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Report title:	Schools High Needs National Funding Formula Consultation – Stage 2	
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Executive Summary

The report summarises the key issues on the consultation, the impact on the Authority and the Authority's response to the consultation.

Schools Forum Actions

The Schools Forum is asked to note:

- The summary of the consultation
- The process that the Authority has gone through to formulate the response
- The response that the Authority has made to the consultation response, attached as Appendix A to this report. The Authority's response is in bold italics and the draft response of London Council's is given in lower case.
- The split of Authority's indicative % formula funding v national average v London Borough of Tower Hamlets (the only significant gainer for inner London)

Background

1. The Second Stage consultation builds upon the earlier funding consultation report issued in March 2016. Following the consultation further announcements will be made on 2018-19 allocations and processes and also a further baseline exercise will be undertaken.

Second Stage Consultation: A Brief Summary

2. There was general support for the seven principles from the original consultation. These are as follows:
 - Support opportunity
 - Be fair
 - Be efficient
 - Get funding to the front line
 - Be transparent
 - Be simple
 - Be predictable
3. The principles underpin social justice and social mobility and opportunity. This is a sound basis for reforms especially with regard to high needs.
4. There was general agreement from the earlier consultation that high needs funding should be distributed via local authorities rather than bypass local authorities and go direct from government to providers/ settings. There was acceptance of a formula based upon a proxy of need as well as

individual factors. For that reason the top up regime would be retained to link funding to the support that institutions would be providing to individuals.

5. The majority of respondents agreed with proposals for a formula and proxy indicators. The proxy indicators are as follows:
 - Population 2-18
 - Low attainment: KS2 and KS4 (now over 5 years)
 - Health and disability: Children in bad health and DLA
 - Deprivation: FSM and IDACI (6 bands on latest data).
6. **Basic pupil/ student entitlement.** Now includes special pupils in independent schools as had been agreed.
7. **Import/ export adjustments.** Pupils and students from one area attending school or college in another area. The proposal is to be implemented.
8. **Hospital education.** Concerns that this is a unique service and will leave funding arrangements unchanged for the moment.
9. **Area cost adjustment.** General Labour Market or hybrid model were the options. A hybrid model will be used but there would be greater weighting given to the labour element given the higher staffing inputs in this area than in the main NFF (the Authority strongly supports the General Labour Market adjustment for both high needs and the main schools formula). This reflects better the higher relative staffing costs in different parts of the country and London in particular.
10. **Transition.** There was support for the principle for smoothing transition and implementation for respondents. This would be in the form of historic planned spend 16-17 which will not be updated in cash terms year to year. There would also be a form of MFG representing a cash floor below which Authorities would not fall.
11. **Other proposals.** This would comprise including pupils in resource units in the main pupil count of mainstream schools to avoid complicated funding adjustments. There would also be a mechanism for in year admissions in resource units with different funding rates for empty places £10k and £6k for pupils already on roll. Independent special schools would not have direct funding from the EFA and the current status quo would be maintained.

New Formula Proposals

12. The formula to comprise the following:
 - **Historic spend**
 - **Basic entitlement**
 - **Proxy factor (below)**
 - Population
 - Deprivation
 - Prior attainment
 - Health & disability
 - **Area Cost Adjustment (added to proxy factors and basic entitlement)**

Values

13. Historic spend – 50% and Cash Flat for 4 years.
14. Hospital education – historic spend.
15. Basic entitlement - £4k per pupil. Based on school census and individual learner records in academic year prior to December where allocations are announced.
16. Remainder allocated through formula factors. Weighting are 90% SEN/Disability and 10% for alternative provision.

Weightings

17. 2.8% of population have EHCPs. 50% of weighting based on population will be used.
18. Deprivation of 20% will be weighted this is because exclusions are more linked to deprivation as well as being an indicator of general need. As stated before this will be based upon FSM and IDACI.
19. Low attainment will be weighted 15%. With 50% of this in each of KS4 and KS2.
20. Health and disability will have a weighting of 15%. 50% each will be children in bad health (based on 2011 population census data) and 50% based upon latest DLA.

Adjustments

21. Area Cost Adjustments to all factors apart from historic spend, hospital and import export factors. This will be a 20.4% increase for London as these schools face the higher salary costs.
22. Imports/ exports. Net difference in pupils/student times £6k increase for net importers and decrease for exporting authorities.
23. Funding Floor. No reduction to 2017-18 baseline spending. Gains limited to 3%.
24. Illustrative allocations have been provided for each local authority. This shows a cash flat allocation for this Authority for both 2018/19 and 2019/20 at £43.7m though these are indicative at present.

Other considerations

25. The initial consultation wanted to ring fence the high needs and schools block under the new NFF proposals. However, there were strong representations that schools, the LA and the high needs sector needed to work together in this area in partnership.
26. Therefore the new proposals give some new flexibilities:
 - 2017-18 – no ring fence to the schools block and high needs block
 - 2018-19 – can transfer between high needs central block and centrally retained element of early years.
 - 2018-19 – schools block to high needs block transfer possible but will need Schools Forum approval and will limit to 2-3% of the high needs block (and will monitor 2017-18 transfers)

27. The report notes additional funding for the review of SEN and implementation of strategic plans. This includes additional 2016-17 revenue grant and a new specified capital grant for SEN provision. Grant allocations for this Authority of £550k have been announced in each of 2018/19, 2019/20 and 2020/21.
28. A review of alternative provision in terms of schools taking a role for commissioning and funding such provision will be published at a later date.
29. The Disabilities Fund for early years is sign posted. This is considered more in the early years report elsewhere on the agenda.
30. Resources Units. Changes will be restricted to those listed previously.
31. Special Schools Funding. No change but will be a further consultation on place funding from 2018-19. There will be a separate consultation for Special Free Schools.
32. Non Maintained/ Independent Schools. £10k from EFA for place to continue based upon data collected by the EFA.
33. Post 16 Institutions. For the 2018-19 AY there will be a separate consultation to be held later.

Appendix A**Consultation Questions**

Q.1. In designing our national funding formula, we have taken careful steps to balance the principles of fairness and stability. Do you think we have struck the right balance?

The Authority supports the submission of London Council's stated below:

- 1.1 Pressures on high needs budgets are amongst the most acute of any local government service area in the capital. London Councils is disappointed that the scale and urgency of this financial challenge has not been recognised in the second round consultation.
- 1.2 Boroughs are already spending significantly more than the allocations provided by central government through the high needs block, which has failed to keep pace with rapid and unpredictable demand pressures in recent years. Reserves and general council funds are not a sustainable funding stream for high needs at a time of unprecedented funding cuts for local government, with core funding from central government to councils falling 63 per cent in real terms over the decade by 2019/20.
- 1.3 Although the effective resources available for high needs have been substantially reduced, the government has not provided evidence to show that the required savings are deliverable without harming standards. London Councils is concerned that insufficient funding from central government is now a serious risk to the welfare and educational outcomes of high needs pupils in the capital and elsewhere.
- 1.3 Whilst we agree with the principle of reforming high needs funding, it will be impossible to achieve fairness through the redistribution of an insufficient funding pot. The acute pressure on high needs budget will only intensify and efficiencies alone will not meet the growing funding gap. We believe that an injection of additional funding into the high needs block is required urgently to keep pace with the triple pressure of rapidly rising demand, rising prevalence rates and changing types of need.

Q.2. We are proposing a formula comprising a number of formula factors with different values and weightings. Do you agree with the following proposals?

- **Historic spend factor – to allocate to each local authority a sum equal to 50% of its planned spending baseline**
- **Basic entitlement – to allocate to each local authority £4,000 per pupil**

The Authority supports the response of London Council's noted below:

2.1 Yes, we support the inclusion of a historic spend factor and basic entitlement factor.

Q.3. We propose to use the following weightings for each of the formula factors listed below, adding up to 100%. Do you agree? • Population – 50% • Free school meals eligibility – 10% • IDACI – 10% • Key stage 2 low attainment – 7.5% • Key stage 4 low attainment – 7.5% • Children in bad health – 7.5% • Disability living allowance – 7.5%

3.1 The weightings appear to be reasonable, but it is difficult to comment further without a stronger evidence base on high needs cost drivers. We therefore welcome the department's commitment to commission further research into high needs outcomes and costs.

Q.4. Do you agree with the principle of protecting local authorities from reductions in funding as a result of this formula? This is referred to as a funding floor in this document.

The Authority supports the response of London Council's noted below:

4.1 Yes. The impact of the high needs funding reform is likely to be particularly volatile, so a strong protection mechanism is essential.

Q.5. Do you support our proposal to set the funding floor such that no local authority will see a reduction in funding, compared to their spending baseline?

The Authority supports the response of London Council's noted below:

5.1 Given the acute demand pressures on high needs budgets and the lack of evidence that cash savings are deliverable without affecting outcomes, a redistributive model would not have been appropriate for high needs. We believe that the same argument applies to the schools national funding formula.

5.2 The spend baselines are not a true reflection of actual spend and therefore do not provide true protection. Overspends on high needs are widespread in London as a result of a sustained period of the high needs block failing to keep pace with intense demand pressures, but protection is only applied against planned levels of spend. We believe that protection should be applied against actual level of spend.

Q.6. Do you agree with our proposals to allow limited flexibility between schools and high needs budgets in 2018-19?

The Authority supports the response of London Council's noted below:

6.1 We would support maximum flexibility between blocks in order to manage high needs pressure and reinforce incentives for the entire education system to improve high needs outcomes.

6.2 We do not agree with proposals to restrict the transfer of funding between blocks. It is not clear why Schools Forum approval would not be sufficient to approve the transfer of funding between blocks. This is an established and proven mechanism for making decisions in the interests of the entire local education community, so we do not agree that the approval of a majority of schools by phase should also be necessary.

Q.7. Do you have any suggestions about the level of flexibility we should allow between schools and high needs budgets in 2019-20 and beyond?

The Authority supports the response of London Council's noted below:

- 7.1 The optimal level of flexibility in the long-term will be dependent on the extent to which high needs allocations keep up with actual costs. Given the acute pressure on high need budgets, we would support maximum flexibility between DSG blocks.
- 7.2 A flexible relationship between the schools and high needs block also reinforces incentives to control high needs spend and improve high needs outcomes across the entire local education system. For example, schools that put forward pupils for EHC plans or permanent exclusions do so with the knowledge that funding may be redirected away from the schools block if the high needs block overspends. Mainstream schools currently benefit when high needs spend is spent efficiently and this financial incentive would be weakened under a system of standalone blocks.
- 7.3 Beyond 2019-20, Schools Forum approval should be an appropriate and sufficient mechanism for the transfer of funding between blocks.

Q.8. Are there further considerations we should be taking into account about the proposed high needs national funding formula?

The Authority supports the response of London Council's as noted below. The Authority also has a number of issues in addition to that. The Authority strongly believes that the General Labour Market model should be used in the area costs adjustment to reflect the higher costs for inner London. There are a number of exceptional cost drivers for alternative provision which we feel needs to be recognised in the funding formula, for example unaccompanied asylum seeking minors with complex additional needs and also complex pre 16 excluded pupils. We would also like to see the import/ export data post 16 refreshed in year to reflect changes in provision patterns.

- 8.1 There is a clear link between cost pressures on the revenue side and the sufficient provision of new high needs places. Special schools and units are facing particularly severe pressure as part of London's broader school place challenge, with the number of pupils educated in dedicated SEND places in the capital increasing 23 per cent between 2011 and 2016. The type of need is changing rapidly, which compounds the difficulty of providing sufficient places. For example, whilst the number of special school pupils with a physical disability fell 36 per cent over the same period in London, the number of special school pupils with autism spectrum disorder increased by over 50 per cent.
- 8.2 The introduction of a dedicated £200 million SEN capital pot is welcome and we believe that this pot should increase to meet the full costs of providing sufficient SEN places. Short-term investment in providing new special school places is likely to be offset by reduced spend on more costly placements in the independent sector in the long-term.

Appendix B - Southwark v Average LA in terms of High Needs formula split v Tower Hamlets (only significant gainer in inner London)



