



Department
for Education

High needs funding consultation: technical note

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Introduction

1. This note provides some more detailed information about how we envisage a funding formula might work, including the data that would be used in the proposed formula factors, and the adjustments that would be made.
2. Figure 6 on page 32 in the main consultation document shows the basic building blocks of the proposed formula. This is reproduced in figure 1 below for ease of reference.

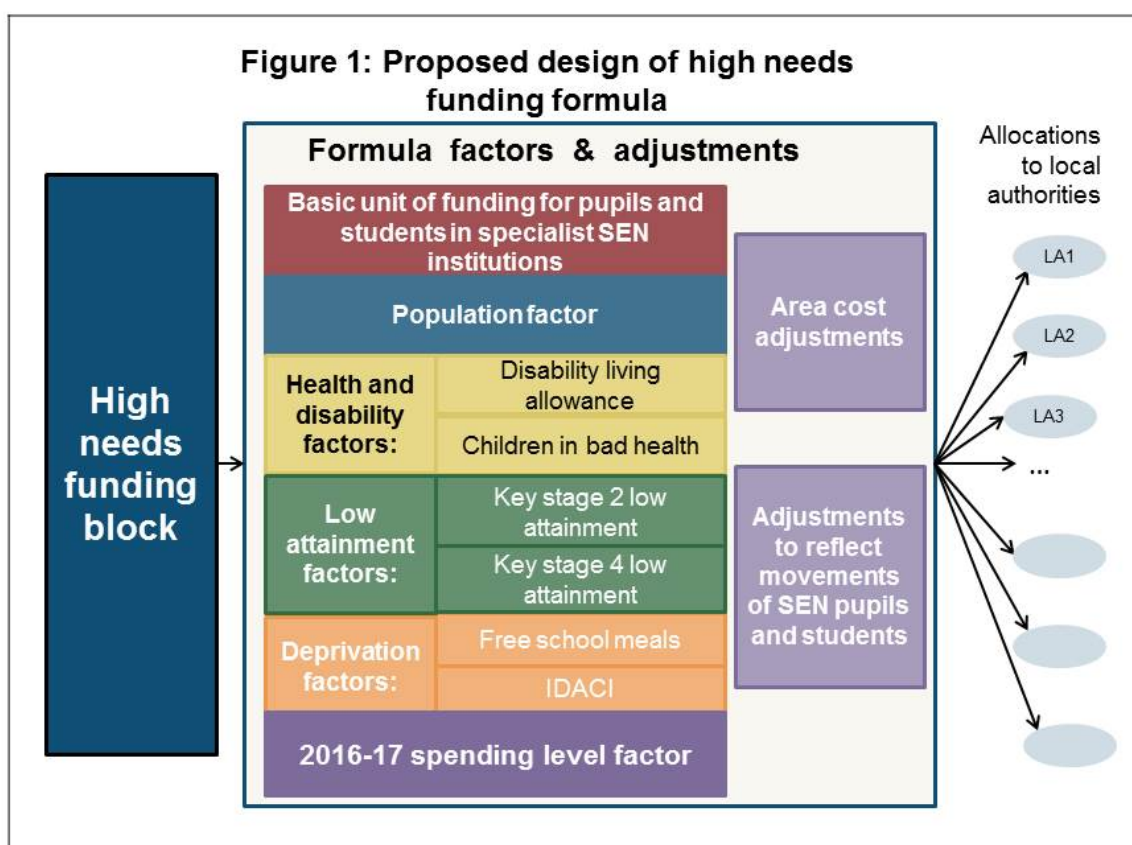


Figure 1: illustrates how a formula based on the proposed formula factors and adjustments would work.

High needs funding block

3. The overall amount of money to be distributed through the formula will be determined each year to reflect overall changes in pupil and student numbers and other cost factors, using appropriate indicators that are available at national level, and taking into account what amount is affordable within the department's overall schools and post-16 revenue budgets.
4. As in previous years, this amount will be decided in time for the allocations of

dedicated schools grant (DSG) to local authorities, which we would aim to notify to authorities in December each year. If it is possible to give any earlier indications of funding levels to inform local authorities' planning we will of course do so.

High needs funding formula – main elements

5. The overall amount of funding that is made available for high needs would be put through the formula as follows:
 - a. first, the amount needed to give each local authority a basic unit of funding for pupils and students in special schools and academies would be allocated according to a specified value (for example £4,000), using the latest available pupil and student number data. For non-maintained special schools and special post-16 institutions, a formula allocation would be made on the same basis to the Education Funding Agency (EFA), to contribute to the budget they need for paying the place funding to these institutions directly. This basic entitlement for pupils and students in specialist provision would have the same function as the basic entitlement funding through the local (or in future national) schools funding formula (covering 5-16 provision in mainstream schools) and the national 16-19 funding formula (covering all mainstream post-16 provision in schools, colleges and other institutions). We are proposing that pupils and students in special units and resourced provision will in future receive basic entitlement funding through the schools and 16-19 funding formulae.
 - b. second, a proportion of the funding would be based on each local authority's planned high needs expenditure in 2016-17 – the baseline year – and this amount would be maintained at a cash level in succeeding years.
 - c. third, the remaining amount of overall funding would be distributed according to fixed proportions for each of the other formula factors using proxy indicators (we propose factors relating to 2-18 year old population, child health and disability, low attainment and deprivation). For example, a particular factor might attract 10% of the remaining funding. The amount that each local authority would receive would be based on the proportion of the relevant population living in that authority area. So, for example, if local authority X had living in its area 1% of all pupils eligible for free school meals, that authority would receive 1% of the funding channelled through that factor.
6. The elements of the formula described in paragraphs 5(a) and (c) above would also be subject to a geographical cost adjustment.
7. The majority of high needs funding would be distributed through the elements described in paragraphs 5(b) and (c) above, and these elements of the formula would be for local authority spending on:

- a. the balance of funding required (above the basic entitlement) by local authorities for funding the places they – in partnership with schools and colleges, and neighbouring local authorities – decide are needed in the special educational needs (SEN) specialist provision located in the local authority area, including special schools and academies and special units or resourced provision in mainstream schools and colleges;
 - b. all place funding for pupil referral units and alternative provision academies and free schools, except for the place funding in the first two years after a free school is established;
 - c. top-up funding for all the children and young people resident in the local authority area who require high needs provision, for whom the authority is responsible, and
 - d. high needs services provided or funded directly by the local authority.
8. In addition, we are proposing that the formula includes adjustments to reflect cross-border movement of pupils and students, i.e. to reflect the cost of funding places in specialist or inclusive provision located in the local authority area, which are occupied by pupils or students from outside the area (“imported” pupils or students); and to reflect the savings to an authority of not having to fund the places in specialist or inclusive provision when they place pupils and students living in the area in such provision elsewhere (“exported” pupils or students). These adjustments are explained in more detail in paragraphs 12-16 below.

Proposed formula factors and their data sources

9. The table below lists each of the proposed formula factors, the adjustments that would be applied, and the provisional data sources that could be used. We have looked carefully at the data sets, how the information is collected, and how frequently it is collected. The frequency of data collection and publication will determine whether the data would provide an element of stability in the allocations from year to year, or whether the data would change allocations each year.
10. Where information is collected and data sets published infrequently – the data from general population censuses (every 10 years) and data from the income deprivation affecting children index (IDACI) (every 5 years) are particular examples – we would look carefully at the impact of using any new data sets because of the step change that might result because the data set has not been updated recently.
11. In proposing the factors and adjustments, we have also taken into account how robust the data sets are, and the extent of data cleansing that may be required to make the allocations accurate.

Proposed factors and adjustments		Data we could use and data source
Basic entitlement for pupils/ students in special schools and special post-16 institutions	Basic entitlement for pupils in special schools (maintained and non-maintained) and special academies	Number of pupils on roll at each school in the local authority area, with the EFA counting in place of a local authority for all non-maintained special schools, as recorded in the January school census. For some schools the January census provides a better reflection of their average on roll over the year, even though this creates a further academic year's delay in updating the numbers to take into account changes.
	Basic entitlement for students in special post-16 institutions	The number of students on the roll of each institution in the academic year preceding the year in which the allocations are made, as recorded on the individualised learner record (ILR).
Population factor	Proxy for the minimum number of children and young people with high needs in each local authority area	The estimated number of children and young people aged 2 to 19 resident in the local authority area, as a proportion of all children and young people in this age group, as provided by the Office for National Statistics (ONS) ¹ . The estimates are updated by ONS every year (normally in June), and the latest available data would be used.
Health and disability factors	Child health	The number of children aged 0 to 16 in bad or very bad health who were resident in the local authority area, as a proportion of all children in England in this age group in bad or very bad health, as reported by parents in the 2011 general population census ² . This data set, published by the ONS, cannot be updated until after the next population census.

¹ Office for National Statistics, ['Annual Mid-year Population Estimates: 2014'](#), June 2015.

² Office for National Statistics, [nomis database of labour market statistics](#) – data source LC3203EW – general health by religion by sex by age.

Proposed factors and adjustments		Data we could use and data source
	Child disability	The number of children aged 0 to 16 for whom parents resident in the local authority area are in receipt of disability living allowance (DLA), as a proportion of all children in England in this age group whose parents are getting DLA for them. This data set is provided by the Department for Work and Pensions and is published quarterly ³ . Each year the latest available data would be used.
Low attainment factors	Low attainment at key stage 2	The number of pupils resident in the local authority area who failed to reach level 2 in reading at key stage 2 tests, as a proportion of the total number of pupils nationally who failed to reach level 2 in reading at key stage 2 tests. This data set is published, and updated annually ⁴ .
	Low attainment at key stage 4	The number of pupils resident in the local authority area who failed to achieve 5 A* to G GCSEs, as a proportion of the total number of pupils nationally who failed to achieve 5 A* to G GCSEs. This data set is published, and updated annually ⁵ .
Deprivation factors	Free school meals (FSM) eligibility	The number of pupils resident in the local authority area who are registered as eligible for FSM, as recorded in the January school census, as a proportion of the total number of pupils registered as eligible for FSM nationally. FSM eligibility is determined by the household's benefit entitlement status. The criteria are set out in regulations. Each year the latest available data would be used.

³ Office for National Statistics, [nomis database of labour market statistics](#) – data source DWP benefit claimants – disability living allowance.

⁴ Department for Education, '[Statistics: key stage 2](#)', December 2015.

⁵ Department for Education, '[Statistics: GCSEs \(key stage 4\)](#)', January 2016.

Proposed factors and adjustments		Data we could use and data source
	IDACI	The number of children aged 2 to under 19 living in a lower super output area captured by the IDACI bands ⁶ . Data from ONS population projections ⁷ are matched to the IDACI dataset, which is published by the Department for Communities and Local Government every 5 years (and is a subset of the indices of multiple deprivation). Each year the latest available data would be used, subject to the assessment of the impact of step changes referred to in paragraph 10 above.
Past high needs spending level factor	High needs spending baseline	Information on planned high needs spending in 2016-17 will be collected shortly, and confirmed in the section 251 budget statements returned to the department and published in September 2016.
Geographic costs adjustment	Area cost adjustment	General labour market data are published by the Department for Communities and Local Government. For a hybrid area cost adjustment, we would use school workforce census data to calculate notional teacher salaries and general labour market data for non-teaching staff costs; and data on school spending to determine the proportion of staffing costs attributable to teaching and non-teaching expenditure, which in special schools is different from the proportions in mainstream schools.

⁶ Department for Communities and Local Government, [‘English indices of deprivation 2015’](#), September 2015.

⁷ Office for National Statistics, [‘Small Area Population Estimates, Mid-2014 and Mid 2013’](#), November 2015.

Proposed factors and adjustments		Data we could use and data source
Pupil/student cross-border movement adjustment		The number of pupils and students with high needs who are resident in the local authority area, compared with the number of pupils and students with high needs who are in schools, colleges and other institutions located in the area. These numbers would be determined on the basis of postcode and institution data relating to individual pupils and students for whom the institution receives top-up funding, as identified by the institutions in the January school census and the ILR.

Adjustments to reflect cross-border movement

12. Local authorities will want to be assured that their allocations not only reflect the costs of paying top-up funding to those pupils and students living in their area, for whom they are responsible, but also reflect the costs of the place funding for special schools and other institutions located in their area, even if those places are filled by pupils or students from other local authorities.
13. The formula we are proposing includes a system of adjustments that would be applied each year, so that local authorities “importing” pupils and students from other areas receive more funding, and those “exporting” pupils and students receive less.
- a. If the local authority is a net exporter, the adjustment would be negative, taking funding from the authority’s formula share for redistribution to net importers.
 - b. If the local authority is a net importer, the adjustment would give the authority additional funds for those children and young people from other authorities who are occupying one of the places funded by the authority.
14. The amount of the adjustment would reflect the costs described in paragraph 7(a) above (on the basis of the current regulations it would be £6,000 per pupil/student), and would apply to SEN places, and not alternative provision

places⁸. The adjustments would be recalculated every year, and would work outside any transitional protection so that year-on-year changes in cross-border numbers work through immediately.

15. This system of adjustments would provide a dynamic and automatic way of reflecting cross-border movement. The intention is that the adjustments would enable local authorities to make decisions about placements and the creation of new places, secure in the knowledge that there will be a cost-neutral impact on their high needs budgets. This is because the adjustments would reflect changing patterns of pupil and student numbers, in such circumstances as:

- a. when a local authority “imports” a lot of pupils and students into the schools and colleges located in the area;
- b. when a local authority “exports” a lot of pupils and students to provision outside the area;
- c. when a local authority creates new places or a new institution, even if the places are partially occupied by children or young people from outside the area; and
- d. when an authority wants to provide funding from its high needs budget to help its mainstream schools be more inclusive, even if some of the pupils come from outside the local authority area.

16. The annex to this note provides a worked example of how these adjustments would work.

How the place funding would be allocated

17. The place funding for maintained schools is paid by local authorities for the schools they maintain. Maintained school sixth forms would also in future receive their place funding from the local authority, rather than directly from the EFA. The place funding for other institutions falls into two categories.

- a. The place funding for academies, further education (FE) and sixth form colleges, and charitable and commercial post-16 providers, would be paid directly by the EFA, with the costs of that place funding met by deductions from local authorities’ high needs allocations, based on data collected from local authorities to say how many places are required. That process, similar

⁸ Cross-border movements are much rarer in alternative provision; and the census data for alternative provision providers is so poor that it could not be used for this purpose.

to the process operated in preparation for the 2016/17 allocations of place funding, would include the expectation that any changes in place numbers should be agreed by the relevant institution.

- b. The place funding for non-maintained special schools⁹ and special post-16 institutions would be paid directly by the EFA, but the costs of this place funding would be met by treating the EFA in the same way as a local authority for receipt of the basic entitlement element of the formula, and the “importing” and “exporting” adjustments. Local authorities placing pupils and students in non-maintained special schools and special post-16 institutions would effectively “export” them to the EFA, and the EFA would be a net “importer” which would mean that it has the funds required through these adjustments to pay the place funding for these institutions.

Formula values and weightings

18. The responses to this first consultation on the basic architecture of the formula and proposed factors, adjustments and data, will inform what is included in the second consultation phase. This later consultation will propose values and weightings for the various factors and adjustments, and provide more detail on how the formula would work in practice and on the impact, including the arrangements for transitional protection.

⁹ If any independent special schools are brought into the place funding system – see paragraphs 4.18-4.19 of the High needs funding formula and other reforms consultation – they would be included in this category.

Annex A

Local authority X is a net importer of children and young people with high needs from other local authorities. It has a net import of 80 in maintained schools and academies located in its area (for which it is the “host authority”), offset by a net export of 20 in colleges. If the adjustment for each child or young person is £6,000, then local authority X receives a net adjustment of $60 \times £6,000 = £360,000$.

Local authority X (as “responsible authority”) also has 30 children and young people in non-maintained special schools (NMSSs) and 20 young people in special post-16 institutions. The adjustment for these goes to the EFA, so local authority X has a negative adjustment of $50 \times £6,000 = £300,000$.

Type of provision for children and young people with high needs	Local authority X as host authority	Local authority X as responsible authority	Net adjustment
Children and young people in special schools and academies	300	250	+50
Children and young people in special units or resourced provision in schools	200	180	+20
Children and young people in mainstream schools	400	390	+10
Young people in “special units” in colleges	150	170	-20
Young people in mainstream college provision	20	20	0
Net position on cross-border adjustments	1,070	1,010	+60
Children and young people in NMSS	N/A	30	-30
Young people in special post-16 institutions	N/A	20	-20
Net position on EFA adjustments	N/A	50	-50

Table 1: Cross-border and EFA adjustments for local authority X



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