

Schools Funding Forum 23rd March 2021

ITEM 5

Subject Heading:

**High Needs National Funding Formula
Review Consultation 2022-23**

Report Author:

Nick Carter – Principal Finance Officer

Eligibility to vote:

All members

SUMMARY

This item provides details of the DfE consultation on the review of the national funding formula for allocations of high needs funding to local authorities.

RECOMMENDATIONS

To note the contents of the consultation and the questions to which the DfE is seeking responses, to determine whether the Forum wishes to submit a return, and if so, what the responses should be.

REPORT DETAIL

The DfE is currently consulting on changes for 2022-23 to the national funding formula used for allocations of high needs funding to local authorities. The consultation was launched on 10 February 2021 and closes 24 March 2021.

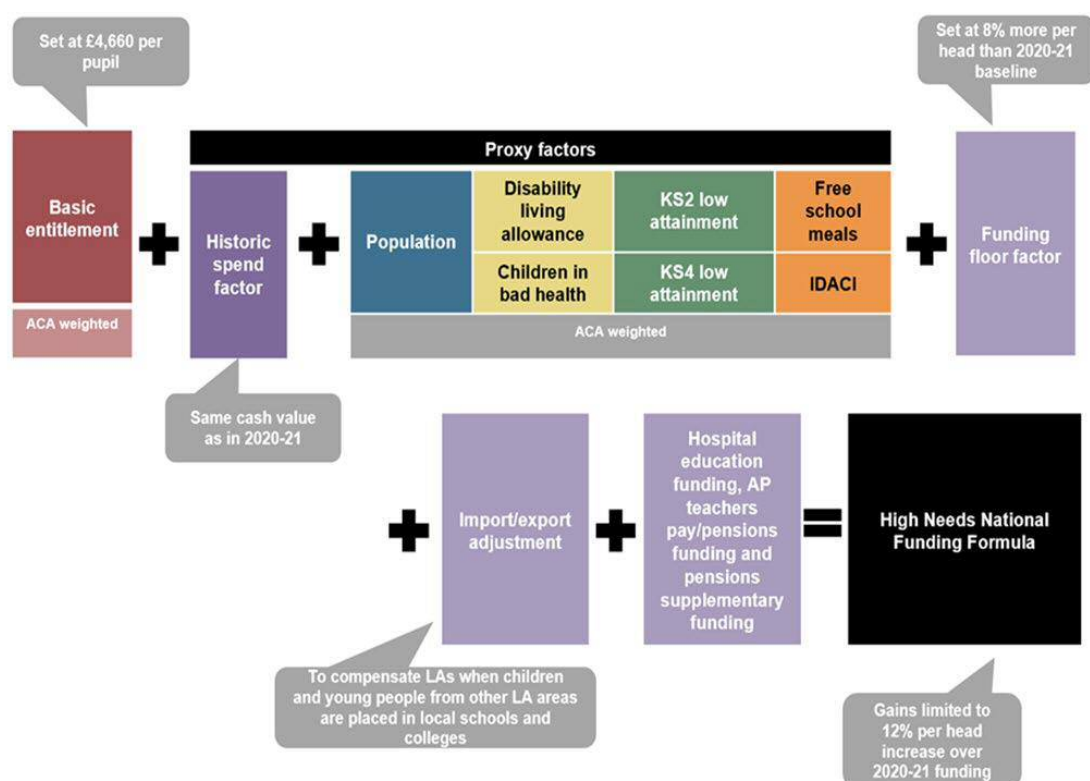
The full consultation document can be found on-line at:

https://consult.education.gov.uk/funding-policy-unit/high-needs-nff-proposed-changes/supporting_documents/High%20needs%20NFF%20review%20consultation%20document.pdf

The on-line response return is shown in Appendix A.

Funding formula used for 2021-22 allocations

The diagram below shows how the high needs national funding formula is made up:



Havering's allocation for 2021-22

£5,068 basic entitlement per pupil	£2,048,505
Proxy factors:	
Historic spend factor	£10,603,814
Population factor	£11,075,302
Disability living allowance	£1,387,839
Children in bad health	£1,452,054
Key stage 2 and 4 low prior attainment	£2,588,451
Free school meals	£1,850,498
Income Deprivation Affecting Children Index (IDACI).	£1,956,690
Funding floor set at 8% per pupil increase from 2020-21	£39,033
Import / export adjustment	-£1,302,000
Hospital education factor, AP pay and pension	£138,549
Gains cap set at 12% per pupil increase from 2020-21	£0
Total	£31,838,736

Introduction to consultation

The DfE are inviting local authorities in England, schools and colleges, other interested organisations and individuals to respond to specific proposals for a small number of changes to the national funding formula that will be used in the 2022-23 financial year. They are also seeking views on some of the longer term changes to the formula that could be considered in future.

The DfE is aware that many local authorities have in the past spent more on high needs than they were allocated and therefore they want to make sure that they are allocating high needs funding as appropriately and as fairly as possible.

This is regarded as the first stage of a planned review of the planned review of high needs funding. Wider SEND and AP system changes, that could be implemented in future years, are currently being considered. The aim of the review, six years on from the reforms inaugurated by the Children and Families Act 2014, is to make sure the system is consistent, high quality, sustainable, and integrated across education, health and care.

These broader SEND and AP reviews are likely to have implications for the way the DfE allocate high needs funding. The aim is to publish the review's proposals for consultation in spring 2021. There is then likely to be further consultation stemming from the review.

The national funding formula for high needs allocations to local authorities was introduced in 2018-19. Prior to that funding had been based on a local authority's past spending. The pledge was made to review the formula after four years.

The DfE make it clear that the consultation is specifically about the way funding is allocated through the formula and not about the overall level of funding. This will be examined in subsequent years as part of the next government spent review.

Question 1 - Historic levels of local authority expenditure in the funding formula

The historic spend factor in the formula acts as the main proxy for local supply and demand constraints that can significantly affect an LAs spend on high needs.

In the 2018-19 formula, and in subsequent years, a lump sum was included based on 50% of each LAs planned expenditure on high needs in 2017-18. Actual expenditure in 2017-18 varied from the original budgets submitted to the DfE. Actual expenditure on high needs in 2017-18 is seen as a better representation of past spending.

The DfE are proposing to replace the current historic lump sum figure with one based on actual 2017-18 expenditure. This forms Question 1 of the survey.

The theoretical impact of the change on each local authority for 2021-22 funding is shown on pages 20 – 37 of the review document. Havering is shown on page 26.

In Havering the High Needs position in 2017-18, as reported to the DfE on Section 251 budget and outturn returns, was:

High Needs budget	£22,698,263
High Needs actual expenditure	£23,104,218

Moving to 2017-18 actual expenditure would increase the level of funding allocated to Havering through the historic spend factor by £260k, however, the total funding would remain unchanged as Havering would still receive the minimum 8% rise (funding floor) in 2021-22.

The DfE do not intend to update this factor using more recent data as they believe this would introduce an incentive for LAs to spend more in order to generate more funding in the future.

This forms Question 1 of the survey.

Question 2 – Increasing the proportion of actual expenditure from 2017-18

As there have been significant increases in high needs funding through the formula since 2017-18, the proportion made up by the historic spend factor has fallen as it has been a fixed cash sum. The proportion allocated through this factor has fallen from 44% of funding in 2018-19 to 34% in 2021-22. This fall will have disadvantaged LAs with historically high cost provision for high needs.

The DfE are therefore considering whether it would be appropriate to increase the proportion of the funding through this factor. This could be done by using a more recent year as the base. The DfE will not do this, however, as they believe moving the base to more recent years would provide an incentive for local authorities to spend more in order to attract extra funding in future years.

The alternative is to increase the percentage of 2017-18 expenditure used from the current 50%. A rise to 60%, for example, would result in the historic spend factor making up 40% of total formula funding.

This forms Question 2 of the survey.

Question 3 – Finding an alternative to the historic spend factor

Historic expenditure reflects local circumstances that need to be acknowledged in funding distribution. It could also reflect, however, poor value for money. The historic expenditure factor reflects the position in 2017-18 which becomes increasingly outdated every year. The DfE would prefer to use alternative factors to reflect local issues that can be kept up to date.

Research by the Isos Partnership reported three main drivers, in addition to local demographics:

- Parental preference
- Capacity and ability of all providers in the area
- LA strategic decisions on how SEND need is met

Any factor used to replace the historic factor would need to avoid perverse incentives (e.g. creating more special school places because it attracts additional funding), be collected uniformly across the country and not be relatively stable year to year to avoid swings in funding.

The earliest any new factors could be introduced is 2023-24.

Views on this are sought in Question 3 of the survey.

Question 4 – Attainment data used in the formula funding

Low attainment at the end of key stages 2 and 4 is used as a proxy indicator of SEN in the national funding formula. The formula uses attainment data for pupils living in the LA from the most recent five-year period. For the 2022-23 there will be no key stage 2 test data, or GCSE exam results appropriate to use for this purpose, relating to 2020.

The DfE is therefore proposing to use data from 2016, 2017, 2018 and 2019 twice, as the five year set of data.

Views on this are sought in Question 4 of the survey.

Question 5 – Effective proxies for SEND and AP in the formula

The proxy measures used in the formula are shown above. The DfE is seeking views on how to improve the proxy factors used in the high needs national funding formula.

In previous consultations it has frequently been argued that the number of EHCPs should be a factor. The DfE have opposed this because their use varies between local authorities as does the threshold for obtaining an EHCP. Including EHCPs could also create a perverse incentive to increase the number simply to increase funding. The SEND review is examining whether system changes are needed to create greater consistency in EHC needs assessment.

Question 5 of the survey asks for ideas on which factors could be added to the formula, or could replace the current proxies.



Department
for Education

Review of national funding formula for allocations of high needs funding to local authorities: changes for 2022-23

Consultation

Launch date: Wednesday 10th February 2021

Responses by: Wednesday 24th March 2021

Historic spend factor - question 1

The historic spend factor in the high needs national funding formula is the main proxy we currently use for local circumstances that can significantly affect local authorities' levels of spending on high needs, and that take time to change. This formula lump sum is calculated using 50% of each local authority's planned expenditure on high needs in 2017-18, reported by local authorities.

We now have access to actual spending data from 2017-18. We therefore propose replacing the current lump sum included in the formula calculation with an amount calculated on the basis of actual expenditure in 2017-18, as reported by each local authority.

Before answering the question below, please read section 3 of the consultation document. Annex B to that document includes further information, and for each local authority the lump sum amount that we propose to use.

Do you agree that we should replace the current lump sum included in the formula calculation with an amount calculated on the basis of actual local authority expenditure, as reported by each local authority?

(Required) ☐ Agree ☐ Disagree ☐ Unsure

Please provide any additional comments:

Historic spend factor - question 2

The historic spend element of the high needs national funding formula has remained at a cash-flat level since the introduction of the national formula in 2018-19, moving from 44% of the overall formula funding in 2018-19 to 34% in the 2021-22 formula as that total funding has increased. Some local authorities may not have been able to change their spending patterns to keep pace with the percentage reduction in this factor, despite the protection afforded by the funding floor minimum increase of 8% this and next year. We are therefore considering whether to increase the proportion of funding allocated through this factor, alongside using actual expenditure amounts.

Using actual expenditure from a more recent year, and leaving the percentage at 50%, would increase the amount of the lump sum, but we are not proposing to do this as we are clear that local authorities' actual spending now or in future should not determine how much funding they receive. We could, however, increase the significance of this factor in the 2022-23 formula, by increasing the percentage of 2017-18 spending that is applied, allowing for a more gradual rate of change in the local pattern of spending.

Before answering the question below, please read section 3 of the consultation document.

Do you think that we should increase the percentage of actual expenditure in 2017-18 included in the funding formula calculation, or leave it at 50%? Use the comments box to propose a particular increase or reduction in the percentage.

(Required) ☐ Increase the percentage ☐ Keep the percentage at 50% ☐ Decrease the percentage ☐ Unsure or other

Comments:

Historic spend factor - question 3

We are aware that the continued use of historic spend is not the perfect long term solution for reflecting the patterns of local demand and supply that affect spending on high needs, as those patterns will naturally change over time. As part of the funding formula review that we are carrying out, and for consideration as we develop that formula in the years after 2022-23, we are therefore seeking views on potential alternatives to the historic spend factor. Any new factors would need to be appropriate for a funding formula (e.g. the data used should be collected on a consistent basis) and would also need to avoid creating a perverse incentive (e.g. to spend more on a certain type of provision so as to gain more funding, rather than to improve the quality or appropriateness of provision).

Before answering the question below, please refer to section 3 of the consultation document.

To what extent do you agree that the funding formula should include factors that reflect historical local demand for and supply of SEND and AP provision? If you have any suggestions for such factors that could eventually replace the historic spend factor, please provide these in the comments box.

(Required) ☐ Strongly agree ☐ Agree ☐ Neither agree nor disagree ☐ Disagree ☐ Strongly disagree

Comments:

Low attainment factor - question 4

The high needs national funding formula uses low attainment at both key stage 2 and key stage 4 as a proxy indicator for SEND. This figure is calculated using an average of results over the most recent 5 years of tests and exams, which for the 2022-23 formula would have meant using test and exam results from 2016 to 2020. Due to the COVID-19 pandemic, the 2020 key stage 2 tests and GCSE exams were cancelled. This has resulted in no key stage 2 data, and GCSE data that would be inappropriate to use because of the inconsistencies with the results from previous years.

We have considered using the same data as used to calculate last year's attainment formula factors, but this would mean data from more than 5 years ago. Instead, we propose to calculate low attainment by using data from 2016 to 2019, but then to double the weighting of the most recent exam data from 2019. This method could be used for a further year, assuming the 2021 test and exam results are also not able to be used for this purpose.

Please refer to section 4 of the consultation document before answering the following question.

Do you agree with our proposal to update the low attainment factors using data from 2016, and to substitute the most recent 2019 data in place of the missing 2020 attainment data?

(Required) ☐ Agree ☐ Disagree – calculate in the same way as last year ☐ Disagree – other (please provide further details in the comments) ☐ Unsure

Comments:

SEND and AP proxies - question 5

The high needs national funding formula uses six indicators which together act as a proxy for the level of more complex SEND, and need for alternative provision (AP) in an area. These indicators include: a measure of the local population of children and young people, the two low attainment measures (key stage 2 and key stage 4) referred to in question 4, two health and disability measures (the number of children in bad health and the number of families in receipt of disability living allowance), and two deprivation indicators (the number of children eligible for free school meals and a local area deprivation measure).

Numbers of EHC plans are not be used as a robust indicator of underlying need because the way they are used varies considerably across local areas, and the number of plans is therefore not necessarily directly associated with the local authority's need to spend. The ongoing SEND review is considering whether system changes are needed, to provide more consistency in EHC needs assessment and planning process, and to improve other aspects of the SEND arrangements.

Following the SEND review, we will consider whether consequent changes to these proxies that we use in the funding formula, as well as other funding changes, would be appropriate, as it is important that the proxies used support local authorities to deliver the outcomes of the review. At this stage we are keen to understand whether there are new factors either that could replace existing factors that have become out of date or otherwise unreliable, or that could be added to the formula to address types or prevalence of identified need, and we would welcome views.

Please refer to section 5 of the consultation document before giving your comments.

If you wish to offer ideas on factors that could be added to the current formula, or that could replace the current proxies, please provide further details in the comments box below.

Please provide your answer in the box below:

Equalities impact assessment - question 6

Please provide any information that you consider we should take into account in assessing the equalities impact of the proposals for change. Before answering this question, please refer to Annex C of the consultation document.

Please provide your answer in the box below: