



Department  
for Education

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

**Research report**

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**Natalie Parish and Ben Bryant – Isos  
Partnership**

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# Executive summary

## Introduction and background to the research

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

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

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

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

## Key findings and proposals

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To address these issues, we propose that local authorities should work with providers to establish clear expectations about the support pre-school settings are expected to provide from within their core funding, and the circumstances in which additional advice, training or resources will be provided.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Top-up funding

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# **Section A: Introduction and background to the research**

# Chapter 1: The purpose of the research

1.1 The Department for Education (DfE) commissioned Isos Partnership to undertake this research in order to provide insights into the way funding for young people with special educational needs (SEN) is spent, the reasons for differences between spending patterns in different local authorities, and the options for changing the distribution methodology in future.<sup>1</sup>

1.2 In July 2014, the then Minister for Schools, Rt Hon David Laws MP, announced changes to the distribution of schools funding for the financial year 2015 to 2016 to address some of the unfairness in the current allocations. He acknowledged that there would not be a completely fair education funding system until the distribution of funding for pupils with high-cost SEN is also reformed, and said that this would be a priority for reform during the next parliament. The aim of this research is to improve knowledge and understanding of current spending patterns, and particularly the differences between local authorities, so that the DfE can consider alternative ways of distributing this element of local authority funding in future.

1.3 The research had two main objectives, namely:

- a. to gather, collate, analyse and report on information about the incidence and costs (both how much funding is provided and the actual cost) of educational provision for pupils and students with SEN; and
- b. to inform the development of funding policy intended to improve the way in which pupils and students with SEN are funded in early years settings, schools and post-16 provision.

1.4 Specifically, we were asked to advise the DfE on options for a local-authority-level funding formula through which the DfE would distribute funding through the high needs block within the dedicated schools grant (DSG), and to consider how setting-level funding formulae (for early years settings, schools and colleges) might need to be adjusted to take full account of SEN.

1.5 The parameters of the research were set to include all funding for all types of SEN across the full range of providers, including early years providers, mainstream schools and academies, special schools, special resource bases, independent and non-maintained special schools (NMSS), further education (FE) colleges, sixth form colleges, and special post-16 institutions (SPIs). Importantly, the research was focused on funding

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<sup>1</sup> Throughout this report, we refer to funding young people with SEN. By 'young people', we mean children and young people aged from birth to 25. We refer to 'SEN' and 'SEN funding' since the focus of this research was primarily, although not exclusively, on education funding for children with SEN. We use the term SEND only when referring to the wider reforms of the SEND legislative framework and the SEND Code of Practice.

for high-incidence, low-need SEN as well as children and young people meeting the high-needs threshold. Funding for alternative provision, other kinds of additional educational needs and other vulnerable groups of young people was beyond the scope of this research.

## Chapter 2: Background and context

### Education funding reform

2.1 There has been a broad consensus that the current funding arrangements for aspects of the education system in England should be reformed so that they are more fair, consistent and transparent. Over the past five years, there have been significant reforms of education funding arrangements to address these issues and improve the way in which funding reaches the educating institutions and young people who most need additional funding (DfE 2012a, 2013a, 2014a).

2.2 The DfE has recognised that these reforms will lead to changes in the levels of funding that some local areas and schools receive, and has sought to phase in the reforms in order to minimise the risk of year-to-year turbulence in funding levels. The first stage of these reforms was introduced from April 2013. These included:

- changes to the way in which local funding formulae were constructed, including simplification of the factors that could be used in these formulae to fund mainstream schools;
- the DSG that local authorities receive to carry out their statutory education duties was divided into three notional blocks – an early years block, a schools block and a high needs block; and
- to support reforms of support for young people with SEN or disability (SEND) and those placed in alternative provision, a new approach to funding pupils with SEN, including those with high needs, was also introduced as part of these reforms.

2.3 Institutions that support young people aged 16 and above are currently funded through a national funding formula. During the same period, there have been changes to simplify post-16 education funding to reflect the introduction of study programmes in 2012, and to bring about greater alignment between pre-16 and post-16 funding for young people with SEN.

### Reform of funding for young people with SEN

2.4 Changes to the way in which support for young people with SEN is funded have been an important aspect of these reforms. These changes were introduced to support wider reforms of the SEND policy framework, specifically to align funding with a single SEND framework from birth to 25, a single assessment and plan, personal budgets and the local offer. An important aim of the SEND reforms has been improving personalisation and choice for families and young people. For this reason, a key principle of the reforms of SEN funding has been ensuring that different types of education providers are funded on an equivalent basis so as to avoid perverse financial incentives.

2.5 Our research was commissioned in order to inform potential further reforms of SEN funding. For this reason, we have included below a short summary of the way in which the SEN funding system operated at the time of our research.

- **Defining high needs** – the reforms introduced a national threshold to define the needs of young people that should be met through mainstream funding and those that would require additional funding. This threshold was set at approximately £10,000, based on research carried out by PricewaterhouseCoopers (PwC 2009).
- **Mainstream schools** – mainstream schools (maintained schools and academies) currently receive the majority of their funding through a formula constructed by local authorities and agreed with the local schools forum. Within their formula allocation, an amount of funding is identified for supporting pupils with SEN. This is the notional SEN budget, so-called because it is a *notional* budget: it is not ring-fenced. From their formula funding, schools are expected to provide a core offer of teaching and learning for all pupils, and up to the first £6,000 of the costs of providing additional support to pupils with SEN. For pupils with high needs (those requiring more than £6,000 additional support), top-up funding will be provided by the local authority placing the child. From April 2014, this £6,000 threshold has been mandatory (DfE 2013a). Local authorities are also able to provide additional funding from their high needs block to schools that have a higher proportion of pupils with SEN, for example schools that have developed a particular specialism or have a strong local reputation for inclusion.
- **Specialist settings for school-age children** – prior to April 2013, most special schools (maintained and academies) were funded based on planned places (as opposed to pupil numbers). Resourced provisions and SEN units in mainstream schools were funded on a similar basis. The April 2013 reforms introduced a new way of funding specialist settings. Under this approach, settings would be funded at £10,000 per planned place. This was intended to provide some stability of funding for specialist settings, and to provide equivalence of funding with mainstream schools – £10,000 as equivalent to average per-pupil funding (£4,000) and £6,000 additional support costs. As with mainstream schools, above this threshold, specialist settings would receive a top-up from the local authority placing a child in that school. The April 2013 reforms also brought non-maintained special schools into this new funding system.
- **Early years settings** – early years providers are funded through an early years single funding formula. Many early years providers are relatively small, compared to mainstream schools. For this reason, often there is not the equivalent of a notional SEN budget in their funding allocations. Currently, local authorities provide top-up funding for children who need support above what a provider can offer from their formula allocation.

- **Post-16** – institutions supporting young people post-16, including school sixth forms, sixth form colleges and FE colleges, both mainstream and specialist, receive per-student funding through a national funding formula. They are expected to meet the additional needs of students with low-level SEN from within this allocation. For students with high needs, they receive an allocation of £6,000 per student based on the data from the last full academic year. As with schools pre-16, they then receive top-up funding from local authorities who place students with them.
- **Top-up funding** – top-up funding was introduced in April 2013 in order to align funding with local authorities' statutory responsibilities for pupils with high needs. Under this approach, where a local authority places a pupil in a school, setting or college, they agree the amount of funding that they will provide, above the provider's formula / place funding, to meet the young person's needs. Top-up funding is therefore based on the assessed needs of the young person (though not necessarily through a statutory assessment) and the cost of meeting those needs in a particular setting. Many local authorities already used banding frameworks to arrange their SEN funding, and were encouraged to develop these as a framework for calculating top-up funding.
- **Central support services** – under the new funding arrangements, local authorities are able to continue to fund services to support children with SEN, such as specialist teachers for visually-impaired young people, from the high needs block of the DSG.

2.6 Since April 2013, the DfE has reviewed the implementation of the funding reforms, and set out changes to the way in which funding will be arranged in the financial years 2014 to 2015 (DfE 2013a) and 2015 to 2016 (DfE 2014a). These documents have recognised that moving towards a fair allocation of education funding requires all elements of education funding, including SEN funding, to be included. This research has been commissioned to gather evidence and make recommendations for how this can be achieved.

## Chapter 3: Methodology

3.1 The research was conducted by a small team. Isos Partnership was supported by our expert associate, Karina Kulawik, who helped us in developing the research tools, carrying out the fieldwork and analysing the findings, and by Oxford Consultants for Social Inclusion, who carried out the detailed data analysis and modelling to support the development of a formula-based approach to distributing high-needs funding to local authorities.

3.2 In order to answer the research questions set out in chapter 1, we constructed a methodology that would enable us to work with a small but broadly representative group of local education systems in order to learn about the detail of their SEN funding arrangements. We have used the term local education systems to refer to the connections between local authorities, schools, colleges and other settings, and parents, carers and young people within a geographical area based on local authority borders (Sandals and Bryant 2014). We wanted to understand the detail of how SEN funding systems within these local education systems worked and how they and their schools, colleges and providers had responded to the changes to high-needs funding introduced from April 2013.

3.3 We deliberately constructed a methodology which would allow us to engage in detail with a smaller number of local education systems rather than superficially with a greater number. We felt that this would be the best way to understand fully the complexities of this area of the education funding system.

3.4 We believe that national funding systems enjoy greater buy-in, are more equitable, and achieve greater longevity if they are based on secure and high-quality information about what is happening in localities but are also co-designed by experts in the field. To this end we built into our methodology an opportunity for representatives from the local authorities with whom we worked, as well as national stakeholders with significant local expertise, to help us to develop options for the future SEN funding system.

3.5 The research, which ran from September 2014 to April 2015, followed a four-stage methodology, as set out below.

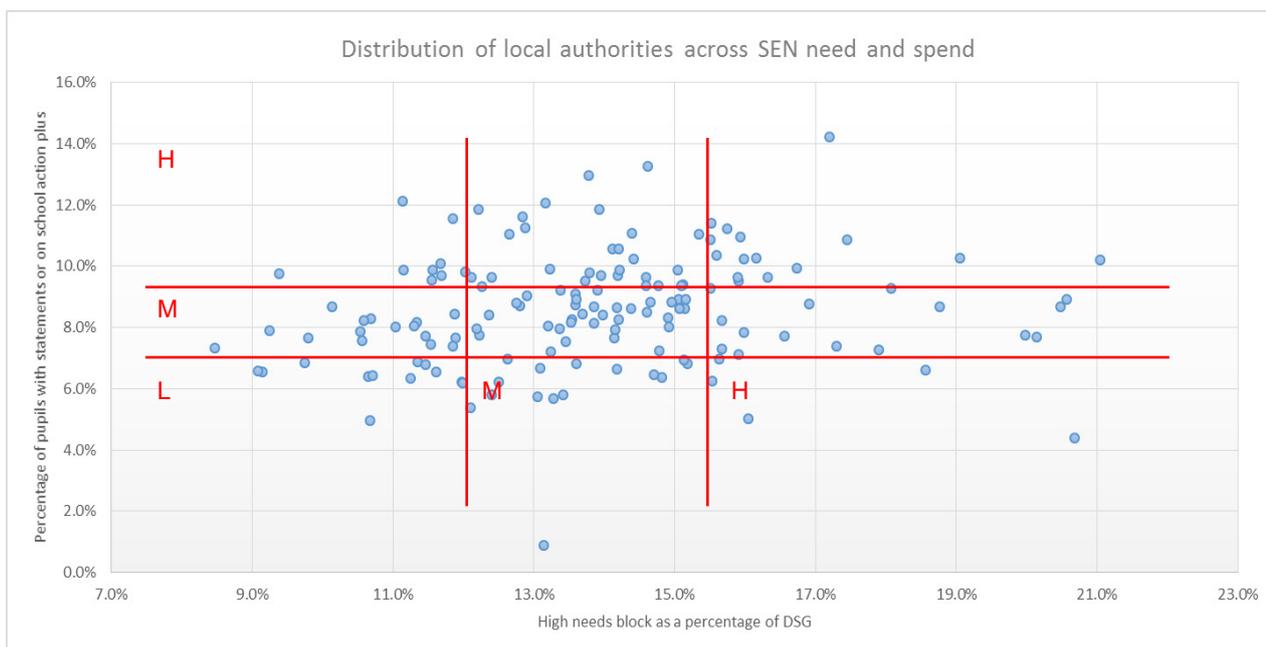
### Phase 1: Literature review and data analysis

3.6 During the initial stage of our work we carried out a brief literature review to understand the existing research base, from the UK and internationally, related to SEN funding. The findings of the literature review are set out in chapter 4 of this report. We used this to help frame a set of questions and hypotheses to test with a range of different national and local stakeholders during the fieldwork stage.

3.7 Also during this first phase of the research we worked with analysts in the DfE to scrutinise available data on levels of SEN need, SEN funding and other contextual data

in order to construct a sample of local authorities to invite to take part in the fieldwork. Trying to construct a sample which is broadly representative when only working with a small proportion of local education systems is challenging. The approach we took was, first, to ensure that we achieved a good spread of authorities in terms of levels of SEN need and levels of high-needs funding. We felt that these were the two most critical variables. We mapped all local authorities against two indicators: (i) their high needs block as a percentage of DSG, and (ii) the percentage of pupils with a statement or supported at School Action Plus (as then applied). We then worked out which local authorities fell into the highest quartile, the lowest quartile and the middle 50% on each of the two variables, as illustrated in the figure below.

**Figure 1: Mapping local authorities based on measures of need and current spend**



Source: DfE 2013b, DfE 2013c

3.8 We then created a sample of 13 local authorities that:

- achieved a good distribution across our three-by-three matrix of need and funding;
- was balanced in terms of region, size of authority, type of authority, urban/rural mix and levels of deprivation;
- included some local authorities that had been pathfinders for the SEND reforms or which were known to have well-developed SEN funding systems; and
- took account of different patterns of post-16 funding, for example the proportion of post-16 students with SEN placed in SPIs.

3.9 The final sample of local authorities that we recruited to take part in the fieldwork is set out in figure 2.

**Figure 2: The sample of local authorities that took part in the research**

|   |   |  |                               |                     |
|---|---|--|-------------------------------|---------------------|
| Need (% pupils with statements or School Action Plus) | H | Herefordshire                                    | Lambeth                       | Bury                |
|   | M | Southend-on-Sea                                  | Newcastle, Devon, West Sussex | Bromley, Manchester |
|   | L | Somerset, East Riding of Yorkshire               | Leicestershire                | Gateshead           |
|   |   | L  | M                             | H                   |
|   |   | Budget (high needs block as a percentage of DSG) |                               |                     |

Source: DfE 2013b, DfE 2013c

## Phase 2: Fieldwork

3.10 The fieldwork phase of the research ran from November 2014 to March 2015. We started by conducting a series of semi-structured telephone interviews with 19 national experts and stakeholders, seeking their views on how well the current SEN funding system was working and how it might be improved in the future. We used the outcomes of this process, alongside the findings of the literature review, to develop a series of question frameworks for use with a range of different stakeholders at a local level. Through our local fieldwork we aimed to cover the following broad questions.

### Understanding the current SEN funding system

**Theme 1: Identifying need** – how do local authorities predict and analyse the incidence of SEN to plan and distribute funding?

**Theme 2: Allocating funding** – how do local authorities decide the distribution of funding for pupils supported by SEN provision?

**Theme 3: Achieving outcomes** – how well do the different approaches to funding for SEN used by local areas meet the needs of pupils and parents? Do particular approaches to funding contribute to better outcomes for children and young people with SEN?

### Developing options for a future SEN funding system

Which aspects of the current system it is important to retain?

What could be changed to make the allocation of funding to local authorities and to providers fairer?

What additional factors might be used for distributing SEN funding at either national or local level, particularly in order to deal with the needs of children who are not picked up by either a low attainment factor or a deprivation factor?

3.11 We conducted, on average, three days of fieldwork in each local education system. During our fieldwork, we conducted individual or small group interviews with:

- strategic local authority leads (Directors of Children’s Services, Directors of Education, and Assistant Directors);
- local authority SEN and inclusion leads, and educational psychologists;
- local authority school and SEN funding leads;
- health partners, including public health leads and clinical commissioning group leads for children; and
- headteachers and principals from across all types of setting (through face-to-face or phone interviews).

3.12 We held small workshops with groups of headteachers, principals, SEN co-ordinators (SENCOs) and business managers from early years settings, mainstream schools, special schools (including independent and non-maintained special schools), and colleges (general FE colleges and SPIs). We also held individual interviews or workshops with groups of parents and carers in each local education system.

3.13 Alongside the detailed question frameworks, which supported the semi-structured interview process, we designed three additional research tools.

- a. **Survey** – as part of our workshops we administered a very simple survey to participants to gauge their levels of confidence in and satisfaction with different aspects of the SEN funding system.
- b. **Profiles** – we also produced a set of profiles of the needs of five hypothetical young people. We invited both local authorities and providers to help us understand how they would meet the needs of the young person, as described in the profile, and to estimate the cost of the support required to meet those needs. The profiles were not designed to be representative of all types of SEN, but rather to home in on those aspects of provision or need which we felt might be contentious or likely to show greater degrees of variability. The profiles, which are set out in annex C, provided a constructive vehicle through which to debate how different local education systems, and different providers, respond to similar patterns of need.

- c. **Funding template** – lastly, we developed a funding spreadsheet designed to interrogate the detail of SEN funding patterns that sits below published financial returns. We asked local authorities taking part in the research to support us in providing some of this additional detail in a common format.

## Phase 3: Analysis of options for a future funding system

3.14 Following the fieldwork stage of the research we analysed our findings to understand what we had found about the strengths of current funding arrangements, and the challenges being faced. This led us to construct a series of issues which we invited experts to help us solve.

- We held three workshops with the local authorities that took part in the fieldwork through which we played back and tested our initial findings and then carried out joint problem-solving activities.
- We reported and tested the evidence from our fieldwork with the DfE's High Needs External Working Group.
- We held a workshop with a small group of national SEN experts to test and refine some of our emerging conclusions.

3.15 Alongside this refining of issues and potential solutions, we engaged our partners, Oxford Consultants for Social Inclusion, to support the detailed modelling of options for a new high-needs funding formula. This analysis and modelling work was informed by the ideas and feedback received during the fieldwork and the workshops.

## Phase 4: Testing and reporting

3.16 The final phase of our work has been to bring all the evidence that we have amassed during the course of the research process into this final report. We have framed our proposals within the current SEND statutory framework. We have been fortunate in having regular opportunities to test our emerging conclusions with officials in the DfE and to benefit from their input, particularly on the national policy and delivery context.

# Chapter 4: Review of existing research literature

## Introduction

4.1 At the outset of our research, we reviewed the existing literature on the ways in which SEN provision is funded in education systems around the world. Over the past 20 years there has been a growing interest in understanding how funding arrangements can support policies aimed at improving outcomes for young people with additional needs. We have sought to identify the key aspects of existing studies to situate current considerations relating to SEN funding in England, and our research, in this wider context.

4.2 In particular, we have focused on:

- the ways in which education systems identify need;
- the ways in which they target resources to meet young people's needs; and
- the effectiveness of different approaches in achieving stated policy goals.

4.3 A number of themes emerged from our review of the literature:

- funding is understood to be an important factor in shaping practice around SEN;
- funding arrangements create incentives for families, schools and government agencies, which need to be aligned to overall policy goals;
- models that allocate resources based on assessments or indicators of individual needs can encourage the labelling of students as having additional needs, which can cause growth in the number of students in specialist settings, escalation of costs and increased legal challenge; and
- there are different approaches to how SEN funding is used – some focus on integrating individual pupils in existing settings, whereas others focus on building the capacity of the education system overall to include all pupils.

## The inclusion debate

4.4 During the latter part of the twentieth century, educationalists became increasingly interested in how education systems should respond to the variety of different needs of their students. Rather than see these students as lacking the capabilities to succeed in mainstream education, these debates focused on how mainstream education could become more *inclusive* so as to remove barriers to the participation and achievement of all students. In 1994, Salamanca hosted the World Conference on Special Educational Needs. This was attended by the governments of 92 countries. The statement declared:

Regular schools with an inclusive orientation are the most effective means of combating discriminatory attitudes, creating welcoming communities, building an inclusive society and achieving education for all; moreover, they provide an

effective education to the majority of children and improve the efficiency and ultimately the cost-effectiveness of the entire education system. (UNESCO 1994)

4.5 Subsequent studies have taken their cue from this declaration and sought to understand how practices in mainstream classrooms might change to meet the needs of all students (Ainscow 2005, Meier 2010). According to these studies, inclusion is seen not in terms of physically accommodating or integrating individual pupils in mainstream schools, but in constantly developing the capacity of mainstream schools (Ainscow 2005, Meier 2010, European Agency 2013). This reflects the move in thinking about SEN from what is termed the 'medical model' or 'deficit model' to the 'social model' of SEN (Norwich 2004, Meier 2010, European Agency 2013).

4.6 Considering SEN and inclusion in this way leads to a focus on the factors that may encourage or inhibit policies to support mainstream education to become more inclusive. Five key factors are highlighted in the literature:

- the **ethos** of the education system and the attitudes of leaders and teaching staff;
- the **pedagogical techniques** teaching staff can access and deploy;
- the **structure and make-up of the education system**, specifically the size of the special school sector;
- the way in which schools are held to **account** for performance; and
- the way in which **funding** is arranged and allocated (Campbell et al 2003, Ainscow 2005, Meier 2010, European Agency 2013).

4.7 The literature suggests that, in order to achieve policy goals relating to SEN, all of these factors should be aligned insofar as is possible. This has given rise to a greater focus on the different ways of arranging funding for students with SEN.

## The importance of funding

4.8 There is some debate about quite how important a factor funding is in improving education for students with SEN. Some studies see it as a crucial factor (Meier 1999, European Agency 2013), while others, although recognising their importance, see funding arrangements as a pre-condition rather than a decisive factor (Campbell et al 2003). All of the studies we reviewed agreed that it is not the *quantum* of funding available but *the way in which SEN funding is arranged* that is critical to understanding the effectiveness of funding arrangements in supporting strategic policy goals.

4.9 In 1999, a comprehensive study of SEN funding arrangements was conducted for the European Agency for the Development of Special Needs Education (Meier 1999). The study gathered evidence from 17 European countries and compared the ways in which they funded SEN. The study highlighted significant differences in the way European countries funded SEN. It argued that, while countries differed in the proportions of students they identified as having SEN and how they categorised needs,

the actual incidence of SEN was broadly consistent at an international level. It argued that the differences in the number of students identified as having SEN and/or placed in specialist settings reflected historical, geographical and cultural factors, as well as how those countries arranged their SEN funding.

4.10 The study concluded that countries that de-centralised their SEN funding were more positive about the way their funding arrangements worked. It found that the Scandinavian countries – Iceland, Norway, Sweden and Denmark – tended to distribute funding to municipal level. Municipalities and schools then had considerable autonomy over the way in which funding was used to support students with SEN. In these systems, there was an explicit link between SEN funding for mainstream settings and SEN funding for specialist settings to enable strategic planning of provision.

4.11 By contrast, in the northern European countries, funding for pupils with SEN tended to be arranged on a student-led basis. These countries tended to have comparatively higher proportions of pupils in special schools and, in some countries such as Germany and Austria, growing numbers identified as having SEN and placed in special schools. In these countries, the study found, the funding system was seen as contributing to these trends and increasing costs.

4.12 The study noted that most countries used a combination of different funding arrangements within their education systems, for example funding mainstream schools through a formula but funding special schools centrally. The study therefore identified two main ways in which SEN funding systems in Europe differ.

- **‘Destination locus’** (who actually receives the funding) – this could be students, schools (individual or clusters) or municipal government bodies. In the Scandinavian countries, the study found that the destination locus tended to be municipalities, whereas in the northern European countries it tended to be clients or special schools.
- **‘Funding conditions’** (the basis on which the funding is allocated). The study identified three forms – (a) ‘input’ funding (based on measured or estimated need), (b) ‘throughput’ funding (based on the functions or services to be provided), and (c) ‘output’ funding (based on what is achieved). The study found that Scandinavian countries funded municipalities via throughput funding, while northern European countries used input funding.

4.13 The study noted that it was important to judge a funding system not only in terms of its effectiveness (how well it contributed to policy goals) and its efficiency (how well it allocated funding to where it was targeted). It was also important to recognise the way in which funding systems guarded against incentivising ‘strategic behaviour’ that ran counter to policy goals. Using these criteria, the study drew two key conclusions.

- a. **Funding families or schools based on the needs of individual students can encourage labelling, cost-escalation and segregation.** The study found that funding based on individual needs could empower families and improve choice. It also, however, highlighted a number of risks. First, the study noted that such systems required objective eligibility criteria for determining a student's needs. Since criteria were based on professional interpretation, they were often contested, which could encourage growth in the number of students identified with SEN, and increase pressure on public funds and legal challenge. Second, the study concluded that providing 'input' funding to mainstream schools – e.g. numbers of students with SEN or low test scores – could also create incentives to identify students as having SEN or could reinforce low achievement. Likewise, providing 'input' funding to special schools (based on pupil numbers) could also cause numbers in special schools, and subsequently costs, to rise. It concluded that input-based funding did not encourage services to improve nor build their capacity to support students with SEN.
- b. **De-centralising decisions about funding and increasing local and school autonomy can improve mainstream special needs education.** As an alternative to input-based models, the study was encouraged by the models developed in European countries to provide funding based on services to be provided in municipalities or clusters, combined with an element of funding based on impact. It argued that throughput funding for schools offered no incentive for mainstream schools to admit students with SEN or special schools to respond to the changing local needs. Instead, the study argued that providing funding at the municipal level allowed there to be a clear link between mainstream and specialist SEN funding and strategic decisions about how best to meet current and future needs.

## Analysing SEN funding systems

4.14 The European Agency's seminal study has stimulated a number of debates, in England and internationally, about SEN funding. We have highlighted four critical areas of debate.

### The critique of input-based funding

4.15 Some studies have taken the critique of input-based funding further, and looked at the impact it has on costs and numbers of students identified as having SEN (Ofsted 2010, Crawford et al 2011). Others have highlighted the way in which the eligibility criteria can become the target for groups of stakeholders lobbying for additional resources, or indeed can create a self-fulfilling cycle of low expectations for certain groups of students seen as more likely to have SEN (Ofsted 2010, European Agency 2013).

4.16 Other studies have questioned whether proxy indicators, such as prior attainment and deprivation, are sufficiently responsive to the actual incidence of SEN to be reliable for school-level funding (Lupton et al 2010, European Agency 2013). Press reports about the impact of the reforms introduced in England in 2013 echoed similar sentiments (Murray 2013, Read 2014).

4.17 Other studies have emphasised the importance of using resources for early preventative work and building the capacity and skills of teaching staff to support students with SEN (Audit Commission 2002). Some studies have highlighted examples of delegated funding where schools have greater autonomy to use resources to meet the additional needs of pupils, and only have recourse to additional resources in exceptional cases (Crawford et al 2011 uses the example of the London Borough of Newham).

### **Balancing funding and accountability**

4.18 There has also been a growing focus on the different incentives for schools that are created by performance measures and funding arrangements. In relation to SEN, studies have focused on the relative lack of accountability for outputs or outcomes achieved through the allocation of additional resources, and the lack of clarity for national and local government about the way in which schools use their SEN resources (Campbell et al 2003, Poet 2012, European Agency 2013). Reviews in England have found that while some schools, settings and colleges are effective at identifying students' needs and monitoring the impact of their support, often support is inappropriate, of poor quality and/or is not effectively monitored (Ofsted 2010).

4.19 There has also been increasing focus on the way in which high-stakes accountability for schools could conflict with inclusive policies (Audit Commission 2002, Campbell 2003, Meier 2010). These studies have considered whether high-stakes accountability could make mainstream schools more reluctant to admit pupils they feel may not achieve well on tests, which may in turn create pressure on places in special schools (Campbell et al 2003, Ainscow 2005).

### **How incidence of need varies across and within education systems**

4.20 The European Agency study, summarised earlier in this section, argued that, while countries identified different proportions of pupils as having SEN, these differences reflected socio-political factors, not differences in the incidence of need (Meier 1999). For example, a follow-up study in 2010 found that the proportion of pupils identified by European countries as having SEN ranged from 1% to 10%, while the proportion placed in special schools varied from 1% to 6% (Meier 2010). This has led to debates about the ways in which need can be identified and targeted effectively, without perpetuating some of the perverse incentives to label students with SEN or reinforce low expectations (Marsh 1995, Lupton et al 2010, European Agency 2013). Research on the numbers of disabled children in England has also found that local authorities identify disabled

children through different means, and some do now have accurate data on the number of these children in their local areas (Mooney et al 2008).

## **The changing roles of special schools**

4.21 In the context of debates about building the capacity of mainstream schools, there has also been focus on the implications for the role of special schools (Audit Commission 2002, Meier 2010). One study found that, across Europe, particularly in England, Belgium, Greece, Spain, the Netherlands and Scandinavian countries, special schools' role was evolving from solely providing support to their own pupils to offering expert services to build inclusive capacity in mainstream schools. It also noted that this transition needed to be handled carefully, particularly in northern European countries that tend to have larger special school sectors (Meier 2010).

## **Considering SEN funding arrangements in England**

4.22 The debates summarised briefly in this chapter provide a helpful context for our research. They suggests there is further work to be done to understand how a future system could identify need and target resources effectively. They also suggest the importance of aligning the interests of students and families, educating institutions, and local and national government bodies with key policy aims, and arranging funding to support these.

## Chapter 5: The principles of an effective SEN funding system

5.1 In undertaking our research, a number of local and national stakeholders suggested that it would be helpful to set out clearly what principles should underpin a well-functioning SEN funding system. They considered that this would provide a benchmark against which to test both the effectiveness of the current system and the desirability of any future changes we might recommend.

5.2 Our starting point for setting out these principles is that the funding system should support the principles of legislative reforms of the SEND framework in England. The Children and Families Act 2014 enshrined a new, person-centred and outcomes-focused approach to assessment, planning and support. An effective funding system should support and enable this process. The DfE also published a set of characteristics of an ideal school funding system (DfE 2011a). These are that a funding system should:

- distribute money in a fair and logical way;
- distribute extra resources towards pupils who need them most;
- be transparent and easy to understand and explain;
- support a diverse range of school provision; and
- provide value for money and ensure proper use of public funds.

5.3 These provide a clear foundation for the education funding system as a whole, and must underpin those aspects of the funding system which relate to SEN. Through the course of our research, we have identified a further suite of principles, which, we believe, complement the five listed above and are particularly relevant to the effective funding of SEN. These are that an effective SEN funding system should:

- support the achievement of increasingly good **outcomes** for children and young people with SEN;
- **efficiently** allocate funding on a **needs-led** basis so that a high-quality education can be delivered to children and young people with SEN with **minimal delay**;
- be **flexible** and **responsive** so that funding can change as a child or young person's needs change;
- support mainstream schools, colleges and settings to be **inclusive** while continuing to enable access to **high-quality specialist provision** for those children and young people who need it;
- enable a **positive** and **constructive dialogue with families and young people** about how funding can most effectively be used to meet a young person's needs and achieve outcomes; and
- lever in the appropriate contributions from **health** or **social care budgets**, where children and young people with SEN have those needs.

These closely reflect the principles set out by the DfE in its consultation on changes to the high-needs funding system in 2011 (DfE 2011b).

# **Section B: Key findings and proposals**

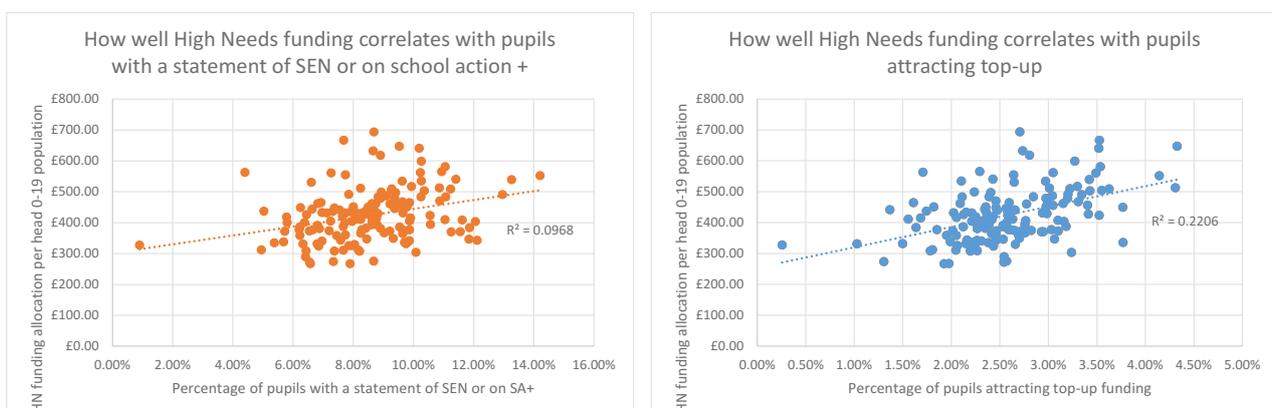
# Chapter 6: National-to-local distribution of high-needs funding

## Our findings: what is working well and what is not in the current system

6.1 The DSG, allocated from the Education Funding Agency (EFA) to local authorities, comprises three parts: the schools block, the early years block and the high needs block. The high needs block is the element of the DSG from which the majority of funding for SEN is provided. It covers expenditure on a range of support for SEN including top-up funding for all types of provider, the full cost of placements in independent special schools, additional funding provided to mainstream schools over and above their formula allocation, alternative provision, and centrally commissioned SEN support services. The budget for place-funding in maintained special schools and units is also currently provided to local authorities as part of the high needs block.

6.2 When the high-needs funding reforms were introduced in 2013, a decision was taken, in the interests of maintaining stability, to continue to allocate the high needs block to local authorities on the basis of historic spending levels. The issue is that historic spend does not appear to match very closely with current levels of need, as demonstrated by a simple analysis. The two charts in figure 3 show how well the high needs block expressed as a rate per head of the 0-19 population correlates firstly with the percentage of pupils with a statement or on School Action Plus, and secondly with the percentage of pupils attracting top-up funding. In a system where funding is closely matched to need one would expect to see a strong correlation between the level of funding and both these measures.

**Figure 3: Charts comparing how the high needs block correlates to the percentage of pupils with a statement or on School Action Plus and to the percentage of pupils attracting top-up funding**



Source: DfE 2013c, DfE 2014b, unpublished 2014 school census data on pupils attracting top-up funding made available to us by DfE for the purpose of this research

6.3 The chart on the right shows that the distribution of the high needs block explains 22% of the variation in the percentage of pupils attracting top-ups. This is a relatively low

level of fit, but is broadly acceptable when compared with the outcomes of other funding formulae. The chart on the left, however, shows that the current distribution only explains 9.7% of the variation in the percentage of pupils with a statement or at School Action Plus, which is considerably poorer.

6.4 In fact, when we divided the high-needs allocation for each local authority by the number of pupils with a statement or on School Action Plus the difference was striking. The authority at the highest end of the spectrum (excluding the City of London) received over £15,000 in high-needs funding for every child with a statement or on School Action Plus. The authority at the lowest end of the spectrum received less than £4,500 per pupil. One would expect a certain degree of variation based on different approaches between authorities in identifying SEN and different cost bases, but probably not the degree of variation that actually exists.

6.5 There was a strong feeling among the local authorities that took part in our research, and many of the national stakeholders, that the current distribution of the high needs block funding was not sufficiently transparent, objective or fair. Indeed, some felt that the way high-needs funding was allocated penalised those authorities which had historically taken a strategic approach to make their provision for SEN more local, more inclusive and more cost-effective. For example, one local authority described how it had invested in more specialist local provision for specific types of SEN in order to avoid some costly out-of-county residential placements that were not in the best interests of children. Their reduced cost-base then provided the foundation for their high needs block allocation, whereas other authorities had not made the strategic changes and continued to be funded at the same high levels as previously. The local authority in question argued strongly that where local cost efficiencies were made through reshaping provision the savings should have been available to be recycled into other aspects of SEN support.

6.6 To some extent the inequities in the current distribution of high-needs funding are mitigated by the fact that local authorities can move money between the different blocks within the DSG. We found through our research that around one third of the 13 local authorities had transferred money from the schools block to the high needs block to supplement their provision for SEN. If in the future, however, the government were to decide to introduce a funding formula for schools that removed or reduced local authority discretion, this facility would disappear or be very limited, since the schools block would be wholly or mainly outside a local authority's control. This would place an absolute premium on getting the distribution of high-needs funding to local authorities as fair as possible.

## **The options we considered to improve how the system works**

6.7 Any major change to funding distribution creates turbulence, uncertainty and winners and losers and therefore should not be undertaken lightly. However, the current system of distributing the high needs block is neither as objective nor as transparent as it

could be. It also appears to be somewhat out of step with underlying levels of need, and likely to become more so as demographics continue to change. We therefore did not feel that maintaining the status quo would be a viable long-term option. Instead we have focused on trying to model what an alternative system of distributing the high needs block would be, which would better reflect current levels of need and would enable funding allocations to be redistributed over time as those needs changed.

### **Developing a new formula-based approach to the distribution of high-needs funding from national to local government**

6.8 The big challenge in developing a new funding formula for the distribution of the high needs block is that there is no robust underlying measure of need in relation to SEN. Typically when developing funding formulae, models are created that are matched against some 'outcome' variable, for example the numbers of people in particular categories, or the costs of providing services to these groups. However, in this case, there is no single measure of 'need' that accurately captures the levels of SEN in a particular area; rather there are several possible measures of need that each capture a particular aspect of the SEN group, but which are each skewed in some way.

6.9 For example, the percentage of pupils with a statement of special educational need varies widely between local authorities and is more a reflection of historic statementing policy than of underlying need. Interestingly, at local authority level, the percentage of pupils with a statement is negatively correlated with levels of deprivation, which reinforces the concern that this is more a measure of practice than of need. The percentage of pupils with a statement or on School Action Plus (which under new SEN policy will be replaced with the percentage of pupils on SEN support) provides a measure that smoothes out some of the unevenness in statementing levels, but is essentially a largely unmoderated school-driven measure which identifies a group of children whose needs fall below the threshold for top-up funding as well as those pupils who meet the threshold. The percentage of pupils attracting top-up funding is a new measure which has come into existence since the introduction of the high-needs funding reforms. This has the advantage of being very directly related to high-needs spending (a significant proportion of the high needs block is spent on top-up funding). However, it suffers to some extent from some of the same weaknesses as the statement measure. In many local authorities the payment of top-up funding is linked to a child having a statement or an education, health and care plan (EHCP). Furthermore, analysis of the data suggests that the reliability of school-level census reporting of children attracting top-ups is variable, particularly in mainstream schools.

6.10 Rather than choose a single imperfect measure against which to carry out the modelling we identified a suite of outcome measures, set out in the table below, against which to test potential formula variables. We also used factor analysis to create a single combined outcome indicator which reflected all these different measures.

**Table 1: Suite of outcome measures against which we tested potential formula variables**

| <b>Outcome indicators used<sup>2</sup></b>                                    |  |
|---|--|
| <b>SEN budget</b>   | The SEN budget refers to the total budget allocated for SEN in a local authority (including top-up funding and SEN support services) for the financial year. <sup>3</sup> The figures quoted in the report are based on the budget for 2014 to 2015.   |
| <b>Pupils attracting top-up funding</b>                                       | Top-up funding relates to a pupil or student identified as requiring additional support which costs more than £6,000. The indicator identifies the number of individuals who receive this high-needs top-up funding for SEN in schools maintained by the local authority. Data is published as part of the school census and updated three times a year, with the figures quoted in the report based on counts from the January 2014 census.   |
| <b>Pupils with SEN</b>  | This is the sum total of pupils at School Action, School Action Plus and pupils with statements.<br><br>Data on the number of pupils with SEN (School Action, School Action Plus and statemented pupils) is published by the DfE at local authority level (based on educational institution location) and updated annually. The figures quoted in the report are based on counts at January 2014 census.   |
| <b>Pupils with SEN: with statements or at School Action Plus</b>              | This is the sum total of pupils with statements of SEN or on School Action Plus.<br><br>Data on the number of pupils with SEN (School Action, School Action Plus and statemented pupils) is published by the DfE at local authority level (based on educational institution location) and updated annually. The figures quoted in the report are based on counts at January 2014 census.   |
| <b>Disability Living Allowance (DLA) claimants aged 0-15</b>                  | DLA is payable to children who need help with personal care or have walking difficulties because they are physically or mentally disabled. It is not means-tested and is unaffected by income or savings of the claimant. DLA provides support for paying with additional care or mobility requirements associated with a disability.<br><br>Data is published by the Department for Work and Pensions (DWP) and is updated quarterly. Breakdowns are published with the reasons for claim, such as learning difficulties and behavioural disorders. |
| <b>Key stage 2: Two levels below benchmark (in reading, writing or maths)</b> | This indicator shows the total number of pupils achieving a level 2 or below in reading, writing or mathematics at key stage 2, i.e. scoring two levels below the benchmark figure of level 4. This indicator was explored in the 1999 DfE funding review as a proxy measure for estimating the distribution of SEN pupils. Data is published annually, with the figures quoted in the report based on data for the 2013 to 2014 academic year.  |

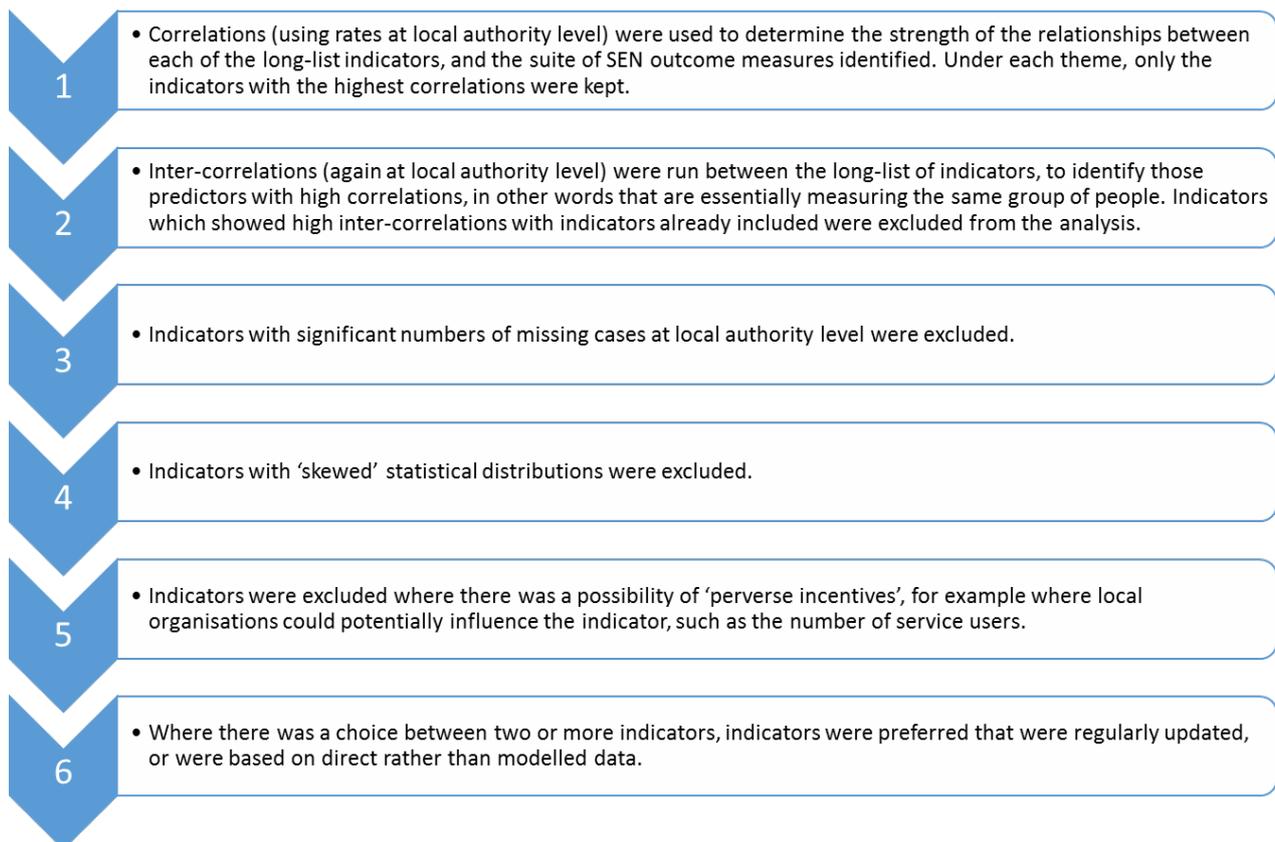
Source: DfE 2014b, DfE 2014c, DfE 2014f, unpublished 2014 school census data on pupils attracting top-up funding made available to us by DfE for the purpose of this research, DWP 2015

<sup>2</sup> These outcome indicators focus mainly on the 0-19 population of children and young people with SEN. To build on this analysis further the DfE may wish to include additional outcome indicators which focus on the 19- to 25-year-old population of young people with SEN.

<sup>3</sup> Local authorities are required under section 251 of the Apprenticeships, Skills, Children and Learning Act 2009 to prepare and submit an education and children and young people's services budget.

6.11 In the second stage of our analysis we carried out a trawl of the relevant literature to identify a long-list of over 80 potential indicators that are published at local authority level and could be used to predict SEN, grouped under four themes: deprivation, prior attainment, health and disability. The full list of indicators which we included at this stage is attached at annex A. We then embarked upon a process to whittle the long-list of potential indicators identified down to a short-list with which to work in greater detail. We carried out the following logical steps.

**Figure 4: The six stages of analysis we undertook**



6.12 The steps above produced a short list of 24 indicators, listed in annex B, with the potential to act as explanatory predictors for the suite of SEN outcome measures identified. We then carried out a regression analysis to understand which of these indicators remained a powerful predictor of SEN after other indicators had been taken into account. As in the previous stage, rather than identify a single flawed indicator on which to base our models, we ran a series of regression models – for each of the outcome measures – and looked for the common predictive factors across each of the models. Using this approach, we can be relatively confident that any factor identified is likely to be a significant indicator of levels of SEN. This process enabled us to identify a basket of five indicators that both individually and in combination had significant explanatory power across the suite of outcome measures for SEN. The indicators are as follows.

**Table 2: The basket of five indicators**

| Indicator   | Detail   | Source                        | Date     |
|---|--|-------------------------------|----------|
| <b>Children in poverty (aged 0-15)</b>                                    | All dependent children who live in households in receipt of low income benefits or whose equivalised income is below 60% of the contemporary national median.  | HM Revenue and Customs (HMRC) | 2012     |
| <b>Pupils both eligible for and in receipt of free school meals (FSM)</b> | Pupils in secondary schools both eligible for and in receipt of FSM (Source: <i>Special educational needs in England: January 2014</i> , DfE).   | DfE                           | 2014     |
| <b>DLA aged 0-15</b>  | DLA is payable to children who become disabled before the age of 15, who need help with personal care or have walking difficulties because they are physically or mentally disabled. People can receive DLA whether they are in or out of work. It is not means-tested and is unaffected by income or savings of the claimant. Data is now available based on main disabling condition at local authority level. | DWP                           | May 2014 |
| <b>Children in 'not good health'</b>                                      | Self-reported census measure of children aged 0-15 not in good health.   | Census 2011                   | 2011     |
| <b>Pupils not achieving five or more GCSE at grades A*-C</b>              | In assessments taken at the end of key stage 4. Figures are based on location of pupil residence.  | DfE                           | 2014     |

Source: HMRC 2014, DfE 2014d, DfE 2015, DWP 2015, ONS 2013

6.13 For some of these indicators there are alternatives which could be considered without compromising the strength of the model. We have included two deprivation-based indicators in the list above – the percentage of children in receipt of free school meals and the percentage of children in poverty. An alternative to the percentage of children both eligible for and in receipt of FSM might be to use the percentage of children who have ever claimed FSM at any point in the last six years (as is currently used for pupil premium calculations). This would identify a slightly wider group of children. An alternative to the percentage of children in poverty based on the HMRC data would be to use an Income Deprivation Affecting Children Index (IDACI) based measure of deprivation (which is widely used in local school funding formulae). We have opted here for the children in poverty indicator because it is more current. The IDACI was last published in 2010, is based on 2008 data and is only updated when the Indices of Multiple Deprivation are updated. HMRC's children in poverty data set is from 2012 and updated annually.

6.14 We have only included a single prior attainment measure in the basket of indicators – the percentage of pupils not achieving five or more A\*-C grades at GCSE. Based on our analysis we used the best matching prior attainment indicator, rather than one for low prior attainment in the primary phase and one for low prior attainment in the secondary phase, because when modelling need at an area level the impact of including both does not add a great deal of explanatory power over just including one. Given the

move away from levels in national curriculum tests at key stage 2, focusing on a GCSE-based prior attainment measure also felt more future proof (although of course this measure will also need to reflect planned changes to the secondary accountability framework).

6.15 It is also worth commenting that we took the decision to base the analysis on where pupils live, rather than where they go to school. In most local authorities this will be the same for the vast majority of pupils. However there are some authorities which see significant cross-border movement of pupils in choice of school, and for these authorities the two populations might be quite different. Our decision to base the analysis on where pupils live is because most (although not all) expenditure from the high needs block is determined by children's residency rather than their school location. This will be even more markedly the case if our proposals for reforming the way that special school place funding is allocated, set out in chapter 9, are taken forward. Nonetheless, in moving towards a high needs block distributed by formula factors some more detailed modelling of the impact of residency versus school-based populations should be carried out.

#### **Additional analysis to model the pupils receiving top-up funding indicator**

6.16 One of the challenges we identified in testing the basket of indicators above was that they were less successful in modelling the percentage of children attracting top-ups than they were in modelling the other outcome indicators. In fact the final "five-indicator model" explained 20% of the variation in the indicator compared with the current high-needs allocation which explains 27% of the variance. This is perhaps unsurprising because the percentages of children attracting top-up funding are likely to be influenced, to some extent, by the amount of funding each local authority has at its disposal.

6.17 To explore whether a needs-based model could better predict the percentage of pupils receiving top-up funding, we examined the adjusted R-squared for a number of regression models with increasing numbers of indicators. This showed that we could increase the fit of our model, by using nine indicators:

- Pupils both eligible for and in receipt of FSM (DfE 2014b);
  - Child Wellbeing Index (CWI): Children in need average score (CLG 2009);
  - Child Wellbeing Index (CWI): Material Deprivation score (CLG 2009);
  - Indices of Deprivation (ID) 2010 (CLG 2011), Income Deprivation Affecting Children Index (IDACI) (CLG 2010);
  - Child Wellbeing Index (CWI): Average score (CLG 2009);
  - People with a limiting long-term illness (aged 0-15) (ONS 2011);
  - Day-to-day activities "limited a lot" (aged 0-15) (ONS 2011);
  - Child Wellbeing Index (CWI): Health and Disability domain score (CLG 2009);
- and
- GCSE grades A\*-C in 2013 to 2014 (DfE 2015).

6.18 The regression model based on this set of indicators – the "nine-indicator model" – explains 26% of the variation in the percentage of pupils receiving top-up funding which

is consistent with the current DSG allocation. In addition, it is worth highlighting that the needs-based model performs significantly better than the DSG high needs block when the percentage of pupils attracting top-up funding is calculated based on school pupils resident in the local area rather than all school pupils irrespective of residence. The table below shows how well the predicted values produced from a series of models using these nine indicators matched against all the outcome indicators, compared with a series of models based on the initial “five-indicator” set and the current DSG high needs block allocation per head.

**Table 3: Comparison of the five-indicator and nine-indicator models**

| <b>Strength of regression models to match the outcome measures</b>  | <b>Current DSG high-needs allocation</b> | <b>Five-indicator model</b> | <b>Nine-indicator model</b> |
|---|--|-----------------------------|-----------------------------|
| Key stage 2: Two levels below benchmark in reading, writing or maths (2014)   | 0.1569                                   | 0.3768                      | 0.4242                      |
| DLA claimants aged 0-15 (May 2014)  | 0.0005                                   | 0.3609                      | 0.8902                      |
| Total SEN budget per head (section 251 budget) 2014 to 2015   | 0.8102                                   | 0.2971                      | 0.4105                      |
| Pupils with SEN (2014)  | 0.1449                                   | 0.2807                      | 0.5902                      |
| Combined outcome indicator  | 0.3424                                   | 0.3791                      | 0.4240                      |
| Pupils with SEN with statements or School Action Plus (2014)  | 0.1509                                   | 0.1920                      | 0.3824                      |
| Pupils with top-up flag (receiving top-up funding)  | 0.2703                                   | 0.1978                      | 0.2597                      |
| Values show strength of fit $R^2$ N = 147 local education authorities, excluding Central Bedfordshire, Cheshire East, Cheshire West City of London and Isles of Scilly due to data availability |  |                             |                             |

Source: DfE 2013c, DfE 2014b, DfE 2014c, DfE 2014f, unpublished 2014 school census data on pupils attracting top-up funding made available to us by DfE for the purpose of this research, DWP 2015

6.19 This additional analysis poses an interesting policy question. The “nine-indicator model” is a more powerful predictor of the percentage of pupils attracting top-ups, the percentage of pupils with SEN and the percentage of pupils with a statement or on School Action Plus than either the “five-indicator model” or the current allocation of the high needs block. However, as a formula it is less practical. Not only is it less intuitive and easy to understand but it is based on a large number of input variables that cannot be regularly updated (the Children Wellbeing Index was published in 2009 and has not been updated since and Census-based measures are only updated every 10 years).

6.20 On balance, therefore, we are still attracted to the “five-indicator model”, or a variant of this, which achieves a reasonably good fit across the different outcome measures, is simpler to understand and implement, and can be more readily updated as populations and demographics change.

### **Other factors which might affect local authorities’ need to spend**

6.21 The approach we have outlined above uses an estimation of levels of SEN in a local authority as the basis for allocating funding. As part of our research we also

considered whether a local authority's need to spend on SEN might be affected by factors other than the intrinsic level of need within the local population. As with other education funding formulae, we believe that there is a case for considering including London weighting or area cost adjustments, for example to reflect the higher levels of salaries in the capital. We also considered four different cases related to additional need to spend that were put to us by local authorities and other stakeholders.

### **Multiple deprivation factors**

6.22 Some of the inner city areas that we visited made a strong case that in areas where a high proportion of the families are faced with multiple challenges associated with deprivation it can compound the difficulty, and cost, of making good support and provision available for children and young people with SEN because vital out-of-school support networks and family resilience are compromised. However, on balance we felt that the formula factors we are proposing already include two deprivation-based indicators of need. To include a greater range of indicators that are associated with deprivation risks complicating the funding model without increasing its explanatory power. We therefore do not believe that further weighting of the formula in favour of areas of multiple deprivation is necessary.

### **Presence of a specialist children's hospital**

6.23 A couple of local authorities argued persuasively that the presence of a specialist children's hospital in the area led to families with children with SEN moving to the area in order to be close to medical facilities. Data from one local authority suggested that this was particularly the case for pre-school children with complex needs, although the data was also made more difficult to interpret by other patterns of movement including immigration and asylum. Having considered this carefully we believe that the relocation of families to a local area either to be near a well-regarded medical facility or indeed to access good education provision for children with SEN may be a significant challenge in a system (as is currently the case) where high-needs funding is essentially fixed. However, we believe that moving to a formula-based allocation may greatly alleviate these pressures as it will provide the flexibility to rebase funding as populations change. Logically we would argue that the large majority of children whose families may move to an area to be closer to good quality facilities will be reflected in indicators which relate to low prior attainment or disability, both of which are captured in our current proposed basket of indicators.

### **Proximity to non-maintained and independent specialist provision**

6.24 An argument has been put forward in some local areas that the presence of high numbers of well-regarded non-maintained or independent special schools or colleges within easy travelling distance leads to higher numbers of parents requesting such specialist provision and consequently higher costs.

6.25 Again, having considered the arguments for and against we have decided not to recommend the inclusion of a NMSS / independent special school proximity factor in the

funding formula. One of the roles of local authorities as commissioners of places for SEN is to consider how local provision can be shaped to best meet the needs and preferences of children and young people and their parents. We believe that to build a system in which one type of provision attracts more funding than another type of provision creates a set of perverse incentives and does not encourage the type of healthy commissioning dialogue between local authorities and providers which leads to increasing quality, responsiveness and value for money.

### **Sparsity**

6.26 Finally we considered whether there might be a case for including a sparsity factor in the high-needs funding formula. Interestingly few local authorities we spoke to, including those serving largely rural communities, believed that sparsity was a strong contender for inclusion in any future formula. On reflection we agree with this view. The only major SEN-related cost that we felt would be significantly affected by serving a sparsely populated area was transport. At present the bulk of a local authority's transport costs sit outside the DSG and account for only a small percentage of spending on the high-needs budget. However, this position may need to be reconsidered if the costs of transport were to be transferred to the DSG in future.

### **Understanding the implications of a new formula-based funding model**

6.27 As a final step we explored how the "five-indicator model" might be combined into a funding formula to distribute high-needs funding from national to local government. We standardised and weighted the input indicators in order to combine them into a single output. In this illustrative example we have applied the following standardisation and weighting.

- **Standardisation:** Each indicator is expressed as a proportion of the appropriate indicator summed across England. For example, the number of children in a local authority who are both eligible for and in receipt of FSM is standardised by dividing by the total number of children in England who are both eligible for and in receipt of FSM. This has the advantage of each indicator summing to 100% across England, while retaining the underlying distribution of values.
- **Weighting:** We applied a weighting of 50% to the two deprivation indicators (children in poverty and FSM), and weighting of 100% to the remaining three indicators.

6.28 The resulting formula was used to derive a modelled needs value for each of the 150 local authority areas in England (excluding the City of London and Isles of Scilly). A modelled needs value per pupil was derived by dividing by the number of pupils resident in the local area.

6.29 We have compared the results from our illustrative formula against both the current high-needs allocation and the SEN budget, in terms of the strength of their

relationship with the percentage of children with statements or on School Action Plus and the percentage attracting top-up funding.

6.30 The table below shows the correlation between our modelled needs indicator and these distributions, based on per head or percentage data. Overall, the modelled needs indicator performs well on predicting current budgets and the number of pupils with high needs. This is an important result. Based on an equally weighted basket of the five needs indicators identified in the previous section, and without modelling the weights to match a particular outcome indicator, we have achieved:

- a better fit with the percentage of children attracting a statement or on School Action Plus than either the current DSG allocation or local authority reported SEN budgets (section 251);
- a better fit with the percentage of children attracting top-ups than local authority reported spend on SEN budgets; and
- a reasonably strong match with both the current DSG allocation and the SEN budget.

**Table 4: Correlation between our modelled needs indicator and other distributions**

| Per head or % data                                     | Modelled needs | DSG high needs block | SEN budget | Pupils with statement / School Action Plus | Pupils with top-up funding |
|--|----------------|----------------------|------------|--|----------------------------|
| <b>Modelled needs</b>                                  | 1.0000         | 0.4626               | 0.3866     | 0.4109                                     | 0.3704                     |
| <b>DSG high needs block (£ / head)</b>                 | 0.4626         | 1.0000               | 0.7246     | 0.3799                                     | 0.5242                     |
| <b>SEN budget (£ / head)</b>                           | 0.3866         | 0.7246               | 1.0000     | 0.2912                                     | 0.3113                     |
| <b>Pupils with statement or School Action Plus (%)</b> | 0.4109         | 0.3799               | 0.2912     | 1.0000                                     | 0.3087                     |
| <b>Pupils with top-up funding (%)</b>                  | 0.3704         | 0.5242               | 0.3113     | 0.3087                                     | 1.0000                     |

Values show correlation coefficients based on data for 150 local authorities (excluding City of London and Isles of Scilly)

Source: DfE 2013c, DfE 2014b, DfE 2014c, unpublished 2014 school census data on pupils attracting top-up funding made available to us by DfE for the purpose of this research

6.31 The modelling that we have carried out is only the first stage in establishing an effective funding formula for the high needs block. Importantly what this work demonstrates is that a simple funding formula based on objective, published data can perform at least as well as, and in some aspects considerably better than, the current methodology for allocating high-needs funding in terms of the correlation with underlying levels of need. This should provide the DfE with confidence that a formula-based approach to high-needs funding is possible. However, more detailed work is now needed

to turn this basic proposition, and basket of likely factors, into a fully-fledged formula. At the very least more analysis is now needed to finesse the final basket of indicators and their relative weightings to consider the scope of the funding to which the formula might be applied, and to understand the optimum balance between factors based on where children and young people live and factors based on where they go to school.

### **Transition arrangements**

6.32 Moving to any new system of funding for the high needs block will require a careful and considered approach to transition. It is inevitably the case that making such a change at a time when funding levels are not rising will result in both winners and losers. For those local authorities whose funding might decrease as a result of these proposed changes it would not be in the best interests of children and young people to bring about a sudden reduction in funding, particularly where funding is tied to particular placements.

6.33 It is beyond the scope of this research to carry out a detailed modelling of which local authorities will gain or lose under any new model, and by how much. Nor have we attempted to model over what period transitional arrangements should be put in place in order to minimise disruption to services. Such modelling would need to consider the precise scope of the high-needs funding block for distribution through the formula and take into account any changes in the wider distribution of DSG such as schools block funding. Clearly the impact of any formula for high-needs funding must be considered in the wider policy and funding context.

## **Our proposals**

**The DfE should consider moving to a formula for the allocation of the high needs block to local authorities. The analysis set out in the preceding pages suggests a range of factors that might be used in such a formula, including factors related to deprivation, prior attainment, disability and children's general health.**

6.34 The current methodology for allocating the high needs block is not perceived by local authorities to be sufficiently transparent or objective. While the correlation with reported levels of SEN need are reasonably good on some measures they are much weaker on other measures, particularly those which are least influenced by budgetary considerations. What is more, the match between budget allocations and current levels of need are only likely to worsen over time as populations and demographics change.

6.35 More detailed modelling work is needed to finesse the final basket of indicators and their relative weightings, to consider the scope of the funding to which the formula is applied, and to understand the impact on different local authorities in the wider context of education funding reform to ensure a measured transition. We consider, however, that such a formula-based approach would be more objective, and easier to explain and

understand. It could be rebased annually if desired, and would correlate better with a wider range of measures of need than the current funding distribution.

## Chapter 7: Core funding for mainstream schools pre-16

### Our findings: what is working well and what is not in the current system

7.1 Mainstream schools (maintained schools and academies) currently receive the majority of their funding through a formula constructed by local authorities and agreed with the local schools forum. Within their formula allocation, an amount of funding is identified for supporting pupils with SEN. This is the notional SEN budget, so-called because it is a *notional* budget: it is not ring-fenced. From their formula funding, schools are expected to provide a core offer of teaching and learning for all pupils, and up to the first £6,000 of the costs of providing additional support to pupils with SEN. For pupils with high needs (those requiring more than £6,000 additional support), top-up funding will be provided by the local authority placing the child. From April 2014, this £6,000 threshold has been mandatory (DfE 2013a). Local authorities are also able to provide additional funding from their high needs block to schools that have a higher proportion of pupils with SEN, for example for schools that have developed a particular specialism or have a strong local reputation for inclusion.

7.2 During the course of our research we spoke to 125 mainstream primary and secondary schools between November 2014 and January 2015. At this point schools were in the second year of implementation of the new high-needs funding arrangements and what we saw was a system going through a process of transition. In some areas and in some schools there was a high degree of confidence in how the new funding arrangements were working, a feeling that where there were limitations these could be overcome and a recognition that the new approach to core funding for children and young people with SEN in mainstream schools had brought a degree of clarity and transparency that had hitherto been lacking. In other areas and schools we encountered confusion about how the new arrangements should work and very deep-rooted concerns about whether, under the new system, the needs of children and young people with SEN could adequately be met.

7.3 A number of factors influenced how positive schools and local authorities were about the new funding arrangements for SEN in mainstream schools. One important factor was how significant a departure the new arrangements were from what the local authority previously had in place. In some areas, typically the higher-delegating authorities, the new funding regulations presented only a small shift from their previous practice. Schools in those areas were already accustomed to the notion that they would meet a relatively high proportion of the costs of a pupil with SEN from within their base budgets. Therefore the expectation, under the new funding regime, that schools would meet up to the first £6,000 worth of additional support costs for each pupil with SEN was broadly in line with previous practice. In other areas this presented a very significant shift in practice and typically those local authorities were not as far advanced in fully

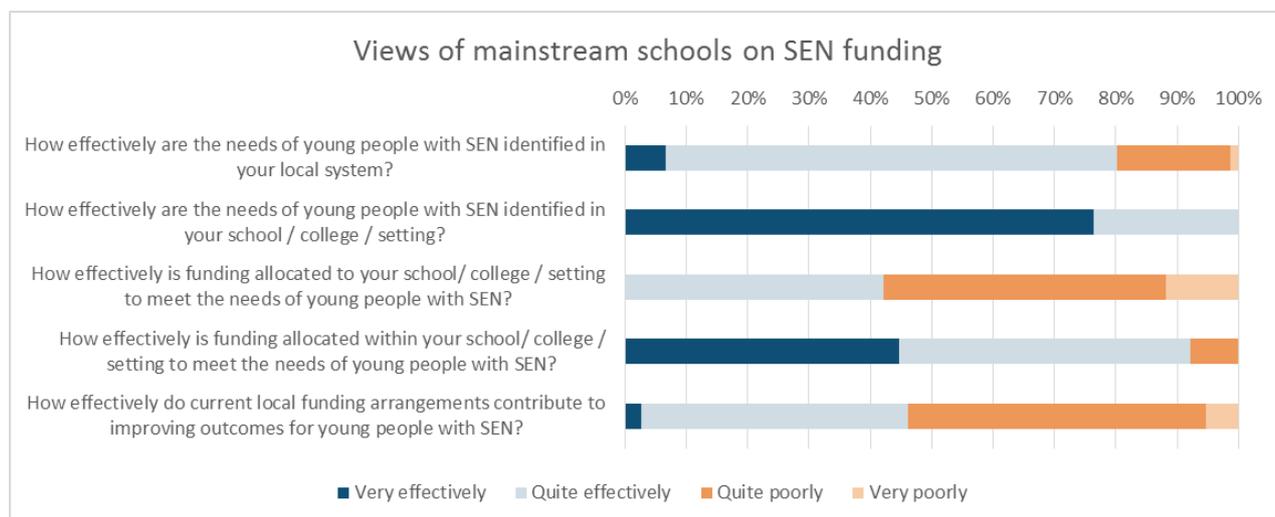
implementing the funding reforms. Those schools which had previously been accustomed to receiving the full costs, not just the additional costs, of a pupil in receipt of a statement from the local authority were among those which had found it hardest to adjust to the new funding system.

7.4 A second key factor which appeared to influence how positive schools and local authorities were about the current high-needs funding system in mainstream schools, was, perhaps unsurprisingly, the generosity of their base funding allocation. Although not exclusively, many of those schools which voiced most anxiety about their ability to meet the needs of pupils with SEN from within the current funding envelope were in authorities with lower levels of per pupil funding and a tighter DSG settlement.

7.5 A third factor was whether local areas were trying to drive through a cultural shift in terms of attitudes to inclusion or the effectiveness of provision at the same time as the funding changes. Those areas which had historically seen very high statementing levels or had a very uneven profile of how children and young people with SEN were distributed between their schools had typically found it harder to implement the funding reforms smoothly. Areas that were trying to effect a shift in educational outcomes for children and young people with SEN, to increase the quality-assurance of provision and to stimulate action around closing the gap also encountered challenges.

7.6 During our fieldwork 76 mainstream schools completed our simple survey which aimed to assess their degree of confidence in the current high-needs funding arrangements. The responses are set out in the chart below.

**Figure 5: Survey responses from mainstream schools**



Source: Survey data collected from 76 mainstream schools during our fieldwork

7.7 These responses suggest that schools are generally very confident about their own arrangements to both identify the needs of, and allocate funding to, children and young people with SEN within their own school. They are also generally positive about the strength of arrangements within their local system to identify the needs of children and young people with SEN – 80% of those who responded said that these

arrangements were either very or quite effective. However, schools were much more negative about the systems for allocating funding for SEN within the local system and how well current funding arrangements contribute to improving outcomes for children and young people with SEN. Over half the schools responding answered 'quite poorly' or 'very poorly' to those two questions. The wide diversity of views captured through the survey can be better understood by exploring the three main elements of the funding system which relate to core funding for SEN in mainstream schools. These are:

- a. How effectively schools are providing the first £6,000 of support,
- b. The operation of the notional SEN budget
- c. Local authority practices in allocating money outside the formula.

7.8 The fourth element of high-needs funding in mainstream schools, the allocation of top-up funding, is addressed separately in chapter 11.

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

7.9 Almost all the local authorities that we spoke to felt that the introduction of a clear and consistent national threshold above which top-up funding would be paid, and below which schools would be responsible for funding the support needs of children and young people with SEN from their base budgets, was a positive development.

7.10 An essential prerequisite to schools' ability effectively to meet the first £6,000 of support is the accurate identification of SEN. As illustrated by the survey results, this is an area in which schools are very confident in their practice (although not always as confident about the practice in neighbouring schools). Many of those interviewed or attending workshops described the investment they had made in training staff to be able to assess SEN effectively or pointed to the range of support they could access, either on a bought-in basis or commissioned by the local authority, to complement their own assessments. There were tensions in the system, particularly around how consistently SEN were identified at points of transition and bottlenecks associated with specialist assessments required for specific mental health needs and autism, but broadly schools felt that they were able to accurately identify which children and young people were in need of additional support.

### **Improving identification of need in mainstream schools – the East Riding of Yorkshire**

The East Riding local authority suggest that the funding reforms, particularly the introduction of the £6,000 threshold, have introduced a 'common vocabulary' for talking in a more consistent way about meeting a pupil's needs in mainstream schools. Combined with the SEND reforms, this has enabled dialogue between schools and the local authority that is more needs-driven and outcomes-focused. These conversations are no longer framed in terms of hours of support from an additional adult, but in terms

of more effective and differentiated classroom teaching to include pupils with SEN. To accomplish this, the East Riding have taken a co-ordinated approach to SEN development in schools, by offering integrated support from school improvement, educational psychology and SEN teams. They use data to identify schools with high levels of pupils with SEN, and are then able to offer more focused support and challenge. SENCO networks also play a key role in embedding effective practice and consistent approaches to identifying need.

7.11 This view was largely endorsed by the local authority officers with whom we spoke. Many local authorities were able to point to a good flow of information on the needs of individual children from children's centres and portage services which supported the early identification of need and generally felt that neither they, nor their schools, were frequently "taken by surprise" by unanticipated levels of need. Early identification of some social, emotional and mental health needs, however, as well as planning for highly-mobile populations, presented challenges in a number of local systems. Some local authorities had used the opportunity afforded by the introduction of the £6,000 threshold to address what they perceived to be inconsistencies in assessment and identification of need across schools.

#### **Robust monitoring of the identification of children with SEN – Southend**

Southend took the opportunity created by the changes to high-needs funding and the SEND policy reforms to completely refresh their strategy for SEND. One of the priorities in the new strategy is more robust monitoring of the identification of children with SEN, the quality of the provision that is put in place and the outcomes achieved. As part of a restructured team, the local authority has appointed a new quality assurance manager for SEND and two SENCOs on secondment. Collectively they are tasked with working with schools to moderate the way that SEN is identified and assessed and to provide advice on developing appropriate provision. Two training programmes have been put in place for all SENCOs across the authority – the first on moderating assessment and identification of SEN and the second on making provision and allocating resources. Through this investment in advice and training the local authority is hoping to support schools in making more consistent assessments of need and to maximise how well they are able to use their resources in meeting the first £6,000 of additional support costs.

7.12 We heard a strong message from local authorities that the £6,000 threshold had created greater clarity in the system about what schools should be providing for children and young people with SEN and had sharpened the ability of local authorities to hold schools to account for this. They argued cogently that the £6,000 threshold had led to better informed discussions about both the type and cost of support that schools were

putting in place for pupils with SEN, prior to seeking additional funding. Some local areas had developed systems to help schools in provision-mapping so that they were able to cost more accurately the support that they planned to put in place.

### **Mapping provision to build mainstream schools' capacity – Bury**

In order to support schools in costing the support they had put in place for a child with SEN and to determine whether they may need to apply for top-up funding, Bury local authority developed a provision-mapping tool for use by schools. The local authority believed that the process of completing the provision map had been helpful in building schools' capacity so that they were not as reliant on one-to-one support for children with SEN and in 'dispelling some myths' about funding. Broadly this view was supported by the schools. Although some had found the process too complex others had found it useful and even eye-opening. One headteacher said, 'It has helped to be able to show where the expenditure falls and helped with determining the strategy'.

7.13 Some of the most confident headteachers who engaged in our research also embraced the idea of a consistent £6,000 threshold. These heads welcomed the sense of parity that it brought to the funding system and recognised that they were now having a better quality dialogue with the local authority about when and for what purpose additional funding (top-ups) would be required. Some headteachers and SENCOs had used the impetus of the funding reforms to quite radically reshape their provision in order to meet the needs of children and young people with SEN better. Often this had involved working with parents and staff to reengineer the way in which teaching assistants were deployed, enabling children and young people to benefit from a richer mix of high-quality whole-class teaching, small group work and one-to-one support and building the specialisms of teaching assistants in particular areas of learning.

7.14 Given that the introduction of a £6,000 threshold is a very new element in the funding system, and for some schools and local authorities represents a very significant departure from previous ways of working, it seems clear that the concept is now taking hold and having some positive influences on the system. However, there remain significant challenges associated with the implementation of the £6,000 threshold. We focus here on three specific issues:

- whether schools have sufficient money in their core budgets to meet the first £6,000 of additional support costs;
- how parents experience schools' ability to provide the first £6,000 of additional support costs; and
- whether £6,000 is the right threshold level.

## **Do schools have sufficient money in their core budgets to meet the first £6,000 of additional support costs?**

7.15 The chief difficulty, highlighted by schools and local authorities alike, is that for schools to be able to meet up to £6,000 of the costs of additional support for each pupil with SEN the amount of money in their core budgets must adequately reflect the needs of the children and young people on roll. The permitted formula factors which local authorities can use to target funding at need include both prior attainment and deprivation, which our analysis in chapter 6 shows are two of the most powerful factors in predicting SEN. But neither schools nor local authorities feel that it is possible to use proxy factors to model the incidence of SEN with 100% accuracy. Time and again during the fieldwork we heard that it was the most inclusive schools, which admitted many more pupils with SEN than perhaps their neighbouring schools serving similar catchment areas, that were at risk of losing out under the new funding system.

7.16 Sometimes these differences in the percentage of pupils with SEN between apparently similar schools occur for good reason. Some schools over time have developed an outstanding reputation for working with children with particular types of SEN and therefore tend to attract parents searching for this type of expertise. However, in other cases it was apparent that a minority of schools were not doing as much as they could to meet the needs of a child or young person with SEN who had expressed a preference to be educated in a mainstream school. During our fieldwork we heard about instances of “back-door” exclusion in which parents of children with SEN would be told by a headteacher that a school “wasn’t right” for their child or that another nearby mainstream school would be “much better at meeting the needs of a child like yours”. In some cases the decision may have been appropriate for an individual child, but not in all. Many heads argued that the current accountability system does not incentivise inclusive behaviours and those who go beyond the norm in creating an inclusive school environment do so on the basis of a strong moral conviction and in spite of a number of countervailing system pressures.

7.17 The funding challenge is that any formula-based method of allocating resources will not be able to reflect differences in the size of a school’s SEN population where these are driven to a large extent by the culture of the school in question, rather than underlying demographic and contextual factors that can be measured, such as deprivation or prior attainment. Consequently there are some schools in the system that are struggling to meet the first £6,000 in support costs from their base budgets. There are two groups of schools that we found typically find themselves in this position. The first are schools that are disproportionately inclusive. This is particularly the case for schools that have developed a good reputation for supporting children with specific types of SEN that are not accurately predicted by indicators associated with deprivation and low prior attainment, such as high-functioning autism. The second group is small schools in which the addition of one or two children with SEN is likely to have a much bigger impact on their overall budget than a larger school. Those schools that reported a genuine pressure on funding said that the children and young people losing out are those below the

threshold for an EHCP. They argued that too much of their funding is used on meeting the support requirements of those children and young people with an EHCP, and is typically tied up in learning support assistant costs, leaving too little to invest in training for teachers to deliver good quality whole-class teaching for all pupils with SEN or in more preventative interventions.

7.18 However, we must be cautious about over-stating the number of schools which are finding themselves genuinely disadvantaged in funding terms by the introduction of the £6,000 threshold. There is a widespread perception among schools that meeting the first £6,000 of support costs will be difficult, but this may have multiple causes. These include those we have listed below.

- For many schools the reductions in centrally commissioned support services for children with SEN, which have been a corollary of local authority spending cuts, have left them feeling exposed and under-supported. This creates a sense of pressure on budgets.
- Although school budgets have been protected to date from the cuts affecting other public services, managing inflationary pressures within a fixed budget and at times having to fund preventative services that may previously have been provided by health or social care, mean that school finances are tighter than they were a number of years ago.
- For some schools there is a fear of the unknown. In areas where the local authority previously met the full cost of a statemented pupil and where the transition to the new funding arrangements is still underway there is scepticism about whether base budgets will really increase to reflect the additional costs borne by the school and whether going forward they will continue to be able to make the provision that they have done historically.

7.19 It is worth reflecting that one fieldwork local authority said that they invited any school that felt that it did not have sufficient funds to meet the needs of children with SEN under the new high-needs funding arrangements to make a representation to the local authority. None did so.

### **How do parents experience schools' ability to provide the first £6,000 of additional support costs?**

7.20 During the course of our research we were able to meet with a focus group of parents and carers in seven of the 13 fieldwork authorities. The views and insights they expressed were primarily informed by their own child's educational experience, although some also carried out representative roles for other parents / carers and were able to give a wider perspective. For the parents to whom we spoke, their experience of how well schools were providing the first £6,000 of support is very mixed. Around half the parents who completed our survey said that funding was very effectively or quite effectively allocated within their child's school or setting to meet their needs. Some reported having

a very positive dialogue with their school about the nature and cost of support that would be put in place prior to seeking an EHCP assessment. However others reported that some headteachers or SENCOs used the £6,000 threshold as an argument for not admitting a child with SEN as it would necessitate displacing funding from the education of other children in the school. Some parents of children with SEN who would not typically meet the threshold for an EHCP, for example children with dyslexia, told us that they struggled to get the needs of their child recognised or to get the appropriate support in place. Although it was far from universally true, many parents expressed increasing concerns about how well the first £6,000 of support was deployed the older their child became. They also highlighted transition points between phases of education, and sometimes also between mainstream and special schools, as instances when the clarity over what providers should be supporting from their core budgets and what would require top-up funding could often be compromised.

### **Is £6,000 the right threshold level?**

7.21 The implementation of the £6,000 threshold created one very different challenge in a small minority of local authorities. Those authorities which had historically been very high-delegating found that in order to set the threshold at £6,000 they had to claw money back which had previously been in schools' base budgets. This had the effect of lowering the threshold above which additional payments would be made, increasing bureaucracy and increasing the number of children and young people who became borderline for additional funding and therefore contentious. In the view of these authorities, while the consistency of a national approach was well-founded in principle, the bar was set too low. This meant that the implementation of the £6,000 threshold in these local education systems had felt like a retrograde step and had flown in the face of current policy, specifically placing funding and decision-making as close to the pupil as possible.

### **Operation of the notional SEN budget**

7.22 The second element of the high-needs funding system which relates to core funding in mainstream schools is the notional SEN budget. The notional SEN budget is a proportion of schools' base funding which is "notionally" set aside for meeting the needs of children and young people with SEN. There is a degree of misunderstanding about how notional SEN budgets are calculated and the function that they are intended to perform in the system. Too often notional SEN budgets are talked about as if they were an additional pot of money, over and above a school's base budget. This is not the case. The purpose of the notional SEN budget is not to provide a separate funding stream for schools to meet the needs of pupils with SEN, but to provide clarity for schools that money is incorporated into their base budgets for that purpose. The notional SEN budget is not ring-fenced – schools can choose to spend either more or less on meeting the needs of pupils with SEN depending on the needs of their pupils as a whole. Schools are required to publish information on their websites about the support available for pupils with SEN, as set out in the SEND Code of Practice, though it is not clear how closely schools associate this SEN information report with their notional SEN budget.

7.23 Through our research we have tried to come to a view as to whether the notional SEN budget is fulfilling the purpose for which it was designed. One local authority said to us that SENCOs were “amazed” at how much money was in the notional SEN budget, and that it provided a very helpful lever in enabling them to advocate effectively for an appropriate level of spend on children and young people with SEN. This view was borne out by some of the SENCOs to whom we spoke. Some headteachers also felt that the notional SEN budget was a useful starting point for considering the allocation of funding to meet the needs of pupils with SEN.

7.24 However, more headteachers were of the view that what was important in allocating funding was looking at the overall budget, assessing the needs of the pupils, and achieving the best distribution of support possible. Some of the most confident and inclusive headteachers reported spending considerably more than their notional SEN budget on supporting children with SEN. They felt empowered to do this because they understood how they could get the most out of their entire budget. From a SENCO perspective the fieldwork suggested that those with significant standing in the school, a voice on the senior leadership team, and a recognised part to play in the budget-setting process were those most likely to positively influence decisions about spending. Where these key characteristics were in place, the role of the notional SEN budget in shaping the discussion appeared less significant.

7.25 Further analysis we have carried out on how notional SEN budgets are calculated suggests that there are significant limitations associated with the current methodology. In line with the funding regulations, local authorities currently indicate what percentage of a school’s funding that pertains to particular formula factors contributes to the notional SEN budget. All local authorities weight this slightly differently.

7.26 Many, however, include some combination of a per-pupil amount, an amount for low prior attainment, and an amount for deprivation. Herefordshire, for example, calculates a school’s notional SEN budget based on 6% of what a school receives for its age-weighted pupil unit (AWPU), 40% of the funding a school receives for pupils eligible for FSM at any point in the last six years, 100% of the funding a school receives for pupils with low prior attainment and 6% of the funding a school receives as a lump sum payment.

7.27 When we asked local authorities how they had determined their notional SEN budget calculations some reported favouring a methodology which was very simple to understand, others described a detailed modelling process to try and achieve a line of best fit, and others said that they had tried as far as possible to minimise disturbance and reflect historical patterns of funding.

7.28 Through our research we have analysed how notional SEN budgets are calculated for all the mainstream schools in our sample of 13 local authorities and tried to reach some conclusion as to how well the notional SEN budgets mirror needs. The first observation is that the percentage of the total of the budgets of mainstream schools and

academies within a local authority that is designated as the notional SEN budget varies considerably between local authorities. Across our sample, local authorities on average designate 11% of their DSG to the notional SEN budget, but this ranged from less than 6% to over 20%.

7.29 We also tried to ascertain the extent to which the size of a school's notional SEN budget accurately reflected the proportion of their pupils with SEN. Here again we saw considerable variation. In one local authority as much as 36% of the variation in the size of schools' notional SEN budgets (relative to their total budgets) was explained by the proportion of pupils with a statement or on School Action Plus. In other local authorities less than 3% of the variation in the notional SEN budget was explained by differences in the proportion of pupils with SEN.

7.30 This degree of variation leads to curious and unhelpful inconsistencies in how large a school's notional SEN budget is, relative to the needs of its pupils. This is perhaps best illustrated by a concrete example. In one local authority we identified six schools that were similar in terms of size and the percentage of children either with a statement or on School Action Plus. These six schools are shown, anonymised, in the table below.

**Table 5: Anonymised data showing variation in schools' notional SEN budgets**

| <b>School</b> | <b>Total number of pupils (rounded)</b> | <b>Percentage of pupils with a statement or on School Action Plus</b> | <b>Total budget (rounded)</b> | <b>Percentage of total budget designated as the notional SEN budget</b> | <b>How much the school has in its notional SEN budget for each child with a statement or on School Action Plus (rounded)</b> |
|---------------|---|---|-------------------------------|---|--|
| A             | 470                                     | 3.8%  | £1,860,000                    | 12.2%   | £12,600  |
| B             | 430                                     | 3.9%  | £1,420,000                    | 2.7%  | £2,200   |
| C             | 460                                     | 3.9%  | £1,870,000                    | 12.8%   | £13,300  |
| D             | 450                                     | 4.0%  | £2,060,000                    | 12.3%   | £14,000  |
| E             | 420                                     | 4.1%  | £1,790,000                    | 11.2%   | £11,800  |
| F             | 480                                     | 4.3%  | £1,790,000                    | 9.0%  | £7,700   |

Source: unpublished data on school-level notional SEN budgets based on authority proforma tool returns by local authorities to the EFA, 2014 census data on numbers of pupils with SEN per school published in the DfE performance tables (<http://www.education.gov.uk/schools/performance/>), DfE 2014e

7.31 This example demonstrates that if schools were to use the notional SEN budget as a guide to how much they should spend it would lead to some very inconsistent spending decisions. The school with the smallest notional SEN budget relative to its reported needs would be looking to spend just over £2,000 per pupil with SEN from its base budget whereas the school with the largest notional SEN budget relative to its reported need would be looking to spend around £14,000 per pupil. The example we have picked is fairly typical of the sample as a whole and is by no means illustrative of the instances where these school-level anomalies were most pronounced.

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

7.32 The final element of the high-needs funding system which relates to core funding (as opposed to top-up funding, which is treated separately in chapter 10) in mainstream schools is the ability of local authorities to route money to schools outside the formula. The current funding framework makes provision to address the issue, outlined in chapter 2 (paragraph 2.5), that school budgets based on formula allocations may not always be sufficient to enable a school to meet the costs of the first £6,000 of support for children and young people with SEN. The 2015 to 2016 guidance states that:

*Local authorities should continue to provide additional funding outside the main funding formula for mainstream schools and academies on a consistent and fair basis where the number of their high needs pupils cannot be reflected adequately in their formula funding and where it would be unreasonable to expect them to pay for the costs of the first £6,000 of additional support for all high needs pupils.*

*Targeted support can also be provided where there are a disproportionate number of pupils with a type of SEN that is not able to be reflected in the local formula, even where the costs of meeting their needs are less than the £6,000 threshold.*

7.33 In theory this should provide adequate protection for those schools which, for whatever reason, find that their formula-based budget does not enable them to fully meet the needs of pupils with SEN. However, through our fieldwork we identified very inconsistent practice in whether, or how well, local authorities were using this local funding discretion. Data submitted to the DfE indicates that, in 2015 to 2016, out of 152 local authorities, only 54 were allocating additional money from their high needs block to schools. Of our 13 fieldwork local authorities, four reported allocating additional money in 2015 to 2016 and nine did not, which reflects the national picture (although some of our analysis suggests there may be underreporting of this on local authority returns to the EFA). Furthermore, local authorities applied very different criteria for whether they would allocate additional funding and how that might be distributed.

7.34 There is no problem, in principle, in local variation of approach and those authorities which did not allocate additional funding would argue, many with good reason, that their schools did not need it. However, through our fieldwork we believe that there are two significant challenges in the efficient operation of the current system. In one or two areas we clearly received the message from schools that local authorities

significantly underused the facility to distribute additional funding from the high needs block. For example, a small number of primary schools we spoke to estimated that although they had received additional funding it amounted to only around 15% of the funding shortfall they believed they were experiencing as a result of the change from full funding of children attracting a statement to the expectation that schools meet the first £6,000 of the cost. Other areas reported using the notional SEN budget as a guide to whether a school had sufficient funding or not. However, given the limitations of the notional SEN budget described above we believe that in some cases this may not provide an accurate indication of levels of need. One local authority, for example, said that in deciding whether to allocate additional funding it ensured that the notional SEN budget was large enough to enable a school to fund £6,000 for every child receiving top-ups. This methodology, however, does not provide any leeway for a school which may be managing very significant levels of need just below the top-up threshold.

### **Allocating funding to schools outside the formula – Southend**

Southend developed a methodology for allocating high-needs funding outside the formula to schools with exceptionally high levels of children with low-cost SEN. Their aim was to construct a system which was simple to understand and easy to use. The proxy indicators which they chose to identify schools likely to be struggling with high-incidence low-cost SEN were the SEN register and low prior attainment. Specifically, the percentage of children on the SEN register and the percentage of children with low prior attainment was expressed as a combined score for each school. Those schools whose 'combined score' exceeded the 85<sup>th</sup>, 90<sup>th</sup> and 95<sup>th</sup> percentiles of the total population of schools were awarded funding on a tapering basis per pupil over the threshold percentiles. In 2014 to 2015 three primary and two secondary schools met the criteria for additional funding.

## **The options we considered to improve how the system works**

7.35 During the course of our research we asked local authorities, schools, parents and national stakeholders how a future funding system might be structured to overcome some of the challenges outlined above. We have weighed up the ideas that have been generated through the research process against our evidence base and set out the options we have considered in the following paragraphs. In this section we aim to answer five critical questions.

- a. How can greater clarity be created around what all schools should be providing for children and young people with SEN?
- b. How can the base funding formula be constructed to reflect levels of SEN as closely as possible?

- c. Is there an argument for raising the threshold above which top-ups are paid?
- d. What should be the future of notional SEN budgets?
- e. What are the conditions under which local authorities should allocate money outside the formula?

**(a) Creating greater clarity around what all schools should be providing for children and young people with SEN**

7.36 As we have described above, pupils with SEN are very unevenly distributed between schools. Much of this variation is driven by contextual and demographic factors and parental choices. However, some of the variation is caused by differences in schools' attitude towards and aptitude for meeting the needs of children with SEN. These differences are very hard to reflect in formula-based approaches to funding and can lead to inequities in funding between schools for children and young people with SEN. Local authorities are beginning to use a variety of ways to set out what is expected of *all* mainstream schools in terms of their provision for SEN, although this is typically still work in development. Some local areas have begun to set out the range of provision that they expect to be in place. Others have set out descriptions of need and how they might be managed in a mainstream school environment. Others have combined these two approaches.

**Agreeing consistent expectations of support across mainstream early years settings, schools and FE colleges – Leicestershire**

Leicestershire has made significant progress in agreeing a “minimum offer” that all early years, schools and FE colleges will provide for children and young people with SEN. This is founded on the duties set out in the new SEND Code of Practice, the 2014 Children and Families Act, the Special Educational Needs and Disabilities Regulations 2014, the Equalities Act 2010, and the requirements of school funding reform in 2013. In doing so it provides direction on what should be provided, as a matter of course, for children and young people with SEN in terms of assessment of needs, curriculum, the learning environment, teaching and learning, targeted support and careers guidance. The document includes practical examples of the provision that schools or other settings might put in place to support children with SEN, broken down by the four categories of need described in the Code of Practice – communication and interaction; cognition and learning; social, emotional and mental health difficulties; and sensory and/or physical needs. Although this document is still work in progress, the process for agreeing it has already stimulated thoughtful and productive discussions about how mainstream schools and other providers can best meet the needs of children and young people with SEN.

7.37 So far, however, the thinking which has been done at a local level is seldom reflected in the published local offer for children and young people with SEN and their

families, which is a critical element of the SEND reforms. Local offers (at the time the research was carried out) have tended to focus on the additional services and therapies which are available. They also direct parents and carers to individual schools' SEN information reports for further detail about what any single school provides for pupils with SEN. However, they do not at present tend to include a shared statement or commitment about what *all mainstream schools*, in the context of a schools-led education system, will provide as a matter of course, or as a core entitlement, for any child with SEN. As local offers continue to be improved and refined, we believe that there should be a clear expectation that an agreement should be reached with all schools about the core entitlement for children with SEN in a local area and that this should be published as part of the local offer.

7.38 Despite emerging local good practice, the local authorities engaged in the research were unanimous in advocating much clearer national direction, to reinforce local decision-making, on what all mainstream schools should provide as a matter of course for children with SEN. This view was also echoed by many of the national stakeholders to whom we spoke. There are a number of ways that any national expectations could be framed. Learning from experience in areas such as Leicestershire, one approach may be to describe what all schools should seek to provide for children with SEN across the following seven domains, based on existing SEND and equalities legislation.

**Figure 6: Examples of domains of SEN provision that schools could be expected to provide**



7.39 Examples of how schools should put this into practice might be provided against the four categories of need set out in the SEND Code of Practice.

7.40 Clearly, providing this type of exemplification at a national level (in addition to requiring schools to publish their individual approaches as is currently the case through the SEN information report) would present a significant departure from current practice, and would require detailed working through and extensive consultation. However, so many of those who took part in the review argued that a clear and unambiguous

statement of national expectations was an important prerequisite to achieving fair and consistent approaches to funding that we felt the arguments in favour potentially outweighed the difficulties of implementation.

**(b) Ensuring that the base funding formula reflects levels of SEN as closely as possible**

7.41 The most important aspect of providing core funding for mainstream schools for SEN is to ensure that schools' base budgets accurately reflect levels of need. During the course of our research the argument was put forward by a large number of schools that the only really fair way to fund SEN would be to construct a system in which the full cost of support followed the child. Schools which proposed this advocated using actual numbers of children with a top-up or reported as requiring SEN support on the school census as a variable in the funding formula rather than proxy measures such as deprivation and low prior attainment. They recognised that this could lead to inflationary pressures, with more children being identified as requiring SEN support in order to access higher levels of funding, but felt that this could be overcome by putting in place adequate moderation mechanisms.

7.42 We have considered this argument carefully, but do not believe that it presents a viable option for the future of the SEN funding system. The history of SEN funding in this country and our international literature review clearly show that where funding is attached to the local identification of SEN, levels of identification rise, costs rise and children are labelled as having SEN where none exists. The degree of moderation, which would have to include some national element to ensure parity between local areas and not just within local areas, would have to be very considerable indeed. This would be an expensive and bureaucratic process out of proportion to the total sum of money being distributed (nationally notional SEN budgets only currently account for 10% of school budgets).

7.43 We do, however, believe that there is a case for allowing an additional local factor in school funding formulae to better reflect levels of SEN. Alternatively, if the government decided to implement a national funding formula, we would argue that such a factor should also be included in any future national formula. When speaking to schools and local authorities we have heard on a number of occasions that there are forms of SEN which do not correlate well with deprivation and do not result in lower cognitive ability and therefore do not necessarily lead to lower prior attainment. Some of the examples that have been given to us include sensory impairments, physical disabilities, complex emotional and mental health needs and high-functioning autism. Logically these are the types of need which may not be adequately reflected in current formula allocations.

7.44 It is not possible to come up with a formula based on proxy factors that will perfectly mirror every aspect of SEN. Given the fact that, as many over the course of our research have told us, assessments of SEN are contingent not just on the needs of the child or young person but also the learning environment in which they are placed and the wider support mechanism that surrounds them, it is probably a logical impossibility to

expect that all this individual variation might be mapped perfectly by a funding formula. However, the analysis which we have undertaken to support the factors that might be used to distribute funding from national to local government suggests that there are factors which have additional explanatory power over and above deprivation and low prior attainment which might usefully be included in school-level funding formulae in order to increase the accuracy with which funding follows level of SEN.

7.45 One of the main factors which has been shown to have significant explanatory power in the local authority analysis and which currently has no counterpart in school-level funding formulae is the number of DLA claimants aged 0-15. This indicator is externally validated and regularly updated. It would capture the needs of those children and young people whose SEN is poorly correlated with deprivation and does not result in lower prior attainment, such as those with sensory impairments, significant physical disabilities and some complex mental health needs. We have not carried out modelling of the impact such a factor would have on school budgets, but it is logically an attractive proposition. At present the data is published at Lower Super Output Area, which means that it could be included in a school funding formula (in the way that IDACI measures are currently). However, it is conceivable that co-operation and potentially a data sharing agreement with the Department of Work and Pensions, which owns the data, could lead to it being made available to the DfE on an individual person basis for funding purposes. The feasibility of this would need significant further exploration.

### **(c) Raising the threshold above which top-ups are paid**

7.46 A second proposal which was put to us very strongly by a minority of the fieldwork authorities was that the threshold above which top-ups are paid should be raised to a figure of £8,000 or even £10,000 and that a correspondingly higher proportion of funding (currently held centrally for financing top-ups) should be paid directly into schools' base budgets. The arguments in favour of raising the top-up threshold are that:

- decisions about funding for SEN would be placed closer to the child;
- for the large majority of children with SEN there would be no delay in accessing funding as it would already be in schools' budgets;
- it would encourage more holistic decision-making about funding for SEN on the part of schools; and
- it would mean that fewer children were either just above or just below the threshold (as the higher the level of need the lower the incidence), leading to fewer cases where additional funding was contentious and lower bureaucracy costs for both local authorities and schools in administering top-up payments.

7.47 The arguments in favour of raising the threshold, as set out above, are compelling, but we also believe that there are some strong countervailing arguments.

- One of the principles of the high-needs funding reforms, and one of the key strengths of the new system, is the creation of a level playing field in funding terms between different types of provider educating children with SEN. To retain this, raising the top-up threshold in mainstream schools would also necessitate raising the place value in special schools and resource bases. Doing this at a point at which the system is still undergoing some transitional upheaval could be very disruptive.
- Raising the top-up threshold and distributing a greater proportion of the available funding through formula factors rather than top-ups (which follow the child) is likely to exacerbate the issue, described above in paras 7.15-7.19, in which some schools are struggling to meet the costs of the first £6,000 of support from within base budgets.
- Our analysis did not suggest that there were very large proportions of pupils with needs assessed as just above the current threshold, therefore the argument for creating a more efficient system may be overstated.
- The local authorities advocating strongly for a raised threshold are typically those which have historically been higher-delegating and for whom the transition to the £6,000 threshold was relatively straightforward. Schools in those authorities which are still getting to grips with the transition to a £6,000 threshold would find moving to a higher threshold even more challenging.

7.48 We are therefore, on balance, not convinced that implementing a higher threshold across all schools would be practical or beneficial at this stage. In theory, there may be exceptional circumstances in which previously very high-delegating authorities could use the flexibility in current funding arrangements to devolve more money from the high needs block to schools at the start of the year (through local flexibility to target additional funding to schools with the agreement of the schools forum) and only pay top-ups for children and young people with the highest level of need. However, this could create difficulties for schools receiving top-ups from more than one local authority as they would be entitled to receive a higher level of top-up (at the national threshold) from authorities other than their 'home' authority. Any authority wishing to pursue this course of action would have to come to a mutually acceptable arrangement with neighbouring authorities around different levels of top-up payments. Alternatively, they may have to make retrospective adjustments to the devolved funding to reflect receipt of top-up funding from those authorities. These may prove to be a significant stumbling block in practice.

#### **(d) The future of notional SEN budgets**

7.49 During our research a number of schools made the argument to us that notional SEN budgets should be ring-fenced to ensure that expenditure on pupils with SEN was protected. Given the limitations in how well notional SEN budgets reflect need, set out above, we do not believe that ring-fencing these would encourage good budget planning

in schools or necessarily lead to the needs of children with SEN being met in the most effective way. We have therefore considered what the future for notional SEN budgets might be, given that in their current form they do not appear to be fulfilling the purpose for which they were designed.

7.50 The options for the notional SEN budget are either to improve how it is calculated so that it provides schools with a more helpful indication of the need to spend, to replace it with something else that performs the same function in the system but in a different way, or to remove it from the funding system.

7.51 If we were to try and improve the accuracy with which notional SEN budgets match need then our simple analysis (see table 5, below paragraph 7.30) suggests that more could be done, in theory, within the current guidelines. Across our sample of 13 local authorities the variation in the notional SEN budget as a percentage of the whole school budget explained by the percentage of pupils with a statement or on School Action Plus ranged from less than 1% to over 30%. It is not clear whether, in those authorities where the variation in the notional SEN budget explained by underlying levels of need is very low, this is being driven by a very uneven distribution of children with SEN between individual schools which is consequently hard to model or by a less than optimal choice and weighting of factors to include in the notional SEN budget calculation. Given that notional SEN budget calculations differ but are generally based on the same four or five factors it is likely to be a combination of the two reasons outlined.

7.52 If the DfE wished to move towards a more standardised approach to calculating notional SEN budgets and a better “fit” between notional SEN budgets and underlying need then more detailed analysis than has been possible within the confines of this research would need to be carried out. This work would need to look across all local authorities, rather than just the 13 included here, and could explore whether methodologies for constructing notional SEN budgets which appear to be relatively successful for one local authority are similarly effective when applied to other authorities, or whether local context plays such a strong role that adopting common or similar approaches is not helpful. However, on the basis of such work and with better information and guidance provided to local authorities, it may be possible to achieve a better ‘fit’ between notional SEN budgets and underlying need across the board. This endeavour may be supported by inclusion of an additional factor, as argued at paragraph 7.45, in the schools funding formula.

7.53 However, on balance, we do not think that formula-based approaches based on proxy factors are ever likely to achieve the very close match to need that would be really helpful to schools in determining appropriate levels of spend on SEN. We therefore considered the option of simply ceasing to use notional SEN budgets. If it is difficult to calculate them based on proxy factors and many schools disregard them in planning their budgets there is a strong argument for not retaining them at all. This argument gets stronger when one considers the possible scenario of moving to a funding formula for

schools that significantly reduced, or removed, local authority discretion. In this situation the rebasing of notional SEN budgets on nationally determined and weighted factors could lead to schools seeing very significant changes in their notional SEN budget overnight, and yet the core funding that they have been allocated may not have changed at all or very little. This could be destabilising, hard to explain, and send very mixed messages to schools about the purpose of the notional SEN budget.

7.54 We were attracted by the argument put forward by one of the national stakeholders we interviewed who pointed out that schools do not have notional budgets for things that they really care about and deem essential – no school has a “notional maths budget”. However, we also recognise the caution expressed by others in the system that, while some schools’ understanding of the new high-needs funding arrangements is still developing and schools’ ability to provide effective support for children and young people with SEN remains very uneven, it may be necessary to have some kind of “prompt” for schools to help them consider their need to spend on pupils with SEN. On balance, though, we believe that there are other more effective ways in which schools might be guided to make informed decisions about appropriate levels of spending on SEN.

7.55 A clearer explanation of how core funding is calculated, and the factors which are included, to ensure that schools have sufficient money for SEN will be an important step in demonstrating that the money is in base budgets. Published expectations, set out in the local offer and potentially nationally (as suggested in paragraphs 7.36-7.40) could also be an important driver of spending decisions. Finally, a very simple ready reckoner for schools could be constructed to provide them with a rough estimate of what they should consider spending on SEN. This might be based on the premise that a school should be spending £6,000 for every child attracting top-up and an average figure, £2,000 for the sake of argument, for every child on SEN support and not attracting top-up. The “guideline total” for financial planning purposes could then be generated either using the school’s own reported levels of SEN based on census returns or an average profile for statistically similar schools. This would provide a financial planning tool for individual schools to use, rather than any kind of national benchmark indicating how much should be spent on individual pupils.

#### **(e) Allocating money outside the formula on a local basis**

7.56 We have argued strongly above that, even with the inclusion of an additional factor, the ability of a formula-based budget to very accurately reflect SEN will be limited. We therefore believe that, no matter how schools’ funding is allocated in future, there will need to continue to be the option for local authorities to route money from their high needs block outside the formula. However, we have also argued that local authority practice in this respect is too variable and not always effective. We would therefore advocate stronger prescription to local authorities through the annually published schools revenue funding operational guide on the conditions that they should use to determine whether additional money should be made available to schools and how that might be

allocated, potentially setting out a limited range of options from which local authorities might choose. We are attracted to options which will prioritise funding to:

- a. highly-inclusive schools;
- b. schools which have developed a strong reputation for supporting pupils with SEN whose needs are less likely to be captured by deprivation and prior attainment indicators;
- c. schools which may be supporting disproportionately high numbers of pupils with higher-incidence, lower-need SEN (below the top-up threshold); and
- d. small schools which have less funding flexibility to manage changes in needs.

7.57 Unfortunately, because this funding route is essentially designed to provide protection for schools for which formula funding is not adequate, it is very unlikely that there is an objective “formula-based” method that could be used for deciding on its allocation. Directly reported factors, such as the percentage of pupils on SEN support, may well be the only alternative and these leave open the risk of inflated reporting and perverse funding incentives. However, we are attracted by models, such as that operated by Southend, which establish a tapered approach (and therefore avoid a funding cliff-edge) and which only kick in for schools experiencing the very highest levels of need. In Southend, for example, they provide graduated additional funding for schools at the 85<sup>th</sup>, 90<sup>th</sup> and 95<sup>th</sup> percentiles in terms of the proportion of children on the SEN register and low prior attainment.

7.58 Another simple and attractive approach which has been adopted by a number of local authorities, including Manchester, is to target funding at schools which have disproportionately higher proportions of children attracting top-ups than the local average. This works well in areas which have a high degree of confidence in the consistency with which the top-up threshold has been applied across schools.

7.59 Further work is needed to test these different approaches against a range of different contexts. However, should they prove to be effective not just in the local areas in which they originated, but also more widely, they could provide a basis for a nationally described short menu of options from which local authorities might choose the approach that best fits their local needs.

7.60 Alternatively, a totally different solution to this issue might be to delegate decision-making around the allocation of additional funding from the high needs block to a partnership of schools. This would enable the allocation of funding to be a peer-moderated process and could more directly compensate those schools which are recognised as going beyond the norm in terms of inclusive practice than any formula-driven system could. Under this approach a partnership of schools, possibly linked either to the schools forum, the Fair Access Panel or the EHCP panel, could be given a devolved sum of money from the local authority’s high-needs budget from which to

manage any additional calls on funding emanating from highly-inclusive provision. Part of this funding could be allocated at the beginning of the year and part kept in reserve for managing exceptional in-year pressures.

## Our proposals

**Local authorities should work with their schools to agree a ‘core entitlement’ that all schools in a local area will provide for children and young people with SEN as a matter of course. This agreement should be published as part of the local offer. The DfE should also consider publishing clearer national directions on this subject to provide a consistent national framework against which local offers and agreements might be developed.**

7.61 Greater local transparency, particularly if reinforced by sharper national direction, should have the effect of clarifying expectations on the system and create greater consistency in what schools should be looking to do within the first £6,000 of additional support. There are good practice examples from local areas which could provide a basis for developing this thinking.

**The DfE should consider modelling the impact of using the 0-15 DLA claimant measure as an additional factor in school funding formulae to better reflect the needs of children and young people with SEN.**

7.62 Our local-authority-level analysis suggests that this indicator is the most likely to offer significant explanatory power over and above measures of deprivation and low prior attainment which already feature in the formula, is available at post-code level and is regularly updated. Modelling the impact that this factor would have on schools’ funding formulae needs to be integrated into any work that the DfE is undertaking in relation to mainstream schools funding. Early discussions with the DWP to explore whether this data could be made available on an individual basis would also be valuable.

**The DfE should consider abolishing notional SEN budgets for mainstream schools and using alternative methods to provide clarity for schools on how their core funding is constructed to meet the needs of pupils with SEN.**

7.63 Overall we are not convinced that notional SEN budgets are performing the function that they were designed to fulfil and would be in favour of removing them from the system. The risk that the school system is not yet mature enough in planning appropriate provision for SEN to enable notional SEN budgets to be removed could be

mitigated by communicating more clearly about how core funding is calculated to accommodate the needs of children and young people with SEN and developing a simple ready reckoner tool for financial planning that helps schools in working out an appropriate level of spend on SEN.

**The DfE should consider providing clearer direction for local authorities on the circumstances in which they can provide additional funding outside the formula to schools, and a short menu of options for the criteria that may be used for allocating this.**

7.64 This would ensure greater consistency in practice and mitigate the risk that some highly-inclusive or small schools are unable to meet the costs of the first £6,000 of additional support from their budgets. We would argue that some of the current local models achieve this more successfully than others and could be the basis for setting out a limited set of options within existing operational guidance from which local authorities could choose. Piloting or encouraging a schools-based partnership approach to allocating this money may provide an alternative solution, but this would require significant testing on the ground if such partnerships were not already well-established.

## Chapter 8: Core funding for SEN in early years settings

### Our findings: what is working well and what is not in the current system

8.1 Pre-school children with SEN are educated in a wide range of early years settings. These include private, voluntary and independent (PVI) nurseries, maintained nurseries, children's centres, specialist assessment classes in special or mainstream schools, and designated units in mainstream schools or nurseries. There are also a range of professionals and services that support pre-school children with SEN, such as area SENCOs and portage home-visiting services.

8.2 Most settings in which pre-school children are educated are comparatively much smaller than schools and colleges. At the same time, early identification of needs and early support are at the heart of the SEND reforms. These factors put a premium on ensuring that there is a local strategic approach for targeting available resources effectively. This is crucial in ensuring that there is the right expert advice and support available to pre-school settings to enable them to meet the needs of children with SEN.

8.3 In terms of the current funding arrangements, as we explained in chapter 2, early years providers are funded through an early years single funding formula. Many early years providers are relatively small, compared to mainstream schools. For this reason, often there is not the equivalent of a notional SEN budget in their funding allocations. Currently, local authorities provide top-up funding for children who need support above what a provider can offer from their formula allocation. Local authorities are also able to designate specialist SEN places in early years settings, which are funded at £10,000 per planned place, above which per-child top-up funding is provided.

8.4 During our fieldwork, we spoke to a range of education and health professionals, and colleagues from 14 early years providers. We found a range of models that had been developed within local education systems to ensure that there was the right SEN support in this vital sector.

- **Peripatetic services** – around half of the local authorities we visited, including Newcastle and Gateshead, had taken the strategic decision to develop multi-disciplinary teams, including area SENCOs, that would provide flexible support to early years settings. These teams had a specific brief to liaise with local health services, including specialist baby units, to plan provision, and to provide advice, support and training to build skills and capacity within settings. In some of these local authorities, the teams also controlled access to a small pot of funding, which could be provided to settings in certain specified circumstances.
- **Support contracts** – in some local systems in which early years education was provided predominantly through PVI settings, the local authority had

commissioned an external provider to provide a defined core offer of advice and support, including SEN support specifically, to pre-school settings.

- **Top-up funding** – other local authorities had developed approaches to provide top-up funding to pre-school providers. These authorities have worked with pre-school settings to define the support they are expected to offer from within their existing funding, and the circumstances in which a top-up will be paid. Manchester, Leicestershire, Bury and Herefordshire have adopted this approach.

8.5 In most cases, the additional funding that was used to support pre-school settings or provide top-up funding came from the high needs block of DSG. A small number of local authorities funded part or all of their support from the early years block or the schools block. In all instances where local authorities and providers felt local funding was working well, strategic decisions had been taken to use funding flexibly to reflect the make-up of the local early years sector and how it could best meet the needs of children with SEN.

#### **Early years inclusion funding (EYIF) – City of York**

To respond to growing demand for support for children with SEN in pre-school settings, the City of York undertook research and presented the evidence of the need for a new approach to the schools forum. School leaders agreed to invest funding from the schools block to support an increase to the early years inclusion fund to support children with SEN, who did not need an EHCP or statement of SEN, in pre-school settings (including maintained nurseries). This fund was established in July 2011 and the increase agreed by the Schools Forum took effect from April 2015. The research carried out by City of York showed that by the end of 2013, almost 80 children with SEN in over 40 settings had been supported. An evaluation reported that EYIF had led to better identification of need, pupils making better progress, and better transition-planning with schools. Staff in pre-school settings reported that the support available had improved their confidence and skills in supporting children with SEN. This in turn has meant that all pre-school settings are fully inclusive, improving parental confidence, and reducing demand for places in the city's enhanced resource nursery.

8.6 Although not one of the local authorities we visited during our fieldwork, one of the national stakeholders we interviewed described the approach taken in York. This approach to providing early years inclusion funding, part-funded from the schools block of DSG, demonstrates the value of taking an evidence-based, strategic approach to providing early support for pre-school children with SEN.

## Early years planning and review meetings – West Sussex

In West Sussex, each term a series of multi-agency early years planning and review meetings take place focusing on the needs of pre-school children with SEN. These meetings receive referrals from community paediatricians, pre-school settings and other professionals. The meetings focus on children's identified needs, the support that should be put in place, and what the next steps need to be, for example a consultation with an educational psychologist. They also play a key role in gathering information that can be shared with the school when the child reaches school age, to enable better transition-planning and school-based support.

8.7 The majority, but not all, of the local education systems we visited also reported that they had good relationships with local health services – specialist baby units, local hospitals and health workers – for identifying children's SEN. Many argued, however, that processes worked more effectively for identifying physical difficulties or sensory impairments than for what they saw as "less obvious" needs.

8.8 We noted above that a challenge in this sector is ensuring that settings have access to the right skills, expertise and capacity to enable them to meet the needs of children with SEN. We have highlighted some examples of local systems in which this appears to be working well. In a minority of the local education systems, however, providers reported that there was not sufficient local capacity to enable them to access the support they needed.

8.9 In the majority of local systems, we heard from schools and other providers that the capacity of central SEN support services, many of which were valued highly, was reducing. This was particularly pronounced among early years settings for two reasons. First, providers in this sector have tended to rely on additional advice from SEN support services more than their counterparts in other sectors. Second, due to the size of the settings and their budgets, these providers have less scope to use their funding flexibly to make up for reductions in central support. These are not directly *funding* issues, but do reflect the need to ensure a strategic approach is taken to allocating resources for SEN in the early years sector.

8.10 In terms of the operation of the funding system itself, there were two main challenges reported to us.

### **(1) Providers not being able to access additional support and resources for SEN**

8.11 As noted above, some local authorities were using the resources from their high needs, early years or schools blocks to fund additional support and resources for pre-school settings. Feedback from providers suggested not all local education systems were doing this effectively. There were three specific issues reported to us.

8.12 First, providers reported that it was not clear to them who was responsible for paying the cost of additional support for children with SEN for whom parents wished to access sessions over and above the free entitlement. Some providers thought that they had to fund this themselves, some that they had to ask parents to pay and some that this should be funded by local authorities.

8.13 Second, a small minority of the local authorities we visited had used the flexibility in the regulations to fund some full-time places or unit-style provision in early years settings for this reason. For the majority of local authorities, however, there was a lack of clarity about how full-time places in early years settings could be funded. Ensuring there is clarity about such approaches is important in terms of ensuring sufficient provision for pre-school children with SEN and equitable access to that provision.

8.14 Third, in a small minority of local education systems, providers reported that they had no recourse to additional funding through top-ups for children with complex needs or were not able to access training and advice when they needed it. For example, in some areas, there was a training offer for early years SENCOs, but it was offered at a cost that few small PVI settings would be able to meet from their core funding. The majority of providers also described growing demands for the member of staff who held the role of SENCO or equivalent, particularly in relation to completing paperwork and taking part in multi-agency meetings. These providers reported that their SENCOs were supernumerary and/or those holding this role were undertaking their SEN responsibilities in their own time due to demands on staff time in the setting.

## **(2) The interaction of the free entitlement and SEN funding**

8.15 In around half of the local systems we visited, providers and local authority officers described the complex interactions between the free early education entitlement and SEN funding. First, a small minority of providers said that they were finding it difficult to fund the full free entitlement for children with SEN because there was no recognition in their funding that the cost of meeting their needs was greater than the standard per-child funding they received. For example, they argued that they were expected to fund 15 hours of early education, but the funding they received only enabled them to offer 10 hours of support for children with SEN.

8.16 Second, in a small number of local systems, local authorities reported that they were seeing increasing demands for statutory assessments for pre-school children. They argued that this was because parents saw the statutory assessment process as a means of securing the free early education entitlement for two-year-olds, or accessing full-time early education for three- and four-year-olds.

8.17 Lastly, several of the local authorities reported that they had hitherto been able to use some flexibility in their early years block to fund some of their pre-school SEN provision. They were predicting increasing demand for early years provision, and were concerned that both their early years and SEN funding would be under greater pressure

in the future, thus making it more difficult to use funding as flexibly as they had hitherto. This was a view echoed by the national stakeholders to whom we spoke.

## **The options we considered to improve how the system works**

8.18 Many of the challenges reported to us concern the need to ensure providers have access to resources to enable them to support children with SEN. One option we considered was whether it would be possible to create the equivalent of the notional SEN budget in early years funding. The aim would be to ensure that providers had a budget from which to draw to provide some of the additional support needed by children with SEN. We know that some local authorities, other than those we visited, have developed such an approach in order to show providers that they were expected to support children with SEN and had a small budget from which to do so.

8.19 This is an important principle. Many local authorities and schools reported to us that it is important to avoid creating expectations among families that a child having SEN automatically means a provider receiving additional, external funding. Nevertheless, this was not seen by the local authorities and providers we visited as a sufficient solution to their capacity concerns. In the areas where this had been developed, the approach of identifying a notional SEN budget, as a proportion of a provider's core funding, was not seen as an alternative to providing central support services and/or access to top-up funding. Instead, its purpose was to demonstrate the principle that providers had responsibilities for children with SEN that were to be met by a combination of their core funding and additional support.

8.20 In a small number of local systems, the local authorities had considered delegating additional resources to providers to increase the size of early years providers' notional SEN budget. These local authorities reported to us, however, that the amounts that providers would receive would be so small that it would be an inefficient use of resources. During our fieldwork, we did not find any support for introducing such an approach to SEN funding into the early years sectors. Providers and local authorities argued strongly that the current approach provided them with the flexibility they needed to shape SEN funding to fit the make-up of their local early years sector, and to target SEN funding and support to where it was needed. In addition, we have set out arguments for moving away from an approach based on a notional SEN budget in the chapter on mainstream schools (chapter 7). For these reasons, and for those given above, we would not propose the introduction of a notional SEN budget in the early years sector.

8.21 We think a preferable approach to addressing the concerns reported to us would be to build on the examples of effective practice outlined above. We consider that future local early years SEN strategies and funding arrangements could be built on three key elements.

- a. **Clear expectations about the support providers are expected to offer** – some local authorities we visited, such as Manchester and Herefordshire, have worked with providers to set out clear expectations about the support they are expected to provide for children with SEN. They have done this in an equivalent way for pre-school providers as they have for mainstream and special schools, and post-16 institutions. This could be developed in other local areas through discussions with providers so there was consensus and clarity about what providers were expected to offer from within the core funding. This could also incorporate instances where core funding would not cover the needs of children with the most complex needs, and the additional support that could be provided in such cases.
- b. **A concrete offer of additional advice and expertise** – local authorities and providers reported that the most effective models of support were those that offered providers access to practical advice, training and capacity-building, informed by a defined early years SEN strategy. In local education systems, there would be value in developing a clear and accessible core offer of support to early years providers, that includes advice and training, and that is driven by a strategy focused on early identification, early support and building skills and capacity in pre-school settings.
- c. **Agreed criteria for accessing additional top-up funding** – local systems would also benefit from having clear and agreed criteria for accessing additional support, for example in the form of top-up funding. In some local systems we visited, this funding was controlled by the same central team that provided peripatetic support. This meant that there was always support on offer for providers – either advice on how they could use their existing resources, additional support and training, or access to top-up funding where this was needed. Such an approach should cover arrangements for partnership-working between education, health and social care services to identify needs, and plan, commission and fund support.

### **Early Education Additional Support Team (EEAST) – Newcastle-upon-Tyne**

In Newcastle, the local authority has recognised the importance of effective planning, identification and early support for pre-school children with SEN. They have established EEAST as part of a multi-disciplinary team with two principal functions. The first function is planning: EEAST work closely with local health services, specialist post-natal units and other professionals to identify need and plan provision. The second function is support: in addition to a high-needs panel, through which settings can access early years additional needs funding, EEAST are also able to provide advice, support, and equipment to settings. This combination enables them to provide swift support to pre-school settings so that they can meet the needs of pre-school children with SEN more effectively.

8.22 These three elements will need to be closely aligned, and informed by an overarching strategic approach to SEN in the early years. If they are, this should give settings clarity about what they are expected to provide themselves, when they can access additional advice and training, and the circumstances in which additional resources would be provided or places commissioned. This should also help to provide greater clarity about the interaction between SEN funding and the free entitlement, and give parents and carers greater confidence that their child's needs can be met in mainstream settings.

## Our proposals

**Local authorities should work with providers to establish clear expectations about the support pre-school settings are expected to provide from within their core funding, and the circumstances in which additional advice, training or resources will be provided.**

8.23 We agree that it is important to establish clear expectations about what providers are expected to do to support children from SEN from their core funding. For the reasons given above, we do not think the creation of a notional SEN budget for early years settings would be sufficient to achieve this. The message we took from our fieldwork was one of the importance of being able to use funding for early years SEN flexibly to fit with the make-up of the local sector, and to target support and resources effectively. We think clear expectations of providers, a core offer of advice and support, and transparent criteria for accessing additional resources would support an effective strategic approach to supporting pre-school children with SEN. We would see such an approach as part of the ongoing development of the local offer.

**The DfE should set out, through existing published resources or webinars, a practical reminder of the ways in which local authorities can fund SEN provision in pre-school settings.**

8.24 We recognise that much of this information is available publicly, and that some local authorities we visited were using it effectively. Nevertheless, given some of the questions that were raised during our fieldwork – funding SEN support for hours above the free entitlement and/or funding SEN places in pre-school settings – we think there would be value in providing practical reminders and illustrative examples.

## **Chapter 9: Place funding in special schools, resourced provisions and SEN units in mainstream schools pre-16**

### **Our findings: what is working well and what is not in the current system**

9.1 The special schools sector is a diverse sector, in terms of the types of special schools – maintained, academies and non-maintained special schools (NMSSs) – the age-ranges of their pupils, and the needs in which they specialise. During our fieldwork, we interviewed colleagues from a wide range of special schools across the 13 local areas, including maintained special schools, special academies and NMSSs. In total, we engaged 50 special schools in the research. This chapter focuses primarily on the funding of designated pre-16 specialist SEN places in special schools, resourced provisions and units. In chapter 10, we explain how we propose to align this with funding for designated post-16 specialist SEN places.

9.2 Prior to April 2013, maintained special schools and special academies were funded mainly on the basis of planned places, while NMSSs received their funding in the form of per-pupil fees directly from local authorities when they placed pupils. Since April 2013, special schools, including NMSSs, have received £10,000 per planned place with the remainder of their funding coming in the form of top-ups paid by local authorities when placing young people in their schools. These changes also applied to the funding of specialist places in resourced provisions and SEN units in mainstream schools.

9.3 This approach has placed a greater emphasis on strategic planning and commissioning of specialist provision and on a direct dialogue between local authorities and schools. This approach remains relatively new. In many areas we visited, local authorities and schools were continuing to develop and embed this new approach to the funding of specialist places. Notwithstanding this ongoing work, a number of positive signs about how local education systems were adapting to these changes were reported to us during our fieldwork. Throughout this chapter, we use the term ‘commissioning’ to refer to the strategic planning of places in specialist settings by local authorities and schools, and ‘placements’ to refer to the dialogue between the two when placing individual young people.

#### **Balancing stability and responsiveness**

9.4 Local authorities welcomed the fact that funding all specialist places at £10,000 per place had introduced greater consistency of funding, both within the special school sector and between special and mainstream schools. Special schools also commented that this approach struck a sensible balance between stability (through the place element) and responsiveness to individual pupils (through the top-up). This was particularly the case for special schools that took pupils predominantly from one local

authority, whose pupil cohort was relatively stable during the academic year, that were larger than average, and for whom the place-led funding represented a higher proportion of their budget than top-up funding.

### **Mature dialogue about placements**

9.5 Many schools reported that the new system had fostered more and better dialogue with local authorities about placements. Although this had created additional demands on professionals' time, these schools argued that the dialogue about a pupil, their needs, and the outcomes expected was very valuable. In the majority of the local education systems we visited, the changes to special school funding had also helped to clarify the arrangements for when a school might be asked to take additional pupils above the number covered by their place-led funding. For example, one special school explained that, if an additional pupil could be accommodated within an existing class, only the top-up would be paid; if not, the place value and top-up would be needed. They said that this helped them to have a more transparent discussion with the local authority about placements. Work was underway to clarify these arrangements in the other local systems we visited.

### **Encouraging more strategic planning**

9.6 We found that, as a result of the reforms and the need to meet changing patterns of local need, local education systems were focusing greater attention on strategic planning of places in special schools, resourced provisions and units. The reforms have required local authorities to identify specialist places and notify these to the EFA and to passport funding directly to providers. They have also made it more difficult for local authorities to fund spare places in specialist settings, and have sought to prevent local authorities from stopping neighbouring local authorities placing pupils in "their special schools". In any case, "reserving" spare places and preventing other local authorities from placing pupils in them runs contrary to the statutory framework, since an institution is required to admit a pupil if it is named on the pupil's statement or EHCP. These changes have placed a premium not only on planning and commissioning the right number of places in the right settings, but also having the data and evidence on which to base strategic planning and commissioning decisions in the future. The consequences of getting this wrong can be very costly for local authorities.

9.7 All the local authorities we visited had well-established processes for planning mainstream school places. By contrast, none were confident that they yet had a similarly well-established and robust process for planning places in special schools, resourced provisions and units.

9.8 Nevertheless, although in their early stages, some local education systems have begun to gather data and develop approaches to planning special school places, building on what has worked well in planning mainstream school places. A small number of local education systems have also started to use data and funding to reshape their existing special school provision in a more explicit and strategic way than they had previously.

The East Riding of Yorkshire, for example, are moving to re-designate their three special schools and establish three area special schools, each covering an area of the county, to improve consistency and equity of support. Others have commissioned new places in resourced provisions or units in mainstream schools. Leicestershire, as described below, developed two new resourced provisions for pupils with high-functioning autism spectrum conditions – previously, these pupils were only able to access provision outside the county. Such approaches were not widespread across the local education systems we visited.

### **Resourced provisions for pupils with high-functioning autism – Leicestershire**

Leicestershire identified that there was a growing need for support for young people with high-functioning autism. They also identified a lack of local provision that could meet the needs of this group of young people. This meant that high numbers of children with autism were placed outside the county, which was both costly (on average £60,000 per child per year) and disruptive to their relationships with friends and family. The local authority worked with their schools to identify two secondary sites, in the north and south of the county, to host resource bases for pupils with autism. The headteacher of one of the two schools described how positive the experience of developing the special resource base had been for the school as a whole. He explained that over time the school had developed a reputation for successfully supporting young people with Asperger syndrome. The development of the special resource base enabled them to secure their expertise and formalise the arrangement. The capital cost of creating the resource base was £400,000, half of which was funded by the local authority and half by the schools. The savings achieved by not sending 12 children out-of-county each year effectively meant that the capital investment was recouped within three years.

### **Schools-led partnerships**

9.9 In some local education systems, funding has been devolved to partnerships of special schools, which the partnerships manage collectively to build capacity to support pupils with the most complex needs locally.

### **Special schools partnership – Manchester**

Manchester has devolved additional resources to the partnership of special schools in Manchester. The local authority had found previously that they were receiving increasing requests for additional support from special schools. The partnership now meets every half term. There is an agreed criteria and process for requesting additional, time-limited funding, which school leaders use to moderate one another's requests. Feedback from the local authority and schools has been extremely positive. They agree that this approach is more transparent, more cost-effective, and has enabled swifter access to support. It has also fostered collective problem-solving and

sharing effective practice between schools. The school leaders and local authority agree it has enabled schools to support children with the most complex needs, particularly those displaying challenging behaviour, more effectively.

9.10 In other local systems, such as Gateshead and Leicestershire, special schools are working together in partnership to agree the framework for top-up funding and moderating requests for additional funding.

### **A partnership-based approach to top-up funding – Leicestershire**

With the support and encouragement of the local authority, Leicestershire special schools and units have developed a clear banding system for the allocation of top-up funding and a peer moderation process for ensuring its fair application. As one local authority officer said, 'the headteachers own this.' There are seven bands of support and for each there are detailed descriptors of need based on social and behavioural needs; curriculum and learning; and care, health and safety. A panel comprising special school and unit heads and the local authority visits special schools and units annually to moderate the judgements made for a random sample of individual pupils in each school against the banding criteria. In the rare situations where one third or more of a special school's or unit's judgements are not agreed and moderated, then a second or third visit is arranged. If the school's bandings cannot be agreed at this stage then there is a methodology to set bandings for the school or unit for the next financial year. One outstanding special school headteacher described the system as both professionally challenging and fair. She said that building trust was absolutely critical to operating such a system effectively.

9.11 As well as these positive messages, local authorities and schools highlighted a number of challenges that they had encountered in implementing changes to funding for specialist places. Local authorities specifically highlighted two main challenges.

#### **(1) Pressure on places in special schools**

9.12 Many local authorities and special schools reported to us that they were facing increasing pressure on places in special schools. They highlighted a range of factors that were contributing to this, including changing patterns of parental choice and increases in the local school-age population.

9.13 They also noted that there was an incentive built into the special school funding model for special schools to be full from September since this meant they would have the top-up funding for their pupils for the full academic year. Anecdotal evidence was reported to us that some special schools were being more pro-active in their outreach

activities and engagement with families, which was in some cases influencing parental choice.

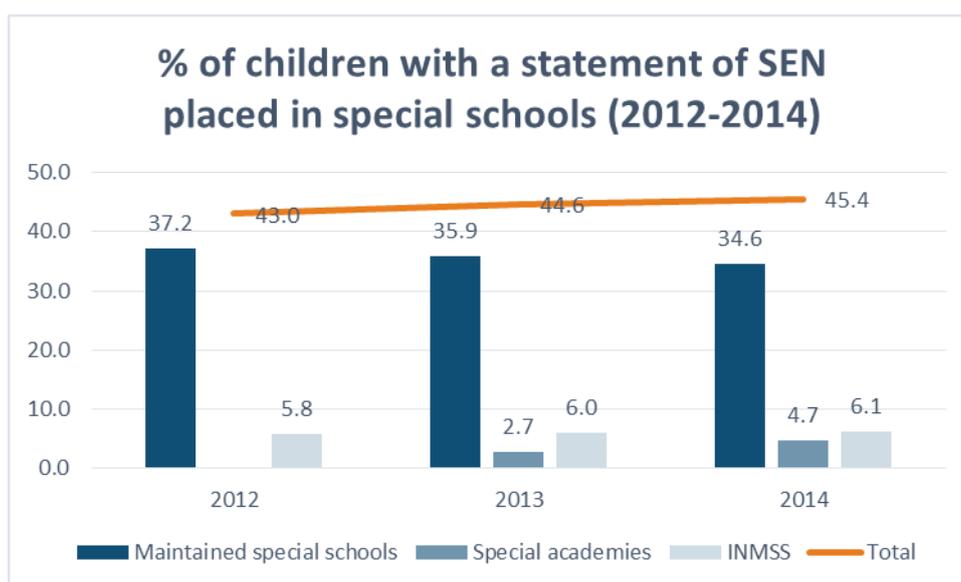
9.14 Local authorities reported that the combination of these factors was creating difficulties when they needed to place pupils in special schools during the academic year. Some local authorities also reported difficulties in commissioning new resourced provisions or units in mainstream schools due to reluctance from mainstream schools to host this provision. In the instances this was reported to us, local authorities said that mainstream schools were concerned about the impact of hosting a resourced provision or unit on their results and, to a lesser extent, about taking on the costs of the provision and staff.

## **(2) A lack of clarity about commissioning and re-allocated specialist places, and removing places that are no longer required**

9.15 The allocation of funding for places is currently overseen by the EFA, and then passported to schools either by local authorities (for maintained schools) or the EFA (for academies and NMSSs). Where local authorities and schools needed to make adjustments to place numbers, from year to year or to reflect long-term strategic decisions, they reported that the process for doing this was not clear to them and was not working effectively. Some reported this was making it more difficult for them to plan places strategically.

9.16 With regard to these two points, the table below shows that, at a national level, there has been a rise in the proportion of children with statements of SEN placed in special schools. The data is incomplete, since prior to the data published in 2013 the data for special academies was not separated from mainstream academies. Nevertheless the national trend is apparent.

**Figure 7: The national trend in placements in special schools, 2012 to 2014**



Source: DfE 2012b, DfE 2013b, DfE 2014b

9.17 In some local education systems, we also found some misunderstandings about how the new funding arrangements for specialist places should operate. For example, a minority of local authorities reported that they were not clear how they could fund residential provision in special schools using place-led funding and top-up funding. Special schools in a small minority of local systems reported that the local authority had told them they could no longer fund outreach services: they could only fund places and per-pupil top-ups. These appear to be instances where some of the detail of how the high needs block can be used has not been understood fully.

9.18 On the other hand, in other local systems, local authorities were making full use of the flexibilities within the high needs block to commission special schools to provide outreach services that were valued highly by mainstream schools. We also found examples of local authorities that were more confident in how they should handle residential provision. These authorities funded residential provision through place-led funding and top-ups where it was for an individual pupil, or as a service where they were, in effect, commissioning a school to provide opportunities to learn independent-living skills for a larger number of pupils.

9.19 The special schools to whom we spoke highlighted three additional challenges in the current funding arrangements.

### **(1) Challenges for schools who take pupils from more than one local authority**

9.20 There are a specific set of challenges for special schools that work with multiple local authorities. Indeed, a similar set of challenges were also reported to us by post-16 institutions, and are explained in chapter 10. The first, which is linked to the point above about pressure on places, is that, in order to ensure they have scope to place children mid-year, some local authorities have told special schools not to accept placements from other local authorities. This runs counter to current legislation and the aims of the funding reforms, under which no local authority formally “owns” a place in a special school. Nevertheless, local authorities argued that there needs to be greater clarity about how their funding allocations are adjusted if they do not use the places they have allocated or if they are filled by a placement from another local authority.

9.21 The second issue concerns the variability of approaches adopted by local authorities when commissioning places, placing pupils and paying top-up funding (including the timeliness of payments). These different approaches are creating additional burdens on special schools, particularly where it is not done well – schools highlighted an issue where local authorities do not have a named lead officer. This is particularly an issue for NMSSs, which often receive placements from a large number of local authorities.

9.22 NMSSs have also reported that they have encountered confusion from local authorities about whether and when the latter should deduct £10,000 (the place value) from the school’s fees. NMSSs noted that, with the exception of a small number of local

authorities, very few strategically plan and commission the provision that they want from the NMSSs with whom they work.

## **(2) Viability for small, specialist providers**

9.23 We noted above that the new funding arrangements appear to be working reasonably well for large special schools, those with little in-year movement, and those for whom top-ups did not represent the majority of their funding. On the other hand, smaller special schools, those with highly-mobile pupil cohorts, and/or those with very high unit costs reported that the new arrangements were more challenging. They reported that, either due to their size, in-year pupil mobility and/or their proportion of their costs covered by top-up funding, a small fluctuation in the number of pupils on roll could very quickly place them at risk of becoming financially unviable.

9.24 This issue was also reported by mainstream schools with a resourced provision or unit. These schools argued that they could operate their provision with specific numbers of students, staff and classrooms. Within a specific range of pupil numbers, they could fund the necessary provision (e.g. whether they needed one or two teachers). Outside of these ranges, however, it was more difficult to make the units financially viable (e.g. if they needed more than one teacher but did not have enough top-ups to fund this).

## **(3) The role of schools forum**

9.25 In around half of the local education systems we visited, local authorities and schools reported that the local schools forum was developing its role in relation to SEN funding. Nevertheless, most local areas reported that there was further to go before the schools forum could provide effective strategic oversight of SEN funding. Many schools forum representatives to whom we spoke said that they received effective support from local authority officers, but a small number suggested they needed additional expert input to schools forum discussions from SEN officers. In a minority of local education systems, it was reported that mainstream school representatives did not see SEN, and specifically special school, funding as an issue that concerned them. In these local systems, mainstream school representatives on the schools forum wanted to see the high needs block capped so that funding could not be transferred from the other blocks within DSG to meet pressures on the high needs block. Across all local education systems, it is clear that further work is required to help all schools, settings and colleges understand the SEN funding system and the way in which funding for mainstream institutions and for SEN is linked. This is linked to questions about how institutions across the different phases are represented on schools forum, specifically in relation to discussions about SEN funding, although this was not raised with us as a major theme during our fieldwork.

## **The options we considered to improve how the system works**

9.26 Many of the issues outlined above reflect the fact that this is a new way of funding places in specialist settings. Greater understanding of the system, and awareness of effective practice in other local areas, should help to address some of these challenges,

for example funding outreach services, funding residential special schools, and the role of schools forum.

9.27 The two main issues that we considered further are: (1) how to prevent small specialist provision from becoming unviable, and (2) how to ensure the planning of specialist places is done as effectively as possible.

### **(1) Preventing small specialist provision from becoming unviable**

9.28 During our fieldwork, it was suggested that the place value for special schools could be increased to offer small specialist settings greater protection against fluctuations in pupil numbers. To do this, it would be necessary either to set two different place values – a “small specialist place value” and a “standard place value” – or to increase the standard place value (and increase levels of delegation of SEN funding to mainstream schools). We have argued in the chapter on mainstream school funding that we do not think there is sufficient evidence to justify raising the levels of delegation of SEN funding to mainstream schools. As such, we concluded that it would not be possible to increase the value of places in small special schools without undermining the principle of equivalence of funding between providers.

9.29 Another suggestion was that local authorities could have the scope to pay a lump sum to small special schools, similar to the lump sum arrangements in small mainstream schools. There was some support for this from local authorities. It was also recognised that paying an explicit subsidy to some providers would cut across the principle of funding SEN provision on a needs-led basis and of equivalence of funding between different types of providers. There were also questions raised about who would be responsible for paying the lump sum payment for schools that operated across multiple local authorities.

9.30 Instead, we suggest that there are three ways in which this challenge could be addressed within the existing funding framework. First, there is scope within the existing policy framework to vary the amount of top-up funding to reflect legitimate differences in making provision to meet a young person’s needs in different settings. Clearly, equivalence of funding and greater consistency of cost between similar types of settings is desirable in order to support the choice of parents, carers and young people. Nevertheless, many banding frameworks, used by local authorities to help to assess needs and allocate resources, already recognise that there will be some differences in making provision in a large mainstream setting and a small specialist setting. This flexibility, and the way these settings construct their funding models, should reflect a small contingency element to enable them to manage short-term fluctuations in pupil numbers. This is similar to the way in which NMSSs operate, which has been highlighted in existing DfE guidance.

9.31 In the chapter on top-up funding (chapter 11), we suggest that there should be a more explicit set of national principles governing top-up funding and that local education systems should publish their top-up funding arrangements. We suggest that the

circumstances in which top-up funding can be used flexibly to support small, specialist providers should be made explicit in the national principles, and published in local top-up arrangements.

9.32 Second, local education systems could learn from the partnership-based approach adopted in Manchester, highlighted earlier in this chapter. This involves devolving funding from the high needs block to special schools as a collective partnership. The funding is then used to provide additional resources to schools to develop support for pupils with the most complex needs. It has also helped to share effective practice and build capacity and skills across special schools in the city. The flexibility in the high needs block could be used for other local approaches to provide time-limited support to, or commission discrete outreach from, specialist providers to prevent them from becoming unviable in the short-term. Again, this would have the explicit aim of building capacity and skills in other parts of the local education system.

9.33 Third, if a provider is genuinely at risk of becoming unviable because its numbers are dropping, rather than due to a short-term change in pupil numbers, then this should be handled in the same way as it is for mainstream schools. Local authorities suggested that, in such cases, strategic decisions would be taken based on current projected demand, and short-term support or structural solutions considered as appropriate.

## **(2) Planning specialist places**

9.34 The main question here is whose role it is to plan and commission places in special schools, resourced provisions and units, and other specialist settings. In considering this question, we have also considered whether this role should be fulfilled pro-actively, to shape local provision, and how this planning activity can respond to other local pressures.

9.35 The current model assumes that the EFA will play a part in this through an annual process whereby local authorities submit returns showing the number of places they wish to use in different specialist settings. This then forms the basis of the allocations of place-led funding. We have highlighted above some of the challenges that local education systems are facing, including in-year pupil movement, pressure on special school places, and the importance of planning the right number of places in the right settings. In light of these, it is unlikely that a national organisation, such as the EFA, would have the capacity to substitute for the more sophisticated *local* strategic place-planning that may be needed to address those pressures. Indeed, the present arrangements require significant time and resources from the EFA to manage relatively small adjustments to place numbers in individual settings. In any future model, it would be important to avoid the need for protracted and resource-intensive negotiations between the EFA and local authorities and/or providers.

9.36 We have therefore considered two broad approaches: a funding model based on (lagged) pupil numbers that responds to changes retrospectively, and a model that gives

local authorities the opportunity for a more explicit role in commissioning specialist places.

### **The approach based on lagged pupil numbers**

9.37 The first approach would involve taking the number of pupils on roll at a particular point in time, such as the January census, and using those numbers to calculate the allocations of place funding for providers. This would be more transparent and data-driven, and potentially less resource-intensive than the current approach. It would, however, also mean that place-funding was on a significant time-lag from the data on which allocations are based – for example, data collected in January 2015 could be used to inform allocations for 2016 to 2017.

9.38 Local authorities and special schools that we visited were not in favour of an approach based on lagged numbers. They argued that this would not help special schools that were growing rapidly, nor would it help small special schools, as it could create significant shortfalls between their current and funded numbers. Local authorities and mainstream schools argued that such an approach would not work for resourced provisions and units, given their size and the fact many plan their provision based on specific number of pupils and top-ups. Local authorities were also concerned that a lagged approach would give them less scope to plan and commission places strategically, including de-commissioning and/or re-designating existing places to meet local needs.

9.39 To address these issues, there would need to be an exceptions process for institutions and local authorities to amend lagged allocations to take account of growth in demand and/or strategic decisions. Given the trends described in this chapter, if lots of local authorities and institutions requested exceptions, this could be a burdensome and complex process for both authorities and the EFA. Several local authorities we visited reported that the process for requesting growth funding for 2015 to 2016 had not been transparent and had left them with a shortfall without sufficient explanation as to why their bid for additional places had been unsuccessful.

9.40 There is scope, of course, to simplify such processes and make them more transparent. Without an effective and sophisticated exceptions process, however, the concern reported to us was that, rather than being *responsive* to changes, a lagged model may actually make it more difficult for provision to respond to local strategic planning and parental choice by locking in previous patterns of provision.

### **The approach based on local commissioning**

9.41 The alternative approach we considered was one that emphasises a greater *local* role in strategic SEN planning and commissioning. Such an approach would entail local authorities, in collaboration with local schools, having a clearer and more explicit role in planning and commissioning specialist places. This would align funding and commissioning processes more closely with local authorities' statutory responsibilities, for

planning to ensure sufficient school places, and for identifying needs and securing SEN provision. We consider that any such approach would also need to retain the concept of place-led funding, as distinct from top-up funding, and avoid the need to reinstate inter-authority recoupment.

9.42 Under this approach, local authorities would receive from the EFA a single block of funding for their SEN-related high needs: this would not need to be broken down into separate elements for place-led funding and top-up funding or support services. It would be for local authorities to manage how they used their high needs block to fund places on the one hand, and services and top-ups on the other. This would also give them the scope to plan places strategically and respond more swiftly and flexibly to commission provision to meet planned need. In chapter 6, we have set out proposals for a formula-based high needs block. If these were adopted, in the future this approach could cover what is currently the place-led and pupil-led elements of the high needs block. There may need, of course, to be an adjustment to differentiate between the school population and the resident population.

9.43 There are three key components of such an approach that would need to be developed. First, there would need to be clear and transparent agreements with providers about how many places local authorities were commissioning. Setting this out in a service-level agreement and publishing place allocations may have a role here.

9.44 Second, particularly for providers who receive placements from a number of local authorities, there would need to be a lead authority to co-ordinate planning, ensure demand did not outstrip physical capacity, and support schools experiencing falling demand. Given that NMSSs receive placements from multiple local authorities, and indeed some have a national reach, we do not think a lead local authority model would be appropriate. Instead, for NMSSs, and any independent special schools that were brought into these arrangements, we think there could be a small co-ordinating role for the EFA to play. If the DfE wished, there could also be scope for the EFA to provide transitional protection to make sure that new special academies and free schools were established as viable institutions. In both cases, however, we would not see the EFA substituting for the commissioning and placement decisions of local authorities.

9.45 Third, there may need to be a process for adjusting local authorities' high needs blocks retrospectively for additional places or those that they have not used. The 2013 funding reforms originally envisaged a process for making such adjustments. We think that such a process would be important in order to give local authorities assurance that they will not be in a position of having to pay twice – first for planned places and second if places in a particular setting are full and they have to pay a larger top-up elsewhere. Such an adjustment could be made in the following year's allocations, but further consideration would need to be given as to how this would be achieved in a way that was transparent and predictable.

9.46 We consider that there would be three main benefits of such an approach. First, it would enable better strategic planning, including planning for in-year placements and pupil movement. Second, funding for specialist places could move in line with strategic decisions – it would not be subject to a time-lag, as it would if it was based on lagged numbers. Third, it would not require the EFA to co-ordinate complex negotiations and exceptional requests from local authorities and providers.

9.47 The approach we have outlined above would enable local authorities to use their revenue funding to support strategic planning of specialist places, services and top-ups. The DfE will wish to consider the merits of both options and consider how to support the transition from the current system to one in which collaborative and strategic planning and commissioning of places in specialist settings is likely to assume greater importance.

9.48 In parallel, we also suggest that there would need to be a more explicit process for accessing capital funding to support the development of new specialist provision where this is needed to meet local needs effectively and efficiently. Such an approach could build on the basic need scorecard and other tools that the DfE has produced to support local strategic planning of education places.

## Our proposals

**Local authorities should make full use of the existing flexibilities within the current funding framework to prevent small specialist providers from becoming unviable due to short-term fluctuations in pupil numbers.**

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

9.50 Instead, we consider that there is sufficient flexibility within the current arrangements to support these institutions. First, there is scope for local education systems to build flexibility into their banding frameworks to reflect legitimate differences in the cost of making provision to meet a young person's needs in different settings. Second, partnership approaches, such as the one in Manchester profiled in this chapter, have potential in enabling special schools to take strategic decisions about how to use resources to sustain and build capacity in their schools. Third, where a special school's numbers are dropping due to decreasing demand, this should be handled in the same way as it is for mainstream schools.

**There should be a more explicit role for local planning and commissioning of places in specialist settings, in which local authorities, in collaboration with**

## **schools, would play a central role.**

9.51 Under the present approach, it is unclear to local authorities how they can plan and commission – and indeed re-allocate and remove – specialist places. Likewise, it is not clear to schools how this process should work, and what their role in it should be. The EFA currently plays a part in managing this process, but it is difficult for decisions about specialist place-planning to be taken at a national level. An approach based on lagged numbers would be more data-driven and potentially less resource-intensive. Without an effective and responsive exceptions process, which could be very resource-intensive, a lagged approach could make local strategic place-planning more difficult at a time when better planning is needed to improve provision, outcomes and value-for-money.

9.52 The proposal we have outlined above would enable local authorities to develop a more explicit role in planning and commissioning specialist places. It would also enable local authorities to meet in-year changes and longer-term needs in line with their statutory responsibilities for planning to ensure sufficient school places and for identifying needs and securing SEN provision. We envisage that this would be an explicit commissioning role in respect of specialist places in state-funded special schools and resourced provisions and units in mainstream schools. As we describe in the following chapter, we propose that this approach would apply to both pre-16 and post-16 places in special schools and resourced provisions and units in mainstream schools. This would also apply to designated specialist SEN places in early years settings, as we described in chapter 8.

9.53 For NMSSs, we consider that there could be a small co-ordinating role for the EFA to play, informed by the commissioning decisions of the local authorities that place pupils in a particular NMSSs. Again, we envisage that this would be the same approach for pre-16 and post-16 places in NMSSs. We think that this proposal would also provide much-needed clarity about placements for schools that work with multiple local authorities. As we explain in the following chapter, we also propose that designated specialist SEN places in post-16 institutions, such as in SPIs, would also be funded in the same way.

9.54 Our proposal would, however, require local education systems to develop more effective methods of analysing data and working collaboratively with schools to develop long-term place-planning. The DfE may wish to consider what steps need to be put in place to enable local education systems to develop such approaches, and how allocations of place-led funding may be handled in the meantime.

## Chapter 10: Core funding for SEN post-16

### Our findings: what is working well and what is not in the current system

10.1 This chapter focuses primarily on funding for students with SEN, both those with low-level and high-needs SEN, in post-16 institutions. These include further education (FE) colleges, sixth form colleges and special post-16 institutions (SPIs). During the research, we spoke to representatives from 36 post-16 institutions.

10.2 We recognise that many young people with SEN access post-16 education in schools and other settings. We have set out our findings and proposals for SEN funding in mainstream and special schools in earlier chapters. This is why this chapter focuses primarily on FE colleges, sixth form colleges and SPIs. Nevertheless, while not all young people move from school to college at 16, we recognise that there are currently different funding approaches for young people pre-16 and post-16. For that reason, in this chapter, where we explore changes to the way in which post-16 institutions are funded, we also explain how this could be aligned with schools that support young people pre-16 and post-16.

10.3 While many sectors have experienced large-scale changes since the reforms of SEN funding were introduced from April 2013, the post-16 sector has arguably undergone the most significant transition. Previously post-16 institutions were funded through a national system. Under the new funding arrangements, institutions supporting young people post-16, including school sixth forms, sixth form colleges and FE colleges, both mainstream and specialist, receive per-student funding through a national funding formula. They are expected to meet the additional needs of students with low-level SEN from within this allocation. For students with high needs, they receive an allocation of £6,000 per student based on the data from the last full academic year. As with schools pre-16, they then receive top-up funding from local authorities that place students with them.

10.4 Since 2013, however, local authorities have taken responsibility for commissioning and funding SEN provision for post-16 students. For many local authorities and post-16 institutions, this has meant developing a new set of relationships and processes, as well as adapting to changes in funding arrangements. As in chapter 9, we use the term 'commissioning' in this chapter to refer to strategic planning of places for students with high needs and 'placements' to refer to the dialogue between local authorities and post-16 institutions when placing individual young people.

10.5 Much of the feedback reported to us by post-16 institutions and local authorities reflects the fact that the post-16 sector is still adapting to these changes. Nevertheless, feedback from local authorities and post-16 institutions was that these arrangements had

worked more effectively in the second year of operation than the first. In some of the local systems we visited, there were positive signs.

- **Mature dialogue about commissioning and placements** – all of the local authorities we visited reported that they had used the funding reforms and the SEND reforms to develop new commissioning relationships with the post-16 institutions with whom they worked. They had included these institutions in their work to develop local banding frameworks and to construct the local offer. They had also set out clearly what they wanted to commission and the outcomes they wanted to achieve through their placements. Post-16 institutions working with these local authorities reported that they welcomed this approach and had sought to tailor their offer to match local priorities.
- **Flexible use of funding to support person-centred planning** – a small number of local authorities were using their funding flexibly to commission flexible, tailored packages of support for young people with SEN. In these areas, post-16 institutions and parents spoke positively about their engagement with local authorities, and the way funding was used to focus on helping young people achieve good outcomes. Providers of supported internships also spoke very positively about the impact of the funding reforms and SEND reforms on their ability to support young people with SEN, and their work was regarded highly by other post-16 institutions.
- **Greater transparency of funding** – several local authorities and post-16 institutions commented positively on the way in which the funding reforms had introduced greater transparency and consistency in post-16 SEN funding.

#### **Improving transparency and efficiency of funding – Somerset**

College leaders and two local authority officers took part in an intensive audit that was completed in seven local FE colleges to address a significant overspend on post-16 high-needs funding. This resulted in a detailed discussion about all students in receipt of top-up funding over £5,000, those who presented as requiring high-needs funding but who were previously unknown to SEN services, and a sample of high-needs students not in these two categories. As a result of this process the colleges are able to provide better evidence for any funding requests they make. The process itself has become more transparent, consistent and responsive to any changes to the needs of the students. It has meant that monitoring and forecasting of budgets is more accurate and can better inform future trends. Overall cost was significantly reduced: the overspend has been transformed into an underspend. The local authority and colleges are committed to continue to build on what has already been achieved.

10.6 Where post-16 commissioning and funding arrangements were perceived to be working well, there appear to be three important factors. First, there was an identified point-of-contact in the local authority to provide strategic and day-to-day leadership of the post-16 SEN agenda. Second, there was an ongoing dialogue about strategic priorities and placement decisions that involve post-16 institutions and enable them to shape their offer to local needs. Third, local authority leads had the knowledge and skills to plan provision with young people and their families and to use funding flexibly to commission effective packages of support. This enabled person-centred planning discussions to take place followed by conversations about how funding could be used to meet a young person's needs and aspirations.

10.7 Local authorities had focused on achieving value-for-money, but had done this through effective, outcomes-focused dialogue. They had not done this by asking post-16 institutions to top-slice their costs. By contrast, in a small minority of the other local systems we visited, some post-16 institutions reported that they had been asked simply to top-slice their costs by local authorities.

10.8 The three factors where commissioning and funding for post-16 SEN places was seen to be working well were similar to the factors reported to us by schools that had been commissioned to provide pre-16 SEN places. There were two main differences reported to us. First, due to the fact that local authorities have only had responsibility for commissioning post-16 SEN provision since 2013, post-16 institutions were less likely to have well-established relationships with local authorities. Second, local authorities were less likely to have staff with specialist expertise and knowledge of the post-16 sector.

#### **Post-16 person-centred planning and flexible funding – Manchester**

To support a young person who had experienced a significant mental health illness and missed their GCSEs, Manchester used a person-centred approach to planning and used their high needs block funding flexibly to construct a bespoke package of support. The young person had been predicted A\* and A grades in their GCSEs, and is now determined to study chemistry at university. A careers adviser told the family about EHCPs. According to the parents, 'this was the first time I had heard someone talking about what our child wanted'. The package the local authority put in place means the young person studies for some subjects in college and some subjects with a private tutor. This arrangement means the young person receives help with their homework, and also has time to rest and recuperate during the day. According to the parents, the local authority has 'absolutely got my child at the heart of what they are doing. This has life-enhancing benefits. Without this system, I could not have accessed this provision.'

## **Developing a clearer understanding of needs post-16 – Devon**

Devon local authority felt that following the changes to high-needs funding their ability to work with post-16 institutions to commission good quality local provision for young people with SEN was 'the best it had ever been'. They attributed much of this progress to contracting with a careers advice provider to carry out assessments for every young person in year 11 with SEN or who was otherwise vulnerable to dropping out of education. They felt that this process was providing them with the detailed information they needed to strategically plan provision and to work with post-16 institutions. The contractor had developed an excellent relationship with local colleges and this dialogue was facilitating better transition.

10.9 At the same time, however, post-16 SEN funding has been through a significant transition, and a number of challenges were reported to us during our fieldwork. Some of these reflected under-developed or ineffective commissioning dialogue between local authorities and post-16 institutions about planning place allocations and agreeing top-up funding, rather than issues inherent in the funding system. There were six main sets of challenges reported to us.

### **(1) Confusion among post-16 institutions about funding for low-level SEN**

10.10 Some colleges to whom we spoke were not clear about the funding they received for low-level SEN. They were aware that they received £6,000 for each high-needs student, but questioned where the funding was for low-level SEN. Local authorities also reported that other colleges with whom they worked had expressed this concern. We understood that, nationally, funding for this purpose has been included in the disadvantage element of the post-16 national funding formula. Our fieldwork suggests that this message should be reiterated to ensure greater understanding among mainstream colleges. It also suggests that there is a need, similar to that described with regard to mainstream schools in chapter 7, to ensure there is greater clarity and consistency about what mainstream post-16 institutions are expected to provide for students with SEN from their core, formula funding.

### **(2) The timing of the planning process for high-needs places**

10.11 Local authorities and post-16 institutions reported that the current process for planning placements for high-needs students (i.e. allocating the £6,000 to institutions) was complex and often inaccurate. The main issue was timing, specifically having to predict in January the numbers of high-needs places needed in post-16 institutions in September, before students had made decisions about post-16 study. Local authorities argued that this locked in a distribution of resources that often did not match where young people actually decided to study. For post-16 institutions that received more students than their allocated places, this created both funding pressures and difficult discussions with local authorities about providing additional funding to cover a shortfall in

institutions' funding for high-needs students. Local authorities reported that they did not have sufficient oversight of post-16 institutions' funding to be able to determine whether they should pay additional funding or not.

10.12 A small number of post-16 institutions reported that having a lead local authority commissioner had helped to some extent, although there was not widespread understanding of this change. In a small number of cases, local authorities argued that they were not able to play this role effectively for larger post-16 institutions that worked across a number of local areas and, in the case of some institutions, regions.

### **(3) Inconsistent approaches to agreeing, paying and reviewing top-up funding**

10.13 While we discuss top-up funding in its own right in chapter 11, there are a number of issues related specifically to top-up funding for post-16 institutions that we want to highlight in this chapter. These issues concern post-16 institutions working with multiple local authorities, the variable and ineffective practice around commissioning places and arranging top-up funding, and the administrative burdens this is placing on post-16 institutions. Similar issues were also reported to us by NMSSs and special schools that work with multiple local authorities, as described in chapter 9. There were three specific issues reported to us.

10.14 First, discussions around placements and top-up funding are the main new interaction between local authorities and post-16 institutions introduced by the funding reforms. In some instances, post-16 institutions reported to us that they did not have a named point-of-contact for post-16 SEN within the local authorities with which they worked. These institutions wanted to have a dialogue about commissioning and placements with local authorities. They reported, however, that they were not able to build relationships if decisions were driven by finance or procurement teams that did not have any direct engagement with the post-16 institutions.

10.15 Second, the vast majority of post-16 institutions recognised that the funding reforms, as well as the SEND reforms, fostered greater dialogue and focus on students and their expected outcomes. Many saw this as valuable in its own right. Their concern was that each local authority with which they worked had a different way of planning, different timescales for paying top-up funding, and different – and sometimes disproportionate – requirements for reviewing placements and top-ups. Post-16 institutions argued that the wide variation in practice was creating unsustainable burdens that were diverting resources from supporting young people. Variable timeliness for paying top-ups was also creating cash-flow issues, particularly for smaller specialist institutions. Some providers and local authorities had worked together to develop more proportionate ways of managing reviews, but these were the minority.

10.16 By the same token, local authorities also reported that some post-16 providers were not sufficiently transparent about how their cost models were constructed. They argued that, when challenged, some of these were not evidence-based and included double-funding. Some provided examples where the top-ups requested by FE colleges

were significantly different to the cost of the same provision in a mainstream school sixth form. These local authorities recognised that young people may require different support when they move from school to college. They argued that the instances they were citing were more a reflection of the differences in what institutions would be expected to provide for young people with SEN from within their core funding. In some cases, local authorities argued that the levels of top-ups requested by some providers were frustrating the choices of young people and their parents or carers.

10.17 Third, post-16 institutions and local authorities reported a lack of clarity about what should be included in top-up funding. Some institutions reported that they had had disagreements with local authorities about whether top-up funding should contribute to an institution's overheads, to the cost of reviews of EHCPs, or to developing new provision in their top-ups. As noted above, there is some confusion between providers and authorities about what should be included in 'overheads'. Many local authorities argued these were covered by elements 1 and 2, but many SPIs argued this did not adequately reflect their staffing and building costs. We understand that the EFA has published principles of funding for post-16 institutions and that these have been well-received. We did not, however, hear any feedback on these from the post-16 institutions we visited.

10.18 Overall, therefore, it is clear that while most post-16 institutions and local authorities value a dialogue about commissioning places and top-up funding, ineffective, variable and duplicative practice is proving burdensome and is undermining this process. At the same time, it is also clear that the different approaches to funding and expectations of mainstream schools and post-16 institutions are creating differences in top-up funding, and that this is not supporting choice and effective transitions for young people. There was a strong call from both local authorities and post-16 institutions for some core principles specifically on top-up funding for post-16 institutions to ensure greater clarity and consistency.

#### **(4) A lack of clarity about the process for developing new provision**

10.19 Several post-16 institutions, both mainstream and specialist, said that they were not able to access funding to develop new SEN provision. Some local authorities, in their dialogue with post-16 institutions, had explicitly recognised that the level of top-up funding they paid needed to reflect that they were investing in supporting the provider to sustain and develop their provision. These were, however, the minority.

10.20 For post-16 institutions that work across a number of local authorities, it was not clear how they would access funding to develop new support and provision. Providers said they would welcome greater clarity about how the costs of sustaining and developing their support for students with SEN should be included in top-up funding. Like special schools and local authorities, as we described in chapter 9, post-16 institutions would also welcome a clear process for accessing capital funding to support the development of new SEN provision where it was needed.

10.21 A separate but related issue was that of resourced provisions and SEN units in mainstream post-16 institutions (FE colleges and sixth form colleges). Several institutions that we visited had developed provision similar to a resourced provision or SEN unit in a mainstream school. A minority reported that they struggled to make the funding they received cover their costs. In other areas, local authorities recognised these units and paid a higher top-up that reflected the costs when placing students in this provision. Since there is no formal process for commissioning and designating unit-style provision in FE colleges, we found that there was a lack of clarity about how they could or should be funded.

#### **(5) Guided learning hours in colleges and full-time places in schools**

10.22 Some local authorities reported that they were seeing greater demand for, and consequently pressure on, post-16 places in special schools. They saw this as a result of the fact that courses in post-16 institutions were based around 600 guided learning hours, or the equivalent of three days per week, whereas a place in a special school was for five days per week.

10.23 We know that chapter 8 of the SEND Code of Practice recommends that local authorities should consider funding full packages of support for young people with EHCPs for five days per week, and that there is scope for this package to be delivered across more than one institution. Nevertheless, post-16 institutions reported that there was not sufficient support from health and social care to fund five-day placements for young people with the most complex needs. We describe the principles and options for ensuring sufficient contributions are made by local health and social care services to the costs of supporting young people with very complex needs in chapter 12.

#### **(6) Support for young people aged 19 to 25**

10.24 Under the SEN reforms, local authorities are responsible for funding educational support for young people with high needs aged 19 to 25. Many local authorities we visited were confident in their approaches to tracking young people who were at risk of or who had become NEET (not in education, employment or training). Leicestershire, for example, have developed a payment-by-results approach to incentivise improving outcomes for this group of young people. Following the changes to SEND legislation, local authorities were concerned that the level of need, and demand for support, among young people with SEN aged 19 to 25 was unknown. They were concerned that this could create an additional pressure on their high needs block and on other blocks within DSG. Some argued that this had created a disincentive for local authorities to be proactive in identifying and engaging young people with SEN post-19. Local authorities and providers reported to us that they would welcome greater clarity about their responsibilities for providing education services for young people with SEN aged 19 to 25.

## The options we considered to improve how the system works

10.25 Chapter 8 of the SEND Code of Practice focuses on support for young people aged 16 to 25. Indeed it contains sub-sections focused specifically on the issues outlined in the preceding two sections of this chapter – five-day packages of support and support for young people aged 19 to 25.

10.26 With regard to the former, the SEND Code of Practice is very clear that local authorities have the scope to fund full five-day packages of support and to do so across more than one institution. The issue reported to us seemed to be less that the policy was unclear and more about the difficulty in securing contributions from other agencies, such as local health services, to five-day packages of support. The DfE may wish to consider whether there is the need for further clarity on what local agencies may contribute for young people with the most complex needs, alongside the proposals set out in chapter 12 of this report.

10.27 With regard to the latter issue – that of support for young people aged 19 to 25 – again, we consider that the policy position and funding responsibilities set out in the SEND Code of Practice on this point are clear. Likewise, the issue reported to us did not appear to be a lack of clarity, but rather anxiety about unknown levels of demand and potential financial pressures. We think that there may be ways in which the DfE could help local authorities to analyse future demand and highlight examples of effective practice.

10.28 In the remainder of this chapter, we focus on options for addressing the remaining four issues outlined in the preceding section.

### **Place-led funding for post-16 SEN places**

10.29 There are significant issues with the current process for funding places for high-needs students in post-16 institutions. By ‘place-led’ funding, we are referring to the allocation of £6,000 for each high-needs student, based on the number of high-needs students. The reasons reported to us during our fieldwork, and outlined above, show how the current process cannot ensure funding is allocated to the right settings, and this is causing issues for post-16 institutions and local authorities alike.

10.30 In addition, having separate core funding for high-needs students in post-16 institutions creates two further issues. First, it can create a perverse incentive for post-16 institutions to identify students as having high-needs – since this will generate additional funding in the next academic year. Second, it can perpetuate the impression that supporting students with high needs is an “add-on”, something additional to a college’s core business and that can only be done if additional funding is provided. This is not an effective means of supporting the inclusion of high-needs students where they are educated in mainstream post-16 institutions.

10.31 One option put to us was to transfer what is currently the high-needs place-led funding (so-called “element 2”) from institutions to local authorities’ high needs blocks. This would mean that the top-up paid by local authorities in respect of high-needs students would cover *all* of a student’s support costs. Under such an approach, unlike mainstream schools pre-16, mainstream institutions post-16 would not be required to make a contribution to the costs of additional support for students with high needs from their core (formula) funding.

10.32 We were not in favour of this approach for two related reasons. First, in the proposals we have considered, we have sought to maintain the principle of equivalence of SEN funding across different types of institution and across the different phases. The approach of top-ups covering all support costs would undermine this principle. Second, as we have set out in the chapters on mainstream schools (chapter 7) and early years (chapter 8), we think it is important that educating institutions make a contribution to meeting the needs of young people with SEN from within their core funding. If all funding for supporting students with high needs was held separately by local authorities, but for lower levels of need had to come from an institution’s core budget, this would create perverse incentives to identify students as having high needs. Having a consistent expectation that institutions contribute to the costs of supporting all young people with SEN is key to ensuring that they meet the needs of young people with SEN and do not see SEN as an “add-on”.

10.33 We concluded that any alternative to the current place-led funding in post-16 institutions would need to be consistent with the principle of equivalence, and support a seamless approach to support from birth to 25. As we noted earlier in this chapter, we heard examples during our fieldwork of how the different approaches in schools and post-16 institutions can lead to the same provision in comparable settings costing very different amounts. Different expectations of what mainstream schools and post-16 institutions will provide for young people with SEN from their core funding can also create disparities.

10.34 For these reasons, we think an alternative approach would be to incorporate what is currently the allocation of £6,000 for each high-needs student within the post-16 national funding formula. This would be done using the factors in the current national funding formula for distributing disadvantage funding. Any additional proxy factors relating to SEN introduced into the mainstream schools formula, based on the analysis set out in chapter 6 of this report and further analysis undertaken by the DfE, could also be incorporated into the post-16 formula. As with mainstream schools, this would mean that there were two elements of SEN funding for mainstream post-16 institutions – core, formula-based funding and top-up funding. It would also retain the principle of institutions making a contribution to the costs of supporting young people with SEN from their core budgets.

10.35 In chapter 7, we have suggested that the DfE moves away from the concept of a notional SEN budget in mainstream school funding. If these arguments are accepted, we do not consider there would be value in introducing a notional SEN budget for post-16 institutions. In short, one of the main issues with the *notional* SEN budget is that some providers interpret this as an *actual* budget, which then creates exactly the same set of issues we have described with place-led funding for post-16 institutions.

10.36 For these reasons, we propose that mainstream post-16 institutions and post-16 provision in mainstream schools are funded in the same way: formula funding, from which providers are expected to meet the first £6,000 of the additional support for students with SEN, and top-up funding for their support above that level.

10.37 Incorporating the £6,000 of additional support into the formula would require two further considerations. First, what would be the equivalent mechanism for post-16 mainstream providers to the scope local authorities have to make additional resources available to schools that admit a higher proportion of pupils with SEN? It may not be sensible for individual local authorities to do this, other than for school sixth forms, and perhaps where the vast majority of students in an institution come from one local authority. For FE colleges and sixth form colleges serving a wider catchment area, this could be done in two ways.

- a. **The local option:** in instances where a post-16 institution felt that they had admitted significantly more students with high needs than they could support from their core funding, they could raise this with their lead local authority. The lead local authority could then co-ordinate discussions with other local authorities who placed young people at the provider. This would enable them to have an overview of current numbers of students and agree any additional funding required. For a small number of larger providers that work with many local authorities, the EFA may need to play this co-ordinating role.
- b. **The national option:** alternatively, the EFA could hold a small contingency pot for use in specific instances. It would, however, be difficult to manage this without perpetuating perverse incentives to over-identify students with SEN.

10.38 The second consideration would be how to fund special schools, resourced provisions and units for their post-16 places and how to fund SPIs. In terms of post-16 places in special schools, and in resourced provisions and units in mainstream schools, we think that it is not sensible to fund these institutions in one way for their pre-16 places and in another for their post-16 places. We propose that post-16 SEN places in special schools continue to be funded at £10,000 per place, and in resourced provisions and units in mainstream schools are funded at £10,000 per place, as they are for pre-16 SEN places. We would see the process for planning and commissioning places set out in chapter 9 applying to both pre-16 and post-16 places in special schools, and to places in resourced provisions and units in mainstream schools.

10.39 For specialist post-16 institutions, there are three options. The first would be to retain the approach of paying per-student formula funding and an additional £6,000 per high-needs student based on lagged numbers. The second would be to fund these institutions on a formulaic basis. One suggestion put to us was to include a specialist programme weighting in the post-16 funding formula, specifically for SPIs. This would operate in a similar way to the weighting for specialist agricultural and engineering colleges. We can see the attraction of this approach, since it would avoid the resource-intensive and complex negotiations around the allocation of £6,000 per place and would ensure a degree of equivalence between mainstream post-16 institutions and SPIs. It has been beyond the scope of this research to model this proposal at institutional level, and the DfE and EFA may wish to undertake further modelling to analyse the impact of these changes on SPIs. The challenge for both of these approaches, however, is that this would mean that post-16 places in special schools and mainstream school resourced provision and units would be funded in a different way to post-16 places in SPIs.

10.40 The third option we considered would be to fund SPIs at £10,000 per planned place, as is currently the case for special schools. Like NMSSs, SPIs often work with a large number of different local authorities and cover multiple regions across the country. As such, the lead local authority role we envisaged for maintained special schools and special academies would not work well for SPIs. For this reason, under this approach, SPIs could be treated in the same way as NMSSs, in that the EFA would have a small co-ordinating role, and would set a number of planned places based on local authority planning. We would see that the principles outlined in chapter 9 of place-planning and the scope for using top-up funding to ensure valued small, specialist providers do not become unviable due to short-term fluctuations in numbers would apply equally to SPIs. We think that this approach to funding SPIs would bring about better alignment of funding between schools and post-16 institutions.

10.41 This would also provide a methodology for planning and funding SEN units in mainstream post-16 institutions. We would need to be careful to avoid creating perverse incentives for providers to create units as a way to generate additional SEN funding. For this reason, there would need to be an equivalent process for formally designating SEN units, as there is for resourced provisions and units in schools. In schools, this is led by individual local authorities, and we would see responsibility for school-based resourced provision or units for post-16 students remaining with local authorities. In FE colleges and sixth form colleges, this also could be done by local authorities individually, or in partnership with neighbouring authorities that also place young people in a particular setting. In the chapter on special schools (chapter 9), we proposed that local authorities should have a more explicit role in commissioning places from their high needs block. This would enable local authorities to take a more direct role in commissioning unit-style provision in post-16 institutions as well.

10.42 We also considered whether there could be a role for local authorities to work together at a regional level to plan post-16 provision. As we have noted, there is scope

for local authorities to work together to plan and commission provision in post-16 settings. We did not find evidence, however, that there are yet the structures and relationships in place that would support such an approach. Aside from some work in the West Midlands and Greater Manchester, we have found few examples of effective sub-regional working between local authorities. For this to be effective, it would either need to be incentivised, with regional clusters of local authorities having a core purpose and access to a commissioning fund, or mandated.

### **Top-up funding in the post-16 sector**

10.43 There was strong support among a small minority of post-16 providers for a return to a national system for top-up funding. The previous national system did provide greater predictability of funding for providers, but it also contained perverse incentives to bid for higher bands of funding and, we understand, led to escalating costs at a national level. Reverting to such a system would also run counter to the principles of the SEND reforms, in which local authorities and local partner agencies are responsible for assessing, planning and commissioning support for young people from birth to 25. For these reasons, we do not think it would be advisable or practical to return to a national system for post-16 top-up funding for all young people with high needs. In chapter 12, we explore some of the proposals put to us for a national framework of provision for young people with the most complex needs.

10.44 Nevertheless, there are issues in the current post-16 funding system where core principles and more consistent practice, agreed between institutions and commissioners, are needed. As mentioned above, there needs to be a core set of principles about what should be covered within top-up funding, specifically in relation to overheads, staffing and building costs for small, specialist providers. These should also set out how providers make their funding models and costs transparent to local authority commissioners, so that there can be a genuine dialogue about the provision that is being agreed and the funding required. These should also include timescales for agreeing and paying top-up funding, and a more consistent and proportionate approach to reviewing placements. Most importantly, local authorities should ensure that providers have a named point-of-contact with whom they can work to discuss placements, support and funding. In the following chapter, we set out our proposal that there should be a national set of principles to ensure consistency of top-up funding.

## **Our proposals**

**What is currently high-needs place-led funding for post-16 institutions (so-called “element 2”) should be included in the formula allocations for mainstream post-16 providers.**

10.45 The current process for allocating element 2 funding is inaccurate, inefficient and is creating issues for post-16 institutions and local authorities. It fosters a sense that supporting pupils with SEN, particularly those with high needs, is something additional to a post-16 institution's core business. It perpetuates perverse incentives to identify students as having high needs. For this reason, and in parallel with our proposals for mainstream schools, we propose that what is currently place-led funding should be included in the formula allocations to mainstream post-16 providers.

10.46 We have also proposed that there should be a discretionary function, similar to that which operates for schools, so as to recognise providers who admit a higher proportion of pupils with SEN – and indeed to incentivise inclusion. This cannot be linked to providers' identification of students with SEN, otherwise this would encourage over-identification and cost-escalation. Instead, we propose that local authorities, as commissioners for high-needs students, should have a role in determining approaches to distributing additional funding outside the formula, in the same way as they do for mainstream schools. In most instances this would be led by the lead local authority. In some instances, for example for very large providers that work with many different local authorities across multiple regions, a co-ordination role may be played by the EFA.

**Post-16 SEN places in schools and places in SPIs should be funded at £10,000 per planned place, with top-up funding provided above this level.**

10.47 If what is currently place-led funding in post-16 settings is incorporated within mainstream providers' formula allocations, there needs to be consideration of how to fund post-16 places in special schools, and in resourced provisions and units in mainstream schools. Post-16 places in special schools are already funded at £10,000 per place. We propose that this should continue, and that post-16 places in resourced provisions and mainstream schools are funded in the same way.

10.48 This would also require consideration about how places in SPIs should be funded. One option would be to retain the current approach – separate formula funding and £6,000 per high-needs student – only for specialist providers. Another would be for the DfE and EFA to model a specialist programme weighting for SPIs in the post-16 funding formula. Both of these approaches would mean, however, that places in SPIs were funded differently to both mainstream post-16 institutions and special schools. For that reason, we propose that places in SPIs are funded at £10,000 per planned place. For SPIs, the EFA would play a co-ordinating role, as it does currently for NMSSs. We also suggest that this approach is applied to places in SEN units in post-16 settings. We propose that these units should be designed through a formal process, led by local authorities. There may be a small oversight role for the EFA to play to maintain accurate information at a national level about post-16 SEN units.

**The DfE should consider setting out consistent national principles for providing**

**top-up funding, including what top-ups should cover and timescales for payment. Local authorities should work together in regional clusters to agree consistent approaches to working with providers to assess needs and review placements.**

10.49 Given the issues relating to the previous national SEN funding system post-16, and the need to facilitate an integrated approach to planning SEN support from birth to 25, we are not proposing a return to national banding post-16. In order for a localised approach to work, however, there need to be some core national principles about the process for top-up funding post-16.

10.50 This could entail bringing together existing published material on top-up funding, but the DfE may wish to consider whether additional principles or standards would enable more effective approaches to top-up funding.

10.51 There also needs to be greater commitment from local authorities to developing more consistent ways of working with providers, particularly in relation to the processes for assessing needs and reviewing placements. We also propose that post-16 institutions should play their part by making clear how their costs are constructed to facilitate informed and transparent commissioning dialogue with local authorities. This is happening in some, but not all, areas we visited. We expand on these points about top-up funding in the following chapter.

## Chapter 11: Top-up funding

### Our findings: what is working well and what is not in the current system

11.1 For many institutions, the 2013 funding reforms introduced a new way of working in relation to funding for young people with high needs. Previously, mainstream schools received per-pupil funding for those with high needs (in the form of what were sometimes called individually-assigned resources), but special schools were funded predominantly on a place-led basis. Special schools would also have received this funding from the local authority in which they were located – funding for placements made by other local authorities was handled by a system of inter-authority recoupment. Post-16 institutions received per-student funding via a national system administered by the predecessor bodies of the EFA.

11.2 Following April 2013, it was expected that all institutions would deal directly with the local authorities placing young people in their settings. In other words, there would be direct dialogue between the institution and each local authority wishing to place a young person. Through this direct dialogue, they would agree funding above the level of core funding the institution had received – either formula or place-led funding – based on the costs of meeting the assessed needs of the young person in that particular setting. This would then be paid to the institution in the form of a top-up in, or close to, the real-time movement of the young person.

11.3 During our fieldwork, we heard positive messages in some local education systems about the way in which top-up funding was operating.

#### **A more flexible and outcomes-focused approach to high-needs funding**

11.4 Many local authorities and institutions reported that the development of top-up funding had fostered a more flexible, fair and transparent approach to SEN funding for young people with high needs.

11.5 These local authorities were clear that they retained the statutory duties for identifying and assessing young people's SEN, including, where appropriate, by means of a statutory assessment. Nevertheless, these local authorities had recognised that, where the statutory assessment process was the *only* route to accessing top-up funding, this could be problematic. Specifically, they noted the risks of perpetuating perverse incentives to seek unnecessary statutory assessments. They reported that this had led to a "statement culture" and institutions seeing SEN as an "add-on", something that was not part of their core work, but rather something they could only do with additional resources. These local authorities reported that this had led to increased labelling of children with SEN, unnecessary statutory assessments and greater costs.

11.6 They had also recognised that, in some instances, a young person's needs became apparent very quickly and that the early years setting, school or college needed support much more quickly than the statutory assessment process could allow.

11.7 In these instances, these local authorities had developed a process for accessing top-up funding so that the route to accessing these resources was not tied solely to the statutory assessment process. These were streamlined processes for accessing support that made effective use of staff time such as that of educational psychologists, were proactive in engaging parents and carers and provided swifter support for schools. The support was also time-limited so that support could be reviewed and amended, or brought to an end if the support had achieved the relevant outcome. Some local authorities also reported that these approaches had been well-received by parents and carers.

11.8 We need to add two caveats to the description of these approaches. First, the approaches we have described have not replaced the statutory assessment process, nor are they about weakening parental rights. Instead, they have been developed to address the issues that can arise for local authorities, institutions and families if the statutory assessment process is the *sole* route to additional resources. They operate alongside and complement the statutory assessment process, rather than replacing it wholesale. Second, while we found evidence that these approaches were working well for schools, only a small minority of local authorities had applied such approaches to post-16 institutions. It is, however, important to note that under the current statutory framework an EHCP or learning difficulty assessment (LDA) is required for a student aged 19 to 25 to be eligible for high-needs funding from local authorities.

### **Pupil resource agreements – Bromley**

Bromley established a system of pupil resource agreements (PRAs) to provide a swifter route for schools to access additional funding, without having to request a statutory assessment. This is designed to be a quicker, less bureaucratic and more efficient route to accessing additional resources. The aim is to provide swifter support to schools, give parents confidence, and make the most effective use of the expertise of professionals such as educational psychologists. Another key characteristic of PRAs is that they are time-limited, so as to enable the support to be reviewed regularly and maintained, increased or ceased depending on the pupil's needs. The local authority report that the system is working well. Schools recognise the value of the system, and are keen to incorporate swifter responses and more advice and developmental dialogue to build capacity and skills. The local authority is also inviting SENCOs to become involved in the decision-making process via attendance at the funding panel to build their knowledge and improve the consistency of identification of need across the borough.

11.9 There was also positive feedback from local authorities and providers about the early EHCPs. These were helping to facilitate a more person-centred approach to planning placements and a more outcomes-focused dialogue about funding. Institutions also commented that these were providing better information about young people that were enabling them to put in place the right support. A small number of local authorities and institutions also recognised that the introduction of personal budgets for SEN would be useful in engaging parents and carers. Some local authorities had refined their banding frameworks to enable them to be in a position to offer personal budgets for young people with SEN. Local authorities reported, however, that the take-up of personal budgets had been very low: most reported that they had received no more than one or two requests for personal budgets to date.

### **Effective banding frameworks and partnership-based approaches to top-up funding**

11.10 Many local authorities and providers have spent time reviewing and refining the banding frameworks they use to allocate funding for young people with high needs. In some areas, minor amendments have been made, whereas in others the banding frameworks have been re-designed to fit with the funding and SEND reforms. In areas like Newcastle and Herefordshire, new banding frameworks have been developed that cover both mainstream and specialist providers, and cover schools and post-16 institutions, so that there is greater transparency and comparability about funding levels in different sectors.

#### **Developing a matrix for top-up funding – Herefordshire**

In September 2014, Herefordshire implemented a new matrix for determining the allocation of top-up payments. The matrix was developed over the course of two years with the support of schools, colleges and early years providers. It was refined and tested through detailed sampling that showed the matrix to be accurate in determining an appropriate level of additional funding in the overwhelming majority of cases. It represents an unusually consistent approach to top-up funding, since the same matrix applies to all providers (except NMSSs and SPIs). The aim in developing the new matrix was to eliminate inconsistencies in levels of funding between different providers and therefore open up a greater range of placement choice to families.

The matrix is based on the four categories of SEN set out in the Code of Practice, which are divided into a total of 10 sub-categories. Under each of these sub-categories there are five levels of need, from zero (which represents no needs) to four (which represents profound needs). A concise descriptor for each level of need under each sub-category enables a child's needs to be accurately assessed. The child's combined scores in all the columns is translated into a number of assessment points, which equate to a specific top-up tariff. Early feedback from providers is positive about the new arrangements.

### **Working in partnership with the schools forum to review top-up funding – Lambeth**

Lambeth Council has worked closely with mainstream schools in the borough to respond to changes in funding arrangements for SEN. In particular, it has worked to ensure that local funding arrangements are meeting the needs of young people with high-cost, low-incidence needs without disadvantaging schools. The local authority has completed a three-year review of need, which has led to the development of a number of additional resource bases within mainstream schools. Throughout these changes, the local authority has worked closely and in partnership with the schools forum. The chair and deputy chair of the schools forum have played a critical role in leading this agenda, gripping this issue, and making it a priority for the schools forum to address. Previously, the schools forum had agreed to the use of a contingency fund to support schools with a higher than average number of high-needs students. There were concerns, however, that some schools with students with the most complex needs were still being disadvantaged by the funding system. The schools forum is now considering moving to a new system of top-up funding that would weight additional funding further towards the small number of students with the most complex needs.

11.11 In some local areas, schools have worked together with the local authority to develop and maintain an approach to top-up funding. In these areas, there are well-established peer moderation processes, where school leaders come together to moderate requests for additional funding, supported by SEN and finance officers from the local authority.

### **Special school peer moderation of top-up funding – Gateshead**

Eight years ago, the leaders of special schools in Gateshead and colleagues from the local authority started working together to develop a formula for funding places in special schools. 'We think of ourselves as one school', one said, and they meet regularly to determine how they can allocate funding effectively and fairly to meet the needs of children placed in Gateshead's special schools. The formula is made up of several top-ups to reflect the phase and fixed costs of the school. The pupil-led top-up is constructed as a matrix, with different categories of need, depending on the primary barrier to learning, and four banding levels for each. In addition to reviewing and updating the formula, the special school leaders and local authority officers work together to moderate the pupil bandings for top-up funding. There are specific moderation meetings for particular categories of need, attended by the schools that support pupils with those needs and local authority officers, and a short, consistent form for providing evidence of a pupil's needs. This approach has helped to build trust, knowledge and skills, and more effective use of SEN resources in Gateshead.

11.12 Again, our research suggested that while such approaches for schools were well-established in some local areas, fewer local education systems had developed similar approaches for post-16 institutions. We are aware of a small number of local authorities that we visited, and others with whom we have worked, that have begun to develop such approaches, by bringing together post-16 institutions to moderate requests for top-up funding and provide peer support and advice. These have tended to be larger local authorities in which the majority of the intake of the post-16 institutions is from the local authority in which they are located. This does demonstrate, however, that there is scope to develop these approaches in the FE sector, including on a sub-regional basis.

11.13 Some local authorities are working together on a regional basis. The North-East local authorities worked together to develop *How much should it cost?*, a document designed to create greater consistency when commissioning SEN provision. The West Midlands authorities have worked together to plan and commission specific aspects of SEN provision and compare local banding frameworks.

11.14 Other individual local authorities reported that they had shared, although not aligned, their banding framework with their immediate neighbours, particularly where there were schools and colleges that took young people from both areas. We have not, however, found evidence of regions in which authorities are working to develop a consistent, shared banding framework.

11.15 While there are positive signs, there were also a number of challenges related to top-up funding reported to us during our research. These fall into two broad categories: those related to the differences in approaches to top-up funding *across local education systems*, and those related to practice *within individual local education systems*.

### **(1) Inconsistent approaches to top-up funding across local education systems**

11.16 As part of our research, we developed a set of five profiles of hypothetical young people, which contained brief descriptions of the young person and their needs. These can be found in full at annex C.

11.17 These were not intended to be representative of all of the needs of young people with SEN. Instead, we used these to explore how local education systems would meet and fund a specific set of needs where their ability to do so might depend on the nature of local provision. We used the profiles in our fieldwork interviews to explore the differences between and within local education systems in terms of the support and top-up funding that would be provided.

**Table 6: Summary of responses to our five hypothetical profiles**

| <b>Name of profile</b>  | <b>Where would this young person be placed?</b>  | <b><u>Local authority</u> responses: would this young person attract top-up funding?</b>  | <b><u>Provider responses:</u> would this young person attract top-up funding?</b>                                     |
|---|--|---|---|
| <b>Johnny</b> (year 8, medical and physical needs, no learning needs)                           | Mainstream setting – all authorities and providers agreed.   | Eight would provide top-up funding (four would not).<br><u>Average:</u> £2,828<br><u>Range:</u> £250 – £8,000   | Eight providers would request a top-up (three would not).<br><u>Average:</u> £9,100<br><u>Range:</u> £2,500 – £19,000 |
| <b>Kate</b> (year 7, moderate learning difficulties)  | Mainstream setting – all authorities and providers agreed.   | Three would provide top-up funding (nine would not).<br><u>Average:</u> £2,077<br><u>Range:</u> £1,250 – £3,232   | One provider would request a top-up (11 would not).<br><u>Value:</u> £2,500   |
| <b>Peter</b> (year 4, autism, severe learning difficulty, challenging behaviour)                | All authorities reported that Peter would be in a specialist setting (11 of 12 said a special school). Half of providers said Peter would be in a mainstream school. | All would provide top-up funding.<br><u>Average:</u> £11,367<br><u>Range:</u> £4,000 – £23,500  | All (24) providers would request a top-up.<br><u>Average:</u> £12,115<br><u>Range:</u> £2,000 – £25,000               |
| <b>Grace</b> (year 12, Asperger syndrome, mental health difficulties, very strong academically) | Mainstream setting – all authorities and providers agreed. Authorities might provide a top-up if the mainstream placement was not successful.                        | None would provide top-up funding. One authority reported that they were currently paying £26,000 for a placement of a young person with similar needs. | One provider would request a top-up (15 would not), but could not say how much top-up funding it would request.       |
| <b>Indy</b> (year 2, language / communication delay, some learning difficulties)                | All authorities reported that Indy would be in a mainstream setting or resourced provision. Most providers said Indy would be in a mainstream school.                | Six would provide top-up funding (six would not).<br><u>Average:</u> £3,730<br><u>Range:</u> £2,000 – £6,650  | Six providers would request a top-up (13 would not).<br><u>Average:</u> £2,233<br><u>Range:</u> £200 – £3,500         |

Source: Responses to Isos profiles of five hypothetical young people – responses from 12 of the 13 local authorities; numbers of responses from providers varied from 11 to 24 depending on the profile (on average 17 responses per profile).

11.18 The table shows that there were significant differences, both between local authorities, and between local authorities and providers. These differences are particularly pronounced for young people with physical difficulties (Johnny) and for young people with an autistic spectrum condition, severe learning difficulties and challenging behaviour (Peter).

11.19 Based on the responses from the 12 local authorities that completed the profiles, it did not appear that those that would pay higher top-ups were necessarily those that were the most generously funded for SEN overall. Through our fieldwork, we identified three factors that could be driving these differences.

- **Lack of consistent expectations around core provision** – a lack of clear and consistent expectations about what providers are expected to offer from within their core budgets appeared to be having a knock-on effect on the circumstances in which providers requested top-up funding. Inconsistencies in identification, attitudes to inclusion and parental expectations were cited by local authorities and providers as reasons for the different levels at which providers requested top-up funding. This was apparent in responses prompted by the profile of “Johnny”, who had medical and physical needs but no learning needs.
- **Existing provision** – local authorities that had access to specific specialist provision locally, for example for young people with communication and interaction needs, or those with high-functioning autistic spectrum conditions, appeared to be in a position to pay different levels of top-up funding compared with those that did not. This was particularly apparent in responses prompted by the profile of “Indy”, who had needs relating to language delay and some learning needs.
- **Local practice** – in most instances, the levels of top-up funding used by local authorities for specific forms of need related to decisions about how local systems wished to structure their banding frameworks.

11.20 To explain the last point in more detail, we found that the local banding frameworks we reviewed differed in three main ways.

- **Application** – some local systems have banding frameworks that apply to all types of providers, some have separate banding frameworks for mainstream and special schools, and some have banding frameworks for only one sector.
- **Criteria** – some local banding frameworks use criteria based on definitions of need to differentiate between band levels, others use criteria based on definitions of support, and others use the value of hours of support from a teaching assistant or equivalent.
- **Increments** – some local systems have a graduated banding framework, with even increments in the value of each band, while some are more uneven. The banding frameworks we saw during our fieldwork had between two and 11 bands (i.e. different levels of funding).

11.21 These inconsistencies are of concern to providers who receive placements from multiple local authorities. This includes post-16 institutions, NMSSs, and those special schools that operate on a regional basis. As we described in chapter 9 (on special schools, including NMSSs) and chapter 10 (on post-16 institutions), these institutions did report inconsistencies in funding levels, but their concern was far more about the inconsistencies in the *practice* of managing top-up funding than in the *content* of local banding frameworks themselves. Put briefly, these institutions’ concerns related to inconsistencies in what should be included in top-ups, the timeliness of payment, the

dialogue with the local authority (or in some cases lack thereof), and requests for audits and reviews of top-up funding.

11.22 For the majority of schools, however, particularly those who work predominantly with one local authority, the differences in top-up funding across local education systems are of less concern than those relating to the operation of top-up funding *within* their local system.

## **(2) Challenges with top-up funding within individual local education systems**

11.23 As we have noted earlier in the chapter, some local systems have developed processes for accessing top-up funding so that access to additional resources was not tied solely to the statutory assessment process. The other side of the coin is that, in other local systems, institutions reported to us that it took too long to access top-up funding where it was needed. This was particularly the case in local systems in which the only route to top-up funding was through the statutory assessment process and/or where expert professionals, such as educational psychologists, had a role as “gatekeepers” of top-up funding. Schools argued that this approach was ineffective for two reasons.

11.24 First, this did not work well for children with complex social, emotional and mental health needs, whose needs could escalate and require support very quickly. This issue was particularly pronounced in areas with a highly-mobile local population, with children who arrived in school during the academic year, some of whom had experienced trauma and had a complex combination of needs. In these instances, schools argued, the process for accessing funding was slow, bureaucratic and unresponsive, which was having an adverse effect on the pupil and the school.

11.25 Second, schools argued that that this was also an ineffective use of the expertise of educational psychologists and other highly-skilled professionals. In many local areas, schools valued their advice and support, but saw that the capacity of key professionals was stretched. They argued that they wanted to see more scope for dialogue with professionals, and more access to swift practical advice and support in order to build capacity in schools. Furthermore, such approaches can perpetuate perverse incentives to identify children as having high needs, and can lead to increasing numbers of statutory assessments and EHCPs, which in turn lead to increasing costs.

11.26 In addition, the majority of schools argued that basing top-up funding on a notional allocation of hours of support from a teaching assistant was unhelpful. The schools that were most confident in their SEN provision described how they treated this as a funding mechanism, and used their overall budget flexibly to develop in-school support. These and other schools argued that basing top-up funding on teaching assistant support could, however, create unrealistic expectations among families that their child would have a dedicated teaching assistant at all times. They considered that this was not the most effective way to achieve the best outcomes for these pupils. A small number of schools had developed ways of having a more transparent dialogue with parents about support and funding, but these were a minority of the schools to whom we spoke.

## The options we considered to improve how the system works

### Improving the consistency of top-up funding across local areas

11.27 In the section above, we highlighted three factors that were driving differences in top-up funding across local areas: a lack of consistent expectations about core provision, differences in the provision available in local areas, and local practice.

11.28 With regard to the first two, elsewhere in this report we have set out suggestions as to how these could be addressed. First, with regard to expectations about core provision, in the chapters on mainstream schools (chapter 7), early years settings (chapter 8) and mainstream post-16 institutions (chapter 10), we have suggested the development of a set of nationally-consistent expectations. We consider that this would also have a beneficial effect on top-up funding: it would help to set a more consistent threshold for seeking top-up funding. As we have described in chapter 10 and in table 6 above, there are inconsistencies across and within local systems about the needs mainstream institutions are expected to meet from their core funding and the threshold for accessing top-ups.

11.29 Second, with regard to differences in local provision, in the chapter on special schools (chapter 9) we have proposed that local authorities should have a more explicit role in planning places in special schools and resourced provisions or SEN units. In the chapter on post-16 institutions (chapter 10), we have argued that, with appropriate oversight, there should be a similar process for local authorities to commission new provision to meet local need. We have also suggested that there needs to be a more explicit process for accessing capital funding to develop new SEN provision where it is needed.

11.30 Again, we consider that giving local authorities greater flexibility to shape local and regional provision would have a beneficial effect on top-up funding. Indeed, both Leicestershire and the East Riding have been able to use some existing funding to develop resourced provisions for young people with high-functioning autistic spectrum conditions. The authorities reported that provisions were having a positive impact on the outcomes for the young people and were proving cost-effective. Previously, more young people with these needs would have had to go to specialist settings outside the local area. Several local authorities we visited, and others with whom we have worked, have also used the flexibility within their high needs block to develop local provision in mainstream post-16 institutions and reduced the need to send young people to specialist provision away from their local area.

11.31 To go further than this, however, and address some of the different ways in which local education systems construct and operate their top-up funding, would require the development and implementation of a national or regional approach to top-up funding. There are a number of permutations of such an approach. For example, such an approach could just prescribe a consistent framework for top-up funding and banding,

without giving detail of the content or top-up values. This was originally proposed in the 2011 green paper, *Support and aspiration*, and tested through the pathfinder programme. Such an approach might include a specified number of categories (e.g. based on the categories of need in the SEND Code of Practice) and a specified number of bands (e.g. four, with a fifth for those with the most complex needs who require bespoke support). This would have the advantage over current approaches that all local authorities and providers could use a common terminology when discussing top-up funding. It would also help to highlight inconsistent processes and challenge ineffective practice.

11.32 A more prescriptive approach would require the description of each band and the financial value attached to it to be prescribed. A less prescriptive approach, on the other hand, could simply set out some of the core principles of top-up funding – having clear criteria, similar increments in funding values, timescales for payment – but not prescribe a particular banding framework.

11.33 During our fieldwork, however, we found limited support for an approach that would prescribe a nationally consistent banding framework. It was argued that this would reduce the scope for flexibility and personalisation, which were at the heart of the SEND reforms. There was, however, support from local authorities for there to be a set of consistent national principles to guide the local operation of top-up funding. Local authorities and providers reported that they would welcome there being a set of standards to ensure the *practice* of top-up funding was more consistent nationally, even if the *content* of top-up funding remained a matter for local discretion. There could also be scope for greater co-operation between local authorities at a regional or sub-regional level, as discussed further in chapter 12.

11.34 As set out in the chapter on post-16 institutions (chapter 10), these principles could include four core elements of the operation of top-up funding:

- **point-of-contact** – all institutions should have a named point-of-contact within local authorities placing young people with them;
- **planning** – there should be a consistent approach and template to capturing information about young people’s needs so that providers do not have to provide similar information in multiple formats, which increases workload for staff;
- **timescales** – there should be consistent timescales for paying top-up funding, so that providers are not left having to chase late payments; and
- **reporting and reviews** – there should be consistent, and proportionate, requirements for reviewing and reporting on the use of top-up funding, which set out what both local authority commissioners and providers will do, and ensure that there is a strong focus on outcomes for young people.

11.35 Alongside a set of national principles, we consider that local authorities should be required to publish their top-up funding arrangements. This would include not only their banding frameworks for all sectors, which many already do publish. This would also require local authorities to set out their top-up funding *practices*, including their planning templates, timescales for making payments, and reporting requirements. This would provide greater transparency across local education systems, but also a set of published standards that could be used to challenge ineffective practices.

### **Improving the operation of top-up funding within local areas**

11.36 As we noted earlier in this chapter, there were two main issues that schools, and to a lesser extent early years settings, raised about the operation of top-up funding within local areas. The first of these related to local education systems in which top-up funding could only be accessed through the statutory assessment process. The second related to equating top-up funding with a notional amount of support from a teaching assistant or equivalent.

#### **Swifter access to top-up funding – Bury**

Prior to September 2014, Bury local authority employed a system whereby top-up funding could only be accessed through a statement or an EHCP for pupils of school age. This had led to increasing demand for statutory assessments, bottlenecks in the system and delays in accessing funding. They therefore reviewed their system and introduced a new tiered approach in which schools that had provided £6,000 worth of additional support for a child or young person with SEN could apply for up to £3,000 top-up funding without requiring a statement or an EHCP. The decision on whether to grant the top-up funding, and the amount, was agreed by a multi-agency panel. In all cases, parents are advised of their right to request an education, health and care needs assessment and the local authority is clear that being part of this top-up system does not act as a criterion when making decisions in response to requests for an assessment. The local authority considers each request on its own circumstances. Very early feedback on the new system was that it was stimulating better dialogue about children and young people's needs and enabling earlier intervention and support in schools.

11.37 Some local authorities we visited have reviewed their use of top-up funding, and have developed ways for providers to access support that do not rely solely on the statutory assessment process. Some have also moved away from calculating top-up funding based on teaching assistant hours. These are seen by many as positive developments, and there was recognition by local authorities and institutions in local education systems that had not yet made such changes that some local practices relating to top-up funding were hindering efforts to meet young people's needs. This feedback suggests that there is a strong need for local authorities to ensure that there is a swift

and effective process for schools and early years settings to access practical advice and additional support.

11.38 This process could involve an element of peer moderation, for example of requests for support, or a partnership-based approach similar to that developed by special schools in Manchester. We appreciate that the capacity of schools, post-16 institutions and local authorities to invest time and resources in the operation of top-up funding is limited. Nevertheless, where such approaches have been developed, local authorities and providers reported that the benefits – greater flexibility of provision, transparency, management of budgets, and focus on outcomes – made this investment of time worthwhile. Furthermore, we also recognise that a consistent message throughout our fieldwork has been the need for more dialogue between local authorities and providers, and among providers, to develop skills and build capacity to support young people with SEN. Building swifter access to such advice and support is not an alternative to an effective process for arranging top-up funding, but an essential supplement.

## Our proposals

**The DfE should consider setting out national principles or standards for the effective operation of top-up funding.**

11.39 The way that top-up funding operates varies significantly across local areas. This raises issues of equity and fairness, but equally the inconsistency in practice is creating additional burdens on providers that, they argue, is detracting from the support they are able to provide to young people. There was limited support for a nationally prescribed banding system, and there is little evidence of convergence at regional level towards a consistent approach to banding. There was, however, support for a consistent national set of principles of effective top-up funding to be published.

11.40 As we have suggested in chapter 10, this could entail bringing together existing published material on top-up funding. The DfE may, however, wish to consider whether additional principles or standards would enable more effective approaches to top-up funding. We think these could include the core elements needed to operate a top-up funding system and where consistency would help to avoid additional and unnecessary bureaucracy. At the very least, our proposal is that these should include expectations in terms of named points-of-contact, planning processes, payment timescales and review requirements. The DfE may wish to consider how such principles could be made explicit and reinforced in the existing published material on high-needs funding.

**Local authorities should publish their top-up funding arrangements. This should include not only their banding frameworks and top-up values for each sector, but**

**also their *top-up practices*, including named points-of-contact, timescales and review requirements.**

11.41 Linked to the preceding proposal, we consider that it would improve transparency, comparability and efficiency if local authorities published their top-up arrangements. We have suggested above that the top-up arrangements to be published should include not only the bands and top-up values, but also the *practices* of agreeing, paying and reviewing top-up funding. These could then be compared with the national principles. Since these would be set out explicitly for providers to see, instances of poor practice, such as late payments or disproportionate review requirements, could be identified and challenged.

**Local authorities should establish processes for accessing practical advice, capacity-building support and top-up funding so that the statutory assessment process is not the sole means of accessing this support.**

11.42 Lastly, it is a positive development that many local authorities have sought to develop routes to accessing additional support and resources that do not rely solely on the statutory assessment process. As we have described above, such approaches do not circumvent local authorities' statutory duties, nor parents' right to request a statutory assessment. Instead, they aim to ensure that there are alternative routes to accessing support and advice to ensure that young people get the support they need when they need it, and that providers have swift access to advice and support. These approaches were seen as important in avoiding perpetuating perverse incentives to request statutory assessments for young people where this is neither necessary nor appropriate.

11.43 We suggest that all local education systems should develop approaches for providers, including early years settings, schools and post-16 institutions, to access additional support and resources that do not rely solely on the statutory assessment process. We also consider that such approaches will foster greater dialogue between providers and professionals, and among providers themselves, in order to build skills and capacity and to secure better outcomes for young people. Such approaches could have an element of peer moderation or partnership-working built in, but this would be a decision for leaders within local education systems to take.

## Chapter 12: Funding support for children and young people with very high needs

### Our findings: what is working well and what is not in the current system

12.1 A very small proportion of the population of children and young people with SEN have needs so complex that they require a level of provision and support beyond that which the majority of mainstream schools and FE colleges, or even special schools, would be able to provide. Ensuring that sufficient funding is in place to support the needs of these children can be challenging because the provision tends to be very high-cost. At the same time, the small numbers of such children and young people in any single local education system can make financial planning, commissioning and identifying suitable placements a complex process.

12.2 There is no standard definition of “very high-need and low-incidence” SEN and no national data collections which particularly pinpoint this group of children and young people. Illustrative data provided to us by one large county that took part in the research, however, provides some sense of scale and cost.

12.3 They identified that there were five children across the county in maintained special schools who each attracted the top band of top-up payments (in the range of £36,000 to £61,000). The same authority had 13 children and young people placed in NMSSs at an average top-up cost of £52,000 and 237 children and young people in independent special schools at an average top-up of £55,000. The cost of the most expensive provision was over £180,000 per year. While it may not be the case that all the children and young people placed in independent and non-maintained special schools had very high levels of complex need, as on occasions there may be other reasons for making such a placement, nonetheless it is likely that a high proportion had very high-need, low-incidence SEN. In the authority in question these children and young people (in the highest special school top-up band, in NMSSs and in independent special schools) represented around 0.2% of the total 0-19 population and 3.7% of the total number of children identified as having SEN. They accounted for around a quarter of the local authority’s expenditure from the high needs block. Another fieldwork authority told us that they spent around 10% of their high-needs budget on residential placements.

12.4 Anecdotally many of the local authorities engaged in the research told us that they believed that, with advances in treatment and higher survival rates for very premature babies, they were seeing increasing numbers of children with very high-need, low-incidence SEN. A number of areas were engaged with health colleagues in compiling joint strategic needs assessments, which they expected to provide more concrete data over time.

12.5 Through our fieldwork we tried to reach a view as to how well the SEN funding system served this very specific group of children and young people, and what challenges local authorities faced in funding appropriate provision for them. The evidence we gathered suggested that while it is not universally the case, in many areas there is a reasonably good flow of information from health teams to local authorities, enabling early identification and planning for children with very complex needs. For example, one children's commissioning lead for health whom we interviewed as part of our fieldwork explained how midwifery and health visiting services were able to provide information to local authority colleagues on children with birth-related conditions and projections on numbers of children with disabilities in order to facilitate the effective planning of provision and support.

12.6 We spoke to a small number of parents of children with very complex needs who generally reinforced this view. One mother described how she received the first visit from an educational psychologist when her son, who had very complex physical and learning disabilities, was three weeks old and how important the portage service had been locally in helping her to understand the provision on offer and get the right support in place for her child from a very early age. In fact, parents of children with some of the most severe SEN spoke very highly of the support that they had been offered. More than one expressed the notion that the more complex your child's needs, the easier it is to access support.

12.7 Despite the positive evidence we heard about improvements in information sharing and in many cases the excellent quality of support on offer for the children with highest needs, our research identified two main tensions associated with efficiently funding services for this group of children and young people. The first challenge is that many of the local areas we engaged with were struggling to reach agreement with colleagues in health services over how to split the cost of provision for children and young people with a range of complex needs, which could often only be met outside the local authority in residential provision. To a lesser extent local areas also reported difficulties in levering in social care contributions, although this was generally felt to be easier, particularly when a child was looked after and very clearly fell within the funding responsibilities of social care.

12.8 Where multi-agency funding of placements for children and young people with SEN was working most seamlessly, local areas had set up pooled budget agreements. These tended to be long term, in one case a three-year agreement, and provided a funding pot from which joint placements could be commissioned. Criteria on splitting the costs of placements between education, health and social care were normally agreed in advance in such cases.

12.9 Where pooled budgets had not been set up there was still evidence of some good practice in areas which used a Complex Care Panel arrangement, plus systematic implementation of the NHS continuing care assessments to agree the financial

contribution of different partners to packages of education, care and health interventions on an individual basis. In general there was a view that the introduction of the EHCP process was facilitating better dialogue with health services at all levels of the system.

12.10 However, these examples of the system working in a truly joined-up fashion were the exception rather than the rule. Effective joint funding with health services, and to a lesser extent social care, was one of the key challenges raised by local authorities in our fieldwork. Many local areas described how they struggled to apportion costs consistently between health, social care and education, particularly where these related to the purchasing of equipment for use in a school setting, access to therapies (such as speech and language therapy) which have both a health and education component, support for complex mental health needs and the very high costs of some residential care. While these tensions were probably felt most acutely for children and young people with the most complex needs, they were in fact also present for children experiencing lower levels of need but with a significant health component. Local authorities felt that too often the high needs block, and therefore the DSG, was seen as the funder of last resort. In other words the default mechanism was that if agreement could not be reached on a fair apportionment of costs the full cost would be borne by the high needs block. In some areas this was placing real pressure on budgets.

12.11 From the perspective of health colleagues, some of the CCG leads for children to whom we spoke confessed to feeling exposed on issues of SEND. They felt that they had not received sufficient guidance on what health services should and should not be funding, and consequently recognised that decision-making was neither as prompt nor as consistent as it should be.

### **Joint commissioning for complex cases – Herefordshire**

Herefordshire benefits from a long-standing agreement between education, health and social care for apportioning costs for the most complex cases. All residential placements are referred to the complex needs panel for discussion, as are all tribunal decisions that result in residential or additional care/health provision. The panel is chaired by a local authority assistant director and includes representatives from each of the agencies. They have had a section 75 pooled budget agreement in place for five years to provide a commissioning pot for complex cases and residential placements and an agreement, which has been in place for over a decade, that the DSG meets 3/7 of the costs of each placement, children's social care contributes a further 3/7 of the cost and health contributes 1/7 of the cost. This funding split is currently being reviewed. In addition to complex cases, health contributes to provision for pupils with medical needs in mainstream schools.

12.12 The second issue that our fieldwork exposed was around the challenges associated with effective commissioning for such a small group of children and young

people. This was perhaps best expressed by the East Riding local authority, who explained that only around three or four children with profound and complex needs who need access to short breaks present each year across the local authority. This means that there are few providers locally who are able to meet the needs of such children – with few placements each year it becomes uneconomical for providers to continue to provide these services. This in turn narrows the commissioning options of the local authority and leads to children and young people being placed in residential provision a long way from their families. The East Riding have begun to address this issue through joint commissioning with neighbouring local authorities, but were very much of the view that a more systematic approach would be of benefit to them and others. The evidence gathered from our fieldwork more generally suggested that similar challenges around scale could also frustrate commissioning of very specialist education provision.

## **The options we considered to improve how the system works**

12.13 Based on the challenges outlined above, we have explored a number of options, set out below, for how the allocation of funding and the commissioning of support for children and young people with the most complex forms of SEN might be improved.

### **Joining up funding between health and education**

12.14 Despite the fact that joint commissioning duties are set out in the Children and Families Act 2014, it is clear that the most pressing concern in this area is to improve the consistency with which education and health budgets are joined up so that it happens systematically, rather than exceptionally. There is a range of ways that this might be achieved, some of which require only small scale incremental changes while others would demand a co-ordinated national approach. In terms of actions that would be relatively easy to implement, finding ways to publish and disseminate examples of effective joint funding in a format that is useful for both local authorities and health counterparts would potentially help move the system forward. Evidence from CCG leads also suggests that clearer guidance from NHS England, possibly jointly created and published with the DfE, would be beneficial. Local authorities would also value definitive national guidance on expenditure that the DSG should not fund as a way of challenging the assumption that the high needs block is the “funder of last resort”. Should these lighter touch measures prove insufficient to move the system forward then DfE and DH may jointly wish to consider whether a proportion of local health budgets might be “hypothecated” for SEN provision, in a similar way to notional SEN budgets, as a way of demonstrating that funding for SEN is in health budget allocations and should be spent accordingly.

### **Supporting sub-regional commissioning of specialist places**

12.15 Addressing the shortage of good local provision for children with the most complex needs is often beyond the ability of a single authority because the numbers of children

concerned are too small. This is a facet of the SEN funding system which might be greatly improved by a systematic regional or sub-regional approach to commissioning.

12.16 The experience of successful regional working is at present, however, very patchy. Some local authorities are plugged into cohesive regional networks around SEN, and these might be the place to stimulate pathfinder activity around co-ordinated specialist place commissioning. In many cases, however, regional networks for SEN lack the kind of infrastructure, or indeed buy-in, to make regional commissioning a reality. One or two areas even reported having more success in negotiating block contracts individually than they had in joining a sub-regional group. We would therefore advocate building on those areas with a successful history of regional or sub-regional collaboration to pilot opportunities around joint commissioning, and there may be opportunities to build on the SEND regional networks which DfE is funding in 2015 to 2016. This would be a low-risk way to test the benefits of a regional or sub-regional approach without requiring the immediate creation of a new infrastructure.

### **Helping local authorities manage the uneven profile of demand**

12.17 One of the issues raised by a number of national stakeholders whom we engaged in the research was whether local authorities, and particularly smaller local authorities, were able to manage the uneven profile of demand for highly-specialist places and services given their high cost. A difference between one year and the next of four children with very high needs could lead to a cost difference of around £500,000 which is potentially difficult to accommodate in a relatively small high-needs budget.

12.18 The impression that we received from the local authorities to whom we spoke was that, despite the high costs of meeting the needs of this group of children and young people, generally they were able to plan their provision and manage their high-needs budget accordingly. We believe that this is a situation which should be kept under review, and possibly explored on a wider scale than has been possible within the remit of this research. If the government were to decide to implement a hard national funding formula for schools, then the effective ring-fencing of the high needs block may lead to additional pressures on high-cost services for which demand is uneven.

12.19 A number of ideas were put to us for system-level changes that might be made to mitigate this risk. One idea put forward is that an “element 4” of the SEN funding system could be created specifically to fund provision for very high-need low-incidence SEN. This would involve top-slicing local budgets to create either a regional or national pot of money responsible for both commissioning and funding highly-specialist provision. Having considered this idea carefully we believe that it presents two major drawbacks which outweigh the potential benefits. The first is that creating any kind of threshold in the system encourages identification above the threshold in order to “move costs” into a different part of the system. This drives inflationary pressures and also leads to the over-assessment of children’s needs. The second issue risk is that assessment,

commissioning and placing decisions become far removed from the child and family, leading to delays and an unresponsive system.

12.20 A second similar idea was put to us that local authorities might insure against the incidence of above-average numbers of children with very complex needs in order to enable local authorities to hold less money as a contingency or in reserve for dealing with unexpectedly high levels of need. This was based on the experience of one London borough. This proposition is intrinsically attractive. However, few of the local authorities engaged in our research reported being “taken by surprise” by children and young people presenting with very complex needs apart from when they relocated from other areas. And none reported holding large sums of money in reserve to manage spikes in need. This feels like an area where more information is needed, beyond the 13 local areas engaged in this research, to identify whether there is a real issue which better use of local insurance mechanisms could address.

12.21 A third idea to which we were attracted was the possibility of including a “lump sum” factor in the high-needs funding formula specifically for small local authorities. The logic behind this proposal is that it is the smaller authorities that are most likely to see significant year-on-year changes in demand for highly-specialist placements and services, and for which the resulting proportional impact on the budget is likely to be greatest. We believe that there would be merit in considering this alongside any more detailed modelling work that would need to be done, prior to introducing a formula-based high-needs allocation.

## Our proposals

**The DfE should consider publishing joint guidance with the Department of Health and NHS England that clearly describes the role of CCG leads in SEN and sets out which aspects of provision should normally be funded by education services and which should be funded by health services.**

12.22 Our fieldwork suggests that such guidance, if clearly and unambiguously constructed, and endorsed by both funding departments, would go a long way to relieving some of the current frustrations and tensions in the system. Should publishing guidance of this nature not lead to the desired shift in behaviour, the two departments may consider whether there would be a way of hypothecating a proportion of a local area’s health budget for SEN – essentially creating a non-ring-fenced SEN budget for health based on predicted levels of need.

**The DfE should consider piloting sub-regional or regional approaches to joint strategic commissioning of provision for very high-need low-incidence SEN.**

12.23 Establishing and monitoring some controlled pilot activity, in areas where there is a history of successful collaboration, would test whether such an approach has the capacity to deliver significant benefits in terms of the quality, quantity and cost-effectiveness of local highly-specialist provision. If the pilots were successful they would provide a model for establishing or incentivising more systematic regional or sub-regional partnerships on a national basis.

## Chapter 13: Conclusions

13.1 In carrying out this research we have been afforded a fascinating insight into a system in transition. At a macro-level, of course, greater school autonomy and the drive towards a schools-led approach to system improvement continue to redefine relationships between national government, local government and schools. Against this backdrop, the policy and legislative framework for supporting children and young people with SEN has been rewritten. The creation of a single SEN system from birth to 25 is opening up new commissioning conversations and dialogue with providers and parents: colleges, which have been autonomous since 1992, are creating afresh their relationships with local authorities and an increasingly diverse and independent early years sector is rising to the challenge, and opportunity, of earlier intervention. In the context of these changes, funding arrangements for pupils and students with SEN have been reformed. It is important to recognise that, at the point that this research was carried out, the changes in SEN funding arrangements were only in their second year of implementation, and a year ahead of the SEND reforms introduced under the Children and Families Act 2014.

13.2 Given this backdrop of systemic change, we recognise that any proposals that we put forward for further changes to SEN funding should support the direction of travel on which national and local government, schools, colleges and early years settings, and young people and their families have embarked. The question we have posed throughout is: to what extent do the current SEN funding arrangements enable those providing education to children and young people with SEN to fulfil the intentions of the SEND policy reforms and the principles underlying the new SEND Code of Practice? In the words of the green paper, *Support and Aspiration*, do the current SEN funding arrangements support better life outcomes for children and young people, give parents confidence by giving them more control, and transfer power to professionals and communities?

13.3 We were asked, at the outset of this research, to consider the reasons for the differences between spending patterns in local authorities. Although, in any single area, the factors which shape spending on children and young people with SEN are both complex and multiple, at a higher level it is possible to see four main drivers at play. First, and perhaps self-evidently, the demographic context of an area has a profound impact on the level of need, and consequently the need to spend. Second, parental preference is a critical driver of the nature and quantity of different types of provision available in a local area which shapes how and where money is allocated. However, parental preference is not immutable. It is influenced strongly by the quality of relationships and dialogue between parents, providers and authorities. Third, the capacity and ability of all types of provider in a local area to provide high-quality education for children and young people with SEN, and the readiness of those providers to work together in support of a common endeavour to improve outcomes for all children and young people with SEN, has a very significant bearing on how funding is distributed. Finally, the strategic decisions that local

authorities themselves make about how they will seek to meet the needs of children and young people with SEN, the pattern of provision that they have, or will, put in place and the centrally commissioned support on offer provide the final element of the equation.

13.4 We were also asked to report on how well the current SEN funding arrangements were working. In this document, we have focused on the mechanics of funding in relation to national-to-local distribution, early years, mainstream schools, special schools, post-16 providers and top-up funding and identified areas that are working well and what is proving more challenging. It is important, however, that in focusing on the detail we do not lose sight of the big picture. While there remain a number of areas in which the SEN funding system is not yet working as well as it could, the fundamental ideas that underpinned the 2013 funding reforms have undoubtedly moved the system forward in a positive way.

13.5 An effective SEN funding system needs to achieve a balance between two opposing aims. On the one hand the needs of the child or young person are paramount, which suggests that budgets should be individual, flexible and follow the learner. On the other hand, children and young people need thriving institutions in which to learn, which requires budgets to be stable, predictable, consistent and fair. The reforms of high-needs funding introduced in 2013 created a system which, in terms of its fundamental structure, seeks to strike an appropriate balance. To ensure stability, consistency, transparency and fairness, the first £10,000 of funding for every child or young person with SEN is in providers' base budgets. This enables good financial planning and, crucially, decisions about core provision to be taken quickly and close to the child or young person. The top-up element provides the individual flexibility that enables funding to respond more precisely to more complex needs and to how those needs might change over time. This basic distinction between core or place funding and top-ups, and the introduction of a consistent national threshold across all types of provider, is a strong element of this new system. Arguably, it is just beginning to take hold and enable more effective, outcomes-focused planning and support. For these reasons, we have sought to reinforce this principle wherever possible in the options for future change that we have described.

13.6 We have also recognised that both the funding reforms and the SEND reforms have sought to create a system that supports young people with SEN effectively from birth to 25. Vital to achieving this is ensuring that the funding arrangements for different phases and sectors are aligned, and institutions are funded on an equivalent basis. In chapters 7, 8, 9 and 10, we have set out in detail our proposals for reforming the existing funding arrangements in both mainstream and specialist settings in the early years sector, schools and post-16 institutions. Figure 8 below summarises how we envisage these proposals fitting together to support an integrated, effective planning, commissioning and funding system that supports young people with SEN from birth to 25.

13.7 Put simply, the figure shows that mainstream settings across the early years, school and post-16 sectors would be expected to contribute up to an agreed level to the support of young people with SEN. For schools and post-16 institutions, this level would be the first £6,000 of the costs of additional support. For early years settings, for the reasons set out in chapter 8, this threshold may differ according to the make-up of the local early years sector and will need to be agreed by the local authority and early years providers. The figure also shows that all designated specialist SEN places would be funded at £10,000 per planned place. This is intended to be equivalent to what a mainstream setting would provide from their core budget – £4,000 as the average per-pupil or per-student funding, plus the first £6,000 of the cost of additional support. For places designated in early years settings, resourced provisions and units in mainstream schools, and special schools, local authorities would play a direct role in planning and commissioning these places. For designated places in NMSSs, SPIs, and resourced provisions and units in post-16 institutions, the EFA would play a small co-ordinating role, informed by local authority planning decisions.

**Figure 8: Equivalent funding for young people with SEN aged from birth to 25**



13.8 Overall we have made 17 proposals for the DfE to consider on how the SEN funding system might be improved in future. These fall into three different categories.

13.9 First, we have made a set of proposals that are essentially about **shining a light on effective practice and on how the current system is intended to work**. None of these proposals require changes to the funding mechanisms; they just require a different level of communication about funding. In some cases this is about national government providing clarity about expectations where this is currently lacking. For example, we have suggested that the DfE should develop and publish a set of principles or minimum

standards for the effective operation of top-up funding. In other cases, we have suggested that national government should play a role in promulgating good practice and promoting an understanding of what works well. For example, we have proposed that the DfE might set out, through online resources, a reminder of the ways in which local authorities can fund SEN provision in pre-school settings. Indeed, much of what we are suggesting under this heading could be achieved by bringing together in a more accessible way elements of the information and guidance that has been issued since 2012 and providing greater clarity where there are currently gaps in understanding.

13.10 Equally, local government has a role to play in clearly communicating aspects of local provision. For example we have advocated greater local transparency in what all mainstream schools are providing for children and young people with SEN and arrangements for top-up funding. We believe this will empower families, communities and providers, and create a positive pressure where currently inequities may exist within or between local systems.

13.11 Second, we have made a set of proposals which are designed to **improve the way in which funding is allocated to make it either fairer, more transparent or to ensure that it is better targeted at need**. We have examined the case for a fundamental change in how the high needs block is allocated from central to local government, moving from a system based on historic spending patterns to a formula-based allocation. We have also suggested including an additional factor or factors in the school-level funding formula to ensure that SEN is sufficiently accounted for in schools' base budgets. In parallel, we are advocating an extension of a reformed pre-16 funding model for SEN into post-16 provision to reduce perverse incentives, create greater consistency across the phases of education, and facilitate transition.

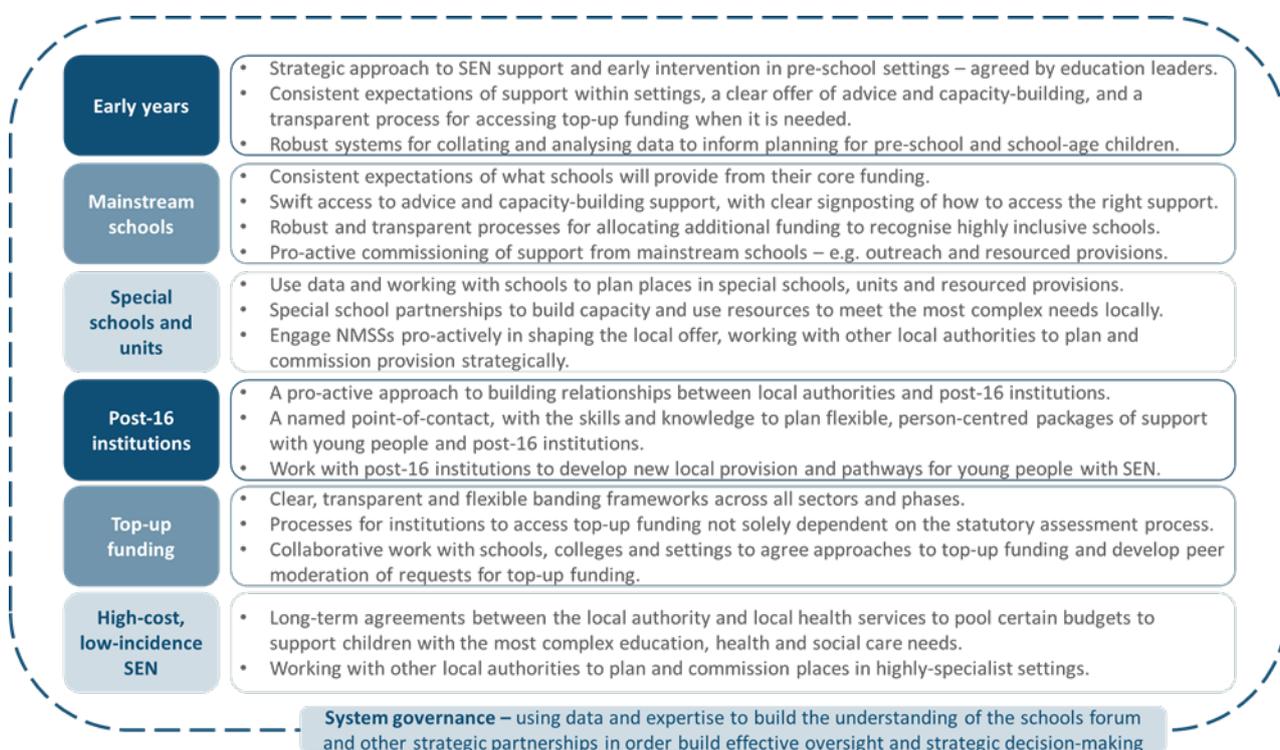
13.12 Third, we have set out a number of proposals which are intended to **enable better decision-making by frontline professionals**. We are proposing a much clearer role for local authorities in commissioning places in special schools, resourced provisions and colleges. We believe that this has the potential to support more strategic planning of provision that will meet the needs of children and young people more effectively and deliver better value for money over the medium term. We have also argued that the concept of a notional SEN budget for schools does not support, and at times may even frustrate, secure budget planning for meeting the needs of children and young people with SEN. We have suggested, therefore, that the funding system may work better without this aspect.

13.13 The way funding is allocated and the rules that govern how it may be used incentivise particular forms of behaviour. When the funding system is working well, the behaviour it encourages can make a positive contribution to outcomes for young people. There is growing evidence of the positive contribution that the current SEN funding system is having. In developing our proposals we have drawn on examples of

outstanding, innovative or promising local practice that we encountered during our fieldwork, some of which are profiled briefly in the case studies included in this report.

13.14 We saw how local authorities had engaged in a constructive dialogue with their schools, colleges and early years settings to define more precisely and consistently how funding should relate to need. We saw evidence of higher-order commissioning discussions that were reshaping provision to serve local communities more effectively. We saw how strategic planning and investment in outreach to early years settings was supporting early intervention. We saw how individual mainstream schools were working with parents to reinvent how they could best provide support for children and young people with SEN from within their base budgets. We saw special schools working together to moderate the allocation of top-up funding and ensure that it was fair and transparent. We saw post-16 providers working with local systems to develop new forms of effective provision for young people with SEN.

**Figure 9: How the most effective local education systems arrange their SEN funding**



13.15 The challenge is now how best practice can become common practice. We hope that the ideas and suggestions put forward as a result of this research will provide a means to redress some of the remaining barriers and a vehicle for building on the fundamental strengths of the existing system.

## Glossary

AWPU – age-weighted pupil unit

CCG – clinical commissioning group

CWI – Child Wellbeing Index

CLG – Department for Communities and Local Government

DfE – Department for Education

DH – Department of Health

DLA – disability living allowance

DSG – dedicated schools grant

DWP – Department for Work and Pensions

EFA – Education Funding Agency

ELGs – early learning goals

EYFS – early years foundation stage

FE – further education

FSM – free school meals

HES – hospital episode statistics

HMRC – HM Revenue and Customs

ID – indices of deprivation

IDACI – Income Deprivation Affecting Children Index

LDA – learning difficulty assessment

NEET – not in education, employment or training

NHS – National Health Service

NMSS – non-maintained special school

ONS – Office for National Statistics

PVI – private, voluntary or independent (pre-school setting)

SEN – special educational needs

SEND – special educational needs and disability

SENCO – special educational needs co-ordinator

SPI – special post-16 institution, sometimes also known as independent specialist college or independent specialist provider

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## Annex A: Long list of potential explanatory indicators by theme

### Deprivation theme indicators

The table below identifies the long list of indicators on poverty and deprivation, which we identified for potential use in an SEN funding model, or validation of any model.

| Indicator   | Detail  | Source                                       | Date          |
|---|---|--|---------------|
| Children in poverty (aged 0-15)   | All dependent children who live in households in receipt of low income benefits or whose equivalised income is below 60% of the contemporary national median.   | HMRC   | 2012          |
| Children in poverty<br><br>End Child Poverty definition   | As per the HMRC child poverty measure, the End Child Poverty measure also uses tax credit data but models this data forward using regional trends in worklessness to estimate recent changes in the number of children who are in poverty because their parents have lost their jobs, to update the local tax credit data.  | The Children's Society and End Child Poverty | 2014          |
| Children in out of work families  | Children in households where adults are receiving out of work benefits (Income Support, Employment and Support Allowance, Jobseekers Allowance, Incapacity Benefit).  | HMRC   | December 2013 |
| Households with dependent children where no adults are in employment  | Self-reported census measure of households containing dependent children where no adults are in employment.   | Census 2011                                  | 2011          |
| Households with dependent children where one person in household has a long-term health problem or disability | Self-reported census measure of households containing dependent children where no adults are in employment.   | Census 2011                                  | 2011          |
| Child Wellbeing Index (CWI) average score   | Child Wellbeing Index (CWI). The CWI is a small area index of multiple deprivation for children. The index measures child wellbeing – how children are doing in a number of different aspects of their life. The index covers the major domains of a child's life that have an impact on child wellbeing and that are available for Lower Super Output Areas in England. The CWI is made up of seven domains: Material wellbeing – children experiencing income deprivation; Health and disability – children experiencing illness, accidents and disability; Education – education | Communities and Local Government (CLG)       | 2009          |
| CWI average rank  |   | CLG  | 2009          |
| CWI: Material wellbeing average score   |   | CLG  | 2009          |

| Indicator  | Detail  | Source | Date |
|--|---|--------|------|
| CWI: Health and disability average score                           | outcomes including attainment, school attendance and destinations at age 16: Crime – personal or material victimisation of children: Housing – access to housing and quality of housing for children; Environment – aspects of the environment that affect children’s physical wellbeing; Children in need – vulnerable children receiving local authority services.  | CLG    | 2009 |
| CWI: Education average score                                       |   | CLG    | 2009 |
| CWI: Crime average score   |   | CLG    | 2009 |
| CWI: Housing average score   |   | CLG    | 2009 |
| CWI: Environment average score                                     |   | CLG    | 2009 |
| Pupils both eligible for and in receipt of free school meals (FSM) | <p>Pupils in secondary schools both eligible for and in receipt of FSM. All pupils secondary schools could get free school meals if their household receives one of the following benefits:</p> <ul style="list-style-type: none"> <li>• Income Support (IS)</li> <li>• Income Related Employment and Support Allowance (ESA-IR)</li> <li>• Income Based Jobseeker’s Allowance (IB-JSA)</li> <li>• Support under part VI of the Immigration and Asylum Act 1999</li> <li>• Guarantee element of State Pension Credit</li> <li>• Child Tax Credit and are not entitled to Working Tax Credit and annual income, as assessed by HMRC, does not exceed £16,190</li> <li>• Working Tax Credit ‘run on’ – the payment received for a further four weeks after a parent/carer stops qualifying for Working Tax Credit.</li> </ul> | DfE    | 2014 |

### Attainment and educational development theme indicators

The table below identifies the long-list of indicators on pupil attainment (early years foundation stage and key stage 2), which we have identified for potential use in an SEN funding model, or validation of any model. Each of the indicators is described, with source and date.

| Indicator   | Detail  | Source                         | Date |
|---|---|--------------------------------|------|
| Early years foundation stage (EYFS) % achieving early learning goals (ELGs) – Listening and attention | This dataset provides information about the EYFS profile results for pupils in all schools and early years settings in England and who are resident in England. The EYFS profile measures children’s progress in terms of personal, social and emotional development and communication, language and literacy | Department for Education (DfE) | 2014 |
| EYFS % achieving  |   |                                |      |

| Indicator   | Detail  | Source | Date |
|---|---|--------|------|
| ELGs – Understanding  | <p>under a number of key measures. The data here shows the % achieving 'At least expected' in ELGs under each of these measures. EYFS typically covers five-year-old pupils in their first year at school; however, a minority of slightly older and younger pupils may have been assessed. Figures are teacher assessed with some external moderation.</p> |        |      |
| EYFS % achieving ELGs – Speaking                            |   |        |      |
| EYFS % achieving ELGs – Moving and handling                 |   |        |      |
| EYFS % achieving ELGs – Health and self-care                |   |        |      |
| EYFS % achieving ELGs – Self-confidence and self-awareness  |   |        |      |
| EYFS % achieving ELGs – Managing feelings and behaviour     |   |        |      |
| EYFS % achieving ELGs – Making relationships                |   |        |      |
| EYFS % achieving ELGs – Reading                             |   |        |      |
| EYFS % achieving ELGs – Writing                             |   |        |      |
| EYFS % achieving ELGs – Numbers                             |   |        |      |
| EYFS % achieving ELGs – Shape, space and measures           |   |        |      |
| EYFS % achieving ELGs – People and communities              |   |        |      |
| EYFS % achieving ELGs – The world                           |   |        |      |
| EYFS % achieving ELGs – Technology                          |   |        |      |
| EYFS % achieving ELGs – Exploring using media and materials |   |        |      |
| EYFS % achieving ELGs – Being imaginative                   |   |        |      |

| Indicator  | Detail  | Source | Date |
|--|---|--------|------|
| Key stage 2 (KS2):<br>Pupils achieving level 4+                            | KS2 is the stage of the national curriculum between the ages of eight and 11 years. This indicator relates to tests taken by 11-year-olds at the end of KS2. Pupil attainment is assessed in relation to the national curriculum and pupils are awarded levels on the national curriculum scale to reflect their attainment of level 4 – the benchmark level of attainment.   | DfE    | 2014 |
| Key stage 1 (KS1):<br>Pupils achieving level 2 or below in reading         | KS1 is the stage of the national curriculum between the ages of five and seven. This indicator relates to tests taken by seven-year-olds at the end of KS2. Pupil attainment is assessed in relation to the national curriculum and pupils are awarded levels on the national curriculum scale to reflect their attainment of level 2 – the benchmark level of attainment.  | DfE    | 2014 |
| KS1: Pupils achieving level 2 or below in writing                          |   |        |      |
| KS1: Pupils achieving level 2 or below in maths                            |   |        |      |
| Key stage 4: Pupils achieving five or more GCSE grades A*-C                | KS4 is the stage of the national curriculum between the ages of 14 and 16. This indicator relates to GCSE tests taken by 15- to 16-year-olds at the end of KS4. Pupil attainment is assessed in relation to the national curriculum and pupils are awarded levels on the national curriculum scale to reflect their attainment. Achievement of five or more grades A*-C a benchmark level of attainment. Pupils achieving five or more grades A*-C including in English and in maths represents a basic pass at GCSE level. Figures are based on location of pupil residence. Average point score is a measure of the average attainment of pupils across all subjects for pupils resident in the local area. At KS4, average point score is made up of all GCSE examinations sat, with a point score of 58 awarded to those receiving and A*, 52 for those with an A, 46=B, 40=C, 34=D, 28=E, 22=F, 16=G. These scores are added up for all pupils and all subjects and divided by the number of pupils in the area. | DfE    | 2014 |
| Pupils achieving five or more GCSE grades A*-C including English and maths |   |        |      |
| Pupils achieving five or more GCSE grades A*-G                             |   |        |      |
| Average point score at GCSE  |   |        |      |
| Year 1 pupils with required standard of phonics decoding                   | <p>The phonics screening check is a short, simple assessment to make sure that all pupils have learned phonic decoding to an appropriate standard by the age of six. All year 1 pupils in maintained schools, academies and free schools must complete the check.</p> <p>The phonics check will help teachers identify the children who need extra help so they can receive the support they need to improve their reading skills. These children will then be able to retake the check in year 2. The check</p>  | DfE    | 2014 |

| Indicator | Detail  | Source | Date |
|-----------|---|--------|------|
|           | comprises a list of 40 words and non-words which the child will read one-to-one with a teacher. |        |      |

### Health theme indicators

The table below identifies the initial set of key health indicators, which we have identified for potential use in an SEN funding model, or validation of any model. Each of the indicators is described, with source and date.

| Indicator  | Detail   | Source                               | Date         |
|--|--|--------------------------------------|--------------|
| Low birth weight (% of live births under 2.5kg )       | The low birth weight count is the number of live and still births occurring in the year with a stated birth weight greater than 0 and less than 2,500 grams for all maternal ages. The denominator is all live and still births occurring in a year with a valid stated birth weight for all maternal ages. The figures presented here are expressed as percentages of total births with a stated birth weight.  | Office for National Statistics (ONS) | 2013         |
| Smoking at time of delivery                            | Women smoking at time of delivery, as a percentage of women whose smoking habits at time of delivery status are known.   | Department of Health                 | 2011 to 2012 |
| Breastfeeding initiation                               | <p>Since April 2003, data on the local breastfeeding initiation has been requested on a quarterly basis. This information provides more timely, frequent and local information on breastfeeding initiation than the Infant Feeding Survey. The information is collected as part of the Vital Sign Monitoring Return (VSMR) via the data collection tool that is part of Unify2, a web-based system set up by the Department of Health to collect performance and other central returns directly from the NHS. The figures are typically obtained from midwives in acute trusts and information recorded at deliveries. For breastfeeding initiation, actual figures for the quarter and the year-to-date and forecasts for the year as a whole are submitted for the following three items:</p> <ul style="list-style-type: none"> <li>• the number of maternities;</li> <li>• the number of mothers initiating breastfeeding; and</li> <li>• the number of mothers not initiating breastfeeding.</li> </ul> | Department of Health                 | 2011 to 2012 |
| Totally and partially breastfed at 6-8 weeks (2011/12) | Since April 2008, data on the local prevalence of breastfeeding at 6-8 weeks has been requested on a quarterly basis. This is in addition to data collected on initiation of breastfeeding. The information is collected as part of the VSMR via the data collection tool that is part of Unify2, a web-based system set up  | Department of Health                 | 2011 to 2012 |

| Indicator   | Detail   | Source   | Date         |
|---|--|--|--------------|
|   | <p>by the Department of Health to collect performance and other central returns directly from the NHS. The figures are typically derived from information recorded at infants' 6-8 week check.</p> <p>For breastfeeding prevalence, actual figures for the quarter and the year-to-date and forecasts for the year as a whole are submitted for the following four items:</p> <ul style="list-style-type: none"> <li>• the number of infants due a 6-8 week check in each quarter;</li> <li>• the number of infants being "totally" breastfed (defined as infants who are exclusively receiving breast milk at 6-8 weeks of age – that is, they are NOT receiving formula milk, any other liquids or food);</li> <li>• the number of infants being "partially" breastfed (defined as infants who are currently receiving breast milk at 6-8 weeks of age and who are also receiving formula milk or any other liquids or food); and</li> <li>• the number of infants being "not at all" breastfed (defined as infants who are not currently receiving any breast milk at 6-8 weeks of age).</li> </ul> |  |              |
| Births to mothers aged 40+                                  | Live births by age of mother when giving birth. Data is based on mother's usual residence.   | ONS  | 2011 to 2012 |
| Excess weight in 4-5 year olds                              | Number of children aged 4-5 and year 6 (aged 10-11 years) classified as overweight or very overweight in the academic year as percentage of all children with height and weight recorded. Children are classified as overweight (including very overweight) if their body mass index (BMI) is on or above the 85th centile of the British 1990 growth reference (UK90) according to age and sex. Results obtained from National Child Measurement Programme covering children attending participating state maintained schools in England.   | The Health and Social Care Information Centre (IC) | 2011 to 2012 |
| 2011 to 2012 (Obese and overweight prevalence – year 6 (%)) |  |  | 2011 to 2012 |
| Children in 'not good health'                               | Self-reported census measure of children aged 0-15 in not good health.   | Census 2011  | 2011         |
| Admission of babies aged under 14 days                      | Figures are taken from hospital episode statistics (HES). HES is a data warehouse containing details of all admissions, outpatient appointments and A&E attendances at NHS hospitals in England. This data is collected during a patient's time at hospital and is submitted to allow hospitals to be paid for the care they deliver. HES data is designed to enable secondary use, which is use for non-clinical purposes, of this administrative data. It is a records-based system that covers all NHS trusts in England. HES information is stored as a large collection of separate records – one for each period of care – in a secure data warehouse.   | HES  | 2011 to 2012 |
| A&E attendances (age 0-4 years)                             |  | HES  | 2011 to 2012 |

| Indicator  | Detail   | Source | Date         |
|--|--|--------|--------------|
| Hospital admissions for mental health conditions (under 19 years), rate per 100,000 population | Inpatient admissions 0-17 years for mental health disorders. First finished episodes for all persons aged 0-17 years with primary diagnosis ICD-10 codes F00 to F99. | HES    | 2012 to 2013 |

### Disability theme indicators

The table below identifies the initial set of key indicators on children with disabilities published at local authority level, which we have identified for potential use in an SEN funding model, or validation of any model. Each of the indicators is described, with source and date.

| Indicator  | Detail   | Source                                 | Date     |
|--|--|--|----------|
| Disability living allowance (DLA) aged 0-15: Total     | DLA is payable to people who become disabled before the age of 65, who need help with personal care or have walking difficulties because they are physically or mentally disabled. People can receive DLA whether they are in or out of work. It is non-means-tested and is unaffected by income or savings of the claimant. Data is now available based on main disabling condition at local authority level. | Department for Work and Pensions (DWP) | May 2014 |
| DLA aged 0-15: Disease of the muscles, bones or joints |  |  |          |
| DLA aged 0-15: Blindness                               |  |  |          |
| DLA aged 0-15: Deafness                                |  |  |          |
| DLA aged 0-15: Heart disease                           |  |  |          |
| DLA aged 0-15: Cystic fibrosis                         |  |  |          |
| DLA aged 0-15: Epilepsy                                |  |  |          |
| DLA aged 0-15: Neurological Diseases                   |  |  |          |
| DLA aged 0-15: Diabetes mellitus                       |  |  |          |
| DLA aged 0-15: Learning difficulties                   |  |  |          |
| DLA aged 0-15: Behavioural disorder                    |  |  |          |
| DLA aged 0-15: Hyperkinetic syndromes                  |  |  |          |
| DLA aged 0-15: Bowel and stomach disease               |  |  |          |
| DLA aged 0-15: Skin disease                            |  |  |          |

| Indicator  | Detail  | Source                         | Date |
|--|---|--------------------------------|------|
| DLA aged 0-15: Malignant disease                     |   |                                |      |
| DLA aged 0-15: Severely mentally impaired            |   |                                |      |
| Children in Need: Disabled children                  | <p>Children assessed to be in need or at risk by children's social care services. The figures are compiled from the Children in Need census. The census also includes breakdowns of those with disabilities by disabling condition.</p> <p>All data are rates per 1,000 children.</p> | Department for Education (DfE) | 2014 |
| CIN: Autism/ Asperger syndrome                       |   |                                |      |
| CIN: Behaviour disability                            |   |                                |      |
| CIN: Communication disability                        |   |                                |      |
| CIN: Consciousness disability                        |   |                                |      |
| CIN d: Hand function disability                      |   |                                |      |
| CIN: Hearing disability                              |   |                                |      |
| CIN: Incontinence disability                         |   |                                |      |
| CIN: Learning disability                             |   |                                |      |
| CIN: Mobility disability                             |   |                                |      |
| CIN need: Personal care disability                   |   |                                |      |
| CIN: Vision disability                               |   |                                |      |
| CIN: Other disability                                |   |                                |      |
| Day-to-day activities "limited a lot" (aged 0-15)    | Self-reported measures from census of those who would describe day-to-day activities as being limited a little or a lot by disability or health condition.  | Census 2011                    | 2011 |
| Children with limiting long-term illness (aged 0-15) |   |                                |      |

## Annex B: Short list of potential explanatory indicators

The table below shows the short list of potential explanatory indicators on which the regression analysis was carried out.

| Indicator  | Detail   | Source                                 | Date   |
|--|--|--|--------|
| Children in poverty (aged 0-15)/Out of work families               | All dependent children who live in households in receipt of low income benefits or whose equivalised income is below 60% of the contemporary national median.  | HMRC                                   | 2012   |
| Pupils both eligible for and in receipt of free school meals (FSM) | <p>Pupils in secondary schools both eligible for and in receipt of FSM. All pupils secondary schools could get free school meals if their household receives one of the following benefits:</p> <ul style="list-style-type: none"> <li>• Income Support (IS)</li> <li>• Income Related Employment and Support Allowance (ESA-IR)</li> <li>• Income Based Jobseeker's Allowance (IB-JSA)</li> <li>• Support under part VI of the Immigration and Asylum Act 1999</li> <li>• Guarantee element of State Pension Credit</li> <li>• Child Tax Credit and are not entitled to Working Tax Credit and annual income, as assessed by HMRC, does not exceed £16,190</li> <li>• Working Tax Credit 'run on'- the payment received for a further four weeks after a parent/carer stops qualifying for Working Tax Credit.</li> </ul> | DfE                                    | 2014   |
| Disability living allowance (DLA) aged 0-15: Total                 | <p>DLA is payable to people who become disabled before the age of 65, who need help with personal care or have walking difficulties because they are physically or mentally disabled. People can receive DLA whether they are in or out of work. It is non-means-tested and is unaffected by income or savings of the claimant. Data is now available based on main disabling condition at local authority level.</p>  | Department for Work and Pensions (DWP) | May-14 |
| DLA aged 0-15: Blindness   |  |  |        |
| DLA aged 0-15: Heart disease                                       |  |  |        |
| DLA aged 0-15: Cystic fibrosis                                     |  |  |        |
| DLA aged 0-15: Diabetes mellitus                                   |  |  |        |
| DLA aged 0-15: Learning difficulties                               |  |  |        |
| DLA aged 0-15: Behavioural disorder                                |  |  |        |
| DLA aged 0-15: Hyperkinetic syndromes                              |  |  |        |
| DLA aged 0-15:   |  |  |        |

| Indicator   | Detail  | Source                               | Date         |
|---|---|--------------------------------------|--------------|
| Bowel and stomach disease                                       |   |                                      |              |
| DLA aged 0-15: Malignant disease                                |   |                                      |              |
| DLA aged 0-15: Severely mentally impaired                       |   |                                      |              |
| Low birth weight (% of live births under 2.5kg )                | The low birth weight count is the number of live and still births occurring in the year with a stated birth weight greater than 0 and less than 2,500 grams for all maternal ages. The denominator is all live and still births occurring in a year with a valid stated birth weight for all maternal ages. The figures presented here are expressed as percentages of total births with a stated birth weight.   | Office for National Statistics (ONS) | 2013         |
| Smoking at time of delivery                                     | Women smoking at time of delivery, as a percentage of women whose smoking habits at time of delivery status are known.  | Department of Health                 | 2011 to 2012 |
| Totally and partially breastfed at 6-8 weeks (2011 to 2012)     | <p>Since April 2008, data on the local prevalence of breastfeeding at 6-8 weeks has been requested on a quarterly basis. This is in addition to data collected on initiation of breastfeeding. The information is collected as part of the Vital Sign Monitoring Return (VSMR) via the data collection tool that is part of Unify2, a web-based system set up by the Department of Health to collect performance and other central returns directly from the NHS. The figures are typically derived from information recorded at infants' 6-8 week check.</p> <p>For breastfeeding prevalence, actual figures for the quarter and the year-to-date and forecasts for the year as a whole are submitted for the following four items:</p> <ul style="list-style-type: none"> <li>• the number of infants due a 6-8 week check in each quarter;</li> <li>• the number of infants being "totally" breastfed (defined as infants who are exclusively receiving breast milk at 6-8 weeks of age – that is, they are NOT receiving formula milk, any other liquids or food);</li> <li>• the number of infants being "partially" breastfed (defined as infants who are currently receiving breast milk at 6-8 weeks of age and who are also receiving formula milk or any other liquids or food); and</li> <li>• the number of infants being "not at all" breastfed (defined as infants who are not currently receiving any breast milk at 6-8 weeks of age).</li> </ul> | Department of Health                 | 2011 to 2012 |
| Children in 'not good health'                                   | Self-reported census measure of children aged 0-15 in not good health.  | Census 2011                          | 2011         |
| Key stage 1 (KS1): Pupils achieving level 2 or below in reading | KS1 is the stage of the national curriculum between the ages of five and seven years. This indicator relates to tests taken by seven-year-olds at the end of KS2. Pupil attainment is assessed in relation to the national curriculum and pupils are awarded levels on the national curriculum scale to reflect their   | DfE                                  | 2014         |
| KS1: Pupils achieving   |   |                                      |              |

| Indicator   | Detail  | Source | Date |
|---|---|--------|------|
| level 2 or below in writing                                       | attainment with level 2 the benchmark level of attainment.  |        |      |
| KS1: Pupils achieving level 2 or below in maths                   |   |        |      |
| Key Stage 4 (KS4): Pupils achieving five or more GCSE grades A*-C | KS4 is the stage of the national curriculum between the ages of 14 and 16. This indicator relates to GCSE tests taken by 15- to 16-year-olds at the end of KS4. Pupil attainment is assessed in relation to the national curriculum and pupils are awarded levels on the national curriculum scale to reflect their attainment. Achievement of five or more grades A*-C a benchmark level of attainment. Pupils achieving five or more grades A*-C including in English and in maths represents a basic pass at GCSE level. Figures are based on location of pupil residence. Average point score is a measure of the average attainment of pupils across all subjects for pupils resident in the local area. At KS4, average point score is made up of all GCSE examinations sat, with a point score of 58 awarded to those receiving and A*, 52 for those with an A, 46=B, 40=C, 34=D, 28=E, 22=F, 16=G. These scores are added up for all pupils and all subjects and divided by the number of pupils in the area. | DfE    | 2014 |
| Pupils achieving five or more GCSE grades A*-G                    |   |        |      |
| Average point score at GCSE                                       |   |        |      |
| Year 1 pupils with required standard of phonics decoding          | <p>The phonics screening check is a short, simple assessment to make sure that all pupils have learned phonic decoding to an appropriate standard by the age of six. All year 1 pupils in maintained schools, academies and free schools must complete the check.</p> <p>The phonics check will help teachers identify the children who need extra help so they can receive the support they need to improve their reading skills. These children will then be able to retake the check in year 2. The check comprises a list of 40 words and non-words which the child will read one-to-one with a teacher.</p>  | DfE    | 2014 |

## Annex C: Hypothetical profiles of young people's needs

For our research, we produced a set of profiles of the needs of five hypothetical young people. We invited both local authorities and providers to help us understand how they would meet the needs of the young person, as described in the profile, and to estimate the cost of the support required to meet those needs. The profiles were not designed to be representative of all types of SEN, but rather to home in on those aspects of provision or need which we felt may be contentious or likely to show greater degrees of variability. The profiles provided a constructive vehicle through which to debate how different local education systems, and different providers, respond to similar patterns of need.

### Profile 1. Johnny: medical / physical needs, no learning difficulty

Johnny attends a local secondary school. He is now in year 8. Johnny has always been very excited about his transition to secondary school, especially since he found out that he would be able to join his friends there.

In primary school Johnny was a very keen reader. He enjoyed both science and maths. Johnny left primary school with level 4 across all areas of the curriculum. Since then he has continued to make good progress. He is also becoming much more independent about managing his physical and medical needs.

- Johnny is able to walk 10 meters but only with aids. This means that he is spending a significant part of his day in a wheelchair.
- He is not able to negotiate steps and stairs.
- He can be unstable when sitting down, and therefore needs special sitting arrangements (which have to be regularly reviewed). Johnny is able to reposition himself once seated.
- His physical needs can impact on managing his personal care, especially toileting.
- His fine motor skills have greatly improved and he no longer requires much help with cutting his food but writing is still a challenge.
- Johnny's diabetes is becoming unstable again, hence it needs to be monitored regularly during the day.
- At times Johnny gets very tired, which means that he might have to be withdrawn from lessons to enable him to rest.
- Johnny has a lot of friends. He enjoys singing and is a member of the school choir.

## Profile 2. Kate: moderate learning difficulty

Kate started secondary school six months ago. She is a very happy and friendly girl but has a history of making very slow progress, especially in literacy. This is now having a significant impact on other subjects.

Kate has a very positive attitude to learning and likes to “have a go”. Despite not living locally and therefore not knowing many children, she has already managed to make lots of friends.

Kate is becoming more aware of her difficulties and sometimes is feeling very frustrated and upset about them.

- Kate has some functional literacy skills but they are not sufficiently secure, therefore she finds it difficult to transfer them to other subjects.
- She writes in sentences but her writing is not always legible. Kate finds it difficult to use capital letters and punctuation appropriately.
- Kate is not always able to develop her ideas in writing in a clear and logical way.
- Kate still finds reading difficult. She often struggles to decode unfamiliar words and quickly uses guessing as her main strategy. This has recently had an impact on her confidence in subjects such as history and geography. Kate will often sit passively if unsure. Her parents are very concerned that this will result in the gap in her rate of progress widening.
- Kate feels more confident about maths but still lacks consistency, for example when using a clock.
- Kate can use simple multiplications (up to 20) but finds it difficult to transfer this skill to problem-solving tasks.

## Profile 3. Peter: autism, severe learning difficulty and challenging behaviour

Peter has moved with his family many times over the last few years. This meant different schools, teachers and support staff. When he was three, Peter was diagnosed with autism and global developmental delay.

Peter is now approaching year 5. He is growing bigger and stronger. He does not live too far away from school, which means that mornings are not too difficult for him and his family.

Peter has a range of very complex needs in the area of learning and social communication and interaction.

- He has very limited understanding of language and very limited expressive communication.

- He has severe learning difficulties and working at low P levels across all areas of the curriculum.
- Peter is often (some weeks daily) involved in incidents which may require physical intervention.
- He displays persistently anxious and unpredictable behaviour.
- He is not able to develop appropriate relationships with other children and often prefers to be with adults.
- He is not able to recognise social, environmental or physical risks.
- Peter finds it difficult to deal with change; he often shows signs of distress, which can lead to sudden outbursts of challenging behaviour.

When Peter is at home some of these difficulties do not appear to be as challenging as at school but his parents are concerned that as Peter is getting older they are likely to impact more on their day-to-day life.

## **Profile 4. Grace: Asperger syndrome, mental health difficulties, academically able**

Grace is a very ambitious young woman now in her first year of studying for A levels. Her academic achievements have been greatly celebrated by her previous school and her parents – 12 GCSE grades As and As\* across the board! Grace would like to go to university and become a doctor. She is particularly interested in developing new treatments for rare diseases.

Despite her outstanding academic achievements, Grace does not describe herself as a very happy young person. In the past she found it very difficult to make friends and could not understand why other children did not want to play with her or invite her to parties. As she was getting older some of the disagreements with other children often ended up in violent incidents, which had to be managed by staff. As a result, she was often described by others as a “loner”. Over time some of her difficulties became much more significant. In the last year she had to be hospitalised for developing an eating disorder. She has also begun to display self-harming behaviour. About two years ago Grace received a diagnosis of Asperger syndrome. Her family has been very supportive and tried to help with other difficulties such as:

- being able to organise herself;
- remembering appointments; and
- her routine for personal care and keeping healthy.

Grace has great aspirations for the future but her family worries about how her fragile state of mind can deal with independent and adult life.

## Profile 5. Indy: Language / communication delay, some learning difficulties

Indy is a little boy who loves sport and outdoor activities. He is very active and popular with other boys. Indy recently started year 2.

At school Indy often finds it difficult to access learning. This is because he has some difficulties related to the development of his language and communication skills.

- Indy is able to listen and concentrate but only for a short period of time (10 minutes).
- He can follow simple instructions; long sentences are difficult, therefore sometimes he finds it impossible to follow more complex conversations.
- Indy finds it challenging to remember words, especially when learning new vocabulary that is topic-specific. Even when he learns new words he has to practice them regularly because he finds it difficult to retain new information.
- Indy finds it difficult to understand more complex concepts such as time or space.
- Indy has some difficulties expressing himself; his speech is not always very clear. His sentences can get very mixed up, especially when it comes to using more complex grammatical structures such as tenses.
- Due to some of these difficulties he is developing low self-esteem.



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Any enquiries regarding this publication should be sent to us at:

[Russell.EWENS@education.gsi.gov.uk](mailto:Russell.EWENS@education.gsi.gov.uk) or [www.education.gov.uk/contactus](http://www.education.gov.uk/contactus)

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