

# School funding reform:

Next steps towards a fairer system

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# School funding reform: Next steps towards a fairer system

## Foreword from the Secretary of State

Reforming school funding so that it is fairer between children and between schools is one of the greatest challenges we face in education reform.

The current system is opaque, inconsistent and unfair with huge differences between areas. Some local formulae used to fund schools are so complicated that they take account of over a hundred different elements. Not only do many of these elements have no impact on pupil attainment, the added complexity means it is virtually impossible to understand why a school receives the funding it does.

I want a system where taxpayers' money intended for education goes directly to those schools responsible for delivering it: a system where good, popular schools find it easier to expand in response to demand from parents and where school leaders have greater certainty over their budgets so that they can plan ahead. And, above all, I want a system where children in similar circumstances living in different parts of the country will attract funding on the same basis.

Over the next few years we will build a fairer, simpler and more consistent funding system in which schools will have confidence. Our first step will be to ensure local decision-making is much simpler, more transparent and efficient. We will ensure that funding intended for schools reaches schools and the pupils within them that need it most. And we will not stop there. These steps will prepare us for a national funding formula that will, in future, ensure fairer funding across the country.

I am grateful to the many teachers, head teachers, principals, governors, finance officers and organisations that have supported our reforms and responded constructively to our consultations over the past year. Because of the complexity of the current system and the size of the existing inequalities, we need to take care in how we proceed. At a time of constrained finances, we need to make gradual progress towards reform. But the direction of travel is clear and the first steps we are taking are significant. The plans we are setting out in this document will lead us to a fairer funding system in which funding follows pupils, schools have more control over their budgets, and children are funded on a more equitable basis no matter where they live.

**MICHAEL GOVE**

**SECRETARY OF STATE FOR EDUCATION**

## Executive Summary

1. Since last spring, and the launch of our first consultation on school funding reform<sup>1</sup>, we have explored in detail how to create a funding system that is fair, logical and distributes extra funding towards pupils who need it most.
2. Funding schools in the way that we do now makes our objective to raise the aspirations and attainment of all pupils difficult to achieve. We are clear that something must be done to tackle this. We want to enable good schools to expand more easily so that more pupils can benefit, we want funding to follow pupils and for pupils with additional needs to attract additional funding, and we want schools to understand how their budgets have been calculated.
3. In our follow-up consultation in July 2011<sup>2</sup>, we proposed a model involving a national funding formula for the distribution of funds to local authorities (either pupil- or school-based) from which each local authority and Schools Forum would agree a formula to distribute funding locally. This model would be clear and transparent, support the needs of pupils and enable schools to make informed decisions about their provision.
4. Support for reform was widespread but feedback also suggested that this model would need refinement and careful implementation. This document explains how we plan to proceed from 2013-14 and invites views on areas where there are different options.
5. Questions are clearly indicated throughout the text and we encourage you to respond to these via our e-consultation website linked below.

[www.education.gov.uk/consultations/](http://www.education.gov.uk/consultations/)

6. The closing date for responses is Monday 21 May 2012. Given the limited range and nature of questions posed the timeframe is shorter than normal for responses. This will enable an earlier announcement in the summer.
7. Operational guidance for local authorities and their Schools Forums on the implications of these reforms is available on our website linked below.

[www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding](http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding)

### ***We will move towards a national funding formula***

8. Getting the components and implementation of a fair national funding formula right is critical. We will start to put the building blocks in place now so that it can be introduced during the next Spending Review period with the minimum disturbance for all schools and Academies.

### ***We will simplify local funding arrangements***

9. In order to support movement towards a national funding formula in the next Spending Review period, from 2013-14 we will simplify the local arrangements for distributing funding to schools and other providers. We will also ensure that the money that is intended for

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<sup>1</sup> A consultation on school funding reform: Rationale and principles, Department for Education, April 2011.

<sup>2</sup> A consultation on school funding reform: Proposals for a fairer system, Department for Education, July 2011.

schools reaches schools and the pupils that need it most.

10. The considerable flexibility that is currently allowed in the distribution of funding locally has resulted in the generation of very complex local formulae. In some areas these formulae take account of scores of different elements, many of which have no direct impact on pupil attainment. Whilst highly sensitive formulae may be popular among schools that benefit, they have many disadvantages. They do not necessarily target funds where they are most needed; they create greater inconsistencies in the way schools are funded across the country; the complexity means it can be impossible to see why a school receives the funding it does; and they do not drive efficiency and innovation.
11. We will therefore create a simple, more consistent and transparent funding system in which head teachers, principals, governors and parents have confidence. This will be a system that:
  - a) maintains local discretion over funding;
  - b) ensures as much funding reaches schools as possible;
  - c) maintains and improves the arrangements for equivalent and consistent funding between maintained schools and Academies;
  - d) enables leaders to understand the basis on which their institutions are funded;
  - e) supports the needs of pupils; and,
  - f) is more responsive to pupil numbers and demand from parents.
12. The first part of this will be to work on the basis that as many services and as much funding as possible will be delegated to schools. This will give head teachers, principals and governors much more control over how funding is spent. Only in a small number of cases, for example where maintained schools, through the Schools Forum, have agreed to pool funding for the provision of certain services, will funding be held centrally. We explain more about this in section 1.2.
13. The second part of this will be to reduce the number of factors that can be used in local formulae to distribute funding. Formulae are currently based on as many as 37 different criteria or factors: we will reduce this to 10. Each local authority will publish details of its formula on a simple, clear and consistent pro-forma. We explain more about local factors and the pro-forma in sections 1.3 and 1.4 respectively.
14. To strengthen local decision-making, the third part of this will be to make some changes to the Schools Forum arrangements. We will make changes to their composition and operation so that their business is more transparent and decisions better reflect the views of providers. The Education Funding Agency<sup>3</sup> (EFA) will also play a role in upholding the fairness of local decision-making. More information about how Schools Forum arrangements will evolve and about the role of the EFA can be found in sections 1.6 and 1.7 respectively.
15. To support these changes and protect schools from significant fluctuations in their budgets, we will continue to operate the Minimum Funding Guarantee of minus 1.5% per pupil for

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<sup>3</sup> The Education Funding Agency (EFA) is a new executive agency of the Department for Education that, from April 2012, will be responsible for capital and revenue funding for 3-19 education and training. The EFA will directly fund Academies, Free Schools and 16-19 providers; it will fund local authorities for maintained primary and secondary schools; and it will be responsible for the distribution of capital funding and advice on capital projects.

2013-14 and 2014-15. More information about these protections is set out in section 1.5.

16. Putting in place simpler and more consistent funding arrangements will not only stand us in good stead to move towards a national funding formula, it will also enable a more efficient and effective means of funding Academies on a comparable basis to maintained schools. The EFA will also be able to use the simple pro-forma to calculate Academy budgets in a shorter timeframe. More information on the wider arrangements for funding Academies is set out in section 1.8.

### ***We will make improvements to the way local areas are funded***

17. Applying a national funding formula will mean that funding will need to move between schools and areas so that it is fair across the country. Whilst we work through how this will operate, we can make some other changes that will substantially improve the way local areas are funded. These changes will mean that schools can be informed about their budgets earlier. They will also provide local authorities with greater certainty about funding for early years pupils and mean arrangements for pupils and students with high needs can be funded in a more effective way that supports parental choice.
18. Local authorities will continue to be allocated amounts for each pupil through the Dedicated Schools Grant (DSG) based on previous funding levels. The difference will be that the DSG funding will be allocated in three notional blocks: Schools Block, Early Years Block and High Needs Block.
19. The notional blocks will not be ring-fenced and they will be based on planned spend by local authorities in 2012-13. The Schools Block will be based on October pupil numbers which will mean that school budgets can be set earlier. Details of how the blocks within the DSG will be calculated are set out in section 2.1.
20. We are exploring putting in place a new Department for Education grant (substituting an element of Formula Grant to local authorities from the Department for Communities and Local Government) for relevant central education services that will be paid on a national basis to local authorities and Academies. This would replace the local authority central spend equivalent grant (LACSEG). These details are explained further in section 1.8.

### ***We will improve arrangements for funding pupils and students with high needs***

21. We will put in place a more effective, sustainable system for funding pupils and students who require high levels of specialist, and often costly, educational support. These children and young people should have every opportunity to pursue their aspirations and fulfil their potential, as well as the right support to do so. These arrangements are set out in Chapter 3.

### ***We will improve arrangements for the funding of early years provision***

22. Alongside simplification of school funding arrangements, we will also support local authorities to simplify funding for early years provision and ensure greater transparency. We will also ensure that deprivation funding has more impact on disadvantaged children. Our detailed proposals on early years are set out in Chapter 4.

## **Conclusion**

23. In summary, these changes should bring many benefits.

- a) Greatly simplified local formulae will mean that schools will be funded in a more consistent, transparent way. Head teachers, principals and governors will be able to understand more easily how their budgets have been set and will be able to plan more effectively, responding to demand from parents.
- b) Strengthening the local decision-making process will enable fairer decisions to be made for the children in the local area.
- c) Restricting the factors that can be used in local formulae will mean that funding can be focussed on the pupils that need it rather than being diverted towards factors that have little or no impact on attainment.
- d) Working on the basis that as much as possible should be delegated to schools, we will give head teachers, principals and governors greater choice over how to spend education funding and enable them to make better decisions for their pupils.
- e) The Minimum Funding Guarantee of minus 1.5% per pupil until 2014-15 will protect school budgets and give head teachers, principals and governors a degree of planning certainty.
- f) Once simplified local formulae have been generated, administrative burdens on maintained schools, Academies and the EFA will be reduced as the process will be much simpler.
- g) Greater transparency over local formulae will enable the EFA to fund Academies more efficiently. Academies will be funded on the basis of the same financial year as maintained schools rather than the previous year, as is currently the case.
- h) Introducing three notional blocks into the DSG will enable local authorities to give maintained schools earlier notification of their budgets and Academies to be funded on a more comparable and equitable basis.
- i) Basing the notional blocks for early years and high needs pupils and students on actual planned expenditure will assist local authorities and others in comparing relative spending levels. Adjusting the Early Years Block so it reflects in-year numbers will also give local authorities greater certainty of funding and reduce the need to retain large contingencies.
- j) The new funding approach for high needs pupils and students will improve transparency and choice, encourage high-quality provision, and mean that funding is focused on the needs of the pupil or student. The system will bring about greater alignment of pre- and post-16 education funding arrangements, and will create a sustainable, long-term basis for funding high needs provision.
- k) Overall, the reforms will mean we are well placed to introduce a national funding formula during the next Spending Review period.

# Chapter 1 - Simplification of the local funding arrangements

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1.1	Introduction
1.2	The Dedicated Schools Grant and services provided by the local authority
1.3	Formula factors for distributing the notional Schools Block
1.4	Pro-forma and timings
1.5	Protections
1.6	Improved Schools Forum arrangements
1.7	The role of the Education Funding Agency
1.8	Funding arrangements for Academies in 2013/14 and beyond
1.9	Funding arrangements for 14-16 year olds wishing to study in further education colleges

## 1.1. Introduction

- 1.1.1. The way that schools are currently funded locally is highly complex. Whilst receiving broadly equivalent budgets, maintained schools, Sponsored Academies, Converter Academies and Free Schools, University Technical Colleges (UTCs) and Studio Schools all have their funding calculated in different ways and these are often based on complicated formulae that take account of many different factors. There is also lots of variation across the country in the services that are funded centrally. For example, some primary schools receive funding in their budgets for school meals whereas for others, the budget is held centrally by the local authority.
- 1.1.2. The consequences of a highly complex system like this are numerous. For instance:
- Different schools in an area with similar types of pupils may receive significantly different levels of funding – this is not sustainable or fair;
  - Resources may not reach the pupils who need them most;
  - It may discourage efficiency and innovation in schools; and,
  - Head teachers, principals and governors are not able to understand easily how their budgets are calculated or to plan effectively.
- 1.1.3. We will therefore create a simple, more consistent and transparent local funding system that:
- maintains some local discretion over funding;
  - ensures as much funding reaches schools as possible;
  - maintains and improves the arrangements for equivalent and consistent funding between schools and Academies;

- d) provides the Education Funding Agency<sup>4</sup> (EFA) with a sustainable basis for funding Academies;
- e) enables all institutions to understand the basis on which they are funded;
- f) supports the needs of pupils; and,
- g) is more responsive to pupil numbers and parental demand.

1.1.4. This chapter sets out what we will do to create a simpler local funding system. The various elements of the system are set out in six sections of this chapter as below:

- a) Maximum delegation of funding to schools (section 1.2);
- b) Significant reduction in the number of factors that local authorities can use in their formulae for distributing funding to schools (section 1.3);
- c) A requirement for local authorities to document and publish details of their simplified formulae on a pro-forma (section 1.4);
- d) Stability and protection for schools through a Minimum Funding Guarantee (MFG) of minus 1.5% per pupil in 2013-14 and 2014-15 (section 1.5);
- e) Strengthening of Schools Forum arrangements (section 1.6); and,
- f) A role for the Education Funding Agency (EFA) in upholding the fairness of decision-making (section 1.7).

1.1.5. The budgets for schools, Academies, Free Schools, UTCs, Studio Schools, and further education (FE) colleges which offer full-time provision for 14-16 year olds will all be calculated on the basis of these simplified arrangements. More detail on the specific arrangements for Academies, Free Schools and FE colleges is given in sections 1.8 and 1.9.

## 1.2. The Dedicated Schools Grant and services provided by the local authority

1.2.1. As we explain in Chapter 2, local authorities will continue to receive the DSG. The starting point for their allocation in 2013-14 will be the DSG that they received in 2012-13, with some adjustments that are also explained in Chapter 2. From 2013-14, the DSG will be split into three notional blocks: Schools Block, Early Years Block and High Needs Block. This will aid earlier notification of budgets for schools as set out in section 2.2.4.

1.2.2. We believe that to give head teachers, principals and governors greater choice over how to spend their budgets, we should work on the basis that services within the Schools Block and the funding for them should be delegated to schools in the first instance. In most local authorities, this will mean more delegation to schools than there has been previously.

1.2.3. We envisage just three exceptions to this, which are set out below. In these circumstances, funding will either be returned or retained by the local authority for central provision of a service.

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<sup>4</sup> The Education Funding Agency (EFA) is a new executive agency of the Department for Education that, from April 2012, will be responsible for capital and revenue funding for 3-19 education and training. The EFA will directly fund Academies, Free Schools and 16-19 providers; it will fund local authorities for maintained primary and secondary schools; and it will be responsible for the distribution of capital funding and advice on capital projects.

- 1.2.4. The first is where maintained schools agree that a service should be centrally funded because this provides better value for money or pools risk. When we asked for views on this in our consultation last July<sup>5</sup>, there was considerable support (75% were in agreement) for allowing maintained schools to pool budgets in this way.
- 1.2.5. The second is where there are historic commitments to use the Schools Budget to fund costs which would normally be met from general local authority funding, such as redundancy. We will allow existing commitments to be funded but will not allow new commitments.
- 1.2.6. The third relates to statutory functions of the authority which cannot be delegated and so these must be centrally funded. These include the co-ordination of the admissions scheme and administration of the Schools Forum.

**Exception 1 – Where maintained schools agree that a service should be provided centrally**

- 1.2.7. There is a limited range of services where central provision for maintained schools may be argued for on the grounds of economies of scale or pooled risk. These services were listed in Block 1b when we consulted in July and are listed below:
- a) Support for schools in financial difficulties (this would not be a separate category but within contingencies);
  - b) Allocation of contingencies;
  - c) Free school meals (FSM) eligibility;
  - d) Insurance;
  - e) Licences/subscriptions;
  - f) Staff costs – supply cover;
  - g) Support for minority ethnic pupils or underachieving groups;
  - h) Behaviour support services; and,
  - i) Library and museum services.
- 1.2.8. Contingencies could be retained centrally for maintained schools but only for a limited range of circumstances:
- a) Exceptional unforeseen costs which it would be unreasonable to expect governing bodies to meet;
  - b) Schools in financial difficulties;
  - c) Additional costs relating to new, reorganised or closing schools; and,
  - d) Significant pupil number growth.
- 1.2.9. These services and their funding will be delegated to schools in the first instance, but if maintained schools in a phase collectively agree – through the Schools Forum – they can be provided centrally by returning funding to the local authority. The final delegated budget available to each school would then exclude these amounts.
- 1.2.10. There are four other services that some local authorities have delegated in the past that we do not think should be provided centrally. This is because they are already delegated in many local authorities or link to residual grant arrangements. Individual schools could

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<sup>5</sup> *A consultation on school funding reform: Proposals for a fairer system*, Department for Education, July 2011.

still buy back these services if sold or they could set up pooled arrangements. The services are listed below:

- a) Funding threshold and performance pay;
- b) 14-16 practical learning options;
- c) School meals (primary/special; secondary is already delegated); and,
- d) Extended services.

- 1.2.11. These arrangements mean that most local authorities will need to delegate some budgets that are currently centrally funded into their Individual Schools Budget through their simpler funding formula.
- 1.2.12. Delegating all funding for these services to Academies means that there will no longer be any need for a Schools Budget Local Authority Central Spend Equivalent Grant (LACSEG) calculation as all the funding would be in Academy budgets to start with. Academies could, of course, choose to buy back into any local authority services if they wish.

### **Exception 2 – Historic commitments**

- 1.2.13. In July we proposed that the DSG should contain a Central Services Block. Given that the levels of funding for the services that this block would have covered are relatively small in comparison to the other blocks and we will not have a national funding formula straightaway, we have decided that this expenditure should be included in the notional Schools Block. More information about the notional blocks within the DSG is set out in section 2.2.
- 1.2.14. The services which were shown in the Central Services Block in July largely consisted of expenditure in the budget for schools which would normally be funded from wider local authority budgets. These include contributions to “combined services”, redundancy costs, borrowing for capital expenditure (“prudential borrowing”), and transport for pupils with special educational needs (SEN). Schools Forum approval is required to use the budget for schools in this way and the expenditure must meet certain criteria, such as providing a saving to the budget for schools or having an educational benefit.
- 1.2.15. Another significant area of expenditure of this type is capital funded from revenue. Currently, this does not need specific Schools Forum approval. It can be used, for example, to meet capitalised costs of equal pay arrears, or to supplement capital funding.
- 1.2.16. We recognise that in these cases commitments have been made in good faith on the basis of previous locally agreed decisions. In some cases, the funding retained will benefit Academies as well as maintained schools, for example in relation to equal pay arrears, and it would be destabilising not to allow the continuation of this funding. The services in this category are not suited to delegation either to maintained schools or Academies, and would not appear in Academy or maintained school budgets.
- 1.2.17. Reductions in general local authority budgets are likely to increase the pressure to use the DSG for these services. We want to ensure as much of the Schools Block funding is delegated as possible so that decisions are made by individual head teachers on the best use of their resources. Therefore, in future, it will be for individual schools to agree whether funding should be used for the purposes described above, rather than decisions in these areas being made centrally by the Schools Forum. Maintained schools and Academies will of course continue to be free to use their resources as they see fit to

support the attainment of their children and will be able to pool budgets if they choose.

### **Exception 3 – Statutory functions of the local authority**

- 1.2.18. There are some services that have traditionally been met through the budget for schools which relate to the statutory functions of the authority, including the co-ordinated admissions scheme, the Carbon Reduction Commitment payments for both maintained schools and Academies, and the administration of the Schools Forum.
- 1.2.19. For exceptions 2 and 3, we will therefore allow expenditure on these lines up to the total budgeted for in 2012-13, but no new commitments or additional expenditure will be permitted. Again, it is for individual schools to decide how to use their budgets and where they – and Academies – wish to pool budgets in support of these functions they will be able to do so. Over time, funding will be released to schools as one-off or time-limited central expenditure comes to an end.
- 1.2.20. The list of budget lines covered by these exceptions is:
- a) Co-ordinated admissions scheme;
  - b) Servicing of the Schools Forum;
  - c) Carbon Reduction Commitment; and,
  - d) Capital expenditure funded from revenue.
- Schools Forum approved DSG funding of non-schools budget items:*
- e) Contribution to combined budgets;
  - f) Termination of employment costs; and,
  - g) Prudential borrowing costs.
- 1.2.21. DSG funding of SEN transport was shown in the Central Services Block in the July consultation, but this will now be within the notional High Needs Block.

## **1.3. Formula factors for distributing the notional Schools Block**

- 1.3.1. Working on the principle that as much of the notional Schools Block should be delegated to maintained schools and Academies as possible, we turn now to consider the formula factors that will be allowed for its distribution. As we stated last July, we think it is important that local formulae are simplified so that the funding system is simpler and more transparent.
- 1.3.2. Since the July consultation, we have been considering how to strike the right balance between a formula that is simple and easy to understand, and one which is responsive to genuine need. We believe that the vast majority of funding should be pupil-led and not driven by the history, organisation or premises of the school. A pupil-led funding system allows a dynamic and responsive schools system – one that drives up quality, rather than supporting failing schools or allowing individual school decisions to determine funding levels.
- 1.3.3. At present, school finance regulations<sup>6</sup> give local authorities power to apply 37 different formula factors when distributing the Schools Budget. These regulations can be

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<sup>6</sup> *The School Finance (England) Regulations 2012*. Statutory Instrument No.335.

interpreted and applied in a variety of ways and this has resulted in some local authorities having complex and opaque local formulae that take account of scores of sub-factors. Having highly complex formulae makes it very difficult for head teachers, principals, governors and parents to understand how their schools are funded.

- 1.3.4. We will therefore proceed with the proposals set out in July: to amend the finance regulations so that the factors local authorities can use when distributing funding are far fewer in number and more clearly defined. Our intention is that the current list of 37 formula factors will be reduced to 10. This will begin to ensure that most funding is pupil-led and that decisions taken locally are transparent and easily understood. It will stand us in good stead to introduce a national funding formula on a similar basis in future. A simpler process will also provide a more effective basis for setting budgets for Academies that are equivalent to maintained schools – this will become increasingly important as more maintained schools convert to Academy status.
- 1.3.5. We have been working closely with partners from across the sector to consider which factors are most crucial when distributing funding to schools. Our starting position has been that formula factors should only exist where they directly impact on attainment or address significant, unavoidable costs.
- 1.3.6. The regulations will be amended so that funding can only be distributed based on the following 10 factors:
- 1) A basic per-pupil entitlement – which allows a single unit for primary aged pupils and either a single unit for secondary pupils or a single unit for each of Key Stage 3 and Key Stage 4 (see below);
  - 2) Deprivation measured by FSM and/or the Income Deprivation Affecting Children Index (IDACI)<sup>7</sup>;
  - 3) Looked after children;
  - 4) Low cost, high incidence SEN;
  - 5) English as an additional language (EAL) for 3 years only after the pupil enters the compulsory school system;
  - 6) A lump sum of limited size;
  - 7) Split sites;
  - 8) Rates;
  - 9) Private finance initiative (PFI) contracts; and,
  - 10) For the 5 local authorities<sup>8</sup> who have some but not all of their schools within the London fringe area, flexibility to reflect the higher teacher cost in these schools.

The detail underpinning these factors is set out below.

- 1.3.7. In addition, the EFA will have discretion to consider exceptional circumstances relating to premises such as listed buildings, buildings that are rented or boarding provision. Applications must:
- a) Apply to less than 5% of the schools in the local authority; and,

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<sup>7</sup> For more information on the IDACI measure visit [www.communities.gov.uk/publications/corporate/statistics/indices2010?view=Standard](http://www.communities.gov.uk/publications/corporate/statistics/indices2010?view=Standard)

<sup>8</sup> The 5 local authorities are Buckinghamshire, Essex, Hertfordshire, Kent and West Sussex.

b) Account for more than 1% of the budget of the school or schools affected.

- 1.3.8. We have scrutinised in detail many of the factors currently being used to consider the likely impact on schools' budgets if they were removed. Whilst we recognise that the removal of some of these factors will cause some turbulence, our view is that a more transparent system, with more funding following the pupil, gives schools greater autonomy and freedom to decide how to spend their money. We will of course put in place protections in order to limit any significant reductions to the budgets of individual schools. Protections are explained in section 1.5 below.
- 1.3.9. Local authorities will need sufficient time to take account of these new arrangements, amend their formulae accordingly and consult with their Schools Forums. It is for that reason that most of section 1.3 reflects a firm intention. For a small number of the factors we are seeking views on the specific details. The questions for these are indicated clearly in the text.

#### **Basic per-pupil entitlement**

- 1.3.10. Current funding rates used by local authorities within the primary phase do not vary significantly. We will therefore amend the regulations so that local authorities will only be able to set a single basic entitlement for all primary school pupils.
- 1.3.11. Our view is that, ideally, there should also be a single basic entitlement for the secondary phase but we recognise that the difference between providing education for Key Stage 3 compared with Key Stage 4 can sometimes be more significant. This difference may be due to the additional costs of practical work and examinations incurred in the latter Key Stage. We have therefore not taken a final decision on this factor and are seeking views.

#### ***Question 1: Should local authorities and Schools Forums be able to agree separate rates for Key Stage 3 and Key Stage 4?***

- 1.3.12. As set out earlier in this section, our intention is that most of the funding should be distributed through the basic per-pupil entitlement so that it is clear that funding follows the pupil. We looked at the percentage of the total funding delegated to schools that is currently allocated through the basic entitlement in each local authority. We found that there is significant variation across the country ranging from 45% to 84%. Table 1 below gives a summary of the proportion of delegated funding that goes through the basic per-pupil entitlement at the moment.

**Table 1: Proportions of funding based on age weighting by local authority**

<b>Age weighted funding as a proportion of delegated schools budgets</b>	<b>Number of LAs</b>	<b>Percentage of LAs</b>
40-50%	2	1%
50-60%	45	30%
60-70%	84	56%
70-80%	14	9%
80-90%	4	3%
Total	149 <sup>9</sup>	100%

1.3.13. We are inclined to set a minimum threshold for the basic entitlement. This would mean that all local authorities would need to distribute at least the specified percentage through their basic entitlement. Given the interaction between the amount of funding that goes through the basic entitlement and the amount remaining for other factors, such as deprivation and low-cost SEN, we will need to set the threshold carefully. A threshold that is too high could have unintended consequences for the funding available for deprived pupils or those with additional needs. We think there are three options that we should consider:

- a) Setting a minimum threshold that relates to funding for the **basic entitlement only**. We think that 60% would represent a reasonable starting point for this threshold;
- b) Setting a minimum threshold which relates to funding for **all of the pupil-led factors** (so would include the basic entitlement, deprivation, looked after children, low cost SEN and EAL). We think that 80% would represent a reasonable amount for this threshold; and,
- c) Not setting a threshold at all at this point and accepting that there will continue to be variation across the country.

***Question 2: Do you think we should implement option a, b or c?***

1.3.14. Whichever option we adopt, we should keep this under review as formula simplification may increase the percentage of funding allocated through the basic entitlement and other pupil-led factors.

**Deprivation**

1.3.15. We have always been clear that deprived pupils should attract additional funding and this is why we are investing £2.5 billion in the Pupil Premium over this Spending Review period. It is therefore important that we continue to enable local authorities to target funding to deprived pupils so that the Pupil Premium remains additional, as it is intended to be.

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<sup>9</sup> Table excludes City of London and Isles of Scilly as they each have just 1 school, and Warrington, which does not use a conventional age-weighted pupil unit.

- 1.3.16. There are many different ways to identify deprived pupils and at present local authorities use a range of measures in differing combinations to target those pupils. We need to make the system much simpler, so that when a deprived pupil enters a school, it is clear exactly how much money the school will receive and support can be planned accordingly. We therefore intend to change the current regulations so that local authorities can use only a free school meals (FSM) indicator and/or an IDACI rating when distributing funding for deprived pupils.
- 1.3.17. The current regulations state that local authorities must include a deprivation factor in their formula. This requirement will continue but in future local authorities will only be able to use the below indicators to identify which pupils should be eligible for this funding:
- a) FSM data (which could be straight FSM or Ever 6 as with the Pupil Premium);
  - b) IDACI data; or,
  - c) Both.
- 1.3.18. We are enabling local authorities to use IDACI as it is the only national index of deprivation that is focussed on children, using individual postcode information. IDACI is calculated at Lower Super Output Area (LSOA) level. An IDACI score is the measure of probability that a child living in the LSOA will be deprived. In other words, a child with an IDACI score of 0.2 has a 20% chance of coming from a deprived family.
- 1.3.19. This means that whilst FSM can be used to target funding at specific pupils who come from deprived families, IDACI allows local authorities to ensure that funding can also be distributed to schools that have pupils living in the most deprived areas who might not be eligible for, or take up FSM. This would avoid the over-reliance on FSM which many respondents to the earlier consultation were concerned about and enables a wider definition of deprivation to be used.
- 1.3.20. Ideally, local authorities would have a simple calculation which awarded each deprived pupil a single rate of funding – regardless of whether they attend a primary or secondary school. Many local authorities, however, allow different unit costs for deprivation in primary and secondary schools and so, to avoid disruption to school budgets, local authorities will be able to continue to set a separate rate for primary and secondary school pupils.
- 1.3.21. We also know that some local authorities target deprivation funding based on how deprived the pupil is. For example, as set out above, a child with an IDACI score of 0.2 has a 20% chance of coming from a deprived family. Similarly, a child with a score of 0.8 has an 80% chance of coming from a deprived family. It therefore makes sense that some local authorities may wish to target more funding at the pupil with a score of 0.8 compared with a pupil with a score of 0.2.
- 1.3.22. Our view is that local authorities should continue, if they wish, to target deprivation funding in this way. As this kind of targeting may introduce further complexity into the funding formula, we are keen to keep the arrangements as simple as possible. We therefore propose that local authorities should use a straightforward ‘banding’ system (which many authorities already use) with a fixed rate applied to each band of deprivation. Table 2 below shows how this might work.

**Table 2: Example IDACI banding system**

Band	IDACI score lower limit	IDACI score upper limit	Number of pupils	Unit value	Total
1	0.2	0.25	40	£500	£20,000
2	0.25	0.3	50	£500	£25,000
3	0.3	0.4	59	£750	£44,250
4	0.4	0.5	47	£1,000	£47,000
5	0.5	1	44	£1,250	£55,000

- 1.3.23. We are not proposing to allow banding to be used on FSM given its binary nature and thus would expect a single unit cost to be applied.

***Question 3: Do you agree with our proposals on banding? How do you think they might be applied locally?***

#### **Looked after children**

- 1.3.24. Looked after children often need additional support to help them to achieve. The 2011 performance data shows that 13% of children looked after for 12 months achieved 5 or more GCSEs at A\* to C (including English and mathematics) compared with 59% for all children (in maintained schools).
- 1.3.25. The nature of their care arrangements means that these children may not be eligible for FSM and so would not attract additional funding on that basis. Whilst they might attract some funding through the prior attainment factors, support for this group of pupils often spans wider than academic achievement and can include services such as pastoral care and liaison with social services. In recognition of this, the Pupil Premium is paid to each child who has been looked after continuously for 6 months (at a rate of £600 per pupil in 2012-13). We believe that, in addition to the Pupil Premium funding which looked after children attract, it is right to continue to allow local authorities to target additional funding to schools for looked after children if they so wish as part of local arrangements.

#### **Low cost, high incidence special educational needs (SEN)**

- 1.3.26. Pupils with SEN need additional support and different approaches to help them to achieve. The SEN and disability Green Paper<sup>10</sup> highlighted our commitment to deliver better outcomes for pupils with SEN and to empower and improve choice for families.
- 1.3.27. Funding arrangements for pupils with high needs are set out in Chapter 3. However, for those pupils whose needs are not so acute, but who nonetheless need additional support, local authorities need to be able to target funding. We have said that we will continue to require local authorities to give mainstream schools a notional SEN budget.
- 1.3.28. At present, local authorities distribute funding to low-cost SEN pupils in a number of

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<sup>10</sup> *Support and aspiration: A new approach to special educational needs and disability*, Department for Education, March 2011.

different ways. For example, some use a complex combination of proxies such as FSM, pupil mobility and prior attainment. Others use a separate SEN lump sum to capture a wide range of SEN need in a particular school. Because SEN is sometimes hard to pinpoint, the methods used are wide-ranging and variable. We believe they need simplifying.

- 1.3.29. We have considered a range of measures to identify these pupils. We expect that the notional SEN budget will include an identified element of the basic entitlement and, in many cases, of deprivation funding. But we do not think this provides a complete answer. However, whilst there is no 'perfect' way of identifying pupils with low-cost SEN, we are not keen on allowing a measure which is based on direct identification of pupils as having SEN as this can be subjective. It is for this reason that we will remove factors from the regulations that allow formula funding to be targeted to pupils on the basis that they are on School Action or School Action Plus.
- 1.3.30. Prior attainment, if used appropriately, can provide us with a good proxy for many SEN pupils not identified through a deprivation measure, but we need to provide some safeguards to ensure that the system is not subject to misuse. So, in order to ensure funding reaches children with SEN in primary schools, we will allow funding to be distributed to pupils based on their achievement as recorded by the Early Years Foundation Stage Profile (EYFSP).
- 1.3.31. Under the current EYFSP, a child is 'developing well' if he or she scores 78 points across all areas of learning and development. The 2011 data shows that 61% of pupils with SEN<sup>11</sup> do not achieve 78 points and are therefore not 'developing well'. Whilst we recognise that this is not a perfect measure of SEN, it does give us a reasonable threshold which captures most SEN pupils who are underachieving. It would also be a temporary measure as the criteria for the EYFSP are being reviewed. A new set will be in place from academic year 2012/13.
- 1.3.32. In order to target funding at SEN pupils in secondary schools, local authorities will be able to use Key Stage 2 results to identify those pupils. We have done some analysis to help us to identify a suitable performance threshold at Key Stage 2.
- 1.3.33. Pupils achieving Level 4 in either English or mathematics are considered to be achieving well and those who achieve Level 4 or higher in both subjects are achieving above the national standard. Our view is that if a pupil achieves Level 3 or below in both English and mathematics, then that pupil is likely to be in need of additional support. Our analysis shows that 38% of pupils with SEN achieve Level 3 or below (with the other 62% of pupils achieving above that threshold).
- 1.3.34. We will therefore set the prior attainment indicator for KS2 as attainment at Level 3 or below in both English and mathematics.

#### **English as an additional language (EAL)**

- 1.3.35. We know that pupils who have EAL often require additional support in order to learn the English language.
- 1.3.36. In July we consulted on whether, in a potential national funding formula, we should fund EAL pupils for a fixed period only. The responses showed that just over half of respondents thought we should limit EAL funding and around a third thought that funding

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<sup>11</sup> SEN as recorded by schools (so either with a statement or on School Action or School Action Plus).

should be limited to 3 years. With earlier intervention, we think that pupils with EAL can achieve well earlier on and fully integrate with their peers.

- 1.3.37. We think that 3 years of additional funding should provide enough time for a school to support a pupil with EAL. Local authorities will be able to continue to provide funding to pupils with EAL but only for a maximum period of 3 years from when they entered the compulsory school system.

### **Lump sum**

- 1.3.38. Many local formulae currently allocate a lump sum to schools. This could be for a variety of reasons including to help small schools, particularly those in rural areas, which are not otherwise able to operate from just their per-pupil funding. We also know that some local authorities use a lump sum to take account of funding that was previously distributed through a range of other targeted grants. This often means that within a local authority, the amount of funding distributed through the lump sum can differ significantly between schools.
- 1.3.39. Having different lump sums for each school makes it difficult to know whether schools are being funded fairly. Whilst we recognise that some variation might be as a result of allocating historic grants, our view is that the majority of this funding should now be distributed either through the basic per-pupil entitlement or the remaining pupil characteristics factors (deprivation, SEN, looked after children and EAL).
- 1.3.40. Local authorities will therefore only be able to apply a single lump sum for each school in the area. This is predominantly aimed at supporting small schools but for simplicity each primary, secondary, middle and all-through school would receive the same lump sum. We recognise that this is a significant change to the current arrangements but it is important that we can provide a transparent system, which allows the public to see clearly where money has been spent.
- 1.3.41. As stated earlier in this section, we also want most of the funding to be distributed through the basic per-pupil entitlement so that funding can genuinely follow the pupil. We therefore intend to set an upper limit to the lump sum – meaning that local authorities would not be able to set their lump sums any higher than is specified.
- 1.3.42. We want to set the upper limit on the lump sum at a level no higher than is needed in order to ensure that efficient, small schools are able to exist where they are genuinely needed. We think that the upper limit should probably fall somewhere between £100k and £150k, and is certainly no higher than £150k. We are conducting further analysis to establish where the upper limit should be set.

### ***Question 4: Where within the £100k-150k range do you think the upper limit should be set?***

- 1.3.43. We are conscious that small schools sometimes face circumstances which are beyond their control but which make it difficult to manage on their per-pupil funding alone. For example, we know that the infant class size regulations have a particular impact on small schools and they often need additional funding to set up new classes. We also know that in very small schools, having teachers on the upper pay scales can cost more than would be received through the per-pupil funding.
- 1.3.44. In the past, we have allowed separate formula factors to deal with these issues but in the

interest of simplification and transparency we will no longer allow these as separate factors. Instead, local authorities will need to set their lump sums according to such needs and within the maximum cap set out above. Once the protections from existing levels of funding decrease, it is possible that some schools may need to consider more efficient organisational structures and operations for instance, federating, merging or becoming part of an Academy chain.

### **Split sites**

- 1.3.45. Schools that operate on split sites often face higher running costs as a result of, for example, the cost of travel between sites and the care and maintenance of two sites. Of course we expect all schools to find efficient ways of operating and to seek value for money. We also expect local authorities to fund such schools in a way that incentivises efficiency rather than sustaining inefficiency.
- 1.3.46. Since we are keen to continue to encourage schools who do adopt efficient solutions, such as merging and federating, it is important that the consequences of those solutions continue to be reflected in schools' budgets. We will therefore continue to allow local authorities to include a split site factor in their local formulae. This should be reflected through a cash sum to the school(s) affected.

### **Rates**

- 1.3.47. We will continue to allow rates to be funded as an actual cost incurred by schools. This is in recognition of the fact that rates can vary significantly from school to school and that schools have no control over how much they are required to pay. Unlike energy costs, for example, operating more efficiently will not bring down the cost of rates.
- 1.3.48. We are also aware that the amount of money a school must pay in rates is affected by whether that school is a community school, voluntary-aided or an Academy. Because voluntary-aided schools, foundation schools and Academies have charitable status, they qualify for an 80% discount in rates. This does not apply to maintained community schools.
- 1.3.49. So, in keeping with our principle that there should be no financial incentive or disincentive to convert to an Academy, local authorities will be able to continue to fund rates at their actual cost.

### **Private finance initiatives (PFI)**

- 1.3.50. PFI contracts can represent an additional and unavoidable cost to schools. Under the current system, additional funding for PFI charges should be delegated to the schools concerned, though in practice some local authorities have put this funding into the centrally retained block of the DSG.
- 1.3.51. In the reformed system, as we have explained in section 1.2, we are not allowing any new commitments on central expenditure. Any gap would need to be delegated to the school or Academy<sup>12</sup> for it to pay and so there would need to be a specific formula factor so as not to disadvantage the schools or Academies concerned. This should be reflected through a cash sum.

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<sup>12</sup> DSG grant conditions will make specific requirements regarding the need to address both schools and Academies through any specific formula factors.

## **The ratio of primary to secondary funding**

- 1.3.52. Another significant factor in differences in funding levels across the country is the ratio between funding for primary and secondary pupils. Secondary pupils tend to attract more funding than primary pupils and the average ratio is around 1:1.27. Across the country this ratio spans from 1:1.1 to 1:1.5.
- 1.3.53. We stated in the July consultation document that it is important to begin to move towards national consistency and suggested that a fixed range for the primary to secondary funding ratio should be established locally. Shifting the primary to secondary ratio in this way could cause significant turbulence to the budgets of individual schools (although these shifts would of course be protected for a time).
- 1.3.54. The introduction of the new set of formula factors that we have described in the preceding section could affect the current ratios of primary to secondary funding across the country. For this reason, we will not place any restrictions on the ratio for 2013-14. From 2014-15, once new, simpler formulae have been embedded in local authorities, we will consider whether there should be a defined range of primary to secondary ratios so that we can begin to secure greater consistency across the country.
- 1.3.55. As now, each local authority will be required to consult its Schools Forum on the local funding formula. Further information about the role of Schools Forums is set out below in section 1.6.

## **1.4. Pro-forma and timings**

- 1.4.1. To achieve our aims of transparency, we suggested in the July consultation that we should introduce a new pro-forma for local authorities to publish that would set out their local formulae so that head teachers, principals, governors and parents can see clearly how the funding in the Schools Block has been distributed.
- 1.4.2. We will introduce this pro-forma for the documentation of budget information for 2013-14. The EFA will use the information on the pro-forma to calculate budgets for Academies in the local authority. We will review the content of the various data collections such as the Section 251 budget statement in light of this pro-forma and the wider funding changes detailed here.
- 1.4.3. In order to ensure that schools receive their budgets well in advance, local authorities will need to send their pro-forma to the EFA by the end of October. The EFA will check that each pro-forma complies with the amended regulations and will then use it to calculate comparable budgets for Academies in the area. In section 2.2 we explain how we will alter arrangements for calculating the DSG and enable budgets to be set earlier.
- 1.4.4. Once the EFA has confirmed the per-pupil allocations as part of the wider DSG settlement, and pupil numbers are known, local authorities may find that they need to alter their unit values in order to reflect the final settlement. If this is the case, the local authority will need to inform the EFA of any changes by the end of the third week of January. A draft of the pro-forma is shown in Annex 1.
- 1.4.5. In order to support local authorities in the simplification of their formulae under the new arrangements, we will publish a formula development tool. We will also provide local authorities with the underlying pupil characteristic data for their schools and Academies, so that by entering this along with their own financial data into the formula development

tool, they will be able to model their schools budgets.

## 1.5. Protections

- 1.5.1. Restricting local formulae in the way we have set out above may alter the budgets of some maintained schools and Academies. In order to reduce the impact of these changes we will put in place protection arrangements.
- 1.5.2. The MFG protects the per pupil funding of schools from one year to the next against significant changes in local funding formulae or other changes in data not directly related to pupil numbers. The current level of protection is minus 1.5% per pupil.
- 1.5.3. The MFG has, however, become excessively complicated and it is difficult to explain how it works or why particular schools and Academies appear to have budgets below the level of the MFG. At present, we exclude certain factors automatically from the scope of the MFG (for example, SEN allocations relating to named pupils and business rates which are usually funded by local authorities on the basis of actual cost) and consider proposals to exclude others. We also make adjustments for small schools and the proportion of the budget relating to factors that are not pupil-led.

### **Level of the Minimum Funding Guarantee (MFG)**

- 1.5.4. The MFG has been set at minus 1.5% per pupil for both 2011-12 and 2012-13. This is in the context of a schools budget settlement at flat cash per pupil. In order to ensure affordability and enable funding flow, the MFG has to be set below the level of the overall schools budget settlement. The current MFG is set quite tightly to protect individual schools from significant changes in their budgets, but this has been controversial in some local authority areas where there is a desire to remove historic anomalies caused, for example, by national and local decisions on which schools should benefit from certain grants.
- 1.5.5. In the July consultation we asked about the level of the MFG and whether it should be tighter at first and then looser later, given that it is easier for schools to cope with funding reductions if they have longer to plan. The responses were evenly divided: 35% thought the MFG should continue at minus 1.5% per pupil each year, while 34% thought it should be looser after the first year.
- 1.5.6. To dampen the changes in budgets that may be experienced by some schools as a result of new, simplified local formulae and to give schools sufficient time to plan for the effects of any budget reductions, we will continue the MFG at minus 1.5% per pupil in 2013-14 and 2014-15. We will consider looser arrangements thereafter.
- 1.5.7. In order to make any formula changes affordable, we will allow gains at a per pupil level to be capped or scaled back. This would avoid a situation where schools inevitably take time to incur extra expenditure if they have a large increase in funding, and balances rise as a result. At present, transitional arrangements can be applied to changes in specific factors, but there is no general equivalent to the MFG to limit gains. We will not set a nationally prescribed maximum gain, but will leave that as a local decision, taking into account the affordability of protection.
- 1.5.8. We also propose to simplify the arrangements for applying the MFG. These proposals are set out in Annex 2.

1.5.9. The proposed reforms of funding for high needs pupils and students set out in Chapter 3 will change the way that special schools, and special units and specially resourced provision in mainstream schools, are funded. The principal protection for these settings will be an agreed number of places funded at £10,000 per planned place, with top-up funding above this level coming from each local authority that places pupils in the school. In addition, in the first year we will set as a condition of grant that the level of top-up funding provided to:

- a) special schools maintained by the local authority;
- b) special units and specially resourced provision in mainstream schools maintained by the local authority;
- c) special Academies that were formerly maintained by the local authority; and,
- d) special units and specially resourced provision in mainstream Academies that were formerly maintained by the local authority;

by that local authority should be such that, were all the high needs pupils in that setting placed by that local authority, the school's total funding for 2013-14 would not be more than 1.5% below the funding that the school had received in 2012-13.

## 1.6. Improved Schools Forum arrangements

1.6.1. Schools Forums were put in place to support local authorities on matters relating to school budgets and they play an important part in the local decision making process. It is therefore important that they operate transparently and fairly, with representation from all school sectors. We know that in some areas this is already the case and Schools Forums are working very well, creating strong partnerships across local schools and Academies.

1.6.2. Despite this, responses to both our April<sup>13</sup> and July consultations have shown that this is not consistent. We have had representations that Schools Forums are often too large and unwieldy, making it difficult to have a genuine discussion; and that it is sometimes difficult to see how decisions are made. We are also aware that in some cases, the current regulations regarding proportionate membership are not up-to-date. The regulations state that maintained primary schools, maintained secondary schools and Academies should be represented on Forums in proportion to the number of pupils in those types of schools.

1.6.3. In order for local decision-making to operate in a consistently fair and effective way and in consultation with schools, we need to secure greater confidence in Schools Forums. Head teachers, principals, parents and others need to know that funding decisions are open to scrutiny and challenge and are considered in depth by those most affected.

1.6.4. We will make some changes to Schools Forum arrangements so they are in place to support decision-making for 2013-14. The changes will ensure Schools Forum discussions are more focused, that decisions are more transparent and that those most affected have a greater say.

1.6.5. We will not make any changes to the powers of Schools Forums at this stage. When we consulted in July over whether we should give Schools Forums more decision making

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<sup>13</sup> *A consultation on school funding reform: Rationale and principles*, Department for Education, April 2011.

powers, 47% thought that we should not (and a further 26% were not sure). Schools Forums will continue to have decision making powers.

- 1.6.6. For 2013-14 we will therefore amend the Schools Forums Regulations to:
- a) Remove the requirement to have a minimum of 15 people on a Forum;
  - b) Limit the number of other local authority attendees from participating in meetings unless they are a Lead Member, a Director of Children's Services (or their representative) or are providing specific financial or technical advice (including presenting a paper to the Forum);
  - c) Confine the voting arrangements to allow only schools members and providers from the private, voluntary and independent sector to vote on the funding formula;
  - d) Require local authorities to publish Forum papers, minutes and decisions promptly on their websites; and,
  - e) Require Forums to hold public meetings – as is the case with other council committees.
- 1.6.7. We will also give the EFA observer status at School Forum meetings. This will enable the EFA to support the local process and to provide a national perspective. The EFA representative would not be required to attend every meeting, but could be available if members thought it helpful or if there were any concerns about the running of the Forum.
- 1.6.8. In the longer term, we may consider making further changes that will support fairness and transparency in the operation of Schools Forums. These might include:
- a) Setting a maximum cap on the number of members;
  - b) Significant slimming down (or removal) of non-schools members; and,
  - c) Requiring an independent secretariat to service Schools Forums.

## 1.7. The role of the Education Funding Agency

- 1.7.1. The EFA will have a significant role in overseeing local funding arrangements. This is to reflect both its role in implementing the overarching funding system on behalf of the Secretary of State, and the changing dynamic of the schools market in which a greater number of schools are removing themselves from local authority control.
- 1.7.2. As set out in paragraph 1.6.7, one way to both support the EFA in its role and to support local authorities, schools and Academies in implementing these changes will be to give the EFA observer status at Schools Forum meetings.
- 1.7.3. Once a local authority has agreed its formula, in consultation with its Schools Forum, it will need to send a pro-forma to the EFA. The EFA will then review each pro-forma to check that it is compliant with the new formula arrangements (set out in section 1.3 above).
- 1.7.4. In reviewing each pro-forma, the EFA will take account of any representations it has received from any schools in the area (both Academies and maintained schools). If the pro-forma shows that a formula is not compliant with regulations, the EFA will (on behalf of the Secretary of State) require the relevant local authority to change the formula to meet the regulations.

- 1.7.5. Schools and Academies will want to be reassured that their local funding formula is both compliant with regulations and distributes funding in a fair and equitable way. If there are concerns in this area, even where the formula is compliant with regulations, then the EFA will have a role in reviewing the formula to ensure the formula funds the variety of provision in the area equitably.
- 1.7.6. Where, despite EFA liaison, there remains an unfair and inequitable allocation for any particular Academies, for example where the presence of split sites or PFI costs in Academies were not taken into account in the local formula, then the EFA could determine the appropriate budget for the Academies in question and take enough of the money earmarked for the area in order to do that. Of course, we would hope that instances where the EFA has to exercise this power will be very rare and the EFA will endeavour to reach agreement with the local authority in the first instance and only pursue this option as a last resort.
- 1.7.7. Once the EFA is satisfied that each local authority's formula is compliant and fair it will begin the process of calculating budgets for Academies in each area.
- 1.7.8. On receipt of the pro-forma (by the end of the third week of January), the EFA will then undertake a final compliance check and confirm the budgets for Academies. The intention is that, by the end of March, each school and Academy will receive its budget for either the 2013-14 financial year (in the case of maintained schools) or the 2013/14 academic year (in the case of Academies). Maintained schools should of course have received earlier funding notification direct from the local authority once the funding allocations were firmed up.

## 1.8. Funding arrangements for Academies in 2013/14 and beyond

- 1.8.1. Arrangements for calculating funding for Academies are complicated and bureaucratic. After its first year of operation, an Academy's budget is calculated on the basis of the local authority formula from the previous year. For example, an Academy open by 1 April 2012 will have its 2012/13 (academic year) budget based on the 2011-12 (financial year) formula<sup>14</sup>. The replication process used to generate budgets for some Academies relies on the Young People's Learning Agency being able to interpret and rebuild complex local authority formulae. All of this leads to Academies receiving budgets which are opaque, error-prone and – because of the time lag – not directly comparable to those received by maintained schools.
- 1.8.2. Our plans to simplify local formulae and for these to be documented on a standard pro-forma from 2013-14, as set out in sections 1.3 and 1.4 respectively, will make it much easier for Academies to understand how their budgets have been calculated. The EFA will review local formulae for compliance with the regulations and fairness, taking account of any representations it has received from schools or Academies in the area. As we explain in paragraph 1.7.6, the EFA could intervene if the funding formula results in inequitable allocations to Academies.
- 1.8.3. After checking local formulae, the EFA will use them to generate Academy budgets. This means that Academies' 2013/14 budgets will be calculated by EFA based on 2013-14 local formulae. In order for the EFA to be able to generate Academies' budgets by the end of March, it will be essential that Academies provide the EFA and the local authority

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<sup>14</sup> Academic year is denoted as, for example, 2012/13 and financial year is denoted as, for example, 2012-13.

with relevant data when requested.

- 1.8.4. Because Academy budgets will continue to be based on local formulae, it is important that Academies continue to be involved in local decision-making on Schools Forums and work with their representatives during 2012 to contribute to the formation of a simplified local funding formula. As set out in section 1.6 above, we will reform Schools Forums' composition and operation so that their business is more transparent, and their decisions better reflect the views of schools and Academies. Critically, we will ensure that only schools and PVI providers have a vote on the funding formula. The EFA will also have an observer role in Schools Forums so that it is able to attend where there are concerns that a Forum is acting unfairly. In the longer-term, we may look at whether we should set a maximum cap on the number of members and give Schools Forums an independent secretariat.

### **Local Authority Central Spend Equivalent Grant**

- 1.8.5. Local Authority Central Spend Equivalent Grant (LACSEG) is paid to Academies in recognition of the fact that as independent schools they no longer receive a number of services from local authorities and must make appropriate provision for themselves. This is calculated by taking relevant central expenditure data from local authorities' Section 251 statements in both the Schools Budget and the Local Authority Budget, and dividing it by the relevant number of pupils to obtain a per pupil figure.
- 1.8.6. Delegating the maximum amount of the Schools Block straight to maintained schools and Academies from 2013-14, as outlined in section 1.2, means that there will no longer be a separate calculation for Schools Budget LACSEG for Academies. From 2013/14, Academies will receive this funding up front as part of their budget share as calculated by the EFA in accordance with the local authority's formula.
- 1.8.7. We have made clear that the current arrangements in place in relation to LACSEG are transitional and that we plan to move to a wholly new basis for funding both Academies and local authorities for central education services from 2013-14. We need a long-term solution which is sustainable, represents value for money, and provides flexibility to respond to the changing pattern of local education provision as more maintained schools convert to Academy status.
- 1.8.8. As part of the Government's proposals to introduce a business rates retention scheme from April 2013, we are exploring the transfer of funding for relevant central education services from Formula Grant funding for local authorities into the Department for Education budget. Under this option, the Department would then administer this money as a separate grant to authorities and to Academies on a national basis, proportionate to the number of pupils for which they are responsible. The Government plans to consult on the details of the proposed business rates scheme, including on any transfers into and out of the funding baseline in the summer.

### **Additional costs associated with meeting basic need**

- 1.8.9. Funding schools and Academies on the basis of pupil numbers in the previous year means that growth in pupil numbers can create costs that are not recognised until the next school census and subsequent funding allocation.
- 1.8.10. The arrangements described in section 1.2 will enable maintained schools to return part of their delegated budget to the local authority for the provision of a contingency fund.

This fund could be used by maintained schools facing significant pressure resulting from growth to meet basic need.

- 1.8.11. The EFA will continue to work with Academies where exceptional growth in pupil numbers arising from basic need creates pressure on their budgets.

### **Free Schools, University Technical Colleges (UTCs) and Studio Schools**

- 1.8.12. Free Schools are currently funded using a simple and transparent formula, which gives a per pupil unit of funding based on the local authority averages for school budget shares and an additional amount per pupil eligible for Free School Meals based on an average of all the funding targeted at deprivation. The total revenue funding for a Free School is obtained by adding all the pupil units together to give a total revenue budget. We set out last year that new University Technical Colleges and Studio Schools will be funded as Free Schools.
- 1.8.13. We have decided that Free Schools, UTCs and Studio Schools, like other Academies, should move across to be funded from 2013/14 through the relevant local simplified formula. This will mean that all maintained schools, Academies and Free Schools will be funded on the same basis so that equivalence of funding is transparent across the system.
- 1.8.14. Our Free Schools “ready reckoner” currently gives groups of parents, teachers and other proposers an easy-to-use tool to check financial viability in the early planning stages and certainty of budget levels in the run up to opening a new school. One consequence of moving Free Schools, UTCs and Studio Schools onto the new formulae is that confirmed funding levels for new schools will not be available until the spring prior to a September opening.

***Question 5: What sort of information do Free School, UTC and Studio School proposers need, and at what stages, to enable them to check viability and plan effectively?***

## **1.9. Funding arrangements for 14-16 year olds wishing to study in further education colleges**

- 1.9.1. With effect from 2013 and following Professor Alison Wolf’s review of vocational education<sup>15</sup>, FE and Sixth Form Colleges will be able to make full time provision for 14-16 year olds. We need to ensure that there is a fair and effective means of funding this.
- 1.9.2. FE colleges making provision for 14-16 year olds should be funded so far as possible in the same way as schools in the local area. From 2013-14, we think this will mean using the simplified local funding formulae arrangements as set out in section 1.3.
- 1.9.3. Some adjustments will need to be made to the simplified formula to allow for the circumstances of FE colleges. In summary, we think the factors that should apply are:
- a) the Age Weighted Pupil Unit (AWPU) for the relevant age group;
  - b) deprivation;
  - c) looked after children; and,

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<sup>15</sup> *Review of Vocational Education – The Wolf Report*, Alison Wolf, March 2011.

d) SEN.

1.9.4. The remaining factors relate to premises and the lump sum. These are needed for schools as the funding is for the whole institution. It would not be appropriate to include these factors for colleges because the funding is for small numbers of pupils at the margin of the institution's activities.

1.9.5. The EFA will calculate the funding due, and the payment will be made in arrears through the normal channels for colleges (Skills Funding Agency for FE colleges and the EFA for Sixth Form Colleges).

## 2. Chapter 2 - Improving the way local areas are funded

Chapter Contents	
2.1	Introduction
2.2	Block arrangements for the Dedicated Schools Grant
2.3	Relevant central education services currently funded from Formula Grant
2.4	Continuation of the Pupil Premium

### 2.1. Introduction

- 2.1.1. As we work through the best way to implement a national funding formula in the next Spending Review period, we can still make some significant improvements now to the way that local areas are funded. These changes will enable an earlier settlement and more effective budgeting arrangements for schools and Academies. They will also give local authorities greater certainty on funding for early years pupils, minimising the need for contingencies. In addition, they will remove the need for complex calculations to establish Local Authority Central Spend Equivalent Grant (LACSEG) for Academies.
- 2.1.2. At the moment local authorities receive funding for schools and education through the ring-fenced Dedicated Schools Grant (DSG), the local authority Formula Grant and the Pupil Premium. These elements will continue but with three important adjustments:
- a) The DSG will be split into three notional blocks (schools, early years and high needs);
  - b) The DSG will be based on an earlier count of pupil numbers; and,
  - c) We are exploring the transfer of funding for relevant central education services from Formula Grant funding for local authorities into the Department for Education (DfE) budget. Under this option we would then administer this money as a separate grant to authorities and to Academies on a national basis.
- 2.1.3. Until we introduce a national funding formula local authorities will continue to be allocated amounts for each pupil through the DSG based on previous funding levels.
- 2.1.4. This section (and information in Annexes 3 and 4) explains these arrangements in more detail.

### 2.2. Block arrangements for the Dedicated Schools Grant

- 2.2.1. As we have said above, from 2013-14 the DSG will be split into three notional blocks – schools, early years and high needs. In 2013-14 these will be calculated based on local authorities' planned 2012-13 budgets, constrained to the total DSG received in 2012-13 and will represent the totality of what is funded through the DSG. We are doing this to enable budgets to be calculated earlier. The size of each notional block is not what we think should be spent: indeed the size of the funding passed to local authorities for each block will be based on previous local authority decisions on spend. The blocks will not be ring-fenced but we will continue to ring-fence the DSG as a whole so that it is spent on the functions for which it is meant.

2.2.2. In the July consultation<sup>16</sup>, we also proposed having a separate block for central services. As we said in section 1.2, the amounts involved are relatively small in comparison to the other blocks and we will not have a national funding formula straight away. We have therefore decided to include this expenditure in the notional Schools Block rather than through a separate Central Services Block.

### **Schools Block**

2.2.3. Currently the DSG for each local authority is not confirmed until three months into the financial year (for example, the 2011-12 DSG allocations were not confirmed until July 2011). This is because DSG allocations are based on pupil numbers from the January School Census. To enable earlier budget setting we propose that from 2013-14, the notional Schools Block will be calculated using pupil numbers from the October School Census (so for 2013-14, pupil numbers from the October 2012 School Census). In order to ensure that all schools are funded on the same data point, the change would also apply to the setting of maintained school and Academy budgets.

2.2.4. Using data from the October Census rather than the January Census for the notional Schools Block will allow the DSG to be confirmed in December, enabling maintained school and Academy budgets to be notified by 31 March, or earlier, as shown in the short indicative timetable in Table 4 below. Technical details on how the notional Schools Block will be calculated are explained in Annexes 3 and 4.

**Table 4 – Timetable for the Dedicated Schools Grant**

<u>Date</u>	<u>Action</u>
4 October 2012	School Census Day
October 2012	Local authorities submit provisional Schools Budget pro-forma to the Education Funding Agency (EFA).
28 November 2012	School Census database closed.
December 2012	EFA confirms DSG allocations for 2013-14 (prior to recoupment of funding for Academies).
January 2013	Local authorities submit final data for Schools Budget pro-forma.
January – March 2013	Local authorities confirm budgets for their maintained schools. EFA confirms Academy budgets.

### **Early Years Block**

2.2.5. The October Census cannot be used for the notional Early Years Block as the Early Years Census, which collects information on private, voluntary, and independent providers (PVI) is only collected once a year, on a census date in January. Early years funding also differs from main school funding because providers have to be funded for the pupil numbers that they actually have during the financial year, rather than on an

<sup>16</sup> A consultation on school funding reform: Proposals for a fairer system, Department for Education, July 2011.

earlier fixed data point. This is because there are many small providers which need to be paid promptly for increases in numbers of children in order to be able to cope with cash-flow. It would be helpful for local authorities, therefore, if the national funding system could also be more responsive to changes in numbers during the course of the year.

- 2.2.6. Consequently, we propose that the notional Early Years Block should continue to be funded on the January count (taking the relevant pupil numbers from the School Census and all pupils on the Early Years Census), but should then be updated to reflect actual pupil numbers. This means for 2013-14, the EFA would base the initial notional Early Years Block on each local authority's planned early years spending for 2012-13 and on the January 2012 count. This would be updated for the January 2013 count in summer 2013 and the allocations would be adjusted at the end of the financial year using the January 2014 count.
- 2.2.7. These changes will ensure that the early years funding from the EFA more accurately reflected the pupils that the local authority had to fund during the financial year. It would also mean that local authorities would not have to hold significant contingencies for early years when setting their overall budgets. We also plan to phase out the 90% funding floor for 3 year olds from 2013-14, section 4.5 sets this out in more detail.

### **High Needs Block**

- 2.2.8. In the formula for local authority schools funding that operated up to 2005-06, the high needs pupils element was based on population of the relevant age rather than pupil numbers. The use of population is also part of our future proposals because local authorities are responsible for all the young people with high needs who live in their area.
- 2.2.9. As we set out in the July consultation, the High Needs Block will cover funding for education provision for high needs pupils and students from birth to 25, in line with the proposals set out in the Green Paper on SEN and disability<sup>17</sup>. This is in order to introduce an integrated and coherent approach to assessment and provision across this age range. When we refer to provision up to the age of 25, this is because local authorities and the DfE are responsible for the education of young people subject to a learning difficulty assessment up to the age of 25.
- 2.2.10. We propose that the notional High Needs Block would use, as a baseline, the 2012-13 budgeted spend on high need pupils and students. This is drawn from the 2012-13 Section 251 Budget Statements, and the 2011/12 information on student numbers and spend on high needs students aged 16-25 in further education (FE) providers and independent specialist providers held by the Young People's Learning Agency. We will consider whether this block should be adjusted by population projections in future. This means that neither the Pupil Referral Unit Census nor the Alternative Provision Census, which take place in January only, would be used for funding purposes. The notional High Needs Block could therefore be confirmed at the same time as the notional Schools Block as set out above. Chapter 3 gives more information about the High Needs Block.

### **Summary of arrangements for the DSG**

- 2.2.11. The DSG allocations for 2013-14 would be confirmed in December 2012, comprising:
- a) A confirmed notional Schools Block based on the October 2012 Census;

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<sup>17</sup> *Support and aspiration: A new approach to special educational needs and disability*. Department for Education, March 2011.

- b) An initial notional Early Years Block based on the January 2012 Census, to be updated during 2013-14 for January 2013 and January 2014 pupil numbers; and,
- c) A confirmed notional High Needs Block based on 2012-13 spend, possibly updated for 2013-14 population projections.

## 2.3. Relevant central education services currently funded from Formula Grant

- 2.3.1. As we explained in sections 1.8.5 to 1.8.8, we are exploring the removal of the funding for relevant central education services from local authority Formula Grant and administering this money as a separate grant to authorities and Academies on a national basis, proportionate to the number of pupils for which they are responsible. We plan to consult on this jointly with the Department for Communities and Local Government as part of the consultation on a business rates retention scheme in the summer.

## 2.4. Continuation of the Pupil Premium

- 2.4.1. The Pupil Premium was introduced in April 2011 to provide extra funding for deprived pupils. Such pupils significantly underachieve compared to their peers and the Premium, which will amount to £2.5 billion by 2014-15, is being provided to help raise their attainment. Funding for the Premium is being met from outside the schools budget.
- 2.4.2. To ensure that the funding available through the Premium is clearly identifiable and can be easily targeted at the relevant pupils, the Government is allocating Pupil Premium funding as a separate grant outside the Dedicated Schools Grant (DSG).
- 2.4.3. The Deprivation Premium is being paid in respect of pupils known to be eligible for free school meals (FSM). For 2012-13, following consultation on options to extend coverage of the Premium, Ministers decided that the Premium should be extended to those pupils eligible for FSM in the last six years. This is intended to ensure that secondary schools continue to receive Premium funding even though secondary pupils are less likely to register for FSM. In 2011-12, FSM pupils attracted £488 and this will rise to £600 in 2012-13.
- 2.4.4. The Department for Work and Pensions plan to phase in Universal Credit between October 2013 and 2017, replacing many current in-work and out-of-work benefits with a single payment. This means that the majority of the current criteria for determining entitlement for FSM will no longer exist. We are currently considering proposals for new eligibility criteria which can be aligned with Universal Credit.
- 2.4.5. Longer term, the intention is that the Premium will become the main mechanism for allocating deprivation funding to schools, as part of a new formula, rather than continuing as a separate grant alongside existing deprivation funding within the DSG.

### 3. Chapter 3 - Improving arrangements for funding pupils and students with high needs

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3.3	A reformed approach to high needs funding: “place-plus”
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3.6	Equivalent funding for specialist settings under place-plus
3.7	Top-up funding from the commissioner for mainstream and specialist settings
3.8	Roles and responsibilities within a place-plus approach
3.9	Transitional protection for providers
3.10	Next steps

#### 3.1. Introduction

- 3.1.1. The Green Paper on special educational needs (SEN) and disability, *Support and aspiration: A new approach to special educational needs and disability*, and Charlie Taylor’s report, *Improving alternative provision*, have set out an ambitious reform agenda for raising aspirations and improving attainment of pupils and students who require additional specialist, often costly, educational support.<sup>18</sup> These reforms aim to encourage the development of high-quality and innovative provision, to improve transparency, and, particularly in relation to SEN, to empower young people and their families and to increase choice.
- 3.1.2. To achieve this, we need a set of funding arrangements for pupils and students with high needs that is responsive to the needs of individual pupils and students, and is supported by clear information in the form of a local offer about the high needs provision available in schools, colleges and other providers. Furthermore, we must avoid perpetuating or creating potential perverse financial incentives that may prevent young people receiving the educational experience that is right for them.
- 3.1.3. The current funding system falls some way short of this. Since different types of providers are funded in different ways for high needs provision, the current system contains potential perverse financial incentives to place pupils and students in one type of provider over another. Furthermore, the complexity in the current funding arrangements means it is difficult for young people and their families to understand what provision is available to them and to exercise meaningful choice.
- 3.1.4. For these reasons, we will reform education funding arrangements for high needs pupils and students. We will ensure that funding for high needs provision is arranged on an

<sup>18</sup> <http://www.education.gov.uk/childrenandyoungpeople/sen/a0075339/sengreenpaper>, <http://www.education.gov.uk/schools/pupilsupport/behaviour/a00204776/taylor-review-of-alternative-provision>

equivalent basis across different types of providers. This approach will also ensure that funding arrangements are transparent and that there is clear and accessible information about available provision for commissioners, providers, and young people and families. This will help to improve choice for young people and their families, remove potential perverse incentives, and thus ensure pupils and students with high needs get the support they need to fulfil their potential. We are working towards the introduction of these reforms from financial year 2013-14.

3.1.5. The scope of these reforms includes education funding arrangements for pupils and students with high needs in the school, further education (FE), and alternative provision (AP) sectors. As a result, the explanation of these reforms in this chapter and Annexes 5A, 5B and 5C, is more extensive than the funding reforms described elsewhere in this document.

3.1.6. In addition to providing information about the application of these funding reforms to particular sectors, Annex 5A also contains several consultation questions to which we would welcome responses.

### **Definition of high needs pupils and students**

3.1.7. For the purposes of considering funding for pupils and students requiring high levels of specialist provision, we have referred to this group as high needs pupils and students. There is no precise definition of a high needs pupil or a high needs student, but by this we mean those pupils or students who require provision that would not normally be available in mainstream settings.

3.1.8. In July<sup>19</sup>, we proposed to define high needs pupils and students as those requiring provision costing more than around £10,000 per year. We deliberately chose a financial threshold to define a pupil or student with high needs, as opposed to an assessment-based threshold – such as having a statement of special educational needs (SEN) – since the latter could create perverse incentives if assessment was linked directly to additional funding. For example, this could create additional pressure for unnecessary statutory assessments.

3.1.9. High needs pupils and students include:

- a) pupils aged from birth to 19 with high-levels of SEN in schools, Academies or other settings;
- b) those aged 16-25 with high-level learning difficulties or disabilities (LDD) in FE; and,
- c) school-age pupils placed in AP.

3.1.10. In line with the ambition set out in the SEN and disability Green Paper to create an integrated approach to assessment and provision from birth to 25, we will move towards a funding approach that is consistent across all provision for high needs pupils and students in the SEN and LDD sectors. Our response to the consultation following the publication of the SEN and disability Green Paper, which will be published shortly, will explain the specific ways in which this new approach to funding will fit with and support the reforms of the SEN and disability framework.

3.1.11. Furthermore, as we proposed in July, the new approach will continue to treat funding for

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<sup>19</sup> A consultation on school funding reform: Proposals for a fairer system, Department for Education, July 2011.

pupils in AP alongside funding for pupils with SEN and students with LDD.

- 3.1.12. When we refer to provision up to the age of 25, this is because local authorities and the Department for Education (DfE) are responsible for the education of young people subject to learning difficulty assessments up to the age of 25. The proposals set out in this chapter do not relate to funding for higher education for these young people, but to provision in the school, FE and AP sectors.

## 3.2. Principles and context: The case for reform

- 3.2.1. We believe that a reformed funding approach for high needs pupils and students must meet the high-level principles we set out in the July consultation on school funding, as well as supporting effectively our wider education reform agenda. This is particularly important in the context of our reforms of the SEN and disability framework, reform of behaviour, exclusions and AP policy, reform of qualifications and vocational education, and the structural reforms of the school system through the Academies and Free Schools programmes.

- 3.2.2. We believe that there are four fundamental problems with existing arrangements that make reform of high needs funding imperative.

- a) **We must remove potential perverse financial incentives to place pupils and students in one type of provider over another.** At present, provision for high needs pupils or students is funded in a number of different ways according to the type of institution in which a pupil or student is placed. This can give rise to potential perverse financial incentives to place a pupil or student in one type of provider over another. For example, it is often the case that a local authority will incur different additional costs according to whether a pupil with SEN is placed in a special school / Academy, a mainstream school / Academy, a school / Academy in a neighbouring local area, or an independent or non-maintained special school. The same is true of current funding in the AP sector. If we are to ensure high needs pupils and students receive a high-quality education and, where appropriate, they and their families are able to exercise choice, we must remove any potential perverse financial incentives from funding arrangements for high needs pupils and students.
- b) **We must address the awkward divide in funding arrangements when a young person reaches the age of 16.** The fact that there are different funding arrangements according to whether a young person stays in school or enters FE at 16 can also give rise to potential perverse financial incentives. This system, in which there are separate funding regimes pre-16 and post-16, as well as 3 different funding streams for post-16 high needs provision, does not support our aims of improving choice and raising aspirations. To address this we need a reformed funding approach that supports the integrated approach to provision from birth to 25 proposed in the SEN and disability Green Paper.
- c) **We must create a sustainable long-term basis for funding high needs pupils in Academies and Free Schools.** The existing system for funding high-level SEN in Academies is bureaucratic, error-prone and costly. The interim arrangements for funding special Academy converters by replicating local funding approaches are complex and opaque. As the numbers of special Academies increase, these arrangements will become increasingly impractical.
- d) **We must avoid bureaucratic processes getting in the way of dialogue between**

**the commissioner and provider about the pupil or student and their results.** The practice of local authorities recouping funding from other authorities that place pupils in a school or Academy located in their area does not foster effective dialogue between commissioners and providers about the needs and aspirations of individual pupils. We know of examples where a pupil has been placed in a school or Academy without any discussion between the commissioning local authority and the provider about the pupil's needs, and their expected progress and results. Such conversations are crucial if pupils are to be supported by schools, Academies and other providers to fulfil their potential.

Furthermore, the lack of clarity about responsibilities and timescales for inter-authority recoupment for Academies has left some Academies in the position of having to chase payments from local authorities, sometimes more than 12 months after the pupil was placed in the Academy. We must replace the system of inter-authority recoupment with funding arrangements that foster dialogue about high needs pupils and students, their needs, and their expected progress and results.

3.2.3. Our new approach to funding for high needs pupils and students will be one in which:

- a) **funding is genuinely responsive to individual pupils' and students' needs** in a way that balances greater responsiveness of providers' funding to actual pupil or student numbers with an appropriate degree of funding stability for specialist providers;
- b) **all providers are funded on an equivalent basis** so that the programme of education for a high needs pupil or student is funded in a comparable way whatever form of institution they attend so as to avoid potential perverse financial incentives;
- c) **education funding for pre-16 and post-16 high needs provision is brought together** so as to support the development of the integrated approach to assessment and planning from birth to 25 proposed in the SEN and disability Green Paper, as well as ensuring that young people are able to make successful transitions at 16 and to adult life; and,
- d) **there is clear information about available provision for high needs pupils and students** in the form of a local offer that will set out clearly what providers will be expected to provide for high needs pupils and students.

3.2.4. This approach will encourage high-quality, innovative provision, improve transparency of funding decisions and choice, and help to ensure that children and young people get the right educational support that will enable them to aspire, achieve and fulfil their potential.

3.2.5. While this new approach has been designed to support our reforms of the SEN, LDD and AP statutory frameworks, it has also been designed to operate within the current statutory frameworks that operate in these sectors in relation to assessment, commissioning, admissions and accountability. None of the funding reforms set out in this chapter would of themselves alter these existing statutory frameworks, or require such alteration in order to be implemented.

### 3.3. A reformed approach to high needs funding: “place-plus”

3.3.1. The reforms that we will introduce will be based on the high-level principles and proposals on which we consulted in July, specifically those to move to a funding

approach based more on actual pupil numbers and to combine this with a base level of funding to offer specialist providers some stability. The new approach will see provision for high needs pupils and students funded on a mixture of a place- and a pupil-led basis. For this reason, we have called this approach “place-plus”.

- 3.3.2. Under a place-plus approach high needs funding will comprise three elements, which can be applied across all provision for high needs pupils and students.

**Element 1, or “core education funding”:** the mainstream unit of per-pupil or per-student education funding. In the school sector for pre-16 pupils, this is the age-weighted pupil unit (AWPU), while for post-16 provision in schools and in the FE sector this is the mainstream per-student funding as calculated by the national 16-19 funding system.

**Element 2, or “additional support funding”:** a clearly identified budget for providers to provide additional support for high needs pupils or students with additional needs up to an agreed level.

**Element 3, or “top-up funding”:** funding above elements 1 and 2 to meet the total cost of the education provision required by an individual high needs pupil or student, as based on the pupil’s or student’s assessed needs.

- 3.3.3. For the purposes of describing this approach, and in particular of showing the equivalent composition of funding in different settings, we consider instances both where a pupil or student with high needs is placed in a mainstream setting and in a specialist setting.

- a) By **specialist settings**, we mean institutions or places in institutions that are set aside specifically for pupils or students with high needs. This includes places that have been specifically designated through the statutory school organisation process, in maintained special schools, special Academies and Free Schools, and in designated specially resourced provision or special units in mainstream schools or Academies. This also includes places for pupils and students with high-level SEN or LDD in independent and non-maintained special schools (INMSSs), and post-16 independent specialist providers (ISPs). Lastly, this includes places for pupils in maintained pupil referral units (PRUs), other maintained AP settings, AP Free Schools and AP Academies.
- b) By **mainstream settings**, we mean a setting in which a high needs pupil or student is educated in a mainstream environment, and not in a designated place or institution that caters specifically only for high needs pupils or students. This would include the placement of a high needs pupil or student in a mainstream school, Academy or FE provider, where the pupil or student is not placed in specially resourced provision or a SEN unit.

## 3.4. The role of the notional High Needs Block

- 3.4.1. As we proposed in the July consultation and explained in section 2.2 of this document, we will bring together all education revenue funding for high needs pupils and students across the SEN, LDD and AP sectors, in the form of a clearly-identified notional High Needs Block with the Dedicated Schools Grant (DSG). This will mean that local authorities will receive an identified amount of funding from which they – or mainstream school commissioners in the case of some AP – can carry out their statutory duties in relation to high needs pupils and students aged from birth to 25, and commission

provision and provide top-up funding to providers. This funding will be notional – local authorities will be able to move resources flexibly between the different notional blocks within the DSG, subject to the existing central spend limit.

- 3.4.2. As well as making information about available high needs provision and funding arrangements more transparent, the creation of the notional High Needs Block will facilitate the more personalised approach to funding proposed in the SEN and disability Green Paper. The Green Paper pathfinders are currently testing what provision could be included in a SEN personal budget, including through the use of direct payments for education and health provision. Further information about this will be made available as the pathfinder programme develops. The reforms of high needs education funding we are setting out here would enable any provision funded from the local authority's notional High Needs Block, above elements 1 (core education funding) and 2 (additional support funding), to be included in a SEN personal budget.
- 3.4.3. The introduction of these reforms will also increase the flexibility with which funding can be used to commission and shape provision for high needs pupils and students. The SEN and disability Green Paper set out our aim to encourage greater collaboration across local authority areas, between commissioners and between providers. We know that collaboration between providers and across services can help professionals to commission and deliver better services, and we know of many excellent examples of effective collaboration between mainstream and special schools and Academies, and between mainstream and specialist FE providers.
- 3.4.4. We consider that the increased transparency, flexibility and equivalence of high needs funding associated with the place-plus approach will support effective and innovative collaboration between different types of providers and across education, health and social care services. Where high needs pupils or students have health and social care needs, we expect that education providers will want to work closely with partners in local social care and health services, such as NHS Clinical Commissioning Groups, in order to pioneer innovative and effective provision and support. In these instances, we would also expect that the appropriate forms of support to meet a child's health and social care needs would be funded by the appropriate agencies.
- 3.4.5. The introduction of place-plus and the creation of a notional High Needs Block will also clarify the composition of the funding a provider receives for pupils and students with high needs. In relation to pre-16 high-level SEN and AP, the introduction of the place-plus approach will require some adjustments between local authorities, and between local authorities and the Education Funding Agency (EFA)<sup>20</sup>, so that the base funding for specialist settings is in the appropriate place to be paid to the relevant providers. These changes are necessary in order to achieve greater transparency and equivalence, and to create a sustainable long-term funding approach for high needs pupils and students. The introduction of these reforms will not in itself, however, create changes to the current levels of spending power and will not affect the total budget made available for high needs pupils or students.
- 3.4.6. As we set out in section 2.2, at the point at which these reforms are introduced and in the immediate short-term, the notional High Needs Block will be distributed on the basis of

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<sup>20</sup> The Education Funding Agency (EFA) is a new executive agency of the Department for Education that, from April 2012, will be responsible for capital and revenue funding for 3-19 education and training. The EFA will directly fund Academies, Free Schools and 16-19 providers; it will fund local authorities for maintained primary and secondary schools; and it will be responsible for the distribution of capital funding and advice on capital projects.

the 2012-13 budgeted spend on high need pupils and the 2011/12 information on student numbers and spend for post-16 high needs students. As we prepare for the introduction of a new national funding formula for mainstream school and Academy funding, at the same time we will also consider further the way in which local authorities' notional High Needs Block is calculated and allocated. This will help to ensure that the introduction of a reformed approach to high needs funding is not unduly disruptive, and thus that commissioners and providers can become accustomed to the new arrangements without having to be concerned about potential redistribution of resources between local areas.

### 3.5. Funding for mainstream settings under place-plus

- 3.5.1. The introduction of the place-plus approach will help to ensure that young people receive the educational experience that is right for them. The place-plus approach will help to improve consistency of practice and clarity of information about high needs provision in mainstream settings, and injecting greater dynamism into the funding of specialist settings. This will in turn also bring about greater equivalence of funding between mainstream and specialist settings, and the removal of perverse financial incentives to place a pupil or student in one type of provider over another.
- 3.5.2. Under a place-plus approach, all mainstream providers will receive elements 1 (core education funding) and 2 (additional support funding) as part of their standard funding. This will mean that, in addition to mainstream per-pupil or per-student funding (element 1), providers will also receive a clearly-identified budget from which they will be expected to contribute up to a specified level for the provision required by high needs pupils or students placed with them (element 2).
- 3.5.3. Existing funding arrangements already work in this way: mainstream schools and Academies already receive a notional SEN budget and mainstream FE providers an Additional Learning Support (ALS) allocation. We propose to keep these arrangements in place and to build on them. We set out in section 1.3 the way in which local authorities will be able to distribute funding from their notional Schools Block to mainstream schools and Academies in the form of a clearly-identified notional SEN budget. Mainstream funding arrangements for 16-19 education are being considered currently following the 16-19 funding formula review consultation. We provide further information about how the new approach for mainstream schools and FE providers will build on existing arrangements in Annex 5A.
- 3.5.4. As we set out in the July consultation, we will introduce an approach within which the expectation will be that mainstream providers contribute the first £6,000 of additional educational support required by each pupil or student with high needs. By funding for additional educational support (element 2), we mean funding for the support a pupil or student needs to access their programme of education above the level of mainstream per-pupil or per-student funding received by the provider.
- 3.5.5. We have arrived at this figure based on work carried out by PricewaterhouseCoopers for the last funding review in 2009.<sup>21</sup> This work proposed that a pupil with high needs should be defined as one who requires provision costing around £6,200 in addition to mainstream per-pupil funding. While we are aware that local practice in this regard varies, we know that many local authorities operate a threshold at or around this level for

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<sup>21</sup> PwC research for Dedicated Schools Grant Review 2009:  
<http://webarchive.nationalarchives.gov.uk/20100603155746/http://www.teachernet.gov.uk/docbank/index.cfm?id=14194>

mainstream schools. Likewise we know that a threshold of £5,500 is used by the Young People's Learning Agency (YPLA) in current funding arrangements for FE providers. For these reasons, we consider that £6,000 would be an appropriate level up to which mainstream settings will be expected to contribute to the costs of additional educational support and provision for high needs pupils and students. Further information about how these arrangements will work in practice in each sector can be found at Annex 5A. Illustrative examples setting out how this approach would work for a high needs pupil placed in a mainstream school and a high needs student placed in a mainstream FE college can be found in examples A and H respectively in Annex 5B.

- 3.5.6. Information about the provision for high needs pupils and students available in mainstream settings would be agreed locally and would be set out in the form of a local offer of education provision for high needs pupils and students. This would include the provision that mainstream providers would be expected to provide from their own budgets, as well as available provision in specialist settings. The concept of the local offer was set out in the Government's SEN and disability Green Paper. We expect that local authorities and providers will develop information about available education provision for high needs pupils and students in preparation for the introduction of this new high needs funding approach, which can then be used to support the development of the integrated local offer of all SEN provision proposed in the Green Paper.

### 3.6. Equivalent funding for specialist settings under place-plus

- 3.6.1. For specialist settings for high needs pupils and students, for the purposes of improving choice and quality, as well as avoiding potential perverse financial incentives, we want to ensure that funding is arranged in an equivalent manner to mainstream settings.
- 3.6.2. In terms of pre-16 SEN provision in schools and Academies, as we set out in the July consultation, we will introduce a base level of funding that is broadly equivalent to the core education funding (element 1) and additional support funding (element 2) received by a mainstream school or Academy. In other words, funding equivalent to AWPU, and a contribution of £6,000 for each high needs pupil from the school's or Academies' notional SEN budget. In addition to ensuring equivalence of funding between specialist and mainstream settings, the base level of funding will also provide some stability of funding for specialist settings in the context of a more pupil-led approach to funding.
- 3.6.3. We know that levels of AWPU vary from one local area to another, according to a range of factors, but on the basis that a mainstream school or Academy will receive on average AWPU of around £4,000, on top of which the mainstream school or Academy will be expected to contribute the first £6,000 of the cost of a high needs pupil's additional educational support, we will set the base level of funding for specialist pre-16 SEN settings at £10,000. Base funding will be paid to providers on the basis of an agreed number of planned places in a particular setting.
- 3.6.4. As we set out in Annex 5A, the number of planned places funded in each institution will be reviewed on a regular basis. This is in order to ensure that funding for high needs pupils and students reflects local patterns of need and, where appropriate, choice, and the local commissioning decisions based on these, as well as ensure that public funding is used efficiently and to best effect.
- 3.6.5. We propose to introduce a similar arrangement for the AP sector. For the reasons we set out in the July consultation, however, we do not think that £10,000 would be the appropriate level of base funding for the AP sector. The variety of provision in the AP

makes it difficult to establish an appropriate base level of funding. We know that not all AP costs £10,000 and it is important that we avoid setting the base level of funding higher than the costs of some AP. We also know, however, that the vast majority of AP costs more than £8,000. As such, we propose to set the base level of funding for AP settings at £8,000 per planned place. We would welcome responses to the consultation question on the base level of funding for the AP sector set out in Annex 5A.

- 3.6.6. In terms of funding for post-16 SEN and LDD provision in specialist settings (provision for post-16 high needs pupils in special schools and Academies, post-16 high needs pupils in special units or specially resourced provision in mainstream schools and Academies, and for high needs students in ISPs), these arrangements will need to differ slightly to take account of the fact that mainstream post-16 funding is arranged differently to mainstream pre-16 funding. Our overall aim, however, remains that of ensuring equivalence of funding for high needs provision in mainstream and specialist settings.
- 3.6.7. As such, and as we set out in more detail in Annex 5A, our proposal is that funding for elements 1 (core education funding) and 2 (additional support funding) is arranged in the same way in mainstream and specialist settings. This will mean that post-16 provision in special schools and Academies, special units specially resourced provision in mainstream schools and Academies and in ISPs will be funded on the basis of mainstream per-student funding as calculated through the national 16-19 funding system (element 1), and an allocation of additional support funding of £6,000 for each high needs pupil or student placed in the setting (element 2).
- 3.6.8. Pre-16 SEN, post-16 SEN and LDD, and AP specialist settings will receive their funding for elements 1 and 2 (core education funding and additional support funding) either direct from the EFA or through the maintaining local authority. Special and AP Academies and Free Schools, and mainstream academies that have designated special units or specially resourced provision will receive their allocation of base funding for a specified number of planned places direct from the EFA. Post-16 FE colleges and ISPs will also receive elements 1 and 2 (core education funding and additional support funding) direct from the EFA. Illustrative examples setting out how this approach would work for a high needs pupil placed in a special Free School, a high needs student placed in an ISP, and a pupil placed in AP can be found in Examples B, I, J and K respectively in Annex 5B.
- 3.6.9. For maintained PRUs, special schools or mainstream schools with designated special units or specially resourced provision, base funding covering elements 1 and 2 of their high needs provision will be “passported” through the maintaining local authority. In other words, for maintained providers this funding would be given to the local authority to be passed on directly to the provider. For other placements with independent, non-state-funded providers, the placing local authority would receive the base level of funding and would pass this on to the provider with the fees paid for a place in that setting. As we set out in Annex 5A, we are considering whether independent and non-maintained special schools would receive base funding for pupils placed with them by local authorities direct from the EFA or whether this would be passed on to providers with the fees paid by the commissioner.
- 3.6.10. Where base funding is passported to a provider through a local authority, this will be clearly identified as the place-led component of the High Needs Block and will be distinct from the local authority’s pupil-led component. This will ensure that all placements for high needs pupils and students are funded on an equivalent basis and local authority commissioners are not faced with different additional costs when considering where to place a high needs pupil or student.

- 3.6.11. From a local authority's perspective, this will mean that the high needs funding that the local authority receives will be in two distinct and clearly-identified components.
- a) **The place-led component.** This will be an allocation of base funding for specialist settings in institutions the local authority maintains (or independent, non-state-funded providers in which the local authority places pupils), which would then be passported to the providers. This funding would be calculated on the basis of £10,000 per-place for pre-16 SEN specialist settings, £8,000 per-place for AP settings, and on the basis of the national 16-19 funding system and an allocation of additional support funding for maintained post-16 settings.
  - b) **The pupil-led component.** This will be an amount of funding for the high needs pupils or students for which the local authority was responsible, to be passed on to providers on a per-pupil or per-student basis when commissioning provision from those institutions.
- 3.6.12. Further information about how the two components of high needs funding would work from a local authority's perspective, and two consultation questions to which we would welcome responses, can be found in Annex 5A.

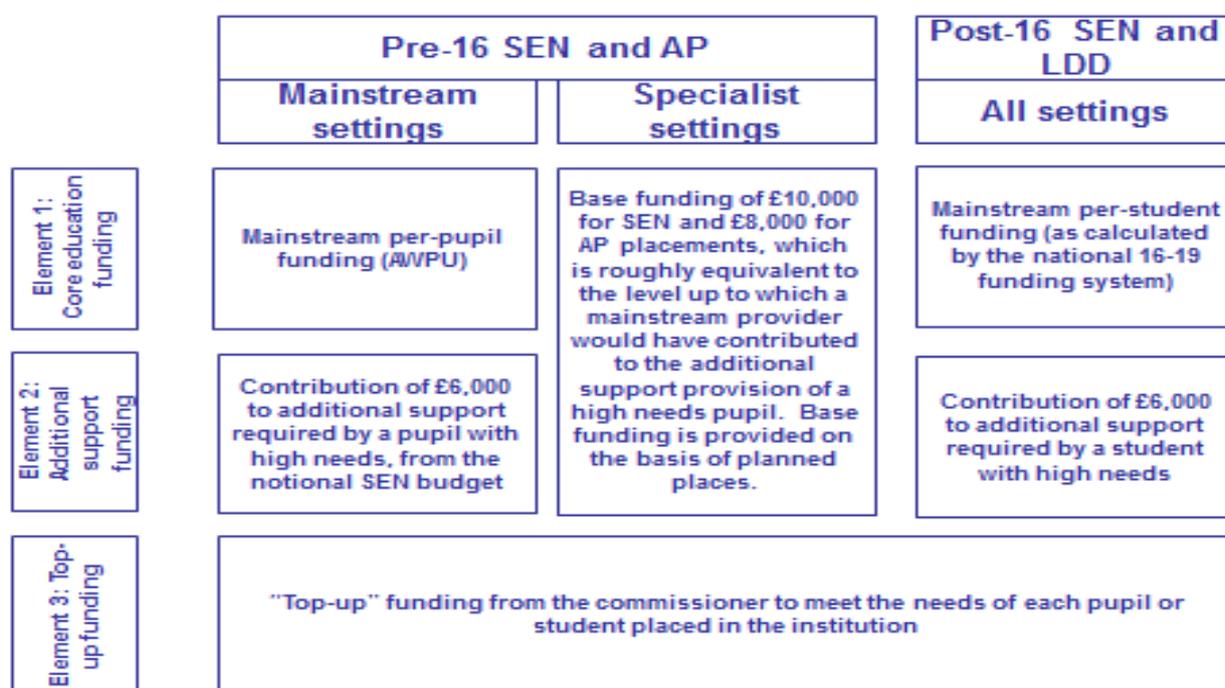
### 3.7. Top-up funding from the commissioner for mainstream and specialist settings

- 3.7.1. Above the level of elements 1 (core education funding) and 2 (additional support funding), both mainstream and specialist settings will receive element 3 funding in the form of a top-up directly from the commissioner based on the assessed needs of the individual pupil or student placed in a particular institution.
- 3.7.2. By commissioner, we mean the body that has the statutory responsibility for arranging the educational provision for the pupil or student. For pupils with SEN or students with LDD, the commissioner is the local authority in which the child lives, who will continue to make decisions about the placement of pupils and students with high-level SEN or LDD based on whether the placement represents appropriate provision and an efficient use of resources.
- 3.7.3. Under the current statutory framework in relation to pupils placed in AP the commissioner is either:
- a) the local authority – for pupils permanently excluded or pupils of compulsory school age who would not receive a suitable education without such provision; or,
  - b) a mainstream school or Academy – for fixed-period exclusions or pupils placed in AP for the purposes of early intervention or off-site direction.
- 3.7.4. Where commissioning responsibilities for AP sit with mainstream schools, top-up funding could be devolved so that mainstream schools could pay top-up funding for the provision that they commission. Following the proposals in Charlie Taylor's review of AP, AP commissioning will increasingly move from local authorities to schools.
- 3.7.5. Top-up funding will be given to providers on a per-pupil or per-student basis, will move in or close to the real-time movement of the pupil or student, and will flow directly between the commissioner and provider. This will mean that funding is discussed by the commissioner and provider alongside dialogue about the pupil's or student's needs,

provision, and expected progress and results. This will help to ensure greater accountability and value for money. In relation to funding for pre-16 pupils with high-level SEN or pupils placed in AP settings, the move to per-pupil top-up funding will mean an end to the current system of inter-authority recoupment and its replacement with arrangements based on direct relationships between commissioners and providers. Example C in Annex 5B illustrates the way that a direct funding relationship between the commissioner and provider would work in the case of a pupil placed in a special Academy.

3.7.6. We consider that there is an important role to be played by a form of banding framework in facilitating discussions between commissioners and providers about pupil or student placements and appropriate levels of top-up funding. We know that there are many effective examples of local banding frameworks that local authorities use to manage funding for pre-16 pupils with high-level SEN in schools. We set out further details about how funding relationships between commissioners and providers will work under this approach in Annex 5A. Specifically, we describe in Annex 5A details of how existing local banding arrangements in the SEN sector might be built on, as well as how such arrangements might be developed in the LDD and AP sectors, and how this might link with the development of a national banded funding framework proposed in the SEN and disability Green Paper.

**Figure 1: Equivalence of funding for all high needs provision under a place-plus approach**



3.7.7. Figure 1 sets out the composition of the elements of high needs funding under a place-plus approach, and the way in which the introduction of a place-plus funding approach would introduce consistency and equivalence of funding across all education provision for high needs pupils and students in whichever type of institution they are educated.

3.7.8. Further details of the way in which the place-plus approach will operate in each of the SEN, LDD and AP sectors are set out in Annex 5A. Annex 5A also contains a set of

important consultation questions to which we would welcome responses, including questions about the level of base funding in the AP sector, developing a new funding approach for hospital education, and some detailed questions about the way in which this approach would work in practice. A series of illustrative examples showing how the place-plus approach will work for individual pupils and students is set out in Annex 5B. A table showing the composition of funding for different types of providers can be found in Annex 5C.

### 3.8. Roles and responsibilities within a place-plus approach

- 3.8.1. A place-plus approach would bring about not only greater equivalence and transparency of funding, and better information about locally-available provision, but also greater clarity over the respective roles and responsibilities of providers, commissioners and the EFA. One of the key components of a place-plus funding approach will be regular, evidence-based dialogue between providers, commissioners and the EFA.
- 3.8.2. Under a place-plus approach, **providers** would be responsible for:
- a) delivering the provision for which they have been commissioned for the individual pupils or students placed in the institution, using their professional expertise and judgement;
  - b) engaging in dialogue with commissioners in relation to individual pupils or students and being accountable for their progress and achievements, for example through annual reviews of progress, and in relation to strategic planning of provision; and,
  - c) contributing to clear and transparent information for young people and their families about the provision they offer for high needs pupils and students.
- 3.8.3. Subject to any changes to commissioning responsibilities for AP introduced following Charlie Taylor's review of AP and the current exclusions trial, **commissioners** would be responsible for:
- a) strategic planning of provision for high needs pupils and students, including through dialogue with other commissioners, providers and the EFA so as to ensure that funding for specialist provision is in the right place;
  - b) commissioning and paying top-up funding for the high needs pupils and students for whom they are responsible; and,
  - c) engaging in dialogue with providers and ensuring that placements of high needs pupils and students achieve agreed outcomes and make appropriate use of public money.
- 3.8.4. Where the commissioner is a local authority, it would also be responsible for passporting base funding equivalent to elements 1 and 2 (core education and additional support) to, and reviewing allocations of this funding for, specialist settings that it maintains.
- 3.8.5. Lastly, the **EFA** would be responsible for:
- a) allocating and distributing the national budget for provision for high needs pupils and students to providers through the allocation of base funding to specialist settings, and to local authorities through their High Needs Block;

- b) where appropriate and in accordance with the process set out in Annex 5A, making adjustments to the number of planned places in a particular specialist setting on the basis of evidence from the provider and its commissioners; and,
- c) in relation to specialist providers to whom the EFA paid base funding equivalent to elements 1 and 2 (core education and additional support funding) directly, convening reviews of the number of planned places in those settings.

- 3.8.6. In the cases of some providers that are not maintained by a local authority, where appropriate, the EFA may hold any necessary institutional-level contracts with the provider and carry out any general auditing or financial compliance processes that are required. The EFA will not, however, have a role in commissioning. Responsibility for this is properly that of the individual commissioners who have placed pupils or students in that setting.
- 3.8.7. We want to ensure that unnecessary bureaucratic burdens are not placed on providers and that there is clarity as to the respective roles and responsibilities of the EFA and local authorities. We would expect local authority commissioners to work together and with providers to develop appropriate, light-touch and consistent approaches for reviewing the progress of pupils and students placed in particular institutions that do not create unnecessary administrative burdens for providers. This will also include avoiding the duplication of processes carried by the EFA or other local authorities, and accepting assurances from the EFA or other local authorities in relation to these.
- 3.8.8. Such approaches may include, for example, groups of local authorities working together to develop consistent processes for reviewing pupil or student progress and working together to nominate a lead local authority to carry out these reviews for pupils or students placed with a specific provider. Such an approach would avoid duplication, reduce bureaucracy, and help commissioners and providers to make the most efficient use of resources. Following the publication of this document, we will continue to work with groups of stakeholders to consider how this can be achieved.

***Question 6: What are the ways in which commissioners can ensure responsibilities and arrangements for reviewing pupil and student progress and provider quality can be managed in a way that does not create undue administrative burdens for providers?***

### 3.9. Transitional protection for providers

- 3.9.1. We recognise that these reforms represent a new way of funding specialist high needs provision. As such, we want to ensure that the transition from the current funding system to the new arrangements is as smooth as possible. As we prepare for the introduction of these reforms from the start of 2013-14, we will consider appropriate forms of transitional protection to help providers through the process of change.
- 3.9.2. As we have mentioned above, one way in which we will support a smooth transition to the new model is by basing the distribution of the notional High Needs Block in 2013-14 on the basis of the 2012-13 financial year budgeted spend on high needs pupils and on the 2011/12 academic year information on numbers of post-16 high needs students and levels of spending on their provision. Furthermore, in relation to high needs pupils and students that are part way through an educational programme or course in a particular setting, provided they are making expected progress, we would expect commissioners to honour existing commitments to fund those programmes so as not to disrupt provision for

the individual pupils and students. This should help to ensure that providers will receive consistent levels of funding for high needs pupils and students already placed with them following the introduction of these reforms.

- 3.9.3. To provide further support through the transitional period and enable commissioners and providers to become accustomed to the new approach without having to contend with sudden and dramatic shifts of funding that may destabilise specialist provision, we would envisage putting in place some further protection for providers. In the case of maintained special schools, Special Academies, and special units in mainstream schools and Academies, this would be done by setting a condition of grant relating to the level of top-up funding, as explained in paragraph 1.5.9. We will look also at what protection may be needed for specialist post-16 providers.

***Question 7: Are there other ways that we can help to ensure a smooth transition for commissioners and providers to the reformed funding approach for high needs pupils and students?***

### 3.10. Next steps

- 3.10.1. This chapter has set out a broad overview of a new approach to funding provision for high needs pupils and students, which we have called place-plus. The Annexes related to this chapter provide further details about the way this approach would work in practice.
- 3.10.2. As we set out in Annex 5A, there are a number of areas where we will be considering in greater detail how a place-plus approach might be implemented, for example in the INMSS sector, or adapted, for example in the hospital education sector. In other areas, for example in relation to the process for determining allocations of base and top-up funding, we will continue to work with, and draw on the expertise of, commissioners and providers in the appropriate sectors to ensure the smooth introduction and effective operation of these reforms. As such, following the publication of this document, we will continue to work with groups of stakeholders to develop in detail the practicalities of the place-plus approach, and will provide further details in due course.
- 3.10.3. Furthermore, before the introduction of this reformed approach to high needs funding, it will be necessary to collect information about currently-funded places for high needs pupils and students during the course of 2012-13. These reforms of high needs funding will both rely upon and provide more up-to-date, accessible and transparent information at a local and national level about provision for high needs pupils and students. This will improve transparency for families, through the local offer proposed in the SEN and disability Green Paper, and will help to ensure that funding for placements in specialist settings is in the right place.
- 3.10.4. At present, there is relatively good information about numbers of places for high needs pupils in special schools and Academies, and high needs students in post-16 settings, but relatively poor information about special units and specially resourced provision in mainstream schools and Academies and about placements in the AP sector. Particularly in relation to AP, there is further work that needs to be done to ensure that there is clear information about numbers of planned places. As we have set out in the operational guidance for local authorities that accompanies this document, this work will form an important part of the preparations for the introduction of these reforms.
- 3.10.5. The information that is collected will then be used to ensure that the base funding for pre-16 specialist SEN and AP settings and elements 1 and 2 funding for post-16 SEN and

LDD settings are in the appropriate place to be paid to the relevant providers, and to calculate local authorities' notional High Needs Blocks. Furthermore, such information will help local authorities and the DfE to understand in greater detail the impact of the raising of the participation age on the SEN, LDD and AP sectors.

**Further questions on the funding of high needs pupils and students (Questions 8 to 12) are asked in Annex 5A to this document.**

## 4. Chapter 4 – Simplification of the arrangements for the funding of early years provision

Chapter Contents	
4.1	Introduction
4.2	National funding reform
4.3	Simplifying funding for free early education
4.4	Targeting disadvantage
4.5	90% funding floor for 3 year olds
4.6	Free early education provision in Academies
4.7	Bringing greater transparency to free early education funding

### 4.1. Introduction

- 4.1.1. This section considers the funding of providers delivering the universal free entitlement of 15 hours a week of early education for three and four year olds. This is funded by local authorities through the early years single funding formula (EYSFF). Funding for local authorities comes through the Dedicated Schools Grant (DSG).
- 4.1.2. We are clear that funding for free early education for three and four year olds should continue to be delivered through local authorities and recognise that, since this aspect of the funding system is still relatively new, we should not make substantial changes.
- 4.1.3. Last July, we sought views on improving the funding arrangements for free early education<sup>22</sup>. We wanted to know how to make them simpler, more transparent, better focused on disadvantage, and less variable between areas. This section explains the steps that we will take now to support local simplification and transparency and how we will help ensure funding for deprivation reaches the children who most need it.

### 4.2. National funding reform

- 4.2.1. We recognise that significant variation in provider funding levels, especially in neighbouring local authorities, causes confusion and uncertainty. As with funding for schools, some of this lack of consistency derives from the varying levels in funding received by local authorities. This is why we have explored in detail how to create a funding system that is fair, logical and distributes extra funding towards those who need it the most.
- 4.2.2. In the consultation last July, we consulted on whether we should allocate funding to local authorities on the basis of a formula. Support for reform by introducing an early years formula was widespread, but feedback also suggested this would need refinement, careful implementation and sensitive transitional protection over time. We agree. Getting the components and implementation of a fair early years funding formula for local authorities right is critical. We will continue to work towards this over the next few years so that this can be done alongside a national funding formula for schools and with

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<sup>22</sup> *Consultation on school funding reform: Proposals for a fairer system*. Department for Education, July 2011.

minimal disturbance for local authorities and providers.

- 4.2.3. We understand that in advance of introducing a national formula, variations between areas will remain. Some of these variations are to be expected given different areas have different priorities, costs and characteristics. We want to increase transparency about local authority spend on free early education through publishing financial benchmarking data. Publishing this data will enable comparisons across different areas and will support improved accountability over local authority spending decisions. More information about benchmarking arrangements is set out in section 4.7 below.

### 4.3. Simplifying funding for free early education

- 4.3.1. The EYSFF was not intended to be complex, but many providers and others say that it is sometimes confusing and unclear. A complicated EYSFF can confuse providers and, in some cases, providers do not understand how the formula operates. It is also unlikely that unclear additional funding elements within the EYSFF (supplements) can truly incentivise providers to change and improve. This point was also made recently by the National Audit Office.<sup>23</sup>
- 4.3.2. In the consultation last July we sought views on how we could make the EYSFF simpler and proposed some options. One option was to impose constraints on how the EYSFF should operate by removing banding or consolidating funding for a base rate and deprivation, thereby removing the early education specific supplements (quality, flexibility and sustainability). Another option was to enable and support locally driven simplification, through non-statutory guidance and introducing a clear and simple pro-forma.
- 4.3.3. Responses to the consultation generally supported the ambition of moving towards a simpler EYSFF whilst retaining the ability to design formulae to incentivise improvement in early education providers. Many respondents noted that whilst the EYSFF was complex in some areas, in others it was working well and in line with local circumstances.
- 4.3.4. Respondents also noted that some local authorities have been reviewing their first EYSFF and concluding that it is over-complex. These local authorities are taking steps to simplify their EYSFF in response. We will encourage and support this trend towards simplification by producing short, non-statutory guidance on the EYSFF in operation. This guidance will focus on the message that local authorities should allocate and target resources through the EYSFF in a way which maximises the impact of free early education. In particular, they should design supplements in a way which will drive improvements in how free early education is delivered, and be easily understood by providers. We will also explore the scope for producing related best practice material.
- 4.3.5. To further encourage simplification and increase transparency, from 2013-14 local authorities will complete and publish a pro-forma which will set out their EYSFF. This pro-forma will complement the pro-forma required for Schools Block funding (see Annex 1), and will form part of the 2013-14 Section 251 data collection process. The early years pro-forma (a draft of which is at Annex 6) will require local authorities to explain how their EYSFF operates, including the levels of funding and bands within their EYSFF. It will also contain information on the level of centrally retained early years spend and for what it is used.

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<sup>23</sup> *Delivering the free entitlement to education for three and four year olds*, National Audit Office, February 2012.

- 4.3.6. The School Finance Regulations set out the factors local authorities may use in designing their formula for funding schools. In their EYSFF, local authorities may use any of the school factors as well as the more common early years specific factors such as flexibility and quality. This means the reduction in permissible formula factors for school formulae (see section 1.3) will also apply to the use of these formula factors within the EYSFF. The early years factors will remain, as will the requirement to have a deprivation supplement. This move will support increased simplification in early education funding.

#### 4.4. Targeting disadvantage

- 4.4.1. Local authorities are required by the Regulations to operate a deprivation factor as part of their EYSFF. This is intended to target additional funding towards supporting disadvantaged children to access high quality, free early education. Local authorities are given freedom in how they operate this supplement. This means there is significant variation across the country. Some local authorities apply a relatively low financial value to the deprivation supplement, whereas in other local authorities it is quite high. In some areas these supplements are paid as an hourly rate, in others as lump sums.
- 4.4.2. There are also differences in how deprivation is defined. Some of these differences relate to the specific measures used, and some to the level at which deprivation is defined. In most local authorities deprivation is based on the characteristics of each child, but in some the deprivation of the area in which the setting is based is used.
- 4.4.3. In the July consultation, we sought views on how we could refine the EYSFF so that it better supports disadvantaged children. Respondents did not support measures to reduce local flexibility either in the level at which a supplement was set or in decisions about eligibility and targeting. They did however, support focusing the definition of deprivation on the circumstances of the child, not on the setting.
- 4.4.4. We can therefore confirm that from 2013-14, the deprivation supplement must be based on the circumstances of the child rather than the setting. This will enable funding to be targeted on supporting disadvantaged children in settings, as well as encouraging settings to take disadvantaged children by making them more financially appealing. Moving to child-level definitions of disadvantage will help support a continuity of approach between free early education for disadvantaged two year olds and support for disadvantaged three and four year olds.

#### 4.5. 90% funding floor for three year olds

- 4.5.1. Participation in free early education by three year olds is recorded on the January Census, and this participation attracts DSG funding. Current funding is based on the actual number of three year olds who take up their entitlement to free early education or an amount equivalent to 90% of the estimated three year old population doing so, whichever is higher. This is known as the 90% floor.
- 4.5.2. The 90% floor was introduced in 2003 to provide additional resources for local authorities to build capacity and boost take-up when they were rolling out universal free early education entitlement to all three year olds.
- 4.5.3. In 2010, we consulted on removing this floor because of the widespread increases in take-up. A majority of respondents were in favour of its removal, but for those authorities still building capacity, the removal of the floor would have resulted in significant turbulence to budgets. We agreed to retain the floor in the short-term and keep it under

review.

- 4.5.4. We now think the time is right to phase out the floor so it is removed entirely from 2014-15. We also think it is right that we use 2013-14 as a transition year. Moving to full participation-based funding would provide an incentive for local authorities to maintain high levels of take-up of the free entitlement by three year olds. It would also incentivise local authorities to increase participation by those not currently benefitting from free early education. Importantly, research suggests these children disproportionately come from multiply disadvantaged backgrounds and should therefore have the most to benefit from access to high quality early education.
- 4.5.5. Removing the floor from 2014-15 will require a level of transition support for local authorities, enabling them to increase participation levels. There are various options for how this transitional protection could operate but we think the most obvious way is to lower the floor in 2013-14 from 90% to 85%. This option is simple to understand, marks a clear progression to full participation funding and is transparent.

***Question 13: Do you have any views on the move to participation funding for three year olds, particularly on how transitional protection for 2013-14 might operate?***

## 4.6. Free early education provision in Academies

- 4.6.1. Where schools which provide early years education have converted to Academy status since September 2010, local authorities have been responsible for calculating their EYSFF allocation and making payments to them as with any other free early education provider.
- 4.6.2. The only exception to this, because of the nature of their funding agreements, has been the small number of Academies with early years provision which existed prior to September 2010. These continued to be funded by the Young People's Learning Agency (YPLA) through replication.
- 4.6.3. We believe there is a strong case to be made for bringing together free early education funding for three and four year olds for all providers. This would mean that wherever a child accesses their free early education, whether in an Academy or a maintained school, or in the private, independent and voluntary sectors, they would all be funded and paid by local authorities through the EYSFF. This move would further support simplicity and transparency in funding for free early education. If introduced, this change would have effect from 2013-14.

***Question 14: Do you have any views on whether free early education in all Academies should be funded directly by local authorities?***

## 4.7. Bringing greater transparency to free early education funding

- 4.7.1. The EYSFF has been a big step forward in transparency: for the first time all providers are funded on a participation basis, not on places which may stand empty. Providers can now see how much they are funded and why, and how this compares to other providers. There is more that can be done to boost this transparency, especially across different areas and nationally. In the consultation last July, we said we were exploring the possibility of publishing financial benchmarking data specifically for free early years education. This was welcomed and we can now confirm that benchmarking data will be available later this year.

- 4.7.2. We are exploring the data that will be most useful, helpful and easily understood by local authorities, providers, representative groups and organisations and local communities. We expect the data will support local authorities in improving value for money and provide the information to enable effective local accountability of decisions taken by local authorities.
- 4.7.3. Over time, we will look to improve this benchmarking data as new and better financial data becomes available. The introduction of the new pro-forma as set out in paragraph 4.3.5 will support this. We will also explore bringing together a broader range of data on early education to enable local authorities, providers and communities to understand and ask questions about local provision. This could include data on the take-up of free early education, the quality of provision locally and the outcomes children achieve in local areas. We understand that it will take careful work and analysis to bring this data together in a way which is simple to understand, useful and informative.

## 5. Chapter 5 - Next steps

- 5.1.1. Over the next few months, local authorities and their Schools Forums will need to start putting in place arrangements for simplifying their formulae. Operational guidance to support local authorities in this process has been issued in parallel to this document and is available on our website at linked below.

[www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding](http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding)

- 5.1.2. We will also publish on our website a formula development tool together with detailed datasets for maintained schools and Academies in their area. This will include further technical guidance on the definitions. The tool will allow local authorities to explore the impact of different formula factors and unit costs on the schools within their authority.
- 5.1.3. In the meantime we invite responses to the questions that have been set out in this document and encourage you to use the e-consultation website linked below for this. The deadline for responses is Monday 21 May 2012.

[www.education.gov.uk/consultations/](http://www.education.gov.uk/consultations/)

- 5.1.4. Once we have considered the responses we will issue further detail on our next steps in the summer, in time for arrangements to be finalised for 2013-14.
- 5.1.5. We will continue work to develop a national funding formula and assess its impact on schools. This work will enable it to be introduced in the next Spending Review period with minimal disruption for schools.

## Draft pro-forma for Schools Block

L.A Name DFE County Council								
1) Basic Entitlement Age Weighted Pupil Unit (AWPU)	Description	Amount per pupil (£)		Number of Pupils	Sub Total (£)	Total (£)	Proportion of funding	
	Primary (including reception)				0.00	0	0.00%	
	Key Stage 3				0.00			
	Key Stage 4				0.00			
2) Deprivation	Description	Primary amount per pupil (£)	Secondary amount per pupil (£)	Number of eligible primary pupils	Number of eligible secondary pupils	Sub Total (£)	Total (£)	Proportion of funding
	FSM					0.00	0	0.00%
	IDACI Score 0.2 - 0.25					0.00		
	IDACI Score 0.25-0.3					0.00		
	IDACI Score 0.3- 0.4					0.00		
	IDACI Score 0.4-0.5					0.00		
IDACI Score 0.5-1					0.00			
3) Looked After Children (LAC)	Description	Amount (£)	Unit	Number of Pupils	Total (£)		Proportion of funding	
	please specify the duration and method used e.g. per child attending a school, looked after for 6 months or more.		per pupil		0		0.00%	
4) Low cost, high incidence SEN	Description	Amount (£)	Unit	Number of Pupils	Sub Total (£)	Total (£)	Proportion of funding	
	Primary pupils- please specify if using a threshold lower than 78 points on EYSFP Secondary pupils not achieving (KS2 level 4 English and Maths)		per pupil		0.00	0.00	0.00%	
5) English as an Additional Language (EAL)	Description	Amount (£)	Unit	Number of Pupils	Total (£)		Proportion of funding	
	please specify if funding EAL pupils for 1, 2 or 3 years.		per pupil		0		0.00%	
6) London fringe pay bands (only applicable to Buckinghamshire, Essex, Hertfordshire, Kent and West Sussex)	Description	Uplift amount (%)	Unit	Number of schools	Total (£)		Proportion of funding	
	Specify uplift		per pupil				0.00%	
7) Lump Sum	Description	Amount (£)	Unit	Number of	Total (£)		Proportion of funding	
	Lump Sum		per school		0		0.00%	
8) Split Sites	Description					Total (£)	Proportion of funding	
	please provide an explanation of how amounts for any split site factors are allocated.						0.00%	
9) Rates	Description	Amount (£)			Total (£)	Proportion of funding		
	Total Rates amount for maintained schools Total Rates amount for Academies				0	0.00%		
10) PFI funding	Description	Amount (£)			Total (£)	Proportion of funding		
	Total PFI amount for maintained schools Total PFI amount for Academies				0	0.00%		
Exceptional circumstances (can only be used with prior agreement of EFA)	Description	Amount (£)	Unit (e.g. per pupil or lump sum per school)	Number of Units (e.g. Pupils/Schools)	Sub Total (£)	Total (£)	Proportion of funding	
					0.00	0.00	0.00%	
TOTAL FUNDING FOR SCHOOLS BLOCK FORMULA (£) :					-			
PRIMARY/SECONDARY RATIO :								

## Simplification of the Minimum Funding Guarantee

1. As we explained in paragraph 1.5.3 of the main consultation, the Minimum Funding Guarantee (MFG) has become too complicated. Whilst the reduction in the number of local formula factors allowed will help, we think further simplification may be needed. The guiding principle should be that exclusions from the MFG are only made where not doing so would result in excessive protection or frustrate a policy objective.
2. As there will be an increase in levels of delegation in many areas in 2013-14, the MFG calculation will need to take account of this so that it is calculated on a like-for-like basis, and so schools see the benefit of the extra funding. Where a service was previously centrally funded and is being delegated to maintained schools in 2013-14, then this additional funding will be excluded from the MFG. Any services which the Schools Forum agrees should then be provided centrally and funding returned to the local authority – as explained in section 1.2. – would not need to be adjusted as there is no actual change in delegation.
3. The proposals on additional delegation mean there will no longer be a Schools Budget Local Authority Central Spend Equivalent Grant (LACSEG) as all funding will be in Academy delegated budgets to start with. Some services will therefore have been in LACSEG in 2012/13 but will be in the formula budget in 2013/14. To ensure a like for like comparison, the MFG for Academies will take account of what they received in Schools Budget LACSEG as well as the formula budget in 2012/13.
4. We will continue to exclude sixth form funding as long as the overall funding levels are changing at a different rate to 11-16 funding. This is consistent with the fact that local discretion applies to pre-16 funding but not to the post-16 formula.
5. We will continue to treat special educational needs (SEN) allocations for named pupils separately, as it would be wrong to build in protected levels of funding when the pupils have left the school. Maintained schools and Academies are also used to this funding being identified separately. We would also exclude any other specific allocations to schools which are from the notional High Needs Block – these may include special units and intervention initiatives, where targeted funding may justifiably change from year to year.
6. For all other formula factors apart from the lump sum, we will move to a situation where disapplication of the MFG is only considered if there is a significant change in the school's circumstances or pupil numbers. So, in the case of rates, for example, this would only be done if there was a rating revaluation or there was a significant change as the result of a change of status. In the case of schools with private finance initiatives (PFI), there is generally little variation in the unitary charge once the school is up and running, so there is only a case for excluding the factor if it is being introduced for the first time or there is a substantive change in the contractual amount due as a result, say, of an extension. This would then enable increased allocations through these factors to benefit the schools rather than be absorbed within the protected amount where the schools receive MFG. The Education Funding Agency will consider exceptional requests.
7. We will remove the current adjustment which reflects the fact that a proportion of budgets do not change with pupil numbers. At the moment, the extent to which the guaranteed level of funding changes with pupil numbers is scaled back to 80% for primary school and 87.5% for secondary schools. Removing this adjustment would enable the effects of pupil number changes to flow through more effectively.

8. We will also remove the current adjustment for very small schools. At the moment, for schools with fewer than 75 pupils, the scaling back of the protected budget is based on the actual proportion of funding based on pupil numbers. Removing this would be consistent with the encouragement of a market system, because growing schools would have greater protection. These will include Free Schools which to start with may be smaller than average. The lump sum, however, should be excluded from the MFG. This is because the lump sum forms a large amount per pupil for small schools and we would therefore build in excessive protection where a school is increasing its numbers.
9. As budgets will in future be based on the October pupil count, the MFG will need to reflect this date as well. A school's 2012-13 budget will therefore be divided by its October 2011 pupil numbers to form the baseline against which its 2013-14 budget is compared.
10. In summary, the only factors which will automatically be excluded from the MFG are:
  - a. post-16 funding;
  - b. allocations from the notional High Needs Block, including those for named pupils with SEN; and,
  - c. the lump sum.

## Arrangements for calculating the baseline of the Dedicated Schools Grant blocks from 2013-14

1. We will use information from 2012-13 Section 251 statements to calculate the baseline for each of the blocks. The lines from the Section 251 Budget Statements which will form the notional High Needs and Early Years Blocks are shown in Annex 4. These will be subtracted from each authority's final Dedicated Schools Grant (DSG), before recoupment of DSG for Academies was deducted, and the balance will be shown as the notional Schools Block. We will give authorities the chance to confirm that these figures are correct before using them in the new system. We will also need a separate data collection to confirm the number of places funded for special educational needs and alternative provision within the notional High Needs Block.
2. As we will be balancing back to final DSG allocations, the blocks will exclude sixth form funding and any additions to the schools budget from local authority resources and previous years' DSG underspends. These adjustments will be applied to the notional Schools Block unless authorities specifically request an adjustment to one of the other blocks.
3. A move to the October Census will mean that we need to use a different baseline for 2012-13. For most authorities there is a difference in numbers between the October and January School Censuses, though for 90% of authorities it is less than 0.5%.
4. To neutralise the impact of this change, we propose to rebase the current Guaranteed Unit of Funding (GUF). A new 2012-13 GUF will be calculated for each local authority using October 2011 pupil numbers: the final 2012-13 DSG allocation (prior to recoupment of funding for Academies) would be divided by the October 2011 pupil numbers. In local authorities where fewer pupils are counted in October than January, this will create a higher GUF, and vice versa. The October 2012 pupil numbers would then be applied to the reset GUF to determine the DSG allocation (prior to recoupment) for 2013-14.

Note that this would not change the current GUF announced for 2012-13, which will continue to be used to calculate the 2012-13 DSG allocations.

5. Currently local authorities are allowed 15 weeks to complete the January Census, whereas the October Census only allows 8 weeks. This means that pupil numbers can be provided by the first week of December, allowing the Education Funding Agency (EFA) to confirm the DSG before the end of the autumn term. However, schools, local authorities and the Department for Education will have less time to spend on cleaning the data. The main issue resulting from this reduced timetable is un-resolved duplicate pupils, for example where two schools are claiming to be the main registration of a dual registered pupil. Discussions with local authorities about duplicate pupils can be quite lengthy, so the shorter time-scale in the October Census may not give enough time for all the duplicate issues to be resolved. However, we believe that the advantages of earlier budget certainty for schools and Academies make this change worthwhile. We will, of course, work with local authorities and schools to ensure that data issues are resolved as quickly as possible.

## Composition of notional High Needs and Early Years Blocks

### High Needs Block

- Delegated budgets of special schools
- Centrally funded provision for individual pupils
- Special Educational Needs (SEN) support services
- Support for inclusion
- Independent special school fees
- Inter-authority recoupment
- Pupil referral units
- Education out of school
- Delegated allocations relating to individual pupils – Individually Assigned Resources
- Delegated allocations relating to special units and specially resourced provision in mainstream schools
- Post-16 SEN expenditure
- Adjustments will be made for base funding of high needs places in provision not maintained by the authority, but to which it sends pupils.
- Additions will be made for budgeted spend on high needs students aged 16-25 in further education (FE) providers and independent specialist providers held by the Young People's Learning Agency.

### Early Years Block

- Provision for three and four year olds in delegated budgets – the total in the Early Years Single Funding Formula
- Early years contingency
- Central expenditure on under 5s
- May exclude High Needs Pupil funding where this has been shown in the above lines.

## Further details of the place-plus funding approach for high needs pupils and students

1. Having set out in Chapter 3 an overall explanation of the place-plus approach to funding provision for high needs pupils and students, in this annex we set out:
  - a. how an approach based on these principles will work in each of the three sectors with which we are concerned: pre-16 special educational needs (SEN) in schools, post-16 SEN in schools and learning difficulties or disabilities (LDD) in further education (FE), and alternative provision (AP);
  - b. our initial plans for developing a place-plus approach to funding hospital education; and,
  - c. the way in which the base funding and top-up funding will be arranged and managed between commissioners and providers.

### Pre-16 SEN

#### *Placements of high needs pupils in mainstream schools*

2. Under current funding arrangements, mainstream schools are given an indication of the notional sum within their budgets to be used to support pupils with SEN. It is for schools to decide how to deploy their funding, but these arrangements give schools some assurance about the resources that they can use to meet the needs of pupils with low-level SEN and contribute towards provision for pupils with high-level SEN.
3. As we stated in the July consultation<sup>24</sup>, we want to keep these arrangements in place. Linked to the development of the local offer proposed in the SEN and disability Green Paper, so as to improve choice and transparency for families, we will build on these arrangements to ensure that there is clear, locally-agreed information with regard to the contribution that mainstream schools will make to provision for high needs pupils from within their notional SEN funding.
4. Under the place-plus approach, for mainstream placements, providers would receive as part of their standard funding through their delegated budget:
  - core education funding (element 1) – mainstream per-pupil funding for all pre-16 pupils on roll (for schools this is the age-weighted pupil unit, or AWPU), at a level set locally; and,
  - additional support funding (element 2) – a clearly-identified budget for providing additional support for pupils with additional needs from which providers would be expected to contribute the first £6,000 of the cost of provision for each pupil with high needs.
5. Above this level, top-up funding (element 3) for pupils placed in mainstream placements would be provided by the commissioning local authority from within its High Needs Block. This would be paid on a per-pupil basis, would be paid in or close to the real-time movement of the pupil, and would flow directly between the commissioner and the provider. This funding would be based on the assessed needs of the pupil. Pending any changes to assessment practices following the introduction of Education, Health and Care Plans, any statutory assessment of a pupil's needs would be carried out as it is at present under the current statutory assessment framework. An

<sup>24</sup> A consultation on school funding reform: Proposals for a fairer system, Department for Education, July 2011.

illustrative example (Example A) setting out this approach for a high needs pupil placed in a mainstream school can be found at Annex 5B.

6. We recognise that current practice in relation to delegation of SEN funding, and consequently the level up to which mainstream schools and Academies are expected to contribute to the costs of additional educational support for high needs pupils, varies across local authorities. We consider that there are significant advantages to be gained by bringing such approaches more closely into line, in particular improving transparency, equivalence of funding, and transferability of support for pupils across local areas. We will urge local authorities to make such changes as they develop new mainstream formulae for 2013-14, as set out in section 1.3, and as they develop their local offer.

7. This is likely to require some adjustments in local areas where significantly different amounts are delegated (or retained) for SEN provision. We would stress that any changes would be to the way in which the funding for a pupil with high needs is composed, i.e. what is classified as additional support funding (element 2) and what is classified as top-up funding (element 3), rather than to the overall levels of funding themselves.

8. At the same time, the place-plus approach will offer local authorities flexibility to use their notional High Needs Block to support provision that reflects local need. Thus, while we want to ensure that there is clarity about the contribution mainstream schools and Academies will make to provision for high needs pupils, we also want to allow local authorities sufficient flexibility so that, in locally-agreed circumstances, local authorities are able to use their High Needs Block to provide additional funding to schools that have an unusually high number of pupils with SEN where this is not adequately reflected in the local formula. For example, a school may establish a strong reputation for teaching pupils with SEN and become a popular choice for parents. In this case, the local authority may choose to use its High Needs Block to ensure the school in question is funded at an appropriate level. The local authority may also want to use the High Needs Block to promote early intervention policies and practices in schools.

9. As we stated in section 3.4.4, we consider that the increased transparency and flexibility of high needs funding arrangements will help to encourage forms of collaborative working across education, health and social care services, including Health and Wellbeing Boards and NHS Clinical Commissioning Groups, as set out in the SEN and disability Green Paper. We would expect that education providers will want to work closely with local partners to ensure that children and young people with high needs receive the support that will enable them to achieve and fulfil their potential.

#### *Placements of high needs pupils in specialist settings*

10. In order to ensure equivalence of funding for high needs pupils across different types of providers, we will introduce, for specialist settings, a base level of funding roughly equivalent to the level up to which a mainstream provider would be expected to contribute from their standard funding for a pupil with high needs – core education (element 1) and additional support (element 2) funding.

11. For placements of pupils aged up to 16 in special schools, special Academies and special Free Schools, or special units or specially resourced provision in mainstream schools, Academies or Free Schools, the base level of funding will be set at £10,000 and will be paid on the basis of the agreed number of planned places in an institution. In addition to ensuring equivalence of funding, the provision of base funding will also offer some stability of funding for providers, recognising the specialist nature of the provision that they offer.

12. As with mainstream settings, top-up funding (element 3) above this base level of funding

will be provided by the commissioner. This represents a new way of funding specialist provision that is entirely different to the current system. Under the current funding system, special schools may receive funding from their maintaining local authority based on a range of factors, for example to take account of the school site. Under a place-plus approach, all funding for special schools will be related to the provision commissioned for the pupils placed there, in the form of base funding for a specified number of planned places and top-up funding for individual pupils placed at the school. An illustrative example (Example F) setting out this new approach and the differences to the current funding system for special schools can be found at Annex 5B.

13. In addition, however, we know that many special schools play important roles in their local areas, not only by teaching pupils within their schools, but also by sharing their expertise with mainstream schools by providing services on behalf of a local authority such as outreach work. This is another area in which a local authority would be able to use its notional High Needs Block flexibly to commission local specialist providers – a special Academy or a maintained special school for example – to provide a service to other schools in the local area.

#### *High needs pupils in early years settings*

14. Mainstream early years settings in schools and in private, voluntary and independent sector providers, do not receive the equivalent of a notional SEN budget like mainstream schools. Given that many are very small in size, it would not be practicable to introduce such an arrangement. As such, local authorities will need to ensure that there is clarity, through their local offer, about what mainstream early years settings will be expected to provide for high needs pupils from within their funding for the first fifteen hours of early education, as calculated by the Early Years Single Funding Formula, and the point at which any additional funding will be provided. For high needs pupils placed in mainstream early years settings, the fifteen hours of free early education will be funded from the local authority's Early Years Block and any additional top-up funding from the notional High Needs Block.

15. In relation to pupils aged younger than 5 placed in specialist settings, for example special schools or special units in mainstream schools, provision for these pupils is currently funded in the same way as for pupils aged 5-16 in specialist settings. We propose that this would continue under a place-plus approach, with all provision for pupils aged up to 16 with high-level SEN funded through the combination of base funding (elements 1 and 2) and top-up funding (element 3) we have set out in paragraphs 10-12 in the preceding section.

#### *A place-plus approach to funding independent and non-maintained special schools*

16. We stated in the July consultation that we were considering how a place-plus approach could be applied to schools in the INMSS sector. We are clear that we must avoid a situation in which INMSSs are funded in a different way to other specialist SEN providers, to ensure commissioners are able to make the best placement decision for the interest of the pupil.

17. As such, we are clear that when a local authority places a pupil in an INMSS, the base level of funding for that place should be clearly identified so that the local authority is not faced with a higher additional cost than placing the pupil in a different type of provider. We are considering whether INMSSs that are dedicated specialist SEN providers should receive base funding direct from the EFA or whether this should be passed on to them by placing local authorities as part of the total cost of the placement. We would like to work towards a position in which dedicated specialist providers for high needs pupils in this sector received the base level of funding directly. We will continue to work with the sector to explore the way in which this funding arrangement could be aligned with the statutory framework for admissions to INMSSs and parents' right to choose an INMSS for their child. We will provide further details shortly.

## Post-16 SEN and LDD

18. Young people aged 16-25 with high-level SEN or LDD are educated in a range of settings, including special and mainstream school sixth forms, FE colleges and ISPs. Under current funding arrangements there are three different funding systems, each with their own set of rules, for high needs pupils and students according to whether they stay in a school at 16, move to a mainstream FE setting, or move to an independent specialist provider (ISP) to continue their education. This can perpetuate potential perverse incentives to place students in one type of provider over another. It can also result in young people who require similar levels of additional support receiving different levels of provision depending on the type of setting in which they are placed.

19. At present, for post-16 pupils with high-level SEN, mainstream school and Academy sixth forms receive mainstream per-student funding as calculated by the national 16-19 funding system. These settings also receive additional support funding for post-16 high needs pupils from the local authority. This additional support funding is funded to local authorities by the YPLA through a separate budget, the 16-18 SEN Block Grant. The purpose of the 16-18 SEN Block Grant is also to enable local authorities to fund post-16 provision in special schools and special Academies, and in special units or specially resourced provision in mainstream schools and Academies. The 16-18 SEN Block Grant is distributed to local authorities by the YPLA.

20. For high needs students, however, mainstream FE providers also receive mainstream per-student funding as calculated by the national 16-19 funding system, but receive additional support funding in a different form to mainstream school sixth forms. For provision for a high needs student requiring additional educational support costing more than £5,500 and up to £19,000, mainstream FE providers receive their additional support funding from the YPLA in the form of an allocation from the high-level Additional Learning Support (ALS) budget. For high needs students in mainstream FE settings requiring additional educational support provision costing more than £19,000, their additional educational support is funded through the Learners with Learning Difficulties or Disabilities (LLDD) placement budget. The LLDD placement budget also covers all education funding for high needs students placed in ISPs. The LLDD placement budget is paid to providers by the YPLA.

21. We consider that the best way to address these different funding arrangements for different types of providers, and to improve choice for young people, is to introduce a funding approach in which all providers catering for high needs pupils and students aged 16-25 are funded on an equivalent basis. This would mean that whether a high needs pupil or student aged 16 or over was educated in a school sixth form, a FE college or an ISP, the programme of learning that they accessed and the additional support they required to do so would be funded in broadly the same way.

### *Core education funding (element 1) for all providers*

22. At present, mainstream FE providers and mainstream school sixth forms receive their mainstream per-student funding through the national 16-19 funding system, including for pupils and students with high needs. This system recognises the different programmes of learning that post-16 students access. Through the introduction of a place-plus approach to post-16 high needs provision, all providers catering for post-16 high needs pupils and students, in mainstream and specialist settings, would receive this mainstream per-student funding (element 1) through the national 16-19 funding system.

23. We recognise that this would represent a new approach to funding for post-16 provision in special schools and in ISPs. These types of providers have not previously received core education funding or an equivalent form of funding through the 16-19 national funding system. As we have

said above, special schools have received funding to cover their post-16 provision from the local authority, who will have received the 16-18 SEN Block Grant from the YPLA, while ISPs have received their funding from the LLDD placement budget. As such, we are considering currently the way in which core education funding for the high needs students who are educated in these settings can be calculated in a reformed national 16-19 funding system in a way that will ensure that all post-16 high needs provision is funded in a fair and equitable manner.

#### *Additional support funding (element 2) for mainstream settings*

24. At present, for high needs students requiring more than £5,500 of additional support, mainstream FE providers receive funding from the high-level additional learning support (ALS) budget. Mainstream school sixth forms will receive funding from the local authority, for which purpose the local authority will have received the 16-18 SEN Block Grant from the YPLA.

25. We are also considering changes to disadvantage and low-level ALS funding for students with low-level additional needs as part of the review of 16-19 funding. In terms of funding for high needs students, notwithstanding any changes to post-16 disadvantage and low-level ALS funding, we will modify existing high-level ALS funding arrangements for high needs students. The result of these changes will be that mainstream FE providers and school and Academy sixth forms, like mainstream schools pre-16, will be expected to contribute the first £6,000 to the cost of additional support provision required by a high needs pupil or student (element 2), in addition to the mainstream per-student funding (element 1) received for each high need student. We will do this by adjusting funding between the different ALS budgets. We will not expect mainstream FE providers to find the additional £500 – the difference between the current upper level of low-level ALS of £5,500 and the proposed contribution of £6,000 to the cost of additional support for a high needs student – per student from within their existing budgets.

26. The allocation of additional support funding for high needs pupils and students (element 2) in mainstream school sixth forms and in mainstream FE settings will be calculated on the basis of the number of high needs pupils or students during the last full academic year's data. There will be some flexibility built into this process to allow for changes in the patterns of local need and choice, and local commissioning decisions based on these. Further details of this process are set out later in this Annex.

#### *Additional support funding (element 2) for specialist settings*

27. For high needs pupils and students placed in post-16 specialist settings – sixth forms in special schools and Academies, or in special units or specially resourced provision in mainstream schools and Academies, and ISPs – we will introduce a similar funding approach. Given that all students attending these settings will be students with high needs, these specialist providers will receive additional support funding of £6,000 (element 2) for each student placed in the institution. As with placements in mainstream settings, this allocation would be calculated on the basis of student numbers from the last full academic year, subject to the flexibility mentioned in the preceding paragraph. This would be in addition to the mainstream per-student funding (element 1) as calculated by the national 16-19 funding system, which, as we have said above, specialist settings would also receive.

28. As under the place-plus approach pre-16, this would mean that for placements in specialist settings, providers would receive a level of funding that would be equivalent to the level up to which mainstream settings would be expected to contribute to the cost of additional educational support for high needs pupils and students. Likewise, this would ensure that placement of high needs pupils and students in mainstream and specialist settings were funded in an equivalent manner.

### *Top-up funding (element 3) for all providers*

29. Above this level (elements 1 and 2), top-up funding (element 3) for students placed in either mainstream or specialist settings would be provided by the commissioning local authority from within its High Needs Block. This would be paid on a per-pupil or per-student basis, would be paid in or close to the real-time movement of the pupil or student, and would flow directly between the commissioner and the provider. This funding would be based on the assessed needs of the pupil or student. Illustrative examples setting out this approach for a high needs student placed in a mainstream FE college (Example H) and in an ISP (Example I) can be found in Annex 5B.

30. As we stated in Chapter 3, these reforms would introduce some changes in the way in which funding for high needs pupils and students in mainstream and specialist settings is composed. In mainstream FE settings, for instance, providers will receive additional education support funding of £6,000 per-student from the EFA, but will now receive top-up funding – or what was previously high-level ALS funding – for each student from the commissioning local authority rather than direct from the YPLA / EFA. In specialist settings, providers will receive from the EFA mainstream per-student funding through the national 16-19 funding system (element 1) and additional education support of £6,000 per-student (element 2), with the remainder of the education funding for students placed in those institutions being received in the form of top-up funding from commissioning local authorities.

31. Across all types of post-16 providers, however, our expectation is that under this reformed funding approach, the overall levels of funding, however composed, should cover the total cost of the educational provision that an individual student requires in order to access their chosen programme of education and achieve to the best of their abilities.

### **Alternative provision**

32. In the July consultation, we proposed that, for funding purposes, funding for AP should continue to be treated alongside high-level SEN and LDD provision under the auspices of high needs funding. The consultation responses showed strong support for this proposal.

33. We also explained in the July consultation that, while we were considering the application of a place-plus approach to AP funding, we did not think that the approach we were proposing for high-level SEN provision, including giving providers a base level of funding of £10,000, could be applied in the same way to the AP sector, owing to:

- a. the variety of provision in the AP sector – ranging from short-term interventions to longer-term placements, and catering for a wide variety of pupil needs including behavioural problems, medical health needs and complex medical needs – and the variety of costs of this provision, which make it more difficult to set a level of base funding that is appropriate across the sector; and
- b. the need to avoid funding arrangements cutting across the commissioning and funding responsibilities of local authorities and mainstream schools and Academies, as well as the need to take account of the approach currently being trialled whereby mainstream schools and Academies will retain financial responsibility for pupils whom they exclude.

34. Since the July consultation was published, having worked through these questions, we have concluded that a place-plus approach, suitably adapted to take account of the nature of provision in the AP sector and the differences between that and the SEN and LDD sectors, would offer an effective way of funding AP settings on an equivalent basis. Furthermore, we consider that

such an approach would support the current and future commissioning and financial responsibilities of local authorities and mainstream schools, and would support the Government's ambition to encourage dynamism, innovation and high standards in the AP sector.

#### *Base funding for AP settings*

35. In terms of the "place" element of the place-plus approach, we propose that all state-funded AP institutions (maintained PRUs and other maintained AP, AP Academies and AP Free Schools) would receive an allocation of base funding directly and on the basis of a specified number of planned places. As with specialist settings catering for pupils and students with high-level SEN or LDD, this base funding would cover both the core education (element 1) and additional support (element 2) components of high needs funding for AP settings.

36. As we have stated in Chapter 3, we recognise that work is required from local authorities in order to establish clear information about the agreed number of planned places in AP settings, as well as to confirm overall levels of spend on AP, in preparation for the introduction of these reforms. The Education Act contained provisions that allow finance regulations to be applied to PRUs to give PRUs delegated budgets in the same way as maintained schools. These regulations should be in place by April 2013, and preparation for PRUs being given delegated budgets should assist in establishing clear information about planned places and current funding levels.

37. For maintained PRUs and other maintained AP, base funding would be passported through the maintaining local authority, while for AP Academies and AP Free Schools it would be paid to the provider directly by the EFA. Where commissioners place pupils with other, non-state-funded independent AP providers, the commissioning local authority would include these pupils in its pupil census returns and would then receive an identified allocation of base funding for that placement as part of the place-led component of its High Needs Block. This could then be passed on by the commissioner to the provider as part of the total fee for the placement.

#### *The level of base funding for AP settings*

38. The variety of provision in the AP sector, and the consequent range of costs, makes it more difficult to establish an appropriate level of base funding for the AP sector. We are keen to avoid setting the level of base funding too low, since this would not provide sufficient stability of funding for providers to maintain high-quality local specialist provision.

39. At the same time, we are keen to avoid setting the level of base funding too high, particularly above the total cost per pupil of some AP, since this would lead to inefficiencies in the funding system. We also need to ensure there is an appropriate financial consequence when mainstream schools exclude pupils so that resources can be moved to support that child. Given that not all AP costs more than £10,000 per pupil, we do not think it would be appropriate to set the base level of funding at the same level as we have proposed for the SEN and LDD sectors.

40. There is, however, very little reliable data on current per-pupil or per-place spend in state-funded AP settings. The data that is available indicates that there is wide variation in the level of funding for PRUs across the country and, that the average annual cost of a PRU is between £15,000 and £18,000 per-place. The data also indicates that the vast majority (around 95%) of PRUs receive annual funding of more than £8,000 per place. Some of the lowest figures in the data, which are below mainstream school funding levels, are clearly not correct. For this reason, and given that this would provide some additional funding above mainstream per-pupil levels that would reflect the additional support that pupils in AP settings require, we consider that £8,000 would be an appropriate level of base funding for AP settings.

41. As we set out in Chapter 3, as part of our preparation for the introduction of these reforms, during FY2012-13 we plan to collect data on existing specialist placements in, and funding for, AP settings. We think that robust, reliable information about AP placements and funding, linked to clarity around commissioning and funding responsibilities, is both a vital pre-requisite of this proposed approach, and an important advantage of introducing these reforms. In light of the initial data we collect in FY2012-13, we propose to consider further whether the figure of £8,000 is an appropriate level of base funding for AP settings.

**Question 8: Do you agree that £8,000 per-planned place would be an appropriate level of base funding for AP settings within a place-plus funding approach?**

*Top-up funding for AP settings*

42. A significant difference that a reformed approach to AP funding must take account of, however, is that at present responsibility for commissioning AP rests with the local authority in some cases and with mainstream schools and Academies in others.

43. Place-plus for the AP sector would, however, be similar to place-plus for the SEN and LDD sectors in that top-up funding (element 3) above the base level of funding would be provided by the commissioner on a per-pupil basis, would be paid in or close to the real-time movement of the pupil, and would flow directly between the commissioner and the provider. This would be the case both where the commissioner was a local authority and where the commissioner was a mainstream school or Academy.

44. In order to avoid undermining the financial responsibilities of mainstream schools and Academies, and to ensure that there is an appropriate financial consequence to excluding a pupil, under the place-plus arrangements for AP, where a mainstream school or Academy commissioned provision in an AP setting for a pupil, the mainstream school or Academy would repay the AWPU received for that pupil to the local authority in which the mainstream school or Academy was based. The repayment of AWPU is a well-established feature of existing funding arrangements, and the repayment of AWPU would help to ensure that mainstream schools and Academies did not have a perverse financial incentive to place a pupil in AP, for example by excluding the pupil, when it was not appropriate to do so. Illustrative examples showing the way in which funding would be arranged for pupils placed in AP settings (Examples J and K) can be found in Annex 5B.

45. For short-term and part-time placements, we propose that appropriate *pro rata* arrangements would be put in place for calculating top-up funding. Following the publication of this document, we propose to work through in detail what these arrangements should be, but we would envisage that it would be sensible to calculate top-up funding for short-term placements on a termly or half-termly basis, while part-time placements could be calculated on a daily rate.

46. For very short-term placements, for example those that lasted less than ten days in an academic year, to avoid unnecessary bureaucracy we would envisage that AWPU would not be repaid by a commissioning mainstream school or Academy and that the commissioner would pay an appropriate level of top-up funding to reflect this.

**Question 9: Do you agree that it would be sensible to calculate *pro rata* top-up payments for short-term placements in AP on a termly or half-termly basis?**

**Question 10: Do you agree that it would be sensible to calculate *pro rata* top-up payments for part-time placements in AP on the basis of a daily rate?**

*Hospital education*

47. Hospital schools occupy an important place in the education system, providing education to pupils who, for health-related reasons including injuries or illnesses, have been admitted to hospital and are not able to attend their mainstream school for a period of time. Time spent in a hospital school will always be as a result of a difficult experience that a young person is going through, and, as a result, during their time in a hospital school pupils will require a range of high-quality specialist provision.

48. For this reason, we need to think carefully about how hospital education is funded within the parameters of a new approach to high needs funding. Furthermore, reform of funding arrangements for this sector is necessary due to the fact that the current system entails a huge amount of bureaucratic inter-authority recoupment, particularly in relation to hospital education for the relatively high number of pupils who spend a short amount of time in hospital.

49. Future funding arrangements for this sector, however, will need to be somewhat different from the approach outlined in this document for the high-level SEN / LDD and AP sectors. Unlike these sectors, hospital education is by its very nature reactive to needs that cannot be planned for. Hospital education is not an area where commissioners plan education provision and where pupils and their families exercise choice about the institution in which they will be taught. In funding terms, our aim must be to ensure that high-quality education provision is available whenever a pupil has to spend time in hospital.

50. To achieve this, we are working with the hospital school sector in order to develop a sustainable, non-bureaucratic way of funding hospital education that would enable hospital schools to continue to offer high-quality education provision. We will provide further details of our proposals in due course.

51. At the same time, we are aware that there is a wide variety of other provision commissioned by local authorities that is offered by and delivered in hospital schools. In some cases, such as provision for teenage parents or pupils with complex behavioural needs, provision offered by hospital schools is akin to provision offered in AP institutions or special schools. Where this is the case, our proposal would be to fund this provision in the same way it would be funded in the SEN or AP sectors.

52. As we have set out earlier, one of the advantages of our reformed approach to high needs funding would be that there would be better, more accurate and transparent information about available provision for high needs pupils and students that could then be funded on the appropriate basis. As part of our collection of data during 2012-13 on current spend on high needs pupils and students, we will collect information that will enable us to distinguish between hospital education and provision commissioned from hospital schools that is more akin to the SEN / LDD or AP sectors, and fund that provision on an appropriate basis.

***Question 11: What are the ways in which hospital education could be funded that would enable hospital schools to continue to offer high-quality education provision to pupils who are admitted to hospital?***

## Further details about how a place-plus approach would work in practice

### A base level of funding for specialist providers: Allocation, review and adjustment

53. Under the place-plus approach, specialist settings would receive a base level of funding for high needs pupils and students. In pre-16 SEN and AP settings, this will be calculated on the basis of a number of planned places in each setting, whereas in post-16 SEN and LDD settings it will usually be calculated on the basis of numbers of high needs students in the last full academic year. In both cases, the level of base funding will cover elements 1 and 2 (core education and additional support funding) and will be broadly equivalent to the contribution a mainstream provider would have made to the cost of provision for a high needs pupil or student.

54. The purpose of this base level of funding is to ensure equivalence of funding across all types of providers, as well as to give providers of specialist provision some stability of funding in the context of a more pupil-led funding approach. It is important, nonetheless, that both the pupil-led and the place-led element are responsive to local need and parental or student choice, and the local commissioning decisions based on these.

55. Under the place-plus approach, there will be a simple process, with clear responsibilities and transparent information, for reviewing and, if appropriate, adjusting the allocation of base funding for specialist placements. This will ensure that funding is continually being directed at the provision that is actually being chosen by young people and their parents, in the case of the SEN and LDD sectors, and commissioned by commissioners based on local need. We envisage that the key components of this process would be those set out below.

- a. **Initial allocation** – as we have said above, at the introduction of these reforms, we will start from an “as is” position. That is, the initial allocation of base funding to specialist pre-16 SEN and AP providers will be based on a collection of data about designated places that will undertake during FY2012-13. In post-16 settings, this initial allocation will be based on numbers of high needs students placed by local authorities in England in the last full academic year. In other instances where specialist providers are not funded on the basis of specialist places at present, for example INMSSs, we will base this initial allocation on the number of high needs pupils or students placed in those institutions by local authorities in England and on dialogue between the provider and its commissioners about future demand for places in those institutions.
- b. **Evidence-based dialogue** – one of the key components of a place-plus funding approach is regular, evidence-based dialogue between providers, commissioners and the EFA. Such dialogue will be important in reviews of providers’ allocation of base funding. We envisage that these conversations would take place between the provider and its commissioners in the first instance, and would be based on evidence of past and future demand for places. Any adjustments to the allocation of base funding in a particular institution could then be agreed, and discussed with the EFA as part of a set annual process. Evidence could include information about whether the provider had over- or under-recruited significantly during that period, and future commissioning plans among commissioners that had made use of that provider in the past.
- c. **Allocation reviewed at least every two years** – thereafter, we would expect that a provider’s allocation of base funding would be reviewed at least every two years so as to ensure that a provider’s funding was appropriate to the numbers of pupils or students who had been and would be placed there, and that empty places or

provision that was no longer required would not be funded indefinitely.

In some sectors where there is more accurate information about actual numbers of high needs pupils and students, for example the post-16 sector, evidence from the last full academic year will be used to inform future allocations of base funding in addition to the more strategic reviews of provision that would take place at least every two years. Under current arrangements, reviews of allocations for post-16 providers take place annually, and we would expect the more strategic reviews of provision to be combined with existing allocations arrangements.

In the AP sector, given that the numbers of pupils placed in a particular setting may vary considerably from year to year, we would envisage that reviews would take a wider view of past trends, for example by considering the number of pupils placed over the past five years.

- d. **Responsibility for convening the review** – local authorities and, in some instances in the AP sector, mainstream schools hold the responsibility for commissioning provision for high needs pupils and students. These funding reforms do not of themselves alter these responsibilities. As such, decisions about the number of places to be funded in a provider should be informed by dialogue between the provider and its commissioners. We propose that the body responsible for paying a provider its allocation of base funding should be responsible for convening and carrying out the review.

This would mean that the maintaining local authority would have oversight of the number of places funded at the base level in maintained institutions and would inform the EFA of any proposed changes, while the EFA would have oversight of the number of funded places for Academies, Free Schools, and ISPs. Where similar arrangements exist at present, for example the YPLA's / EFA's annual allocations process for post-16 providers, we would expect reviews to be combined with existing processes.

As we have said in Chapter 3, the EFA does not have responsibility for commissioning provision for high needs pupils or students: any decisions on adjustments to the number of places funded in specialist settings will be informed by discussion between the provider and its commissioners, and then discussed with the EFA as part of an annual process.

- e. **Local flexibility** – there would not be a rigid requirement that meant that a provider's allocation of places was fixed in place for two years or that a provider's allocation must be adjusted every two years. Instead, the purpose of the review would be to ensure that funding for high needs pupils and students was allocated to the right place to meet local need, and that empty places or provision that no longer met local need was not funded indefinitely. As such, under this approach, there would be flexibility in relation to:
- i) the way in which a review of base funding was prompted, so as to allow provision to be managed sensibly and flexibly – for example, if a school had a particularly high or low intake in one year, it may be sensible to enable the school to manage this cohort through the school; and
  - ii) the frequency of the review of base funding – for example, so as to permit swift action to be taken to address an instance in which a provider had

encountered a significant problem.

- f. **Flexibility to take account of future trends in local need** – the review process would ensure that the allocation of providers' base funding not only reflected past trends, but would also allow for commissioning discussions and decisions to be based on future need or choices. For example, a review may consider a commissioner's proposed approach to shift provision between mainstream and specialist settings, to invest in building the capacity of local provision to provide for pupils or students with complex needs, or to invest in early intervention approaches. Where a local authority wished to reduce or expand the number of specialist placements that they made, the balance of the base funding and top-up funding elements of their notional High Needs Block would be adjusted accordingly so that the local authority's overall spending power remained the same. We consider that this would ensure that high needs funding is equitable, and would ensure that there were not potential perverse incentives for local authorities to designate additional unnecessary specialist provision.

56. Not only would this approach ensure that there was transparent and accessible information about specialist provision available locally, which would support the development and operation of the local offer, but also the dialogue between providers and their commissioners, and indeed among commissioners themselves, may encourage more effective joint planning and commissioning of provision and will alleviate some of the barriers inherent within the current funding system to practices of this sort. Following the publication of this document, we will work through the process outlined above in greater detail, where appropriate drawing on the expertise of commissioners and providers.

***Question 12a: Do you agree with the proposed process for reviewing and adjusting the number of places for which specialist settings receive base funding?***

***Question 12b: Are there any other ways in which this process could be managed in a way that is non-bureaucratic and takes account of local need and choice?***

#### Top-up funding from the commissioner: Setting the top-up and managing the flow of funding

57. As we set out in Chapter 3, in order to encourage dialogue about pupils and students, their needs, required support, and expected progress and results, we want to move to a funding approach in which commissioners and providers deal directly with one another in relation to commissioning and funding provision for individual high needs pupils and students. Under this approach, top-up funding would be provided on a per-pupil or per-student basis and would follow the pupil or student into and out of a particular setting in or close to their real-time movement.

58. In relation to funding for high needs pupils in the SEN and AP sectors, these direct funding relationships would replace the existing system of inter-authority recoupment. Example C in Annex 5A sets out how such arrangements would work in the case of a pupil with high-level SEN placed in a special Academy.

59. We do not want to place unnecessary burdens on providers through these arrangements. We would, however, expect commissioners and providers to be discussing pupils' and students' needs expected progress, and our discussions with stakeholders have suggested that these reforms of high needs funding would foster better commissioning dialogue and a sharper focus on the needs of the pupil or student. Therefore, provided there is a clear framework setting out responsibilities and timescales for payments, and arrangements for exceptional circumstances such as the movement of pupils and students during the academic year, we consider that adding a

funding dimension to those discussions would be logical and would not create undue burdens for providers. Such an approach would help to avoid long delays in receiving payment for pupils and students that some providers experience at present.

60. Furthermore, the available data suggests that, for the vast majority of providers, the numbers of pupils or students placed by authorities other than the one in which they are located is relatively small, and thus the administration relating to funding for those pupils would not be unduly onerous. For example, our analysis suggests that on average:

- the proportion of pupils in a maintained special school placed there by the home local authority is 93% (with 7% placed by other authorities);
- the proportion of pupils placed by the home local authority in special units in primary settings is 96% (with 4% placed by other authorities) and in secondary settings is 93% (with 7% placed by other authorities);
- the proportion of pupils in a PRU placed there by the home local authority is 96% (with 4% placed by other authorities);
- the average number of local authority commissioners of a maintained special school is 2.9, while the number for PRUs is 2.1 and for mainstream SEN units is 1.2;
- 93% of maintained special schools have between 1 and 5 commissioning local authorities (including the home local authority), 6% have between 6 and 10, and only 1% have more than 10;
- 99.9% of special units have between 1 and 5 commissioners;
- 96% of maintained special schools have between 1 and 5 commissioning local authorities (including the home local authority), 4% have between 6 and 10, and less than 1% has more than 10;
- 73% of students in FE colleges live in the same local authority in which the college is based, while the figure for ISPs is 23%; and
- the average number of local authority commissioners of an FE college is 3, while the equivalent figure for an ISP is 22.

61. We envisage that under such an approach, following an assessment of a pupil's or students' needs, with any statutory assessments carried out according to the existing statutory assessment framework, and where appropriate following consultation with the pupil's or student's parents, there would be a discussion between the commissioner and the provider about the pupil's or students' needs, provision, and expected progress and results. Once the placement has been agreed, and the appropriate amount of top-up funding settled, arrangements would be made for payment of the top-up funding. This would be paid in or close to real time, and on a termly basis.

62. This process highlights the importance of the role of the commissioner and their understanding of the needs of a pupil or student. Commissioners need to be able to work with the pupil or student and their family, and with the provider to agree an appropriate placement that will deliver high-quality provision, expected outcomes for the pupil or student, and value for money. Commissioning is not the same as procurement, and, under a place-plus approach, it is important that decisions about placements and funding are taken by commissioners, and not procurement officers.

63. As we stated in Chapter 3, we would expect that local authority commissioners and providers would work together to share information and to agree sensible, consistent and non-burdensome practices, including avoiding duplicating processes carried out by the EFA and accepting assurances from the EFA or other local authorities in relation to these. This is essential if unnecessary administrative burdens are not to be placed on providers who are working with more than one commissioner and to ensure the most efficient use of public money. Following the publication of this document, we will work through the process outlined in greater detail with representatives of commissioners and providers.

64. Furthermore, we want to ensure that the framework within which dialogue between commissioners and providers takes place helps to avoid or resolve conflict and disputes about appropriate levels of funding. For this reason, we see that there is a vital role to be played by some form of banding framework, whether national or local, in the effective operation of the place-plus funding approach.

65. The SEN and disability Green Paper proposed to consider whether and how the development of a national banded funding framework might improve transparency of funding decisions to parents while retaining local flexibility of funding. This and other questions about how a banded funding framework will work in practice, and what would be *national* and what would be *local* in such a framework, are questions that are being explored by the Green Paper pathfinders at present. The place-plus approach has been designed to accommodate a national banded funding framework, but as further development work on this is carried by the Green Paper pathfinders, we think there is a key role for local banding frameworks in discussions relating to per-pupil or per-student top-up funding.

66. We know that banding frameworks are already used in the school sector, and there are a number of ways in which commissioners and providers have found to manage discussions about funding. These include through agreement between commissioners and providers about the definitions of different levels (or bands) of need or provision and appropriate levels of funding, and through school-to-school moderation. At the same time, we know that the current funding arrangements in the AP and FE sectors work slightly differently at present. As local authorities carry out their funding role in relation to high needs provision, including taking on greater funding responsibilities for high needs students aged from 16 to 25, it will be important for commissioners to work with the providers from whom they commission provision to develop effective and straightforward systems for calculating top-up funding for high needs pupils and students placed in those institutions in the SEN, LDD and AP sectors.

67. Before the introduction of these reforms, we will disseminate any conclusions that the Green Paper pathfinders have reached about the key characteristics of a successful banding framework, so as to inform local practice, prior to the introduction of any national banded funding framework.

68. The current arrangements relating to admissions of high needs pupils and students to schools, colleges and AP institutions work well, and we know that disputes are the exception rather than the rule. We consider that by reforming funding arrangements so that there is greater focus on the needs of the individual pupil or student and, where appropriate, the choice of the parents, and a more open-ended discussion about provision, expected outcomes and appropriate levels of funding, many potential disputes could be avoided through clarity about an individual provider's contribution to the range of local provision or resolved through mature dialogue between commissioning local authorities and providers.

69. In the small minority of cases where disputes between the commissioner and provider cannot be resolved in this manner, however, they would be resolved in the same way that they are

under the current statutory framework. Where there is recourse to make a complaint to the Department, this would be treated as such cases are at present, with appropriate consideration given to whether the correct statutory process has been followed, whether there has been appropriate consultation between commissioner and provider, and whether the decision taken has been reasonable, including taking account of a pupil's or student's needs, a provider's expertise and ability to make appropriate provision for the pupil or student, and any representations relating to levels of funding. Example E in Annex 5B sets out further details of this process within the SEN statutory framework.

## Illustrative examples of the place-plus approach to high needs pupils funding

This annex sets out a number of examples of individual pupils and students to illustrate how the proposed approach would work in practice. In these examples, we have used the terminology of the reforms proposed in the special educational needs (SEN) and disability Green Paper. For example, when referring to the statutory framework, we have referred to Education, Health and Care Plans, rather than statements of SEN or learning difficulty assessments. We have also worked on the basis of the principle that education funding is used to fund a pupil's additional educational support, and that, where a child has additional social care or health needs, the appropriate support is funded by the appropriate agencies.

### *Pre-16 SEN*

#### Example A: Placement of a pupil in a mainstream maintained school

Pupil A is 4 ½ years old, has been assessed as having complex SEN, and has an Education, Health and Care Plan (EHCP). Pupil A's parents would like their child to be educated in a mainstream school, close to their home. The local authority agrees that this placement would be appropriate for the child in question and has named the mainstream school on the child's EHCP. The local authority has assessed that the pupil has support needs that will require provision costing £16,000. This has been discussed and agreed with the mainstream school.

The mainstream school has received £3,000 for each pupil on roll (the age-weighted pupil unit, AWPU) and has received a notional SEN budget through the application of the local authority's formula.<sup>25</sup> The mainstream school will therefore contribute £6,000 from its notional SEN budget, in addition to the £3,000 AWPU funding for the pupil. As such, the mainstream school will contribute £9,000 from its delegated budget towards the costs of the provision. The local authority would therefore pay a top-up of £7,000, in the form of individually assigned resources, from its notional High Needs Block to meet the full cost of the provision.

#### Example B: Placement of a pupil in a special Free School

Pupil B is 6 years old, has been assessed as having complex SEN, and has an EHCP. In drawing up the EHCP, pupil B's parents have indicated that they would like pupil B to be educated in a particular special Free School. The local authority agrees that this placement would be appropriate for the child in question and has named the special Free School on the child's EHCP. The local authority has assessed that the pupil has support needs that will require provision costing £22,000. This has been discussed and agreed with the special Free School.

The special Free School has received £10,000 base funding from the EFA for each planned place at the institution. The local authority would therefore pay the special Free School a top-up of £12,000 from its notional High Needs Block to make up the full cost of the provision.

#### Example C: Placement of a pupil in a special Academy in a neighbouring authority

Pupil C is 9 years old and has been assessed as having high-level SEN. Pupil C lives in local

<sup>25</sup> We recognise that AWPU may be set at slightly different levels from authority to authority. The figure of £3,000 is given as a primary school example, but in another local authority area the AWPU figure may be different.

authority X. Local authority X has made and maintained an EHCP for pupil C. Pupil C's parents live near the border between local authority X and local authority Y. They know of a special Academy in the area covered by local authority Y and would like their child to be educated at the special Academy. The local authority has assessed the child as requiring provision costing £15,000. This has been discussed and agreed with the special Academy.

The special Academy has received £10,000 base funding from the EFA for each planned place at the institution. The commissioning local authority – in this case, local authority X – would therefore pay the special Academy a top-up of £5,000 from its notional High Needs Block to meet the full cost of the provision. It would pay this direct to the Academy, having discussed funding as part of a full dialogue on the provision to be made and the outcomes expected.

To illustrate further, under the current system, local authority X would send a copy of the child's draft statement (or EHCP) to the special Academy, but funding would be provided initially through local authority Y and then recouped by local authority Y from local authority X. There may be limited or no dialogue between the provider and the commissioner (local authority X) about the needs of the child, the expected outcomes of the child's placement in the special Academy, or appropriate levels of funding despite the importance of ensuring the placement sufficiently supports the child and that the public funds involved are being used effectively.

#### Example D: Placement of a pupil without an EHCP in a mainstream Academy

Pupil D is 11 years old. Pupil D lives in local authority W and attends a local mainstream Academy. The Academy has become concerned that, despite a range of interventions at school level, pupil D is not making progress.

The Academy believes that pupil D has become a high needs pupil and needs support that cost significantly more than the Academy can provide from its budget (including its AWPU and its notional SEN budget). The Academy therefore approaches the local authority for an assessment of pupil D's needs.

In carrying out its assessment of pupil D's needs, the local authority assesses pupil D as having complex SEN, and as requiring provision that will cost a total of £15,000. In this instance, however, local authority W does not make an EHCP in respect of pupil D.

In this case, the Academy as a secondary school has received mainstream per-pupil funding (AWPU) of £4,000. It has also received a notional SEN budget through replication of the local authority's formula. The Academy will therefore contribute the first £6,000 of the costs of the additional support required by pupil D. In total, the Academy will contribute the first £10,000 of the cost of the provision for pupil D from its budget, and the local authority will pay the Academy a top-up of £5,000 from its notional High Needs Block to meet the full cost of the provision: the fact that pupil D does not have an EHCP does not affect this.

#### Example E: Resolution of disagreement between the commissioner and provider over funding for provision for a high needs pupil with high-level SEN

Pupil E is 9 years old, lives in local authority V and has been assessed as having high-level SEN. The local authority has assessed pupil E as requiring provision that will cost £14,000. Following consultation with the family of pupil E, local authority V wishes to place pupil E in a local maintained special school.

The special school has received base funding of £10,000 and the local authority is proposing to pay a top-up of £4,000. However, the special school does not believe that it can make appropriate

provision for the pupil without additional funding, above the £4,000 top-up the local authority has proposed.

In these circumstances, the local authority can either:

- seek to resolve the issue through local machinery;
- explore whether an additional amount of funding should be paid to the school;
- seek an alternative placement on the grounds that the additional cost would mean that the placement would not be an efficient use of resources; or
- seek to proceed with the placement without extra funding, so creating a dispute with the school.

One way in which this might be resolved would be if the local authority operated a banded funding framework and / or a school-to-school moderation process. Under this model, the special school would admit the pupil and receive funding at the level proposed by the local authority. At the start of the next academic year, funding for this pupil would be moderated by other special school head teachers in that area, through a peer-moderation process.

While we expect that many such disagreements could be resolved through informed and robust dialogue between commissioner and provider, should the local authority and the school not agree and the authority wish nonetheless to proceed with the placement, the school could approach the Secretary of State with a complaint that the local authority was acting unreasonably.

#### Example F: A new approach to funding for special schools

Special school F is a large, maintained special school catering for pupils with behavioural, emotional and social difficulties (BESD). Prior to the introduction of reform of high needs pupils funding, special school F was funded for 100 places. The school's budget was calculated by means of a local special schools formula, constructed by the maintaining local authority with the agreement of the schools forum.

Reform of high needs funding put in place a new approach to funding specialist providers catering for high needs pupils and students, which includes special schools. Under these reforms, special schools will receive a base level of funding for each planned place at a standard rate of £10,000. At the start of FY2013-14, therefore, the EFA provides the maintaining local authority with 100 lots of base funding ( $100 \times £10k = £1m$ ) for special school F, which the authority then passes on to special school F.

In order to plan for the coming financial year, special school F has been in discussions with its commissioners for the past few months. The maintaining local authority has helped with costing the total provision of the school on a per-pupil basis through the development of a local banding framework, so that an appropriate amount of top-up funding can be arrived at. The school is aware that 85 of its current pupil cohort will be returning to the school for the new academic year in September 2013. The school is also aware that 15 pupils will be leaving the school, but that it will receive 10 new placements from its maintaining local authority, and 3 and 2 placements from two other neighbouring authorities respectively. Special school F has agreed the amount of top-up funding for the 85 students remaining in the school, and is in discussions about the top-up funding for the provision required for the 15 pupils who will be coming to the school in September.

#### Example G: Placement of a pupil with high needs in a mainstream early years setting

A four year old pupil, pupil G, has high needs requiring support above what is normally available in the mainstream nursery that she attends. The local authority and the nursery are clear about the level of provision that the nursery will make available to all pupils from within the funding received for the 15 hours of provision available to parents of children in this setting, as calculated by the Early Years Single Funding Formula. Funding for the 15 hours of provision would come from the local authority's Early Years Block. The local authority and the provider agree that in addition to what is normally available in the nursery pupil G will require £5,000 of additional support. The local authority would therefore pay £5,000 top-up funding to the nursery from its High Needs Block.

#### *Post-16 LDD*

#### Example H: Placement of a student in a mainstream further education college

Student H is 17 years old, has high needs, and has an EHCP. Student H wishes to study for a standard academic qualification in a further education college. The core course costs of this provision are £4,000. The local authority agrees that this would be an appropriate placement for student H, and includes the name of the college in student H's EHCP. On the basis of its assessment of student H's needs, the local authority has determined that student H needs additional support for education that will cost £14,000, taking the total cost of education provision to £18,000. As with all examples set out in this annex, any social care and medical costs would be in addition to this and should be paid from other budgets.

The college has also received an allocation of additional support funding for students with learning difficulties and / or disabilities. As in mainstream schools, the maximum additional support that the college is expected to provide has been set at £6,000 for each student. Due to the more detailed information on individual students in the post-16 education system, the college's allocation of additional support funding takes account of historic numbers of high needs students admitted to the college, and is adjusted on a lagged basis.

As such, the college would be expected to contribute £10,000 from its budget to the cost of provision for student H. This is made up of (i) the £4,000 mainstream per-student funding, as calculating by the national 16-19 funding system, and (ii) £6,000 from its additional support budget. The local authority would therefore pay a top-up of £8,000 to the college from its notional High Needs Block.

#### Example I: Placement of a student in an ISP

Student I is 18 years old and is to be placed in an Independent Specialist Provider (ISP). The ISP receives mainstream per-student funding, as calculating by the national 16-19 funding system, from the EFA. In this case, the per-student cost of the course that the student wishes to study is £7,000. The ISP has also received £6,000 for additional educational support for each student at the institution, based on student numbers from the last full academic year. As such, the ISP will be expected to contribute £13,000 towards the cost of student I's educational and additional support provision. The total assessed cost of education provision to meet student I's needs is £40,000. As such, the local authority in which student I is resident pays a top-up to the ISP of £27,000.

#### *Alternative Provision*

#### Example J: A mainstream school places a pupil in an AP Free School (either for a fixed-period exclusion of over five days or a direction off-site for early intervention)

A mainstream school wishes to place pupil J in an AP Free School. Pupil J is 12 years old. The mainstream school has received mainstream per-pupil funding (AWPU) of £4,500 for each pupil on

roll in the mainstream school. The AP Free School has received £8,000 base funding from the EFA for each planned place in the institution. The mainstream school and the AP Free School agree that pupil J requires support that will cost a total of £12,000. The mainstream school would therefore pay a top-up of £4,000 to the AP Free School. This figure represents the difference between the base funding received by the AP Free School (£8,000) and the total cost of the provision that the pupil will require (£12,000).

In order to avoid undermining the financial responsibilities of mainstream schools and Academies, and to ensure that there is an appropriate financial consequence to excluding a pupil, the mainstream school would repay the AWPU it had received for pupil J (£4,500) to the local authority in which the mainstream school was based. This would then be absorbed into the local authority's notional High Needs Block and could be used to fund other services for high needs pupils and students.

All figures would be *pro rata* if the placement were short term and/or part-time.

#### Example K: A pupil is excluded permanently

Pupil K is 14 years old and has been excluded permanently by a mainstream school. Under the current statutory framework, the local authority would be responsible for arranging and funding suitable full-time provision for the pupil. The local authority plans to place pupil K in an AP Free School.

If, like Pupil J (above), Pupil K required provision costing a total of £12,000, the local authority would pay the top-up of £4,000 to the AP Free School. The AWPU received for Pupil K by the mainstream school that the pupil had attended would return from the school to the local authority, as it does under the current School Finance Regulations. Likewise, when the pupil was readmitted to a mainstream school, the mainstream school then received AWPU for that pupil, pro rated, for the remainder of that financial year, as occurs at present under the School Finance Regulations.

## Illustration of the composition of high needs funding for particular provider types

The introduction of a place-plus approach to funding would mean that funding for a programme of learning for pupil or student with high needs and the additional support that the pupil or student needed to access this would be broadly equivalent across all types of providers. This annex sets out briefly the way in which funding for high needs pupils and student would be composed for different types of providers, and the route through which providers would receive this funding.

<b>Type of provider</b>	<b>Composition and route of funding for high need pupils or students placed in that institution</b>
Maintained Pupil Referral Unit (PRU)	<p>The PRU would receive a base level of funding of £8,000 for each planned place in the PRU. This base level of funding would cover elements 1 and 2 of the place-plus approach to high needs pupils funding. The PRU would receive this allocation of base funding from the maintaining local authority, which would receive this funding as a clearly-identified allocation in the place-led component of their notional High Needs Block, and would then passport this funding directly to the maintained PRU. The number of planned places in the PRU would be reviewed at least every two years, so as to ensure that funding was appropriate to the numbers of pupils who had been and would be placed there.</p> <p>For individual pupils placed in the PRU, top-up funding (element 3) would be received from the commissioner, either a local authority or a mainstream school, based on the assessed needs of the pupil. This top-up funding would be provided on a per-pupil basis, would follow the pupil into and out of the institution in or close to their real-time movement, and would flow directly between the commissioner and the provider.</p>
Alternative Provision (AP) Academy or Free School	<p>The AP Academy or Free School would receive a base level of funding of £8,000 for each planned place in the institution. This base level of funding would cover elements 1 and 2 of the place-plus approach to high needs pupils funding. The AP Academy or Free School would receive this allocation of base funding directly from Education Funding Agency (EFA). The number of planned places in the AP Academy or Free School would be reviewed at least every two years, so as to ensure that funding was appropriate to the numbers of pupils who had been and would be placed there.</p> <p>For individual pupils placed in the AP Academy or Free School, top-up funding (element 3) would be received from the commissioner, either a local authority or a mainstream school, based on the assessed needs of the pupil. This top-up funding would be provided on a per-pupil basis, would follow the pupil into and out of the institution in or close to their real-time movement, and would flow directly between the commissioner and the provider.</p>
Independent AP provider	<p>For placements made in other, non-state-funded AP institutions (AP providers that are not maintained PRUs, AP Academies or AP Free Schools) the commissioner would record these placements on its pupil census forms so that, where appropriate, the EFA could allocate the base level of funding</p>

	<p>for these placements and include them in the place-led component of the local authority's notional High Needs Block.</p> <p>This would mean when commissioning a placement for a pupil in an independent AP institution, a commissioner would not be faced with having to find an additional £8,000 to pay for the placement when compared to a placement in a state-funded AP institution. The independent AP provider would therefore receive the base level of funding as part of the total fee for the placement paid by the commissioner.</p>
<p>Maintained special school</p>	<p><b>For pupils aged from birth to 16</b>, the special school would receive a base level of funding of £10,000 for each agreed planned place. This base level of funding would cover elements 1 and 2 of the place-plus approach to high needs pupils funding.</p> <p><b>For pupils aged from 16 to 19</b>, the special school would receive funding based on numbers of post-16 high needs pupils from the last full academic year made up of (i) the basic per-student amount calculated according to the national 16-19 funding system (element 1) and (ii) an allocation of additional support funding of £6,000 (element 2) for each post-16 high needs pupil.</p> <p>The special school would receive this allocation of funding from the maintaining local authority, which will passport this funding to the school. The maintaining authority would receive the pre-16 funding as a clearly-identified allocation in the place-led component of their notional High Needs Block, and the post-16 funding as a formula allocation from EFA.</p> <p>For individual pupils placed in the special school, top-up funding (element 3) would be received from the commissioning local authority, based on the assessed needs of the pupil. This top-up funding would be provided on a per-pupil basis, would follow the pupil into and out of the institution in or close to their real-time movement, and would flow directly between the commissioner and the provider.</p>
<p>Special Academy or Free School</p>	<p><b>For pupils aged from birth to 16</b>, the special Academy or Free School would receive a base level of funding of £10,000 for each planned place. This base level of funding would cover elements 1 and 2 of the place-plus approach to high needs pupils funding.</p> <p><b>For pupils aged from 16 to 19</b>, the special Academy or Free School would receive funding based on numbers of post-16 high needs pupils from the last full academic year made up of (i) the basic per-student amount calculated according to the national 16-19 funding system (element 1) and (ii) an allocation of additional support funding of £6,000 (element 2) for each post-16 high needs pupil.</p> <p>The special Academy or Free School would receive this allocation of funding direct from the EFA.</p> <p>For individual pupils placed in the special Academy or Free School, top-up funding (element 3) would be received from the commissioning local authority, based on the assessed needs of the pupil. This top-up funding would be provided on a per-pupil basis, would follow the pupil into and out of the institution in or close to their real-time movement, and would flow directly between the commissioner and the provider.</p>

<p>Mainstream school</p>	<p><u>Pupils in a mainstream placement within a mainstream school</u></p> <p><b>For pupils aged up to 16</b>, the school would receive mainstream per-pupil funding for all pupils on roll (element 1), plus a clearly-identified budget for providing additional support for pupils with additional needs (element 2) from which they would be expected to contribute £6,000 of the cost of provision for high needs pupils.</p> <p><b>For pupils aged from 16 to 19</b>, the mainstream school would receive funding based on numbers of post-16 high needs pupils from the last full academic year made up of (i) the basic per-student amount calculated according to the national 16-19 funding system (element 1) and (ii) an allocation of additional support funding of £6,000 (element 2) for each post-16 high needs pupil.</p> <p>Funding for elements 1 and 2 for pre-16 and post-16 pupils will be passported to the school through the maintaining authority.</p> <p><u>Pupils in a special unit or specially resourced provision within a mainstream school</u></p> <p><b>For pupils aged from birth to 16</b>, the mainstream school would receive a base level of funding of £10,000 for each planned place. This base level of funding would cover elements 1 and 2 of the place-plus approach to high needs pupils funding.</p> <p><b>For pupils aged from 16 to 19</b>, the mainstream school would receive funding based on numbers of post-16 high needs pupils from the last full academic year made up of (i) the basic per-student amount calculated according to the national 16-19 funding system (element 1) and (ii) an allocation of additional support funding of £6,000 (element 2) for each post-16 high needs pupil.</p> <p>Funding for elements 1 and 2 for pre-16 and post-16 pupils will be passported to the school through the maintaining authority.</p> <p>In both cases, above this level (elements 1 and 2 in either the mainstream or specialist composition), top-up funding (element 3) for pupils placed in the school would be received from the commissioning local authority, based on the assessed needs of the pupil. This top-up funding would be provided on a per-pupil basis, would follow the pupil into and out of the institution in or close to their real-time movement, and would flow directly between the commissioner and the provider.</p>
<p>Mainstream Academy or Free School</p>	<p><u>Pupils in a mainstream placement within a mainstream Academy or Free School</u></p> <p><b>For pupils aged up to 16</b>, the mainstream Academy or Free School would receive mainstream per-pupil funding for all pupils on roll (element 1), plus a clearly-identified budget for providing additional support for pupils with additional needs (element 2) from which they would be expected to contribute £6,000 of the cost of provision for high needs pupils.</p> <p><b>For pupils aged from 16 to 19</b>, the mainstream Academy or Free School would receive funding based on numbers of post-16 high needs pupils from the last full academic year made up of (i) the basic per-student amount calculated according to the national 16-19 funding system (element 1) and (ii)</p>

	<p>an allocation of additional support funding of £6,000 (element 2) for each post-16 high needs pupil.</p> <p>Funding for elements 1 and 2 for pre-16 and post-16 pupils will be passported to the mainstream Academy or Free School through the maintaining authority.</p> <p><u>Pupils in a special unit or specially resourced provision within a mainstream school</u></p> <p><b>For pupils aged from birth to 16</b>, the mainstream Academy or Free School would receive a base level of funding of £10,000 for each planned place. This base level of funding would cover elements 1 and 2 of the place-plus approach to high needs pupils funding.</p> <p><b>For pupils aged from 16 to 19</b>, the mainstream Academy or Free School would receive funding based on numbers of post-16 high needs pupils from the last full academic year made up of (i) the basic per-student amount calculated according to the national 16-19 funding system (element 1) and (ii) an allocation of additional support funding of £6,000 (element 2) for each post-16 high needs pupil.</p> <p>Funding for elements 1 and 2 for pre-16 and post-16 pupils will be passported to the mainstream Academy or Free School through the maintaining authority.</p> <p>In both cases, above this level (elements 1 and 2 in either the mainstream or specialist composition), top-up funding (element 3) for pupils placed in the mainstream Academy or Free School would be received from the commissioning local authority, based on the assessed needs of the pupil. This top-up funding would be provided on a per-pupil basis, would follow the pupil into and out of the institution in or close to their real-time movement, and would flow directly between the commissioner and the provider.</p>
Mainstream early years provider	<p>Unlike mainstream schools, mainstream early years providers do not receive the equivalent of a notional SEN budget. Given that many are very small in size, it would not be practicable to introduce such an arrangement. As such, mainstream early years providers will receive their standard funding for 15 hours of early education (element 1). This will be provided through the local authority's Early Years Block using their Early Years Single Funding Formula, which funds all providers of free early education for three- and four-year-olds.</p> <p>It will be important that there is local clarity and agreement about what additional support (element 2) mainstream early years settings will provide for pupils with high needs from within their funding for the 15 hours of early education and the point at which additional, top-up funding is made available. Above this level, funding for additional support for high needs pupils will be provided from the local authority's notional High Needs Block.</p>
Maintained or Academy hospital school	We are considering what would be the most appropriate and effective manner of funding provision for pupils in hospital schools under a place-plus approach to high needs pupils funding more generally. We will provide further details in due course.
Independent or	We are considering whether INMSSs that are dedicated specialist SEN

<p>non-maintained special school (INMSS)</p>	<p>providers should receive base funding direct from the EFA (like Academies) or whether this should be passed on to them by placing local authorities as part of the total cost of the placement. We will provide further details about the application of the place-plus approach to the INMSS sector in due course.</p>
<p>Mainstream FE college</p>	<p>The FE college would receive funding based on numbers of post-16 high needs students from the last full academic year made up of (i) the basic per-student amount calculated according to the national 16-19 funding system (element 1) and (ii) an allocation of additional support funding of £6,000 (element 2) for each high needs student.</p> <p>Funding for elements 1 and 2 will be paid to the provider through the Education Funding Agency.</p> <p>Above this level, top-up funding (element 3) for students placed in the FE college would be received from the commissioning local authority, based on the assessed needs of the student. This top-up funding would be provided on a per-student basis, would follow the student into and out of the institution in or close to their real-time movement, and would flow directly between the commissioner and the provider.</p>
<p>Independent specialist provider (ISP)</p>	<p>The ISP would receive funding based on numbers of post-16 high needs students from the last full academic year made up of (i) the basic per-student amount calculated according to the national 16-19 funding system (element 1) and (ii) an allocation of additional support funding of £6,000 (element 2) for each high needs student.</p> <p>Funding for elements 1 and 2 will be paid to the provider through the Education Funding Agency.</p> <p>Above this level, top-up funding (element 3) for students placed in the ISP would be received from the commissioning local authority, based on the assessed needs of the student. This top-up funding would be provided on a per-student basis, would follow the student into and out of the institution in or close to their real-time movement, and would flow directly between the commissioner and the provider.</p>

Draft pro-forma for Early Years Block

LA Name							
DFE County Council							
1. Base Rate(s) (per hour)	Description (e.g. all providers, childminders)		Amount	Unit	Number of children attracting supplement payments	Anticipated Total Budget (£)	Proportion of funding
	1			per hour			0%
	2						
	3						
	4						
2. Core Supplements (please provide in written format a short explanation of your supplement payments, and what they are intended to achieve)	Deprivation (Mandatory)	Description (e.g. area based measures, IDAC1)		Amount	Unit (per hour / per child / lump)	Anticipated Total Budget (£)	Proportion of funding
		1					0%
		2					
	Quality	Description (e.g. workforce qualifications, Ofsted ratings, local quality assurance schemes)		Amount	Unit (per hour / per child / lump sum)	Anticipated Total Budget (£)	Proportion of funding
		1					0%
		2					
	Flexibility	Description (e.g. opening earlier/later/outside formal business hours)		Amount	Unit (per hour / per child / lump sum)	Anticipated Total Budget (£)	Proportion of funding
		1					0%
		2					
	3. Other factors and lump sums	Description		Amount	Unit (per hour / per child / lump sum)	Anticipated Total Budget (£)	Proportion of funding
1						0%	
2						0%	
3						0%	
TOTAL FUNDING FOR EARLY YEARS SINGLE FUNDING FORMULA :						-	0%
4. Early years contingency funding	Description		Anticipated total budget				
5. Early years centrally retained spending	Description		Anticipated total budget				
	1						
	2						

## Glossary of Terms and Acronyms

### **Academies**

Publicly funded independent schools that are free from local authority and national government control. Other freedoms include setting their own pay and conditions for staff, freedoms concerning the delivery of the curriculum and the ability to change the length of their terms and school days.

### **Additional Learning Support (ALS)**

A funding allocation paid by the Young People's Learning Agency to post 16 learning providers for support to assist individual learners with special educational needs or learning difficulties or disabilities, to achieve their learning aims and to progress to further learning and employment.

### **Age Weighted Pupil Unit (AWPU)**

A factor used in local authorities' local school funding formulae to distribute different amounts of funding for pupils of different ages or at each key stage.

### **Dedicated Schools Grant (DSG)**

The ring-fenced specific grant paid by the Department to local authorities from April 2006 in support of the Schools Budget.

### **Early Years Single Funding Formula (EYSFF)**

The single local funding formula that each local authority is required to develop and implement to fund all free entitlement to early education and care for 3 and 4 year olds.

### **Education Funding Agency (EFA)**

The EFA is a new executive agency of the Department for Education. From April 2012 it will be responsible for capital and revenue funding for education and training of 3-19 year olds. The EFA will directly fund Academies, Free Schools, and 16-19 providers; it will fund local authorities for maintained schools; and it will be responsible for the distribution of capital funding and advice on capital projects.

### **English as an Additional Language (EAL)**

Term used to define a pupil whose mother tongue is not English. It is one of a number of factors that may be taken into account in a local authority's school funding formula.

### **Free Schools**

All-ability state-funded schools set up in response to what local people say they want and need in order to improve education for children in their community. These new schools have the same legal status as Academies and enjoy the same freedoms and flexibilities.

### **Free School Meals (FSM)**

Known eligibility for free school meals is commonly used as an indicator of deprivation. FSM entitlement is based on whether the child's parents are in receipt of certain non-work benefits, including Income Support, Job-Seeker's Allowance and Tax Credits. A pupil is eligible only where the parent is in receipt of one of the listed benefits, and a request for free school meals has been made.

### **Guaranteed Unit of Funding (GUF)**

The per pupil amount of money allocated to each local authority through the Dedicated Schools Grant.

### **Income Deprivation Affecting Children Index (IDACI)**

A measure of financial deprivation that affects children: a score and rank is provided for each Lower Layer Super Output Area.

### **Learning Difficulty or Disability (LDD)**

A person has a learning difficulty or disability if:

(a) they have a significantly greater difficulty in learning than the majority of people of the same age, or

(b) they have a disability which either prevents or hinders them from making use of facilities of a kind generally provided by institutions that provide for young people of 16 or over.

### **Local Authority Central Spend Equivalent Grant (LACSEG)**

A grant paid to Academies in recognition of the fact that as independent schools they no longer receive a number of services from local authorities, and must make appropriate provision for themselves.

### **Key Stage**

There are four distinct stages of schooling:

Key Stage 1: pupils aged 5-7 (year groups 1 to 2)

Key Stage 2: pupils aged 7-11 (year groups 3 to 6)

Key Stage 3: pupils aged 11-14 (year groups 7 to 9)

Key Stage 4: pupils aged 14-16 (year groups 10 to 11)

### **Maintained School**

A school which is funded via the local authority and therefore subject to local government control.

### **Minimum Funding Guarantee (MFG)**

The MFG stipulates the minimum amount by which a school's budget must increase (or maximum amount by which it may decrease) when compared with its budget for the previous year, before allowing for changes in pupil numbers. Some specific items of expenditure (such as rates and resources specifically assigned to individual pupils with special needs) are excluded from the coverage of the MFG. Local authorities can modify the operation of the MFG with the approval of

the Secretary of State.

### **Private Finance Initiative (PFI)**

PFI is a form of partnership between the public and private sector to provide public services. It allows the public sector to contract with the private sector to provide quality services on a long-term basis, typically 25-30 years. This takes advantage of private sector infrastructure delivery and service management skills. It is used only after rigorous assessment has shown that it will provide better value for money compared to traditional public sector investment.

The usual form is for the private sector to provide the public sector with an asset. The private sector partner has the responsibility for designing, financing, providing, maintaining and operating the asset.

The public sector typically pays for the project through a series of payments based on performance or throughput, which cover both service delivery and the private sector's return on its investment.

### **Pupil Premium**

Targeted funding (in addition to the Dedicated Schools Grant) paid mainly to schools, specifically aimed at the most deprived pupils to enable them to receive the support they need to reach their potential and to help schools reduce educational inequalities. Premium funding is also provided in respect of children in care who have been continuously looked after for at least six months and children of parents serving in the armed forces. In 2011-12, funding for deprived pupils, distributed to pupils known to be eligible for free school meals, and looked after children was set at £488 per pupil. It was £200 for service children. In 2012-13, levels will increase to £600 per deprived and looked after pupil. The level for service children will increase to £250.

### **Schools Forum**

A statutorily required body which represents the governing bodies and head teachers of local authority maintained schools and Academies, together with other members. The purpose of the Forum is to advise the local authority on matters relating to schools budgets.

### **Section 251 (S251)**

Refers to the section of the Apprenticeships, Skills, Children and Learning Act 2009 which requires local authorities to publish annual budget and outturn statements relating to their education spending. The statements (often referred to as Section 251 Statements) are the means of informing schools and the public in general about the education funding plans and spend of the local authority.

### **Special Educational Needs (SEN)**

Children have special educational needs if they have a learning difficulty or disability that makes it harder for them to learn or access education than most children of the same age.

### **Studio School**

A school model for 14-19 year olds which teaches the national curriculum alongside enterprise themed projects and real work, designed to better prepare pupils for the world of work.

## **Super Output Areas**

Super Output Areas (SOAs) are a geography designed for the collection and publication of small area statistics. SOAs are thought to give an improved basis for comparison across the country because the units are more similar in size of population than, for example, electoral wards.

### **Lower Layer Super Output Areas (LSOAs)**

LSOAs were built using 2001 Census data from groups of Output Areas. They had a minimum size of 1,000 residents and 400 households, but average 1,500 residents. Measures of proximity (to give a reasonably compact shape) and social homogeneity (to encourage areas of similar social background) are also included.

### **Middle Layer Super Output Areas (MSOAs)**

The MSOAs were built using 2001 Census data from groups of LSOAs and had a minimum size of 5,000 residents and 2,000 households. They also fitted within the boundaries of local authorities as at the end of 2002.

## **University Technical College (UTC)**

A college for students aged 14-19 which specialises in technical studies and is sponsored by a university and a local business. They offer full time courses which combine practical and academic studies.

## **Young People's Learning Agency (YPLA)**

The organisation responsible for funding learning opportunities for 16-19 year olds; funding and supporting Academies; and funding support for young learners. It will be closed and replaced by the Education Funding Agency in April 2012.

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