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# A Consultation on School Funding Reform: Rationale and Principles

April 2011

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## 1. Introduction

1.1 On 13 April 2011, the Department for Education (DfE) published its promised consultation on school funding. However, this consultation only represents stage one of a two part process and concentrates on the principles and rationale of the reform of the funding system for schools. The DfE will publish a further consultation, either in late spring or early summer 2011, on the detail taking into account views expressed in response to this initial document.

1.2 At the same time, DfE also issued a short consultation on detailed interim proposals for funding academies as, in their view, the current methodology is not sustainable - given the number of new academies being established prior to the possible implementation of wider system reforms.

1.3 This briefing note is intended to highlight the main items of note within both consultation papers.

### Key Points

1.4 The government wish to move to a national funding formula for schools as soon as possible because:

- It could be applied to all schools, maintained schools, Academies and Free Schools;
- In their view, schools in similar circumstances, and with similar intakes, should receive similar levels of funding;
- Funding for deprived pupils would be separately identified and their funding would be transparent i.e. the Pupil Premium;
- The funding would transparent and simpler therefore easier to understand by schools and parents; and
- The reformed funding would promote efficiency - although it is not clear from the consultation paper how this would work other than to say that schools would be at the heart of spending decisions.

1.5 If implemented, a national funding formula would mean that the funding of schools would no longer reflect local characteristics of the local authority or local area. There is a suggestion in the consultation that the only local factor that the DfE might consider is in the primary phase relating to small schools. This factor would apply to all primary schools.

1.6 Another outcome of the introduction of a national funding formula for schools would be that local authorities would no longer need to have teams dealing with schools' finance other than those providing financial services which schools buy back. This also raises the future of Schools Forums if there is no local discretion. Further, if schools are funded through a national formula will local authorities still have to prepare Schemes for Financing Schools, if not who is accountable? Allied to this, the Financial Management Standard in Schools (FMSiS) is being replaced by a much shorter version with a current title of Schools

Financial Value Standard (SFVS). The SFVS requires less policing than its predecessor, as it is mainly a school's self assessment, although the Section 151 Officer still has to sign off an annual statement. No information is given in the consultation paper as to whether the requirement for Section 151 sign-off will continue.

- 1.7 There are two areas of funding that need resolving<sup>1</sup> before the national funding can proceed:
- Funding for high cost pupils including those with Special educational needs; and
  - Early years education.
- 1.8 The success of the move from the current system to a reformed system will be dependent on timing, and transitional arrangements, to ensure there is as little funding turbulence between schools as possible; the DfE would not want a similar funding crisis to occur as that which happened in 2003/04.
- 1.9 The next consultation is promised for late spring/early summer (more likely the latter given the response date to this consultation is 25 May) and this is when, and where, local authorities and schools should expect to see detailed proposals – including, hopefully, the potential financial impacts.

## 2. The Ideal Funding System

- 2.1 The government consider that a school funding system should have certain characteristics, namely:
- **It would distribute money in a fair and logical way** – Schools in similar circumstances and with similar intakes would receive similar levels of funding;
  - **It would distribute extra resources towards pupils that need them most** – This is why the government has introduced the pupil premium;
  - **It would be transparent and easy to understand** – This would enable parents to see clearly why their child's school is funded at a certain level. Transparency would also lead to predictability at the school level;
  - **It would support a diverse range of school provision** – All schools whether they be maintained schools, Academies or Free Schools would operate on a level playing field and new schools and providers would understand their funding base; and
  - **It would provide value for money (VFM) and ensure proper use of public money** – The DfE view is that schools are best placed to make decisions on how to use funding for their pupils.

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<sup>1</sup> DfE do not appear to currently have the answers.

### Key Point

2.2 No one would argue that these key elements appear sensible, however it would appear that the funding reform will move towards a more simplistic model which, although, predictable may not be fairer or reflect the local area. Nevertheless, due to the diverse range of school provision envisaged by the government, it is not surprising that the department believes the funding system for schools has to be made more simplistic.

## 3. The Current School Funding System and Its Flaws

3.1 The current methodology of “spend plus” for funding schools was started in 2006/07 based on what each authority planned to spend on schools in the financial year 2005/06.

3.2 The amount spent in 2005/06 was determined by an assessment of what local authorities needs were at that time (using data becoming out of date) and the amount local authorities chose to spend on schools (which was mainly historical).

3.3 As a consequence, the government believes the current funding of schools is based on an assessment which is out of date, and on historical decisions which may no longer reflect local and national priorities. The government consider that current system falls short of the characteristics mentioned in paragraph 2.1 above, in particular:

- **It is opaque and extremely complex** – this is mainly as a result of the historical nature of the current methodology and number of mechanisms in the system that locks up the funding, such as the minimum funding guarantee (MFG);
- **It is unfair as it leads to schools with similar intakes receiving very different levels of funding** – funding between similar schools can vary greatly without any explainable reason;
- **It fails to reflect need accurately** – the current funding system does not respond to changes in needs or pupils characteristics readily; and
- **It does not support the new school system** – with the growth in the number of new academies and the introduction of free schools the current methodology is too complex and not fit for purpose.

3.4 The consultation paper poses a number of questions:

- 1. Do you agree with the stated characteristics of an ideal school funding system?**
- 2. Are there further characteristics the system should have?**
- 3. Do you agree with the analysis of how the current system falls short of these**

**aims?**

**4. Do you agree with the case for reforming the system?**

Key Points

- 3.5 It is correct to say the current funding is out of date - much of the underlying data is still based on 1991 census information, historical decisions by local authorities and changes made by government over the years, therefore, it is time for a reassessment of need.
- 3.6 The reason there is a variation across England is that, in most cases, the funding will reflect the decisions of the local area.

## 4 The Pupil Premium

- 4.1 The introduction of the pupil premium in 2010/11 is seen as the first step towards the fair funding of schools as it is clear and transparent in the way it delivers additional funding for every deprived pupil. However, the government believes there is still funding within each local authority formula for deprived pupils which is opaque (e.g. it is unclear how the funding follows the pupil) and varies from local authority to local authority. As a consequence, the government believes that its 'improvements' to the current funding system will enable it to deliver its stated aim of supporting deprived pupils.
- 4.2 The consultation paper poses a number of questions:

**5. Do you agree that the aim of ensuring all deprived pupils get the same level of funding no matter where they live is the right one?**

**6. Do you agree the underlying funding formula needs to change to meet this aim more quickly and effectively?**

Key Point

- 4.3 This could indicate that the government may redirect funding for deprived pupils, currently within the Dedicated Schools Grant (DSG), towards the pupil premium; this could be achieved more easily if a national funding formula was introduced.

## 5 A Fair Funding Formula

- 5.1 In the White Paper on school funding reform, the government set out a long term ambition for a fair, national funding formula. A fair funding formula, in their view, would lead to transparent funding to maintained schools and academies. It would give a clear national basis for funding schools and providing funding to meet the needs of different groups of

children; although this does not mean that every school would receive the same level of funding.

- 5.2 A key issue in any reform of the school funding system will be who takes the decision on the level of funding for individual schools. Even within a transparent, overarching national funding formula there could be locally agreed decisions to vary the funding to meet particular circumstances.
- 5.3 The advantages of using a national funding formula to set schools' budgets would, in the government's view, be its transparency; and the guarantee of comparability of funding between individual schools, whether they are in different parts of the country or between maintained schools, Academies and Free Schools in the same local area.
- 5.4 The government appear to maintain that a system that allowed local flexibility, as now, would enable similar schools to receive different levels of funding. It would also raise questions about the funding of Academies and Free Schools as the DfE would have to decide if they should also be affected by local decisions. This could lead to perverse incentives for schools to become Academies or promoters for new Free Schools in areas where funding was more favourable.
- 5.5 The consultation paper poses a number of questions:

**7. Do you think the school funding system should be based on a purely national formula? Or should there be flexibility for local decisions about funding levels?**

**8. If so, should that flexibility be limited, and if so how?**

**9. If there is local flexibility, what should the roles of local authorities, schools and the Schools Forum be in decision making?**

**10. If there is local flexibility for maintained schools, how should Academies and Free Schools be funded?**

#### Key Point

- 5.6 The government obviously had to give a choice in the consultation paper, but it is clear they do not want to carry on with the current system of funding schools. Especially, given the increasing diversity of schools provision – it would appear that the government is trying to avoid funding maintain schools differently to Academies and Free Schools, possibly so that they cannot be accused of favouring the new providers.

## 6 The Role of Local Authorities

- 6.1 Currently the majority of school funding is delegated to individual schools; but some funding is retained by local authorities. There is no set national definition regarding what funding should be delegated and what funding should be retained centrally.
- 6.2 As the government moves towards a national fair funding formula, with or without local flexibility, it will be necessary to have a clear divide between these responsibilities and the funding for them. Every school and local authority would be funded in the same way regarding these responsibilities. Schools are likely to be granted the freedom to operate particular functions through the local authority or otherwise.

### Key Point

- 6.3 If the government proceed with a national funding system for schools, the local authority would have very few responsibilities, with regard to funding schools, other than those services still retained by the local authority and financial responsibility for those services 'bought' by the schools. The question not raised in the consultation paper is what will happen to school forums? Whatever the outcome, a simpler funding methodology is expected to lead to a reduction in administration at the local authority level.

## 7 'High Cost Pupils' including Children with Special Educational Needs (SEN)

- 7.1 The government believes a fair funding formula, for mainstream schools, should be able to meet the needs of most pupils - including the majority of children with SEN who are currently educated in mainstream schools. These pupils' needs would be met from the schools' delegated budget as now.
- 7.2 The government recognises that that there are many pupils whose needs are particularly costly to meet, whatever their particular setting, and these High Cost Pupils would not be readily fundable through a formulaic approach. As a consequence, the government appears to recognise that local authorities will need a substantial pot of money for High Cost Pupils outside the fair funding formula.
- 7.3 For the second consultation, DfE intend to work up proposals for how this pot of money will work. However, there are a number of important issues to be addressed, including how to:
- Distinguish between low cost needs covered by the formula and high cost needs;
  - Establish the budget for high cost pupils and divide it among local authorities;
  - Promote personal budgets as promised in the recent Green Paper *Support and aspiration: a new approach to special educational needs and disability*; and



- Whether there is a case for some degree of formulaic funding for high cost providers, while recognising that this will never be able to address all individual needs.

7.4 The recently published Green Paper posed three specific questions about funding for SEN:

- **Funding for SEN support services** - These are currently managed and funded by local authorities, but funding has also been included for them in the budgets of Academies. DfE need to reach a sustainable, affordable solution for funding SEN support services;
- **Banded funding framework** – DfE propose to explore a national banded framework for funding high-cost provision for children and young people with SEN or who are disabled, in addition to what is normally available in schools. The framework would not, however, determine the financial tariff associated with a particular type of need. This is because it is not the case that any one child with a particular category of need, for example autistic spectrum disorder, will require exactly the same support as another child with the same category of need. DfE consider that any national banded funding framework should continue to allow local leaders the flexibility to determine the levels of funding to be associated with each level and type of provision and, therefore, to put in place personalised packages of support for children, young people and families; and
- **Alignment of funding across the age range** – DfE is also committed to exploring ways in which it can bring about greater alignment of the different funding streams for children and young people with SEN, or who are disabled, from birth to 25.

7.5 The consultation paper poses a number of questions:

**11. How do you think SEN support services might be funded so that schools, Academies, Free Schools and other education providers have access to high quality SEN support services?**

**12. How do you think a national banded funding framework for children and young people with SEN or who are disabled could improve the transparency of funding decisions to parents while continuing to allow for local flexibility?**

**13. How can the different funding arrangements for specialist provision for young people pre-16 and post-16 be aligned more effectively to provide a more consistent approach to support for children and young people with SEN or who are disabled from birth to 25?**

### Key Points

- 7.6 The government will have to define the role of local authorities in respect of SEN; and devise a funding system that suits maintained schools, non-maintained schools, Academies and Free Schools. Inevitably, local authorities will be left with the difficult funding decisions.
- 7.7 Local authorities will welcome the proposal to align the funding arrangements for both pre-16 and post-16, this issue has never been resolved since the inception of the Learning and Skills Council.

## 8 Early Years Funding

- 8.1 It appears the feedback on the implementation of the Early Years Single Funding Formula (EYSFF) to the DfE has been mixed. There appears to be greater transparency concerning early education funding, and the introduction of participation funding has, inevitably, brought a greater focus on participation levels. However, there have been some suggestions that formulae used in the EYSFF pathfinders were more complex than perhaps was necessary. Additionally, whilst the EYSFF has increased awareness of tackling disadvantage, the quality of provision and the importance of flexibility, it is not clear how effective funding supplements have been in incentivising providers. There are also differences in funding rates paid to providers across the country - some argue these differences are unfair; others say that they reflect different circumstances in local childcare markets.
- 8.2 If a fair funding formula is introduced for reception to year 11 provision, there will obviously be implications for how free early education funding will operate. The relationship between free early education funding and the fair funding formula, as well as how early education funding is distributed, will need to be clarified.
- 8.3 The consultation paper poses a number of questions:

**14. How successfully has the EYSFF been implemented? How might it be improved?**

**15. How important is an element of local flexibility in free early education funding? What might alternative approaches look like?**

**16. How should we identify the total amount of funding for early years and free early education for three year olds and four year olds not in reception from within the overall amount of 3-16 funding?**

### Key Point

- 8.4 DfE are trying to find a solution regarding how to incorporate EYSFF into a national funding formula, without losing transparency and simplicity, whilst at the same time maintaining the aims of free early education.

## 9 Elements of a Fair Funding Formula

- 9.1 Any school funding formula consists of direct and proxy indicators that attempt to measure the needs of different children. The next consultation will discuss in detail such factors but there are some key principles which the government are seeking views on now.
- 9.2 A school funding formula would be largely based on pupil-led factors but it could also contain factors relating to the characteristics of the school itself. The current government view is that the funding formula should be based on pupil-led characteristics, as they are more supportive to the entry of new providers into the system, with one probable exception – a mechanism to support small schools.
- 9.3 The government is clear that any formula should include a basic per pupil amount for all pupils (this will be higher for secondary pupils than for primary) plus extra funding per deprived child. However, there may be other needs that a formula should take into account. These might include additional funding to recognise different labour costs in different areas (the ‘area cost adjustment’); other geographical factors such as rurality; funding for children for whom English is not their first language; underperforming ethnic groups; other proxy measures for additional or special educational needs; and incentives or rewards for improved performance.
- 9.4 The simpler a formula, the clearer and more easily understandable it will be. That means it should be clearer to parents and schools why they receive the funding they do, and it will be clearer to potential promoters of new schools what funding they will receive. However, a very simple formula may be less accurate at addressing the differing needs of schools and pupils.
- 9.5 The consultation paper poses a number of questions:

**17. Should the formula include only pupil led factors or also school led factors?**

**18. What factors should be included?**

**19. What is the right balance between simplicity and complexity?**

### Key Point

- 9.6 It is clear that a nationally led formula cannot reflect the characteristics of schools in a local area and no doubt local authorities or schools may wish to have some say in their local funding formulae. However, there would have to be a strong case to be made to persuade the government to go down the route of a national formula with some local discretion.

## 10 How should DfE manage the transition to the new Funding System

- 10.1 DfE expect, in implementing a new funding system, there will be a need for significant protection arrangements as some schools will see their budgets decrease and other schools will see the converse. These protection arrangements would likely be a maximum level of reduction in budget per pupil any school would receive each year (a floor); to be paid for by constraining the level of increase any school could receive (a ceiling);
- 10.2 DfE also consider that the more notice they can give schools of changes to their budgets, the more able they will be to cope with those changes. There may, therefore, be a case for setting very tight floors and ceilings in the first years of introduction of a fair funding formula, but to allow greater fluctuations over time with schools notified of these well in advance. For the current Spending Review period at least, DfE expect the pupil premium to operate outside these transitional arrangements, so every school would receive the full value of the premium, clearly in addition to the rest of their budget.
- 10.3 DfE also raise the question of the timing of the introduction of new funding - whether it is appropriate now, during a tight fiscal period; or, as they describe the current funding system as “inequitable in its distribution and inefficient”, is it more important now, than ever, to ensure that the maximum value is gained for every pound spent?
- 10.4 The consultation paper poses a number of questions:

**20. What level of change in budgets per year can schools manage?**

**21. How much time do schools need to plan for changes in their funding?**

**22. When is the right time to start moving towards a fair funding formula?**

### Key Point

- 10.5 There will be inevitably be turbulence in funding levels amongst local authorities and schools, assuming the funding reform is implemented, however the scale of this turbulence will not be known until the autumn at least. Most local authorities work on the basis of a three year implementation when reviewing their local funding formulae, whether this would be long enough in respect of the proposed reforms is unknown until, at least, the autumn once again. It is clear that the government wish to progress funding reform as soon as possible, certainly before the next election in 2015.

## 11 Academies pre-16 Funding: Options for 2012-13 academic year

- 11.1 On 13 April 2011, the government also issued a short consultation on Academies pre-16 funding. The paper notes that the main school funding reform may not be in place for the financial year 2012/13 and they consider, given the increase in the number of academies, the current funding methodology is not sustainable. However, this 'Academies' consultation does not seek to pre-empt the outcome on the main funding reform consultation.
- 11.2 Academy funding, for the academic year 2011/12, will comprise of the following blocks:
- **General Annual Grant** – this is the main element of their funding and is a replication of the local authority funding formula in which the Academy is situated but based on the previous year's local authority's Section 251 budget statement;
  - **Local Authority Central Equivalent Spend Grant (LACESG)** – as independent institutions Academies have to provide some services that the local authority used to deliver and this grant covers those services; it is calculated by the DfE using the local authority's Section 251 budget statement;
  - **Insurance** – Academies on the whole have to pay higher insurance premiums than maintained schools; and
  - **Pupil Premium** – this is additional core funding the same as in maintained schools.
- 11.3 The government consider the current system is complicated and needs reform for the following reasons:
- The process is not transparent;
  - It does not quickly reflect local circumstances;
  - There is risk of error during the duplication process;
  - The process is becoming more difficult with an increasing number of Academies;
  - It is not sustainable; and
  - It is not administratively efficient.
- 11.4 Three main options for funding Academies are proposed:
- **Roll Forward** – The DfE would ensure that per pupil funding amounts are kept level, rolling forward the per pupil budget share figures from the previous year. This does not mean that Academy funding remains the same from year to year as pupil numbers may fluctuate. This is the DfE's preferred option as they believe it to be transparent and maintains comparability to the maintained sector;

- **A fair funding formula for Academies only** - The DfE would run a single funding formula for Academies which could act as a trial for the main funding reform. However, this would mean Academy funding would move significantly away from comparable maintained schools and does not meet the DfE principle that Academies should not have financial advantage or disadvantage; and
- **Local Authority based Calculations** – Local authorities would be asked to calculate Academy budgets using the formulae they already hold. There are timing issues with this option but more importantly Academies as autonomous institutions, would be more reliant on local authority formulae and decisions.

11.5 The DfE are going to review the calculation of the LACSEG to make it simpler and easier to understand.

11.6 The consultation paper poses a number of questions:

- 1. Do you agree with our analysis that the current system is not appropriate to fund an increasing number of Academies in a fair and transparent way?**
- 2. Do you agree with the principles for an alternative method of funding Academies in 2012/13?**
- 3. Are there other aims we should have for the Academy funding system in the absence of cross-system reform, such as a Fair Funding Formula?**
- 4. Do you agree with the broad analysis of how each option might work?**
- 5. Which option do you think is the best way of funding Academies in 2012/13?**
- 6. Are there potential advantages and disadvantages in implementing each option that we have not considered?**
- 7. Local authority central spend equivalent grant (LACSEG)**
- 8. Are there changes you think we should consider to the way the Local Authority Central Spend Equivalent Grant LACSEG is calculated for FY2012/13?**
- 9. What factors would you want us to take into consideration if we were to make changes?**

Key Point

11.7 The government are keen to move to a simpler funding system for Academies, before a national school funding formula is created, because DfE are struggling to cope with the current methodology due to the increase in the number of converter Academies. Hence the

DFE's preferred option would be to ensure that per pupil funding amounts are kept level, rolling forward the per pupil budget share figures from the previous year.

## 12 Next Steps

- 12.1 These consultation papers are the first stage in the government's consultation on changes to the schools funding system. As such, DfE have requested comments on the questions asked in these documents by 25 May 2011, rather than to the usual full 12 week consultation period.
- 12.2 A response form for the 'Rationale and Principles' paper can be downloaded here:  
<http://www.education.gov.uk/consultations/downloadableDocs/School%20Funding%20Reform%20-%20Response%20Form%202.doc>
- 12.3 Completed 'Rationale and Principles' questionnaires and other responses should be sent by e-mail to: [schoolfunding.consultation@education.gsi.gov.uk](mailto:schoolfunding.consultation@education.gsi.gov.uk) or, by post to:

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- 12.4 A response form for the 'Academies' consultation paper can be downloaded here:  
<http://www.education.gov.uk/consultations/downloadableDocs/Academies%20Funding%20Response%20Form.doc>
- 12.5 Completed 'Academies' questionnaires and other responses should be sent by e-mail to: [AcademiesFunding.CONULTATION@education.gsi.gov.uk](mailto:AcademiesFunding.CONULTATION@education.gsi.gov.uk) or, by post to:

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**April 2011**