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Special Educational Needs Funding Systems: Role of Incentives

Claire Crawford, Luke Sibieta and Anna Vignoles

Every funding system creates incentives for some individuals to behave in particular ways, and systems for financing Special Educational Needs (SEN) are no different. In this short note, we examine the incentives that systems for financing special educational needs can create for different individuals.

We begin with a general overview of the incentives (financial and non financial) and motivations that could exist for parents, schools and local authorities. We then examine how a series of different funding systems currently in use across England can alter these incentives, each with an example case study. In particular, we look at the most common current model (defined below) with the example of Essex, a system of banded funding with the example of Durham, a model where funds are delegated to schools with the example of Newham, and a hybrid system with the example of Surrey. In the last section, we list a number of other systems used by other countries, and the different incentives they create.

Here is a summary of the main findings:

- Under most systems that require the local authority (LA) to be involved in allocating resources on a per child basis, whether the common model, the hybrid model or the banded model, the interests of schools and parents are aligned, with a joint incentive to maximise the resources they obtain from the LA for the child. On the opposite side stands the LA, with an incentive to limit the resources allocated per child, given they have a finite amount of resource and must make difficult decisions about how to spend it.
- Systems where the interests of schools and parents are aligned, such as the common, hybrid and banded models, are most likely to lead to an increase in the proportion of students identified as having SEN and consequent cost escalation. The extent to which this happens in practice depends on the strength of the LA to counter such pressure.
- Banding systems may make the expected level of resources and support for children with different types of SEN more transparent and ensure some parity between individuals. However, a banded system is likely to result in parents arguing about which band their child should be allocated to, rather than about the specific resources allocated to them under the common statement system. Given that there is no such thing as an objective measure of a child's need, moving to a banded system will not necessarily reduce the potential for conflict between schools and parents on the one hand and the LA on the other. Increased transparency may also mean parents move to LAs with the most generous funding for a given band of need. However, to the extent that this happens there will be pressure on LAs to harmonise practices over time.

- Only the delegated system has the potential to sever the alignment of interests between schools and parents. With the delegated system, the point of conflict will shift to being between parents and schools. This could of course still lead to litigation and other pressure but it would be between schools and parents rather than LA and schools/parents. This may have negative implications for school-parent relationships. If the burden of resolving conflicts shifts to schools under the delegated system, this is likely to have resource implications for schools as compared to systems where LAs bear the burden of resolving conflict. One could argue, however, that schools are more aware of what the child genuinely needs and hence they should be able to allocate their resources more optimally than a decision by the LA.
- The delegated system does, however, create risks for:
 - small schools that may not be able to absorb the cost of sudden changes in the number of high need students;
 - very high need children (unless there is a further statementing system to allow schools to apply for per pupil funding for very high need children) who may become very undesirable from a schools' perspective due to their high cost;
 - non-SEN children who may lose out in some schools that happen to have a very high proportion of high need children who require disproportionate resource in a given individual year.
- In every system we might also be concerned about the incentives facing schools vis a vis student enrolment. Schools may generally have an incentive to keep the proportion of students with SEN low, in order to maximise the schools' Key Stage 2 scores or GCSE grades. If, however, the school chooses to maximise its contextualised valued added (CVA¹) score, then since the CVA model takes account of children with SEN, the school would not have an incentive to keep SEN children out.
- Under the common, hybrid and banded systems, schools have no financial disincentive to admit high need students since the LA pays their costs. Under the delegated system, however, schools have a disincentive to admit high cost students.

The recent Green Paper on this topic included a number of proposals which can be considered using the framework for analysis in this note. Firstly, it proposed combining school action and school action plus into a single level of SEN identified by schools and presumably funded out of school budgets, with no pupil led funding. This would not markedly change the incentives that parents, schools and LAs face under the current system for pupils with non statemented SEN, as set out below.

Secondly, for children with a statement of need, there is a proposal for an explicit grid system setting out what services are expected to be provided for children with particular needs. It is unclear whether or not this is a full banded funding system as per the banded system outlined in this note, however, as it is not explicit in the Green Paper whether or not this banding would be used to determine the *level of funding* associated with particular needs (rather than just highlighting what type and level of provision is

¹ This report was written before the government published a consultation and statement of intent on reforms to performance tables (<http://www.education.gov.uk/performance-tables/Statement-of-Intent.pdf>). This announced that CVA would be discontinued from 2011 onwards.

expected for children with particular needs). The issues we discuss, particularly vis a vis the pressures produced by the current system for schools and parents to work together to maximise the resources a child receives are still very much evident in the proposed system in the Green Paper. Just as we discuss below in the context of a full banded system, such an approach is likely to make the relationship between a child's need and the resources they receive more explicit. It is unlikely, however, to stop parents and schools coming into conflict with the LA about which band their child should be in.

The Green Paper also explores the potential for personalised budgets which can again be seen as the most extreme form of per pupil funding but with the distinction that the parent/child has more autonomy on how to spend the resource. If we believe that parents are able to make better judgements than schools or local authorities about what type and level of provision is best for their child, then this may improve the effectiveness and impact of resources allocated to children with statements of SEN, clearly a desirable potential outcome. It will not, however, reduce the pressure that schools and parents bring to bear on the LA to increase the resource to a particular child and may well increase it if such funding becomes more desirable (e.g. if parents could use it for private schooling).

1. General Overview of Incentives

In this section we detail the potential incentives faced by different individuals in any system of SEN funding. We first detail the potential financial incentives for parents, schools and local authorities in the case of pupils with statements of special educational needs - around 3% of students in all schools in 2010 (Department for Education, 2010) - which specify the nature and level of resources required by these children (often significant). We then look at the same groups, but this time with regard to children with special educational needs that do not require statements. There are two levels of SEN which do not require a statement. First, the child can be supported from within the school and hence identified as having School Action Special Educational Needs. Second, the child can require some additional support from outside the school (e.g. from an education psychologist). This level of SEN is identified as School Action Plus. How such categories are funded in practice varies across Local Authorities, as we discuss below. We then go on to examine other incentives that can be created in different SEN funding systems.

Financial Incentives

Pupils with statements of SEN

- **Parents** of pupils with special educational needs will clearly want schools and local authorities to devote as many resources as possible to the education of their child. If they do not deem the support proposed by schools or local authorities to be adequate, e.g. if they believe their child requires a statement or more support as part of an existing statement, then they are likely to be willing to put pressure on schools and local authorities to increase the resources dedicated to their child. This pressure could take the form of meetings with schools and local authorities, a willingness to pay for private assessment of special educational needs or in extreme cases, litigation. Some parents may be more or less able to apply such pressure to schools, e.g. because private

assessments can be expensive. Parents may also choose to move to other local authorities if they believe their child is likely to receive higher levels of resources in another local authority.

- **Schools**, given unlimited resources would like to maximise the resources they allocate to each child. However, in practice, with limited resources, schools face complex incentives. Generally one assumes that most schools (head teachers) would like to allocate the resources available to them in such a way that they maximise the achievement of their pupils, either in absolute or value-added terms. For example they may seek to maximise the proportion of their students that achieve 5 A*-C grades at GCSE, or may seek to maximise their CVA between Key Stage 2 and Key Stage 4. This incentive may or may not imply allocating additional resources to individual pupils with statements of special educational needs. If funding for pupils with statements comes from Local Authorities on a per pupil basis, then schools would clearly like to receive as many resources as possible from the local authority for each pupil. With a fixed budget from a local authority, they must then decide how to allocate resources between pupils at their school. If each extra £1 of resources provided for a child with special educational needs means £1 less can be spent on other pupils, then they may well devote fewer resources to special educational needs children than if the cost of each extra £1 of resources were borne by the local authority. However, in such a case, they also face a financial incentive to avoid enrolling pupils with special educational needs, as the school will face the cost of providing resources. In the case of the opposite situation where the cost is borne by the local authority, the interests of parents and schools will be aligned in favour of putting pressure on local authorities to provide more resources for children with special educational needs.
- **Local Authorities** would, with infinite resources available to them, also like to provide as many resources as possible for each individual child with special educational needs. However, they also have a fixed budget, which is provided via grants from central government. In the case where local authorities pay the full cost of resources for children with statements of special educational needs on a per child basis, they will need to decide how much to provide for each individual child with a statement. They will need to assess each child on a case by case basis, and justify the level of resources provided for each child. Local Authorities have a clear incentive to minimise the resources spent per child. However, such decisions could be affected by pressure from parents and schools, who will want the local authority to provide as many resources as possible, and by the threat of costly legal disputes. This system may result in parents that are most likely to instigate legal disputes being able to secure more resources for their child than those who are not likely to do this.

Pupils with non-statemented SEN

- **Parents** will clearly still want schools to devote as many resources as possible to their child's education if they have non-statemented special educational needs. If children with non-statemented special educational needs are in general provided with limited extra resources, then there is likely to be less pressure from parents for pupils to be recognised as having non-statemented special educational needs. However, parents may still ask for such recognition in order to articulate their child's needs. Alternatively, parents may seek a statement of SEN for their child in order to secure additional resources for them. In this the parents' interests are aligned with the school's interests.

- **Schools**, given unlimited resources, would clearly also like to devote as many resources as possible to individual pupils with non-statemented special educational needs. If pupils with non-statemented special educational needs attract explicit, extra funding, then schools will have a financial incentive to label as many pupils as possible as having non-statemented special educational needs. If funding for non-statemented special educational needs is funded on the basis of other indicators, e.g. % eligible for free school meals, then no such financial incentive exists. However, like parents, schools do have an incentive to secure a statement of special educational need for a child in order to attract additional resources to the school to support that child.
- **Local Authorities**, given unlimited resources, would clearly also like to provide as many resources as possible for each individual child with non-statemented special educational needs. However, their budgets are limited and they must thus decide how best to allocate resources across schools with different levels of need. Recognising the financial incentives possessed by schools, they would be unwise to explicitly attach funding to pupils with non-statemented special educational needs.

Non-financial

- **League table**: schools may, if they are concerned about league table position, try to avoid enrolling pupils with SEN, as such pupils are less likely to achieve the benchmark of five GCSEs graded A*-C.
- **Contextual Value Added²**: by contrast, the DfE's contextualised value added model takes special educational needs into account and would therefore provide some incentive to identify children with low achievement as having special educational needs.
- **Competition**: schools may be less likely to identify students as having SEN if they believe that a high proportion of children with SEN in the school would send a negative signal to parents.

2. Funding Systems in England

Common Model

In the common model, the local authority delegates funds to schools to meet the needs of children with school action level SEN. Schools generally also receive delegated funds for school action plus provision, i.e. on a whole school rather than a per pupil basis. This funding is usually delegated on the basis of proxy indicators such as the proportion of children eligible for free school meals in the school. Some local authorities also provide pupil led funding to schools for school action plus provision. Beyond that, schools (and parents) apply to the local authority for additional resources to meet the needs of children with statements of SEN.

The characteristics of the common funding system are:

² This report was written before the government published a consultation and statement of intent on reforms to performance tables (<http://www.education.gov.uk/performance/tables/Statement-of-Intent.pdf>). This announced that CVA would be discontinued from 2011 onwards.

- Funding follows the child with a statement and theoretically there is a clear relationship between the resource required by each child and the amount of funding received by a school.
- The school initially assesses the needs of individual children and for those children who may require a statement, there is then an assessment by the LA and negotiation between the local authority and the school about the level of resources required.
- Parents may negotiate with the LA about the resources being received by their child.
- The school receives funding allocated to a particular child and hence parents can in theory be sure that the resources are spent to genuinely meet the needs of their child rather than being diverted for other purposes, though it is clear that this does not occur in every case.
- The resources received by the child are closely related to the resources available to the LA rather than the needs of the child.
- This system protects small schools and schools in areas with high levels of SEN by ensuring that the resources such schools receive meet the needs of the specific children they enrol.

We now consider the incentives faced by schools, local authorities and parents under such a system:

Financial

Pupils with statements of SEN:

- Under the common model, schools have an incentive to obtain a statement of educational need for a child. The school gains resources as a result of a child having a statement.
- The key feature of the common model is therefore that schools and parents work together with aligned interests to try to secure additional funding from the local authority for a particular child.
- Given that local authorities have a finite pot of resources, they are likely to try to minimise the resources allocated to any particular child. The risks with this system are that some children will be allocated insufficient resources to meet their needs and that this in turn will lead to potentially reduced academic progress for the child, potential impacts on the school or other children in the school and/or increased litigation.
- Another risk is that more informed parents may secure disproportionate resources for their children under what is an adversarial system.
- In general since the resources for SEN are pupil led under the common system, parents arguably have a greater incentive/opportunity to demand more resources for their child from the LA. Hence the common system provides greater potential for legal dispute than would be the case without statementing. Indeed, the total number of appeals made to the Special Educational Needs (SEN) Tribunal in 2010-11 was 3,400³.

³ <http://www.justice.gov.uk/publications/statistics-and-data/tribunals/annual-stats.htm>

- The common system provides no direct financial incentive for schools to avoid enrolling children with high (expensive) need since their needs should be met with additional resources from the LA.
- The statementing process required in the common model enables clear identification of children with special educational needs and enables local authorities to ensure that these children have priority on school admissions.

Pupils with non-statemented SEN

- In the common model, funds for children with non statemented SEN are delegated to schools.
- If funds for non statemented SEN are allocated to schools on the basis of the proportion of SEN children there is an incentive to label children with non statemented SEN. If funds for non statemented SEN are allocated on broader measures of deprivation, such as FSM, EAL or neighbourhood deprivation (as measured by indicators such as IDACI), there is no such incentive.

Non-financial

- **League table:** schools may, if they are concerned about absolute league table position, try to not take in SEN pupils.
- **CVA:** by contrast, the DfE's contextualised value added model takes SEN into account and should therefore provide some incentive to recruit and identify children with SEN.
- **Competition:** schools may, if they are concerned about any negative signal to parents from having a high percentage of SEN pupils, try to not take in SEN pupils and not identify students as SEN.

Case Study: Essex

Essex⁴ operates a relatively standard version of the common model. Students are identified as having school action, school action plus or a statement of special educational needs. Pupils get an Individual Education Plan at school action which monitors the child's progress in every subject.

Essex offers various options to mediate between parents and the Local Authority, including Independent Special Educational Needs Mediation and the Essex Parent Partnership Service. The level of appeals made by tribunal is above average in Essex; 128 registered appeals were made regarding decisions made by Essex County Council's Local Education Authority⁵.

Essex had 2.3% of pupils with statements of Special Educational Need in 2002 (against a national average of 3.2) (Marsh, 2002). Essex had an above average rate of tribunals at 3.7 per 10,000 pupils compared to a national average of 2.9. At that time, 1.09% of students in Essex were in special schools

⁴ <http://www.essex.gov.uk/Education-Schools/Schools/Special-Education-Needs/Pages/Special-Educational-Needs.aspx>

⁵ http://www.justice.gov.uk/downloads/guidance/courts-and-tribunals/tribunals/special-educational-needs-and-disability/SEND_AnnualReport_09_10.pdf

(the national average was 1.33%) and Essex spent 12.1% of the Local Schools Budget on SEN – below the 15.7% national average.

Currently, the proportion of children with statements in Essex stands at 2.9% (in 2010), slightly higher than the national average of 2.7%, and is rising over time (Department for Education, 2010). In 2010-11, Essex provided £8.9m to primary schools for AEN/SEN individually assigned resources, under 3% of the total budget shares provided to primary schools (£341.6m in 2010-11). Amongst secondary schools, less than 2% was allocated on the basis of AEN/SEN individually assigned resources in 2010-11.⁶ In the same year, Essex spent £29.7m on special schools, the majority of which was place-led. **Banded**

Funding

In a system of banded-funding, local authorities decide on a number of funding bands or categories. Each band could represent a type of support or the nature of children's special educational need (SEN), and there could also be different bands for different levels of severity. A fixed amount of funding will be set for each band and schools will receive resources based on the number of pupils falling into each band. For example, there could be just three bands: A (£250); B (£500); and, C (£1,000). In such a case, a school with five pupils in category C, two pupils in category B and one pupil in category A would receive a total allocation of £6,250.

Such banded funding could encompass all forms of SEN, with no need for any other SEN funding for schools. Alternatively, it could focus on pupils with statements of SEN, with delegation of other funding given to schools on some other basis.

The characteristics of a banded-funding system are:

- Local authorities identify different types and severity of SEN need faced by individual pupils.
- Local authorities determine which (if any) band pupils fall into. Depending on how contestable the criteria are, this may require discussion with schools and/or parents.
- Local authorities allocate funds to schools based on the number of pupils falling into each band.
- Funding follows the child and the level of support available to each child is very clear, as is the amount of funding received by a school
- Levels of support for different types and severity of need are transparent to schools, parents and other individuals.
- In a banded funding model, the resources received by the child are closely related to the resources available to the LA rather than the needs of the child. This is of course true for other models, including the common statementing model.
- This system protects small schools and schools in areas with high levels of SEN by ensuring that the resources such schools receive meet the needs of the specific children they enrol.

⁶<http://esi.essexcc.gov.uk/vip8/si/esi/dis/content/index.jsp?sectionOid=308&channelOid=21676&guideOid=21676&guideContentOid=21676&oid=21676>

The incentives faced by schools, local authorities and parents under such a system are considered below; and compared with the common statementing model.

Financial

Pupils with statements of SEN:

- Under a banded funding system, the interests of both schools and parents are aligned and their shared incentive is to ensure that pupils fall into the highest possible funding band, and that they meet the criteria in order to do so. The school gains resources as a result of a child falling into a higher funding band, and pupils will have access to more resources.
- Similar to the common model, local authorities have a finite pot of resources for SEN and thus face an incentive to place children into the lowest possible funding band. This clearly creates a risk that some children will be allocated insufficient resources to meet their needs and that this in turn will lead to increased risk of litigation.
- Both incentives are similar to those faced by schools, parents and local authorities in the common funding model. The key difference is that the available levels of support are clear and transparent in a banded funding model. This could increase awareness of the financial incentive and so lead to greater application of pressure on local authorities and schools amongst parents.
- If criteria are contestable, then such a system is unlikely to reduce the risk of litigation as compared with the common model. For instance, the difference between “medium” and “high” severity could be contestable. One might thus expect a banded funding system to lead to gradual creep through any bands of severity, especially where pupils appear to be on the border between bands.
- Even if criteria are based on indicators that are not contestable, litigation and disagreement could focus on the original definition of such indicators.
- The banded funding system provides no strong, direct financial incentive for schools to avoid enrolling children with high (expensive) need since their needs can be met with additional resources. There is also a high level of transparency regarding the available resources.
- Each band is likely to represent an average cost of provision for different types/severity of SEN, such that there will be some children for whom this is slightly above their needs and some for whom it is slightly below their needs. At the margins, there may thus be an incentive to avoid enrolling pupils with needs slightly in excess of the funding band in which they are likely to be placed.
- With SEN funding made more transparent, parents may well have an incentive to locate in more generous local authorities, or apply to schools across local authority boundaries.

Pupils with non-statemented SEN

- In a banded funding model, funding for non-statemented children could be included in the funding bands or separately delegated to schools on the basis of other indicators.

- As with the common funding model, if funds for non-statemented SEN are allocated to schools on the basis of the proportion of SEN children, there is an incentive to label children as having non-statemented SEN. If funds for non-statemented SEN are allocated on broader measures of deprivation, such as FSM, EAL or neighbourhood deprivation (as measured by indicators such as IDACI), there is no such incentive.

Non-financial

- **League table:** as with the common funding model, schools may, if they are concerned about league table positions, try to not take in SEN pupils. This is unchanged by a banded funding system.
- **CVA:** by contrast, the DfE's contextualised value added model takes SEN into account and should therefore provide some incentive to recruit and identify children with SEN. Again, this is unchanged by a banded funding system.
- **Competition:** schools may, if they are concerned about the negative signal to parents from having a high percentage of SEN pupils, try to not take in SEN pupils and not identify students as SEN. Again, this is unchanged by a banded funding system.

Case Study: Durham

Durham operates a variant of a banded funding system for pupils with statements of special educational need. We now discuss this system. Unless otherwise stated, data on Durham's school funding system is taken from Durham's Section 251 return for 2010-11.⁷

By way of background, the proportion of children with statements in Durham stands at 3.1% (in 2010), close to the national average (2.7%) and has changed little since 2007 (Department for Education, 2010). Including pupils with and without statements of special educational needs, 25.7% of pupils in Durham had some form of SEN in 2010, against a national average of 19.9%. Currently, about 42% of pupils with statements of SEN in Durham are educated in the maintained sector, compared with a national average of 46% (Department for Education, 2010).

In terms of the banded funding system currently in operation in Durham, each pupil with a statement of special educational needs is assessed according to three separate categories: academic; social; and; physical. Within each category pupils can be placed into 6 categories ranging from A to F, with F corresponding to the most severe needs in each category. Each category of need is associated with a number of curriculum units: A/B (0 Units); C (1 unit); D (2 units); E (4 units); F (6 units). Each pupil then receives funding according to two sources based on their banding in each category. Firstly, they are allocated funding based on their highest band across three categories: highest band F (£1,000 in 2010-11); highest band E (£750 in 2010-11); and if all three bands are equal to D (£350 in 2010-11). Secondly, pupils are allocated a fixed amount for the sum of all the curriculum units across the three bands, with each curriculum unit worth £1,872 in primary schools and £1,005 in secondary schools.

⁷ See: <http://www.durham.gov.uk/Pages/Service.aspx?ServiceId=8096>.

Examining the relative amounts allocated through these routes, by far the most significant is the curriculum unit elements. This totalled £6.6 million in 2010-11, around 95% of the total. From this it therefore seems as though the number of assessed curriculum units is by far the dominant element of the formula.

Funds for pupils with non-statemented special educational needs are delegated to schools on the basis of FSM eligibility, IMD scores and prior attainment.

In total, around £10m was allocated to primary schools in order to cover all kinds of special educational needs (with and without statements), about 7% of the total budget shares allocated to primary schools. Amongst secondary schools, about £4m was allocated for all kinds of special educational needs, about 3% of the total £130m budget shares allocated to secondary schools.

Special schools also receive funds on the basis of a banded funding system. The total funding provided to special schools through these bands was about £12.7m in 2010-11. Special schools also receive other funding, e.g. for floor space and for special schools providing residential places. However, funding allocated through the banded system amounts to nearly three quarters of all funds provided to special schools in 2010-11.

Delegated Model

An international review of SEN funding systems concluded that pupil-based funding for special educational needs can offer a high chance of inclusion, but can also increase costs (via complex diagnostic procedures and litigation) if objective criteria are unclear and contestable (Meijer, 1999). Judging from the proliferation of litigation in the special educational needs area in recent years, it is clear that objective criteria are hard to come by and are often contested. The problem of high costs and increased litigation that comes with a pupil driven SEN funding system might imply that a delegated system of funding, whereby funding is given to schools for SEN and the funding is not attached to particular children, may be lower cost.

Certainly there is a financial imperative behind the move by some Local Authorities to delegate funds for SEN to schools. An estimate by Audit Commission (2002) suggested that each statement cost around £2,500 to produce and hence the process of statutory assessment alone cost £90m per annum. Further, in addition to the costs of the statement process, a very large proportion (around two thirds according to Audit Commission, 2002) of total SEN spending is focused on the approximately 3% of students who have statements. This, along with the fact that statements “place unlimited demands on limited LEA budgets”, led the Audit Commission to recommend further delegation of SEN resources to schools to minimise the need for a statutory assessment process.

Hence a delegated system of SEN funding may be lower cost because the funding is given directly to schools on the basis of school level factors (e.g. pupil numbers or % FSM in a school) and there is no longer any process by which schools and parents work together to try to secure additional funding from the local authority for a particular child. Given that schools have a finite pot of resources for SEN they are likely to manage this more efficiently and keep costs low. The risks with this system are of course

that some schools will have insufficient funds to deal with the needs of particular pupils in a given year and hence that this system could be less inclusive as some children will not thrive in mainstream schools unless they have considerable additional resources.

A number of local authorities have adopted variants of a delegated funding model, defined loosely as a system where funding is given to schools but is not linked to any particular child.

The characteristics of a delegated funding system are:

- Funding does not follow the child so there is no clear relationship between the exact resource required by each child and the amount of funding received by a school.
- It is still necessary for the school to assess the needs of individual pupils, but there is no longer any negotiation between local authority and school about the level of resources required. Instead, the parent will need to negotiate with the school about the resources being received by their child.
- The school is free to use the delegated funds as it sees fit. This may mean greater efficiency in spending to genuinely meet pupils' needs, or it could mean resources being diverted away from those with special educational needs and used for other purposes.
- It may be that a particular child's needs exceed the funding provided to the school. This could mean that the resources received by the child are more closely related to the resources available to the school than the needs of the child. (Of course one could argue that the resources received by the child are more closely related to the resources of the local authority under both the common system and the banded system.)
- Small schools and schools in areas with high levels of SEN may be vulnerable under this approach if their level of delegated funding is insufficient to meet the needs of a particular cohort of children.

We now consider the incentives faced by schools, local authorities and parents under such a system:

Financial

Pupils with statements of SEN:

- Under the delegated model, schools and indeed the local authority no longer have an incentive to provide a statement of educational need. The school does not gain resources as a result of a child having a statement.
- The delegated system provides a clear financial incentive for schools to avoid enrolling children with high (expensive) need.
- Currently children with special educational needs have priority on school admissions. If there is no longer any imperative to identify a child as having SEN and if schools have an incentive not to enrol children with high levels of need, then this would mean that schools may find ways of not admitting children they believe have high levels of need.

- Parents may still want a SEN statement for their child to more clearly articulate their needs and highlight where the school is or is not meeting their needs. Parents are entitled to ask for a SEN statement regardless of whether the local authority operates a delegated funding system.
- Some local authorities who operate a delegated funding system, such as Newham, have recognised that some children have particularly acute needs that cannot easily be met by schools within the general SEN budget. As such, they have introduced an additional source of funding for schools for “exceptional need”. In other words they have a system that enables schools to identify particularly high need children and apply for additional funds. This is of course playing a similar role to statements in other local authorities.

Pupils with non-statemented SEN

- In both the common model and the delegated model, all funds for non statemented special educational needs are delegated to schools.
- If funds for non-statemented SEN are allocated to schools on the basis of the proportion of SEN children then there is an incentive to label children as having non-statemented SEN. If funds for non-statemented SEN are allocated on broader measures of deprivation, such as FSM, EAL or neighbourhood deprivation (as measured by indicators such as IDACI), there is no such incentive.
- In a delegated system children’s needs will be met by the school regardless so there is no need for children to be formally identified as having non statemented SEN or indeed statemented SEN (though this identification may be used by schools to help them provide the necessary support).

Non-financial

- **League table:** schools may, if they are concerned about league table positions, try not to admit SEN pupils. Under a delegated funding system that does not require pupils to be formally identified as having SEN, this may make it more difficult to operate such covert selection systems, although schools may instead simply resort to other proxy measures such as FSM eligibility.
- **CVA:** by contrast, the DfE’s contextualised value added model does take SEN into account and would therefore provide some incentive to identify and recruit SEN children. This provides a clear incentive for schools to continue labelling children as having special educational needs under a delegated SEN funding system, despite the fact that there are no longer any resources attached to such labels.
- **Competition:** schools may, if they are concerned about the negative signal to parents from having a high percentage of SEN pupils, try not to take in SEN pupils and not label students as having SEN. Under a delegated funding system that does not require pupils to be formally identified, this may help in that parents will be unaware of the percentage of students with SEN in each school.

Case Study: Newham

In 2002, Newham had a banded funding system for children with statements of special educational needs. At that time, 3.4% of pupils in Newham had SEN statements (against a national average of 3.2%) (Marsh, 2002). Newham also suffered from a very high rate of tribunals at 7.1 per 10,000 pupils. This was the highest rate for all Local Authorities and compared to a national average of 2.9. At that time, 0.33% of students Newham were in special schools (the national average was 1.33%) and Newham spent 15.4% of the Local Schools Budget on SEN – approximately the national average.

Newham now adopts a delegated funding system, whereby funds are delegated to schools for special educational needs and schools may use these resources in different ways. As we might expect with such a system, the proportion of children with statements is low in Newham at 0.8% in 2010 (Department for Education, 2010), relative to the national average (2.7%) and has been falling over time. Newham also spends a relatively small proportion of their resources on pupil led SEN/AEN (3.2% for primary schools and 1.4% for secondary schools), with just over £4m spent on special schools⁸.

Under this delegated funding model, schools in Newham will not necessarily receive additional funds if they enrol a child with a statement of special educational need⁹. That said, the funding to schools is reviewed annually and is based on:

- the number of pupils on roll at each school;
- the number of pupils who receive free school meals at each school;
- the degree of mobility / unplanned admissions in each school;
- individual funding for pupils whose cases have been approved as part of the ‘exceptional resources’ scheme;
- funding for behaviour support for secondary schools;
- for secondary schools only, Key Stage 2 results.

Newham does not, however, operate a fully delegated model. For some very high need children the school can apply for “Exceptional Resource Funding” to meet those needs. The child does not have to have a SEN statement to be eligible for this funding – rather it depends on the needs of the child. A group of teachers (SENCOs) determine whether a child is eligible for such funding through the means of an “Extraordinary Resource Panel”. Note that for pupils with emotional and behavioural difficulties, the allocation of funding is moderated by the Special Needs Advisory Panel (SNAP).

Issues considered for extra resources include:

- complex social and emotional difficulties often with mental health concerns;
- challenging, bizarre behaviour that is unpredictable – health and safety issues;

⁸ <http://www.newham.gov.uk/EducationAndLearning/Schools/KeyEducationDocuments/Section52Statement.htm>

⁹ See <http://www.newham.gov.uk/nr/rdonlyres/b320f616-bc64-49e8-b085-c8010e3884ab/2086/sections17.doc>

- severely disordered speech and language, communication skills linked to complex associated social and emotional difficulties;
- multi-sensory impairments;
- severe communication difficulties and associated challenging behaviour (autism);
- severe sensory impairment;
- degenerative conditions;
- profound and multiple learning difficulties;
- severe learning difficulties and associated needs.

Newham claim in their SEN policy statement that:

“By taking away the need for schools and parents to pursue the statementing process in order to attract funding for an individual, schools can focus their energy on addressing barriers to learning and participation, and pupils will be able to access appropriate support through the development of a preventative model.”

Note, however, that specific equipment is paid for separately from outside the school budget.

There have been legal cases involving Newham which have challenged whether a local authority can delegate authority and responsibility for SEN to schools, for example, *E v London Borough of Newham and the Special Educational Needs Tribunal* [2003] ELR 286.

Hybrid Model

There are a variety of hybrid models in operation in local authorities throughout England. We discuss one particular example of a hybrid system here, which is in operation in Surrey.

Under this hybrid system, funding is delegated to schools to meet the needs of children identified as having school action or school action plus special educational needs. As with the common model, this funding is delegated on the basis of a variety of “proxy” indicators, including the proportion of children eligible for free school meals. In contrast to the common model, however, funding for the first 10 points of a child’s statement of special educational needs is also delegated to the school. Funding for the remaining points on a child’s statement is deemed to be pupil-led, and, in Surrey’s case, each point attracts a fixed and known amount of funding.

The characteristics of this particular hybrid funding system are:

- The threshold beyond which funding follows pupils with special educational needs is higher under this hybrid system than it is under the common system.
- Above this threshold, there is a clear and transparent link between the severity of the child’s needs and the amount of funding the school receives from the local authority for that pupil.
- Below this threshold, however, funding follows pupils with statements of special educational needs to a lesser extent than under the common model. This muddies the relationship between the

resource required by the child and the amount of funding received by the school though it does not completely sever the link between the needs of the child and funding as in a fully delegated model.

- Local authorities are responsible for assessing the needs of children put forward for statements, although parents and/or schools may be able to discuss/negotiate with the local authority regarding the number of points their child has been awarded.
- As in most other models considered, the resources received by the child may be more closely related to the resources available to the local authority than to the needs of the child.
- This system protects small schools and schools in areas with high levels of SEN to a lesser extent than either the common or banded systems, but by a greater extent than the delegated model.

We now discuss the incentives faced by schools, local authorities and parents under such a system.

Financial

Pupils with statements of SEN:

- The incentives of parents and schools are aligned under this system (as they are under the common and banded funding systems); both have an incentive to maximise the number of points awarded for the child on their statement of special educational need (and so maximise the amount of funding that they receive).
- In line with the common and banded funding systems, local authorities are likely to have a finite pot of resources for SEN, such that they may try to minimise the number of points (and hence the amount of funding) awarded to any particular child. This clearly creates a risk that some children will be allocated insufficient resources to meet their needs and that this will in turn lead to litigation.
- It seems unlikely that this system would reduce the need for litigation compared with a traditional funding system, as there may still be disagreement over the number of points a particular child warrants on the scale, despite the fact that the amount of funding associated with each point is known and fixed.
- To the extent that the proxy indicators for children with school action and school action plus SEN are not perfect, this system may introduce an incentive for schools to stop enrolling children with the highest levels of need within these categories (which, under the Surrey system, includes pupils who would previously have received statements of fewer than 10 points), as they will receive no additional funding for these children. (This is simply an extension of the incentive that already exists for children with non-statemented SEN under the common and banded funding systems.)
- With funding for some parts of the SEN system made more transparent, parents may have an incentive to locate in more generous local authorities, or apply to schools across local authority boundaries. However, this incentive is likely to be much smaller than that generated by the banded funding system.

Pupils with non-statemented SEN

- Under this hybrid model, all funds for children with non-statemented special educational needs are delegated to schools.
- As with the common and banded funding models, to the extent that funds for children with non-statemented SEN are allocated to schools on the basis of the proportion of children with SEN, there is an incentive to label children as such. To the extent that they are allocated on broader measures of deprivation, such as FSM, EAL or neighbourhood deprivation (as measured by indicators such as IDACI), there is no such incentive.

Non-financial

- **League table:** as with the common and banded funding systems, schools may, if they are concerned about league table position, try to not take in SEN pupils.
- **CVA:** by contrast, the DfE's contextualised value added model does take SEN into account and would therefore provide some incentive to identify and recruit SEN children. This incentive is unchanged from the common or banded funding systems.
- **Competition:** schools may, if they are concerned about the negative signal to parents from having a high percentage of SEN pupils, try not to take in SEN pupils and not identify students as SEN. Again, this incentive is unchanged from the common or banded funding systems.

Case Study: Surrey

By way of background, 3.1% of children in Surrey in 2010 had SEN statements – slightly higher than the national average of 2.7% - and roughly 65% of these pupils were catered for in maintained schools. In addition, 15.4% and 17.2% of pupils in primary and secondary schools respectively had some form of non-statemented special educational need – slightly lower than the respective national averages – of which around 40% were at school action plus level and the remaining 60% were at school action level (Department for Education, 2010).

The anticipated breakdown of funding on special educational needs in 2010-11 amongst children in maintained primary and secondary schools is as follows:

	Primary (£m)	Secondary (£m)
School action	5.271	3.427
School action plus	6.406	5.691
Statements	5.493	3.916

Source: Surrey (2011)

Under Surrey's hybrid system, as under the common system, funding is delegated to schools to meet the needs of children identified as having school action or school action plus special educational needs.¹⁰ It

¹⁰ Most information on the Surrey funding system described in this section is taken from Surrey (2011).

is worth noting, however, that Surrey has essentially tried to raise the bar for statementing, by regarding children who would previously have been statemented with fewer than 10 points as having school action plus rather than statemented SEN. We might therefore expect Surrey to have fewer statemented pupils and more school action plus pupils than other similar local authorities.

The funding for school action level SEN is delegated on the basis of the following criteria:

- 1) **Test scores:** additional funding is provided based on the number of pupils in each school who:
 - a) Score Level 3 or below in one or more End of Foundation assessments in reception (age 5);
 - b) Score below 40 in the reading component of the Durham University Performance Indicators in Primary School (PIPS) assessment¹¹ in Year 3 (age 8);
 - c) Score below 85 in the Durham University Middle Years Information System (MIDYIS) assessment¹² in Year 7 (age 12);
- 2) Free school meal eligibility (as recorded on the school census in January each year).

The extent to which the test scores described above are externally marked rather than teacher assessed may make it more difficult for primary schools to mark down their pupils at Key Stage 1 (for example) in order to receive more funding through this route. (The incentive to underachieve at Key Stage 1 in order to boost CVA scores between Key Stage 1 and Key Stage 2 still exists under both systems though.)

The funding for school action plus level SEN is delegated on the basis of the number of pupils identified as having school action plus special educational needs (as recorded on the school census in January each year). For each pupil identified, schools received £1,102.62 in 2010-11. This introduces a clear financial incentive for schools to increase the numbers of pupils they identify as having SEN. The local authority obviously recognises the existence of such an incentive, however, as its guidance states:

“Where the trends in numbers of pupils identified as School Action Plus in an individual school appears to be out of line with similar schools or their own past intake, the Authority reserves the right to visit that school to investigate further and may adjust the funding accordingly.” Surrey (2011)

The local authority is responsible for assessing the needs of pupils put forward for statutory assessment for a SEN statement by their parent or their school. These needs are translated into points. As outlined above, Surrey delegates funding for the first 10 points of a pupil’s SEN statement directly to their school. This essentially means that schools receive £1,102.62 (the same as for school action plus pupils) for every statemented child on their roll (as recorded on the school census in January each year, but regularly updated throughout the year).

Each additional point (above 10) on a child’s statement is funded at a rate of £431.46 per point, which is passed directly to the child’s school to help meet their needs.

¹¹ See <http://www.cemcentre.org/pips/pips> for more details.

¹² See <http://www.cemcentre.org/midyis/introduction> for more details.

3. International Comparisons

An international review of SEN funding systems was produced by Meijer (1999). Although this review may well be outdated for some countries, the range of different funding systems implemented by countries at that time is still informative. Here we very briefly summarise the classification of funding systems produced by this review and their implications for incentives. For more details and country-by-country descriptions, please see Meijer (1999). It should be noted, however, that different countries use different funding systems for different types and severity of special educational need, and thus may be listed under more than one heading.

- **Client-Based Funding Systems:** the first group of funding systems identified by Meijer (1999) includes the statementing process commonly used across England and Wales. Other countries using client-based systems in 1999 included Austria, France (“SEA” process) and Luxembourg. Funds are attached to individual pupils on the basis of individual levels of need, and can move with them to different schools. This ensures accountability and allows for inclusion in mainstream settings. However, as Meijer (1999) notes, “It is essential to have an objective system indicating who is, and who is not, eligible for additional funding. However, it is clear that objective indication systems do not exist and that makes each decision contestable...The acceptance in the education community and the contestability of decision-making may lead to a growing demand for budgets (as shown in England and Wales and Austria). As a financing system, pupil-bound funding risks self-destruction due to its own success.”
- **Input-Based Funding Systems:** the second group of funding systems identified by Meijer (1999) allocate funds to schools on the basis of numbers of special educational needs pupils or via indicators such as low attainment or deprivation. The key difference between this and the client-based system is that under input-based systems, funds are not attached to individual pupils. As such, this system is most similar to the way in which funds for pupils with non-statemented special educational needs are currently distributed, as well as the fully delegated model for all SEN pupils adopted by Newham. Such a system creates strong incentives to identify pupils with special educational needs if funding is explicitly tied to such pupils; the incentives are less strong for less malleable indicators. Other countries that used input-based funding for special schools at that time included Austria, Belgium, France, Germany, Ireland and the Netherlands.
- **Throughput Funding Systems:** in the third group of funding systems identified by Meijer (1999), all mainstream schools receive an allowance to fund special educational needs provision irrespective of the distribution of special educational needs across schools. This system clearly creates risks for small schools and may create an incentive for schools to avoid enrolling pupils with special educational needs, thereby increasing the number at special schools. Countries that used such a model at the time of the review mainly used it to fund milder forms of special educational needs, including Austria, Denmark (some municipalities) and Sweden (some municipalities).
- **Output-Based Funding Systems:** in the final group of funding systems identified by Meijer (1999), schools are funded on the basis of achievement, referrals of special educational needs pupils or

evidence of problematic behaviour. If such a system placed a high emphasis on final achievement and didn't take account of prior attainment, such a system would clearly discourage schools from enrolling special educational needs pupils. However, such an incentive is reduced by using value-added measures (see earlier discussion of the incentives created by using CVA models). At the time of the review, no countries used this model on a large scale.

4. Conclusions

In this note, we have examined the incentives that various different systems for financing special educational needs can create for parents, schools and local authorities, both financial and non-financial.

As we have seen, there are some (non-financial) incentives that are unaffected by the choice of SEN funding regime, particularly those affecting league table positions. For example, if schools want to maximise their Key Stage 2 scores or GCSE grades, then they may have an incentive to minimise the number of children with special educational needs that they admit (as such pupils are typically low achievers). If, on the other hand, the school chooses to maximise its contextualised valued added (CVA¹³) score, which takes specific account of children with SEN labels, then they would have less of an incentive to keep SEN children out, and may instead have an incentive to label as many pupils as possible as having special educational needs.

In all of the funding models we have considered, funding for children with non-statemented special educational needs is delegated to schools, although there is variation in the factors that are used to determine the amount of funding each school should receive. As we have pointed out throughout this note, using actual numbers of pupils labelled as having non-statemented SEN (and allowing schools to assign those labels) will inevitably lead to over-identification of children with special educational needs, although the case studies we have examined suggest that local authorities are well aware of these incentives, and so most commonly use other proxy indicators, such as the proportion of children eligible for free school meals, to assign funding, which are more difficult for schools to manipulate.

The key differences between the funding systems that we have analysed arise in terms of the funding for children with statemented special educational needs. Under the common model (applied by the majority of local authorities in England), funding is entirely pupil-led, with authorities responsible for identifying and funding each pupil's particular needs. Under a banded funding system, funding is again determined by local authorities and entirely pupil-led, but the expected level of support (and resources) for children with different types of needs are set out clearly in advance, hopefully making the system more equitable and transparent than the common model. By contrast, under a fully delegated funding system, all funding for pupils with special educational needs – including pupils with statements – is distributed in a similar manner to that outlined above for pupils with non-statemented SEN.

¹³ This report was written before the government published a consultation and statement of intent on reforms to performance tables (<http://www.education.gov.uk/performance/tables/Statement-of-Intent.pdf>). This announced that CVA would be discontinued from 2011 onwards.

These funding systems have the following implications for incentives:

- Under the common and banded funding models, the interests of schools and parents are aligned, with a common incentive to maximise the resources they obtain from the LA for the child. On the opposite side stands the LA, with an incentive to limit the resources allocated per child, given they have a finite amount of resource and must make difficult decisions about how to spend it. As a result of parental and school pressure, such systems are likely to lead to an increase in the proportion of students identified as having SEN, consequent cost escalation and litigation. The extent to which this happens in practice depends on the strength of the LA to counter such pressure. Schools have no financial disincentive to admit high need students under either system, though, because the LA pays for the pupil costs.
- Banded systems may make the expected level of resources and support for children with different types of SEN more transparent and ensure some parity between individuals. Given that all definitions of special educational needs are to some extent contestable, however, moving to a banded system will not necessarily reduce the potential for conflict between schools and parents on the one hand and the LA on the other, with arguments simply focusing on which band a child should be allocated to rather than about the specific resources allocated to them under the common model. Furthermore, greater transparency of available resources could lead to greater application of pressure on local authorities by schools and parents
- Only the delegated system has the potential to sever the alignment of interests between schools and parents. Instead, the point of conflict will be between parents and schools, which could still lead to litigation and other pressures, and may also have negative implications for school-parent relationships. Moreover, the delegated system creates particular risks for:
 - small schools that may not be able to absorb the cost of sudden changes in the number of high need students;
 - very high need children (unless there is a further statementing system to allow schools to apply for per pupil funding for very high need children) who may become financially undesirable from a schools' perspective due to their high cost;
 - non-SEN children who may lose out in some schools that happen to have a very high proportion of high need children who require disproportionate resources in a given individual year.

Policy Implications

Funding for children with non-statemented SEN

As discussed above, strong incentives exist, both in terms of funding (depending on the metric adopted by the LA to determine the flow of resources to schools for non statemented SEN) and value-added, to over-identify children with non-statemented special educational needs. This latter incentive in particular has received considerable attention in recent years, particularly from Ofsted (2010) and the SEN Green Paper (Department for Education, 2011). In fact, the Green Paper suggests that the government is

developing new performance measures for disadvantaged pupils, at least in part to counter the “perverse incentives to over-identify children as having SEN through performance markers such as contextual value added measures” (Department for Education, 2011). Until further details of these measures have been announced, it is difficult to speculate about their effects¹⁴.

The government must be careful not to increase the incentive for schools to under-perform at Key Stage 1 (for example), in the hopes of boosting their performance between Key Stage 1 and Key Stage 2 (for which an incentive already exists under the existing CVA model).

The government must also be mindful that if they do not have some mechanism to allow for the lower achievement levels of many children with SEN when assessing the performance of schools, they may set up incentives for schools to avoid enrolling children with SEN.

Given that local authorities have already started using less malleable indicators of deprivation, such as the proportion of children eligible for free school meals, to try to counteract this incentive for over-identification of special educational needs from a funding perspective, it may be sensible to replace the use of non-statemented SEN with greater use of such indicators in CVA models as well.

Funding for children with SEN statements

The recent Green Paper (DfE, 2011) proposed an explicit grid system setting out what services are expected to be provided for children with particular needs. As has already been said, it is not explicit in the Green Paper whether or not this banding would be used to determine the *level of funding* associated with particular needs (rather than just highlighting what type and level of provision is expected for children with particular needs).

If all local authorities were to introduce banded funding system alongside such a grid of expected service provision, then parents may well have an incentive shop around for the most generous local authority. A national banded funding system would remove this incentive.

Comparing the banded funding system with the common model, both seem to suffer from the same disadvantages in terms of potential for cost escalation as a result of pressure from parents and schools. However, banded funding is certainly more transparent, which could improve equity, though it could also increase awareness of available resources and thus further cost pressures.

Importantly, the introduction of a national banded funding system is not at odds with the notion of personalised budgets, which are also mooted in the Green Paper (DfE, 2011). In fact, personalised budgets are just another form of per pupil funding but with the distinction that the parent/child has more autonomy over how to spend the resource. If we believe that parents are able to make better judgements than schools or local authorities about what type and level of provision is best for their child, then this may improve the effectiveness and impact of resources allocated to children with

¹⁴ Since this report was written, the government has launched a consultation on proposed reform to performance tables (<http://www.education.gov.uk/inthenews/inthenews/a00192510/performance-table-reform-and-transparency-will-raise-standards-and-end-perverse-incentives>).

statements of SEN, clearly a desirable potential outcome. It will not, however, reduce the pressure that schools and parents bring to bear on the LA to increase the resource to a particular child and may well increase it if such funding becomes more desirable (e.g. if parents could use it for private schooling).

The delegated funding system is the only model capable of breaking the alignment of interests between parents and schools to request additional resources from the local authority. The potential for litigation does not go away, however, but instead merely shifts to conflicts between parents and schools, rather than between parents/schools and LAs. Moreover, the considerable disadvantages outlined above, particularly for small schools and high need children, suggest that this is not a panacea to the problem of SEN funding.

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