



Department
for Education

Schools national funding formula

**Government consultation response:
stage 1**

December 2016

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Introduction

On 7 March, we launched the first stage of our consultation on a national funding formula for schools.

We asked 25 questions on the following areas:

- Reforming the funding system
- The schools national funding formula
- The transition to a reformed funding system
- Funding that will remain with local authorities
- The future of the Education Services Grant

This is the government's response to the first stage schools national funding formula consultation, and is in 2 parts. The first briefly summarises our first stage consultation proposals. The second part describes the responses we received on these proposals and confirms our decisions on the basis of these responses, setting out the key themes arising from the consultation responses. A detailed question by question analysis can be found in annex A.

[School funding arrangements for 2017-18](#) were confirmed in July.

Part 1 - Summary of consultation proposals

Reforming the funding system

1. In the first stage of our consultation on a national funding formula for schools, we proposed that our reforms for the distribution of school funding should be underpinned by the following 7 principles:
 - A funding system that supports opportunity
 - A funding system that is fair
 - A funding system that is efficient
 - A funding system that gets funding straight to schools
 - A funding system that is transparent
 - A funding system that is simple
 - A funding system that is predictable
2. We proposed to move to a school-level ('hard') national funding formula from 2019-20. In 2017-18 and 2018-19 we proposed that we would have a 'soft' formula: one where local authorities continue to set schools' core funding through a local funding formula. We would, however, use the national funding formula to determine local authorities' schools block allocations in 2017-18 and 2018-19. As we confirmed in July, the national funding formula is now being introduced from 2018-19, and there are no significant changes to the system for allocating schools' funding in 2017-18.
3. We proposed to split the dedicated schools grant (DSG) into 4 blocks, instead of the current 3. Alongside the early years block, schools block and high needs block, we propose to create a central school services block¹ to provide funding for the duties that local authorities will continue to hold for both maintained schools and academies.

The schools national funding formula

4. The formula we proposed and consulted on has a basic per pupil amount as its main building block. We proposed additional per pupil amounts to recognise that

¹ This was referred to as the central schools block in the March 2016 consultation. We have changed the name to better distinguish it from the schools block

schools with pupils with additional needs face higher costs in properly supporting these pupils to achieve their full potential.

5. We proposed that the national funding formula should comprise the following factors:
 - Basic per pupil funding
 - Deprivation
 - Low prior attainment
 - English as an additional language
 - Lump sum
 - Sparsity
 - Rates
 - Premises (split sites, PFI and exceptional circumstances)
 - Growth
6. We then proposed to apply an area cost adjustment to each school's allocation, to uplift the budgets of schools situated in areas of higher cost.
7. We proposed to omit 3 factors that are currently included in the list of factors that local authorities are allowed to use: the looked-after children factor; the mobility factor; and the post-16 factor. We proposed that local authorities should be able to continue to use looked-after children and mobility factors in their formulae in 2017-18 and 2018-19, but would not be able to use a post-16 factor.

The transition to a reformed funding system

8. We proposed 2 key reforms to the way local authorities can set their local formulae in the consultation. The first was to ring-fence the schools block from 2017-18 onwards so that all schools block funding goes straight to schools.
9. The second was to give local authorities flexibility over the level of the minimum funding guarantee (MFG) for schools in their area.

Funding that will remain with local authorities

10. We proposed that a new central school services block should be formed from 2 existing funding streams: 1) DSG held centrally by local authorities for central services; and 2) the retained duties element of the Education Services Grant (ESG). This would be allocated to local authorities on a per pupil basis for the ongoing responsibilities they provide both to maintained schools and academies. Funding would also be allocated for historic commitments previously funded from

centrally retained DSG where there was strong evidence of continued need for these commitments.

The future of the Education Services Grant

11. We also sought views on any statutory duties that could be removed alongside the saving of £600 million from the ESG general funding rate announced at the 2015 Spending Review. Additionally, we proposed to allow local authorities to retain some of their maintained schools' DSG to fund the statutory duties they continue to fulfil for maintained schools.

Part 2 - Key findings from the consultation and our decisions

School funding arrangements for 2017-18

1. In July 2016, we [announced the schools national funding formula would be introduced in 2018-19](#) rather than 2017-18.
2. We confirmed that for 2017-18, no local authority will see a reduction in their per pupil schools funding, and in their total funding for high needs, compared to their baselines in 2016-17. The minimum funding guarantee will continue to be set at minus 1.5% per pupil for 2017-18, with the usual rules around the minimum funding guarantee (MFG) continuing to apply. More information can be found in the [operational guidance](#).
3. We also confirmed that there will be minimal changes to the rules by which local authorities set their schools formulae, and the funding factors which they can use. The only existing factor local authorities are not permitted to use in 2017-18 is the post-16 factor, which we confirmed was being removed.
4. The decisions outlined below, which have been taken having considered the responses to the first stage consultation, will apply from 2018-19.

Number of responses received

5. In total there were **4,933 responses** to the consultation on the schools national funding formula. The largest proportion of responses received were from those who identified themselves as head teachers and principals (25%), followed by parents (18%) and teachers (12%).

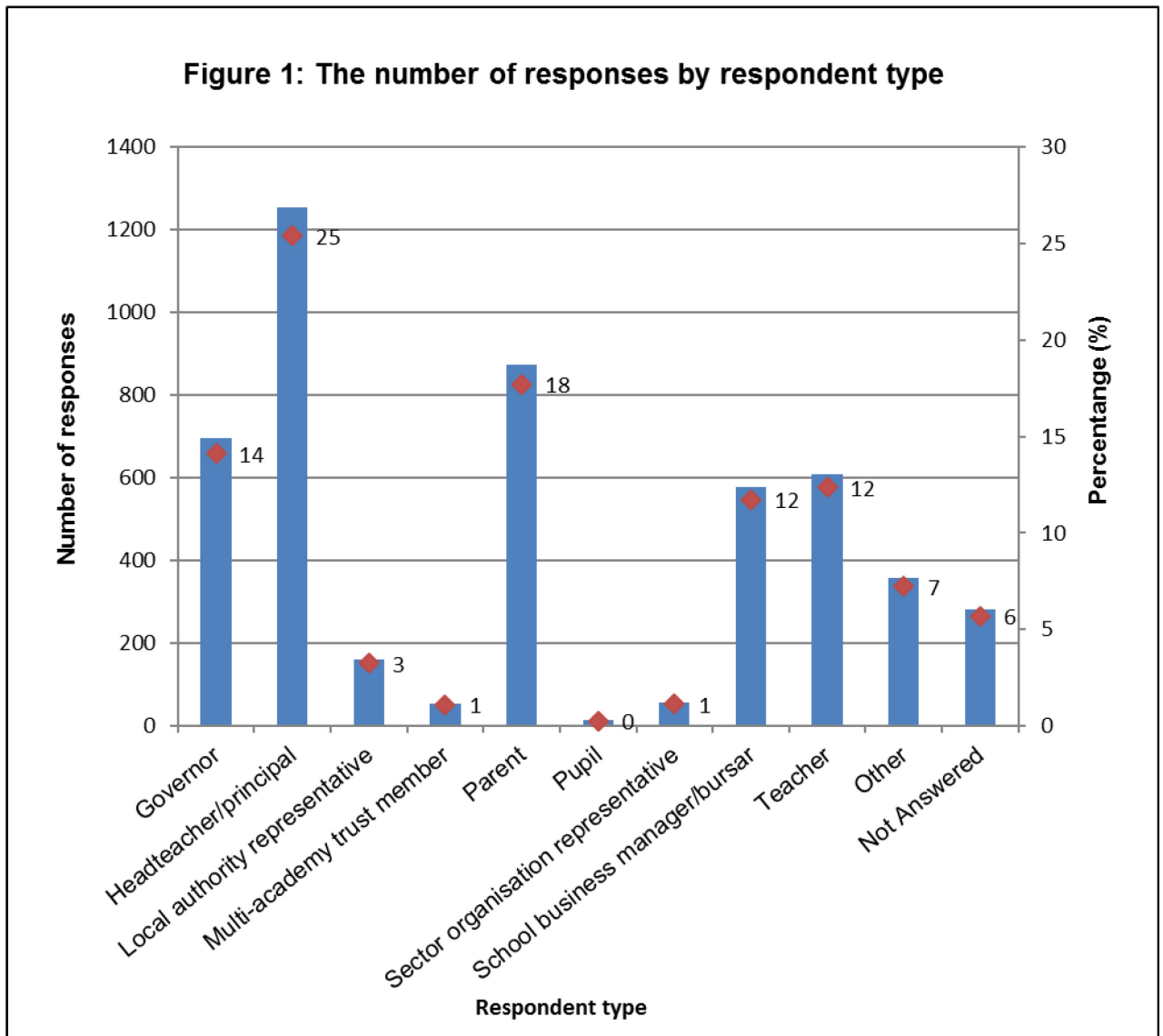


Figure 1: This chart shows the number respondents to the first stage of consultation, according to either their profession, or their relationship to the education sector.

6. Officials also attended a significant number of externally organised conferences and events, and local authority regional finance meetings. They held numerous meetings with funding stakeholders including the department's School and Academy Funding Group and the Service-level Working Group for Education and Children's Services.
7. Across the regions, the largest proportion of responses was from London, making up 31% of the total received. 1% of respondents were from the North East; 12% from the North West; 3% from Yorkshire and the Humber; 9% from the East

Midlands; 6% from the West Midlands; 6% from the East of England; 11% from the South East; and 13% from the South West².

8. A full list of the representative organisations that responded can be found at annex B.
9. Some respondents answered just a subset of questions. Throughout this document the proportion of respondents agreeing or disagreeing with a proposal are given as a proportion of all 4,933 respondents, rather than of those which answered the question.
10. Percentages have not been weighted to take account of responses from representative bodies. Throughout the document, when we quote the proportion of school respondents that agreed or disagreed with our proposals, we take account of everyone associating themselves with a school, such as parents, teachers and pupils.

Reforming the funding system

11. Overall, there was strong support for reform of the school funding system. 74% of those who responded to our question on the principles for the schools funding system agreed with the principles identified. The clear majority of responses supported moving to a national funding formula to ensure the school funding system is fair, open, and transparent.
12. The Government is committed to creating a country that works for everyone. No matter where they live, whatever their background, ability or need, children should have access to an excellent education that unlocks talent and creates opportunity. We want all children to reach their full potential and to succeed in adult life.
13. The current funding system does not support this aspiration. It is unfair, untransparent and out of date. Similar schools and local areas receive very different levels of funding, with little or no justification. Patchy and inconsistent decisions have built up over many years, and mean resources are not getting to the schools and pupils that need them most. Underfunded schools do not have access to the same opportunities to do the best for their children, and it is harder for them to attract the best teachers and to afford the right support. That is why introducing fair funding was a key manifesto commitment.

² The remaining respondents did not answer this question.

14. We continue to believe that the principles identified in the first stage consultation are appropriate and right, and so our reforms to the distribution of school funding will continue to be guided by them. Given the importance of social justice and social mobility, we are expanding our principle on supporting opportunity:
- A funding system that supports opportunity for all, underpinning social mobility and social justice
 - A funding system that is fair
 - A funding system that is efficient
 - A funding system that gets funding straight to schools
 - A funding system that is transparent
 - A funding system that is simple
 - A funding system that is predictable
15. A majority of respondents – 52% – agreed with our proposal to introduce a hard national funding formula from 2019-20, while 35% disagreed. Many major representative organisations were supportive of this proposal, including Freedom and Autonomy for Schools – National Association (FASNA), the Association of School and College Leaders (ASCL), the National Association of Head Teachers (NAHT), the National Association of School Business Management (NASBM) and the National Governors Association (NGA). A large majority of academies also agreed. Respondents argued that a hard formula would create fairness, equality and consistency in school funding, by ending the unjustifiable variations in local authority allocations. Many argued that a hard formula is the only way in which fairness can be achieved and so should be introduced prior to 2019-20. Some respondents therefore disagreed with our proposal to introduce a hard formula in 2019-20 because they felt it was too late, whilst strongly supporting the objective.
16. Conversely, a number of respondents argued that local authorities' and schools forums' knowledge of schools in their area meant that they were best placed to allocate school funding according to local priorities and should continue to have a significant role.
17. **We will introduce a hard national funding formula – in which the vast majority of mainstream school budgets are set directly – from 2019-20.** Similar cohorts of pupils, with similar needs, can currently attract widely different levels of funding depending on their geographical location, without good reason, and this can only be made fair with the introduction of a hard national funding formula.
18. We expect local authorities to continue to have flexibility on some limited parts of the formula, particularly in relation to funding for pupil growth. We also recognise the concerns raised by some respondents about the long-term risks that a fully hard formula could pose for support for pupils with special education needs (SEN)

and disabilities. We intend to develop some continuing local flexibility from 2019-20, and will work with the sector to make sure that such arrangements properly take account of schools' and local authorities' collective responsibilities for children and young people with SEN and disabilities. Our proposals are set out in more detail in the high needs national funding formula and other reforms consultation document (chapter 4).

19. Across a number of questions, some respondents asked questions about how the funding system will work in the future, with more schools becoming academies. In particular, respondents sought clarity on the ability of multi-academy trusts (MATs) to redistribute funding between schools in their Trust.
20. Currently funding is allocated to academies in MATs on the basis of the local authority formula that applies to each of their schools. MATs are able to allocate this total budget between their schools in a way they consider best, to support a high quality education for their pupils. We believe that this system should continue under a national funding formula, but we anticipate that the need for MATs to redistribute funding across the academies in their trust will reduce as schools reach their formula allocations. Under the national funding formula, schools will attract funding based on the characteristics of their pupils, rather than historic funding and geographic location, so all schools in a MAT will attract funding on the same basis.
21. We will however, keep this under review – in particular for any signs that this flexibility is disadvantaging schools, or creating disincentives for schools to join MAT arrangements.

The schools national funding formula

22. **All the factors we proposed including in the national funding formula in the first stage consultation received support from a majority of respondents.** We also received strong representations on the importance of including a mobility factor in the formula. Having carefully considered the responses, **we are confirming the formula factors we proposed in the consultation and we are also confirming that we will include a mobility factor.** We have made some further adjustments which are outlined below. The weightings and values of each factor, and the associated impacts on schools and local authorities, are set out in chapters 2 and 3 of the schools national funding formula consultation document.
23. The formula will comprise 4 building blocks, to reflect the 4 different types of costs: per pupil costs; additional needs costs; school costs; and geographic costs.

Per pupil costs

24. Our proposal to include a basic amount of funding differentiated by phase received a majority of 77% in favour. **We will include a basic per pupil amount of funding for all pupils, differentiated at primary, key stage 3 and key stage 4.**

Additional needs

25. The first stage consultation proposed that the formula should include 3 additional needs factors: a deprivation factor, a low prior attainment factor and an English as an additional language factor. 82% of respondents were in favour of including a deprivation factor, with a combination of pupil-level and area-level measures receiving the highest level of support (55%). Our proposals to include a low prior attainment factor and a factor for English as an additional language both attracted support from 79% of respondents. 70% of respondents agreed that we should use the EAL3 indicator – which identifies pupils whose first language is not English and who have been in the state education sector for up to 3 years – for this factor. **We will include factors for deprivation (FSM, Ever6 FSM and IDACI), low prior attainment and English as an additional language (EAL3)³.**
26. A number of respondents were concerned that a pupil might attract several layers of additional funding, and could therefore attract a much higher amount of funding than another pupil. These respondents felt that the principles of fairer funding would be better achieved if we attached the same amount of funding to each pupil, or if we set a limit on the amount of additional funding one pupil could attract.
27. Under a national funding formula, a pupil would attract funding for each additional needs factor they are eligible for in addition to any funding they attract through the pupil premium. Allocating funding in this way, rather than limiting the amount of money a pupil can attract to one or two factors, makes for a simpler and more predictable formula. It also better enables schools to support pupils with multiple additional needs to overcome barriers to their success and to achieve their full potential. Research suggests that there is a compounding effect of being eligible

³ **Free School Meals:** funding for schools based on pupils' entitlement to Free School Meals (current FSM entitlement and/or Ever6 FSM - 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: funding for schools with pupils who did not reach the expected standard at the previous stage.

English as an additional language (EAL3): funding for schools with pupils whose first language is recorded as a language other than English, and who have been in the state education sector for up to 3 years.

for more than one of these factors. For example, a pupil with a history of FSM eligibility who lives in a deprived neighbourhood is less likely to enter advanced level courses than a pupil eligible for FSM but living in an affluent neighbourhood.⁴

28. It is also important to note that the additional needs factors are proxy measures. The unit values we propose are not intended to represent the amount of funding required to support a particular pupil. It is for head teachers to decide how to use their full budget in order to meet the needs of all their pupils.
29. The consultation confirmed that the pupil premium grant, protected at current rates for the duration of this Parliament, will remain a separate grant. Several respondents described this as ‘double funding’ and felt that the pupil premium should be included within the national funding formula. Due to the continued scale of the gap between disadvantaged pupils and their peers, we believe the proposed level of funding directed towards disadvantaged pupils is right. The retention of two separate funding streams based on deprivation reflects the different purposes they serve. The deprivation factor in the national funding formula recognises the likely overall level of additional need within schools. Pupils from deprived backgrounds are likely to benefit disproportionately from this funding, given their levels of need, but schools are not required to account specifically for how the funding is spent. The pupil premium is additional, visible funding on top of a school’s core budget, linked to specific accountability measures, and intended to focus schools’ attention on a particular cohort of underperforming pupils.
30. In addition to the 3 additional needs factors proposed in the consultation, we will be including a mobility factor in the national funding formula (which we originally proposed to exclude).
31. The costs to schools associated with in-year pupil mobility were highlighted consistently during the first stage consultation. We have listened to these concerns, and concluded that we should include a mobility factor to recognise that some schools face additional pressures. Further detail is set out below at paragraph 49.

School costs

32. On school cost factors, 83% of respondents supported the inclusion of a lump sum factor, with 63% supporting the inclusion of a sparsity factor. 75% of respondents were in favour of including a business rates factor; 68% a split site factor; 58% a private finance initiative (PFI) factor; and 70% an exceptional premises

⁴ Sammon P, Toth K, Sylva K, The Sutton Trust, [‘Background to Success’](#), November 2015

circumstances factor. Additionally, our proposals to include a local authority level growth factor received strong support (77%). **We will include lump sum, sparsity, business rates, split sites, PFI, exceptional premises circumstances and growth factors.**

Funding on the basis of historic spend

33. We proposed to fund business rates, split sites and other exceptional circumstances factors on the basis of historic spend in the short term: local authorities would receive the same amount in cash for each of these factors as they had allocated through their local formulae in the previous year.
34. Some concerns were raised about whether this funding would accurately meet need. Others recognised that these costs are relatively stable year-on-year, and that funding on an historic basis was a sensible way forward in the absence of a better alternative. **We continue to believe that this is the most appropriate method for allocating funding for these costs in 2018-19.** We will consult on how to allocate funding for these factors from 2019-20 in due course.
35. Our intention is to use 2017-18 data for allocating this funding in 2018-19. We would not expect to see significant changes to historical patterns of spend at local level. Where significant changes do occur, we will liaise with local authorities to understand them to ensure they are appropriate to use as baselines for the national funding formula, or whether the 2016-17 position provides a better starting point.
36. Particular concerns were raised regarding the PFI factor – which we also proposed to fund on the basis of historic spend. Respondents highlighted that PFI costs often increase with inflation, and were concerned that a flat PFI factor would not reflect this. We are considering how best to allocate funding for PFI under a hard national funding formula. In the interim, **we will allocate funding for PFI on the basis of historic spend, but we plan to uprate allocations in line with inflation** to recognise that contract payments often increase with inflation.
37. Our proposal to include a growth factor to reflect the often high levels of in-year growth experienced by some schools was strongly supported. Although a majority disagreed with our specific proposal to allocate funding on the basis of historic spend (52% disagreed with this proposal compared to 34% in agreement), there was no consensus on a better method.
38. Some respondents suggested that we use a method that explicitly tries to predict growth, so we have investigated the following options for allocating growth funding:
 - School capacity survey (SCAP) forecasts
 - Office for National Statistics (ONS) population forecasts

However, both of these have significant problems as predictors of growth at a school level, as set out in more detail in paragraph 2.67 of the schools national funding formula consultation document.

39. We have also looked at whether using lagged growth (allocating funding based on the pupil growth local authorities actually experienced in the year before) as a proxy for future growth provided a better approach. We believe this could be an appropriate method for funding growth in the longer term. Our evidence tells us it would be a better predictor of future growth, and over time, will mean the right amount of funding will reach local authorities, albeit with a one-year lag.
40. In making our decision on which method to use in 2018-19 we have considered the importance of stability – especially in the first year of a reformed funding system. Allocating funding on the basis of historic spend allows a degree of stability that creating a new growth factor in 2018-19 does not. **On this basis, we have decided that for 2018-19 we will allocate growth funding on the basis of local authorities' spend on growth in the previous year.**
41. We recognise that this will not match need exactly, but it represents a significant improvement on the current system where local authorities are expected to absorb all the costs of growth without additional funding. **We will only use this approach for one year and will consult on using the lagged growth method to fund growth from 2019-20 and beyond.** More information on each method we considered and our reasons for proposing the lagged growth method can be found in paragraph 2.75 of the schools national funding formula consultation document.
42. As most of the arrangements for local formulae will stay the same in 2018-19, local authorities will be able to continue local arrangements for supporting growing schools and schools with falling rolls – including the ability to hold DSG centrally to create a growth fund and a falling rolls fund.
43. In 2018-19 we will also be funding mobility on the basis of historic spend. This is a new proposal since our first stage consultation. Further information is found at paragraph 49 below.

Geographic costs

44. 74% of respondents agreed that we should include an area cost adjustment, with 48% in favour of the hybrid methodology and 27% in favour of using a general labour market measure. **We will include an area cost adjustment using the hybrid methodology.**
45. Some respondents often argued for other factors to be considered in the area cost adjustment calculation, with housing costs and teacher recruitment and retention the key issues raised.

46. The area cost adjustment is intended to uplift the budgets of schools in areas with high costs, but is not intended to meet these costs exactly. We believe that including a variety of proxies would over-complicate this measure. Concerns were raised regarding the interaction between the hybrid methodology and academy pay freedoms. At present, we continue to believe that teachers' salaries are an appropriate proxy of cost to be included in our area cost adjustment.

Excluded factors

47. Our proposals to exclude the looked-after children and post-16 factors currently used in some local formulae attracted a majority of responses in favour (80% and 62% respectively).

48. Most respondents agreed that all funding for looked-after children and those who have left care through adoption order, special guardianship order or residence order should be allocated through the pupil premium plus. **We are therefore going ahead with our proposal to consolidate funding within the pupil premium plus from 2018-19 onwards.** For 2018-19 funding allocations, we intend to transfer the amount spent at a national level through looked-after children factors in local formulae in 2017-18 from the dedicated schools grant (DSG) to the pupil premium plus budget⁵. We will increase the pupil premium plus rate from its current level of £1,900 per pupil accordingly, maintaining equal rates for looked-after children and those who have left care through an adoption order, special guardianship order or child arrangements order. Although we will not use looked-after children data to calculate local authorities' budgets in 2018-19, local authorities will still be able to include the factor in their local formula in that year if they so choose. We note that some respondents raised wider issues regarding pupil premium plus. We will take this into consideration in future work on looked after children's education.

49. Support for our proposal to exclude the mobility factor was less strong (49% in favour, 36% against). In their comments, respondents raised two concerns in particular. First, it was argued that mobile pupils often have complex needs, and funding targeted through other additional needs is not sufficient to address them. Second, they raised concerns about the administrative costs associated with pupils joining the school during the academic year. We have listened to these concerns and concluded that our formula will be strengthened by the addition of a mobility factor.

⁵ Local authorities will send in their planned 2017-18 spend on each factor in January 2017. The 2016-17 local authority spend on the looked-after children factor is £24m.

50. An important issue in developing a mobility indicator for use in the national funding formula is that the underpinning data that we currently hold is not sufficiently robust for local authorities that do not currently use this as a factor. We are looking at ways in which this could be addressed for the longer-term, but in the interim, we will allocate funding to local authorities on an historic basis, reflecting the amount of money they put through the mobility factor in the previous year. **We will therefore include a mobility factor, allocating funding on the basis of historic spend, for 2018-19.** The details of our proposals are set out in paragraph 2.47 of the schools national funding formula consultation document.

Formula summary

51. The table below outlines the composition of the formula and the data we plan to use for each indicator. The proposed weighting for each factor is set out in chapter 2 of the schools national funding formula consultation document.

Figure 2: the composition of the proposed formula

Building block	Formula element	The data we will use for each indicator	Further information about the data for each indicator
Basic per pupil funding	Age-weighted pupil unit	Number of pupils in Reception, Key stage 1 and Key stage 2; Key stage 3; Key stage 4.	
Additional needs funding	Deprivation	<p>Pupils eligible for FSM at the last census.</p> <p>Pupils eligible for FSM at some point in the last 6 years (Ever6 FSM).</p> <p>Pupils whose home postcode falls into one of Income Deprivation Affecting Children Index bands A – F.</p>	<p>Following an update to the underlying dataset, we updated our IDACI banding methodology for 2017-18. This can be found in the operational guide for 2017-18.</p> <p>Pupils can attract funding through the current FSM, Ever6 FSM and IDACI elements if they qualify for each.</p>

Building block	Formula element	The data we will use for each indicator	Further information about the data for each indicator
	Low prior attainment	<p>Number of pupils who did not reach the expected standard at the previous phase:</p> <p>For primary, pupils who did not reach the expected level of development in the Early Years Foundation Stage Profile;</p> <p>For secondary, pupils who did not reach the expected standard at key stage 2.</p>	<p>Low Prior Attainment funding will be allocated to all pupils identified as not reaching the expected standard at the previous phase, regardless of their year group. It does not only apply to those pupils in their first year of schooling.</p> <p>Local authorities can continue to use their optional EYFSP weighting in 2018-19 (which was introduced when the EYFSP standard changed in 2013).</p> <p>In 2017-18 we are adding a national weighting to the proportion of LPA pupils in year 7, the first cohort to take the new, more challenging key stage 2 tests. Further detail is found in annex 3 of the operational guide for 2017-18.</p> <p>As with current funding arrangements, pupils who have not undertaken the assessment are given the average LPA score of their year group, so are taken into account when calculating a school's LPA average.</p>

Building block	Formula element	The data we will use for each indicator	Further information about the data for each indicator
	English as an additional language	Number of pupils whose first language is recorded as any other than English, and who entered state education in the last 3 years (EAL3).	As with current funding arrangements, if a pupil leaves the state education system and returns, their EAL status will only reset (i.e. go back to EAL1) if they are absent from the state school system for the previous 3 censuses.
	Mobility	Pupils who join their school in any month other than August or September (or January for reception pupils). Pupils are considered 'mobile' for 3 years after they join the school. The mobility factor only applies to schools where more than 10% of their cohort are mobile.	In 2018-19 local authorities will receive mobility funding on the basis of historic spend. This means that only local authorities who have used the factor in the past will receive the associated funding. It is then for local authorities to distribute it to their schools through their local formula.
School-led funding	Lump sum	Data on number of open schools by phase taken from local authority's Authority Proforma Tool return.	

Building block	Formula element	The data we will use for each indicator	Further information about the data for each indicator
	Sparsity	Small and remote schools, based on average year group size and average distance as the crow flies to pupils' second nearest appropriate school. Pupil number and postcode data taken from the census/APT return.	A detailed explanation of the sparsity methodology is found in the technical note.
	Split Sites	Total planned spend by the local authority in the previous year.	
	PFI	Total planned spend by the local authority in the previous year and uprated in line with inflation.	
	Rates	Amount spent by the local authority in total in the previous year.	
	Exceptional circumstances	Amount spent by the local authority in total in the previous year.	
	Growth	Amount spent by the local authority in total on explicit and implicit growth in the previous year.	

Building block	Formula element	The data we will use for each indicator	Further information about the data for each indicator
Geographic funding	Area cost adjustment	Hybrid methodology which takes into account General Labour Market data on variation in non-teaching staff costs, and teaching workforce data on variation in teaching staff costs.	<p>Due to improved data collection and to ensure a consistent approach with the high needs ACA, we are making minor methodological changes.</p> <p>More information is found in the technical note.</p> <p>Whilst local authorities continue to set local formulae in 2018-19, eligible local authorities will continue to be able to use the London Fringe factor to allocate additional funding to schools in these areas. Under the hard formula, schools' funding will be calculated individually on the basis of the area cost adjustment that applies to their specific circumstances, so the London fringe will be applied to each relevant school.</p>

Building block	Formula element	The data we will use for each indicator	Further information about the data for each indicator
Excluded factors	Post-16	n/a	<p>This factor has been removed from the permissible list of factors for use in local authority formulae in the 2017-18 funding arrangements. Institutions that have received funding through the post-16 factor in the past will receive protection after its removal as funding from the post-16 factor will be included in the minimum funding guarantee (MFG).</p> <p>For the small number of institutions which are sixth form only schools, we will provide an extra allocation based on their current 16-19 formula uplift, and reduce this year-on year, so that the funding is phased out over several years. All the schools affected have already been informed.</p>
	Looked after children	n/a	In 2018-19 local authorities will continue to be able to use a looked-after children factor if they wish to do so.

Figure 2: This table outlines the composition of the formula and the data we plan to use for each indicator.

The transition to a reformed funding system

52. Ensuring that the transition to a ‘hard’ national funding formula is manageable whilst maintaining the right balance between fairness and stability is essential. Some respondents raised concerns about the transition to a national funding

formula, with some arguing that a hard national funding formula should be implemented before 2019-20. However, across a number of questions, respondents highlighted the need for financial stability and security in the context of existing cost pressures. The importance of allowing schools and local authorities sufficient time to plan and manage any changes in their budget was also a recurring theme.

53. We acknowledge that the move to a national funding formula represents a significant change. It is vital that we provide sufficient stability for schools as we implement a fair formula. We are clear that we want the impact on losing schools to be fully manageable, while allowing under-funded schools to move towards their formula allocations as quickly as possible.
54. As set out in the schools national funding formula consultation document, we believe that there should be a limit on the overall reduction to an individual school's budget as a result of moving onto the national funding formula. Our proposals therefore include **an absolute floor so that no school will face an overall reduction of more than 3% per pupil as a result of this formula**. Further detail on the funding floor, including how it applies to schools that are still filling up, can be found in chapter 2 of the schools national funding formula consultation document. **The minimum funding guarantee of minus 1.5% per pupil year on year will continue, providing additional stability for schools**.
55. We also recognise the importance of local knowledge and decision making during the transition and in some areas. In the transition year of 2018-19 local authorities will continue to determine schools' funding, as they will continue to set local funding formulae. And even under the school-level formula arrangement (from 2019-20 and beyond), we expect local authorities to continue to have flexibility on some limited parts of the formula, particularly in relation to funding for pupil growth.
56. There were two transition issues on which respondents gave a more mixed response. These were our proposals to ring-fence the schools block, and to allow local authorities to set a locally determined MFG.

Ring-fencing

57. A majority of respondents were in agreement with our proposal to ring-fence the schools block (53%). However, a proportion of respondents strongly disagreed, raising concerns about local authorities' ability to meet pressures on their high needs budget, and the impact this could have on schools' willingness to be inclusive. Respondents to the high needs consultation raised similar concerns.
58. We recognise the legitimacy of these concerns and have considered them very carefully. There is a very wide range of practice among local authorities in the setting of their high needs budgets, with some setting much higher budgets than

others, partly because of the way that the local pattern of special provision has developed and been organised over time.

59. We are confirming that we will ring-fence the schools block in 2018-19, but with additional arrangements that will address the risks highlighted during the consultation about support for pupils with SEN and disabilities. We are proposing that local authorities would have a limited ability to move funding between the schools and high needs blocks in 2018-19, following local consultation and with the explicit agreement of the schools forum and a majority of their schools. As now, they will continue to be able to provide additional support from their high needs budget and outside the main school budget share to schools supporting large numbers of pupils with high needs. We also intend to develop some continuing local flexibility from 2019-20, and will work with the sector to make sure that such arrangements properly take account of schools' and local authorities' collective responsibilities for children and young people with SEN and disabilities.
60. More detail on the schools block ring-fence, the local budget flexibility proposals, and what we are doing to support local authorities and schools in making provision for children and young people with SEN and disabilities can be found in high needs national funding formula and other reforms consultation document.

Local MFG

61. 64% of respondents agreed with our proposal to allow local authorities the flexibility to set a local minimum funding guarantee (MFG). Respondents agreed in the main that it would be helpful for local authorities to have the flexibility to manage the transition themselves. Many however suggested that local flexibility ran counter to the concept of a national formula.
62. Having considered the full range of responses, and in light of the fact that there will now be only 1 year of 'soft' formula transition (as opposed to the 2 years we originally proposed), we no longer believe this flexibility to be necessary. We are therefore **not taking forward the proposal for a locally flexible MFG.**
63. We have proposed that the local MFG of minus 1.5% will continue. The existing MFG methodology will be unchanged. Local authorities will, of course, be able to apply to the department to dis-apply the MFG in the usual way, where the inclusion of a factor in the MFG will lead to significant inappropriate levels of protection.

Funding that will remain with local authorities

64. The central school services block⁶ will be created from 2 existing funding streams: the DSG funding that is held centrally by the local authority for central services, and the retained duties element of the Education Services Grant (ESG). Funding will cover 2 distinct elements which will be handled separately within the formula: ongoing responsibilities and historic commitments.
65. For ongoing responsibilities, the largest factor in the formula will be simple per pupil funding. 64% of respondents agreed with our proposal to fund on the basis of a per pupil formula. We are also proposing to include a deprivation factor to recognise the importance of particular central services, such as education welfare services, in areas with high deprivation. Further detail on our proposals can be found in chapter 5 of the schools national funding formula consultation document.
66. In the consultation we proposed applying an area cost adjustment to the ongoing responsibilities element of the formula, and that it should use the same hybrid methodology as the schools national funding formula. On reflection, and in light of the responses we received to our consultation, we do not think that the hybrid methodology is appropriate for the central school services block. Given that the central school services block is not affected by teachers' pay, we do not believe it is reasonable to use an area cost adjustment which contains a teachers' pay cost element. We therefore intend to use the general labour market (GLM) methodology.
67. For historic commitments, we will provide funding on the basis of actual costs, as set out by local authorities in their 2017-18 Section 251 data returns. 67% of respondents agreed with our proposed approach, with many stating it was the fairest and most appropriate way to fund historic commitments.
68. We want to make sure that the move towards a per pupil formula for local authorities for central education services is fully manageable. We are therefore proposing that no local authority will lose more than 2.5% of its funding for ongoing responsibilities in 2018-19 and 2019-20. We are consulting on this proposal in chapter 5 of the schools national funding formula consultation document.

⁶ This was referred to as the central schools block in the March 2016 consultation. We have changed the name to better distinguish it from the schools block.

The future of the Education Services Grant

69. In the consultation we invited respondents to suggest any duties notionally funded by the Education Services Grant that could be removed from the system. A large proportion of respondents chose not to respond, but a small number of recommendations were made, including attendance, school improvement and central support services. We are not proposing to remove any additional duties at this stage; however, we are mindful of the duties on local authorities and continue to keep these under review.
70. The first stage of the consultation set out our aim to move towards a school-led system for school improvement, with head teachers and school leaders best placed to run their schools and drive improvement by working together in collaboration. We want to support an effective transition towards this school-led system, which is why we are [making available additional funding for school improvement](#), including funding for local authorities for school intervention and to continue to monitor and broker school improvement for weaker maintained schools.
71. A majority of respondents (62%) agreed 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 residual duties they carry out for maintained schools only. This will ensure that local authorities still have a source of funding for carrying out their statutory duties once the Education Services Grant general funding rate is removed. Further detail on this can be found in the [updated local authority operational guide for 2017-18](#), published on 1 December.
72. Some respondents suggested that we set a maximum cap on the amount of funding the local authority can retain, but we do not believe this is necessary. The level of funding retained centrally is to be agreed by the maintained schools members of the schools forum, with recourse to the Secretary of State if the local authority and schools forum are unable to agree.

Equalities analysis

1,016 responses were received on the equality analysis. The vast majority of comments received do not relate to the protected characteristics identified in the Equality Act 2010 for the public sector equality duty. Of those that do mention protected characteristics the main issues that were raised are:

- **Age** – some argued that older teachers are not as employable as younger NQTs due to higher salary costs.
- **Gender** – some respondents argued that the equalities analysis should not only consider pupils, but the workforce too. In particular, the female workforce could be disproportionately affected by a national funding formula if it results in primary schools losing funding, as this could result in the need to restructure the workforce, with women making up a larger proportion of the primary workforce than men, 85% compared to 15%⁷.
- **Race** – concerns were raised regarding minority ethnic groups losing funding under a national funding formula, and in particular the removal of the mobility factor having a detrimental impact on Gypsy, Roma and traveller children and young people.
- **Disability** – questions regarding the ring-fencing of the schools block separately from the high needs block and the impact on those with a disability

A response to the concerns raised and an equalities analysis for our second stage proposals can be found in the [Equalities Impact Assessment](#) document.

⁷ [School Workforce in England, November 2015](#)

Annex A – Detailed Response

Question 1: Principles

Do you agree with our proposed principles for the funding system⁸?

	Total	Percentage
Agree	3,633	74%
Disagree	685	14%
Not Answered	615	12%

Summary of responses

Our proposed principles were popular with all respondent types: 91% of academy respondents, 70% of maintained school respondents, 75% of local authority respondents, 93% of multi-academy trust respondents, and 75% of representative body respondents agreed with our principles for the reformed funding system⁹.

The vast majority of the comments agreed that a national funding formula would ensure that school funding is fair, open, and transparent, as well as enabling more equal opportunity across all schools.

A significant number of responses stated that a national funding formula is long overdue, with schools arguing that they have been historically under-funded in comparison to schools in other local authorities.

Some respondents raised concerns over a possible loss of funding, particularly from successful schools. There were calls to increase funding of under-funded schools to the same level as other schools, instead of re-distributing the dedicated schools grant. These concerns were predominantly raised by respondents in London and the South East.

Comments also focused on the variation in local and individual need, with concerns as to how these needs would be addressed in a national funding formula.

⁸ Due to rounding, the percentages throughout this document do not always total 100%.

⁹ Throughout the document, when we quote the proportion of school respondents that agreed or disagreed with our proposals, we take account of everyone associating themselves with a school, such as parents, teachers and pupils.

Some respondents felt unable to comment without seeing the impact these reforms would have on individual schools.

Government response

This Government is committed to creating a country that works for everyone. No matter where they live, whatever their background, ability or need, children should have access to an excellent education that unlocks talent and creates opportunity. We want all children to reach their full potential and to succeed in adult life.

The current funding system does not support this aspiration. It is unfair, not transparent and out of date. Similar schools and local areas receive very different levels of funding, with little or no justification. Patchy and inconsistent decisions have built up over many years, and mean resources are not getting to the schools and pupils that need them most. Underfunded schools do not have access to the same opportunities to do the best for their children, and it is harder for them to attract the best teachers and to afford the right support. That is why introducing fair funding was a key manifesto commitment.

We continue to believe that the principles identified in the first stage consultation are appropriate and right, and so our reforms to the distribution of school funding will continue to be guided by them. Given the importance of social justice and social mobility, we are expanding our principle on supporting opportunity:

- A funding system that supports opportunity for all, underpinning social mobility and social justice
- A funding system that is fair
- A funding system that is efficient
- A funding system that gets funding straight to schools
- A funding system that is transparent
- A funding system that is simple
- A funding system that is predictable

The national core schools budget will be protected in real terms throughout the Spending Review period, which means that the total budget for schools will increase in line with inflation and will rise as pupil numbers rise.

This consultation was concerned with improving the way in which the dedicated schools grant is allocated, by funding schools according to nationally consistent measures of need. Those schools with the highest need will attract the most funding. School funding will reflect differing needs around the country and between schools, but in a fair,

transparent and understandable way. All schools will have an equal opportunity to provide an excellent education for all their pupils.

Our proposals will result in some schools losing funding, and it is vital that we provide sufficient stability as we implement a fair formula. We are therefore proposing in chapter 2 of the schools national funding formula consultation document, to include an absolute floor so that no school will face an overall reduction of more than 3% per pupil as a result of this formula. The minimum funding guarantee of minus 1.5% per pupil year on year will continue, providing additional stability for schools.

Question 2: A school-level formula

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?

	Total	Percentage
Agree	2,587	52%
Disagree	1,724	35%
Not Answered	622	12%

Summary of responses

The majority of respondents were in favour of introducing a school-level (hard), national funding formula in 2019-20, arguing that it would bring fairness and equality in school funding allocations. In particular, academies and multi-academy trusts (MATs) strongly supported this proposal, with 84% and 89% of respondents who identified with an academy or MAT respectively in favour of the introduction of a school-level NFF.

Some respondents were concerned that 2019-20 was too early to introduce a school-level formula; while others argued that a school-level NFF should be implemented prior to 2019-20. Some of these respondents, whilst strongly in agreement with a hard NFF, chose to disagree with our proposal as they wanted a hard NFF to be introduced earlier.

Among those who agreed with our proposal, there was also strong support for providing local authorities with clear guidance on the need to move their schools towards the national funding formula in the interim period.

Of those that disagreed with our proposal, the main argument was that local authorities and schools forums have a better understanding of local need and are more responsive to local issues. Opposition to this proposal predominantly came from local authorities. Of those that disagreed, opinion was split over whether schools funding needed reforming: some argued that the current system should be maintained, whilst others argued for reforming school funding but with a continued degree of local flexibility.

Government response

We are confirming that we want to move towards a ‘hard’ national funding formula that distributes the vast majority of funding directly to schools. It is the only way we can be sure that the same child, with the same needs, will attract the same funding regardless of where they happen to live; and the only way that parents can be sure there is a level playing field. It fits squarely with our vision for a school led system, with as much funding as possible reaching the front-line and headteachers benefiting from more transparent and predictable budgets that allow schools to plan ahead and ensure every pound has maximum impact for their pupils.

We expect local authorities to continue to have flexibility on some limited parts of the formula, particularly in relation to funding for pupil growth.

Question 3: Basic per pupil funding

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

	Total	Percentage
Agree	3,775	77%
Disagree	543	11%
Not Answered	615	12%

Summary of responses

There was strong support for the proposal to have separate basic per-pupil funding rates for primary, key stage 3 and key stage 4, but opinion was divided as to the relative weighting of different phases.

The largest proportion of responses argued that basic per-pupil funding should increase with higher key stages. Respondents cited curriculum costs, exam costs and staff costs as reasons for increasing funding for higher key stages. Other respondents argued that primary schools should receive the highest level of funding, with some respondents also arguing that the department should set separate per-pupil funding rates for key stage 1 and key stage 2. Most of the respondents arguing for a separate basic per-pupil rate for key stage 1 and 2 indicated that key stage 1 should receive the highest weighting, with several also suggesting that a separate and higher rate should be introduced for the early years foundation stage (EYFS). However, no new substantial sources of evidence supporting a further split in the basic per-pupil rates between key stages 1 and 2 were identified in the consultation.

Government response

Having considered the consultation responses, we will include a basic per-pupil amount, differentiated at primary, key stage 3 and key stage 4.

We will apply a single primary rate as we were not presented with substantial additional evidence to support differentiated funding rates between key stages 1 and 2. Details on the weighting and rates for each phase can be found in chapter 2 of the schools national funding formula consultation document.

Question 4: Deprivation

Do you agree that we should include a deprivation factor?

	Total	Percentage
Agree	4,039	82%
Disagree	258	5%
Not Answered	636	13%

Which measures for the deprivation factor do you support?

	Total	Percentage
Pupil-level only (current FSM and Ever6 FSM)	985	20%
Area-level only (IDACI)	391	8%
Pupil- and area-level	2,694	55%
Not Answered	863	17%

Summary of responses

There was very high support for including a deprivation factor. Respondents felt that a deprivation factor would ensure that funding is targeted towards the most vulnerable children, and that it is an important part of making sure that the formula responds to need. Some respondents felt that including a deprivation factor in the formula as well as maintaining the pupil premium as a separate grant would result in double funding. Others requested that the department limits the percentage of a school's budget that is allocated for deprivation.

On the measure(s) used for the deprivation factor, the majority of respondents agreed that we should use a combination of pupil-level and area-level data. Several respondents suggested that if both measures are used, free school meal (FSM) history should be weighted heavier than the Income Deprivation Affecting Children's Index (IDACI), as it is

more specifically based on the circumstances of the pupil than area-level data. Those who supported using both measures felt that it would allow for a broader definition of deprivation, and that the area-level measure would identify pupils who did not register for FSM or were not eligible but still experienced the effects of deprivation.

Many respondents qualified their support for either measure by raising concerns about the underlying data. On FSM data, there were two common concerns. The first related to Universal Credit, which is being gradually introduced in order to simplify the benefits system and will replace the current criteria for determining who is entitled to FSM. Several respondents were concerned that this would reduce the number of pupils eligible for FSM.

Secondly, many respondents felt that the impact of Universal Infant Free School Meals (UIFSM), whereby all pupils at infant schools automatically qualify for a free school meal, was having a negative effect on FSM registration rates in Reception, Year 1 and Year 2.

On IDACI data, some respondents were concerned that the measure was updated only every 5 years and thought it should be updated more regularly. Others argued that this was a positive aspect of IDACI as it brought stability to school budgets. Respondents were particularly concerned about the turbulence that IDACI data updates can cause, as experienced in 2015, and requested that the department manages future updates more carefully.

Government response

The strength of views firmly supports our intention to include a deprivation factor in a schools national funding formula. The deprivation factor will use a combination of pupil-level (FSM status) and area-level data (IDACI), as proposed in the consultation.

In response to concerns about the impact of Universal Credit on FSM, the department will ensure that free school meals are available to the families who need them most, including working families on low incomes. The department is looking to maintain a similar cohort size under the new benefit system compared to the current one. The Ever6 measure means that if a pupil loses eligibility for free school meals under Universal Credit, they will continue to attract additional funding to their school for 6 years, which will help stability.

Several respondents told us that giving all infant pupils a free school meal has meant that some parents and carers are not registering their eligibility for FSM. There continues to be a very strong incentive for parents to register their eligibility for FSM. A school will receive pupil premium funding of £1,320 for each primary age child as well as any funding that FSM (or Ever6 FSM) triggers through a local authority's funding formula. We have not seen evidence to suggest that UIFSM has had an adverse effect on infant FSM rates. FSM rates have continued to fall across all age groups, reflecting the fact that the

economy has been improving in recent years. The primary FSM rate has fallen more quickly than secondary, a trend which predates the introduction of UIFSM. However, we recognise that schools and local authorities have worked hard to encourage and maintain FSM registration.

Overall, there was good support for the use of IDACI as an area-based deprivation measure – capturing a wider range of pupils and adding a measure of stability to overall funding for deprivation. Some respondents did raise questions or misunderstandings about the data source, which we wanted to clarify as follows:

- Some respondents said they thought that IDACI was not a fair measure because it measures the level of deprivation in the area the school is in rather than reflecting where pupils live. This is not true: IDACI measures the level of deprivation in the area where a pupil lives, not where they go to school.
- Some respondents were concerned that a few pupils from a deprived area could be 'cancelled out' by a few who come from a wealthy area. However, IDACI gives a banding to each pupil rather than averaging out at school level. If one pupil is from Band A and one pupil is from Band B, a school will attract the funding associated with both of these bands.
- Some respondents asked that we use the smallest geographical area. IDACI uses lower super output areas, which are the smallest area at which deprivation can be measured.
- Some respondents thought IDACI was unsuitable due to its infrequent updates (every 5 years), which could mean that the funding was not reflective of the school's current cohort. However, pupil-level IDACI data is updated annually. This means that if new pupils join, or if existing pupils change their home address, this will be captured in the data and in any funding allocated through the IDACI measure the following year. It is the data which measures the level of deprivation in a certain area that is updated less frequently.
- We note the concerns raised in the consultation about the turbulence that the new IDACI dataset caused for 2016-17 budgets. In response, we changed the IDACI banding methodology ahead of 2017-18, as set out in the [operational guide](#). We are looking at how we can manage future data updates.

Question 5: Low prior attainment

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

	Total	Percentage
Agree	3,906	79%
Disagree	385	8%
Not Answered	642	13%

Summary of responses

There was a very high level of support for this factor, with respondents agreeing that pupils who had not met the expected standard by the end of the previous key stage often required extra support and resources.

However, a high proportion of respondents flagged concerns about the data underlying the measures and the impact of assessment reform.

Many schools expressed the view that low prior attainment is a volatile factor in the funding system as data can change significantly from one year to the next, and assessment reform adds a further element of change within the system. There was also concern that data is neither consistent nor robust enough across the country. Some respondents questioned whether elements of teacher assessment, for example in the early years foundation stage profile (EYFSP), meant that schools might give their pupils lower scores in order to generate more low prior attainment funding.

On primary low prior attainment, respondents asked about the future of the measure beyond financial year 2017-18, in light of ongoing considerations about primary assessment. Several local authorities asked for clarity around a technical issue – whether they would be able to continue to use the weighting that is available to them, which was introduced when the EYFSP measure changed in 2013.

On secondary low prior attainment, respondents raised concerns on the new key stage 2 standard, introduced in academic year 2015/16 and asked how we would manage the anticipated rise in pupils who do not reach the new, more challenging, expected standard.

Government response

We continue to believe that it is important for the national funding formula to recognise the prior attainment of pupils, and the consultation responses demonstrate there is significant support for this approach. We will include a low prior attainment factor in the national funding formula at both primary and secondary level.

We appreciate respondents' concerns about the effect that reforms to the curriculum and to assessment can have on the predictability and stability of low prior attainment funding. We know that support for the factor is subject to change in the event of assessment reform, and will consult again on the factor if there are significant changes to the data that underlies it.

On primary low prior attainment, following the Secretary of State's confirmation in October 2016 that the EYFSP will remain in the system until at least the 2017/18 academic year, we will continue to use it to determine funding in 2018-19 and 2019-20. In 2018-19, local authorities can continue to use a weighting to balance the proportion of pupils with low prior attainment under the old EYFSP measure and the new measure introduced in 2013.

On secondary low prior attainment, we have introduced a national weighting to the existing factor that local authorities can use in formulae for 2017-18, which is explained in the [operational guide](#). Further detail about our proposals for primary and secondary low prior attainment is found in chapter 2 of the schools national funding formula consultation document.

Question 6: English as an additional language

Do you agree we should include a factor for English as an additional language?

	Total	Percentage
Agree	3,887	79%
Disagree	398	8%
Not Answered	648	13%

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)?

	Total	Percentage
Agree	3,468	70%
Disagree	735	15%
Not Answered	730	15%

Summary of responses

There was a very high level of support for this factor. Even schools with a small proportion of pupils with English as an additional language (EAL) agreed that the formula should include an EAL factor. Many respondents cited the specific cost implications

associated with EAL pupils, such as teaching assistants, one to one provision and additional resources.

Some respondents suggested that although the national attainment gap between EAL pupils and their peers is narrow, in some areas it is significant. However, others disagreed and questioned whether EAL pupils required additional support because there is not a significant national attainment gap between them and their peers.

Several respondents raised concerns about the accuracy of the data, particularly the fact that it captures all pupils whose first language is not English, and can therefore pick up bilingual pupils.

Some respondents believed the EAL factor should be weighted differently at primary and secondary, with the majority in favour of weighting more heavily at secondary than primary.

Several respondents stressed the variability of EAL in a school and therefore the level and type of resource needed to support EAL pupils. For example, cost implications can vary according to the level of English proficiency and the length of time a pupil has been in the school system. Respondents who raised this suggested we could taper rates, or allocate funding to a local authority or other body to manage the funding centrally.

A large majority of respondents agreed that EAL3 was the most appropriate measure. Of those that disagreed, there was no overall consensus about whether the measure should apply for fewer or more than 3 years. Some respondents asked how EAL3 worked if a pupil left and then re-entered the state-funded school system, and whether this would mean they would be recorded as EAL1 again once they re-entered.

Government response

We will include an English as an additional language factor in the national funding formula, and use the EAL3 indicator to allocate this funding.

We acknowledge concerns that respondents raised about the data. The department has begun to collect data on pupils' language proficiency in the school census and we will explore whether it is possible to use this in a national funding formula in future.

We are proposing to fix a set rate for pupils who are recorded on the school census as EAL. This means that rates will not be differentiated according to whether pupils with EAL are in the first, second or third year of their schooling. We appreciate that the needs of EAL pupils can vary significantly according to their individual circumstances. We believe that head teachers are best placed to determine how the EAL funding is used within their school, and expect them to allocate different amounts of funding to EAL pupils depending on their level of language proficiency and any other needs.

We believe that EAL3 is the most appropriate measure. We recognise that EAL pupils can continue to require support after their first three years in the school system, but think that it is best to concentrate the funding in this way, rather than applying it to the whole time the pupil is at school. On whether the data will reset to 'EAL1' if a pupil leaves the school system and then returns, this will only happen if the pupil is not recorded in the previous 3 censuses.

The unit values for this factor will be higher at secondary than primary. Further detail is set out in chapter 2 of the schools national funding formula consultation document.

Question 7: Lump sum

Do you agree we should include a lump sum factor?

	Total	Percentage
Agree	4,114	83%
Disagree	178	4%
Not Answered	641	13%

Summary of responses

The level of support for including a lump sum was high. The overwhelming majority of respondents recognised the importance of an element of funding in the formula which contributes to fixed costs and provide stability for all schools, and for small schools in particular.

Some respondents who supported the inclusion of a lump sum argued it should be varied, with most who expressed this view suggesting it should be varied by school size or phase, and a smaller number suggesting it should vary according to the school's condition. There were also comments that the level of the lump sum should allow for some local flexibility.

Other comments from those who supported the lump sum asked for clarity about what types of costs it is intended to cover.

A small number of respondents disagreed that a lump sum was necessary. Some proposed that only small schools needed a fixed element of funding, which could be targeted through a sparsity factor instead. Others argued that having a factor not linked to pupil numbers did not meet the objective of transparency, and could act as a disincentive for schools to grow and to structure their provision most efficiently.

Government response

We continue to believe it is important that schools have certainty over a level of funding that does not change with pupil numbers, to give them stability and allow them to plan over the longer term. We will therefore include a lump sum in the formula. The majority of funding in the formula will be based on the number of pupils in a school, their age and their needs. The lump sum factor, however, relates to the costs all schools face, regardless of their type or size. We are therefore proposing to include a single lump sum value for all schools.

The lump sum is particularly important for schools that are necessarily small, such as those schools that serve small rural communities, who would otherwise see significant changes in their funding as a result of small changes in their pupil numbers or demographics.

We believe it would not be appropriate to specify exactly how schools should spend their lump sum. In a school led system it is right that schools should choose the operating model that works best for them to support their strategy for their school. The lump sum is intended as a contribution to that cost.

The funding system overall should support efficiency, and the lump sum should be set at a level that encourages schools to grow, and to seek efficiencies by partnering with other schools where possible. Further information on our proposals for the lump sum are set out in the schools national funding formula consultation document.

Question 8: Sparsity

Do you agree we should include a sparsity factor?

	Total	Percentage
Agree	3,096	63%
Disagree	1,002	20%
Not Answered	835	17%

Summary of responses

A strong majority of respondents overall agreed with our proposal to include a sparsity factor. Respondents recognised the need to support small schools that are necessary to the communities they serve and which, due to their location, do not have the same opportunities as other schools to work efficiently.

A fifth of respondents disagreed with our proposal to include a sparsity factor. The main argument against the inclusion of a sparsity factor, was that it would discourage schools

from growing or from seeking out more efficient ways to operate. A number of respondents argued that sparsity does not create significant extra costs for schools, and was unnecessary on top of lump sum funding.

Some respondents raised concerns about how well the current criteria identifies schools that face real and unavoidable extra costs. Others were concerned about the complexity of the methodology used to determine which schools are sparse. Respondents suggested in some cases that local areas should have flexibility to decide which schools receive sparsity funding.

Government response

We remain committed to supporting small remote schools through targeted sparsity funding, and that view is shared by the majority of those who responded to this question. Some schools are necessarily small because of their location, and without them pupils would have to travel a long distance to their nearest appropriate school. We want to support these schools to remain viable.

Because their location is more challenging, these schools do not have the same opportunities to grow or to find efficiencies by partnering with other schools. As such they are more dependent on a source of funding that does not vary with pupil numbers. Targeted sparsity funding, along with the lump sum, will support these schools so that they can continue to provide education in their communities.

The sparsity factor in the national funding formula will use the same criteria that authorities can currently use locally. For the longer term we will consider whether these can be improved.

Funding will be tapered, so that schools can grow without experiencing a significant reduction in their sparsity funding. There is more information about our proposals for the sparsity factor in chapter 2 of the schools national funding formula consultation document.

Question 9: Business rates

Do you agree we should include a business rates factor?

	Total	Percentage
Agree	3,702	75%
Disagree	523	11%
Not Answered	708	14%

Summary of responses

There was strong support for this proposal across all institution types. Many responses noted the circularity and bureaucracy involved with the current transfers of funding and there was strong support for removing rates from the system completely. However, there was very strong support for the principle that, if schools continue to be liable for rates, then the current arrangements of funding based on reimbursement of actual cost should continue. Respondents argued that charges vary so much that they cannot be included in a formula fairly, and that schools have no choice or influence over the amounts involved.

Some respondents highlighted that as academies are reimbursed retrospectively, the need for this factor will diminish as more schools become academies. Others also argued that funding for business rates should increase with inflation.

Government response

Given the support for this proposal, we will include a business rates factor. Under the current system, no allowance of rates is taken in calculating local authorities' allocations for schools. Therefore, the use of the rates factor will benefit schools in areas which have large rates bills even if there are subsequent inflationary increases.

As outlined in question 13, we will allocate funding on the basis of historic spend, but in 2018-19 the current local funding arrangements will continue. Local authorities will have the flexibility to allocate funding for rates on the basis of actual costs, with academies reimbursed by the EFA directly. We will consult on the most appropriate method for allocating business rates from 2019-20 onwards in due course.

Question 10: Split sites

Do you agree we should include a split sites factor?

	Total	Percentage
Agree	3,376	68%
Disagree	799	16%
Not Answered	758	15%

Summary of responses

There was strong support for our proposal in principle. Over two thirds of respondents agreed that we should include a factor for split site schools, and that these schools face particular challenges.

Those who disagreed with the proposal argued that operating on split sites does not necessarily generate extra costs, and that split site funding could encourage schools to maintain an inefficient operating model unnecessarily.

A proportion of both those in favour and opposed to this proposal challenged whether split sites funding would be properly targeted and raised concerns around the difficulty of allocating this funding formulaically without well-defined criteria.

Government response

The responses do not suggest that we should change our current proposal. As outlined in question 13, in 2018-19 we will allocate funding for split sites to local authorities on the basis of historic spend, and they will continue to have flexibility to target it at their schools in the local formula. We will consult on how to allocate premises factors from 2019-20 onwards in due course.

Question 11: Private Finance Initiative (PFI)

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

	Total	Percentage
Agree	2,838	58%
Disagree	1,265	26%
Not Answered	830	17%

Summary of responses

Overall there was support for retaining a private finance initiative factor given the significant additional costs faced by some schools.

Some respondents argued that PFI schools are newer and consequently should have lower maintenance costs, or that the PFI factor should be limited to genuine unavoidable costs.

A number of responses expressed concerns regarding the proposal to fund on the basis of historic spend, as most PFI contracts have an inflation uplift. Others suggested that funding on actual costs does not provide an incentive to renegotiate contracts.

There was some support for taking such costs out of the system completely through a nationally organised buy-out of contracts or a national renegotiation. Others suggested that these costs should be funded through the central school services block.

Government response

We continue to believe that it is right that we recognise the additional costs to schools of PFI contracts. We will therefore include a PFI factor in the national funding formula. The inclusion of this factor explicitly recognises these costs in the national distribution of funding for the first time.

However, we do acknowledge respondents' concerns regarding the inflation uplift of PFI costs. We will therefore allocate funding for PFI on the basis of historic spend, but we will increase PFI funding with inflation. In the longer-term, the department is considering how best to address PFI costs in the context of a 'hard' national funding formula.

Question 12: Exceptional premises circumstances

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

	Total	Percentage
Agree	3,448	70%
Disagree	665	13%
Not Answered	820	17%

Summary of responses

There was strong support across all institution types for the proposal to continue with current arrangements for exceptional factors. However, this was tempered by concerns about national consistency, the local authority role and the extent to which additional costs are avoidable and additional. Some responses noted some schools could be eligible but their local authority has not made an application.

Some local authorities that do not currently use the factor did not agree with its continuation.

Some schools have stated that the criteria should be extended to include age and condition of buildings. A number of comments stressed that local knowledge was needed for this to be effective.

Others commented that the factor needed to be reviewed in case poor historical decisions and inefficiencies are built in, and that there could be an incentive for landlords to increase rents knowing they will be funded.

Government response

We will allocate funding for ongoing exceptional premises costs to local authorities in 2018-19.

We want there to be minimal change to local discretion in 2018-19, so we will maintain the current arrangements whereby local authorities can apply to the Secretary of State to use an exceptional factor, and previous years' approvals will carry forward where they still meet the criteria.

We will consult on how to allocate premises factors under a hard national funding formula in due course.

Question 13: Funding premises factors based on historic spend

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

	Total	Percentage
Agree	2,343	47%
Disagree	1,715	35%
Not Answered	875	18%

Split sites

	Total	Percentage
Agree	2,397	49%
Disagree	1,630	33%
Not Answered	906	18%

Private finance initiative

	Total	Percentage
Agree	1,914	39%
Disagree	2,068	42%
Not Answered	951	19%

Other exceptional circumstances

	Total	Percentage
Agree	2,378	48%
Disagree	1,588	32%
Not Answered	967	20%

Summary of responses

Respondents were split on whether funding premises factors on the basis of historic spend was a positive approach because it ensured continuity and stability, or whether we should alter our approach and allocate this funding on the basis of actual costs or formulaically. Respondents argued that some of these costs, particularly business rates and PFI costs, increased each year, so allocating funding to local authorities on a historic basis would add pressure to budgets.

Respondents also reiterated their belief that PFI costs should not be funded from the dedicated schools grant, as well as repeating their disagreement over the inclusion of a split sites factor.

There was some confusion over how these factors would operate under a soft formula arrangement.

Government response

We are convinced that for business rates, split sites and other exceptional circumstances, allocating funding to local authorities in 2018-19 based on historic spend continues to be the most appropriate means of distribution, with an increase for PFI in line with inflation. The inclusion of these factors in the national funding formula recognises these costs in the national distribution of funding for schools for the first time.

Local authorities would receive the same amount in cash for each of these factors as they allocated through their local formulae in the previous year. Our intention is to use 2017-18 data for allocating this funding in 2018-19. We would not expect to see significant changes to historical patterns of spend. Where significant changes do occur, we will liaise with local authorities to understand them to ensure they are appropriate to use as baselines for the national funding formula, or whether the 2016-17 position provides a better starting point.

Our proposals only affect the distribution of this funding from national to local level. Local authorities will continue to set local formulae in 2018-19, so will be able to distribute funding through these factors as they consider appropriate. In the longer-term, the

department is considering further how all of these factors will operate in a hard national funding formula.

Question 14: Growth

Do you agree we should include a growth factor?

	Total	Percentage
Agree	3,793	77%
Disagree	414	8%
Not Answered	726	15%

Summary of responses

There was significant support for including a growth factor in the national funding formula, across all respondent types.

Of those that agreed, respondents felt that it was necessary to recognise growth to ensure that local authorities can plan to secure sufficient places for all children. They recognised that the current lagged funding arrangements mean that the additional costs incurred by a growing school would not immediately be matched by an increase in funding.

Of those that disagreed, most respondents did not recognise that growth results in additional costs. They argued that funding should be allocated on a pupil basis and that, with a sufficient level of per pupil funding, schools should be able to manage additional pupils. They also argued that sufficient predictability of the formula will enable schools to manage additional pupils.

Some respondents suggested that growth funding should be a local decision, whilst others argued that growth funding should be allocated on a bid-based system, with schools submitting evidence of need and costed business plans.

Government response

We remain convinced that the funding system needs to be able to respond to significant in-year pupil growth, and so we will proceed with our proposal to include a growth factor. The consultation responses showed strong support for the inclusion of this factor.

There was concern about how we allocate funding for growth (see question 15 below), but recognition that the inclusion of a growth factor is an improvement on the current funding system, in which additional costs incurred from increasing pupil numbers are not explicitly recognised.

Question 15: Funding growth based on historic spend

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

	Total	Percentage
Agree	1,655	34%
Disagree	2,544	52%
Not Answered	734	15%

Summary of responses

The majority of respondents disagreed with the proposal to allocate growth funding on the basis of historic spend as they argued it is not a good predictor of future growth. In particular, 71% of local authorities were not in favour of allocating funding for growth based on historic spend.

Suggestions of alternatives focussed on methods of predicting growth such as Office for National Statistics (ONS) population forecasts, local authorities' own forecasts and GP registrations – but there was no consensus on a better method.

Of those that agreed, a small number of respondents suggested that local authorities should be able to apply for exceptional funding where historic funding is not sufficient. Those in favour also saw allocating funding on historic spend as flawed, but acknowledged that it allowed a period in which to monitor and develop a better solution. Others acknowledged that it was better than the current situation, and potentially was the only mechanism through which to allocate this funding in the short term.

Government response

We have considered our approach to growth very carefully in light of the consultation response. We are confirming that we will use historic spend to allocate funding for growth in 2018-19 to allow stability in the first year of a reformed funding system – using historic spend allows a degree of stability that creating a new growth factor in 2018-19 does not. But we recognise the limitations of this approach, and are consulting on using a lagged method to fund growth from 2019-20. Please see the schools national funding formula consultation document for further details on our proposals for funding growth.

Question 16: Area cost adjustment (ACA)

Do you agree we should include an area cost adjustment?

	Total	Percentage
Agree	3,631	74%
Disagree	542	11%
Not Answered	760	15%

Which methodology for the area cost adjustment do you support?

	Total	Percentage
General labour market methodology	1,326	27%
Hybrid methodology	2,369	48%
Not Answered	1,238	25%

Summary of responses

Our proposal to include an area cost adjustment received strong support. Respondents generally recognised that costs vary across the country, with schools affected by variation in labour market costs.

We also consulted on the methodology we should use – either a general labour market (GLM) measure (which would base schools' budget adjustments purely on DCLG's assessment of variation in the general labour market) or the Department's hybrid methodology (which combines the GLM data with a specific measure of the variation in teachers' salaries). The majority of respondents were in favour of using the hybrid methodology.

Respondents agreed that the methodology must take into account variation in the general labour market. Arguments were made that the area cost adjustment should also take account of other potential variations that could affect schools' costs. The most common suggestions were housing costs, areas with a high cost of living, and areas in which teacher recruitment and retention is an issue. It was argued that particular areas, such as Bath, Gloucestershire, Surrey and Oxford, have housing costs that are similar to those of London, whilst rural and coastal areas can find it challenging to attract and retain teachers. Schools and local authorities in the North West also suggested that the area cost adjustment take into account the cost of water charges in that region.

Those in favour of the GLM primarily argued that schools compete with the independent sector and wider labour market to recruit and retain teachers, whereas those in favour of the hybrid methodology argued that as teaching costs constitute a significant part of

schools' spending, the area cost adjustment should specifically recognise teachers' pay. However, some respondents voiced concerns regarding the four geographical bandings used. There were also concerns about the impact academy pay freedoms could have on the teacher pay element of the hybrid methodology, in light of the increasing number of schools that are academies. Conversely, those opposed to the general labour market methodology argued that it would over-fund the additional teacher costs in high cost areas and therefore returning to this approach would significantly undermine the principle of fair funding.

Government response

The majority of respondents were in favour of recognising variation in costs through an area cost adjustment, with the hybrid methodology receiving the strongest level of support.

We remain convinced that as a large proportion of school spending is on staff, the area cost adjustment should recognise this. Therefore, we will include an area cost adjustment based on the hybrid methodology. Teacher pay band data is the best available data on the national variation in teacher pay costs, and we believe the GLM is the best measure available to recognise non-teaching staff costs. Each element will be weighted according to the typical proportion of a school's spending on teaching and non-teaching staff costs.

In 2009, PricewaterhouseCoopers explored the viability of using house price data to determine an ACA¹⁰. Whilst in theory an ACA measure can be derived from house prices, the volatility of house prices when compared to salaries runs the risk of introducing instability in the funding system. There are also concerns around the appropriate choice of measure to use for house prices. We therefore believe that salaries are a better proxy of cost on which to base our area cost adjustment.

At a national level, we are maintaining a strong supply of teachers. Initiatives to support teacher recruitment include: funding the expansion of Teach First into every region of England; continuing to fund targeted leadership programmes that develop high-potential middle and senior leaders working in challenging schools and areas; reviewing our approach to returners; and developing a package which seeks to increase the number of STEM and MFL returners whilst supporting wider departmental initiatives around women and part time working.

¹⁰ The full research can be found at <http://webarchive.nationalarchives.gov.uk/20100603155746/http://www.teachernet.gov.uk/docbank/index.cfm?id=14194>

We acknowledge the concerns regarding the interaction between the hybrid methodology and academy pay freedoms. We will monitor data on teachers' salaries collected through the School Workforce Survey, but at present we continue to believe that teachers' salaries are an appropriate proxy of cost to be included in our area cost adjustment. As outlined in the technical note, we intend to update the data used in the area cost adjustment annually, where possible.

You can find more information about the methodology and data sources used for the area cost adjustment in the technical note.

Question 17: Looked after children

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?

	Total	Percentage
Agree	3,930	80%
Disagree	317	6%
Not Answered	686	14%

Summary of responses

There was a high level of support for this proposal. Of those who agreed, some argued that it would make funding fairer, more equitable and enable funding to be targeted more effectively at pupils who need it. Support for this proposal was strong across academies, maintained schools, local authorities, multi-academy trusts and representative bodies.

Transparency and accountability for outcomes were highlighted as being important. Respondents commented that funding looked-after children and those who have left care via adoption, special guardianship or a care arrangements order through the pupil premium plus would be positive for accountability.

Those who disagreed with our proposal argued that including a looked-after children factor in the national funding formula allows schools to use their knowledge of their pupil's needs to better allocate this funding. Respondents argued that it was inconsistent to fund looked-after children via the pupil premium plus whilst retaining a deprivation factor in the national funding formula.

A key concern was that the money available to support looked-after children should not be reduced, irrespective of whether these children are funded through the dedicated schools grant or pupil premium plus. However, some respondents who agreed with the

proposal to target support for both looked-after children and post looked-after children through the pupil premium plus argued that the funding should not be taken from the dedicated schools grant.

Government response

We will proceed with our proposal and 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 including a looked after children factor in the national funding formula.

To achieve this we will transfer the total amount spent through looked-after children factors in local formulae in 2017-18 from the DSG to the pupil premium plus budget¹¹. We will increase the pupil premium plus rate from its current level of £1,900 per pupil accordingly, maintaining equal rates for looked-after children and those who have left care through an adoption order, special guardianship order or child arrangements order. Although we will not use looked-after children data to calculate local authorities' budgets through the NFF in 2018-19, local authorities will still be able to include the factor in their local formula in that year if they so choose.

We note that some respondents raised wider issues regarding pupil premium plus. We will take this into consideration in future work on looked after children's education.

Question 18: Mobility

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

	Total	Percentage
Agree	2,418	49%
Disagree	1,775	36%
Not Answered	740	15%

¹¹ Local authorities will send in their planned 2017-18 spend on each factor in January 2017. The 2016-17 local authority spend on the looked-after children factor is £24m.

Summary of responses

A majority of those who answered this question were in favour of our proposal to exclude a mobility factor from a national funding formula. Those who agreed with our proposal felt that because it was a minor factor, it should be excluded on the grounds of simplicity. Others agreed that these pupils are more likely to be in receipt of funding from other additional needs factors.

Those who disagreed with our proposal raised two common concerns. Firstly, they argued that mobility is a significant cost driver in terms of administrative costs, especially in schools and areas where it is highly concentrated. Secondly, they argued that mobile pupils often have complex needs, and funding targeted through other additional needs factors is not sufficient to address them. The mobility factor is particularly important for a small number of schools supporting these pupils. Several respondents thought a mobility factor is particularly important for schools in military areas, where there often is a large movement of children as regiments are relocated. We also noted several comments that argued the mobility factor is not workable in its current form, and that local authorities and schools would find it more appropriate if it was targeted at all mobile pupils, not just those in schools where more than 10% of pupils were classified as mobile.

Government response

We have listened to the concerns raised in response to our consultation and have concluded that our formula would be strengthened by the addition of a mobility factor. We will therefore include a mobility factor, allocating funding on the basis of historic spend in 2018-19, to ensure schools with significant numbers of mobile pupils receive funding to recognise the additional pressures they face.

An important issue in developing a mobility indicator for use in the national funding formula is that the underpinning data that we currently hold is not sufficiently robust for local authorities that do not currently use this as a factor. We are looking at ways in which this could be addressed for the longer-term, but in the interim, we will allocate funding to local authorities on an historic basis, reflecting the amount of money they put through the mobility factor in the previous year. The detail of our proposals are set out in chapter 2 of the schools national funding formula consultation document.

Question 19: Post-16

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

	Total	Percentage
Agree	3,034	62%
Disagree	887	18%
Not Answered	1,012	21%

Summary of responses

The majority of respondents agreed with our proposal to remove the post-16 factor, arguing it was sensible that post-16 students are funded solely using the post-16 funding formula. It was also argued that this would increase accountability.

A number of respondents who disagreed misunderstood our proposal and viewed this as a reduction in national post-16 funding. Both respondents who agreed and disagreed with our proposal also raised concerns around the reduction in post-16 funding more generally. Some respondents who disagreed were concerned about the pace of the change and argued that there should be a longer transition period with more local flexibility about the use of the factor.

Government response

The post-16 factor is a legacy factor, which only a small number of local authorities use for a small number of schools and academies.

We removed this factor from the list of permissible factors local authorities could use in 2017-18, and will not include the post-16 factor in a national funding formula. In order to aid the transition for those schools currently in receipt of funding through this factor, it has been included in their baselines, and is protected by the minimum funding guarantee.

A small number of institutions currently receiving funding under this factor are sixth form only schools. For these schools we will, over time, move to a position where they no longer receive protection funding to reflect the removal of the post-16 factor and are funded only on the basis of the post-16 funding formula. In order to help the affected institutions plan for the removal of this funding, we have informed them that we will remove this funding in equal phases across a period of four years, starting 2017/18, limiting their reduction in funding to a maximum of 3% in each year. For one of these institutions however, the reduction will be carried out over five years, up to 2021/22.

General funding for post-16 provision is outside the scope of this consultation. However, the Spending Review announced that the national base rate of funding for 16 and 17

year olds will be protected at £4,000 per full-time student will be protected for the duration of this parliament.

Question 20: Ring-fencing the schools block

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

	Total	Percentage
Agree	2,638	53%
Disagree	1,546	31%
Not Answered	749	15%

Summary of responses

Academies and multi-academy trusts were strongly in favour of requiring local authorities to distribute all of their schools block allocation to schools from 2017-18, with 83% and 86% of respondents who identified as being associated with an academy or multi-academy trust respectively, were in agreement. They argued that ring-fencing the schools block is essential and that not doing so would undermine allocating schools funding to local authorities in the soft years on the basis of the national formula. Conversely, local authorities were strongly opposed to this proposal, with 72% of local authority respondents disagreeing. Representative bodies and maintained schools were more evenly split, but overall a majority of maintained school respondents were in favour of this proposal.

Of those who disagreed with this proposal, their primary concern was the ability of local authorities to manage pressures on the high needs budget. It was argued that removing the ability of authorities to move funding from schools to high needs could reduce the incentive for schools to be inclusive. This could subsequently result in greater demand for Education, Health and Care plans and assessments, which are costly and add an unnecessary level of bureaucracy.

Government response

We recognise the legitimacy of the concerns raised in response to our consultation, and have considered them very carefully. There is a very wide range of practice among local authorities when it comes to high needs budgets, with some setting much higher budgets than others, partly because of the way that the local pattern of special provision has developed and been organised over time.

We are confirming that we will ring-fence the schools block in 2018-19, but with additional arrangements that will address the risks highlighted during the consultation about support for pupils with SEN and disabilities. We are proposing that local authorities would have a limited ability to move funding between the schools and high needs blocks in 2018-19, following local consultation and with the explicit agreement of the schools forum and a majority of their schools. As now, they will continue to be able to provide additional support from their high needs budget and outside the main school budget share to schools supporting large numbers of pupils with high needs. We also intend to develop some continuing local flexibility from 2019-20, and will work with the sector to make sure that such arrangements properly take account of schools' and local authorities' collective responsibilities for children and young people with SEN and disabilities.

In 2016, we carried out an exercise with local authorities to 're-baseline' the 4 blocks of the DSG for each local authority, to make sure our starting point is the pattern of actual planned spend rather than how government allocates funding. Our intention is to undertake another re-baselining exercise in 2017, and to use 2017-18 data for 2018-19 allocations. We would not expect to see significant changes to historical patterns of spend. Where significant changes do occur, we will liaise with local authorities to understand them to ensure they are appropriate to use as baselines for the national funding formula, or whether the 2016-17 position provides a better starting point.

More detail on the schools block ring-fence, the local budget flexibility proposals, and what we are doing to support local authorities and schools in making provision for children and young people with SEN and disabilities can be found in the parallel [consultation on high needs](#).

Question 21: Local minimum funding guarantee (MFG)

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

	Total	Percentage
Agree	3,146	64%
Disagree	971	20%
Not Answered	816	17%

Summary of responses

Support for this proposal was evenly spread across all institution types. Some respondents recognised that allowing local authorities the flexibility to set a local minimum funding guarantee was a sensible approach for the transition period. It could be used locally to move schools towards the national funding formula more quickly, whilst

allowing local authorities to adapt local factors and protect some schools. Respondents also viewed the local MFG as a mechanism through which funding could be distributed to historically under-funded schools.

Some respondents argued that local variation on the MFG would not provide clarity or be consistent with the principle of a transparent national funding formula as the MFG could vary from local authority to local authority, undermining the principle of fairness. Respondents also raised concerns that a local MFG could create cliff edges for schools, with some schools having to adapt to greater losses when a hard national funding formula is implemented because their local authority chose to implement a local MFG that moved them significantly away from their national funding formula allocation. It was also suggested that a local MFG would allow local authorities to continue to under or over fund particular schools.

Government response

We have considered the full range of responses, and in light of the fact that there will now be only one year of soft formula transition (as opposed to the two years we originally proposed), we no longer believe this flexibility to be necessary. We are therefore **not taking forward the proposal for a locally flexible MFG.**

We are proposing to use a national MFG of minus 1.5% when calculating notional budgets for schools and the local MFG of minus 1.5% will continue. The existing MFG methodology will be unchanged. Local authorities will, of course, be able to apply to the department to dis-apply the MFG in the usual way, where the inclusion of a factor in the MFG will lead to significant inappropriate levels of protection.

Question 22: Local authorities' ongoing responsibilities

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

	Total	Percentage
Agree	3,135	64%
Disagree	964	20%
Not Answered	834	17%

Summary of responses

Many respondents felt that allocating funding for local authorities' ongoing responsibilities according to a per-pupil formula was the fairest and most equitable approach. Some respondents agreed that this was the most appropriate approach provided it allowed for

area costs and the funding was sufficient for local authorities to meet their responsibilities. Conversely, a small number of respondents argued that this block should be allocated on historic spend.

38% of local authorities that responded agreed with our proposals for the central school services block.¹² Of those local authorities that disagreed with our proposals, many raised concerns that the level of funding would not be sufficient to meet their duties, and some argued that other factors, as well as a per pupil amount, should be included to calculate the central school services block. However, of those local authorities that disagreed, most did not express opposition in principle to the creation of a central school services block.

The most popular additional factor suggested by respondents was a lump sum to cover fixed costs. A deprivation factor was also suggested by respondents.

Government response

We believe that as we move towards a ‘hard’ national funding formula it makes sense to also distribute funding for ongoing local authority responsibilities according to a fair funding formula. It is important that we move towards this formulaic distribution at a manageable pace to avoid excessive changes to local authority budgets. This is why we have proposed a gradual transition towards the central school services block formula, with protection for local authorities who would face a reduction in their overall allocations. More detail on the transition is set out in the central school services block chapter of the Schools national funding formula consultation.

In the consultation we proposed applying an area cost adjustment to the ongoing responsibilities element of the formula, and that it should use the same hybrid methodology as the schools national funding formula. On reflection, and in light of the responses we received to our consultation, we do not think that the hybrid methodology is appropriate for the central school services block. Given that the central school services block is not affected by teachers’ pay, we do not believe it is reasonable to use an area cost adjustment which contains a teachers’ pay cost element. We therefore intend to use the general labour market (GLM) methodology.

We have considered whether it is appropriate to include other factors in the central school services block. The second stage of consultation proposes that we include a deprivation factor in the central school services block, to recognise the importance of

¹² This was referred to as the central schools block in the March 2016 consultation. We have changed the name to better distinguish it from the schools block

particular central services, such as education welfare services, in areas with high levels of socio-economic deprivation. We have also considered the impact of including a lump sum in the central school services block, but believe that per-pupil funding is sufficient, as we do not expect fluctuations in pupil numbers to have a significant impact on the cost of providing services at local authority level.

Question 23: Funding local authorities' historic commitments

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

	Total	Percentage
Agree	3,325	67%
Disagree	817	17%
Not Answered	791	16%

Summary of responses

A majority of respondents thought our proposal was a fair and appropriate way to fund historic commitments, provided that the evidence gathered by the EFA is robustly assessed and kept up to date.

Some respondents felt the system should be phased in to avoid steep drops in funding, whilst others argued that the school forum's view should be considered as part of this process.

A number of respondents appeared to have misunderstood our proposals, confusing this with our proposal to fund a number of factors on historic spend and arguing that this system undermines fair funding.

Government response

We will pursue the proposal set out in the consultation, as we believe it is the fairest and most appropriate way to provide funding for historic commitments.

Earlier this year, the EFA collected evidence from local authorities about their historic commitments, and the ongoing costs of these commitments. The EFA reviewed all returns and produced [guidance](#) that will enable local authorities and their schools forums to ensure the appropriate evidence is in place for each historic commitment, and that they meet the criteria set out in the first stage of the consultation (that there is (a) evidence the commitment was entered into before 2013 and (b) contractual evidence of an ongoing cost).

We expect local authorities to use this guidance to ensure that only eligible historic commitments are funded in 2017-18 and to reflect these when completing the Section 251 returns for 2017-18. Funding for historic commitments will then be allocated on this basis in 2018-19. We will set out our long-term intention for funding released from historic commitments at a later point. Further detail about our approach to funding historic commitments is set out in chapter 5 of the schools national funding formula consultation document.

Question 24: The Education Services Grant (ESG)

Are there other duties funded from the Education Services Grant that could be removed from the system?

Summary of responses

A large proportion of respondents chose not to respond or did not include substantive comments.

A small number of respondents recommended ESG duties we could remove from the system, including attendance, school improvement and central support services, in particular music funding. We also received a small number of recommendations on other local authority duties, not funded through the ESG, which could be removed from the system.

Several respondents stated that they had concerns about our proposed changes to the school improvement system, and suggested an ongoing need for local authority involvement. Concerns regarding the reduction in the ESG announced at the Spending Review, and the detrimental impact this will have, were also put forward by a number of respondents.

Government response

We are not proposing to remove any additional duties funded by ESG at this stage. The department is mindful of the duties on local authorities and we continue to keep these under constant review.

We understand that there are concerns about the reduction to the ESG, which was made to allow us to protect the national core schools budget. We recognise that these savings cannot be achieved through efficiencies alone. That is why we have allowed local authorities to retain some of their maintained schools' DSG centrally to fund the duties they carry out on their behalf (see question 25 below for more detail).

Some respondents suggested removing local authorities' responsibilities relating to central support services, but these duties are not statutory so local authorities have a choice about whether to continue to provide these services.

We recognise concerns about the future of school improvement. Our aim is to secure a school-led system with head teachers and school leaders best placed to run their schools and to drive improvement by working together in collaboration. We recognise, however, that such a school-led system is not fully mature and we need to take steps to support an effective transition. While the number of academies will continue to increase, we will have a dual system of maintained schools and academies for some time, and during this interim period, local authorities will continue to play an important role in relation to their maintained schools, including in relation to driving towards a school-led improvement system.

This is why we have announced additional funding for local authorities once the ESG general funding rate is fully removed from September 2017. From 2017-18, local authorities will receive a separate grant covering their statutory intervention functions and services such as monitoring and commissioning school improvement support for weaker maintained schools¹³.

A further £140m will be set aside to create a new 'Strategic School Improvement Fund', which will support school improvement, alongside building school-led capacity in parts of the country where it is needed. Maintained schools and academies will be able to apply for this funding with the backing of a teaching school, local authority or RSC and will be able to use it for school improvement activity.

We have also announced that, for a transitional period, maintained schools can agree collectively to pool funding for school improvement support, by returning it to the local authority through de-delegation arrangements¹⁴. This transitional step is intended to reduce the risk of schools being left without high quality provision, particularly in areas where maintained schools are currently reliant on their local authority for school improvement support.

¹³ Full details of the additional funding can be found at <https://www.gov.uk/government/news/new-funding-for-school-improvement--2>.

¹⁴ More information on the de-delegation arrangements for school improvement can be found in the [local authority operational guide for 2017-18](#).

Question 25: Funding local authorities for duties they carry out for maintained schools

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?

	Total	Percentage
Agree	3,059	62%
Disagree	936	19%
Not Answered	938	19%

Summary of responses

The majority of respondents agreed with the proposal, as long as it is implemented with the permission of schools forums.

A small number of respondents argued that there should be a maximum cap on the amount of funding the local authority can retain. They argued that as more schools become academies there will be fewer maintained schools in each local authority, which could result in the local authority having to increase the amount of funding retained centrally thus resulting in increased costs for maintained schools.

Many respondents disagreed with our proposal because they do not support the removal of the ESG. Some respondents disagreed because they think that all funding should be directly allocated to schools so that they are able to buy back services from the provider of their choice. Linked to this, others argued that the central school services block should be sufficient to cover these duties, removing the need for local authorities to retain some of their maintained schools' dedicated schools grant centrally.

Government response

We confirmed in July that we are going ahead 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. Further detail on the implementation of this proposal can be found in the updated [local authority operational guide for 2017-18](#) published on 1 December.

We have considered whether we should set a cap on the level of funding a local authority can retain, and have concluded that it is not appropriate. Spend on duties funded through the ESG general funding rate varies considerably across the country, so we believe it is right that the level of funding retained centrally by the local authority should be agreed locally between the local authority and the maintained schools members of the schools

forum. Local authorities and schools forums will have recourse to the Secretary of State where necessary when agreement cannot be reached.

Annex B – List of organisations that responded to the first stage of consultation

Achievement for All

Achieving for Children

Adoption Matters

Adoption UK

Association of Colleges

Association of School and College Leaders (ASCL)

Association of Secondary Headteachers in Essex (ASHE)

Barnsley Metropolitan Council

Bedford Borough Council

Birmingham City Council

Blackpool Council

Bolton Council

Bracknell Forest Council

Brent Council

Brighton & Hove City Council

Bristol City Council

Buckinghamshire County Council

Bury Council

Cambridgeshire County Council

Catholic Education Service

Central Bedfordshire Council

CentreForum

Chartered Institute for Public Finance and Accountancy (CIPFA)

City of Bradford Metropolitan District Council

City of York Council

CoramBAAF

Cornwall Council

Coventry City Council

Cumbria Association of Secondary Headteachers

Darlington Borough Council

Derby City Council

Derbyshire County Council

Devon County Council

Diocese of Gloucester

Diocese of Southwark

Doncaster Metropolitan Borough Council

Dorset County Council

Dudley Metropolitan Borough Council

Durham County Council

Early Education

East Riding of Yorkshire Council

East Sussex County Council

Essex County Council

f40

Family and Childcare Trust

Freedom and Autonomy for Schools National Association (FASNA)

Foundation for the Education of the Underachieving and Dyslexic

Gateshead Council

Gloucestershire County Council
Grammar School Heads Association
Greater London Authority
Guildford Diocesan Board of Education
Halton Local Authority
Hampshire County Council
Hartlepool Borough Council
Health Education England
Herefordshire County Council
Hertfordshire County Council
Hull City Council
Information for School and College Governors (ISCG)
Isle of Wight Council
Kent County Council
Knowsley Metropolitan Borough Council
Lead Association for Catering in Education (LACA)
Lancashire Association of School Governing Bodies
Lancashire County Council
Leeds City Council
Leicester City Council
Leicestershire County Council
Leicestershire Primary Partnership
Lincolnshire County Council
Liverpool City Council
Liverpool Governors' Forum

Local Government Association (LGA)

London Borough of Barking and Dagenham

London Borough of Barnet

London Borough of Bexley

London Borough of Camden

London Borough of Croydon

London Borough of Ealing

London Borough of Enfield

London Borough of Hackney

London Borough of Haringey

London Borough of Havering

London Borough of Hillingdon

London Borough of Hounslow

London Borough of Islington

London Borough of Lambeth

London Borough of Merton

London Borough of Newham

London Borough of Redbridge

London Borough of Sutton

London Borough of Tower Hamlets

London Borough of Waltham Forest

London Councils

London Diocesan Board for Schools

Luton Borough Council

Manchester City Council

Medway Council

Middlesbrough Council

Milton Keynes Council

National Association of Head Teachers (NAHT)

Northern Association of Support Services for Equality and Achievement (NASSEA)

National Association of School Business Managers (NASBM)

National Association of Schoolmasters Union of Women Teachers (NASUWT)

National Association of Virtual School Heads

National Day Nurseries Association

National Governors' Association

National Union of Teachers (NUT)

Northern Council for Further Educations (NCFE)

Newcastle City Council

Norfolk County Council

North Somerset Council

North Tyneside Council

North Yorkshire County Council

Northamptonshire County Council

Northumberland County Council

Nottingham City Council

Nottinghamshire County Council

Oldham Council

Oxfordshire County Council

Peterborough City Council

Peterborough Diocese Education Trust

Plymouth City Council

Portsmouth City Council

Reading Borough Council

Rochdale Borough Council

Rotherham Metropolitan Borough Council

Royal Borough of Kensington and Chelsea

Royal Borough of Windsor and Maidenhead

Rutland County Council

Salford City Council

Sandwell Metropolitan Borough Council

Sefton Metropolitan Borough Council

Service Children in State Schools National Executive Advisory Committee

Sheffield City Council

Slough Borough Council

Society of County Treasurers

Solihull Governors Association

Solihull Metropolitan Council

Somerset County Council

Southwark Council

South Tyneside Council

Southampton City Council

Southwark Diocesan Board of Education

Special Interest Group of Municipal Authorities (SIGOMA)

St Helen's Council

Staffordshire County Council

Stockport Council

Stockport Primary Headteachers Consortium

Stockton-on-Tees Borough Council

Stoke-on-Trent City Council

Suffolk County Council

Suffolk Secondary Heads Association

Sunderland City Council

Surrey County Council

Swindon Association of Primary Head Teachers

Swindon Borough Council

Tameside Metropolitan Borough Council

Teach First

Telford and Wrekin Council

The Association of Directors of Children's Services (ADCS)

The Association of Teachers and Lecturers

The County Councils Network (CCN)

The Sutton Trust

Thurrock Council

Trafford Council

UNISON

United Synagogue

Voice, the union for education professionals

Wakefield Council

Walsall Council

Wandsworth Council

Warrington Borough Council
Warwickshire County Council
West Berkshire Council
West Sussex County Council
Westminster City Council
Wigan Council
Wiltshire Council
Wirral Council
Worcestershire Association of Governors
Worcestershire County Council
Worthing Council of Governors Forum



Department
for Education

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