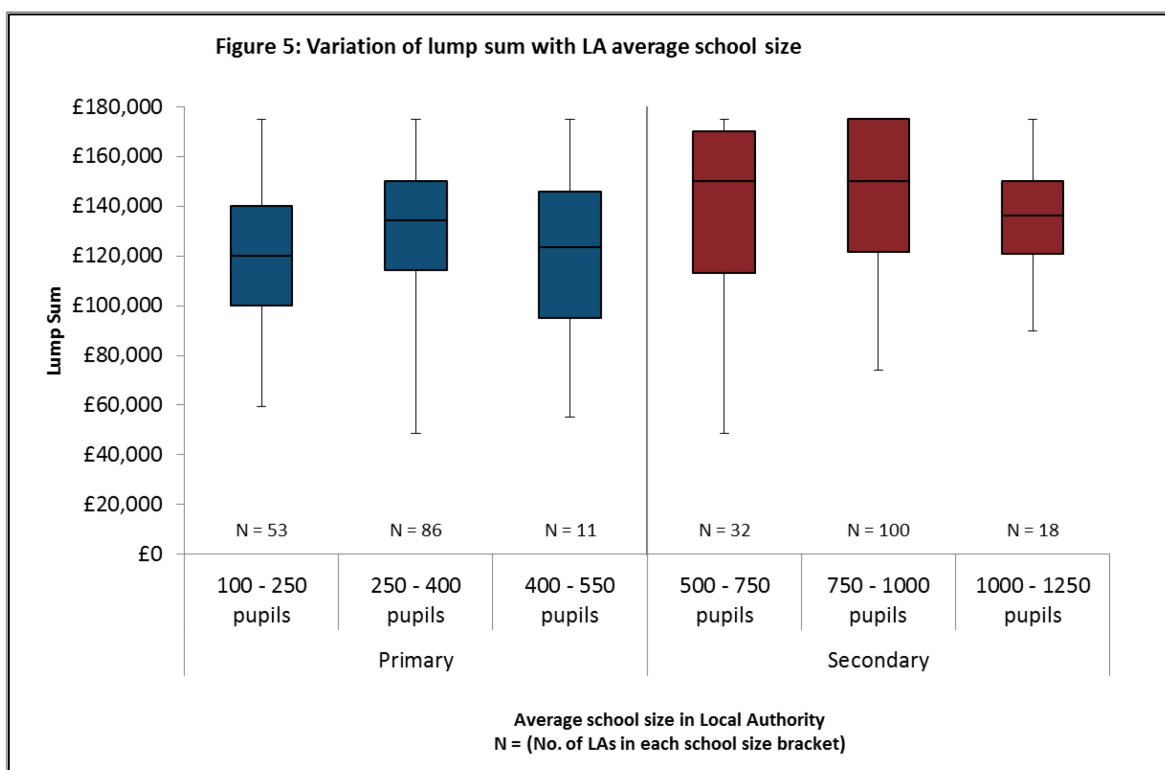


Figure 5: Lump sum values chosen by local authorities in 2015-16, compared with the average size of school in the local authority area.

The chart illustrates the variation in how much lump sum funding schools are receiving. It suggests there is no particular link between average size of school in an area and lump sum value.

Source: Education Funding Agency, ‘[Local authority funding proforma data 2015 to 2016](#)’, March 2015

⁴⁴ EFA, ‘[2015 to 2016 funding for schools and academies at provider level](#)’

⁴⁵ See footnote 44

⁴⁶ EFA, ‘[Local authority funding proforma data 2015 to 2016](#)’

2.41 We remain firmly of the view that the majority of school funding should be driven by pupil numbers and characteristics. But we are mindful of the challenges faced by small schools in particular, and the important role that lump sums play in local formulae. We welcome evidence to inform proposals in stage 2 of our consultation about how much lump sum funding that should be included in the national funding formula.

Question 7

Do you agree that we should include a lump sum factor?

Factor 6: Sparsity

2.42 In addition to allocating each school a lump sum, we are proposing that the national funding formula should retain the ‘sparsity’ factor currently used in some local funding formulae. Local authorities can use a sparsity factor to support small schools without which pupils would have to travel a long way to their nearest appropriate school. Such schools can struggle to work in partnership with other schools due to geographical challenges, and therefore rely more heavily on a source of funding that does not vary with pupil numbers to remain financially viable. We think it is important to recognise these challenges in the national funding formula through a combination of lump sum and sparsity funding.

2.43 In the current system, eligibility for sparsity funding is determined on the basis of the distance pupils would need to travel to their second nearest appropriate school, and the average number of pupils in each year group. The criteria are as follows and are illustrated in figure 6:

- Pupils would have to travel more than 2 miles (primary, middle or all-through schools) or 3 miles (secondary schools) to their second nearest appropriate school
- The school has fewer than 21.4 pupils in each year group for primary, 62.5 for all-through, 69.2 for middle, and 120 for secondary schools⁴⁷.

⁴⁷ EFA, [‘Schools revenue funding 2015 to 2016: operational guide’](#)

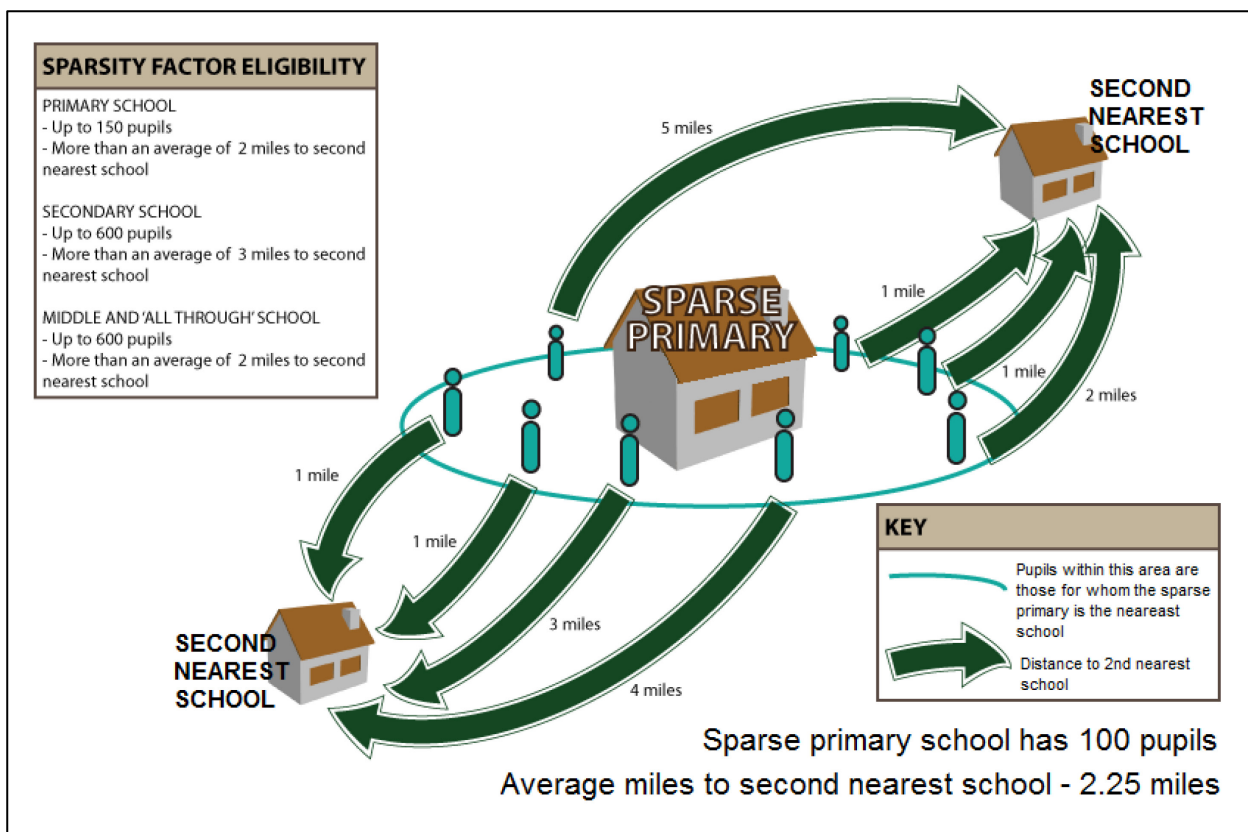


Figure 6: A diagram demonstrating how a school's sparsity distance is calculated.

2.44 In 2015-16, 56 local authorities had schools that could have qualified for sparsity funding⁴⁸. In 2015-16, 24 areas chose to include a sparsity factor in their funding formula⁴⁹, with the amount of additional funding varying from £1,000 to £100,000 per school⁵⁰. Local authorities could choose to apply either a fixed sparsity sum for all schools or taper the amount relative to school size, so that larger schools (which received more from pupil-related factors) received a smaller sparsity sum. In 2015-16, 9 local authorities applied a fixed sum at every phase and 15 used a taper for at least the primary phase⁵¹.

2.45 In the national funding formula, we are proposing to use the same sparsity criteria as in the current system: a combination of the distance pupils would need to travel to their second nearest appropriate school and school size. To determine sparsity funding, we would first calculate a 'sparsity distance' for each school, based on the average distance 'as the crow flies' from pupils' homes to their second nearest appropriate school. In order to protect against cliff edges where a small change in pupil numbers could lead to a significant change in funding, we are proposing to taper sparsity funding rather than setting a fixed sum.

⁴⁸ EFA, '[Local authority funding proforma data 2015 to 2016](#)'

⁴⁹ See footnote 48

⁵⁰ EFA, '[2015 to 2016 funding for schools and academies at provider level](#)'

⁵¹ See footnote 48

2.46 During 2017-18 and 2018-19, when local authorities are responsible for setting local formulae, we would expect to continue the current arrangements for requesting changes to the distance criteria. We welcome views about how well the sparsity criteria are operating locally.

Question 8

Do you agree that we should include a sparsity factor?

Other school cost factors

2.47 There are some factors that cannot easily be allocated on a formulaic basis because they depend on very specific information about a school. These include premises factors such as split sites and private finance initiative (PFI) costs, and funding for pupil growth that is not recognised by a funding system that operates on a 'lagged' basis (i.e. where pupil numbers in one year affect the next year's funding, so that schools know their funding ahead of time, rather than it being adjusted in-year). These factors reflect significant cost pressures for individual schools and we need a mechanism for making sure funding continues to reach the schools that need it.

2.48 Local authorities currently spend £566m⁵² in total on these factors. We know little more about the basis of allocations for these factors than the current distribution of spend. We therefore plan to allocate funding to local authorities on the basis of historic spend in 2017-18 and 2018-19. As funding will be held flat, the area cost adjustment will not apply to these factors.

2.49 We would like to explore whether this funding could be distributed on a formulaic basis from 2019-20. However we recognise the complexities around doing this and want to take time to consider whether it is possible and, if so, how best this could be done. We welcome views on how we allocate funding for these factors from 2019-20.

Factor 7: Business rates

2.50 All schools pay business rates⁵³, based on the rateable value of their premises and whether the type of school is eligible for charitable relief. The range of costs is very wide, and schools have no effective means to affect them, meaning a per-pupil

⁵² This figure includes split sites, PFI, business costs and exceptional circumstances, and excludes growth.

EFA, '[Local authority funding proforma data 2015 to 2016](#)'

⁵³ EFA, '[2015 to 2016 funding for schools and academies at provider level](#)'

allocation would be unfair. Local authorities currently fund schools to meet these costs on the basis of the actual charge to schools, and we propose that this continues.

Question 9

Do you agree that we should include a business rates factor?

Factor 8: Split sites

2.51 In many authorities, schools with more than one site, whether that is a separate playing field or second site for teaching, are compensated for the extra costs incurred from, for example, additional reception facilities, travel time for teachers and travel costs for pupils. Not recognising these costs would have a significant impact on the resources available for teaching and learning in these individual schools. We believe allocating funding on the basis of local authorities' historic spend is the fairest solution for 2017-18 and 2018-19.

Question 10

Do you agree that we should include a split sites factor?

Factor 9: Private finance initiative

2.52 Schools rebuilt under building schools for the future and PFI schemes are tied into long contractual arrangements through the local authority, affecting facilities management, repairs and maintenance and many other aspects of basic school running costs. Each school in each local authority has a different arrangement for meeting these costs, depending on the nature of the contract and the balance between delegated funding, local authority contribution and specific grant.

2.53 Allocating on the basis of local authorities' historic spend on PFI in 2017-18 and 2018-19 would allow local authorities to reflect any changes in school level funding in their distribution of top-up funding for PFI costs. We want to look further at the interaction at school level between the national funding formula and top-up funding for additional PFI costs. This would need to be done on a scheme by scheme basis as these contracts are complex and vary considerably from one scheme to another. We will consider arrangements carefully before we decide whether it is possible to move to a more formulaic distribution of funding from 2019-20.

Question 11

Do you agree that we should include a private finance initiative factor?

Factor 10: Exceptional premises circumstances

2.54 In 2015-16, 462 schools⁵⁴ received funding for exceptional circumstances through their local authority's formula, such as when they have to pay rent for buildings or sport facilities. Exceptional circumstances are only approved by the Education Funding Agency (EFA) if the amount is more than 1% of the school's funding and affects less than 5% of schools in the local authority⁵⁵. There will always be some circumstances where schools face significant additional costs where the impact of the school meeting these costs from its general budget would have an unfair impact on the teaching and learning for its pupils.

2.55 As with the other school costs set out in this section, we propose to allocate funding for ongoing exceptional premises costs to local authorities on the basis of their historic spend. The EFA is already involved in approving new cases put forward by local authorities, and they would continue to approve new cases in 2017-18 and 2018-19. The extra funding required for these exceptional circumstances may change as the national funding formula begins to affect local formula allocations. We will consider this interaction as we develop proposals for a more formulaic allocation of exceptional circumstances funding through a national funding formula, potentially from 2019-20.

Question 12

Do you agree that we should include an exceptional premises circumstances factor?

⁵⁴ EFA, ['2015 to 2016 funding for schools and academies at provider level'](#)

⁵⁵ EFA, ['Schools revenue funding 2015 to 2016: operational guide'](#)

Question 13

Do you agree that we should allocate funding to local authorities in 2017-18 and 2018-19 based on historic spend for these factors?

- Business rates
- Split sites
- Private finance initiatives
- Other exceptional circumstances

Factor 11: Growth

2.56 The funding system needs to be able to respond to significant in-year pupil growth, which is not recognised by the lagged funding system. This is important to ensure every child has access to a high quality school place.

2.57 Local authorities can currently deal with growth in 2 different ways. In the first, they top-slice DSG to create a growth fund, allowing them to allocate additional funding for schools and academies with basic need growth until these pupils are counted in the October census. The local authority agrees both the amount of funding to be top-sliced and the allocation criteria with the schools forum. In the second, they agree with individual schools and the EFA to adjust the pupil numbers used in the local funding calculation. This is particularly the case for new schools with a planned expansion programme. This adjustment in numbers is shown in the local authority's proforma tool.

2.58 Additionally, some local authorities also currently retain a considerably smaller budget for funding a good or outstanding school with temporary falling rolls. We have considered all of these strands of funding together as they all relate to pupil growth.

2.59 In 2017-18 and 2018-19, we propose to allocate funding for growth to local authorities on the basis of their historic spend. Local authorities would receive the total of any spend in the previous year on: the growth fund (including provision to comply with infant class legislation), adjustments for growth in the authority proforma tool, and the falling rolls fund⁵⁶. The existing rules allowing local authorities to carry forward growth funding would also continue in this period. Allocating additional funding for growth in this way would be an improvement on the current system, which requires local authorities to top-slice their schools block to fund growth. However, we recognise that it is not a perfect solution because it assumes future growth follows the same pattern as historic growth.

⁵⁶ As with the premises factors, the ACA will not apply to growth funding because we are proposing to allocate funding on the basis of historic spend for the first 2 years.

2.60 From 2019-20, we would like to develop a way of targeting funding in a way that better reflects growth, taking into account the interaction with basic need and estimates of growth in individual schools. We are interested to hear views about how we allocate growth funding, both for the transitional period and from 2019-20.

Question 14

Do you agree that we should include a growth factor?

Question 15

Do you agree that we should allocate funding for growth to local authorities in 2017-18 and 2018-19 based on historic spend?

Building block D: geographic costs

Factor 12: Area cost adjustment

2.61 We are proposing that the final building block of the national funding formula should be an area cost adjustment (ACA) to take account of variation in costs by geographical location. Schools spend over 80% of their budgets on staffing, and about twice as much on teaching staff as on non-teaching staff⁵⁷. We believe the national funding formula should use an area cost adjustment to reflect variation in labour market costs, given the significance of such costs to school spending.

2.62 Our proposal is that the area cost adjustment should act as a multiplier, so each school's funding is first calculated on the basis of the national funding formula, and then multiplied by their ACA score. This means that no school would receive less than their individual funding as calculated by the national funding formula, but the funding of schools in higher cost areas would be increased to meet the additional geographic costs. The ACA would not apply to the factors we are proposing to allocate on the basis of historic spend – rates, premises factors and growth.

2.63 The current distribution of funding to local authorities reflects a history of different area cost adjustment methodologies. The formula used before the DSG was introduced used a general labour market (GLM) measure to reflect differences in labour costs between different areas. In 2015-16, when we introduced minimum funding levels to

⁵⁷ DfE, '[Main tables: SR48/2015](#)' – Tables 1 and 3, December 2015 ; '[Main tables: SFR 24/2014](#)' Raw Data SATs and Raw Data MATs tables, October 2014

ensure each local authority received at least a minimum amount of funding, we consulted on and used a 'hybrid area cost adjustment' methodology instead of the previous GLM measure⁵⁸. The hybrid area cost adjustment consists of 2 elements: teachers pay costs and non-teaching staff costs.

- For the teachers' pay element, notional averages were calculated for 4 regional pay bands (inner London, outer London, the fringe and the rest of England) by converting the pay of every teacher across the country to the corresponding rates in each band. The notional averages for inner London, outer London and the fringe were then compared with the notional average for the rest of England and adjusted accordingly.
- The non-teaching staff costs element was based upon the Department for Communities and Local Government's labour cost adjustment, which is a general labour market measure used to allocate funds to local authorities⁵⁹.

2.64 Each element was then weighted according to the total school funding spent on employing teachers and non-teaching staff, reflecting that teacher pay costs are by far the biggest element of a school's spending. The hybrid area cost adjustment was designed, and used, in order to reflect that the costs of teachers are lower in higher cost areas than the GLM indices would suggest. The use of notional averages was also intended to mitigate against the fact that some local authorities were well funded, and so schools in these areas were better able to offer higher salaries.

2.65 The formula used before the DSG was introduced used a GLM measure to reflect differences in labour costs between different areas. Some in the education sector have advocated returning to this method. Through this consultation, we are seeking views on the approach we should take to setting an area cost adjustment for the schools and high needs funding formulae. There is more information about the particular issues involved in designing an area cost adjustment for the high needs formula in the high needs funding formula and other reforms consultation.

2.66 When the hard national funding formula is implemented, schools' funding will be calculated individually on the basis of the area cost adjustment that applies to their specific circumstances. While local authorities are still responsible for setting local formulae during 2017-18 and 2018-19, we propose to leave in place the current option to use a London fringe factor. This factor enables 5 local authorities (Buckinghamshire, Essex, Hertfordshire, Kent and West Sussex⁶⁰) to support schools which have to pay

⁵⁸ DfE, '[Fairer Schools Funding: arrangements for 2015-16](#)', July 2014 ; DfE, '[Annex C: Area Cost Adjustment \(ACA\)](#)', July 2014

⁵⁹ Department for Communities and Local Government, '[Technical Guide to the ACA](#)', 2013

⁶⁰ EFA, '[Schools revenue funding 2015 to 2016 operational guide](#)'

higher teacher salaries because they are in the London fringe area, where only part of the authority is in this area.

Question 16

- a) Do you agree that we should include an area cost adjustment?
- b) Which methodology for the area cost adjustment do you support?
- general labour market methodology
 - hybrid methodology

Factors currently allowed in local authorities' formulae that we do not propose to include in the national funding formula

2.67 We are proposing to include 11 of the 14 factors currently used in local school funding formulae in the national funding formula. Our view is that the remaining 3 factors should not be included. We have also considered the case for adding an extra factor based on pupils' Disability Living Allowance status, a proposal made by the Isos Partnership in their report on high needs funding⁶¹. This section explains our rationale for excluding these 4 factors.

2.68 We are not proposing to include these factors in the national funding formula which would determine the distribution of funding to local authorities in 2017-18 and 2018-19. The only change we are proposing to make to the allowable factors in local formulae in 2017-18 is to remove the post-16 factor, as outlined in [paragraphs 2.79 to 2.80](#).

Looked-after children and children who have left care

2.69 In the current funding system, some schools with looked-after children receive additional funding through their local authority's school funding formula. In 2015-16, 88 local authorities chose to include a looked-after children factor in their formula, although the amounts of funding allocated varied significantly – from £212 to £3,000 per pupil⁶². The vast majority of local authorities had at least one looked-after child in 2015-16 and could therefore have decided to use a looked-after children factor⁶³.

⁶¹ Parish N, Bryant B, Isos Partnership, '[Research on funding for young people with special educational needs research report](#)', July 2015

⁶² EFA, '[Local authority funding proforma data 2015 to 2016](#)'

⁶³ EFA, '[Local authority funding proforma data 2015 to 2016](#)'

2.70 We have considered carefully whether to include a looked-after children factor in the national funding formula for schools. Doing so would mean that the funding of every school with a looked-after child would include an uplift based on looked-after child numbers. But, given the small proportion of the school population who are looked-after children (0.8% of all pupils⁶⁴), this would be a relatively small element of a school's overall funding, unless an excessively high weighting were attached, and would not be particularly visible to the school. Given the particularly poor outcomes of looked-after children at all key stages compared to children who are not looked after⁶⁵, the high proportion who become looked after as a result of abuse or neglect and who have special educational needs, and the relatively small size of the cohort, our view is that funding allocated to support this group should be visible and linked to clear accountability requirements. We therefore believe that the national funding formula would not be the most effective route for targeting funding to schools with looked-after children.

2.71 In 2014-15, the government introduced the 'pupil premium plus' for looked-after children and those who have left care through certain defined routes (adoption order, special guardianship order, child arrangements order). The pupil premium plus is additional funding for schools to support the educational needs of looked-after children and those who have left care. Schools receive this separately to their DSG funding, meaning it is much more visible.

2.72 Pupil premium plus funding for looked-after children is managed by the virtual school head⁶⁶ (VSH) in the authority that looks after them. They and their staff work in partnership with the child's education setting to help them use pupil premium funding to meet educational needs identified in the child's personal education plan. VSHs look across the looked-after population and make strategic decisions about the best use of pupil premium resources to have maximum impact on the children for whom their local authority is the corporate parent. Pupil premium plus funding for children who have left care is currently allocated directly to schools, based on data collected from schools through the census.

2.73 Our priority is to improve outcomes for looked-after children and post looked-after children. We need to maximise the impact of additional funding going to schools to support some of our most disadvantaged and vulnerable children and young people. Our view is that we can do this most effectively through the pupil premium plus, rather than schools' DSG funding.

⁶⁴ EFA, '[Pupil premium final allocations 2015 to 2016 by local authority area and region in England](#)' - National table , March 2015

⁶⁵ DfE, '[National tables SFR49/2014](#)', March 2015

⁶⁶ Every local authority in England must appoint an officer employed by the LA (called a virtual school head) who is responsible for promoting the educational achievement of all the children looked after by that LA by monitoring and tracking educational progress as if those children attended a single school.

2.74 We also believe that children who have been looked after, and those who have left care through an adoption order, special guardianship order or child arrangements order⁶⁷ should be treated equally by the school funding system. Children's experiences prior to entering care have a long-lasting effect on their educational attainment. When children leave care, through for example adoption, it is unlikely that their educational needs will change significantly simply because their care status has changed. Recent school performance data shows that children who have left care significantly under-perform compared to children who have never been in care⁶⁸. We believe the funding system should treat both children in care and those who have left care equally.

2.75 We are therefore proposing to increase the pupil premium plus rates for both groups instead of including a looked-after children factor in the national funding formula. This change would take effect from 2017-18 onwards. If there is support for this approach in principle, the second stage of this consultation will include a detailed proposal.

Question 17

Do you agree that we should target support for looked-after children and those who have left care via adoption, special guardianship or a care arrangements order through the pupil premium plus, rather than include a looked-after children factor in the national funding formula?

Mobility

2.76 In the current funding system, local authorities can choose to include a mobility factor to increase funding to schools with over 10% of their pupils entering outside the normal times of year. While the amount of funding allocated through mobility factors is significant for a small number of schools, practice varies widely across local authorities and the amount spent nationally is small. In 2015-16, 65 local authorities chose to use a mobility factor, spending £24 million in total⁶⁹. By contrast, English as an additional language accounted for more than 10 times as much of schools' funding in 2015-16. Local authorities spent over fifty times more on low prior attainment than mobility, and over a hundred times more on deprivation⁷⁰.

⁶⁷ Child arrangements orders were known previously as residence orders. For the purpose of this document 'post looked-after children' are defined as those who have left care through adoption or are subject to a Special Guardianship Order or Child Arrangements Order.

⁶⁸ DfE, '[Key stage 2 attainment for children recorded as adopted from care](#)', July 2014

⁶⁹ EFA, '[Local authority funding proforma data 2015 to 2016](#)'

⁷⁰ EFA, '[Local authority funding proforma data 2015 to 2016](#)'

2.77 We recognise that mobility is used currently as a proxy indicator for pupils with additional needs, as well as a way of allocating funding to meet additional administrative costs associated with pupils arriving and departing in-year. We think the proposed additional needs factors in the national funding formula should allocate additional funding to the schools with the highest levels of need. This is because mobile pupils are more likely than other pupils to have at least one of the characteristics that are covered by these additional needs factors, namely to be in receipt of free school meals, to have English as an additional language or to have low prior attainment⁷¹.

2.78 Overall our view is that a mobility factor, focused just on the additional costs of pupils entering schools outside August or September⁷², does not meet the criteria we have set for inclusion in the national funding formula. We have some concerns about the underlying data, which can be affected by changes to school and year-group status. We would prefer to prioritise formula factors that are based directly on pupil characteristics, rather than school characteristics, so that schools attract the same amount of funding for similar pupils.

Question 18

Do you agree that we should not include a factor for mobility?

Post-16

2.79 Local authorities are currently able to use a sixth form factor in their local formulae to continue to provide funding for pupils over the age of 16 up to the per-pupil level the authority provided in 2014-15. This is a legacy factor, and we want to move to a position where there is no DSG funding for post-16 pupils, as they are funded directly through the post-16 funding formula. From 2017-18, we propose to remove post-16 from the list of permissible factors in local formulae.

2.80 Local authorities allocated £16 million through the sixth form factor in 2015-16. Of this, £13.5million went to schools with pre-16 pupils and £2.5 million went to sixth form only schools⁷³.

- We propose to include the £13.5 million allocated to schools with pre-16 pupils in the national funding formula. Schools that currently receive funding through the sixth form factor would have it included in their baseline, and would be protected

⁷¹ Strand S, '[Pupil mobility, attainment and progress during key stage 1](#)', September 2000 ; Strand S, Demie F, '[Pupil mobility, attainment and progress in secondary school](#)', August 2007

⁷² Or January for reception pupils.

⁷³ EFA, '[2015 to 2016 funding for schools and academies at provider level](#)'

by the minimum funding guarantee while this funding works its way out of the system. We would need to make a minor change to the regulations to enable this, as funding for sixth form pupils is currently excluded from the minimum funding guarantee calculation.

- Of the £2.5m allocated to sixth form only schools, we are looking at options for phasing out this funding.

Question 19

Do you agree that we should remove the post-16 factor from 2017-18?

Disability

2.81 In their research report on SEN funding, published in July 2015⁷⁴, Isos Partnership suggested that we explore a new disability factor using disability living allowance (DLA) data. Their argument was that the prior attainment indicator did not necessarily reflect the range of SEN and disabilities that a school could be faced with, and a measure focused on a child's disability could fill the gap. We have looked carefully at the published data but concluded that it is not sensible or feasible to include a DLA factor in the formula. As our high needs funding formula and other reforms consultation explains, local authorities would still have flexibility to provide extra funds from their high needs budget in cases where there are disproportionate numbers of pupils with SEN and disabilities.

2.82 The published DLA data shows the number of children up to the age of 15 who are receiving DLA within areas smaller than a local authority, but not in sufficient detail for us to be able to use the data as a characteristic for individual pupils. The data would not enable us to create an area factor either, as there is suppressed information where the numbers are small, and even where the numbers are larger, there is no guarantee that the children in receipt of DLA in the area are going to the school. There would also be significant data-sharing barriers in getting access to DLA data relating to individual children.

Next steps: constructing the national funding formula for schools

2.83 Through this consultation we are seeking views and evidence to inform final decisions on the factors that will be included in the national funding formula for schools

⁷⁴ Isos Partnership, '[Research on funding for young people with special educational needs research report](#)'

when it is introduced from 2017-18 onwards. During the next stage of consultation, we will then set out proposals for the relative weighting of the national funding formula and show the impact on funding at school and local authority level.

2.84 When designing our proposed formula weightings, we will be guided by the principles set out at the beginning of this consultation – getting funding straight to schools in a way that delivers opportunity, is fair, efficient, transparent, simple and predictable. There are complex design decisions to be made ahead of implementation – decisions where local authorities have so far taken variable approaches – such as the ratio in funding between primary and secondary phases, the balance between the basic level of funding for all pupils and funding for additional needs, and the extent to which funding should be driven by pupil characteristics rather than on a per-school basis. We will be setting out our proposals on all of these issues in stage 2 of the consultation.

Chapter 3: transition to a reformed funding system

3.1 The transition to a reformed funding system has 3 major aspects. The first is the role of local authorities in the period before the introduction of a hard national funding formula. The second is the approach to phasing in gains and losses for schools over time. The third is supporting schools to become more efficient.

3.2 Our objectives for the transition to a national funding formula are to provide gains for relatively under-funded schools whilst ensuring that the transition period is manageable for schools. Those schools that would lose funding have to be given time to plan and prepare for that so that they can make savings without damaging the quality of their provision.

A transitional period

3.3 As set out in [chapter 1](#), our proposal is to implement a hard national funding formula from 2019-20. However, an important part of meeting our principle of predictability would be to phase this in over time. For the first 2 years of the formula – 2017-18 and 2018-19 – we would allocate schools block funding at local authority level, according to the national formula ([paragraph 3.8](#)). Local authorities would continue to determine funding according to local formulae (with funding for academies also determined by reference to the local formula), within the parameters set nationally. We call this a ‘soft’ national funding formula. The only change we are proposing to make to the factors that are currently allowable in local formulae in 2017-18 is to remove the post-16 factor ([see paragraphs 2.79 to 2.80](#)).

3.4 We will look closely during 2017-18 and 2018-19 at how local authorities distribute extra funding, or how they manage reductions in funding. We will be able to take these local decisions, and their impacts, into account in refining and improving the national formula each year.

The soft formula system: how local authority funding is calculated

3.5 An important part of the 2017-18 and 2018-19 arrangements will be to ensure that we reflect the decisions local authorities have made in the past about spend across the schools, high needs and early years blocks in the baselines against which we make changes to funding. To do this, we will use the pattern of what authorities are actually spending on schools, early years, high needs and central services as our starting point, rather than how the government funds the blocks, which is often different.

3.6 We will carry out an exercise in March 2016 to ‘re-baseline’ the 4 blocks of the DSG for each local authority, so that each block aligns with the pattern of each

authority's spending in 2016-17, rather than how the government allocated the funding to them. For example, if an authority chooses to put funding from its allocated high needs block into its schools block in 2016-17 to encourage the integration of pupils with SEN in mainstream schools, then we will use that spending pattern as the baseline against which we calculate the schools and high needs funding allocations through the formulae for 2017-18.

3.7 Through the upcoming exercise, we will ask local authorities to set out their 2016-17 baselines across the 4 blocks. How to do this will be set out in detail when we begin the exercise.

3.8 The amount that each authority receives from the government for its schools block in 2017-18 and 2018-19 would be calculated by running a 'shadow' school level formula and applying the minimum funding guarantee (MFG) and cap on gains (detail of which set is out below), to determine each school's notional funding for that year. The notional funding for each school in an authority (including an area cost adjustment) would then be added together. We would then add funding for premises factors (business rates, split sites, PFI, exceptional premises factors) and growth, based on the total of each local authority's spend in the previous year. This would form each authority's schools block.

The soft formula system: how school funding is calculated

3.9 Through the transition period, the local authority would continue to be responsible for allocating its schools block to schools through a local formula, as now.

3.10 The only change we are proposing to make to the factors that are currently allowable in local formulae in 2017-18 is to remove the post-16 factor. However there are 2 further changes to the process for calculating each school's funding that we are proposing for 2017-18 and 2018-19. The first proposal is to require authorities to pass on all of the funding they are allocated through their schools block to their schools. The second proposed change is to allow authorities greater flexibility in setting an MFG that reflects local circumstances.

3.11 Local authorities, in consultation with their schools forum, are currently able to divide their total DSG across the DSG blocks as they see fit – that is, they can spend schools block funding on high needs, or early years block funding on schools.

3.12 As we move towards national funding formulae, this flexibility should become less important. The outcome of the 2 formulae is that funding through each of the blocks will be better allocated according to need than it is now. This should mean that there is less need for local authorities to move funding between the blocks. In addition, the re-baselining exercise described above means that even before we implement the 2

formulae, we should have more accurately matched allocations to local authorities' spending patterns across the blocks.

3.13 We are therefore proposing to require authorities to **pass on all of their schools block funding to schools**. As described above, each authority's schools block allocation would be calculated on the basis of their notional schools' national funding formula allocation, plus funding for premises and growth where applicable. We are proposing to require that the amount of funding allocated to schools should be no less than the amount allocated to authorities in their schools block.

3.14 However we recognise that for some local authorities this removes one way of dealing with pressures on the other blocks, particularly high needs. We do not think that continuing to move funding from the schools block is necessarily the right way of managing high needs cost pressures in the future. So the parallel high needs funding formula and other reforms consultation sets out a number of ways in which local authorities can work with neighbouring authorities, their schools and with parents, to shape special needs provision in their area so that better outcomes for children and young people can be achieved at less cost. We are also making available capital funding to help with the infrastructure changes that might be necessary.

3.15 Local authorities would be able to use previously accumulated reserves across all 4 blocks of the DSG.

Question 20

Do you agree with our proposal to require local authorities to distribute all of their schools block allocation to schools from 2017-18?

3.16 Some authorities will receive less funding in 2017-18 than they had in 2016-17 for their schools, meaning that setting a local formula that complies with current regulations and guidance will be more difficult. Authorities would be required to set a formula under which no school could lose more than a certain amount per pupil, with that amount set at a national level. For losing authorities this would leave them very little room for manoeuvre.

3.17 We also recognise that in 2017-18 and 2018-19 there may still be specific local circumstances that authorities and schools forums want to reflect, and they may need to create more flexibility within the schools block in order to be able to do that.

3.18 We are therefore considering whether to put in place an arrangement that would allow local authorities, in agreement with the schools forum and following consultation with all local schools, **to set a local MFG that allows greater losses** than the one the government has used to calculate schools' notional funding. Subject to the outcome of

this consultation, we would consult on the limit we would put on this flexibility in the second stage of the consultation.

3.19 We will ensure that the requisite budgetary framework to enact any changes is in place, with changes to secondary legislation and grant conditions.

Question 21

Do you believe that it would be helpful for local areas to have flexibility to set a local minimum funding guarantee?

Schools forums and de-delegation

3.20 We see a continuing role for schools forums in 2017-18 and 2018-19 in carrying out their current role of advising on the schools budget and the local formula, and making decisions about what spending can be held centrally in relation to schools. Since we envisage moving to a hard formula for schools by 2019-20, this would be a relatively short-term role. We do not intend to make changes to the make-up or functions of the schools forum during this period.

3.21 In advance of introducing the 'hard formula', we will carry out a review from first principles of the role, functions and membership of schools forums.

3.22 We are proposing to withdraw current arrangements for de-delegation with the introduction of the hard national funding formula in 2019-20 to give schools greater responsibility for their budgets. Responsibility for services that can currently be de-delegated will rest with individual maintained schools, who will have a choice about whether to buy the service from the local authority or an alternative provider. These services include behaviour support services, insurance and licences and subscriptions. If local authorities wish to continue to provide these services they should do so as a traded service, giving individual schools the choice of buying into the service.

Phasing in gains and losses over time

3.23 We are proposing to phase in changes in funding over several years so that schools have time to adapt, plan and make the best use of their budgets for their pupils. Our overriding principle here is that the length of time it takes to get to a position where all schools are funded according to the formula should not be fixed arbitrarily, but should instead be determined by what is manageable for schools.

3.24 Schools are already subject to year on year changes in their funding, as local authorities distribute the funding in their area according to a local formula which can change each year. Schools are protected against large changes to their funding through the MFG. This currently ensures that schools cannot lose more than 1.5% funding per

pupil each year, and this protection can be paid for by capping or scaling the amount that other schools gain from the local formula changes.

3.25 We are proposing to retain the principle of this system, while adapting it to fit with a structure whereby from 2019-20 the vast majority of each school's funding would be determined by a national rather than local formula. Although during 2017-18 and 2018-19 we would be funding local authorities rather than schools directly, the amount that each authority receives would be based on a shadow school level formula in which each school's funding would be calculated including any protection against losses or cap on gains, and then aggregated to local authority level.

3.26 There would therefore be a national MFG and cap on gains from 2017-18 in order to set the shadow formula, with arrangements for local authorities to use a local MFG and variable cap (and/or scale) in 2017-18 and 2018-19, as described above.

A national MFG

3.27 In setting our proposal for a national MFG, we will consider both protecting those schools that are due to lose from the national funding formula, and addressing the needs of those that are due to gain.

3.28 As discussed above, some schools have recently been subject to reductions in funding of up to 1.5% per pupil per year, if their local authority's formula calculation means they have to lose funding. We have protected the national schools budget in real terms, enabling a cash per pupil protection on the schools block of the DSG and the pupil premium. However we know that schools will have to manage a number of pressures on their budgets over the coming years. In line with the rest of the public sector, teachers pay awards need to be contained within an average 1% each year, and the government's pension reforms will require schools to pay more towards their employees' retirement savings. In addition, in order to protect the national schools budget the government has taken difficult decisions to make savings on the education services grant and post-16 education. These will also directly affect some schools.

3.29 We will continue to use an MFG⁷⁵ to calculate the shadow national schools formula in 2017-18 and 2018-19, and local authorities will continue to use it to set each school's funding. This will provide a degree of stability while local authorities adapt to other changes to the system. However we are also aware that the pressures described above are likely to be felt most keenly by those schools that are currently under-funded relative to others. There is therefore an imperative to ensure schools that are due to gain from the national funding formula can do as quickly as possible, and this is discussed below.

⁷⁵ With the addition of the sixth form factor, as described in [chapter 2](#).

3.30 We will consult on proposals for the national MFG in the second stage consultation, alongside the illustrative impacts of the proposed formula.

Cap on gains

3.31 Setting the national MFG at a level that the schools that are due to lose funding can manage has to be balanced against the need of schools that are due to gain. It is imperative that as many relatively under-funded schools as possible see rapid increases in funding. However we have to ensure that the amount that schools gain and lose in a single year is equal, so that the total budget is not overspent. This means that the amount we have to distribute to the gainers is balanced by the amount that we are prepared to allow schools to lose in a single year.

3.32 We are considering 2 ways to distribute funding to the gainers, based on the current options in authorities' local formulas. The first is to put a single percentage cap on the gains of all schools, just as we have capped losses through the MFG. The second option is to have a lower cap, and then to distribute the remaining funding through a progressive system that gives the most to those that have the most to gain before they reach their formula allocation.

3.33 In broad terms, the first option – a simple cap – allows the maximum number of schools to reach their formula allocation in each year. It allows us to allocate each school the maximum proportion of their gains due in each year that we can afford. The second option requires us to set the cap lower, so that there is funding left over to give greater gains to those most under-funded.

3.34 We are minded to set a cap in each year at the maximum we can afford (option 1), so that the maximum number of schools possible get onto the formula in the shortest possible time. This meets our objectives of getting to a fair funding system as quickly as possible, of providing stability through predictable increases to funding and of creating a system that is simple and transparent. However we will consult on the detail of this in the second stage consultation.

Support for school efficiency

3.35 There will be schools that lose funding as a result of the national funding formula. These schools will need to plan their budgets over the medium to long term, and take decisions to reduce their spending in ways that continue to support pupil outcomes.

3.36 Support for schools to become more efficient and financially healthy already includes being able to draw on some excellent practice in schools, and a wide range of training and tools offered by organisations in the sector. In a school-led system we believe this kind of support is the best driver of improvement.

3.37 In addition, we have worked with national head teacher, governor and school business management associations to provide additional information, guidance and support on financial health and efficiency in one place for schools⁷⁶. These materials encourage schools to improve their efficiency and financial health in 3 main ways:

- a. To review their level of efficiency – a new efficiency metric provides schools with an indication of their relative efficiency compared to similar schools
- b. To investigate their levels of spend – a new list of top 10 governor checks provides guidance as to the types of questions governing bodies might want to ask, and a new benchmarking report card has been sent directly to schools to encourage them to undertake more and regular benchmarking comparisons
- c. To resolve any issues emerging from this assessment – we are encouraging schools to contact the other schools listed in the metric and report card to learn from best practice. New videos on collaborative procurement and setting 3 to 5 year budgets build on existing materials in providing guidance for schools to become more efficient.

3.38 We want all schools to benefit from being able to compare themselves with other schools and being able to contact those schools to ensure value for money for every pound spent. As part of a wider school-led system, the GOV.UK collection also provides information about schools and other organisations offering financial health advice and support.

3.39 In the run up to the introduction of the national funding formula we will continue to support schools to become financially healthier and more efficient. This will focus on:

- Better signposting to the support available in the sector to ensure schools can find what they need to improve. We will also launch a procurement strategy which will set out further steps to help schools achieve savings in their procurement spend.
- Building capability within individual schools to become more efficient. Linking in with existing offers and frameworks in the sector, this will include training for school leaders and governors on efficiency and financial health, and specifically on effective staff deployment. We will build on existing work to share best practice between schools to ensure that schools have tangible examples they can look to, to help them decide what actions to take to become more efficient.

⁷⁶ DfE and EFA, '[Schools financial health and efficiency](#)', February 2016

3.40 We will also launch an 'invest to save' fund in 2016-17, to allow schools to invest in ways to save money in future, helping them manage the transition to the national formula. Schools will be free to decide how best to use this funding: this might include financial, legal and HR advice, the cost of re-training teachers to cover new areas of expertise, or in extreme cases, the cost of restructuring a school's workforce.

Chapter 4: Funding that will remain with local authorities

4.1 The role of local authorities in supporting the provision of excellent education for all children of compulsory school age is to ensure that every child has a school place and ensuring fair access through admissions and transport arrangements; ensuring the needs of vulnerable pupils are met; and to act as a champion for all parents and families. On top of these responsibilities, local authorities have a key role in shaping school provision in their area, and to encourage an increasing number of academies. We will continue to provide funding to local authorities for these functions on an ongoing basis.

4.2 Local authorities currently receive funding from the government for their responsibilities from 2 different funding streams – the DSG funding that is held centrally by the local authority, and the retained duties element of the education services grant (ESG). We are proposing to bring these 2 funding streams together into a new central schools block, distributed on a simple formulaic basis. This chapter explains how we would do this and our plans for the transition from current arrangements. Further detail on the shape and content of the central schools block is included in annex B. [Chapter 5](#) sets out our proposals for the remainder of the ESG (the general funding rate), including transition from the current arrangements for local authorities and academies.

4.3 In addition to the responsibilities that would be funded through the central schools block, local authorities hold other responsibilities in respect of education, for which they are allocated funding from other sources. These responsibilities include those for the provision of home to school transport, assessing pupils with SEN, and planning for and supply of sufficient school places. The funding for these functions is not in scope of this consultation.

Funding for ongoing local authority functions

4.4 We propose to distribute funding to local authorities for their ongoing functions using a simple per pupil formula. As we move towards a hard national funding formula where each school's funding is set according to a national funding formula, it makes sense to distribute funding for ongoing local authority functions according to a fair funding formula too. The per-pupil amount would be adjusted for area costs using the same area cost adjustment used in the schools formula.

4.5 The per-pupil rate would be derived from 2 existing funding streams: centrally retained DSG and the retained duties element of the ESG. ESG funding for retained duties is already allocated to local authorities according to a per pupil rate of £15 for all maintained school and academy pupils. Centrally retained DSG is not currently allocated on a formulaic basis. The existing school funding arrangements give discretion

to the schools forum to decide how much DSG funding should be held centrally for some ongoing local authority functions. The second phase of the consultation will set out a proposal for a formula and the pace of transition.

Funding for historic commitments

4.6 Centrally retained DSG is also currently used to fund a number of historic commitments. The functions are listed in full in Annex B, and include combined budgets contributing to wider children's services (such as early intervention), staff redundancy costs relating to decisions taken before 2013, and the back pay associated with equal pay legislation. Some costs of providing SEN transport are currently also included in the historic commitments within centrally retained DSG. We would include this funding in the high needs block rather than the central block.

4.7 We do not believe we should be providing funding for these commitments on an ongoing basis where they relate to functions which should be provided from the local authority's core budget, or where costs have unwound, for example because a contract has reached its end point. With a national funding formula, it is no longer appropriate to top-slice school budgets for these functions: if schools value a service they will be able to buy it from their delegated budgets. Spending on such commitments is only currently allowed where they were entered into before April 2013, and the expectation is that these costs would unwind over time. As no new commitments are allowed, there should be a reducing need to retain funding for termination of employment costs or capital expenditure funded from revenue, as the existing commitments should have passed through the system.

4.8 We plan to collect evidence from local authorities about their historic commitments, and the ongoing cost of these commitments, during spring 2016. This evidence collection will happen alongside the baseline exercise described in [chapter 3](#). We propose to allocate funding for historic commitments on the basis of this evidence – so we would only fund commitments where we have evidence that they were entered into before 2013, and that there is an ongoing cost, which is consistent with the current principles.

Transition

4.9 We have explained our proposals to create a central schools block that distributes funding on a formulaic basis for those functions currently funded by centrally retained DSG and the retained duties element of ESG. It is important that we move towards this formulaic distribution at a manageable pace. The extremely wide range in

current expenditure (the lowest planned expenditure for one LA in 2015-16 was £6 per pupil, with the highest being £83 per pupil)⁷⁷ means that we need to balance the rate of change against the need to make progress towards the formula.

4.10 At a national level, the amount spent on the central schools block would reduce over time as ongoing costs of historic commitments unwind. As funding is released from this block at a national level it would be reinvested in the schools national funding formula, in line with our wish to transfer as much funding as possible straight to schools.

4.11 At individual local authority level the impact will vary, and some areas will receive a larger central schools block than they retain currently. Where this is the case, we would expect a transparent and fair discussion with the schools forum to decide how to distribute any surplus funding, with a presumption in favour of delegation to schools or increasing the high needs or early years blocks.

Question 22

Do you agree that we should fund local authorities' ongoing responsibilities as set out in the consultation according to a per-pupil formula?

Question 23

Do you agree that we should fund local authorities' ongoing historic commitments based on case-specific information to be collected from local authorities?

⁷⁷ EFA, ['Budget detailed level: local authority information 2015 to 2016'](#), September 2015

Chapter 5: The future of the Education Services Grant

5.1 The Education Services Grant (ESG) was introduced in 2013 and is paid to local authorities and academies according to 2 national per pupil rates. The general funding rate (£77 per pupil in 2016-17) is paid to both academies and local authorities to fund duties that academies are responsible for delivering for their pupils, and that local authorities deliver for maintained school pupils. The retained duties rate (£15 per pupil in 2016-17) is paid only to local authorities, to fund the duties that local authorities deliver for all pupils.

5.2 In the 2015 spending review, we announced a saving of £600m from the ESG general funding rate by 2019-20⁷⁸. We have taken the first step towards realising this by introducing a saving of £72m in 2016-17. This means the general funding rate has reduced from £87 per pupil in 2015-16 to £77 per pupil in 2016-17⁷⁹.

5.3 This chapter sets out our plans to remove the remaining general funding rate from 2017-18 to achieve the full £600m savings announced at the spending review. It sets out: the efficiencies that we think can be made by schools and local authorities; the duties that we think could be removed or reformed to reduce the burden on schools and local authorities; a proposal to allow local authorities to retain some of their maintained schools' DSG centrally to fund the statutory duties that they carry out for maintained schools; and our proposed transitional arrangements for both academies and local authorities.

5.4 [Chapter 4](#) sets out our proposals for the retained duties rate.

Efficiency savings

5.5 We have already announced a saving of £72m in 2016-17, which we believe will be achieved by local authorities and academies making manageable efficiencies in their spending on education services. The new rate (£77 per pupil) is based on the assumption that all local authorities could reduce their spending to the median level of per pupil planned expenditure as reported by local authorities in 2015-16, and that academies can spend at the same level. This is the same methodology that we used to calculate the level of efficiency saving we thought was possible in 2015-16.

5.6 We recognise, however, that the full £600m of savings cannot be achieved through efficiencies. We have also considered how to reduce the statutory burdens on

⁷⁸ HM Treasury, '[Spending Review and Autumn Statement 2015](#)', 25 November 2015

⁷⁹ DfE, '[Education services grant: technical note](#)', December 2015

schools and local authorities in line with the core role for local authorities, and the section below covers this in more detail.

Reform of school improvement arrangements

5.7 We are reforming school improvement policy in the context of the overall drive towards a school-led system. This means that we expect local authorities to step back from running school improvement from the end of the 2016/17 academic year and therefore they will not require funding for this function. We will review the statutory responsibilities that currently apply to local authorities so that funding and accountability are aligned. We expect to provide local authorities and schools with funding through the ESG in the period before we transition to the new approach. We plan to continue to provide funding to support the delivery of a new strategy for school improvement and will say more about this shortly. Therefore the future funding arrangements for school improvement are not covered in the document.

Removal of duties

5.8 As set out in [chapter 4](#), local authorities are focused on shaping the local patterns of education provision and convening services for pupils and parents. Their education functions, for children of compulsory school age, will focus on 3 main areas:

- Securing that sufficient school places are available, ensuring fair access through admissions and working with schools to develop local transport policies, and taking a lead in crisis management and emergency planning.
- Ensuring the needs of vulnerable pupils are met: identifying, assessing and making provision for all children with SEN and disabilities; promoting attendance; and making sure that alternative provision is available for children and young people excluded from school or otherwise unable to attend a mainstream school; leading on safeguarding for those pupils in un-regulated settings, educated at home, tracking children missing education as well as those at risk of extremism; working with schools to ensure they understand and discharge their safeguarding duties; acting as a corporate parent for looked-after children and those adopted from care.
- Acting as champions for all parents and families: listening and promoting the needs of parents children and the local community; supporting parents in navigating the system and ensuring children do not fall through the gaps; supporting children, young people and parents to navigate local SEND arrangements (such as providing information, advice and support); and championing high standards locally.

5.9 Removal of duties that are not consistent with this role may reduce financial pressures on local authorities and schools, and therefore help them to manage with reduced funding. We have identified a small number of duties that we think could be removed.

We are very interested to have suggestions for additional duties that could be removed or reformed to support the move to a school-led system, to ease the burden on local authorities and schools and help with managing savings.

5.10 The introduction of a hard national funding formula in 2019-20 would mean that local authorities would no longer be responsible for setting local funding formulae as set out in [chapter 1](#). Subject to this consultation, we would bring forward legislation to amend at the earliest opportunity to make this possible.

5.11 The general funding rate notionally includes an amount to fund some non-statutory central support services. Section 251 data shows that local authorities planned to spend a total of £40m on these services in 2015-16⁸⁰. These include music services, visual and performing arts, pupil support, and outdoor education. We recognise that authorities and academies may wish to continue to provide these services from existing budgets once the general funding rate has been removed, and they will be free to do so. All schools, whether academies or maintained schools, are expected to fund the teaching of, and extra-curricular activities in, music and the performing arts, from their budgets. DfE provides additional support for music education through a network of music education hubs.

5.12 We are currently reviewing whether local authorities should continue to have a role in the oversight of school companies.

Arrangements for funding statutory duties previously covered by the general funding rate

5.13 We recognise that local authorities will need to use other sources of funding to pay for education services once the general funding rate has been removed. We therefore propose amending regulations to allow local authorities to retain some of their maintained schools' DSG to cover the statutory duties that they carry out for maintained schools.

5.14 The level of the DSG to be retained by the local authority would need to be agreed by the maintained schools members of the schools forum, with recourse to the Secretary of State if they are unable to agree. This would be similar to the current de-

⁸⁰ EFA, ['Budget detailed level: local authority information 2015 to 2016'](#)

delegation arrangements, the main difference being that the statutory responsibility to fulfil the duties for maintained schools remains with the local authority and could not be delegated.

5.15 The proposed arrangement for local authorities to retain some of their maintained schools' DSG centrally for duties currently funded by the ESG general funding rate would result in an effective reduction to their core schools funding, which would be equivalent to the arrangement for academies. Many multi-academy trusts already take a top-slice to fund the services that they provide to academies, and the reduction to the general funding rate means that they will be top-slicing core academy budgets. Standalone academies will need to use their core schools funding to meet the costs of these duties.

Transitional arrangements

Academies protections

5.16 Since the introduction of ESG in 2013-14, we have provided protections for academies to limit the reduction to their funding as a result of changes to ESG. In 2015/16⁸¹ and 2016/17⁸², this protection has been set in tapered bands. Academies that received lower ESG allocations in the previous year will see a smaller reduction in funding as a result of ESG changes than academies that received higher allocations in previous years, allowing reductions of between 1% and 3% of the total funding.

5.17 We have updated the 2015/16 thresholds for the 2016/17 protection, so that whether an academy's allocation is counted as 'low' or 'high' is based on the ESG general funding rate for the previous 2 academic years. The 2016/17 ESG academies protection methodology is described in more detail below:

- For academies with a total ESG allocation of £87 per pupil (the 2015/16 rate) in 2015/16, the loss is protected at 1%, meaning that they cannot lose more than 1% of their funding as a result of changes in the ESG in 2016/17.
- For academies with a total ESG allocation of between £87 per pupil (the 2015/16 rate) and £140 per pupil (the 2014/15 rate), the loss is protected at 2% of their total funding.
- For academies with a total ESG allocation of over £140 per pupil (the 2014/15 rate), the loss is protected at 3%.

⁸¹ DfE, '[Education services grant: statement of final arrangements for 2015 to 2016](#)', November 2015,

⁸² DfE, '[Education services grant: technical note](#)', December 2015

5.18 We propose to continue to provide a protection using the methodology that we have used in 2015/16 and 2016/17 for the remainder of the spending review period. This provides a fair basis for protecting academies, where those that have previously been most generously funded will see larger reductions to their funding as a result of reductions to ESG.

5.19 We propose to unwind this protection by 2020. As we have for 2016/17, we propose to update the thresholds used in the protection arrangement for 2017/18 in line with the ESG general funding rates for the previous 2 academic years and to continue to update thresholds in this way for each year that we provide a protection. For example, for 2017/18 the thresholds would be set at £77 per pupil and £87 per pupil. We will maintain the principle that the absolute maximum loss to an academy's funding as a result of changes to the ESG will be 3%, and the percentage protections for the first and second tier will be confirmed for each year along with the thresholds.

Transitional arrangements for local authorities

5.20 We recognise that managing the proposed changes to the ESG will require reform of local authority services, and we therefore propose to provide a transitional period to help local authorities to prepare. We expect that local authorities will use the 2016-17 financial year to plan for reforming their services, alongside the manageable efficiencies that they will need to make in that year. To maximise the time that local authorities have to plan, we propose to pay a reduced ESG general funding rate for the first 5 months of the 2017-18 financial year. This would act as a counterpart to the ESG funding that academies will receive from April 2017 to August 2017, as academies are funded on an academic year basis. The general funding rate would then be removed completely for both academies and maintained schools from September 2017 (subject to the protection arrangement described above for academies).

5.21 We also expect that local authorities will use some of the transitional ESG to support their remaining role in school improvement, as described in [paragraph 5.7](#). This funding will be removed as local authority duties change.

5.22 We will confirm transitional arrangements in stage 2 of the consultation.

Question 24

Are there other duties funded from the education services grant that could be removed from the system?

Question 25

Do you agree with our proposal to allow local authorities to retain some of their maintained schools' DSG centrally – in agreement with the maintained schools in the schools forum – to fund the duties they carry out for maintained schools?

Annex A: Provisional data sources for each factor in a national funding formula

For each of the factors below, we would expect to take into account local authorities' adjustments to data that are submitted through the authority proforma tool process.

Block	Factor	Data source
Pupil costs	Age-weighted pupil unit	Number of pupils on roll at primary, key stage 3 and key stage 4 at each school, as recorded in the October school census.
Additional needs	Deprivation	
	FSM (current)	Number of pupils registered as eligible for free school meals as at the October school census. FSM eligibility is determined by the household's benefit entitlement status. The criteria are set out in the regulations
	FSM (Ever 6)	Number of pupils registered as eligible for free school meals as at the January census, matched to FSM data in the national pupil database to identify any pupil who has been eligible for FSM at some point in the last 6 years.
	IDACI	Number of pupils whose postcode falls in a lower super output area captured by the IDACI bands. Data from the October census is matched to the IDACI dataset, which is published by the Department for Communities and Local Government every 5 years (and is a subset of the indices of multiple deprivation).
	Low prior attainment	Data on the number of pupils who failed to reach the expected standard in the early years foundation stage profile or at key stage 2 tests, matched to the October census via the national pupil database
	English as an additional language	Pupils recorded as EAL in the October school census, on the basis of parental declaration – data is matched to the preceding 3 years' October census data for the EAL3 measure.
School costs	Lump sum	Data on schools that are open at the beginning of the financial year, or will open during the financial year, as recorded in the authority proforma tool.

Block	Factor	Data source
	Sparsity	<p>Year group size: total number on roll in reception to year 11, divided by number of year groups present.</p> <p>Distance: derived from pupil postcodes in October school census.</p>
	Business rates	Historic data on actual spend taken from the authority proforma tool.
	Split sites	Historic data on actual spend taken from the authority proforma tool.
	PFI	Historic data on actual spend taken from the authority proforma tool.
	Exceptional premises circumstances	Historic data on actual spend taken from the authority proforma tool.
	Growth	<p>Amount held by the local authority in their growth fund and falling rolls fund in the previous year.</p> <p>Change in pupil numbers between October census and authority proforma tool submission.</p>
Geographic costs	Area cost adjustment	<p>General labour market data published by the Department for Communities and Local Government.</p> <p>If hybrid ACA: school workforce census data to calculate notional teacher salaries and DCLG's GLM data for non-teaching staff costs; data on school spending to determine the proportion of staffing costs attributable to teaching and non-teaching expenditure.</p>

Annex B: Shape and content of the central schools block

The table below shows the functions that will be funded from the central schools block.

Allocation route	Previously funded from centrally retained DSG	Previously funded from ESG
Central schools 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 schools 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	

The sections below explain the ongoing responsibilities local authorities will continue to hold in each area.

School admissions

Local authorities have responsibility for determining admission arrangements for community and voluntary controlled schools and for co-ordinating admissions for all

schools, including academies. These functions are consistent with the local authority role to ensure every child has a school place.

Asset management

The retained duties rate that local authorities currently receive is in part intended to reflect the fact that they hold responsibilities under this heading for all schools. These include expenditure in relation to the management of the authority's capital programme and negotiation and management of private finance transactions. The current ESG general funding rate is intended to include expenditure on asset management responsibilities that authorities hold only for maintained schools, such as contracts and landlord premises functions.

We know that many local authorities also have historic commitments, in agreement with their schools forum, to use some centrally retained DSG to support capital development, either through a direct revenue contribution (CERA) or financing prudential borrowing, where the investment is delivering a saving.

Education welfare

Local authorities currently receive ESG funding for education welfare services. This includes attendance services and prosecutions, tracking children missing education, and undertaking licensing and registration responsibilities in respect of child employment and engagement in performances. Local authorities will continue to have a strong and important role in ensuring educational needs are catered for, and acting as champions for parents, families and vulnerable pupils.

Statutory and regulatory duties

The ESG is currently intended to fund a wide range of statutory and regulatory duties⁸³, including: financial planning and management for the whole of DSG; equalities duties; data collection for returns to the Department for Education; the authority's role in the education strategy, including the employment of a Director of Children's Services; and in establishing a standing advisory council on religious education and preparing a locally agreed syllabus of religious education. [Chapter 4](#) sets out the duties we are proposing can be removed from the system, including the removal of the local authority's role in setting school funding with the introduction of a hard national funding formula. Many of these statutory duties, however, remain an ongoing part of the local authority's role.

⁸³ DfE, '[Annex A: clarification of local authority statutory duties relating to services relevant to the Education Services Grant](#)', November 2015

National licences

Local authorities will continue to act on behalf of maintained schools and academies to buy into a national scheme for intellectual property licences for schools.

Schools forums

During the transition to a hard national funding formula at least, local authorities will continue to be responsible for financing the local schools forum.

Fees to independent schools for pupils without SEN

Local authorities may make arrangements for pupils without SEN to attend independent schools.



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