Have we reached a ‘tipping point’? Trends in spending for children and young people with SEND in England.

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Executive summary

1. The purpose of this research, commissioned by the Local Government Association in July 2018, is to quantify the current pressure on budgets for children and young people with Special Educational Needs and Disability (SEND) and to better understand the extent to which high needs spending has been supported by additional funding from other sources, such as transfers from schools’ block funding, use of Dedicated Schools Grant (DSG) reserves or council core funding. It also seeks to shed light on the reasons behind the increasing expenditure on high needs and to propose some actions that might be taken by both local and national government to alleviate this pressure. The research findings are based on a review of existing published data, responses from 93 local authorities to an online high needs spending survey developed by the research team, and fieldwork in nine representative local areas.

2. Published data shows very clearly that demand for services for children and young people with SEND has increased dramatically in recent years. The number of children or young people with a statement of SEND or requiring an Education Health and Care Plan (EHCP) has risen by 35% between 2014 and 2018. The number of children and young people permanently excluded from school has risen by 67% in the same period. This has had a direct impact on high needs spending. Responses to our survey, from 93 local authorities, showed that the total annual gap between their high needs block allocations and their high needs expenditure rose from £123 million in 2015-16 to a projected £287 million by the end of 2018-19. Over the same period the average expenditure per local authority has increased from £38.8 million to £45.0 million.

3. The gap between high needs funding and high needs expenditure means that councils have been topping up high needs budgets from other sources such as schools’ block transfers or use of reserves. This has, to some extent, masked the severity of the funding issues until relatively recently. It means that local authorities and Schools Fora that have been managing their budgets prudently have had to use up a significant amount of their contingency funding to plug this gap. In the 93 local authorities which replied to our survey a total of £547 million additional funding has been transferred into to support the high needs block between 2015-16 and 2018-19. Of this, 54% was from the schools’ block and 29% was from DSG reserves. If we were to assume that the 93 councils which replied to our survey are representative of all upper tier authorities in England then we can estimate that nationally, across the four years since 2015-16, around £450 million of schools’ block money has been transferred into the high needs block and around £240 million of DSG reserves.

4. Despite the significant transfer of funding from schools’ block and drawing down of reserves, the net effect of increasing demand for SEND services and support over the last four years has left local government with a significant and increasing deficit. The 93 councils which responded to our survey ended 2015-16 with a total surplus on their high needs budgets of £39 million. This was the last year for which the end year position was positive. In each subsequent year the accumulated deficit has increased so that by the end of 2018-19 it will be £314 million. Again, if we assume that the 93 local authorities which responded to our survey are representative of all local authorities nationally we might estimate that the total national deficit on high needs block spending could be around £470 million.

5. For individual local authorities the average net deficit by the end of 2018-19 will stand at £3.4 million. Within this there is a considerable range with the largest deficit running to £21.3 million through to a small number of councils reporting a surplus. The percentage of councils reporting an
end-year deficit position has increased year on year from 34% in 2015-16 to 74% in 2018-19. While not all councils are in a deficit position this year, the feedback from almost all those who engaged in the research was that there is a “tipping point” and those that have not “tipped” yet are likely to do so over the next few years.

6. The rising costs of support for children and young people with SEND are driven both by the increasing numbers of children and young people requiring support and the increasing unit costs of that support. The research identified four main factors contributing to the rising numbers of children and young people requiring support. Firstly, the 2014 SEND code of practice encapsulated ambitious and far-reaching changes to the scope and focus of responsibilities for the education of children and young people with SEND. The new code appropriately and significantly raised parental expectations, while also extending the range of local authority responsibility from 0 to 25. This brought a large new cohort of young people within the remit of high needs block expenditure who would previously have been the responsibility of adult services. Responses to the survey suggest that young people over the age of 16 constitute 23% or all EHCPs and 17% of high needs expenditure. Increased post-16 responsibilities was the single most commonly cited factor contributing to the growth in high needs spending by local authorities responding to our survey.

7. The second factor contributing to the rise in numbers of children and young people requiring support for SEND are underlying demographic changes. Over recent years there has been a small increase in the overall 0-25 population. This has had a more significant impact in some areas than in others. At the same time advances in medical science, the impact of adverse child experiences and early life trauma, rising levels of poverty among families with children and better diagnoses of some conditions are leading local areas to report greater complexity of need.

8. The third key area that has been highlighted by our research as making a major contribution to the increased demand for services and support for children with SEND is a range of national policy decisions which, taken together, have not created an environment in which mainstream schools are rewarded or incentivised for being inclusive. While very many mainstream schools are absolutely committed to supporting children and young people with SEND to thrive they do this largely through a sense of moral purpose and, in some cases, a recognition that the system of high needs and alternative provision can only work if the responsibility for providing an excellent education for children and young people with SEND is seen as a collective endeavour. The issue is that the accountability regime currently in place, including the way Progress 8 is constructed, the focus of inspection and the changes to the curriculum, have not rewarded those schools which have maintained a high degree of inclusion and arguably has incentivised schools to take a less inclusive stance.

9. Finally, the research highlights the impact of funding pressures across the education and children’s services landscape. Pressure on school base budgets mean that mainstream schools are less able to support children and young people with SEND without recourse to the additional funding which is contingent on an EHCP; health and children’s social care, under budget pressures of their own, are less likely to be able to fairly share the cost of high-cost placements for children and young people which are made primarily for health or safeguarding reasons; and pressures on a raft of supporting services such as CAMHS, speech and language therapies, physical therapies, education welfare and family support services all reduce the possibility of maintaining a strong culture of prevention and early intervention.

10. At the same time as rising numbers of children and young people with SEND, the research found evidence that the unit costs of providing support were also rising. This was chiefly due to the trend in which children and young people with EHCPs are educated in ever more specialist forms of provision. The movement of children and young people with EHCPs out of mainstream schools and
into maintained special schools and special academies or independent and non-maintained special schools (INMSS) has cost an estimated £277 million over four years. Of particular concern to local areas is the increased reliance on the INMSS sector as local special schools have reached capacity, because of the relatively high cost of this provision. While only 6% of children and young people with EHCPs are in INMSS, information supplied by some of our fieldwork authorities suggests that these placements account for on average 14% of expenditure.

11. As part of our research we asked local authorities what actions they had taken which had the greatest impact on alleviating pressure on the high needs budget. The survey responses to this question speak to an agenda of working with mainstream schools to foster a strong approach to inclusion, early intervention and the prevention of needs escalating, working with local maintained specialist providers and mainstream schools to offer different types of flexible provision, bearing down on the use of high-cost out of area placements through effective commissioning and tightening up on the thresholds for awarding an EHCP where a child’s needs can be met successfully through non-statutory forms of support.

12. The research identifies seven specific areas of focus which, when taken together, can have an impact on controlling the escalating costs of provision and support for SEND. These are developing a shared understanding of funding issues with schools and parents; supporting inclusion while holding mainstream schools to account; building the confidence of parents and young people in the local offer; maximising the capacity and ingenuity of local special schools; making sparing and judicious use of INMSS places; developing new post-16 pathways to independence; and working with partners across the system.

13. However, the overwhelming consensus from the authorities we engaged in the research was that, while there are certainly actions that local areas can take (and have taken) which will mitigate the overall funding pressures, the constraints on local authorities are such that the ability to manage within budget going forward looks very fragile indeed. Even those areas whose financial position appeared to be strongest talked about ‘when’ not ‘if’ their high needs budget were to go into deficit. It is the strong thesis of this research that while system-wide influences are fuelling demand and cost, there are also structural constraints that significantly limit how local areas can manage that demand.

14. The four most significant limiting constraints on the ability of local authorities to act decisively to bring spending on high needs back into line with budgets are detailed in the report. The first is the very high percentage – around 85% - of expenditure tied to individual pupils and placements which cannot be released in the short term. The second is the nature of the legislation, and the weight given to parental preference in tribunal decisions and cases going to judicial review, which fetters local authorities’ ability to maintain a threshold for undertaking EHCP assessments or control the trend into increasingly specialist placements. The third is limits on borrowing, limits on delegation of funding from schools and a cap on the amount that can be transferred from the schools’ block into high needs makes it increasingly difficult for local authorities to create the financial headroom that would be needed to invest in the kind of early intervention and preventative activity that might be able to break the cycle of escalating costs. Finally, the constraints on capital and the limitations on creating new provision leave local areas overly reliant on the non-state sector when their maintained special schools and special academies become full.

15. As a result of pressures on demand that are beyond local authorities’ control, and structural limitations on what local authorities can do to contain spending, confidence in the system going forward is very low. Almost all (97%) of local authorities responding to our survey thought that high needs spending would continue to increase in future and 84% were not confident that they would be able to balance their budget going forward. If the system were to continue as it is now, and we
project forward the current reported level of deficit, we estimate that there could be a national deficit on high needs spending between £1.2 billion and £1.6 billion by 2021.

16. The very clear message from local areas engaged in this research is that without some additional injection of funding there is very little prospect for many of them recovering from the deficit position they are now facing. However, there also needs to be a recognition that when a system runs on a demand-led basis, against annual budgets that are fixed and ring-fenced, there is almost no amount of money that will be enough. It is the contention of this research that there are structural features of the current SEND system which mean that there will continue to be a significant risk of overspending the high needs block, even if budgets were very significantly increased.

17. To create a more sustainable funding settlement going forward there may be merit in considering some key questions around how incentives in the system might be better aligned to support inclusion, meet needs within the local community of schools, and corral partners to use the high needs block to support all young people with SEND as a collective endeavour. These might include:
   a. setting much clearer national expectations for mainstream schools;
   b. rethinking how high stakes accountability measures reflect the achievements of schools which make good progress with children and young people with SEND or at risk of exclusion;
   c. correcting the perverse funding incentives that mean that it can be cheaper to pass the cost of an EHCP or a permanent exclusion onto the high needs block than making good quality preventative support available in-school;
   d. looking again at the focus and content of EHCPs to afford greater flexibility to schools in how they arrange and deliver the support needed;
   e. providing ring-fenced investment from government designed explicitly to support new and evidence-based approaches to early intervention and prevention at scale;
   f. providing additional capital investment and flexibility about how that can be deployed by local government;
   g. issuing a national call for evidence in what works for educating children and young people with these needs, backed up by sufficient funding to then take successful approaches to scale and a new focus for teacher training and ongoing professional development;
   h. more specific advice for Tribunals, parents and local authorities on how the test on efficient use of resources can be applied fairly when comparing state and non-state special school placements; and
   i. reaffirming the principle around the equitable sharing of costs between health and education where these are driven by the health needs of the child or young person.

18. At the heart of this research is a simple challenge. Local authorities have all the responsibility for maintaining high needs expenditure within budget, and yet have almost no hard levers with which to effect this. The continued viability of the system relies too much on the ability of local government to cajole partners to enter into a collaborative, inclusive approach to developing and delivering local provision for SEND, without the powers to sustain such an approach in face of misaligned incentives. This research argues for additional investment to shore up the immediate overspend, but unless this is accompanied by a more fundamental reboot of the powers that local government needs to act as an effective strategic commissioner of SEND, the fear is that the respite will only be temporary.
Introduction

This research seeks to explore and understand a conundrum. There has never been more money invested in support for special educational needs in this country - £5.99 billion in 2018-19 – and yet a funding crisis threatens to engulf the sector. This report aims not just to quantify and describe the extent of the shortfall in funding, important though that is, but also shed light on the underlying drivers that are leading to inexorably increasing demand for services. What comes through the testimony of those who have engaged in this research is a ‘perfect storm’ of competing and powerful factors: demographic trends fuelling an underlying increase in need; ambitious changes to the focus and scope of statutory responsibilities that arguably have not been fully costed; misaligned incentives for inclusion; and structural constraints that curtail the ability of local government to act as an effective strategic commissioner for SEND. In creating an understanding of how these different forces interact, and the impact they have on how the SEND system is organised and funded, it is hoped that this research might point the way to a future direction of travel that is more sustainable.

Purpose of the research and methodology

In July 2018 Isos Partnership was commissioned by the Local Government Association to carry out research to better understand the factors driving increased demand for local authority support for children and young people with SEND in England, and what this means for funding and commissioning these services. A key focus of the research has been to identify the current national high needs funding gap (the gap between funding and need) facing all upper-tier councils in England and project how reforms to High Needs and the introduction of the National Funding Formula for schools will further impact on council budgets. A further aim of the research has been to produce a robust figure to show how much funding councils have transferred to the high needs block since 2015 from the schools’ block, from Dedicated Schools Grant reserves or other funding sources.

We addressed the research questions posed in three key ways. Initially we conducted a scoping exercise of existing publications, data and research relating to demands for support for SEND and the impact on high-needs spending. We analysed the data published by the DfE on SEND and exclusions, and information on council budgets and spending published through Section 251 reports.

Secondly, we constructed an online survey that was sent to all local authorities in England and requested information on trends in budgets, spending and inputs to the High Needs block from 2015-16 to the current financial year. Ninety-three local authorities responded to the survey and the information they provided forms the backbone of this research.

Thirdly, we carried out fieldwork visits to nine local authorities and spoke to Lead Members; Directors of Children’s Services; Assistant Directors with responsibility for Inclusion and SEND; heads of Finance and heads of Children’s Services Finance; School Forum Chairs; and representatives of Parent Carer Forums. The purpose of the fieldwork was to gain an insight into the underlying factors and drivers which might explain some of the trends in spending identified through the survey responses.

In selecting local authorities to take part in the fieldwork stage of the research we were keen to achieve a sample which was broadly representative of the country. We therefore used published data to develop a sampling methodology which categorised local authorities as low, medium or high against two key variables which we felt would be relevant to the research question:

- The percentage increase in the number of EHCPs from 2014 – 2018
• The high needs block allocation per deprived child (0-25) – calculated by applying the IDACI percentages to the 0-25 population total and dividing the high needs block allocation by that number.

This created a grid, as shown below. We invited one authority from each square of the grid to take part in the fieldwork. We also tested the sample to ensure that it had a balance between urban and rural areas, large shires and smaller metropolitan, boroughs and unitary authorities, geographical distribution, deprivation, the percentage of EHCPs and the degree of academisation.

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How high needs funding works

In order to appreciate fully the extent and nature of the high needs funding pressure facing local authorities in England it is important to understand how high needs funding works. Every local authority is allocated an annual high needs budget (called the high needs block) which forms one part of the Dedicated Schools Grant (DSG). The purpose of the high needs block is to provide funding for education, support and services required by children and young people with SEND and those who have been excluded from mainstream school and require alternative provision.

In general, for children and young people with special education needs but below the threshold for requiring an EHC plan, the funding for the additional support they might need to fulfil their potential is met from mainstream school budgets. For children or young people with Education Health and Care Plans (EHCPs) or those who have been permanently excluded from mainstream school the funding provided by the high needs block budget will depend on where that child is educated.

a. For children and young people with an EHCP educated in a mainstream school the first £10,000 in costs will be born by the school’s base budget. This is made up from £4,000 which is roughly equivalent to the average weighted per pupil unit of funding plus up to £6,000 for additional support. Costs over and above the first £10,000 of support are generally supplied as ‘top-up’
funding from the high needs block and will be dependent on the needs and outcomes set out in the EHCP.

b. For children and young people with an EHCP educated in a maintained special school, in alternative provision or in a special unit attached to a mainstream school, the high needs block will meet the full cost of the education provision. This will equate to an initial £10,000 per place plus an additional ‘top-up’ at a level which is locally negotiated and, again, will depend on the needs and outcomes specified in the EHCP. The same funding arrangement is in place for children and young people without an EHCP who have been permanently excluded and require full time education in alternative provision. In the case of special academies and AP academies place funding is recouped from the local high needs block and paid directly to the school by the ESFA.

c. For children and young people in an independent or non-maintained special school or specialist post-16 institutions the high needs block will meet the full cost of education provision. However, in some cases where residential placements have been made children’s social care budgets may contribute to the costs of residential care where this has been specified for reasons of safeguarding or child protection rather than for educational reasons.

d. For children and young people in further education colleges the first £4,000 of costs are met from the college’s base budget, the next £6,000 of costs will be recouped from a local area’s high needs block and paid through the ESFA and the top-up or ‘element 3’ funding comes directly from the high needs block.

The high needs block will also cover expenditure on services which support inclusion in mainstream schools, on specific therapies and interventions not covered through core health budgets, on hospital education and medical services.

There are a number of items of SEND related expenditure which are not covered by the high needs block and which fall within core council expenditure. These include the cost of educational psychology teams, central staff that support the administration of the SEND process and the costs of transport for children and young people with SEND. These are outside the scope of this research. However, it is worth noting that the trends which have led to increasing spend against high needs block allocations are also leading to increasing demands on these other areas of SEND related expenditure. In five fieldwork local authorities which shared detailed financial data with us, SEND related expenditure which is not covered by the high needs block totalled around £55 million in 2018-19. This represents just over 20% of the total high needs block spend.

Evidence of the increasing demand for support for children with SEND

The last five years have been characterised by a rapid and unprecedented rise in demand for services for children with SEND. Data published by the Department for Education shows that between 2014 and 2018 the number of children and young people with an EHCP or statement of SEN increased by 35% from 237,111 to 319,819.1 This is in stark comparison with the previous five years (2010 to 2014) in which the number of children and young people with statements / EHCPs increased by just 4%. The data published by the DfE is based on a data collection in January 2018. In our survey we asked local authorities how many children and young people in their local area were currently subject to an EHCP in 2018-19. For the local authorities that responded, a total of 201,808 children and young people were subject to an EHCP which is an increase of 13,345 or 7% on the published data for January 2018 in those local areas. This suggests that the rapid increase in the numbers of children and young people requiring additional support for SEND shows no sign of abating.

1 Statements of SEN and EHC Plans: England, 2018
The high needs block also funds the cost of education for children and young people in alternative provision. It is therefore important to note that at the same time as rising numbers of EHCPs there has been an even more pronounced increase in the number of children and young people permanently excluded – from 4,630 in 2012-13 to 7,720 in 2016-17.² It is worth noting in this regard that 41.9% of the children and young people permanently excluded in 2016-17 had some form of special educational needs and 4.8% were subject to an EHCP.² There is therefore a high degree of commonality between these two populations.

**What has been the impact on high needs spending?**

**What we can learn from previously published data sources**

The significant increases in both the number of children and young people who have education health and care plans, and the number of young people requiring alternative provision has inevitably had an impact on the cost of providing education for these young people from local authorities’ high needs block allocations. Several different sources of published data have indicated the risk to budgets.

Every year local authorities complete a Section 251 statement which sets out their planned budget and then actual expenditure against nationally defined categories. A simple analysis of the section 251 data shows that for the at least the last 4 years the total budgeted spend for places and services that fall within the remit of the high needs block has exceeded the total high needs block allocation. There has also been a marked increased in the percentage of councils reporting that their high needs block expenditure has exceeded their own high needs budgets – from 39% in 2014-15 to 55% in 2016-17.

The second key piece of published information which provides an indication of the high-needs funding gap is how local authorities responded to the re-baselining exercise carried out by the DfE in 2016-17. In preparation for the introduction of the new schools funding formula and the high needs funding formula, local authorities were invited to reapportion their total DSG expenditure between the schools’ block, the high needs block and the central services block based on historical patterns of spend. This was in recognition of the fact that prior to the introduction of the national funding formulae local authorities enjoyed a relatively large degree of discretion in moving funding between the different blocks of the DSG. This would not be possible to the same extent under the new formula-based system. As a result of the re-baselining exercise there was a net transfer into the high needs block of around £270 million.³ This is an indication of the extent to which the high needs block had historically been propped up by movement of money from other bits of the education system.

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² Statements of SEN and EHC Plans: England, 2018
Permanent and Fixed Period Exclusions in England: 2016 to 2017
³ Dedicated Schools Grant Allocations: 2017 to 2018 and Dedicated Schools Grant Allocations: 2016 to 2017
The third piece of compelling published evidence is the survey of local authorities that was conducted by ADCS in September 2017. Eighty-five local authorities responded to the survey of which 17 reported that their spend was within budget and 68 reported that their high needs block expenditure exceeded their budget. The total high needs block overspend for 2016-17, reported through the survey, was £139.5 million.4

**The results of our survey**

To underpin this research, we sent an online survey out to all 152 higher tier authorities to ask about their pattern of high needs spending over the last 4 years up to and including 2018-19. A copy of the questions asked in the survey is included in annex A. In total 93 local authorities responded to the survey.

Since 2015-16 the total spend against the high needs block has increased, in the 93 local authorities which replied, from £3.6 billion to £4.2 billion. An increase of 17%. Over the same period the high needs block allocation for the same local authorities has increased from £3.4 billion to £3.9 billion. The gap between high needs expenditure and high needs funding has risen from £123 million in 2015-16 to a projected £287 million by the end of 2018-19. Over the same period the average expenditure per local authority has increased from £38.8 million to £45.0 million.5

The gap between high needs funding and high needs expenditure means that councils have been topping up high needs budgets from other sources such as schools’ block transfers or use of reserves. This has, to some extent, masked the severity of the funding issues until relatively recently. It means that local authorities and Schools Fora that have been managing their budgets prudently have had to use up a significant amount of their contingency funding to plug this gap. The chart below shows the total funding transferred in to supplement the high needs block from schools’ block, early years block, drawing down DSG reserves and other funding sources including councils’ core budgets. In total, across the 4 years, £547 million has been transferred into the high needs block of which 54% was from the schools’ block and 29% was from DSG reserves.6

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4 High Needs funding survey of ADCS members
5 Isos Partnership Survey
6 Isos Partnership Survey
It is interesting that although the high needs spending gap is growing the total amount transferred in has decreased since 2016-17. This probably reflects both the 0.5% cap on transfers from the schools’ block and the fact that increasingly councils are reporting that their DSG reserves are now exhausted. This theory is given weight by the fact that, although the total sum of inputs into the high needs block has decreased, the number of councils reporting in our survey that they have transferred funding from the schools’ block has increased from 36 in 2015-16 to 50 in 2018-19. This suggests that more councils are seeking additional funding from the schools’ block but the amount being requested per authority has reduced. At the same time the number of councils drawing down on DSG reserves to supplement the high needs block decreased from 31 to 22, which supports the increasingly common message we are hearing from local areas that the reserves have now been spent.

If we were to assume that the 93 councils which replied to our survey are representative of all upper tier authorities in England then we can use this data to estimate the total transfers into the high needs block from schools’ block and from DSG reserves at a national level. The chart below shows this projection. The analysis suggests that inputs into the high needs block from both schools’ block and from DSG reserves peaked nationally in 2016-17 at £142 million pounds and £83 million respectively. We estimate that across the four years since 2015-16 around £450 million of schools’ block money has been transferred into the high needs block and around £240 million of DSG reserves.\(^7\)

\(^7\) To estimate the national projections we calculated the school population of the local authorities which responded to the survey as a percentage of the national school population for 2018. This came to 67%. We then scaled up the survey responses by this factor to arrive at a national total.
Despite the significant transfer of funding from schools’ block and drawing down of reserves, the net effect of increasing demand for SEND services and support over the last four years has left local government with a significant and increasing deficit. The chart below shows the net deficit or surplus on the high needs block at the end of each financial year since 2015-16.\(^8\) We also asked councils to project forward their net carry forward or deficit for the end of the 2018-19 financial year. The deficit figures quoted here and throughout the report are the level of cumulative overspend before final end-year adjustments are made. In some councils final reported figures will be different to these because they have used underspends in other areas of expenditure to offset the deficit. We have not quoted these adjusted figures as there appears to be some variability between local areas in how these end year adjustments are made and they risk masking the extent of the shortfall in funding.

The chart shows that 2015-16 was the last year for which the end year position was positive. In each subsequent year the accumulated deficit has increased so that by the end of 2018-19 it will stand at £314 million. For individual local authorities the average net deficit by the end of 2018-19 will stand at £3.4 million. Within this there is a considerable range, as shown in the chart below, with the largest deficit running to £21.3 million through to a small number of councils reporting a surplus. The percentage of councils reporting an end-year deficit position has increased year on year from 34% in 2015-16 to 74% in 2018-19. While not all councils are in a deficit position this year, the feedback from almost all those who engaged in the research was that there is a “tipping point” and those that have not “tipped” yet are likely to do so over the next few years.

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\(^8\) The end year deficit / carry forward was calculated from the survey responses by adding the local authority’s high needs block allocation, plus any reported inputs into the high needs budget from other sources, to the previous end year carry forward or deficit, and then subtracting the local authority’s reported expenditure to arrive at an end-year position.
Overall the level of deficit in the 93 local authorities that completed the survey represents 8% of the total high needs block allocation. However, it is interesting to observe that there are some quite striking regional differences in the deficit expressed as a percentage of the total high needs block allocation. Understanding what has led to this regional variation requires further investigation, however it would appear that there may be a particular combination of demand pressures that are affecting local authorities in the capital.

<table>
<thead>
<tr>
<th>Region</th>
<th>Deficit as a percentage of high needs budget</th>
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</thead>
<tbody>
<tr>
<td>North East</td>
<td>-8%</td>
</tr>
<tr>
<td>North West</td>
<td>-9%</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>-10%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>-2%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>-7%</td>
</tr>
<tr>
<td>East of England</td>
<td>-9%</td>
</tr>
<tr>
<td>London</td>
<td>-13%</td>
</tr>
<tr>
<td>South East</td>
<td>-6%</td>
</tr>
<tr>
<td>South West</td>
<td>-8%</td>
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</tbody>
</table>

The information supplied by the 93 local authorities also provides a basis on which to estimate the national deficit on high needs spending. Again, if we were to assume that the 93 local authorities which responded to our survey were representative of the whole population this would suggest that the national deficit on high needs spending by the end of 2018-19 could be £472 million.10

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9 Isos Partnership Survey
10 To estimate the national projections we calculated the school population of the local authorities which responded to the survey as a percentage of the national school population for 2018. This came to 67%. We then scaled up the survey responses by this factor to arrive at a national total.
As described above, a number of the local authorities that we spoke to as part of our research described the system reaching a ‘tipping point’. By this they meant that they had taken reasonable and sensible steps to limit spending, they had exhausted any accumulated reserves, they had transferred money from the schools’ block to the limit imposed or concluded that schools’ budgets could not meet any further demands made of them and they could only see spending outstripping budgets in the future. This is because demands for increased spending are being driven by some inexorable and unavoidable pressures in the system, over which LAs have little control. These are explored in the next section of this report.

While some LAs have been better at forestalling these pressures, they are affecting all local areas across the system. Indeed, a minority of the councils that we spoke to as part of our fieldwork were projecting that they would end 2018-19 in a broadly balanced position but could not see how they would maintain that balance going forward. Other councils, as the data suggest, reached their own ‘tipping point’ two to three years ago and were now facing the prospect of accumulated overspends over a number of years. It is telling that of the 24 local authorities that projected either a balanced budget or a surplus by the end of 2018-19 only 5 were confident that they would be able to continue to balance high needs spending against budget going forward.

**Why has the need to spend on SEND increased?**

There are two dimensions that are driving the increasing spend on high needs services and support. The first is the growing number of children and young people requiring support. The second is the increasing unit cost of placements. In this section we draw on evidence from our survey and fieldwork to understand in greater detail what is driving these two pressures.

Through our survey we asked local authorities what the three most significant factors were that were leading to demand or cost pressures on the high needs budget. Ninety-one local authorities responded to this question and the chart below shows the frequency with which each of the contributory factors was listed.\(^{11}\) We have excluded “rising numbers of EHCPs” from the analysis as this was common to the vast majority of local areas that responded to the survey but is in itself a symptom of rising demand rather than an underlying cause. Obviously, there is a high degree of interdependence between these categories, but

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11 Isos Partnership Survey
it is nonetheless a useful insight into the relative weight attributed to different influences within the high needs system.

What is immediately striking is that the extension of local authority responsibilities for children and young people up to the age of 25 was the most commonly cited factor – included by nearly half of the local areas that replied to the survey. This is closely followed by the pressure on maintained special school capacity and the increased use of independent and non-maintained special school places or maintained special schools out of area. These two factors are, of course, very closely linked and were often cited together. The third most commonly cited factor was the increasing complexity of need, closely followed by factors that relate to the ability, capacity and willingness of mainstream schools to include children and young people with SEND. Just over a quarter of local authorities listed these within their top three factors. In the following section we explore some of these issues in greater detail, based on feedback received from the fieldwork areas. We look in turn at factors which have led to increasing numbers of children and young people with SEND requiring support and factors which have contributed to increasing unit costs of that support.

Understanding the increasing numbers of children and young people requiring support for SEND

Our research suggests that there are four key factors which have contributed to the significant rise in children with a statement of SEN or an EHCP and the number of children who have been permanently excluded and requirement a placement in alternative provision. These are legislative changes, demographic changes, policy decisions which have had an impact on inclusion, and funding pressures in education and children’s services more broadly. In this section we will examine each of these in turn:

**Changes to legislation governing SEND responsibilities and practice**

The first and most important point to make is that the Children’s and Families Act 2014, which resulted in the new SEND Code of Practice, was an ambitious and far-reaching reform that radically reshaped the landscape for SEND. Significantly, the new SEND Code of Practice deliberately and appropriately raised the
expectations of parents of children with SEND about the level of support that their child should receive as part of a state-funded education. The system-wide increase in aspirations and expectations for children with SEND is to be celebrated and retained. However, it must also be recognised that the introduction of the SEND reforms has been accompanied by a rise in EHCPs, and that broader evidence offered through Ofsted findings and CQC local area inspections have highlighted some of the factors, such as parental expectations and lack of confidence in SEN support, that have driven this.

The second very significant change to local authority SEND responsibility brought about by the new legislation and Code of Practice was the extension of responsibility for children and young people with SEND from 0 to 25. This has had two big implications for the number of children and young people with EHCPs. First, it means that each year the cohort of young people with statements or with EHCPs who would previously have the transition from children’s services responsibility to adult services responsibility instead remain as a funding commitment for the high needs block. National data shows that there are, on average, around 17,000 children and young people per academic year with EHCPs.12 Assuming that 90% of these retain their EHCPs post-19 then one might assume that between 2014 and 2020 the total population of children and young people with EHCPs will grow by 15,000 per year, even if all other factors remained equal. That automatic year-on-year growth should tail-off after 2020 when those who were aged 18 at the time the new legislation was introduced have reached the age 25 and transition into adult services.

The further implication of the extension of responsibilities for young people with SEND up to age 25 is that for the first time new EHCPs are being created for those post-16 in significant numbers. Published data shows that, in 2014, 262 new plans were created for young people post-16. By 2017 this had risen to 3,256.13 In many cases young people with SEND entering college might apply for an EHCP because this enables the FE College in question to claim the ‘element 2’ funding from the ESFA for that young person which is not available without a plan.

Overall, responses from our survey suggest that young people post-16 account for 23% of total EHCPs and 17% of total high needs block expenditure. This equates to over £700 million in total in 2018-19 for the post-16 cohort in the 93 local authorities which replied to the survey.

Underlying demographic factors

Alongside the major legislative changes described above, England has also been experiencing a range of demographic trends that are likely to have contributed to the increase in children and young people with SEND. The first of these is population growth. School census data shows that between 2014 and 2018 the number of pupils in all schools in England grew by just over 400,000 – an increase of 5%.15 Given that,

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12 Special Educational Needs in England – January 2018: national tables
13 Statements of SEN and EHC Plans: England, 2018
14 Isos Partnership Survey
15 Schools, Pupils and Their Characteristics: January 2018
historically, rates of SEND have remained relatively stable, a simple increase in population would be expected to contribute to an increase in the number of children and young people with EHCPs.

However, the impact of the population growth on the need to spend is not evenly felt. Some local areas have experienced much higher population growth than others. This presents an issue because, prior to the introduction of the high needs funding formula in 2016-17, high need block allocations were tied to historical spending patterns and were not based on population change. This has placed a significant burden on local areas which experienced rapid population growth prior to the change in funding arrangements. Even since the introduction of the new funding formula only half the high needs block allocation is subject to a formula calculation (with the remaining 50% still based on historical spending patterns) which arguably still leaves those experiencing rapid population growth with a funding gap. By way of illustration, the ten local authorities which have seen the highest population growth in pupils recorded on the school census since 2014 have experienced an average reduction in their per capita high needs budget from £717 per head to £640 per head – a drop of 11% per pupil. By contrast the five local authorities whose school populations have remained static since 2014 only experienced a per capita reduction in funding from £581 per pupil to £566 per pupil – a drop of 3% per head.

Alongside basic population growth there are a number of factors at play which appear to be increasing the percentage of the population that might experience SEND. Around a quarter of local authorities that responded to the survey stated that they were seeing an increasing complexity and depth of need in their local populations. This is a message that was echoed by the fieldwork authorities we visited, and by SEND professionals with whom we have engaged through a wide variety of projects in this field. It is hard to pinpoint why children and young people might be experiencing more complex needs, but it is likely to be a combination of different issues coming together. One local authority officer who responded to our survey pointed to the confluence of three distinct trends that mean both that children and young people are presenting higher levels of need and that there is greater identification of underlying need that may always have been present in the population:

“Advances in medical science have resulted in children with life-limiting conditions having a longer life expectancy and the survival rate of premature babies has increased which often leads to developmental complications.

The Impact of Adverse Childhood Experiences and early life trauma, for example as a result of parental domestic violence, substance misuse, separation and loss, have resulted in an increase in requests relation to SEMH needs.

There is greater understanding of underlying medical conditions which can be seen, for example, in the growing number of CYP identified as having ASD or chromosome deletions.”

The third underlying demographic change which may be influencing rates of SEND in England is poverty. Isos research for the DfE on developing a high needs funding formula, Research on funding for young people with special educational needs, 2015, showed that there is very strong correlation between levels of deprivation in a local area and levels of SEND. The Institute of Fiscal Studies report Living Standards, poverty and inequality in the UK: 2017-18 to 2021-22 published in November 2017 projected that absolute child poverty is expected to increase between 2015-16 to 2021-22 by 4.1%. Their findings are based on the fact “that poorer families with children get a larger share of their income from benefits so they are more exposed to planned benefit cuts, and larger families are especially affected by the limiting of means-tested benefits to two children.” The exact mechanisms by which higher levels of deprivation are related to higher levels of SEND are hard to pinpoint and subject to considerable debate. However, intuitively, it is not difficult to imagine what the impact on a child’s social, emotional and mental health might be of living in absolute poverty or indeed what the impact might be on a family’s resilience and ability to support their
children in education if they are contending with the challenges of living in poverty and have a child or children with special educational needs or a disability.

**Policy decisions that have an impact on inclusion**

The third key area that has been highlighted by our research as making a major contribution to the increased demand for services and support for children with SEND is a range of national policy decisions which, taken together, have not created an environment in which mainstream schools are rewarded or incentivised for being inclusive.

It is important to recognise that nearly half of all children and young people with EHCPs are educated in mainstream schools and very many mainstream schools are absolutely committed to supporting children and young people with SEND to thrive. However, they do this largely through a sense of moral purpose and, in some cases, a recognition that the system of high needs and alternative provision can only work if the responsibility for providing an excellent education for children and young people with SEND is seen as a collective endeavour.

The issue is that the accountability regime currently in place has not rewarded those schools which have maintained a high degree of inclusion and arguably has incentivised schools to take a less inclusive stance. There are three interlocking aspects to this – the impact of Progress 8, the focus of the inspection regime and the changes to the curriculum, particularly in secondary schools.

Progress 8 was introduced as an accountability measure for all secondary schools in 2016, with the intention of providing a way to measure the progress of all pupils, rather than simply rewarding schools for the percentage of pupils who reached a particular threshold (for examples five GCSEs A*-C). In theory this focus on individual pupil progress should have been an incentive for schools to focus on their whole cohort and could have driven more inclusive behaviours. However, in reality, Progress 8 has not served pupils with SEND well. There are two specific issues here. The first is that Progress 8 is deliberately academic in focus and will only count pupil progress against 8 qualifications - mathematics (double weighted) and English (double weighted), 3 further qualifications that count in the English Baccalaureate (EBacc) measure and 3 further qualifications that can be GCSE qualifications (including EBacc subjects) or any other non-GCSE qualifications on the DfE approved list. This focus on an ‘academic core’ means that too often the progress made by children and young people with SEND makes no positive contribution to a school’s Progress 8 score and by implication those schools with a higher percentage of children and young people with SEND than their neighbouring schools will appear to be achieving less well.

The second issue with the construction of the Progress 8 measure is that increases in progress at the higher end of the ability spectrum are weighted more favourably than those at the lower end of the ability spectrum. This can be illustrated with a concrete, if simplistic, example. If a young person, based on the progress made by those with similar prior attainment at Key Stage 2, was expected to achieve eight GCSEs at grade G but actually achieved eight GCSEs at grade F her individual Progress 8 score would be +0.4. If another young person, again based on the prior attainment of her peers, was expected to achieve eight GCSEs at grade B but actually achieved eight GCSEs at grade A her individual Progress 8 score would be +1.2. In these two scenarios both pupils increased their expected progress by 1 grade per qualification (from G to F and from B to A) but the school would receive triple the credit for the higher attaining pupil compared with the lower attaining pupil. Again, this disproportionately rewards those schools with a cohort that is skewed towards higher prior attainment and a more academic focus.

Arguably the reason why Progress 8 and Attainment 8 have been such powerful drivers of schools’ attitude to inclusion is due to the focus placed on them in the inspection framework. Many of the local authorities to which we spoke highlighted the pressure placed on mainstream schools to maximise their Progress 8 and Attainment 8 data in order to demonstrate their improvement to inspectors. This pressure was particularly acute for schools Requiring Improvement or in Special Measures. This has led some schools to
find ways to remove from their cohort those children and young people likely to make no, or a negative, contribution to their Progress 8 score. This could lead to schools permanently excluding or seeking an EHCP as a precursor for moving the young person on to a special school. It is worth noting that, based on data supplied by our fieldwork local authorities, securing alternative provision for permanently excluded pupils constitutes on average around 10% of their total high needs expenditure. This varied from as little as 4% to as high as 17%.

The implications of the accountability regime have, according to many of the local areas involved in this research, been compounded by the increasing focus on academic subjects at GCSE. This is implicit in the construction of the Progress 8 and Attainment 8 measures described above, but has also been felt through the introduction of the English Baccalaureate (EBACC) and the considerable reduction in the number of non-GCSE based qualifications that can contribute to a school’s measures of performance. In some respects, these changes were needed to counteract the unhealthy practice in a minority of schools of entering young people for ‘equivalent’ qualifications which boosted the schools’ performance measures without considering whether these were educationally in the best interests of the pupils themselves. However, arguably, the pendulum has now swung too far. Through curriculum change, and the concomitant demise of 14-19 partnerships, many schools feel that they cannot offer the sort of purposeful vocational curriculum that strongly appeals to some young people with SEND.

**Funding pressures across the system**

As argued above, legislative changes, demographic trends and a policy environment which has not incentivised inclusion have all contributed to rising numbers of children and young people requiring EHCPs or permanently excluded from school. These changes have been exacerbated by the impact of funding pressures across the education and children’s services landscape.

The funding pressure being felt by schools as a result of inflationary increases, increasing teachers’ pay and higher pension contributions for support staff are well-documented. The IFS has calculated that total school spending per pupil has decreased in real terms by 8% between 2009-10 and 2017-18.\(^\text{16}\) This has compromised the ability and capacity of mainstream schools to continue to provide the support required by children and young people with SEND. There are two forces at work here. When a school is facing budgetary pressure it has to maintain its complement of core teaching staff. This means that funding pressure often results in the loss of support staff upon whom schools rely to provide pastoral support and the flexibility for small group or individual differentiation which is critical for children and young people with SEND. Where mainstream schools can no longer afford to meet the needs of a pupil on SEN support through their base budgets there is a strong incentive to pursue an EHCP in order to attract additional funding.

The second issue is that when base budgets become very constrained mainstream schools find that they are not able to meet the accumulated first £6,000 in additional support costs for children and young people with EHCPs, expected under the high-needs funding arrangements. There is capacity within the high needs funding regulations for local authorities to provide additional funding for schools in these circumstances but not all do so, and where they do this results in another pressure on the high needs budget. Where additional funding is not offered it can be another trigger for mainstream schools to seek a specialist placement for a pupil with an EHCP. In the words of one local authority:

“Mainstream schools are reducing TA support to balance budgets which results in them being less able to support pupils with SEND or meet the first £6,000 of any additional support required before children can be supported through High Needs.”

\(^{16}\) 2018 annual report on education spending in England, IFS
Finally, it is clear that budget pressures have not just been experienced in education. One of the key challenges expressed by local authorities which took part in the fieldwork was the reductions and/or capacity constraints in key non-education services which support children and young people with SEND and their families. These included, but were not limited to, family-based early help services, speech and language therapies, physiotherapy and occupational services and child and adolescent mental health services (CAMHS). In particular, securing any additional support for children and young people below a statutory threshold was becoming increasingly difficult, adding another incentive for parents or mainstream schools to apply for an EHCP assessment in the hope of securing whatever support might be needed.

Increased unit costs

The section above attempts to explain why there has been a 35% rise in the number of children and young people with EHCPs in the last four years and a 67% rise in permanent exclusions. However, the rise in the number of EHCPs and exclusions is only part of the story. At the same time local authorities report that the unit cost of providing for children and young people with SEND has increased. This is not, in general, because inflationary pressures have raised the cost of individual placements. For the most part local authorities have resisted calls to increase top-up funding levels for mainstream or maintained special schools so the costs of inflation have, in general, been born by the schools themselves rather than the high-needs budget. Instead, the system has seen a steady drift of more children with EHCPs being educated in higher-cost placements (maintained special and special academies, non-maintained special schools and independent special schools) and fewer in mainstream.

Data based on the school census shows that the percentage of statutory school age children and young people with EHCPs educated in the special sector (state special schools and INMSS) has grown steadily from 47% in 2014 to 52% in 2018. Similarly, data published on the whole EHCP cohort shows that this year is the first year in which there are more children and young people with EHCPs in special schools and alternative provision than there are in mainstream schools. This represents an increase of 21,500 children with EHCPs educated in the special sector since 2014.

The other trend that is apparent in the placement data is the recent rise in the number of children in independent or non-maintained special schools or specialist post-16 institutions. Only two years of data is available, but the total number of children and young people with EHCPs in these types of special school or institution has increased from 17,961 in 2017 to 19,753 in 2018. This is an increase of nearly 10% in a single year. The number of placements in INMSS and SPIs is important for the sector due to the relatively high cost of these places. While they represent only 6% of the number of children and young people with EHCPs, data supplied by our fieldwork local authorities suggest they account for, on average, 14% of total high needs block expenditure. Again, there were large variations here, ranging from 2% of expenditure to 24%.

This data is entirely consistent with the feedback from local authorities gathered through this research. About 44% of local authorities completing the survey cited either the pressure on special school capacity or the increased use of INMSS and out of area placements as one of the chief contributing factors to the pressures facing their high needs budgets. The upward drift in terms of placements was clearly described by fieldwork authorities and those completing the survey. They explained how the funding constraints, accountability pressures and curriculum changes in mainstream schools (described above) had reduced

17 Statements of SEN and EHC Plans: England, 2018
18 Permanent and Fixed Period Exclusions in England: 2016 to 2017
19 Special educational needs in England – January 2018
20 Statements of SEN and EHC Plans: England, 2018
21 As above
their capacity and, in some cases, willingness to make good quality provision for children with SEND. This in turn led to more mainstream schools saying that they were unable to meet needs and more parents losing confidence in the ability of the mainstream sector to cater for their children’s SEND. This led to more requests for placements in special schools. In many areas, over recent years, maintained special schools have become full which has required local authorities to place more children and young people in the independent and non-maintained sector. Furthermore, some local authorities report increasing numbers of parents expressing a preference for placements in INMSS schools which then, due to the changes in the code of practice and the weight placed on parental preference, are typically upheld through Tribunals.

There is also a further degree of complexity to this picture. A number of the local authorities to whom we spoke said the children and young people most likely to be placed in the INMSS sector were those with complex SEMH needs or ASD which resulted in very challenging behaviours. For example, one local authority shared data that showed over 60% of their spend on placements in INMSS schools was accounted for by children and young people with SEMH and ASD. Work we have done for the LGA on developing the good practice guide for SEND and our experience in working with individual local authorities in planning their strategic approach to SEND suggests that many mainstream schools can find it difficult to cater to the needs of some of these children and young people because of the impact that their behaviour can have on other pupils and staff. Similarly, placing these children and young people in generic area-based special schools can prove challenging where other pupils may be very emotionally or physically vulnerable.

A number of local authorities also stressed that, whereas they had been able to ‘hold down’ increases to top-up costs in maintained schools their dependence on the INMSS sector to both make up for the shortfall in maintained special school places and meet the very complex needs of some children and young people whose needs could not be catered for locally, left them very vulnerable to price increases in the sector. In general, data on the cost of individual placements is not publicly available but two local authorities shared their average placement costs with us. In one (an inner city local authority) the average placement costs in INMSS had increased by about 6% over five years. This was broadly in line with increases in other types of placement. However, in the second authority (a large county) average placement costs in INMSS schools had increased by 33% in the three years up to 2016-17.

The final piece of the jigsaw in understanding the impact that these high-cost placements can have on the high needs budget is the interface between education, health and children’s social care. By far the most expensive placements are residential placements in independent and non-maintained special schools. In one local authority, for example, the average annual placement costs for children and young people in residential placements for 2017-18 were £79,000, but in some cases could rise much higher. These placements can be made for educational reasons, but they might equally well be recommended in order to meet a young person’s health needs, for reasons of safeguarding or because the child is looked after. Some authorities have well-functioning complex placements panels in place and section 75 agreements which enable education, health and children’s social care to apportion the costs of these very expensive placements fairly. However other local areas have reported that pressure on either health or social care budgets can mean that these arrangements do not work as well as they should and often the full cost of complex residential placements falls on the high needs block, even if the originating need for the placement is not educational.

The impact of the upwards movement of placements into more specialist provision on high needs budgets can be clearly modelled. Based on the data supplied by two fieldwork authorities we can estimate that the average annual cost to the high needs budget of a placement in 2017-18 was roughly:

<table>
<thead>
<tr>
<th>Mainstream</th>
<th>Maintained special</th>
<th>INMSS</th>
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<tr>
<td>£6000 per pupil per year</td>
<td>£23,000 per pupil per year</td>
<td>£40,000 per pupil per year</td>
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In 2018 there were 268,545 children and young people with EHCPs or placed in alternative provision recorded on the school census. Of these 45% were in mainstream schools, 48% were in state special schools or alternative provision, and 7% were in independent or non-maintained special schools. If we apply the average placement costs to this breakdown the estimated cost of educating those children is £3.9 billion. If, however, one were to apply the pattern of placements recorded in 2014 – 50% in mainstream, 44% in maintained special or AP and 6% in INMSS – then the cost falls to around £3.7 billion. In other words, one can estimate that the movement into more specialist forms of provision seen over the five years last years has come at a cost of around £200 million.

**What can be done to address high needs funding pressures?**

The data and evidence presented in the preceding sections demonstrates that there are systemic pressures around funding provision and support for children and young people with SEND that are now affecting a large majority of local areas. Sixty-nine of the local authorities which responded to our survey – almost three quarters – were projecting a net deficit by the end of 2018-19. Eighty-six out of 93 local authorities projected to spend more than their high needs block allocation in 2018-19 – in other words were projecting an in-year overspend.

Having said this, there is also a minority of local authorities which have managed to remain broadly on budget. Furthermore, the extent to which local authorities are in deficit varies hugely from those registering an end-year surplus to those where the deficit accounts for more than two-thirds of their annual budget. This variety begs the question whether there are actions that can be taken at a local level which mitigate or reduce the potential overspend and what might be learned, as a system, from those local areas which have bucked the trend.

The overwhelming consensus from the authorities we engaged in the fieldwork was that, while there are certainly actions that local areas can take which will mitigate the overall funding pressures, the constraints on local authorities are such that the ability to manage within budget going forward looks very fragile indeed. Even those areas whose financial position appeared to be strongest talked about ‘when’ not ‘if’ their high needs budget were to go into deficit. Those who most eloquently described reaching a ‘tipping point’ often cited the fact that all reserves had now been used up leaving them few options to plug the funding gap.

This is not to argue that all local authorities have got it right, all of the time. Indeed, a few of the authorities we spoke to as part of the fieldwork were very honest about the fact that they had woken up to some of the challenges ‘too late’ and were now trying to rectify these, or pointed to where issues in the quality of provision had not been sufficiently addressed and that this had exacerbated funding issues. However, it is the strong thesis of this research that while system-wide influences are fuelling demand and cost, there are also structural constraints that significantly limit how local areas can manage that demand. This section therefore addresses three separate questions – what local authorities can do to reduce rapidly rising expenditure; what constrains local authorities from being able to do more; and what national government might consider as solutions going forward.

**What local authorities can do to contain expenditure**

As part of our survey we asked local authorities “What actions taken by the local authority, schools or other partners have been most effective in alleviating pressure on the High Needs budget or generating

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22Special educational needs in England – January 2018
savings?”. We categorised responses into a number of common themes and calculated how many local authorities had cited these, as shown in the chart below23:

The interesting conclusion to be drawn from this is that five out of the seven most commonly cited actions are all targeted at ensuring that, over time, the needs of children and young people with EHCPs can be met successfully in less specialist forms of provision. The survey responses speak to an agenda of working with mainstream schools to foster a strong approach to inclusion, early intervention and the prevention of needs escalating, working with local maintained specialist providers and mainstream schools to offer different types of flexible provision, bearing down on the use of high-cost out of area placements through effective commissioning and tightening up on the thresholds for awarding an EHCP where a child’s needs can be met successfully through non-statutory forms of support. This is very consistent with what we heard from our fieldwork authorities, and with many of the messages that have come through our recently published report Developing and sustaining an effective local SEND system also commissioned by the LGA. These themes are explored in greater detail below:

**Developing shared ownership of the funding issues**

The fundamental first step which underpins any effort to get a grip on high needs spending is reaching the point where schools understand that overspending on the high needs block is not just a ‘local authority problem’. The actions that schools take and the decisions they make about whether and how they can meet a child’s needs have a fundamental impact on the overall cost of educating children with SEND in a local area. So, creating a partnership with all schools either through Schools Forum or through other mechanisms, which begins with fostering deep understanding of the issue, moves to joint ownership and results in collective problem solving is critical. In some areas they have also been successful in engaging Parent Carer Forum representatives in a strategic and shared ownership of the issues which has resulted in fruitful dialogue about and co-production of how services might be reshaped to reduce costs while continuing to meet the needs of children and families.

**Supporting inclusion while holding mainstream schools to account**

The next tier of action at a local level is working with mainstream schools to reinforce and support a really inclusive culture. This can entail putting in place very clear expectations about what every school should be able to offer children and young people with SEND, based on principles of entitlement and equality, and

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23 Isos Partnership Survey
with reference to what schools are obliged to do by law. Many areas have successfully implemented a ‘graduated response’ in mainstream schools for supporting children and young people with SEND based on a cycle of assessment, planning, action and reviewing which makes clear the stages that schools should go through before considering application for an EHCP. However, crucially, building an inclusive culture is not just about clarity of expectation. It is also about developing the skills of teachers to work with children with a wide range of needs, changing hearts and minds, and offering access to specialist support for teaching in a mainstream setting where that is needed. Some local areas talked persuasively about work that they had done to review or recommission their support for mainstream schools to ensure that it was efficient, met needs and improved outcomes for children and young people with SEND.

**Building the confidence of parents and young people in the local system**

The 2014 Code of Practice placed parental preference and the voice of the young person at the heart of the reforms. If, therefore, local areas are to avoid ever-escalating numbers of EHCPs and the upwards drift into increasingly specialist placements then it is critical to develop the confidence among parents and young people that their local SEN system – the partnership of schools and services on offer – can meet their needs really well. This is, first and foremost, about being absolutely committed to the quality of provision – about ensuring that there is really good teaching in place for children with SEND wherever they are educated. Arguably doing so is more difficult in an increasingly autonomous school system but nonetheless the local authority can use its position as a commissioner of services and provision for children and young people with SEND to open up that conversation, particularly where attention has been paid to strategic ownership of funding issues and work has been done to foster and support inclusion.

However, having good schools (both special and mainstream) is not enough. Parental confidence can easily be eroded if their experience of the system of assessment, planning and review is poor. Where parents feel that they have not been heard, where they feel receiving support is a continual upwards struggle, where communications are sporadic and core processes, such as carrying out assessments for EHCPs or taking placement decisions are protracted then, understandably, they might cease to believe that the education system locally is able to meet the needs of their child. To this end, an important factor in managing costs is maintaining a sufficient and efficient core team to carry out statutory assessment, oversee EHCP reviews and provide a strong case-work function.

**Maximising the capacity and ingenuity of local special schools**

One of the chief drivers of increasing costs identified through our survey was the capacity in local maintained special schools to meet demand. To put it bluntly, local special schools are full in too many places. Some local authorities spoke about the effectiveness of the work they had done to develop new forms of provision, such as SEN units or resource bases which could complement the special school sector. Others have used the free school route to create additional provision. Others have used small capital allocations to refurbish existing special schools to increase their capacity and/or meet new and emerging needs. Creating the space to have a strategic dialogue with special schools about how collectively they might meet the needs of young people who are currently not being placed in a local area, for example through more bespoke packages of support, has been very effective in some local authorities.

**Making sparing and judicious use of INMSS placements**

There will always be a need for some children and young people with SEND to be educated in the non-maintained and independent sector. There is a crucial role for the sector in catering for that minority of children and young people whose needs cannot be met effectively in the maintained sector due to their complexity or very specialist nature. However, almost half the local authorities which responded to the survey were concerned about the impact that increasing numbers of places in the INMSS sector was having on the affordability of provision. Through the fieldwork, local areas also provided evidence that where a placement in an INMSS school required significant travel this could have the effect of isolating young...
people from their community and peers and make the transition to adulthood more difficult. A number of the fieldwork areas were able to share good practice in managing placements into INMSS. They pointed to the importance of having a really tight, fair and transparent process, through a multi-agency panel, for deciding on placements; to setting very clear outcomes for what the placement was expected to achieve and setting the expectation from the outset that the placement would be reviewed and may be time-limited; using the leverage of consortium arrangements where possible to reduce individual placement costs; and working with families and young people to ‘bring them back’ into local schools or further education at key transition points.

**Developing post-16 pathways**

The increased scope of local authority responsibilities post-16 was the most commonly cited factor which was contributing to rising demand and costs, according to our survey. Proportionately, in local authorities responding to the survey, the post-16 cohort now account for 23% of EHCPs and around 17% of spend. This is an area that will continue to grow as the successive cohorts move through the system. However, some local authorities have been more effective in managing the financial impact of that growth, for example in working with local colleges to create pathways and forms of provision which sit between a general FE offer and a specialist post-16 institution. Others are beginning to promote and foster routes to independence with employers, particularly utilising the council and other statutory partners as employers with whom to develop apprenticeships and supported internships for young people with SEND. Local authorities have also worked with families, young people and providers to challenge post-16 placements where young people are not progressing educationally, or are not on a pathway to increased independence, and where necessary to discontinue EHCPs.

**Working with partners**

Finally, effective support for SEND and effective management of high needs costs requires good partnership working, in particular, across health and education. There are examples of where efficiencies and better outcomes can be found through more strategic joint commissioning of health services or support which help maintain young people with SEND successfully in their local education placements; through sharing the costs of the most complex placements; and through ensuring that all the professionals who come into contact with a young person with SEND and their family understand the overall approach to inclusion, the point at which an EHCP assessment might be appropriate, and the range of non-statutory support and services which are on offer.

**What limits local authorities’ capacity to contain high needs expenditure?**

There is good evidence from our fieldwork that where local authorities do the things listed above consistently and well it can contribute to creating a more sustainable environment for high-needs spending. However, there is equally good evidence that local authorities can do all those things and still end up in a deficit position or, that having done those things and balanced budgets against the odds for a number of years, are now facing increased demand and no additional capacity going forward. At the heart of the issue there are some very significant constraints which prevent local authorities in managing demand in a way that protects the public purse. These are graphically illustrated and explained in more detail below:
The proportion of funding attached to individual pupils and places

The first constraint is inherent in the very nature of high needs funding. According to our survey 85% of all high needs funding is spent on top-ups and places which are for individual children. In some local authorities this is over 90%. The very large majority of EHCPs remain with children and young people for the entirety of their educational career and therefore the spending attached to those EHCPs generally continues too. It is sometimes possible for local authorities to construct new packages of support or a different placement option part-way through a young person’s education which both better meets their needs and delivers overall savings, but this is relatively rare. This means that the very large majority of current high needs spending is ‘locked in’ for a considerable number of years and cannot quickly be either reduced or redeployed.

24 Isos Partnership Survey
The nature of the legislation

The second issue relates to the impact of Tribunal decisions and Judicial Review. The most recent data shows that SEND Tribunals are becoming more common. In 2016-17 there were 4725 appeals registered compared with 3,712 the previous year – an increase of 27%. Of these 1599 went to a full panel hearing, compared with 883 the previous year – an increase of 81%. This suggests that not only are there more appeals, but they are less likely to be resolved through mediation or other means before coming to a panel hearing. The vast majority – 89% - of Tribunal cases find in favour of the parent.

There are likely to be a number of reasons why SEND Tribunals are increasing. Firstly, it will be a simple corollary of the fact that there are more children and young people with EHCPs and therefore more decisions that can be challenged. Secondly, as local authorities are increasingly required, as a result of funding pressures, to make difficult to decisions about how scarce resources are apportioned, parents might be more likely to challenge those decisions. Thirdly it would appear that the system is becoming increasingly litigious. A number of local authorities involved in the research pointed to the emergence of more legal firms operating in this space and encouraging parents to appeal.

Given the evidence marshalled above it is no surprise that the two most frequent reasons for lodging a Tribunal appeal are refusal to secure an EHC assessment (32% of appeals) and against the contents of sections B, F and I in the EHCP (25%). Importantly, Section I is where a child or young person’s placement is named. This illustrates the impact that Tribunals have on the ability of local areas to manage costs and demand. Local authorities engaged in the research have argued that where they do not believe that a child or young person requires an EHCP to progress successfully in their education they will generally refuse to carry out an assessment rather than go through the process of an assessment only to refuse to make a plan. As can be seen from the data these threshold-based decisions around assessment are increasingly being challenged successfully which then sets a legal precedent for future cases and adds to the increasing upwards pressure on the number of EHCPs in the system.

The second area of contention is around placement decisions. The most significant area which has cost implications for authorities is where parents make the case successfully that their child should be placed in a ‘Section 41’ independent school. These are independent schools and SPIs which voluntarily apply to join an approved list held by the DfE and thereby make themselves subject to certain statutory duties such as abiding by the SEND code of practice. Unlike other independent special schools, Section 41 independent schools are treated the same as other maintained or non-maintained schools in Tribunal decisions about placements. However, the cost of an individual placement is often much higher than in a local maintained special school or special academy. Tribunal decisions upholding individual placements, based on parental preference, can cost a local authority upwards of £100,000 per year for a single child and can significantly restrict the ability of local authorities to contain the trend we have seen of more children in increasingly specialist placements.

The third area worth pausing on briefly is the area of Judicial Review. There have been a number of high-profile decisions recently made against local authorities which have been attempting to make reductions in spending in services that support for vulnerable children and their families or children with SEND. What the long-term implications of these decisions on the ability of local authorities to make cuts to services and support is unknown, particularly as there are more cases in the pipeline.

None of this is to undermine the vital role that Tribunals and the judiciary play in upholding the rights of parents and families. However, there may be a question to debate around how, at a time when resources are so constrained and difficult decisions have to be made about how these can most fairly be

\[25\] Tribunals and gender recognition certificate statistics quarterly – July to September 2017

\[26\] As above
apportioned across a whole population, arguments which support a sustainable approach to high needs spending can be weighed against questions of individual parental preference.

**Difficulty in creating headroom for invest to save recovery plans**

The third constraint which limits the ability of local authorities to tackle high needs overspends is that the evidence suggests that the approach most likely to have an impact is a strong focus on early intervention, preventing needs from escalating, building a strong inclusive ethos in mainstream and creating the capacity and commitment to local provision and placements. Achieving this requires investment. However, the capacity of local authorities to create the financial headroom to make this shift is severely curtailed – there are limits on borrowing, limits on delegation of funding from schools and a cap on the amount that can be transferred from the schools’ block into high needs. It is unclear in such a tightly controlled resource environment where local government can create the space to try new approaches which *might* have the capacity to break the cycle of increasing costs. This is explained by one local authority in this way:

"**Significant overspend forecast for this year. Accumulated DSG deficit by 31.3.19. No viable route left for recovery of deficit now that 99.5% of schools block is ring-fenced.**"

**Inflexibility in the creation of new provision**

Finally, as has been argued above, one of the key issues that is driving higher costs is that in many areas maintained special schools are at capacity, leading to more children and young people in higher cost out of area and INMSS placements. However, local authorities are not able to make the strategic planning decisions that would enable them to expand local provision and alleviate pressure on the system. Capital allocations that could be used to fund expansion of existing schools are quite modest and attracting the capital investment to create a new school is dependent on the success of a free school application, which is both uncertain and time-consuming. It is important that the creation of additional special school places is not seen as a simple panacea. Evidence suggests that creating new places without doing all the other things that promote inclusion and early intervention will simply lead to those places becoming full again. Nonetheless the restrictions on local authorities as commissioners to expand the special school estate in response to rapidly rising demand leaves local government at the mercy of high and rising costs in the non-state sector.

**The catch-22**

The combination of demand pressures and the limitations on what local authorities can do to manage that demand have left some in an impossible position. The only area of spending where savings can realistically be made is in the relatively small percentage of funding devoted to supporting inclusion and investing in prevention as it is non-statutory and not tied to individual children. However, reducing this capacity can have a knock-on effect that the very demand pressures which have created the funding problem in the first place become more intense, leading to even higher numbers of children and young people requiring EHCPs, more exclusions and greater numbers of children and young people educated in the special sector. For some areas this can become a downward spiral from which it is difficult to emerge.

As one local authority described the situation:

"**Our local authority has gone from a position of underspend against HN block allocation in 2016/17 financial year to forecasting a significant overspend in 17/18 financial year. Indicators are that this will be an upward trajectory with the risk of any further cuts to provision meaning greater spending required as this is likely to impact on the ability of schools to respond to need at an early stage. This is because our local authority has already streamlined all services to schools and provide very limited access to centrally funded behaviour and learning support services. There is no sign of the spending slowing down, and the demand in the system is increasing.**"
What does the future look like?

As part of our research we asked local authorities how confident they felt about being able to balance their high needs budgets going forward and what the anticipated trajectory of high needs spending would be over the next five years. The charts below show their responses.

It is quite evident that almost everybody working in SEND in local government believes that high needs spending will increase over the next five years. Furthermore, a large majority, 84%, lack confidence that they will be able to balance their budgets over the next five years. Some of the individual comments submitted by local authorities are very eloquent about their concerns for the future. These are just four comments, but they are representative of a much larger set of responses received:

“Initial work has been undertaken to project future years costs and it is not expected to reduce in the foreseeable future. For 19-20 alone our local authority is forecasting a £7.1m budget pressure.”

“There is a risk that High Needs Block overspends now and in the coming years could destabilise the DSG Grant and potentially fall back on Councils which could in turn destabilise the Local Government funding system.”

“Whilst every effort will be made to balance the high needs budget the significant pressures will make this impossible unless there is a significant increase in our HNB Grant. Although attempts will be made to keep the HNB in balance it will be at the detriment of pupils, students and educational establishments.”

“Our ability to set a balanced budget depends entirely on future year funding allocations reflecting demand. We can review provision and funding of services and top up, but a system of funding that does not recognise either cost or population demands will place continuous pressure on LAs.”

Based on the information collected through the survey we can make a rough estimate of what the total deficit on high needs expenditure might be in three years’ time if no changes were made to the current system. The chart below shows two different ways of making this estimated projection. The first methodology simply looks at how the deficit, as a percentage of high needs block allocations, has grown.

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27 Isos Partnership Survey
between 2015 and 2018 and projects forward that rate of growth. The second methodology uses information from 2015 to 2018 to project forward both high needs block allocations and spend against the high needs block. It further assumes that three quarters of local authorities going forward will transfer 0.5% of their schools’ block into the high needs block. Calculating the future deficit in these two ways and then scaling up the figures so that they are nationally representative suggests that the total deficit could be between £1.2 and £1.6 billion by 2021.28

Questions for national government to consider

The very clear message from local areas engaged in this research is that without some additional injection of funding there is very little prospect for many of them recovering from the deficit position they are now facing. For some local authorities lifting the cap on funding formula increases would significantly aid their attempts to balance budgets going forward, but this is only the case for those which seek to gain under the current formula. Furthermore, it has been argued strongly that there are demand pressures, based on changes to legislation, such as the extension of responsibilities to 25 and very strong emphasis placed on parental preference, which have never been sufficiently costed in to the funding model.

However, there also needs to be a recognition that when a system runs on a demand-led basis, against annual budgets that are fixed and ring-fenced, there is almost no amount of money that will be enough. It is the contention of this research that there are structural features of the current SEND system which mean that there will continue to be a significant risk of overspending the high needs block, even if budgets were very significantly increased. Under the current legislative framework, the local authority is the strategic commissioner for SEND and therefore needs to have the tools to be able to take strategic decisions and this includes being able to exercise judgement about carrying out assessments and making placements, developing provision, and holding the system to account for outcomes.

To create a more sustainable funding settlement going forward there may be merit in considering some key questions around how incentives in the system might be better aligned to support inclusion, meet needs within the local community of schools, and corral partners to use the high needs block to support all young people with SEND as a collective endeavour. The ideas set out below are designed to promote a further conversation about the future of high needs funding and commissioning.

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28 Isos Partnership Survey and internal analysis
How can mainstream schools be supported, incentivised and rewarded for maintaining an active and effective approach to inclusion?

This might entail setting much clearer national expectations for mainstream schools for what every school should be offering to children and young people with SEND, and putting in place the accountability mechanisms to hold those schools to account which do not deliver against expectations; rethinking how Progress 8 and other high accountability measures reflect the achievements of schools which make good progress with children and young people with SEND or at risk of exclusion; and correcting the perverse funding incentives that mean that, in the short term, it can be cheaper to pass the cost of an EHCP or a permanent exclusion onto the high needs block than making good quality preventative support available in-school.

It has also been suggested that there might be merit in looking again at the focus and content of EHCPs to afford greater flexibility to schools in how they arrange and deliver the support needed to meet the outcomes set out in the EHCP and providing more space in the assessment and planning process to draw out the strengths of the family so that the plan recognises that supporting the child or young person is a shared endeavour.

Another suggestion raised through the fieldwork was that there might be an additional ring-fenced investment from government designed explicitly to support new and evidence-based approaches to early intervention and prevention at scale, with significant investment in early years and family-based support.

How can the pressure on the capacity of local maintained special schools be alleviated?

Partly this will be about addressing some of the issues above. However, consideration might also be given to whether greater capital investment might be justified and flexibility about how that can be deployed by local government as the strategic commissioner for SEND.

How can the financial impact of increasing numbers of high-cost placements in INMSS and out of area provision be addressed?

Evidence suggests that finding suitable placements for children and young people with ASD and complex SEMH needs is one of the main drivers in the increasing use of the non-state sector. There may be value in issuing a national call for evidence in what works for educating children and young people with these needs, backed up by sufficient funding to then take successful approaches to scale and a new focus for teacher training, ongoing professional development and leadership training on how to create a supportive environment for children and young people with these needs.

Consideration might also be given to providing more specific advice for Tribunals, parents and local authorities on how the test on efficient use of resources can be applied when considering two different placement options. In particular this might address how placement costs can be fairly compared and the specific circumstances when the efficiency test might legitimately override parental preference. Alternatively, it may be that a condition of becoming a ‘section 41’ school may be to voluntarily enter into a placement banding scheme which would make costs more transparent, less subject to external market forces and more easily comparable with maintained special schools.

Finally, there may be more that the DfE and DoH together can do to reaffirm the principle around the equitable sharing of costs where these are driven by the health needs of the child or young person.

Conclusion

The question posed in the title to this research is whether the pressures on the high needs funding have now forced the system to a tipping point. The answer to this question must be yes. Based on the survey data, within four years the system has moved from a net surplus to a deficit of at least £314 million and
more likely a deficit of between £400 and £500 million pounds. The majority of local authorities are in
deficit on their high-needs block, believe high needs spending pressures will continue to rise, and have little
confidence in their ability to balance budgets going forward. The significant additional investments that
have been made in high needs spending, from schools’ block money and by drawing down on reserves,
have propped up the system, delayed the impact and masked the extent of the difficulty. But now more
and more councils are reporting that their reserves have gone. Even those local areas which have recorded
a balanced budget this year talk about ‘when’ not ‘if’ they will go into deficit.

At the very heart of this issue is a simple challenge. Local authorities have all the responsibility for
maintaining high needs expenditure within budget, and yet have almost no hard levers with which to effect
this. The continued viability of the system relies too much on the ability of local government to cajole
partners to enter into a collaborative, inclusive approach to developing and delivering local provision for
SEND, without the powers to sustain such an approach in face of misaligned incentives. This research
argues for additional investment to shore up the immediate overspend, but unless this is accompanied by
a more fundamental reboot of the powers that local government needs to act as an effective strategic
commissioner of SEND, the fear is that the respite will only be temporary.
Annex A

Survey of local authority High Needs budgets and spending for the LGA

Please provide details of your total high needs budget and spending in the 2015-16 financial year *

High Needs carry forward or deficit from 2014-15 (please enter any deficit as a negative number) £

High Needs block allocation from Department for Education, after import/export adjustments but before recoupment and deductions for academies and places funded directly by ESFA £

Transfer from Schools Block to High Needs block £

Transfer from Early Years Block to High Needs block £

Any draw down on reserves £

Any other additional income or funding for High Needs (for example this could include funding from core council budgets, use of central school services block DSG, other ring-fenced funding or revenue generation.) Please explain in comments box £

Any savings target allocated against high needs spending for the 2015-16 financial year (please enter amount as a negative) £

Spending against the High Needs block budget, including spend on places in academies directly funded by ESFA (please enter the full amount as a negative number) £

Total surplus or deficit for 2015-16: £

Comments:

Please provide details of your total high needs budget and spending in the 2016-17 financial year *

High Needs carry forward or deficit from 2015-16 (please enter any deficit as a negative number). If the amount entered here is not the same as the total calculated for previous question please use the comment box to explain why. £

High Needs block allocation from Department for Education, after import/export adjustments but before recoupment and deductions for academies and places funded directly by ESFA £

Transfer from Schools Block to High Needs block £

Transfer from Early Years Block to High Needs block £

Any draw down on reserves £
Any other additional income or funding for High Needs (for example this could include funding from core council budgets, use of central school services block DSG, other ring-fenced funding or revenue generation.) Please explain in comments box

Any savings target allocated against high needs spending for the 2016-17 financial year (please enter amount as a negative)

Spending against the High Needs block budget, including spend on places in academies directly funded by ESFA (please enter the full amount as a negative number)

**Total surplus or deficit for 2016-17:**

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Please provide details of your total high needs budget and spending in the 2017-18 financial year *

High Needs carry forward or deficit from 2016-17 (please enter any deficit as a negative number. If the amount entered here is not the same as the total calculated for previous question please use the comment box to explain why)

High Needs block allocation from Department for Education, after import/export adjustments but before recoupment and deductions for academies and places funded directly by ESFA

Transfer from Schools Block to High Needs block

Transfer from Early Years Block to High Needs block

Any draw down on reserves

Any other additional income or funding for High Needs (for example this could include funding from core council budgets, use of central school services block DSG, other ring-fenced funding or revenue generation.) Please explain in comments box

Any savings target allocated against high needs spending for the 2017-18 financial year (please enter amount as a negative)

Spending against the High Needs block budget, including spend on places in academies directly funded by ESFA (please the full amount enter as a negative number)

**Total surplus or deficit for 2017-18:**

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Please provide details of your projected total high needs budget and spending in the 2018-19 financial year *

High Needs carry forward or deficit from 2017-18 (please enter any deficit as a negative number. If the amount entered here is not the same as the total calculated for previous question please use the comment box to explain why)

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High Needs block allocation from Department for Education, after import/export adjustments but before recoupment and deductions for academies and places funded directly by ESFA

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Transfer from Schools Block to High Needs block

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Transfer from Early Years Block to High Needs block

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Any other additional income or funding for High Needs (for example this could include funding from core council budgets, use of central school services block DSG, other ring-fenced funding or revenue generation.) Please explain in comments box

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Any savings target allocated against high needs spending for the 2018-19 financial year (please enter amount as a negative)

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Spending against the High Needs block budget, including spend on places in academies directly funded by ESFA (please enter the full amount as a negative number)

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**Total projected surplus or deficit for 2018-19:**

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Comments:

7. Roughly what proportion of your 2018-19 High Needs budget will be spent on the following categories?

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<th>Category</th>
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<td>Places and top-ups for individual children with SEND</td>
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<td>Services or activities to promote inclusion or early intervention (whether delivered centrally or by schools)</td>
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<td>Central expenditure related to SEND casework or administration funded from the high needs block</td>
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<td>Other (please use the comments box to describe this)</td>
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**Total:**

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Comments:
8. Currently how many children and young people in your local authority have Education Health and Care Plans (EHCPs), broken down by the following age categories?

0-4  
5-16  
17-25  
Total:  

9. Roughly what percentage of your 2018-19 High Needs budget will be spent on children and young people in the following age categories?

0-4  
5-16  
17-25  
Total:  

10. What are the three most significant factors which are leading to demand or cost pressures on the High Needs budget?

11. What actions taken by the local authority, schools or other partners have been most effective in alleviating pressure on the High Needs budget or generating savings?

12. What do you anticipate will be the trajectory for high needs spending over the next five years?

- High needs spending will increase  
- High needs spending will remain relatively stable  
- High needs spending will decrease  

Comments:  

13. How confident are you that you will be able to balance your high needs budget over the next five years?