

## Schools Forum

24<sup>th</sup> January 2017

### High Needs National Funding Formula Consultation Response Phase 1 and Phase 2 Consultation

#### Phase 1 Consultation Responses

1. On the 7th March 2016 the Department for Education (DfE) launched the first staged consultation on a national funding formula for high needs. 14 questions were asked covering the following areas:
  - The structure of high needs funding
  - The basic design of a national high needs funding formula
  - The transition to a new distribution of high needs funding
  - Changes to the way that funding for special educational needs (SEN) and disability is distributed to institutions
2. In total there were 1075 responses to phase 1 of the consultation and the following is an overview of the responses on the proposals and the decisions made from them.

#### **The structure of high needs funding**

3. Overall, there was strong support for DfE's proposals for the structure of a new system of high needs funding distribution. In taking forward changes, they proposed 7 underpinning principles – that the funding system should:
  - support opportunity
  - be fair
  - be efficient
  - get funding to the front line
  - be transparent
  - be simple
  - be predictable.
4. 69% agreed with these principles. There was widespread agreement that funding should be distributed in a way that is fair, transparent and predictable. Responses pointed out that there should be a balance between the principles: for example, a system that prioritised simplicity over fairness would not necessarily get funding to where it was needed

5. DfE proposed that the majority of high needs funding should continue to be distributed from central government to local authorities rather than directly to schools and other institutions, as this would align with their statutory responsibilities for children and young people with SEN and disabilities. A large majority (79%) of respondents agreed with this proposal.
6. DfE will continue to distribute high needs funding as part of the dedicated schools grant (DSG) that is allocated to local authorities.
7. Top-up funding will be retained at the local level, based on the specific needs of individual pupils, so that resources are linked directly to the support that institutions will be providing.

### **The Basic Design of the National High Needs Funding Formula**

8. Building on research undertaken by Isos, which looked at how closely a number of proxy indicators correlated with various measures of need, DfE proposed a formula based on:
  - population aged 2-18
  - low attainment
  - health and disability
  - deprivation
  - a basic per-pupil entitlement.
9. A majority of consultation respondents agreed with DfE's proposed formula factors and adjustments. Having considered the responses, they are confirming the factors proposed in the consultation, whilst making some small adjustments to our original proposals in light of the feedback received. Detail on the feedback is provided in Annex A.
10. The national funding formula will comprise the factors and adjustments as proposed, with the addition of a funding floor adjustment. The building blocks of the national formula are shown in the table below.

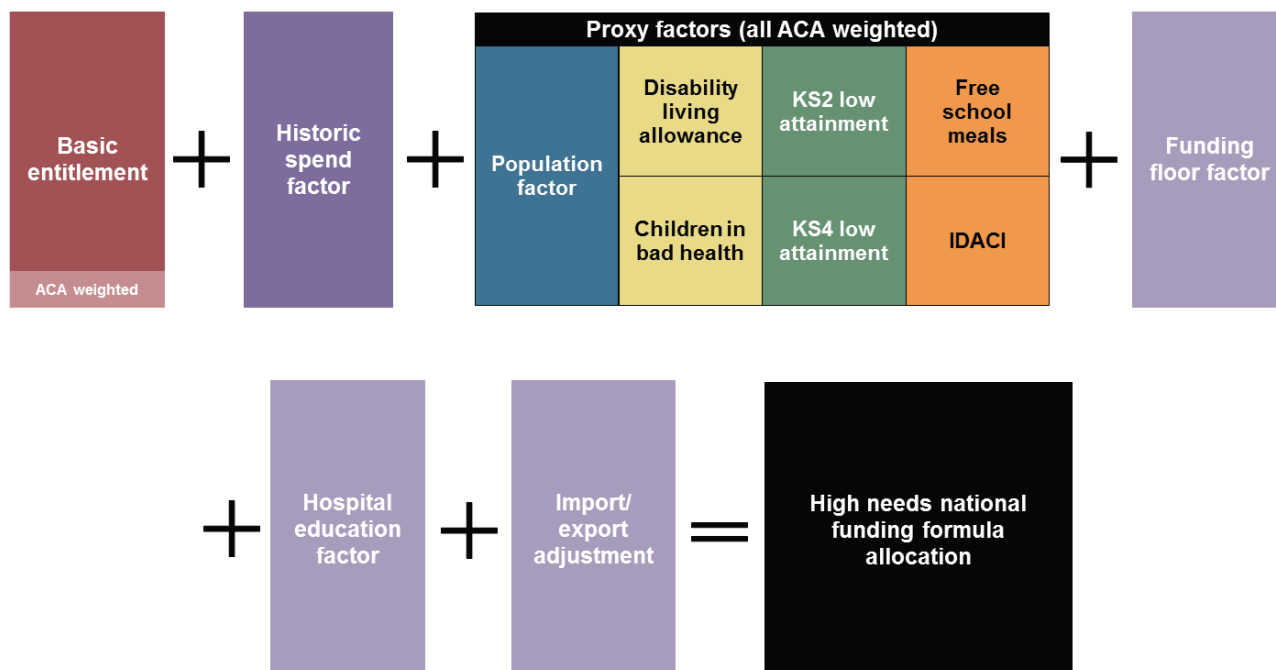
### Formula factors

<b>Basic entitlement: basic unit of funding for pupils and students in specialist SEN institutions</b>	
<b>Population factor</b>	
<b>Health and disability factors:</b>	Disability living allowance
	Children in bad health
<b>Low attainment factors:</b>	Key stage 2 low attainment
	Key stage 4 low attainment
<b>Deprivation factors:</b>	Free school meals
	IDACI
<b>Historic spend factor</b>	

### Other formula factors and adjustments

<b>Area cost adjustments (ACA)</b>
<b>Import/export adjustments</b>
<b>Funding floor factor</b>
<b>Hospital education factor</b>

11. The diagram in the figure below shows the basic steps that will be taken in the formula calculations and how the factors will be applied in the national funding formula.



## Transition to a new Distribution of High Needs Funding

12. DfE proposed to have in the formula an element of funding based on what local authorities are currently spending, as well as a minimum funding guarantee. Most responses were in favour of the former (77%); and (89%).the latter. Overall, the response to the consultation was clear that respondents placed a particularly high value on giving local authorities and schools protections against unmanageable changes to their high needs funding as a result of the introduction of the national funding formula.
13. In recognition of the importance placed on supporting children and young people with high needs, and the responses on this issue received in the consultation, DfE are now proposing a funding floor, such that the national funding formula distribution will not result in any local authority losing funding. This replaces, and offers significantly more protection than their previous proposals for a minimum funding guarantee.

## Changes to the way that Funding for SEN and Disability is Distributed to Institutions

14. DfE sought views and information on a range of issues relating to how the funding for SEN and disability is distributed to individual institutions. There were two specific school proposals. The first was changes to the funding of special units attached to mainstream schools and the second a change to the way that some independent schools receive their funding.
15. From 2018/19 for those units attached to mainstream schools funding will be determined on the basis of the full number of pupils on the roll of the school, including those in the special unit or resources provision. The balance of funding

for this kind of provision will come from the place funding (at £6,000 per place), decided in accordance with the local authority's commissioning decisions, and the top-up funding for individual pupils.

16. There were concerns that the proposed change would disadvantage schools accepting pupils into their units in-year or from other schools. Therefore DfE decided on a change to the original proposal so that places occupied by pupils on the roll at the time of the census are funded at £6,000 per place, but places not filled on the roll at the time of the census are still funded at £10,000.
17. With regards to the way independent schools are funded DfE have decided against their proposal to offer independent schools the option to receive funding direct from EFA at this stage.

### **Phase 2 Consultation Proposals**

18. In phase 2 DfE are now consulting on the relative weightings of each factor and the consultation is being structured around the following;

- the proposed values and weightings for the factors and adjustments in the high needs national funding formula;
- the introduction of a funding floor, such that no local authority will face a reduction in high needs funding as a result of the formula, and
- how they propose to operate some limited local budget flexibility that enables local areas, through an agreement between local authorities and schools, to move some schools funding into high needs budgets

19. DfE initial reference point for introducing a national funding formula is the current funding system. DfE have looked closely at how high needs are funded presently and the choices local authorities have made to arrive at spending patterns. Therefore the incorporation of an historic spend factor in the formula is where each allocation calculation will start.

20. This will be a cash sum derived from local authorities baseline information. DfE are proposing to calculate a cash sum for each authority at 50% of the baseline amount. Basically this means that about half of the total high needs allocations would be allocated according to existing spending patterns.

### **Remaining Funding Formula Factors**

21. Each local authority will receive a basic entitlement through the high needs formula. This element is directed first to local authorities as an initial contribution towards the total cost of the place that we determine in accordance with our commissioning decisions and plans. DfE have considered the level at which the basic entitlement should be set and are proposing that the amount to be distributed through this element of the formula is £4,000 per pupil. Any remaining funding to meet the full

value of the place funding i.e. £10,000 will come through the historic spend factor and other formula factors and adjustments.

22. The remainder of the high needs funding block would be distributed through the remaining formula factors according to weightings. The proposed weightings by each factor are shown below;

- Population – 50%
- Free School Eligibility – 10%
- IDACI – 10%
- Key Stage 2 Low Attainment – 7.5%
- Key Stage 4 Low Attainment – 7.5%
- Children in Bad Health – 7.5%
- Disability Living Allowance – 7.5%

### **Geographical Costs, Cross Border Placements and the Funding Floor**

23. An area cost adjustment is applied to all factors within the formula and an import / export adjustment will also be applied which will be the net difference in pupil numbers multiplied by £6,000 resulting in an increase for the importing authorities and a decrease for the exporting authorities.

24. The final adjustment in the formula is a funding floor such that local authorities that would otherwise lose funding under the other factors are protected. The funding floor will be set so that no local authority sees a reduction, compared to their spending baseline.

25. The additional funding that is being made available in 2018-19 and 2019-20 will be used to make sure that authorities due to gain under the new formula will see an increase. Therefore to remain affordable DfE will allow gains of up to 3% per annum across these periods.

### **Local Funding Flexibility**

26. DfE intend to move to a system in which by 2019-20 mainstream schools will have their funding determined centrally. Local authorities will therefore have a very limited role in deciding what schools receive in respect of their pupils. This is called the 'hard' formula. Because a hard formula would determine the funding for each school the effect is to ring-fence the schools funding block preventing the transfer of that funding in the high needs budget as is now possible.

27. Given this variation in approach and the cost pressures some local authorities face around high needs DfE will be allowing some flexibility to make sure that the funding system is responsive to changes in the balance of mainstream and specialist provision within a local area.

28. Before the hard formula is introduced in 2019-20 DfE have confirmed flexibilities covering the two financial years prior to this period. In 2017/18 there will be no ring-fencing so local authorities will be able to transfer funding between their schools

and high needs budgets. In 2018-19 and subsequent years there will be no restrictions on the transfer of funding between the high needs, central and elements of the early years blocks.

29. Furthermore in 2018-19 DfE are proposing to provide an opportunity for local authorities to transfer funds from the funding that schools are due to receive through the schools formula to high needs. To exercise this flexibility, local authorities would have to get the **agreement of the schools forum**.
30. From 2019-20 DfE are proposing to provide a mechanism whereby schools could agree with their local authority to pool some funding that could then be directed towards schools that need it most for their pupils with SEN. They state that this budget could be created by a small charge on each schools budget to be added to the overall high needs block.

### **Next Steps**

31. The consultation on the national funding formula for high needs and schools will run until 22<sup>nd</sup> March 2017.
32. Officers to draft a response to phase 2 of the consultation.
33. Following these consultations, DfE will finalise the national funding formula for high needs and announce allocations for 2018-19 in the summer.

### **Recommendations**

34. That the Forum notes the contents of this report.

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