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HIGH NEEDS FUNDING UPDATE

Report of the Director of Children's Services

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1. Purpose

- 1.1 To provide the Forum with an update on High Needs Funding Issues.

2. Summary

- 2.1 The paper covers the latest developments with regard to high needs funding and considers future issues.

3. Recommendations

- 3.1 The Forum is asked to comment on the issues covered in this paper.

4. Background

- 4.1 The current high needs funding system was introduced in 2013-14 and constituted a major change to the previous arrangements. The core of the current system is "place plus" funding, comprising per place allocations supplemented by top ups for individual pupils. Non- place based provision, such as outreach, is funded through commissioned service allocations. A paper to the April meeting of the Forum outlined the breakdown of Hertfordshire's high needs budget for 2014-15.
- 4.2 The 2014-15 DSG high needs block for Hertfordshire is £94.7m. Hertfordshire's high needs budget for 2014-15 (including amounts funded from carry forward DSG) is £94.8m. A breakdown of the budget into its main components is shown in Annex A.
- 4.3 The DfE has made announcements about certain specific changes to the high needs funding arrangements for 2015-16 and these are covered in this paper.

5. New responsibilities of the Schools Forum in respect of high needs funding

- 5.1 The DfE is expanding the Forum's role in relation to high needs funding. The draft regulations for 2015-16 specify that the Forum must discuss place numbers and the arrangements for paying top up funding. DfE guidance states that "the purpose of these changes is to ensure that the Forum discusses the detail of local SEN and AP arrangements."
- 5.2 The Forum has a High Needs Sub Group which looks at high needs funding issues in more detail. The sub group will be meeting again on 13 October.

6. Range of provision

- 6.1 High needs provision include a wide range of different institutions and services, including:
- special schools
 - special units and bases
 - education support centres
 - additional support for high needs pupils in mainstream schools
 - post 16 high needs provision in colleges
 - specialist support and outreach services
 - out county provision in independent and non-maintained special schools
- 6.2 It is appropriate to review and sometimes to adjust the balance between these in order to make the most effective provision. For example, to reflect the move of Primary Support Bases (PSBs) towards more flexible provision commissioned locally, Hertfordshire has discontinued per place funding of PSBs and replaced it with funding for a commissioned outreach service.
- 6.3 However, DfE rules have made it harder to switch funding between different types of provision. This is because the place based funding has been effectively ring-fenced and authorities have to apply to the DfE to alter the total number of funded places. If an authority applies to reduce place based funding in order to redeploy the resource elsewhere it must make a business case to support this to avoid losing funding.

7. Determining Funded Place Numbers

- 7.1 High needs places in special schools and units are funded at £10,000 per year.

The 2014/15 academic year place numbers for all high needs provisions were submitted to the DfE by the Authority in December 2013. The DfE has announced that the 2015/16 academic year place numbers for all institutions will be assumed to be the same as in 2014/15, except for exceptional cases

which authorities have to submit to the DfE by 17 October. The DfE has stressed that there are expected to be very few exceptional cases.

- 7.2 Repeating the 2014/15 funded place numbers in 2015/16, creates difficulties for Hertfordshire's annual review of high needs places, the mechanism through which the Authority adjusts the level of provision to match the latest pattern of demand. Informal advice from the DfE is that small changes in place numbers should be made locally and will not be incorporated into the DfE's official record of place numbers. This has the potential to cause considerable confusion. For example special academies will continue to be funded by the EFA according to the 2014/15 place number even if the Authority had made an adjustment locally.
- 7.3 A further change in 2015/16 relates to post 16 places. Currently the number of post 16 places attributed to each local authority relates to the provision for pupils resident in the authority's area. From 2015/16 the place numbers attributed to an authority will relate to all provision located in that authority's area, regardless of where the pupils live. This will put pre and post 16 high needs provision on the same basis.

7.4 **Place numbers for 2015/16 based on rolling forward 2014/15**

Special Educational Needs	Place Numbers			
	Pre 16	Post 16 Herts Residents	Post 16 Other LA	Total
Special Units	212	0	0	212
Special Schools	2016	145	5	2166
Colleges	0	340	96	436
Mainstream Secondary *	0	0	14	14
Total	2228	485	115	2828

*Eligible Hertfordshire post 16 pupils receive full exceptional needs allocations, with no deductions for £6K school contributions. Thus no post 16 places have been included for Hertfordshire residents.

Alternative Provision	Pre 16
Education Support Centres	252
Roman Fields	35
Total	287

- 7.5 Longer term the DfE's aim is that each institution's place numbers will be calculated automatically by making them match the previous year's pupil numbers (i.e. place numbers will be simply lagged pupil numbers). The DfE see the approach of repeating the 2014/15 place numbers in 2015/16 as a step

towards their objective, because the 2015/16 place numbers will be based on lagged data, albeit place rather than pupil numbers.

When it is introduced, the move to basing place numbers on lagged pupil numbers will have a significant impact. Schools, which have empty places, will lose funding and if overall there are fewer pupils in high needs provision in Hertfordshire than there are places, the Authority may suffer a reduction in its high needs DSG.

8. Determining top up levels

- 8.1 In addition to place funding, high needs providers receive top up funding. This is based on the number of pupils actually in the provision and therefore top up funding increases when a new pupil starts and reduces when a pupil leaves. Top up levels for special schools and units are largely based on the funding these institutions received in 2012-13, the last year of the old funding arrangements. The top ups have been calculated by taking the 2012-13 budget share, deducting the place funding and dividing the remaining balance by the number of places. The top up is then increased by a “vacancy uplift” to reflect the fact that it is unreasonable to expect the provision to be permanently full and thus a certainty level of vacancies should be assumed in the funding. Thus the level of top up funding is different for each special school and unit, reflecting differences in funding in 2012-13 according to the formula factors then in place, such as lump sums and floor area related funding.
- 8.2 It is not sustainable to base top up levels on 2012-13 budget shares indefinitely and the Authority is currently reviewing special school top ups with a view to introducing some changes in 2015-16. The aim of the review is to simplify the calculation of the top ups so that they reflect only the type of provision and the size of school, while minimising funding turbulence. This will simplify the calculation of the top ups and make it easier to compare top up levels between institutions. The Minimum Funding Guarantee prevents reductions in funding of more than 1.5% per place between years.
- 8.3 Top ups for post 16 students in colleges have been determined through a costing process undertaken jointly by the Authority with each college.

9. Education Support Centres (ESCs)

- 9.1 The DfE has announced that place funding in ESCs will be increased in 2015-16 from the current £8k per place to £10k per place, matching other high needs provision. The commissioned service funding through which ESCs receive the balance of their funding will need to reduce by an equivalent amount. As with other high needs provision ESCs funding levels are based on the budget shares they received in 2012-13, adjusted to reflect the additional responsibilities for premises and support services delegated in 2013-14.
- 9.2 In three areas of Hertfordshire secondary exclusions pilots are in operation. Under these arrangements ESC funding is devolved to a partnership of schools

in the area, or potentially individual schools, which then commission alternative provision, from the ESC or other providers. The Authority is working on a new funding formula for ESCs so that ESCs allocations will be built up from notional allocations for each school. As a result, it should be clear what the impact would be of individual schools opting out of partnership arrangements.

10. High Needs Block Dedicated Schools Grant

- 10.1 High Needs block allocations are based on each authority's high needs budgeted spend in 2012-13, with a number of DfE adjustments in respect of post 16, hospital education, place numbers and funding levels. The DfE is aware that it needs a more logical basis for determining high needs DSG in the longer term. However, it currently has insufficient information to introduce a national funding formula for the high needs block and has commissioned research to explain the disparity between high needs spending levels in different local authority areas. It is hoped that conclusions from the research will be available by Spring 2015.
- 10.2 Following the research and informed by its conclusions, the DfE expects to conduct an extensive consultation exercise on the way that high needs funding should be distributed, both from the DfE to local authorities and from local authorities to institutions. The longer term aim is a more formulaic way of distributing the high needs DSG block between local authority areas. This will potentially impact on the level of high needs funding available to all authorities. The Authority is currently assuming a continuation of "flat cash" in high needs DSG between 2014-15 and 2015-16, although the DfE has indicated that a small uplift in high needs DSG may be available.
- 10.3 As regards 2016-17 and later years, it seems unlikely that DfE will be able to undertake the work necessary to start to move to a new allocation methodology at the start of the period, and if they did then transition would be phased and slow. 2016-17 spending will, at national level, be determined via a post-election Comprehensive Spending review. The best outcome from this would be a continuation of "flat cash"; with the risks all being that the outcome is worse.

11. Funding pressures

- 11.1 Pressures generally fall into one of the following two categories:

- Cost pressures
These include pay and price inflation and other staffing cost increases. Some specialist services can have disproportionately high increases. We know that schools are likely to experience appreciable cost-inflation in 2016/16 and 2016/17 due to increases in employer's contributions to both national insurance and the teachers' pension scheme.

- Demand pressures

The increase in the overall number of pupils in Hertfordshire creates a consequential pressure in respect of the numbers requiring high needs provision. In addition some high needs provision such as special schools can be accessed by neighbouring local authorities, which are therefore affected by rising demand in other areas such as North London albeit that “top-up” payments come from those authorities.

- 11.2 Apart from the general increase in pupil numbers, demand for some particular specialist provision may increase for various reasons such as, for example, medical advances.

12. Post 16 issues

- 12.1 The School Finance regulations will be amended for 2015-16 to prevent special schools being funded for pupils older than 19.
- 12.2 Regarding colleges, the historical hourly rates for tutors and support assistants used in calculating the top up levels for individual high needs students in colleges have been reviewed and adjusted. This has led to an increase in the tutor rate and a reduction in the support assistant rate, and these new rates are being used across the county in all four colleges in 2014-15 academic year. Hertfordshire is promoting those rates to be used by neighbouring local authorities for their students attending Hertfordshire colleges, so that there is parity across the region.
- 12.3 As part of that county-wide approach and to promote continuity with high needs funding arrangements for students in mainstream and special schools, work is continuing on the curriculum offer to reach greater consistency on provision made across the colleges, including factors such as group sizes and hours/days per week for similar programmes. It is expected that the new approach agreed with colleges will apply to students being considered during this academic year for programmes beginning in September 2015.

13. Future budget strategy

- 13.1 At this stage, we envisage that next year’s budget strategy for High Level Needs will be one of increasing budgets at the level of individual providers to reflect cost pressures, but not demand pressures. We are looking to provide funding for cost pressures for a year from the DSG carry forward. In addition there is currently an identified saving in independent placements of approximately £1.5m which may be available in 2015-16 to support the budget.
- 13.2 Going forwards, there are considerable benefits in trying to keep some alignment between HLN expenditure and incoming DSG received for the purpose. This does not need to be rigid, because DSG is not ring-fenced in this way, and it is likely to be the case that expenditure will not be exactly equal to

DSG. Schools collectively and Schools Forum are free to make and contribute towards decisions about the balance of expenditure between activities which best meet local and pupil needs. A key tool for Hertfordshire, in the management of both cost and demand pressures in this area has been DSPL. But if a school-level national funding formula for mainstream schools was imposed by Government, then we would probably need to make a firm and rigid link.

13.3 For 2016/17 and later years it is likely that we will be unable to meet even cost-pressures facing providers, and almost certain we will not be able to meet both cost and demand pressures. It is important therefor to begin to plan for this. The key features of such plans are likely to include:

- Continuing to work to make the most cost-effective forms of provision for children, building on the DSPL process;
- Continuing to seek to reduce out-county placements, so as to redirect resources to local provision as we have over the last few years;
- Encouraging local schools and colleges to start to plan for real-terms cost reductions in their provision from 2016/17 onwards;
- Continuing to review the costs and justification for centrally-provided HLN services;

13.4 The most acute risks to this strategy are if demand pressures become overwhelming in some areas, and therefore require the redirection of resources. An example would be if, rather than a progressive reduction in the costs of out-county placements, we began to see an increase in either numbers or unit costs. Or perhaps we might see an unexpected and externally-driven increase in local provision and local costs, perhaps in the form of unplanned incoming providers. This is not to say, of course, that we will not continue to develop new provision where it is required and redirect resources away from lower priority areas.

14. Conclusion

14.1 The Forum is asked to consider the recommendation in section 3.

Annex A
High Needs Budgets 2014-15

	£m
Special schools	39.0
Roman fields	1.7
Independent and non-maintained special schools	9.9
Mainstream school units and bases	6.8
Education support centres and alternative provider academy	10.6
Hospital education	1.3
Exceptional needs funding	5.9
Early years provision	0.6
Nurture provision	0.7
Post-16 high needs-colleges	5.0
Other provision for individual pupils	2.5
Countywide initiatives	4.4
Support and outreach services	4.6
Equipment	0.4
Miscellaneous	1.4
Total	94.8