



# High Needs Funding: An overview of the key issues

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April 2019

Research Area:  
**Education  
Funding**



***EPI Executive Director Natalie Perera examines the latest challenges in high needs funding, which covers pupils with Special Educational Needs and Disabilities (SEND) and those in Alternative Provision settings.***

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School funding continues to be a major issue in the education debate. Over the last few years, there has been a war of words between the schools sector and both ministers and officials in the Department for Education. The former often claim that schools are at “breaking point”, while the latter maintains that, though funding is tight and schools will need to continue to make “efficiency savings”, they are nevertheless better funded than ever before.

EPI’s work to date has sought to shed light on the trends in funding for mainstream schools, including on the impact of the newly-introduced National Funding Formula. But, with the exception of looking at trends in the balances of special schools (alongside those of mainstream), our research has not yet delved into the complex issue of funding for pupils with Special Educational Needs and Disabilities (SEND) or those in Alternative Provision.

The SEND Code of Practice states that “a child or young person has SEN if they have a learning difficulty or disability which calls for special educational provision to be made for him or her”. In 2014, the government introduced significant reforms to the way in which children and young people with SEND are identified and supported – requiring local authorities to have greater regard to the needs of children with SEND and their parents.

The adequacy of and system for funding for this group of vulnerable pupils is, however, becoming more prominent in the mainstream media and the provision of SEND services is also the subject of a Parliamentary inquiry.<sup>12</sup> Recent reports have focused on the difficulties faced by some families and schools in securing enough support and appropriate placements for these pupils, with some families turning to home-schooling.

The system of providing support for pupils with additional and SEND needs is complex. This blog is intended to provide an overview of the key pressures faced by the sector.

**So where is the funding system going wrong and what do we know about the wider impact it is having on education for pupils with High Needs?**

## **1. The prevalence of pupils with SEND is increasing.....**

A significant issue is the ongoing rise in children and young people with SEND and Education, Health and Care Plans (EHCPs). An EHCP is for children and young people aged up to 25 who need more support than is available through special educational needs support provided by the school.

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<sup>1</sup> <https://www.bbc.co.uk/news/education-46400397>;  
<https://www.theguardian.com/education/2018/oct/22/special-needs-pupils-being-failed-by-system-on-verge-crisis>

<sup>2</sup> <https://www.parliament.uk/business/committees/committees-a-z/commons-select/education-committee/inquiries/parliament-2017/special-educational-needs-and-disability-inquiry-17-19/>

EHC plans identify educational, health and social needs and set out the additional support required in order to meet those needs.

According to figures published by the DfE, in 2018, there were 285,722 children and young people with statutory EHCPs and 34,097 children and young people with statements of special educational need.<sup>3</sup>

There are a combination of factors which are contributing to these rising numbers. These include population growth, advances in medicine which mean that children born prematurely or with disabilities survive and live longer than before (this also means that the types of additional needs are more complex than ever before), increased diagnosis of some conditions (e.g. autism), increased parental expectations about the support their child should receive, increasing levels of poverty and the extension of services for children and young people with SEND up until the age of 25.

The extension to services covering young people up to age 25 took effect from 2014. This means that each year since then, there has been an additional cohort of young people who remain within the responsibility of education services (whereas previously they would have moved into adult services). For example, in 2017, 3,256 new EHCPs were created for young people post-16 compared with 262 new plans for the same age group in 2014.<sup>45</sup>

These figures give a snapshot of pupils who currently have SEND but they do not capture the dynamic nature in which SEND is assessed and reviewed, causing some children to cease being recorded with SEND, while others are newly identified. Analysis carried out by EPI in November 2017 showed that there is a striking difference between the percentage of children who have SEND in a given year group (at one point in time) and the percentage of children who have ever had SEND in that year group or previously.<sup>6</sup> While a maximum of 23 percent of children in the 2016 cohort had SEND at any one time (the peak was in Year 5 when they were aged ten), a full 39 percent were recorded with SEND at some point between Reception (age five) and Year 11 (age sixteen). This makes SEND directly relevant to four in ten children, or twelve per class of thirty on average.

In addition, the high needs block also funds pupils in Alternative Provision which includes many pupils who have been permanently excluded from school. Permanent exclusions are also increasing and rose by 43 per cent in the two years to 2017 (an additional 2,800 pupils over that period).<sup>7</sup> This means that the high needs block not only needs to fund more pupils with SEND, but also an increasing number of those who have been permanently excluded from mainstream schools.

**So, we have more pupils with SEND in schools and colleges than before, some with more complex needs, more pupils being permanently excluded and potentially placed in alternative provision and new responsibilities for young people aged 16-25.**

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<sup>3</sup> <https://www.gov.uk/government/statistics/statements-of-sen-and-ehc-plans-england-2018>

<sup>4</sup> <https://www.gov.uk/government/statistics/statements-of-sen-and-ehc-plans-england-2018>

<sup>5</sup> Prior to 2014, young people aged 16-25 could be issued with Learning Disability Assessments. Since 2014, these have been superseded by EHCPs.

<sup>6</sup> J. Hutchinson, "How many children have SEND?", November 2017

<sup>7</sup> <https://www.gov.uk/government/statistics/permanent-and-fixed-period-exclusions-in-england-2016-to-2017>

## 2. The way that funding is allocated to local authorities has changed.....

It's then important to understand the way in which funding for pupils with SEND and high needs is allocated from central government to local authorities, who then pass it to schools and other providers for individual children, as well as using it to provide specialist support services.

Prior to 2014/15, funding for all pupils was allocated to local authorities through the Dedicated Schools Grant (DSG). It was a single amount and local authorities had the flexibility to determine how much to allocate to mainstream schools, special schools, early years and central local authority support functions (for example, for administering admissions arrangements). The DSG was, and still is, ringfenced, meaning that authorities cannot allocate funding for purposes other than education.

The DSG still exists but, since 2013/14, it has been divided into 3 "blocks": the schools block; high needs block; and the early years block.<sup>8</sup> The reason behind these changes was, primarily, to enable the DfE to apply a national funding formula separately for each of schools, high needs and early years.

The DfE has also introduced new rules which mean that local authorities cannot move money out of the schools block (i.e. to high needs or early years) without the agreement of the Schools Forum. If that amount exceeds 0.5 per cent of the schools block, then permission will need to be sought from the Secretary of State.

In April 2018, the Department used a new formula for allocating the high needs block to local authorities. The rationale for this was that the existing system was unfair, inadequate and not responsive to needs across the country. The new high needs formula now consists of five factors:

- i) A basic per-pupil entitlement of those in a special school or post-16 institution
- ii) A sum based on the size of the entire local population aged 2-18
- iii) Deprivation (measured by eligibility for Free School Meals and number of children living in poor areas)<sup>9</sup>
- iv) Low prior attainment (measured by attainment at Key Stages 2 and 4)
- v) Health and Disability (measured by the number of children declared as being in bad or very bad health on the 2011 census and the number of children aged 0-15 in receipt of the Disability Living Allowance)

In addition to these five factors and in order to prevent local authorities from experiencing unmanageable changes to their budgets, 50 per cent of the high needs block is based on each LA's planned spending on high needs in 2017-18. Essentially, this means that half of the high needs block is allocated according to historic spending patterns.

**So, in thinking about how central government passes funding onto local authorities for pupils with high needs, we can see the following issues emerge:**

- i) A large proportion of funding allocated through the High Needs Funding Formula is **based on historical spending patterns**, meaning that if needs go up or down from year to year, this isn't fully reflected in local budgets;

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<sup>8</sup> In 2018-19, a fourth block, to deal with local authority central services, was created by top-slicing money from the schools block.

<sup>9</sup> This includes children living in bands A-F of the Income Deprivation Affecting Children Index (IDACI)

ii) This also means that a pupil in one local authority could attract significantly more or less funding than a pupil in another authority, despite having similar needs; and

iii) In cases where local authorities need to deal with rising numbers, they have **limited flexibility to transfer money from** the schools to the high needs block.

This rigidity of the high needs block is particularly difficult in a context where, as demonstrated above, there are rising needs and pressures on the budget.

### 3. Funding from local authorities to schools is complex and resource intensive

New funding arrangements mean that, in order to provide for pupils with SEND, mainstream schools usually need to fund the first £10k from their core budgets (taken from the schools block element of the DSG), before being able to call on additional funding from the high needs block. This should, in theory, be made up of the £4k basic per-pupil allocation that schools receive for all pupils, plus up to £6k of the additional funding that schools receive for pupils with additional needs (including socio-economic disadvantage and low attainment).

In practice, however, this seems to be causing significant problems because it comes at a time when schools are facing real-term cost pressures, a shortage of teachers and the knock-on effect of cuts to wider children's services (estimated to be a 20 per cent cut in real terms, per child by 2020).<sup>10</sup>

If the cost of a child's needs exceeds £10k (this is normally linked to what is stated in the EHCP, but pupils do not always need an EHCP in order to access additional support), then schools need to agree additional "top-up" funding with their local authority. Top-up funding is taken from the high needs block. DfE guidance is clear that local authorities should have a clear process in place for agreeing the allocation of top-up funding with schools and other education providers.<sup>11</sup>

There are two obvious issues with this approach. The first is that the requirement to meet the first £10k of costs can deter schools from taking on pupils with additional needs. The second is that both schools and local authorities already have diminishing capacity to support SEND and negotiate top-up funding.

As well as providing top-up funding for support in mainstream schools, the majority of the high needs block is also intended to fund places in special schools including non-maintained special schools (these are typically not-for-profit schools run by a charitable body) as well as places in alternative provision. These places are funded at £10k per place, plus additional top up funding depending on the needs of the pupil.

In addition, local authorities can commission places for pupils with SEND in Independent Special Schools (these are generally for-profit schools).

Placements in special schools, and particularly those in the non-maintained and independent sector, are typically significantly more expensive than placements in mainstream schools (this makes sense given that the levels of need are likely to be higher in special schools). Survey data gathered by ISOS Partnership estimates that the average annual cost (per pupil) of a placement in 2017-18 was around:

- £6000 in a mainstream school

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<sup>10</sup> <https://www.childrenscommissioner.gov.uk/wp-content/uploads/2018/06/Public-Spending-on-Children-in-England-CCO-JUNE-2018.pdf>

<sup>11</sup> <https://www.gov.uk/government/publications/high-needs-funding-arrangements-2019-to-2020>

- £23,000 in a maintained special school
- £40,000 in an independent and non-maintained special school<sup>12</sup>

Separate analysis conducted by Schools Week in 2017, suggests that the average cost of independent places is much higher, at around £52,000 per year.<sup>13</sup>

Placements of pupils with SEND in special schools are increasing, and this, according to the ISOS Partnership report, is due to a combination of mainstream schools being less willing or able to provide for pupils with SEND (with some citing funding and accountability reforms as reasons), as well as parental preference (which may be driven by genuine choice or constrained by the features of local mainstream schools but which is, nevertheless, given greater weight in new legislation). Not only are costs higher in the non-maintained sector, but they also appear to be increasing. In one large county, costs had increased by 33 per cent in the three years to 2016-17.

The increased use of placements in the non-maintained sector seems particularly acute amongst post-16 provision, where there was an increase of 10 per cent between 2017 and 2018. ISOS data suggests that these types of placements account for, on average, around 14 per cent of the total high needs block.

So, at a local level, what we find is that:

- for a range of reasons (including relating to funding and accountability), mainstream schools are struggling to provide adequate support for pupils with SEND;
- as a result of that and also because of increased parental preference, more pupils with SEND are being placed in special schools, including those outside of the state sector;
- those placements are more expensive and costs are increasing, but authorities have little leverage over pricing in the independent and non-maintained sectors in particular.

#### **4. Funding for Alternative Provision is creating further pressures on high needs budgets**

As with special schools, places in Alternative Provision (AP) are funded at £10,000 each and, for LA-maintained AP, this is funded from the high needs block. Places in AP Academies are funded by funded centrally from the Education, Skills and Funding Agency but then the ESFA deducts the corresponding funding from the high needs block of the relevant local authority.

In the cases of both LA maintained AP and Academy AP, the local authority has the opportunity to adjust the number of places in the area and inform the ESFA (so, if fewer AP Academy places are available, for example, then the ESFA would adjust its deduction from the local authority's funding accordingly).

In the case of AP Free Schools, however, local authorities do not have the power to adjust place numbers. For the first two years that an AP Free School is open, this is not necessarily a problem as the ESFA funds 100 per cent of the places. However, after two years, the ESFA deducts £5,833 per place from the local authority. This means that local authorities are facing reductions to their high needs budgets for places which they have no control over and which they may not necessarily have commissioned.

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<sup>12</sup> ISOS Partnership, "Have we reached a 'tipping point'? Trends in spending for children and young people with SEND in England", December 2018

<sup>13</sup> <https://schoolsweek.co.uk/private-special-school-places-cost-480-million-per-year/>

For now, the number of AP Free Schools is still relatively small (41 as at December 2018) but as all new provision is required to be a Free School, the pressure on the high needs budget could continue to grow.

In addition to place funding, top-up funding can also be paid to AP institutions by the local authority or school that commissions each place.

The system of funding AP also presents undesired incentives for schools, including in relation to exclusions and “off-rolling”. In the interest of keeping this analysis fairly succinct and focused on funding, we will publish more on the wider incentives that this system creates in the coming weeks.

## 5. Funding pressures on health and social care are also having an impact on services

Children with SEND – and their families – are also often reliant on support from other public services, in particular health and social care. Indeed, it was a key aim of the 2014 reforms to drive better joint working between education, health and social care. However, health and social care services for children with SEND have also faced financial pressure. Research from the Disabled Children’s Partnership has identified an annual £1.5 billion funding gap<sup>14</sup>.

If children and families are not receiving the support they need from other services, it is harder for them to thrive at school; and schools will find it more difficult to meet their needs. In response to an NAHT survey<sup>15</sup>, 83 per cent of respondents said their school received no funding from health and social care to support pupils with EHCPs, and 30 per cent said they did not receive any services from health and social care for their pupils. Independent and non-maintained special schools are often able to provide an integrated package of education, health and care support to children, and this may be a factor driving parental demand for places there.

## 6. What next?

Unlike the debate around core schools funding, the issues facing funding for SEND is less contested but also poorly understood.

The consequence of all the issues set out above is that, according to the ISOS survey and analysis, by the end of 2018-19, local authorities could have a total deficit of around £470m on their high needs block.

Media coverage over the past couple of years continues to paint a picture of a service in crisis, with a rising number of appeals from parents who are struggling to get access to the services they need and a reported increase in home-schooling due to the lack of appropriate provision for children with SEND. Our own research published last year found that pupils attending special schools had to travel, on average, three times further than those attending mainstreams schools.<sup>16</sup>

In December 2018, the Secretary of State announced that an additional £350m would be made available for SEND (£250m in revenue and £100m in capital funding) over the next two years. In his accompanying statement, Damian Hinds said: “*We recognise that the high needs budget faces*

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<sup>14</sup> <https://disabledchildrenspartnership.org.uk/wp-content/uploads/2018/07/Case-for-a-Disabled-Childrens-Fund.pdf>

<sup>15</sup> <https://www.naht.org.uk/news-and-opinion/news/funding-news/empty-promises-the-crisis-in-supporting-children-with-send/>

<sup>16</sup> J.Andrews, “Access to Special Schools in England”, March 2018

*significant pressures and this additional investment will help local councils to manage those pressures, whilst being able to invest to provide more support.”<sup>17</sup>*

It’s unclear whether this additional money will help to ease some of the pressures facing local authorities. Given the size of the current deficit, it’s unlikely to make a real dent and the government will need to consider the scale of the issue ahead of the forthcoming spending review.

But, as well as the quantum of funding, it is clear that government should be thinking about other ways in which the system can be made simpler. This includes considering:

- whether there should be greater flexibility to move money between the schools and high needs blocks (recognising that both are under pressure);
- the extent to which funding and accountability pressures on schools are having an impact on their ability to provide support for, and ultimately retain, pupils with SEND in mainstream provision;
- whether further support is needed to help local authorities secure greater value for money when commissioning places and services, particularly in the non-maintained sector;
- the impact of access - or lack of access – to other services by both families and schools on schools’ ability to meet the needs of pupils with SEND.

Our work on education funding will continue over the coming months and we plan to explore these issues, and others, in greater depth.

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<sup>17</sup> <https://www.gov.uk/government/news/new-funding-to-support-children-with-special-educational-needs>