

Meeting:	Schools forum
Meeting date:	15 April 2016
Title of report:	Schools national funding formula and high needs funding reform
Report by:	School finance manager

Classification

Open

Key decision

This is not an executive decision.

Wards affected

County-wide.

Purpose

To consider the draft response to the government consultation on the schools national funding formula and high needs funding reform which has been prepared to reflect the joint views of the council and schools forum. The closing date for the submission of the response is Sunday 17th April 2016. No further amendments will be possible after the schools forum meeting. The report does not comment on the White Paper: Educational Excellence Everywhere as it is not included within the consultation.

Recommendation(s)

THAT:

- a) Jointly with the council, schools forum welcomes the introduction of a national school funding formula that will ensure schools and Herefordshire receive fair funding and wishes to see implementation as soon as practicable and no later than the proposed April 2019;**
- b) Within the context of (a) above agrees or amends the detailed responses to the questions 1-25 as set out in the DfE's schools national funding formula consultation paper;**
- c) Within the context of (a) above agrees or amends the detailed responses to the questions 1-14 as set out in the DfE's high needs funding formula and other reforms consultation paper; and**

d) **The joint response be submitted by the 17 April 2016 closing date.**

Alternative options

- 1 The alternative is not to support the introduction of the national schools funding formula and high needs funding reform. Given the long standing low funding of Herefordshire schools and the longstanding involvement of the Council in lobbying for change, this is regarded as untenable. Constructive comments that may further improve future funding for Herefordshire schools are set out in the proposed responses to the consultation papers.

Reasons for recommendations

- 2 Both Herefordshire council and schools forum have supported the introduction of a national schools funding formula for many years and the council has, with school forum's support, been a long standing member of the f40 campaign group, actively lobbying government on behalf of the forty lowest funded local authorities. For many years Herefordshire was the third lowest funded authority nationally although this has improved in recent years. Herefordshire schools are expected to gain from a new national formula by an estimated 4% over time. If the government fails to implement these national funding proposals it will be a missed opportunity that is unlikely to be revisited within a generation of school children.

Key considerations

3. On 7 March the Department for Education (DfE) published lengthy consultations on Schools national funding formula and High needs funding formula and other reforms. Summaries, as helpfully prepared by the Society of County Treasurers, are set out below for both consultation papers.
4. Suggested responses to the consultations are set out in Appendix 1 (Schools national funding formula) and Appendix 2 (High needs funding formula and other reforms).

Schools national funding formula – Summary

Background

5. The consultation's foreword by Sam Gyimah MP, the Parliamentary under Secretary of State for Department for Education, gives the reasons for this review. It highlights the additional £300m for Early Years as well as the real terms protection to the national schools and high needs budgets but goes on to say that the '...system we have for distributing funding to schools is holding us back. It is out of date, arbitrary and unfair. Schools receive very different levels of funding, often for no good reason. There is no level playing field: it matters where you live.'
6. The consultation has been broken into two stages. The first (this one) looks at the principles which should underpin a fair funding formula, before the second stage will set out the formulae and illustrate the impact on schools. There will be an additional consultation later this year to produce a national funding formula for Early Years.
7. The pupil premium grant is unaffected by these reforms.

The Principles

8. The consultation document contains the 7 principles which the DfE say underpin their proposals:

1. **A funding system that supports opportunity** – reliable and robust data about pupil characteristics should determine the resources available to their school.
2. **A funding system that is fair** – variations in funding should be due to differences in pupil characteristics and circumstances, not historic allocations.
3. **A funding system that is efficient** – at the moment some schools are underfunded relative to others. Fairer funding makes it easier for head teachers, governors, multi academy trusts (MATs) and local authorities to compare spending and outcomes.
4. **A funding system that gets funding straight to schools**
5. **A funding system that is transparent** – a single national funding formula will mean schools know the funding they are going to receive and how likely it is to change over time.
6. **A funding system that is simple** – the new formula will aim to achieve the right balance between simplicity and responsiveness to changing needs.
7. **A funding system that is predictable** – introduced at a ‘pace of change that is manageable’ and giving schools and local authorities sufficient notice so that they can plan for changes.

Question 1: Do you agree with our proposed principles for the funding system?

Creating a Fourth Block

9. Currently Dedicated Schools Grant (DSG – the main grant that government gives to local authorities for education provision in their area) is split into three blocks: schools, high needs and early years.
10. The first change would be to create a fourth block called the ‘central schools block’ for central school services, historic LA spending commitments of schools and the retained rate of Education Services Grant (ESG).

Reforming the Schools Block

11. The consultation proposes a school-level funding formula (the ‘hard’ national funding formula) for use from 2019-20. The result would be that the vast majority of funding each pupil attracts to their school would be determined nationally, not locally. This move to hard funding (and the corresponding removal of the requirement for local authorities to set local formula) would require a change to the School Standards and Framework Act (1998).
12. In 2017-18 and 2018-19 DfE would continue to allocate the schools block to local authorities, aggregating the budgets of the schools within each authority (each calculated according to the national funding formula) to create authorities’ schools block. This is referred to as the ‘soft’ national funding formula. The local formula would be used to allocate the funding to local schools as well as academies. The DfE are not planning on making any significant changes to the factors that are currently allowable in local formula in 2017-18.

Question 2: Do you agree with our proposal to move to a school-level national funding formula in 2019-20, removing the requirements for local authorities to set a local formula?

13. From 2017-18 onwards, local authorities will be required to pass on their entire schools block funding to schools. Current arrangements allow the total DSG to be split across the three blocks (schools, high needs and early years) as the schools forum sees fit. It is this flexibility that led to odd results when the DfE attempted to

partially address the unfair funding of schools in 2014 with an additional £350m of funding.

The Schools National Funding Formula (NFF)

14. The construction of the NFF has been split into 'building blocks' and 'factors'. The building blocks represent the major types of costs schools face:
 - Per-pupil costs;
 - Additional needs – based on pupil characteristics. This will not need to be pass-ported in individual schools and will be left to the discretion of school leaders;
 - School costs – currently a lump sum to contribute towards the fixed costs but schools also receive additional funding for very small pupil numbers, specific costs (e.g. PFI) and additional classrooms when pupil numbers are growing; and
 - Geographic costs – an Area Cost Adjustment

15. Since 2013-14 local authorities have been limited in the factors they can use in their local formula. As you would expect, not all local factors are used in all local authorities.

16. The current allowed factors are:
 1. Per-Pupil (mandatory) – a basic unit of funding for every pupil weighted by age
 2. Deprivation (mandatory) – Free School Meals entitlement and/or IDACI (low income measure)
 3. Low Prior Attainment
 4. English as an Additional Language (EAL)
 5. Looked-after Children (LAC)
 6. Mobility
 7. Lump sum
 8. Sparsity
 9. Other school costs – PFI, Rates, Split sites, Post 16 and exceptional circumstances.
 10. Area Cost Adjustment (ACA)

17. These 10 factors are the starting point for the new formula, but DfE want to use the minimum number of factors relating to pupil and school characteristics in order to be 'clear and understandable'. Therefore the factors that make it into the formula should:
 - be linked to significant costs (not necessarily for all schools),
 - make a significant difference to the distribution of funding,
 - be based on accurate school-level data,
 - contain no perverse incentives for schools and
 - be tied to pupil characteristics where possible.

18. DfE are proposing excluding "looked-after children", "mobility" and "post 16" other costs. The following graphic visually shows the way the proposed formula would be constructed.

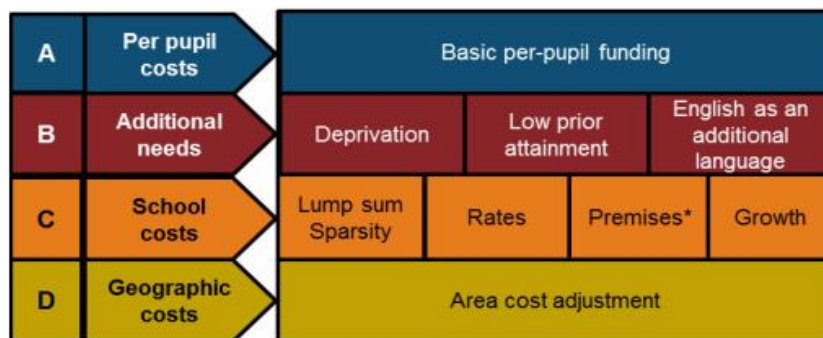


Figure 2: The proposed building blocks and factors of the schools national funding formula

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

Building Block A: Per pupil costs

- Factor 1: Basic per-pupil funding

19. The DfE are proposing three different year groupings for a basic amount:
- Basic funding for each primary pupil (Key stage 1 and 2)
 - Basic funding for each key stage 3 pupil
 - Basic funding for each key stage 4 pupil

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

Building Block B: Additional needs

20. The consultation states that that “pupils with additional needs can particularly benefit from additional teaching, specialist intervention or materials, extra pastoral support, involvement in multi-agency working and many other types of support from their school”. The consultation acknowledges that it will never perfectly match funding to each child’s needs, it simply aims to direct funding to areas where there is likely to be additional needs. School leaders will still be free to spend their funding allocation as they see fit.

- Factor 2: socio-economic deprivation

21. The consultation paper says that deprivation acts as a proxy for a range of barriers including low parental education, low aspirations and special educational needs. Schools will still be receiving a separate grant for Pupil Premium – in order to close the attainment gap between deprived pupils (FSM eligibility) and their peers. The consultation proposes using the Ever6 FSM measure (the child was eligible for free school meals in the last 6 years) for the pupil-level deprivation indicator.
22. DfE want to combine the pupil-level data with an area-based deprivation measure. They propose using the IDACI measure which measures the proportion of children in an area living in income-deprived families, and uses Lower Super Output Areas – an area covering approximately 1,500 residents with varying geographical sizes. However, the paper recognises that updated data and therefore updated bandings could increase turbulence in allocations.

Question 4a): Do you agree that we should include a deprivation factor?

Question b): Which measures for the deprivation factor do you support?

- Pupil-level only (currently FSM and Ever6 FSM)
- Area-level only (IDACI)
- Pupil and area-level

- Factor 3: Low Prior Attainment

23. This factor is being proposed because DfE believe it is important for a national funding formula to adjust schools' funding in response to the attainment characteristics of their pupils. Currently primary school low prior attainment is determined by whether pupils failed to meet the expected level of development in the Early Years Foundation Stage Profile (EYFSP). For secondary schools the measure is the attainment at the end of key stage 2. A significant number of LAs currently use both measures in their local formula.

Question 5: Do you agree we should include a low prior attainment factor?

- Factor 4: English as an additional language (EAL)

24. In 2015-16, 132 of the 152 LAs chose to use EAL but as with previous factors, local formula values varied significantly. EAL funding is determined on the basis of census data and as such, it is not a precise measure of language proficiency at pupil-level. EAL does not necessarily indicate a lack of proficiency in English. DfE are looking at whether there is scope to target funding more effectively by gathering and utilising data on the English language proficiency of EAL pupils. They believe that there is a strong case for including EAL as it increases costs for schools and they propose to use EAL3 (pupils registered as EAL at any point during the last 3 years) indicator.

Question 6a): Do you agree that we should include a factor for English as an additional language? Question 6b): Do you agree that we should use the EAL3 indicator (pupils registered at any point during the last three years as having English as an additional language)?

Building Block C: School costs

25. There are currently no mandatory school cost factors but all LAs used at least 2 school cost factors in 2015-16. The consultation has split these costs into two groups:
- Costs which should form part of the national funding formula – Factors 5-6.
 - Costs which cannot easily be allocated on a formulaic basis (proposing to allocate on a local authority basis of historic spend in 2017-18 and 2018-19) – Factors 7-11.

- Factor 5: Lump sum

26. The consultation proposes that every school should receive a lump sum, mainly to protect very small schools. Currently LAs have some freedom to decide the value of lump sums. The consultation paper says that DfE have tried to find a pattern in the size of lump sums and are unable to.

Question 7: Do you agree that we should include a lump sum factor?

Factor 6: Sparsity

27. DfE propose retaining the 'sparsity' factor which can be used to support small schools without which pupils would have to travel a long way to their nearest appropriate school. Such schools can rely more heavily on a source of funding that does not vary. Currently, LAs can choose to apply a fixed sparsity sum or to taper the amount relative to school size. To protect schools from significant funding changes each year, DfE propose tapering the amount. Current arrangements for requesting changes to the distance criteria are expected to continue in 2017-18 and 2018-19.

Question 8: Do you agree that we should include a sparsity factor?

Other school cost factors (Factors 7-11)

28. Some factors depend on very specific information about a school. DfE know little about the basis of allocations for these factors and therefore plan to allocate funding to LAs on the basis of historic spend in 2017-18 and 2018-19. They (while recognising the complexities involved) would like to explore whether this funding could be distributed on a formulaic basis from 2019-20.

Factor 7: Business rates

29. All schools pay business rates, based on their eligibility for charitable relief and their premises' rateable values. LAs currently fund schools to meet these costs based on the actual charge and the consultation proposes that this continues.

Question 9: Do you agree that we should include a business rates factor?

- Factor 8: Split sites

In many LAs, schools with more than one site are compensated for the extra costs incurred.

Question 10: Do you agree that we should include a split sites factor?

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Factor 9: Private finance initiative (PFI)

30. Schools rebuilt under building schools for the future and PFI schemes are tied into long contractual arrangements through the LA, affecting basic school running costs. Each school in each LA has a different arrangement for meeting these costs and so DfE want to look on a scheme-by-scheme basis at the interaction at school level between the national funding formula and top-up funding for said costs.

Question 11: Do you agree that we should include a private finance initiative factor?

- Factor 10: Exceptional premises circumstances

31. Exceptional circumstances are only approved by the Education Funding Agency (EFA) if the amount is more than 1% of the school's funding and it affects less than 5% of schools in the local authority. The EFA would continue to approve new cases in 2017-18 and 2018-19. The extra funding required for these exceptional circumstances may change as the national funding formula begins and DfE will consider this interaction.

Question 12: Do you agree that we should include an exceptional circumstances factor?

Question 13: Do you agree that we should allocate funding to local authorities in 2017-18 and 2018-19 based on historic spend of these factors?

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

- **Factor 11: Growth**

32. The funding system needs to be able to respond to significant in-year pupil growth, which is not recognised by the lagged funding system. Currently growth is dealt with in two different ways: a) the LA top-slices DSG to create a growth fund or b) pupil numbers are adjusted before being used in the funding calculation. Both of these require agreement with the individual schools and the EFA. Additionally a much smaller budget is often retained to fund a good or outstanding school with temporary falling rolls.
33. In 2017-18 and 2018-19, the consultation proposes that LAs would receive the total of the previous year's spending on these three allocations thus removing the need for LAs to top-slice their schools block to fund growth. DfE recognise however that this assumes future growth follows the same pattern as historic growth. From 2019-20 they would like to target funding in a way that better reflects growth, taking into account the interaction with basic need and estimates of growth in individual schools

Question 14: Do you agree that we should include a growth factor?

Question 15: Do you agree that we should allocate funding for growth to local authorities in 2017-18 and 2018-19 based on historic spend?

Building Block D: Geographic costs

- **Factor 12: Area cost adjustment (ACA)**

34. Schools spend over 80% of their budgets on staffing and so DfE believe the national funding formula should use an area cost adjustment to reflect variation in labour market costs. The ACA, which would act as a multiplier, would not apply to the factors that DfE are proposing to allocate on the basis of historic spend – rates, premises factors and growth. They propose two different methodologies, the general labour market (GLM) methodology and the hybrid methodology.
35. The GLM methodology uses a GLM measure to reflect differences in labour costs between different areas.
36. The hybrid methodology consists of two elements:
- Teachers' pay costs - notional averages are calculated for four regional pay bands (inner London, outer London, the fringe and the rest of England) by converting the pay of every teacher across the country to the corresponding rates in each band. The notional averages for inner London, outer London and the fringe are then compared with the notional average for the rest of England and adjusted accordingly.
 - Non-teaching staff costs - based upon DCLG's labour cost adjustment, which is a general labour market measure used to allocate funds to local authorities.

- 37 Each element is then weighted according to the total school funding spent on employing teachers and non-teaching staff, reflecting that teacher pay costs are by far the biggest element of a school's spending. The hybrid area cost both reflects that the costs of teachers are lower in higher cost areas than the GLM indices would suggest and mitigates against the fact that some local authorities were better funded.

Question 16a: Do you agree that we should include an area cost adjustment?

Question 16b: Which methodology for the area cost adjustment do you support? a) General Labour Market methodology or b) Hybrid methodology

Factors currently allowed in LA' formulae that DfE do not propose to include in the NFF

- 38 Of the 14 factors that LAs can currently include, three are excluded from the NFF proposal. The Isos Partnership suggested adding a factor based on pupils' Disability Living Allowance status but this has also been excluded. Additionally, DfE propose removing the Post-16 factor.

Looked-after children and children who have left care

- 39 Because of the small proportion of the school population who are looked-after children (0.8%), this would be a relatively small element of a school's overall funding. Given the particularly poor outcomes of looked-after children it is proposed that funding allocated to support this group should be visible and linked to clear accountability requirements. DfE therefore believe that the NFF would not be the most effective route and have proposed using the 'pupil premium plus'.
40. The pupil premium plus is additional funding for schools to support children and those who have left care through certain defined routes (adoption order, special guardianship order, child arrangements order). It is currently allocated directly to schools based on census data. Schools receive this separately to their DSG funding. The funding for looked-after children is managed by the virtual school head (VSH) in the authority that looks after them. DfE believe the funding system should treat both children in care and those who have left care equally and are therefore proposing to increase the pupil premium plus rates for both groups instead of including a looked-after children factor in the national funding formula.

Question 17: Do you agree that we should target support for looked-after children and those who have left care via adoption, special guardianship or a care arrangements order through the pupil premium plus, rather than include a looked-after children factor in the national funding formula?

Mobility

- 41 Currently, LAs can include a mobility factor to support schools with over 10% of their pupils entering outside the normal times of year. Since mobile pupils are more likely than other pupils to have at least one of the characteristics that are covered by the additional needs factors and because of the prioritisation of formula factors that are based directly on pupil characteristics (as well as concerns about the underlying data), DfE propose to not include a mobility factor in the NFF.

Question 18: Do you agree that we should not include a factor for mobility?

Post-16

- 42 Since post-16 pupils are funded directly through the post-16 funding formula, DfE want to move to a position where there is no DSG funding for them. They propose the

removal of this factor from 2017-18. In 2015-16 £16m was allocated through this factor of which £13.5m went to schools with pre-16 pupils. It is proposed that this £13.5m should be included in the schools' baselines whilst the funding works its way out. DfE are looking at options for phasing out the £2.5m allocated to sixth form only schools.

Question 19: *Do you agree that we should remove the post-16 factor from 2017-18?*

Disability

- 43 The Isos Partnership suggested the exploration of a new disability factor. DfE therefore looked carefully at the data. However, they concluded that it is not sensible or feasible to include a DLA factor in the formula. DfE said the published DLA data lacks sufficient detail to be used as a characteristic for individual pupils and would not allow them to create an accurate area factor. As the high needs funding formula and other reforms consultation explains, local authorities would still have flexibility to provide extra funds from their high needs budget in cases where there are disproportionate numbers of pupils with SEN and disabilities.

Next steps: constructing the national funding formula for schools

44. During the next stage of consultation, DfE will set out proposals for the relative weighting of the NFF and show the impact on funding at school and LA level. The formula weightings will be guided by the seven principles given at the start of this consultation. Complex design decisions ahead include the ratio in funding between primary and secondary phases, the balance between the basic level of funding for all pupils and funding for additional needs, and the extent to which funding should be driven by pupil characteristics rather than on a per-school basis.

Chapter 3: Transition to a reformed funding system

- 45 The transition to a reformed funding system has been split into three major aspects.
1. The role of LAs in the transitional period
 2. The approach to phasing in gains and losses for schools over time
 3. Supporting schools to become more efficient

A transitional period

- 46 For the first 2 years of the formula – 2017-18 and 2018-19 – DfE would allocate schools block funding at local authority level, according to the national formula in order to meet their principle of predictability. Funding for academies would also be determined by reference to the local formula. The post-16 factor will be the only factor removed in 2017-18. They plan to take local decisions made in these two years into account in refining the formula each year.

The soft formula system: how local authority funding is calculated

- 47 DfE plan to use the pattern of what authorities are actually spending as the starting point, rather than how the government funds the blocks. The consultation gave their plan to ask LAs to set out their 2016-17 baselines across the four blocks of the DSG, aligning each block with the LA's specific spending.
- 48 The schools block, the amount that each authority receives in 2017-18 and 2018-19 would be calculated by running a 'shadow' school level formula and applying the minimum funding guarantee (MFG) and cap on gains. The notional funding for each

school in an authority (including an area cost adjustment) would then be added to the funding from factors based on previous year spending (premise factors and growth).

The soft formula system: how school funding is calculated

49 Through the transition period, the local authority would continue to be responsible for allocating its schools block to schools through a local formula, as now. In addition to the removal of the post-16 factor, DfE are proposing two further changes for 2017-18 and 2018-19.

1. To require LAs to pass all schools block funding to schools.
2. To allow authorities greater flexibility in setting an MFG that reflects local circumstances.

50 LAs are currently able to divide their total DSG funding across the DSG blocks as they see fit but in moving towards a NFF DfE say that this flexibility should become less important due to the better allocation according to need. They do recognise though that for some LAs this removes one way of dealing with pressures on the other blocks, particularly high needs. So the parallel high needs funding formula and other reforms consultation sets out a number of ways in which LAs can shape special needs provision in their area. They are also making available capital funding to help with the infrastructure changes and have said that LAs would be able to use previously accumulated reserves across all 4 blocks of the DSG.

Question 20: Do you agree with our proposal to require local authorities to distribute all of their schools block allocation to schools from 2017-18?

51 For LAs receiving less school funding in 2017-18 than in 2016-17, setting a local formula that complies with current regulations and guidance will be harder. DfE recognise too, that there may still be specific local circumstances that authorities and schools forums want to reflect, requiring more flexibility. They are therefore consulting whether to allow LAs to set a local MFG lower than the one the government has used to calculate schools' notional funding. The limit of this would be covered in stage two of this consultation.

Question 21: Do you believe that it would be helpful for local areas to have flexibility to set a local minimum funding guarantee?

Schools forums and de-delegation

52 DfE do not intend to make changes to the make-up or functions of the schools forums until the introduction of the 'hard formula' before which they will carry out a review of the forums from first principles. Also in 2019-20 DfE plan to withdraw the current de-delegation arrangements so that the responsibility for services that can currently be de-delegated will rest with individual maintained schools. If LAs wished to continue to provide these services to schools they would do so as a traded service, giving individual schools the choice. The removal of de-delegation for these existing school traded services e.g. free schools meals assessment and IT licences is not the same as the top-slice funding proposal for local authority statutory duties as set out in paragraph 69 onwards.

Phasing in gains and losses over time

53 So that schools have time to adapt, the length of time it takes to get to a position where all schools are funded according to the formula should not be fixed arbitrarily, but should instead be determined by what is manageable for schools. Schools are

protected against large changes to their funding through the MFG which is paid for by capping/scaling other school's gains. DfE are looking to adapt this to fit the change in structure and in 2017-18 and 2018-19 they will calculate school's funding including a national MFG and cap before aggregating to a local authority level. Again, LAs in conjunction with schools forum, can then use their own local MFGs and caps/scales to distribute their schools' funding.

Cap on gains

- 54 Setting the national MFG at a level that the schools that are due to lose funding can manage has to be balanced against the need of schools that are due to gain. DfE are considering two ways to distribute funding to gainers:
1. A single percentage cap on the gains of all schools.
 2. Have a lower cap and then distribute the remaining funding to those that have the most to gain before they reach their formula allocation.
- 55 DfE are currently leaning towards option 1 as it allows the maximum number of schools to reach their formula allocation in each year. This meets their objectives of getting to a fair funding system as quickly as possible and of principles 5-7 – transparent, simple and predictable.

Support for school efficiency

- 56 DfE want all schools to benefit from being able to compare themselves with other schools and being able to contact those schools to ensure value for money for every pound spent. In the run up to the introduction of the NFF they will continue to support schools to become financially healthier and more efficient. They will also launch an 'invest to save' fund in 2016-17, helping them manage the transition to the national formula. Schools will be free to decide how best to use this funding.

Chapter 4: Funding that will remain with local authorities

- 57 The role of LAs in supporting the provision of excellent education for all children of compulsory school age is to ensure that every child has a school place and ensuring fair access through admissions and transport arrangements. They also have a responsibility to champion high standards and ensuring safeguarding and other needs of vulnerable children are met. In addition they have a key role in shaping school provision in their area, and to encourage an increasing number of academies. DfE will continue to provide funding to LAs for these functions on an ongoing basis.
- 58 LAs currently receive funding from the government for their responsibilities from two different funding streams – DSG funding that is held centrally by the LA, and the retained duties element of the education services grant (ESG). DfE are proposing to bring these two funding streams together into a new central schools block, distributed on a simple formulaic basis.
- 59 In addition to the responsibilities that would be funded through the central schools block, LAs hold other responsibilities in respect of education. The consultation paper states that these will need to be funded from other sources, but beyond the top-slice proposals set out from paragraph 69 onwards, it is not clear exactly where the extra funding will come from.

Funding for ongoing local authority functions

- 60 DfE propose to distribute funding to local authorities for their ongoing functions using a simple per pupil formula. The per-pupil rate would be derived from the centrally retained DSG and the retained duties element of the ESG. ESG is already funded according to a 'per pupil rate' but DSG is currently not allocated on a formulaic basis. The schools forum decides how much DSG funding should be held centrally for some ongoing local authority functions.

Funding for historic commitments

61. Centrally retained DSG is also currently used to fund a number of historic commitments. DfE believe that funding for these commitments should be provided from the LA's core budget and that with a national funding formula, it is no longer appropriate to top-slice school budgets for these functions: if schools value a service they will be able to buy it from their delegated budgets. Spending on such commitments is only currently allowed where they were entered into before April 2013, and the expectation is that these costs would unwind over time. The department proposes to only allocate funding for historic commitments where they have evidence that they were entered into before 2013, and that there is an ongoing cost.

Transition

- 62 It is important that the move towards the formulaic central schools block distribution is at a manageable pace (LA planned expenditure varies from £6 to £83 per pupil). As funding is released from this block at a national level, due to completed historic commitments, it would be reinvested in the schools NFF. Some areas will receive a larger central schools block than they retain currently. A transparent and fair discussion with the schools forum to decide how to distribute any surplus funding is expected.

Question 22: Do you agree that we should fund local authorities' ongoing responsibilities as set out in the consultation according to a per-pupil formula?
Question 23: Do you agree that we should fund local authorities' ongoing historic commitments based on case-specific information to be collected from local authorities?

Chapter 5: The future of the Education Services Grant

- 63 The Education Services Grant (ESG) was introduced in 2013 and is paid to LAs and academies according to 2 national per pupil rates. The general funding rate (£77 per pupil in 2016-17) is paid to both academies and LAs to fund duties that academies are responsible for delivering for their pupils, and that LAs deliver for maintained school pupils. The retained duties rate (£15 per pupil in 2016-17) is paid only to LAs, to fund the duties that they deliver for all pupils. This chapter sets out DfE's plans to remove the remaining general funding rate from 2017-18 to achieve £600m savings.

Efficiency savings

- 64 The new general funding rate is based on the assumption that all LAs could reduce their spending to the median level of per pupil planned expenditure as reported by LAs in 2015-16, and that academies can spend at the same level. DfE has announced a £72m saving which they believe will be achieved by making manageable efficiencies.

Reform of school improvement arrangements

- 65 DfE expect LAs to step back from running school improvement from the end of 2016-17. They will review the statutory responsibilities that currently apply to LAs so that funding and accountability are aligned. They expect to provide LAs and schools with funding through the ESG in the period before the transition to the new approach. The transition period, identified as April to September 2017, would seem impractically short.

Removal of duties

- 66 LA's education functions, for children of compulsory school age, will focus on 3 main areas:
1. Securing that sufficient school places are available, ensuring fair access through admissions and working with schools to develop local transport policies, and taking a lead in crisis management and emergency planning.
 2. Ensuring the needs of vulnerable pupils are met.
 3. Acting as champions for all parents and families: ensuring children do not fall through the gaps
67. Removal of duties that are not consistent with this role may reduce financial pressures on LAs and schools, and therefore help them to manage with reduced funding. DfE have identified a small number of duties that they think could be removed. They are very interested to have suggestions for additional duties that could be removed or reformed.
- 68 The general funding rate notionally includes an amount to fund some non-statutory central support services. DfE recognise that authorities and academies may wish to continue to provide these services from existing budgets once the general funding rate has been removed, and they will be free to do so. They are currently reviewing whether LAs should continue to have a role in the oversight of school companies.

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

- 69 To pay for education services, DfE propose amending regulations to allow LAs to retain some of their maintained schools' DSG to cover the statutory duties that they carry out for maintained schools. The level of the DSG to be retained would need to be agreed by the maintained schools members of the schools forum. As no new money is being made available, the proposed arrangement for LAs would result in an effective reduction to locally maintained school budgets, which would be equivalent to the arrangement for academies, who are also losing their share of the ESG.

Transitional Arrangements

- 70 Academies are protected from large reductions to their funding as a result of changes to their ESG. This protection is set in tapered bands. 3% is the maximum loss of funding as a result of changes in the ESG for academies. For those with a total allocation between the previous two year's ESG rates (£87 and £140 respectively) the loss is protected at 2% of total funding. For those with a total allocation at or below the previous year's rate the protection is 1%. DfE propose to continue to provide protection using this methodology for the remainder of the spending review period but to unwind this by 2020.

- 71 DfE expect that LAs will use the 2016-17 financial year to plan for reforming their services, alongside the manageable efficiencies that they will need to make in that year. To maximise the time that LAs have to plan, they propose to pay a reduced ESG general funding rate for the first 5 months of the 2017-18 financial year. This would act as a counterpart to the ESG funding that academies will receive from April 2017 to August 2017, as academies are funded on an academic year basis. The general funding rate would then be removed completely for both academies and maintained schools from September 2017 (subject to the protection arrangement for academies). It appears that the DfE does not intend to apply any similar protection to locally maintained schools.
- 72 They also expect that LAs will use some of the transitional ESG to support their remaining role in school improvement. This funding will be removed as local authority duties change.

Question 24: Are there other duties funded from the education services grant that could be removed from the system?

Questions 25: Do you agree with our proposal to allow local authorities to retain some of their maintained schools' DSG centrally – in agreement with the maintained schools in the schools forum – to fund the duties they carry out for maintained schools?

High needs funding formula and other reforms – Summary

- 73 The 'High needs funding formula and other reforms Government consultation – stage one', seeks views on proposed improvements to the distribution of high needs funding moving away from an "outdated funding distribution that is based on historic spending patterns, towards a fairer distribution more aligned to the needs of children and young people."
- 74 Any distributional changes will be phased in "to limit the scope for disruption". Additional capital funding will also be available "help local authorities invest in the right infrastructure."
- 75 The consultation also details possible improvements to the administration of funding for pupils and students with special educational needs (SEN) and disabilities, and for those who are in alternative provision (AP).
- 76 This consultation forms stage 1 of the consultation process covering high level proposals and options. Stage 2 will consult on the detail of the arrangement i.e. proposed factor weightings, exemplifying the effect on authorities including transitional arrangements.

High Needs Funding

- 77 High needs funding supports 0-25 year olds with SEN and disabilities. It also supports those of school age who are not in school because they are excluded or otherwise unable to attend. Alternative provision (AP) for such children and young people includes pupil referral units and hospital schools. More specifically:
- children aged 0 to 5 with SEN and disabilities, whom the local authority decides to support from its high needs budget. Some of these children may have EHC plans;
 - pupils aged 5 to 18 with high levels of SEN in schools and academies, FE colleges, special post-16 institutions or other settings which receive top-up

funding from the high needs budget. Most, but not all, of these pupils have either statements of SEN or EHC plans;

- those aged 19 to 25 in FE and special post-16 institutions, who have an EHC plan and require additional support costing over £6,000;
- pupils aged 5 to 16 placed in AP by local authorities or schools

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

Current Distribution

79 High needs funding is allocated to local authorities as part of the Dedicated Schools Grant (DSG) along with schools and early years funding. Allocations are based on authorities past spending patterns, with some adjustments to take into account the expanded 0-25 age range and to reflect other funding changes introduced in 2013.

80 Local authorities are free to redistribute their DSG allocations between the schools, high needs and early years blocks. The latest expenditure data reveals that the majority of high needs funding is allocated for children and young people with SEN and disabilities.

Case for change

81 The previous coalition government acknowledged that changes to the distribution of high needs funding were required, and commissioned research by Isos Partnership ("Isos") to provide a "better evidence base". The research and analysis showed that the current funding distribution between LAs did not correlate well with various measures of need.

82 Isos made the following recommendations on how the SEN funding system might be improved.

- a more formulaic approach to distributing high needs funding from national to local level;
- better communications on Government expectations; *and*
- proposals to enable better decision making by frontline professionals, both those in LAs responsible for commissioning SEN provision and those in schools and colleges who need to plan how to make the provision for their children and young people with SEN.

83 The current Government has concluded that the current funding distribution is not fair to children and young people with high needs across the country, because it directs money to the LAs with the highest historic spending, not the highest current needs. They are therefore consulting on this alongside improvements to the funding arrangements and guidance to help local authorities, early years providers, mainstream schools, colleges and other institutions with students aged 16-25 who have SEN and disabilities.

Consultation Proposals/Questions

84 The Government believes that the proposed funding system should meet the following 7 principles:

1. Support LAs and institutions in **extending opportunities** for all children and young people

2. Allocate funding “**fairly**” on the basis of objective measures or factors which drive costs, or act as appropriate proxy indicators for the need to spend.
3. Support provision that delivers the best outcomes and in the most **efficient** way
4. Get funding to the **front line**
5. Provide **transparency** in the way that funding is allocated, at each level
6. **Simplify** by combining funding streams as far as possible, and formulae but not at the expense of accuracy
7. Be **predictable** with a smooth transition to new funding levels

Q1: Do you agree with our proposed principles for the funding system?

- 85 The statutory EHC assessment process is designed to bring teachers, SEN co-ordinators (SENCOs), educational psychologists and other professionals together with parents, so that EHC plans can be produced, specifying the outcomes that are sought for each individual child, based on their individual needs and characteristics. LAs are responsible both for assessing individuals’ SEN and for commissioning provision to meet those needs.

Q2: Do you agree that the majority of high needs funding should be distributed to local authorities rather than directly to schools and other institutions?

- 86 The government believes that linking high needs funding directly to EHC plans would result in a perverse incentive and hinder LAs current flexibilities to be able to provide high needs funding without going through the statutory assessment process (for example to meet urgent need). The Government therefore propose a high needs formula that is based on proxy measures of need, not the assessed needs of individual children and young people.

Q3: Do you agree that the high needs formula should be based on proxy measures of need, not the assessed needs of children and young people?

87. Isos suggested a national to local authority formula composed of factors relating to health, disability, low attainment and deprivation. They suggested that this would be easier to understand and implement, and could be updated as population and demographics changed.
88. Isos reported that alternative indicators could be considered without compromising the strength of the correlation. The Government has looked at whether these alternatives could also address the movement of pupils and students with high needs who live in one area, but attend school or college in another, as well as how geographical cost differences should be taken into account. They have also made specific formula proposals for the elements of high needs funding that cover AP.
89. The Government is proposing a variant of the 5 indicator formula summarised in the table below

HIGH NEEDS FUNDING FORMULA

Basic unit of funding for pupils and students in specialist SEN institutions	
Population factor	
Health and disability factors	Disability living allowance
	Children in bad health
Low attainment factors:	Key stage 2 low attainment
	Key stage 4 low attainment

Deprivation factors:	Free schools meals
	IDACI
2016-17 spending level factor	

Health and Disability

90. Isos suggested using “children not in good health” population census data and disability living allowance (DLA) data as indicators of health and disability. Their research found that these added more within a combined group of 5 low attainment, health and disability and deprivation indicators than other alternatives such as low birth weight data.

Low attainment

91. Reflecting that there is a strong correlation between some forms of SEN and low attainment; Isos proposed using a key stage 4 indicator – the number of pupils not achieving 5 A*-C grades at GCSE. They argued that using two attainment indicators, at the end of key stage 2 and 4, did not add much to the formula. However, as the datasets for these indicators are readily available and regularly updated, DfE think that it would be more understandable to use both primary and secondary indicators.
92. DfE propose to use pupils not achieving level 2 in reading at the end of key stage 2 (the skill that is most likely to hold children back from attainment in other areas such as writing or maths) and pupils not achieving 5 A*-G GCSEs at key stage 4, or equivalent standards as changes are made. The precise low attainment data that will be available, and the level which would trigger additional funding, will change as reforms to accountability and assessment policy take effect.

Deprivation

93. Isos proposed using eligibility for free school meals (FSM) as an indicator of deprivation. It is currently used in local schools funding formulae and in the allocation of pupil premium grant. The latest published statistics indicate that pupils with high level SEN are twice as likely to be eligible for (and claiming) FSM as other pupils.
94. Isos also suggested using the children in poverty indicator, Income Deprivation Affecting Children Index (IDACI) measure, which is also used in local schools formulae. However, at the time of their research, this was still based on 2010 data. This has now been updated.
95. The Government is proposing to use the two deprivation measures. This aligns with the deprivation factors being proposed for the schools national funding formula.
96. DfE consider the Ever6 FSM measure (identifying all pupils who have been eligible for FSM at any time in the last 6 years) to be the most appropriate pupil-led measure of deprivation for a school level distribution formula. As the high needs formula would use FSM data to reflect the overall characteristics of an area rather than an individual school, and given the strong correlation between Ever6 FSM and the latest FSM data at area level⁸, it would be simpler for a local authority level distribution to be based only on the cohort of pupils eligible for FSM at the time of the relevant school census.
97. The parallel schools national funding formula consultation includes a discussion of changes that may be needed to the way that IDACI is used to distribute funding. DfE would adopt the same broad approach for both high needs and schools formulae.

Other factors

- 98 DfE are also proposing to include a factor based on the number of children and young people in the 2 to 18 age range (as the age group most likely to be supported from the high needs funding, and given that childcare and educational participation in the 0 to 2 and 19 to 25 age ranges is likely to be much less) to reflect that within any size of population there is a minimum number of children and young people with high-level SEN and disabilities.
- 99 All the above factors relate to children and young people with high needs resident *in* the local authority area. Isos identified the need for further modelling, because some of the high needs funding allocated to LA is used to fund the schools in that authority, irrespective of where the pupils come from.
100. DfE are proposing to include a formula factor that provides each LA with a basic pupil/student entitlement amount for each child or young person in a special school, special academy or special post-16 institution that is funded from the high needs funding block. This would be at a similar level to the pre-16 pupil-led funding that LAs are allocated for their mainstream schools and academies, and the basic entitlement that schools and colleges receive through the post-16 national formula. The remainder of the £10,000 per place funding for institutions would be provided from within LAs' total high needs funding allocation.
- 101 To take account of LAs that are net "importers" of pupils and students from other areas into their schools, academies and colleges and similarly LAs that are net "exporters" formula adjustments are proposed.
- 102 The per pupil/student amounts would be determined each year on the basis of pupil and student numbers from the prior academic year. These would be collected through the school census for special schools and or individualised learner record (ILR) for special post-16 institutions. The other adjustments would use the school census and ILR to identify those pupils for whom the institutions receive top-up funding. More information about these proposed adjustments is set out in the technical note (paragraphs 9-16).

Alternative provision funding

- 103 Of the formula factors outlined above, those that are most relevant to AP (excluding hospital education) are overall pupil population and deprivation. DfE therefore propose to use the population and deprivation factors in the allocation of AP funding.

Q4: Do you agree with the basic factors proposed for a new high needs formula to distribute funding to local authorities?

Hospital education funding

- 104 DfE propose to continue to distribute hospital education funding based on information about LAs' and academies' current spending levels, and any adjustments needed from year to year to reflect changes in hospital provision.
- 105 However, the Department are exploring the possible use of hospital inpatient data to reflect year-on-year changes that impact on the number of children and young people for whom hospital education is provided.

Q5: We are not proposing to make any changes to the distribution of funding for hospital education, but welcome views as we continue working with representatives of this sector on the way forward.

Area costs

- 106 The consultation proposes using an area cost adjustment, in the same way as in the mainstream schools formula, to reflect the higher costs in some parts of the country. The following possibilities are suggested:
1. General labour market cost factor;
 2. Hybrid – This includes the relative costs of teachers' pay in particular areas of the country. This is explained in more detail in paragraphs 2.57-2.62 of the schools national funding formula consultation document.
 3. Adjusted hybrid – A modified hybrid adjustment to reflect the different proportions of expenditure on teaching and non-teaching staff in special schools and other specialist provision, to reflect the fact that such settings typically employ more teaching assistants and other non-teaching staff than mainstream schools and colleges.

Q6: Which methodology for the area cost adjustment do you support?

Transitional Arrangements

- 107 Introducing changes gradually is a key DfE priority to ensure special provision in existing settings (reflected in current spending levels) can be maintained where necessary. DfE therefore propose to include an element of current spending on SEN in the national formula, based on 2016-17 planned spending levels, for at least the next five years to give LAs time to plan and implement infrastructure and other changes in future provision. At the end of that five year period, DfE propose to review the formula and transitional arrangements.
- 108 LAs have developed different ways of managing AP: some have delegated much of the funding to schools; others have provided comprehensive central services and pupil referral unit provision for their schools. DfE are therefore proposing to include an element of 2016-17 planned spending on AP for at least the first five years as well to give LAs time to move towards a national formulae

DfE intend to carry out an exercise with local authorities during March and April to get an accurate amount of planned spending in 2016 17 on which this factor can be based.

Q7: Do you agree that we should include a proportion of 2016-17 spending in the formula allocations of funding for high needs?

- 109 DfE are also proposing overall protection that limits any year-on-year reductions for each LA. There would be an overall minimum funding guarantee; LAs' high needs funding would not reduce by more than this in each year.

Q8: Do you agree with our proposal to protect local authorities' high needs funding through an overall minimum funding guarantee?

- 110 This results in the following proposed formula for distributing high needs funding to local authorities.

HIGH NEEDS FUNDING FORMULA

Basic unit of funding for pupils and students in specialist SEN institutions	
Population factor	
Health and disability factors	Disability living allowance
	Children in bad health
Low attainment factors:	Key stage 2 low attainment
	Key stage 4 low attainment
Deprivation factors:	Free schools meals
	IDACI
2016-17 spending level factor	
Adjustments to reflect movements of SEN pupils and students	Area cost adjustments

Reviewing and developing high needs provision

- 111 DfE propose five main forms of help for LAs and institutions in reviewing the way they fund and commission high needs provision for all ages,
1. Developing new specialist provision to better meet existing pressures and emerging needs. Capital funding through the free school programme is already available to support the provision of new SEN provision where it is needed. Regional Schools Commissioners will encourage constructive conversations between LAs about their need for new provision.
 2. DfE will also make available capital funding to support the expansion of existing provision, as well as the development of new schools to create new specialist places. At least £200m will be available. Details of its distribution will be announced later in 2016.
 3. DfE will promote collaborative working between LAs in regional or sub-regional groups so that they can achieve more effective and efficient commissioning of provision, working in partnership to share administrative functions as well as services and provision. The Isos report proposed that such approaches would work particularly well for the commissioning of places for very high-need low-incidence SEN, but DfE think that they should extend to other areas as well. DfE will encourage this activity by identifying and sharing examples of good practice.
 4. Including pupils and students with high needs in mainstream provision can require less funding than that required by smaller institutions offering more specialist provision. DfE will therefore make changes to encourage schools and colleges to include pupils and students with SEN – see the proposals on changes for mainstream schools in chapter 4 below, and paragraphs 4.13-4.17 in particular.
 5. DfE will support special schools, pupil referral units, the equivalent academies and specialist colleges to reduce some of their costs. Support for schools to manage pressures on their budgets by becoming more efficient and financially healthy already includes:
 - being able to draw on some excellent practice in schools, and a wide range of training and tools offered by organisations in the sector.
 - a new collection of support and guidance for schools on GOV.UK, which has brought together financial health and efficiency information for schools to access.

Chapter 4: Changes to the way high needs funding supports institutions

- 112 This chapter sets out proposals for improvements to the current funding arrangements at local level, including changes to the ways funding is distributed to mainstream schools, colleges and special post-16 institutions.

Schools

- 113 DfE are not planning any fundamental changes to the way that schools are funded for their pupils with SEN and disabilities. Mainstream schools will be funded through their mainstream formula, continuing the existing requirement that they meet from their budget the costs of additional support up to £6,000 per annum for all pupils with SEN.
- 114 Special school places will be funded at £10,000 per place per annum.
- 115 In all cases top-up funding from the commissioning LA will be paid to the school in respect of individual pupils with high-level SEN to reflect the costs of the additional support they need in excess of £6,000.
- 116 The following paragraphs set out proposed changes to the funding of mainstream schools and academies, and independent special schools. DfE are not proposing any changes to the funding of maintained and non-maintained special schools, or special academies.

Mainstream schools

- 117 The Children and Families Act 2014 confirms the general presumption that children and young people with SEN should be educated in mainstream provision unless they have a statement of SEN or EHC plan which specifies more specialist provision. The high needs funding system should ensure that resources and commissioning arrangements do not present a barrier to pupils with SEN having their needs met in mainstream rather than specialist provision.

Notional SEN budget

- 118 Isos proposed that the current concept of a notional SEN budget should be removed, because LAs calculate it in varied ways, the budgets do not necessarily correlate well with the needs in schools, and it is unhelpful for schools to view the amount as the only funding they can use for supporting SEN. At the same time they proposed that more should be done to clarify what mainstream schools are expected to provide for pupils with SEN and disabilities, from their budgets. They argued both that the local agreement on this should be published as part of the local offer, and that this should be in the context of a more defined national framework.
- 119 DfE agree that the LA calculation of schools' notional SEN budget varies and isn't particularly meaningful for schools. DfE think that some way of identifying how much of a school's budget might be appropriate to spend on children with SEN could be helpful to schools as they decide on their spending priorities, but it would be better to offer schools guidance and the tools to do this for themselves, rather than specifying that the LA has to calculate a notional SEN budget for each school. They do not think that it would be helpful to try and calculate at national level a notional SEN budget for each school (taking into account that we are consulting separately on a proposal to move from each local authority calculating their schools' funding through a local formula to a national formula that would, after two years, determine the funding for all mainstream schools directly).
- 120 DfE therefore propose to work with SENCOs, school business managers and head teachers to find out how best to help schools decide how much to spend on SEN support. In the meantime they are proposing to retain the current concept of the notional SEN budget.

Local offer

- 121 The Children and Families Act reforms give clarity for parents and young people about a “core entitlement” that mainstream schools can provide. Isos proposed national guidelines that would create more consistency in what mainstream schools offer across the country. However, DfE are not yet convinced that such guidance could adequately cover the variety of effective SEN provision which schools offer. Furthermore, DfE say that the new SEN and disability system focuses on outcomes for children and young people, and it is therefore important that schools think more about the best way of achieving these, rather than focusing on inputs.

Q9: Given the importance of schools’ decisions about what kind of support is most appropriate for their pupils with SEN, working in partnership with parents, we welcome views on what should be covered in any national guidelines on what schools offer for their pupils with SEN and disabilities.

Special SEN units and resourced provision attached to mainstream schools

- 122 Special units are currently funded in the same way as special schools, at £10,000 per place, and the pupils educated in those units are excluded from the calculation of the schools’ local formula budget. DfE propose that they receive the per pupil amounts that would be due to the school (these vary but are in the region of £4,000) by including the pupils in the units within the school’s pupil count, plus place funding of £6,000.
- 123 DfE believe this would simplify the mainstream schools formula by avoiding the need for adjustments to pupil numbers where the pupils in the school are part of the unit rather than the mainstream provision. It would also bring pre-16 funding into line with the way that post-16 students with high needs in these units are currently funded.
- 124 Given the local flexibility that DfE are planning to continue, whereby LA can decide with their schools and academies how many places to fund from their high needs budget, they do not anticipate that this would have an adverse impact on the creation and sustainability of these units.

Q10: We are proposing that mainstream schools with special units receive per pupil amounts based on a pupil count that includes pupils in the units, plus funding of £6,000 for each of the places in the unit; rather than £10,000 per place. Do you agree with the proposed change to the funding of special units in mainstream schools?

How local authorities can encourage appropriate mainstream inclusion

- 125 LAs currently have flexibility to retain funding, as part of their high needs budget within the overall schools budget, for the purposes of encouraging:
- collaboration between special and mainstream schools to enable children with SEN to engage in activities at mainstream schools;
 - the education of children with SEN at mainstream schools; and
 - the engagement of children with SEN at mainstream schools in activities at the school with children who do not have SEN.

- 126 DfE intend to continue to allow this flexibility.

Q11: We therefore welcome, in response to this consultation, examples of local authorities that are using centrally retained funding in a strategic way to overcome

barriers to integration and inclusion. We would be particularly interested in examples of where this funding has been allocated on an “invest-to-save” basis, achieving reductions in high needs spending over the longer term. We would like to publish any good examples received.

- 127 LAs can also retain funding in their high needs budget to support schools that are particularly inclusive, and have a particularly high proportion of pupils with SEN or high needs (which may be of a type that is not fully captured by the proxy measures in the formula), such that they cannot meet the costs of additional support costing up to £6,000 for those pupils.
- 128 Isos drew attention to a lack of consistency and effectiveness in LAs’ use of this funding and proposed clearer direction from DfE on the circumstances in which such funding can be made available to schools, and on the options for allocating the funding. DfE agree and will include this in the guidance that is published for 2017-18.
- 129 EFA guidance already includes some examples, but DfE would like to hear of any further good examples of where this funding is used to best effect.

Q12: We welcome examples of where centrally retained funding is used to support schools that are particularly inclusive and have a high proportion of pupils with particular types of SEN, or a disproportionate number of pupils with high needs.

Independent special schools

- 130 Currently maintained special schools, special academies and non-maintained special schools all receive funding of £10,000 per place from either the LA (in the case of maintained schools) or the EFA. This forms part of their overall budget, along with the top-up funding provided by LAs for individual pupils with high needs. Any provision in independent schools (including provision in independent special schools) is funded wholly by LAs.
- 131 The SEN and disability reforms have tried to promote greater consistency e.g. joining the list of approved institutions under section 41 of the Children and Families Act allows independent special schools and special post-16 institutions to come under the same statutory admission arrangements as maintained special schools, special academies and non-maintained special schools.
- 132 DfE propose to offer those independent special schools on the s41 approved list the opportunity of receiving a grant from the EFA for the place funding, at the rate of £10,000 per place. This would reduce the top-up funding required from LAs. To do this DfE would need to identify those pupils who are funded by a LA, and would need to know their home address postcode so that we know which LA they come from.
- 133 If this proposal is supported the EFA will contact all those schools on the s 41 Secretary of State approved list.

Q13: Do you agree that independent special schools should be given the opportunity to receive place funding directly from the EFA with the balance in the form of top-up funding from local authorities?

Early years providers

- 134 Early identification of SEN when children are young, and high quality early years provision to meet the needs identified, can help with the transition to school and

prevent problems escalating later. LAs have been able to use the early years and high needs allocations within their DSG to prioritise support for this age group, and the Isos report provided some good examples of what could be achieved.

- 135 Isos proposed that LAs should work with providers to establish clear expectations about the support pre-school settings are expected to provide from within their core funding, and the circumstances in which additional advice, training or resources would be provided. DfE believe that LAs should do this as soon as they can, if they have not already done so.
- 136 Isos also proposed that the department should do more to set out the ways in which LAs can fund SEN provision in pre-school settings. They will consult on this later in the year. In the meantime DfE are allowing LAs to use both early years and high needs allocations to provide SEN support.

Post-16 providers

- 137 Isos identified that the post-16 sector was still adapting to the high needs funding and SEN and disability reforms, both of which had meant LAs and post-16 providers developing a new set of funding and commissioning relationships and processes.
- 138 Following their own research Isos proposed that:
- a. mainstream post-16 providers should receive, through the post-16 funding formula, the funding that is currently paid to them as place funding of £6,000 per place;
 - b. as in the school system, LAs should have a role in determining approaches to distributing additional funding outside the formula to providers who admit a higher proportion of students with SEN, and to incentivise more inclusion. This role would also include the designation of special units attached to FE colleges, which would continue to attract £6,000 per place in addition to the formula allocation for any students in the units;
 - c. all specialist places in special post-16 institutions should be funded at £10,000 per place as is currently the case in special schools.
- 139 DfE consider that there is merit in these proposals;
- A common set of funding arrangements pre- and post-16 better reflects that one of the aims of the SEN and disability reforms is the introduction of a system of support that extends as seamlessly as possible throughout the education system and through the age range up to 25.
 - Such arrangements would encourage better partnership working between LAs and institutions, and discourage over-identification of students with high needs – which tends to happen in mainstream settings unless proxy factors are used to calculate the funding allocations.
 - A formulaic allocation would be most appropriate for institutions which have a small number of students with high needs. DfE would no longer need to collect information from LAs and a large number of institutions about the places required for very small numbers of students with high needs, reducing the bureaucracy for all involved. For FE colleges which have a significant proportion or number of students with high needs, an approach comparable to special units in mainstream schools is likely to be more appropriate, as proposed by Isos.
 - Such proposals would also fit well with the way they are proposing to allocate funding to LA, and the adjustments that would be made to reflect demographic changes and the movement of students between institutions and areas.

- 140 The Children and Families Act 2014 and associated code of practice set out the duties, responsibilities and expectations of certain types of mainstream post-16 provider – schools, sixth form colleges and FE colleges – in admitting young people with SEN and meeting their needs, including those with high needs. However, some schools and sixth form colleges, and many FE colleges, have developed specialist provision to cater for groups of students with high level SEN, sometimes focusing on a particular type of need, and that these institutions cater for a larger proportion or number of students with high needs than other post-16 mainstream settings.
- 141 In schools, this provision is designated as a special unit or resourced provision, but in the current FE funding and commissioning arrangements, special units are not defined, other than by the institutions themselves. DfE propose to introduce the concept of such provision in FE and sixth form colleges. DfE are attracted to an approach in which LAs play a part in designating these units. LAs commissioning places at a college would then have to work together and with the college to agree on how many places in the unit were to be funded.
- 142 DfE intend to indicate a proportion or number of students with high needs beyond which colleges could be considered as having such specialist provision. Such provision would attract funding of £6,000 per place, in addition to the amount the national formula allocates for all the college's students; and there would need to be a process for collecting information from LAs about how many high needs places are to be funded each year in these institutions, to inform the EFA's funding allocations.
- 143 Under the Isos proposals, provision in specialist institutions that cater wholly or mainly for students with high needs, who normally have an EHC plan, would all receive a flat rate £10,000 per place as their core funding. Special schools' post-16 provision falls into this category, and already attracts £10,000 per place. Other post-16 specialist providers are formally constituted as FE colleges or are identified on the section 41 approved list. A flat rate amount per place would considerably simplify the funding for these institutions. As now, we envisage that the number of places to be funded in maintained special schools and special academies would be determined by local authorities as a result of their strategic planning and partnership with institutions. Non-maintained special schools and special post-16 institutions would be funded for their places using the latest available data on student numbers available to the EFA. DfE intend to do further work on how these new arrangements would operate. The results of that further work will be shared in the second phase of this consultation.

Q14: We welcome views on the outline and principles of the proposed changes to post-16 place funding (noting that the intended approach for post-16 mainstream institutions which have smaller proportions or numbers of students with high needs, differs from the approach for those with larger proportions or numbers), and on how specialist provision in FE colleges might be identified and designated.

Community impact

144. The national school funding formula will be set by the Department for Education and is designed to be fair and equitable nationally so that similar sized schools with similar catchment areas will be funded fairly by a funding system that is transparent, simple, predictable and gets funding straight to schools. The governing bodies of schools are responsible for decisions to commit expenditure accordingly to meet pupils' individual needs.

Equality and human rights

145. There are no implications for the public sector equality duty. This is being considered nationally by government.

Financial implications

146. The recommendations support the implementation of the national school funding formula as the evidence available from the f40 group and elsewhere strongly indicates that Herefordshire schools will benefit. Herefordshire believes in fair funding not low funding. It is too early to assess the financial implications as these will follow in the later stage two consultation.

Legal implications

147. The purpose of this report is to seek Schools forum's agreement to the proposed joint response from the council and schools forum to the government's consultation papers on the schools national funding formula and high needs funding reform.

Risk management

148. The DfE will issue a stage two consultation later in the summer term setting out the detailed formula values after having taken account of the responses to the stage one consultation. Schools Forum and the council will have a further opportunity to comment on the detailed national formula proposals before national implementation by government.

Consultees

149. None - Schools forum is being asked as representatives of Herefordshire schools to support the council's proposed joint response to the consultation.

Appendices

Appendix 1: draft response to the DfE's Schools national funding formula consultation paper

Appendix 2: draft response to the DfE's High Needs funding formula and other reforms

Background papers

- None identified.