



Department  
for Education

# **Research on funding for young people with special educational needs**

**Research report**

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# **Executive summary**

## **Introduction and background to the research**

Over the past five years, there have been significant reforms to education funding arrangements to make them more transparent, consistent and fair. Changes to the way in which support for young people with special educational needs (SEN) is funded have been an important aspect of this, and these changes have been designed to support wider reforms of the SEN and disability (SEND) policy framework. In particular, the changes have brought much closer alignment between the funding of high needs in schools and in other post-16 institutions.

The Children and Families Act 2014 places important new statutory duties on local authorities. These include replacing SEN statements and learning difficulty assessments with integrated 0-25 education, health and care needs assessments and plans, bringing parity of rights for those in early years settings, schools and post-16 institutions. Local authorities will also publish a local offer setting out the support for children and young people with SEN and disabilities, and work with health and social care to jointly commission support services.

In the summer of 2014, the Department for Education (DfE) commissioned Isos Partnership to undertake research into SEN funding arrangements and practices. The aim of this research was to provide insights into the way funding for young people with SEN is spent, the reasons for differences between spending patterns in different local authorities, and the options for changing the ways in which high-needs funding is distributed in future. We were asked to provide an analysis of how well the current SEN funding system was working and to suggest ways in which it might be improved in future.

To carry out the research, we worked with a small but broadly representative group of 13 local education systems. We have used the term 'local education systems' to refer to the connections between local authorities, schools, colleges and other settings, and parents, carers and young people within a geographical area based on local authority borders (Sandals and Bryant 2014). During our fieldwork visits to each of the 13, we met representatives from early years settings, mainstream schools, special schools, groups of parents and carers, and post-16 institutions, as well as local authority officers and their strategic partners. Later in the research, we held workshops with representatives from the local authorities and with a small number of national experts on SEN to test our emerging findings. The research project ran from September 2014 and concluded in April 2015. We have framed our proposals within the current SEND statutory framework.

## **Key findings and proposals**

## National-to-local distribution of high-needs funding

The dedicated schools grant (DSG), allocated from the Education Funding Agency (EFA) to local authorities, comprises three parts: the schools block, the early years block and the high needs block. The high needs block is the element of the DSG from which the majority of funding for SEN, and particularly high-needs SEN, is provided. When the high-needs funding reforms were introduced in 2013, a decision was taken, in the interests of maintaining stability, to continue to allocate the high needs block to local authorities on the basis of historic spending levels.

Our analysis has shown, however, that historic spend does not appear to match very closely with current levels of need. Furthermore, there was a strong feeling among the local authorities that took part in our research, and many of the national stakeholders, that the current distribution of the high needs block funding was not sufficiently transparent, objective or fair. We judged, therefore, that there was a strong argument in favour of moving from a distribution based on historic levels of spending to a formula-based allocation.

Through our research partners at Oxford Consultants for Social Inclusion, we carried out a detailed regression analysis of the potential factors which might be included in a formula for allocating high-needs funding to local authorities. This identified a small basket of indicators covering deprivation, prior attainment, children's disability and children's general health. Individually and in combination these indicators had a significant explanatory power across a range of different measures of SEN. Through a simple process of standardising and weighting these factors we were able to illustrate an approach to formula funding that would achieve:

- a better fit with the percentage of children attracting a statement or at School Action Plus than either the current high-needs allocation or local authority reported SEN budgets;
- a better fit with the percentage of children with high needs attracting top-up funding than local authority reported spend on SEN budgets; and
- a reasonably strong match with both the current high-needs allocation and the SEN budget.

Importantly, this work demonstrates that a simple funding formula based on objective, published data can perform at least as well as, and in some aspects better than, the current methodology for allocating high-needs funding in terms of the correlation with underlying levels of need. This is, however, just the first stage in developing a formula-based approach to distributing high-needs funding. More detailed modelling work is needed to finesse the final basket of indicators and their relative weightings. It is also needed to work out how much of the high needs block the formula should be applied to (our analysis has only covered the SEN aspects), to understand the impact on different local authorities, and to ensure a measured transition.

We propose that, subject to more detailed modelling, the DfE should consider moving to a formula for the allocation of the high needs block to local authorities. Our analysis suggests a range of factors that might be used in such a formula, including factors related to deprivation, prior attainment, disability and children's general health. We consider that a formula-based approach would be more objective, and easier to explain and understand, than the current arrangements. It could be rebased annually if desired, and would correlate better with a wider range of measures of need than the current funding distribution.

## **Core funding for mainstream schools pre-16**

In some local education systems there was a high degree of confidence in how the new funding arrangements were working and how limitations in funding arrangements could be overcome. They recognised that the new approach to core funding for children and young people with SEN in mainstream schools had brought a degree of clarity and transparency that had hitherto been lacking. In other local systems, however, we encountered confusion about how the new arrangements should work and deep-rooted concerns about whether, under the new system, the needs of children and young people with SEN could adequately be met.

We focused particularly on three elements of the current funding system:

- 1) how effectively schools are providing the first £6,000 of additional support;
- 2) how well notional SEN budgets are functioning; and
- 3) local authority practices in allocating money outside the formula.

### **How effectively schools are providing the first £6,000 of additional support**

The vast majority of local authorities reported that the introduction of a clear national high-needs threshold was a positive development. Many local authorities felt that the £6,000 threshold had created greater clarity in the system about what schools should be providing for pupils with SEN and had sharpened the ability of local authorities to hold schools to account for this.

This view was reinforced by some of the most confident headteachers to whom we spoke, who welcomed the sense of parity this had created and valued the better quality of dialogue they were having with local authorities about resources. Some schools had used the impetus of the funding reforms to reshape their provision in order to better meet the needs of children and young people with SEN.

Clearly, if schools are to provide the first £6,000 of additional support effectively then their core budgets must adequately reflect the needs of the children and young people on roll. The permitted formula factors that local authorities can use to target funding at need include both prior attainment and deprivation, which are two of the most powerful factors in predicting SEN. Our analysis suggests that it may be possible to improve the accuracy

with which SEN is modelled through the formula with the addition of a disability-related funding factor.

However, neither schools nor local authorities feel that it is possible to use proxy factors to model the incidence of SEN with 100% accuracy. The situation is exacerbated by the fact that schools' attitudes towards, and aptitude for, meeting the needs of children with SEN is very varied, leading to an uneven distribution of pupils with SEN. The funding challenge is that any formula-based method of allocating resources will not be able to reflect differences in the size of a school's SEN population where these are driven to a large extent by the culture of the school in question, rather than underlying demographic and contextual factors that can be measured, such as deprivation or prior attainment.

Consequently there are some schools in the system which are struggling to meet the first £6,000 in support costs from their base budgets. Typically the schools which are most likely to find themselves in this position are schools which are disproportionately inclusive and small schools. Those schools that report a genuine pressure on funding say that the pupils losing out are those whose needs fall just below the threshold for top-up funding. Nonetheless, we must be cautious about over-stating the number of schools which are finding themselves genuinely disadvantaged in funding terms by the introduction of the £6,000 threshold.

The local offer has a key role to play in setting out a shared commitment about what all mainstream schools, in the context of a schools-led education system, will provide as a core entitlement for any child with SEN. Nevertheless, at the time of our research, few of the local offers of the local authorities we visited set out this shared commitment explicitly in a way that would enable poor practice to be identified and challenged, for example by parents and carers. Most local offers provided a list of services that were offered locally and directed readers to the individual school information reports. While there were examples of emerging good practice with regard to the local offer, the local authorities and other stakeholders engaged in the research advocated strongly for much clearer national direction, to reinforce local decision-making, on what all mainstream schools should provide as a matter of course for children with SEN.

First, to reduce the funding inequities between schools which are highly inclusive and those which do not have a strong culture of inclusion, we suggest that local authorities should work with their schools to agree a "core entitlement" that *all* schools in a local area will provide for children and young people with SEN as a matter of course. This agreement should be published as part of the local offer. The DfE should also consider publishing clearer national directions on this subject to provide a consistent national framework against which local offers and agreements might be developed. Greater local transparency, particularly if reinforced by sharper national direction, should have the effect of clarifying expectations of the system and create greater consistency in what schools should be looking to do within the first £6,000 of additional support.

Second, to ensure that the base level of funding a school receives better reflects the needs of pupils with SEN, we propose that the DfE should consider modelling the impact of using the 0-15 disability living allowance (DLA) claimant measure as an additional factor in school funding formulae to better reflect the needs of children and young people with SEN. Our local-authority-level analysis suggests that this indicator is the most likely to offer significant explanatory power over and above measures of deprivation and low prior attainment which already feature in the formula, is available at post-code level and is regularly updated.

### **How well notional SEN budgets are functioning**

The notional SEN budget is a proportion of schools' base funding which is "notionally" set aside for meeting the needs of pupils with SEN. We heard from some that the notional SEN budgets could be a helpful lever for headteachers, and perhaps more often for SEN co-ordinators (SENCOs), in determining an appropriate level of spend on children and young people with SEN. Nevertheless, more headteachers were of the view that what was important in allocating funding was looking at the overall budget, assessing the needs of the pupils, and achieving the best distribution of support possible.

Further analysis we have carried out on how notional SEN budgets are calculated suggests that there are significant limitations associated with the current methodology. Too often notional SEN budgets appear to correlate poorly with levels of reported need in schools and vary greatly from school to school in the amount that each child with SEN is "notionally" allocated. At times, this has created confusion in the system. If schools were to use the notional SEN budget as a guide to how much they should spend, it would lead to some very inconsistent spending decisions. As such, we are not convinced that notional SEN budgets are performing the function for which they were designed.

To address this issue, we propose that the DfE should consider removing notional SEN budgets from the funding system for mainstream schools. We consider that setting out clearer expectations of what all schools should provide for pupils with SEN, communicating clearly how core funding is calculated, and a simple financial planning tool to guide schools' decisions about spending on SEN would mitigate the risk that the system is not yet mature enough in its approach to providing for SEN to enable notional SEN budgets to be removed.

### **Local authority practices in allocating money outside the formula**

Since schools' formula allocations may not always be sufficient to enable a school to meet the first £6,000 of SEN support costs, current funding regulations give local authorities flexibility to provide additional resources. In theory, this should provide adequate protection for those schools that, for whatever reason, find that their formula funding does not enable them fully to meet the needs of pupils with SEN. We identified very inconsistent practice in whether, or how well, local authorities were using this local funding discretion. Only around a third of local authorities reported that they provide

funding outside the formula. Furthermore, local authorities apply very different criteria for whether they would allocate additional funding and how that might be distributed. In one or two areas, schools reported that local authorities significantly underused the facility to distribute additional funding from the high needs block.

We propose that the DfE should consider providing clearer direction for local authorities on the circumstances in which they can provide additional funding outside the formula to schools, and a short menu of options for the criteria that may be used for allocating this. This would ensure greater consistency in practice and mitigate the risk that some highly-inclusive or small schools will be unable to meet the costs of the first £6,000 of additional support from their budgets.

### **Core funding for SEN in early years settings**

The early years sector plays a vital role in identifying children's additional needs and putting in place early support. In light of the variety and size of early years providers, it is important for local education systems to ensure that settings have access to the right expertise and support to meet the needs of children with SEN. While the majority of providers reported a reduction in central SEN support services, our fieldwork also identified a range of ways in which support was provided to early years settings, such as peripatetic services and access to top-up funding.

Two main sets of challenges were reported to us. The first related to access to additional support and resources. Specifically, there was a lack of clarity in local education systems about who was responsible for paying for additional support over and above the cost of the free entitlement. Providers in a minority of local systems reported that they had no recourse to additional funding through top-ups for children with complex needs. We considered the option of creating the equivalent of a notional SEN budget for early years settings, but concluded this would not be an effective way of targeting support and resources that would enable settings to meet the needs of children with SEN.

To address these issues, we propose that local authorities 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 will be provided.

The second set of challenges related to the interaction of funding for SEN and for the free entitlement. Some providers reported that they were finding it difficult to fund the full free entitlement for children with SEN because there was no recognition in their funding that the cost of meeting their needs was greater than the standard per-child funding they received. A small number of local authorities reported that they were seeing increasing demands for statutory assessments for pre-school children as a result of parents' desire



to access free early education entitlement for two-year-olds, or access full-time early education for three- and four-year-olds.

Furthermore, there was also a lack of clarity about how local authorities could fund full-time places or unit-style provision in early years settings. Local authorities were also concerned that, as numbers increased in future, their early years and SEN funding would be under greater pressure, thus making it more difficult to use funding as flexibly as they had hitherto.

To address these issues, we propose that the DfE should set out, through existing published resources or webinars, a practical reminder of the ways in which local authorities can fund SEN provision in pre-school settings. Much of this information is already available, and some local authorities are using it effectively. Nevertheless, there would be value in providing practical reminders.

## **Core funding for special schools, resourced provisions and SEN units pre-16**

Local authorities and schools reported to us that the new arrangements for funding specialist places had introduced greater consistency and fostered better dialogue about placements, funding and outcomes. These reforms have also placed greater importance on planning specialist places. Although in their early stages, some local education systems have begun to gather data and develop approaches to planning special school places, building on what has worked well in planning mainstream school places.

There were, however, a number of challenges reported to us. First, local authorities reported that they were facing increasing pressure on special school places, and that there was a lack of clarity for local authorities and schools about the process for planning and commissioning specialist places. At present, the EFA plays a part in managing this process, but it is difficult for decisions about specialist place-planning to be taken at a national level. An approach based on lagged numbers would be more data-driven and potentially less resource-intensive. Without an effective and responsive exceptions process, however, which could be very resource-intensive, a lagged approach could make local strategic place-planning more difficult at a time when better planning is needed to improve provision, outcomes and value-for-money.

To address this, we have proposed that there should be a more explicit role for local planning and commissioning of places in specialist settings, in which local authorities, in collaboration with schools, would play a central role. We envisage that this would be an explicit commissioning role in respect of designated specialist places in state-funded special schools, in resourced provisions and units in mainstream schools, and in early years settings. For non-maintained special schools, we consider that there could be a small co-ordinating role for the EFA to play, informed by the commissioning decisions of the local authorities. This would be in line with local authorities' statutory duties, and

would provide scope to plan provision strategically to meet in-year changes and longer-term needs. The DfE may wish to consider the steps to be put in place to enable local education systems to develop such approaches. We have also suggested that there should be a more explicit process for accessing capital funding to develop new SEN provision where it is needed. This last point applies equally to schools and post-16 institutions.

Second, some small, highly-specialist special schools, and those with highly-mobile pupil populations, reported that they were finding the new funding arrangements challenging. Suggestions were made to us that the place value for these providers could be increased or a lump sum paid to them. Such approaches would, however, cut across the principle of equivalence that is at the heart of the SEN funding system.

Instead, we consider that there is sufficient flexibility within the current arrangements to support these institutions. We propose that local authorities should use these flexibilities, through their banding frameworks and partnership approaches, to prevent small specialist providers from becoming unviable due to short-term fluctuations in pupil numbers.

## **Core funding for SEN post-16**

SEN funding in post-16 institutions has undergone significant changes since April 2013, with local authorities taking responsibility for commissioning and funding SEN provision in post-16 institutions. Much of the feedback we gathered reflected this transition. We found positive signs of mature dialogue about commissioning and placements, flexible use of funding to support person-centred planning, and greater transparency of funding.

A number of challenges were also reported to us. First, there was some confusion about funding for low-level SEN in post-16 institutions and the scope for funding five-day packages of support. National policy on these two issues is set out clearly in EFA guidance and the SEND Code of Practice, but there may be value in further measures to ensure it is fully understood by local authorities and institutions. Some local authorities expressed concern about the unknown level of future need for support from young people with SEN aged 19 to 25. Again, the national policy is clear, but the DfE may wish to consider how to help local authorities analyse future demand, and to highlight examples of effective practice.

Second, post-16 institutions reported that inconsistent approaches to the criteria for determining top-up funding and associated administration were creating additional burdens for them. We set out our findings and proposals on top-up funding in the following section, but we note that inconsistent approaches to top-up funding are

particularly an issue for post-16 institutions since many work with multiple local authorities.

Third, there was widespread dissatisfaction with the process for planning and allocating funding for high-needs places in post-16 institutions. Specifically, the issue was that the timing of the process meant that funding was not always allocated in a way that accurately matched where young people decided to study. This was creating difficulties for post-16 institutions and local authorities. We also consider that the separate funding for high-needs students fosters a sense that SEN is an “add-on” to a post-16 institution’s core business and perpetuates perverse incentives to identify students as having high needs.

To address this issue, we propose that what is currently high-needs place-led funding for post-16 institutions (so-called “element 2”) should be included in the formula allocations for mainstream post-16 providers. This option would preserve the principle of equivalence in SEN funding across the different pre- and post-16 funding systems. It is also aligned with what we are proposing in terms of reforming SEN funding in mainstream schools, and would thus ensure equivalence between the school and further education (FE) sectors.

We considered the implications of this for how post-16 places in special schools and resourced provisions and units in mainstream schools; and special post-16 institutions (SPIs), are funded. For special schools (as now) and units, we considered that places should be funded at £10,000 so that there is consistency with their pre-16 places. For SPIs, we considered the introduction of a specialist programme weighting in the post-16 funding formula. This would mean, however, that SPIs were funded in a different way to both mainstream post-16 institutions and post-16 places in special schools.

Instead, we propose that places in SPIs should be funded at £10,000 per planned place, with top-up funding provided above this level, so that there is consistency with post-16 places in special schools and non-maintained special schools. We suggest that the same approach is used to fund designated resourced provisions and units in mainstream post-16 institutions.

## **Top-up funding**

The funding reforms have introduced direct dialogue about placements, outcomes and funding between providers and local authorities placing young people with them. We heard positive messages in some local education systems about how this dialogue and top-up funding was facilitating more flexible and outcomes-focused approaches to SEN placements, in line with the new SEND framework. Some local education systems have

developed approaches for providers to access top-up funding that do not rely solely on the statutory assessment process and that provide support more swiftly. We also found examples of local authorities and providers working collaboratively to develop and moderate top-up funding systems.

Nevertheless, we also found inconsistent approaches to top-up funding within and across local education systems. Many local education systems use banding frameworks to help in assessing young people's needs and allocating funding (at different levels or bands) to meet those needs. Across local systems, we found that there was a lack of clear and consistent expectations around inclusion, differences in the provision available locally, and different ways of constructing local banding frameworks. This raises issues of equity, but providers also reported that inconsistent practice, and associated administration, was creating additional bureaucratic burdens that were detracting from their support for young people. We found limited support for a national banding framework as a means of addressing this, and little evidence that local authorities were working together regionally to align their banding frameworks.

We did, however, find strong support for a set of core principles about how top-up funding should operate. We propose, therefore, that the DfE should develop and publish a set of principles or minimum standards for the effective operation of top-up funding. This could entail bringing together existing published material on top-up funding, but the DfE may wish to consider whether additional principles or standards would enable more effective approaches to top-up funding. By the same token, we also propose that local authorities should publish information about their top-up funding arrangements, including both their banding or top-up values and their top-up *practices*, including named points-of-contact, timescales and review requirements.

Within local systems, the main issue reported to us was the time it took to access top-up funding, particularly where the only way of accessing additional resources was through the statutory assessment process.

To address this, we propose that local authorities should establish processes for accessing practical advice, capacity-building support and top-up funding so that the statutory assessment process is not the sole means of accessing this support. Such approaches could be applied across early years settings, schools and post-16 institutions to foster dialogue, build capacity and secure better outcomes.

## **Funding support for children and young people with very high needs**

A very small proportion of the population of children and young people with SEN have needs so complex that they require a level of provision and support beyond that which

the majority of special schools would be able to provide. Ensuring that sufficient funding is in place to support the needs of these individuals can be challenging because the provision tends to be very high-cost. At the same time, the small numbers of such children and young people in any single local education system can make financial planning, commissioning and identifying suitable placements a complex process.

Through our fieldwork, we identified developing practice in pooling budgets between local health, social care and education services, and in these services agreeing criteria for accessing support and resources in advance. However, these examples of the system working in a joined-up fashion were the exception rather than the rule. Effective joint commissioning and joint funding with health services, and to a lesser extent social care, was one of the key challenges raised by local authorities in our fieldwork.

There were two specific issues that came to the fore. The first was that from the perspective of both local authorities and health professionals it proved very challenging to apportion costs consistently between health and social care for children with the most complex needs, and to a lesser extent for children with lower levels of need but a significant health component. Local authorities felt that too often the default position was that costs would be borne by the high needs block. Many health professionals to whom we spoke felt that they had not received sufficient guidance on what health services should and should not be funding, and consequently felt exposed.

To address this issue, we propose that the DfE should consider publishing joint guidance with the Department of Health (DH) and NHS England that clearly describes the role of clinical commissioning group (CCG) leads in SEN and sets out which aspects of provision should normally be funded by education services and which should be funded by health services.

The second issue that our fieldwork exposed was the challenges associated with effective commissioning for such a small group of children and young people. The very small number of individuals with profound and complex needs who present each year means that there tend to be few providers in a defined local area that are able to meet the needs of such children. This narrows the commissioning options of the local authority and leads to increasing numbers of children and young people being placed in residential provision a long way from their families. Some areas have begun to address this issue through joint commissioning of places with neighbouring local authorities, but were very much of the view that a more systematic approach would be of benefit to them and others.

We also interrogated the extent to which local authorities, and in particular smaller local authorities, were able to manage the uneven profile of demand for highly-specialist places and services given their high cost. Generally local authorities felt that despite the high costs of meeting the needs of this group of children and young people, they were

able to plan their provision and manage their high-needs budget accordingly. We believe that this is a situation which should be kept under review, and possibly explored on a wider scale than has been possible within the remit of this research, particularly in the context of possible changes to how the high needs block and the schools block are distributed.

We propose, therefore, that the DfE should consider piloting sub-regional or regional approaches to joint strategic commissioning of provision for very high-need low-incidence SEN. Doing this in areas where there is a history of successful collaboration would provide a basis for testing more systematic regional partnerships.