SUMMARY

This report provides the key headlines coming out of the consultations on the schools national funding formula and high needs funding reforms published by the Department for Education (DfE) on 7 March 2016. Consultation responses are required by 17 April 2016.

The full consultation documents can be found at [www.consult.education.gov.uk](http://www.consult.education.gov.uk).

The DfE will be consulting on a national funding formula and associated reforms for early years later this year.

RECOMMENDATION

That Schools Forum consider the report and compile responses to the consultation questions listed at Annex A.

REPORT

BACKGROUND

1. The Government acknowledges that the current system for distributing the Dedicated Schools Grant (DSG) to local authorities and schools is out-dated, inefficient and unfair. From 2013-14 the Government has introduced significant reforms to the local funding formulae used by local authorities to distribute funding to schools to bring greater consistency across all schools nationally.

2. However it remains the case that similar schools in different parts of the country continue to receive very different levels of funding. This is due to local decision making within the limited flexibility of local funding formulae and more significantly to the variances in levels of DSG received by local authorities.
3. The Chancellor, in his autumn term statement, announced the Government’s commitment to tackling this unfairness in funding and confirmed the intention to publish consultation on their proposals for a new national funding formula for schools early in 2016 for implementation from April 2017.

4. Consultation was published on 7 March 2016 along with consultation on proposals for reforms to the way funding for young people with high level special educational needs is distributed.

5. The chapters in this report relate to the chapters within the relevant consultation documents.

**Schools National Funding Formula**

6. This is the first of 2 planned consultations on the national funding formula for schools. This first consultation seeks views on:
   - the principles that underpin the formula
   - the building blocks to use to construct the formula
   - the factors to include in the formula
   - the structure of the formula.

7. The second stage of the consultation will cover how the Government proposes to balance different factors in the national funding formula, and the impact of the formula on funding for individual areas and schools.

**Chapter 1: Reforming the funding system**

8. The proposed reforms in this first consultation are underpinned by the following seven principles, that the funding system:
   - supports opportunity – should support schools and local authorities to extend opportunity to all pupils - funding should be based on pupil characteristics data.
   - is fair – based on characteristics of the pupils not on historic allocations based on out of date data - funding should be based on a single, national formula not 152 different local funding formulae
   - is efficient – greater consistency of funding across the education sector - direct resources to where they are most needed
   - is transparent – schools, academies and local authorities should be able to understand how their funding has been constructed and why it varies compared to other similar schools
   - is simple – a national funding formula would help to achieve a right balance between simplicity and a system that is able to respond to changes in need
   - is predictable – introduce change at a pace that schools and local authorities can manage and plan for.

9. The DSG is currently divided into 3 blocks: schools; high needs; and early years. The reforms propose creating a fourth block of the DSG, the ‘central schools block’. This block would contain funding for central schools services, historic local authority spending commitments on schools and the retained rate of the Education Services Grant (ESG).
10. The proposals include calculating the schools block according to a national funding formula and intend that this would be at school level for 2019-20 (a 'hard' national funding formula). This means that the vast majority of funding each pupil attracts to their school would be determined nationally, not according to a local formula. For 2017-18 and 2018-19 the national funding formula would be used to calculate the schools block, but local authorities would continue to distribute this funding according to their local formula (a 'soft' national funding formula). There are no proposals to make significant changes to the factors that are currently allowable in the local formula in 2017-18.

11. The proposal is to require local authorities to pass on all of their schools block funding to schools from 2017-18

Chapter 2: The schools national funding formula

12. The proposed building blocks of the schools national funding formula are as follows:
   - per-pupil costs – a core funding allocation per pupil
   - additional needs – based on pupil characteristics that are linked to a likely need for additional educational, pastoral or administrative support
   - school costs – to reflect fixed premises costs
   - geographic costs – inclusion of an area cost adjustment. A multiplier applied to every factor for schools in areas of higher costs.

   These are explained in more detail in paragraphs 14 to 20 below.

13. The reforms propose to keep 11 of the 14 factors that local authorities can currently include in their local funding formula and to add a new factor to recognise in-year growth in pupil numbers. The 3 current optional factors that are proposed to be excluded from the national formula are looked after children, mobility and post 16. Shropshire’s current local formula does not include these factors.

14. The proposed building blocks and factors of the schools national funding formula are shown in the table below.

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<th>Per-pupil costs</th>
<th>Basic per-pupil funding</th>
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<td>Additional needs</td>
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<td>School costs</td>
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<td>Geographic costs</td>
<td>Area cost adjustment</td>
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15. **Basic per-pupil funding** – intention to use 3 different year groupings in the national funding formula: basic funding for each primary pupil, basic funding for each Key Stage 3 pupil and basic funding for each Key Stage 4 pupil. Shropshire’s local funding formula currently includes a single per-pupil rate for Key Stage 3 and Key Stage 4 pupils. The Government’s view is that costs
increase with curriculum complexity, staffing requirements and the additional requirements of external assessment at Key Stage 4.

16. **Additional needs** – using pupil characteristics that can be clearly linked to a likely need for additional educational, pastoral or administrative support. The proposal is to use socio-economic deprivation – a combination of current FSM, Ever 6 FSM and IDACI data; low prior attainment – Key Stage 2 test data for secondary schools and Early Years Foundation Stage Profile (EYFSP) for primary schools until it becomes non-statutory from September 2016; and English as an additional language (EAL) – pupils with EAL who entered the state education system at any point during the previous 3 years. EAL is not currently used in Shropshire’s local funding formula.

17. **School costs** – funding to reflect costs associated with premises and overheads that do not vary in direct proportion to pupil numbers. The proposal, to recognise the challenges faced by small schools in particular, is to use lump sum and sparsity factors in the national funding formula.

18. Shropshire’s current local funding formula includes a primary lump sum of £59,500 and a secondary lump sum of £111,000 but lump sums used by local authorities vary significantly up to a maximum of £175,000. The consultation welcomes evidence for how much lump sum funding should be included in the national funding formula.

19. The proposals are to retain the sparsity factor in the national funding formula at the 2 mile crow flies measure for primary and all-through schools and the 3 mile crow flies measure for secondary schools. Shropshire’s local formula narrowed these mileage criteria to target limited resources at the most sparse schools in Shropshire. The proposals would see more Shropshire schools attracting sparsity funding. The consultation welcomes views on how well the sparsity criteria are operating locally.

20. Other school costs cannot easily be allocated on a formulaic basis and therefore it is proposed to allocate funding for rates, split sites, private finance initiatives (PFI), exceptional premises circumstances and pupil growth to local authorities on the basis of historic spend in 2017-18 and 2018-19. The Government want to explore whether this funding could be distributed on a formulaic basis from 2019-20 and welcomes views on how this could be achieved.

21. **Geographic costs** – area cost adjustment (ACA) to reflect higher costs incurred in some areas compared to others. The hybrid area cost adjustment consists of 2 elements: teacher pay costs and non-teaching staff costs. The hybrid ACA was designed and used in order to reflect that the costs of teachers are lower in high cost areas than the general labour market (GLM) indices would suggest.

**Chapter 3: Transition to a reformed funding system**

22. As explained earlier, the Government proposes implementing a hard national funding formula from 2019-20. For the first two years of the formula - 2017-18 and 2018-19 - schools block funding would continue to be allocated to local authorities according to the national formula. Local authorities would continue to determine funding according to local funding formula within the parameters set nationally. This is referred to as a soft national funding formula.
23. To fund the soft formula system in 2017-18 and 2018-19 the Government will carry out an exercise in March 2016 to re-baseline the 4 blocks of the DSG for each local authority, so that each block aligns with the pattern of each local authority’s spending in 2016-17, rather than how the Government allocated funding to them.

24. Through this transition period, the local authority would continue to be responsible for allocating its schools block to schools through a local formula as now. The only change proposed to the local formula factors is the removal of the post-16 factor, which Shropshire’s local formula does not include anyway.

25. The Government is proposing 2 changes to the process for calculating each school’s funding in 2017-18 and 2018-19 however. Firstly local authorities will be required to pass on all of the funding they are allocated through their schools block to their schools. Secondly local authorities will be allowed greater flexibility in setting a minimum funding guarantee (MFG) that reflects local circumstances.


27. It is proposed to withdraw current arrangements for de-delegation from 2019-20 with the introduction of the hard national funding formula to give schools greater responsibility for their budgets. Responsibility for services that can currently be de-delegated will rest with individual maintained school. These services include maternity costs.

28. The proposal is to phase in changes in funding over several years by applying MFG and caps on gains. There would be a national MFG and cap on gains from 2017-18 in order to set the ‘shadow’ formula, with arrangements for local authorities to use a local MFG and variable cap in 2017-18 and 2018-19.

29. Funding to schools gaining from the national formula could be capped in one of two ways. The first option is a simple cap allowing the maximum number of schools to reach their formula allocation in each year. It allows the Government to allocate each school the maximum proportion of their gains due in each year that they can afford. The second option requires the Government to set a lower cap so that there is funding left over to give greater gains to those most under-funded.

30. The Government will consult on proposals for the national MFG and cap on gains level in the second stage of the consultation.

31. In the run up to the introduction of the national funding formula the Government will continue to support schools to become financially healthier and more efficient through support tools, training and sharing best practice. They will also launch an invest to save fund in 2016-17 to allow schools to invest in ways to save money in future, helping them manage the transition to the national formula.
Chapter 4: Funding that will remain with local authorities

32. Local authorities currently receive funding from the Government for their responsibilities from 2 different funding streams – the DSG funding that is held centrally by the local authority and the retained duties element of the ESG. The proposal is to bring these 2 funding streams together into a new fourth block of the DSG the ‘central schools block’, distributed on a simple per-pupil formula.

33. ESG funding for retained duties is already allocated to local authorities according to a per pupil rate of £15 for all maintained school and academy pupils. Centrally retained DSG is not currently allocated on a formulaic basis. The Government plans to collect evidence from local authorities about their historic commitments within the centrally retained DSG, and the ongoing cost of these commitments, during the spring 2016 and to allocate funding for historic commitments on the basis of this evidence.

34. The second phase of the consultation will set out a proposal for a formula and the pace of transition.

Chapter 5: The future of the Education Services Grant (ESG)

35. The ESG is paid to local authorities and academies according to 2 national per pupil rates. The general funding rate (£77 per pupil in 2016-17) is paid to both academies and local authorities to fund duties that academies are responsible for delivering for their pupils and that local authorities deliver for maintained school pupils. The retained duties rate (£15 per pupil in 2016-17) is paid only to local authorities, to fund the duties that local authorities deliver for all pupils.

36. The Government’s plans are to remove the general funding rate from 2017-18 and to address this by school and local authority efficiencies and the removal of some statutory duties.

37. The Government’s expectation is that local authorities will step back from running school improvement for September 2017 and therefore will not require funding for this function. The introduction of a hard national funding formula in 2019-20 would mean local authorities would no longer be responsible for setting local funding formulae and hence savings can be achieved.

38. The Government is keen to receive suggestions for additional duties that could be removed or reformed to support the move to a school-led system and help with managing the savings.

39. The Government recognises that local authorities will need to use other sources of funding to pay for education services once the general funding rate has been removed. The proposal is to allow local authorities to retain some of their maintained schools’ DSG to cover the statutory duties that they carry out for maintained schools. This would need to be agreed by the maintained school members of the Schools Forum.

40. The proposal is for transitional arrangements for the removal of the ESG general funding rate for academies and local authorities. The general funding rate would
be removed completely for both academies and local authorities from September 2017.

**High Needs Funding Formula and Other Reforms**

41. The Government is seeking views on proposed improvements to the way that high needs funding is distributed.

42. The high needs reforms consultation published on 7 March 2016, alongside the schools national funding formula consultation, is also the first stage of two stages of consultation. This first phase covers high level principles, key proposals and options around:
   - allocating high needs funding to local authorities on the basis of a formula consisting of a number of factors
   - improving the funding arrangements and guidance to help local authorities, early years providers, mainstream schools, colleges and other institutions with students aged 16-25 who have SEN and disabilities.

43. The second phase of the consultation will set out detailed proposals on the formula factor weightings, the impact on local authorities and transitional protection.

44. Apart from including the distribution of funding for Alternative Provision (AP) in the national to local government funding formula, there is no proposal to change the way that AP is funded locally but the government will keep this under review.

**Chapter 1: Context for the proposed changes**

45. The Children and Families Act 2014 introduced a significant set of reforms to improve provision for children and young people with SEN and disabilities and funding changes have played a part in supporting the outcome of these reforms.

46. The high needs funding block is allocated to local authorities as part of their DSG. Local authorities decide how that funding is used, in consultation with their Schools Forum. It covers funding for children and young people from 0 to 25 years of age.

47. High needs expenditure includes:
   - funding for places in specialist and post-16 institutions (e.g. special schools, special post-16 institutions and pupil referral units)
   - top-up funding for individual pupils and students with high needs, including those in mainstream schools and early years children
   - services that local authorities provide directly, or through contracts or SLAs with others.

48. Part of the high needs block is retained by the Education Funding Agency (EFA) for the place funding paid to colleges and other post-16 institutions. Some of the place funding is included in local authorities’ initial DSG allocation and then deducted by the EFA to pay the funding direct, for example to academies.
Chapter 2: Why changes are needed

49. The previous coalition Government acknowledged that further changes to the distribution of high needs funding were required and commissioned Isos Partnership to undertake research. Isos published the results of their research in July 2015. A summary of Isos research proposals and the Government’s response is included with the full consultation document and attached at Annex B to this report for information.

50. Isos made 17 proposals on how the SEN funding system might be improved, falling into 3 broad categories:
   - fairer and more transparent allocations - a more formulaic approach to distributing high needs funding from national to local level
   - better communication
   - better decision-making.

51. The Government acknowledges in particular that the distribution of funding between local authorities, based on historical spending patterns, is increasingly misaligned to needs across the country and therefore is not fair.

52. The Isos research showed that children and young people with a similar description of needs and circumstances might be assessed and attract very different levels of funding in different local authorities.

53. There is also considerable variety in the way different areas make special educational provision, organise their SEN services and spend their high needs budget.

54. The proposals within the consultation document are, from 2017-18, to move to a distribution of high needs funding from central government to local government that is more formula-driven, using proxy indicators of need.

55. The Government also proposes improvements to current funding arrangements at a local level, including changes to the way funding is distributed to various types of institution.

56. The reform proposals are underpinned by the following 7 principles for a funding system:
   - supports opportunity
   - fair – objective measures
   - efficient – delivers best outcomes
   - gets funding to the front line – decision making level
   - transparent – easy to understand and justify
   - simple – balanced with accuracy
   - predictable – ability to plan ahead - smooth transition to new funding levels.

Chapter 3: Distribution of high needs funding to local authorities

57. Local authorities are responsible for both assessing individuals’ SEN and for commissioning provision to meet those needs. To ensure an efficient use of resources in managing the statutory assessment and planning process, the
Government is proposing a system that continues to distribute the majority of high needs funding to local authorities rather than directly to schools and other organisations.

58. The Government is proposing a high needs formula that is based on proxy measures rather than based on the number of statements of SEN and Education, Health and Care (EHC) plans which local authorities have issued. This avoids a perverse incentive to identify a higher level of need than is appropriate and will continue to allow local authorities discretion to provide high needs funding without going through the statutory assessment process, for example to meet urgent need.

59. The Government has used the Isos research as a starting point for the design of the formula for distributing high needs block funding to local authorities.

60. The proposed high needs funding formula is shown in the table below:

<table>
<thead>
<tr>
<th>Basic unit of funding for pupils and students in specialist SEN institutions</th>
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<tbody>
<tr>
<td>Population factor</td>
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<tr>
<td>Health and disability factors:</td>
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<tr>
<td>Disability living allowance</td>
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<td>Children in bad health</td>
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<tr>
<td>Low attainment factors:</td>
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<tr>
<td>Key Stage 2 low attainment</td>
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<td>Key Stage 4 low attainment</td>
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<td>Deprivation factors:</td>
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<tr>
<td>Free school meals</td>
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<tr>
<td>IDACI</td>
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<td>2016-17 spending level factor</td>
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61. **Basic unit of funding per pupil/student** – an amount for each child or young person in a special school, special academy or special post-16 institution that is funded from the high needs block. There would be an adjustment to compensate local authorities that were net ‘importers’ of pupils and students from other areas into their schools, academies and colleges. The formula would also make adjustments in the case of authorities that were net ‘exporters’.

62. The per-pupil/student amounts would be determined each year on the basis of pupil and student numbers from the prior academic year.

63. **Population factor** – proposing a substantial child population factor to reflect that within any size of population there is a minimum number of children and young people with high level SEN and disabilities. The proposal is to base the factor on the number of children and young people aged 2 to 18.

64. **Health and disability factor** – in line with the Isos research the Government’s proposal is to include ‘children not in good health’ and disability living allowance (DLA) indicators within the formula as they provide a good correlation with the health and disability aspects of SEN.

65. **Low attainment factors** – proposing to use pupils not achieving level 2 in reading at the end of Key Stage 2 and pupils not achieving 5 A* - G GCSEs at Key Stage 4, or equivalent standards as changes are made, i.e. to reflect the new Key Stage 2 tests.
66. **Deprivation factors** – following Isos research, the proposal is to use both free school meals (FSM) and income deprivation affecting children index (IDACI) measures. This is in line with the proposals for the schools national funding formula. It is unclear if the proposal is to use current FSM eligibility or an Ever 6 FSM measure.

67. **2016-17 spending level factor** – to avoid sudden changes to high needs budgets as a result of the introduction of the new formula. Introducing changes gradually is a key priority of the Government. It is proposed to include an element of current spending on SEN in the formula based on 2016-17 planned spending levels, for at least the next five years.

68. Of the above formula factors the most relevant to alternative provision (AP) are deemed to be overall pupil population and deprivation. The government proposes to use the population and deprivation factors in the allocation of AP funding to local authorities. Because of the different ways that local authorities manage AP the Government recognises that local authorities will need time to discuss the implications of a new national formula. They are therefore proposing to include an element of 2016-17 planned spending on AP for at least the first five years as well.

69. The Government is exploring the possible use of hospital inpatient data to help inform the distribution of funding to local authorities for hospital education. In the meantime however they continue to distribute hospital education funding based on current spending levels and any adjustments needed to reflect changes in hospital provision.

70. To reflect the higher costs incurred in some parts of the country the proposal is to include an area cost adjustment in the formula. There are 2 options, a general labour market cost factor or a hybrid factor. As explained in the consultation of the schools national funding formula, the hybrid area cost adjustment consists of 2 elements: teacher pay costs and non-teaching staff costs. The hybrid ACA was designed and used in order to reflect that the costs of teachers are lower in high cost areas than the general labour market (GLM) indices would suggest.

71. The proposal is to limit any year on year reductions for each local authority by providing an overall minimum funding guarantee protection.

72. To support local authorities and institutions in reviewing and developing high needs provision the government is proposing the following 5 main forms of help including the scope for significant extra investment that enables them to reduce future costs – an invest to save approach:
   - capital funding through the free school programme
   - capital funding to support the expansion of existing provision
   - collaborative working between local authorities
   - changes to encourage schools and colleges to include pupils and students with SEN
   - support for reducing costs – sharing best practice and support and guidance tools on efficiency.
Chapter 4: Changes to the way high needs funding supports institutions

73. The consultation document sets out proposals for improvements to the current funding arrangements at local level – how the funding is distributed to providers.

74. There are no plans for any fundamental changes to the way that schools are funded for their pupils with SEN and disabilities. The Isos research concluded that the current concept of a notional SEN budget should be removed because local authorities calculate it in varied ways and the budgets do not necessarily correlate well with the needs in schools.

75. The Government’s proposal however is to retain the current concept of the notional SEN budget for the time being whilst they work with SENCOs, school business managers and head teachers to find out how best to help schools decide how much to spend on SEN support.

76. In relation to the local offer, the consultation seeks views on what should be included in national guidelines to create more consistency in what mainstream schools offer across the country.

77. The Government proposes a small change in the way that special units and resourced provision attached to mainstream schools are funded. Currently these units are funded at £10,000 per place plus top-up. The pupils educated in those units are excluded from the calculation of the schools’ local formula budget. In future, the proposal is that they receive the per pupil amounts due to the school by including the pupils in their census, plus place funding of £6,000.

78. This change would bring pre-16 funding in line with the way that post-16 students with high needs in these units are currently funded.

79. Local authorities currently have flexibility to retain funding as part of their high needs budget for the purposes of encouraging collaboration between special and mainstream schools to enable children with SEN to engage in activities at mainstream schools. The Government intends to continue to allow this flexibility and welcomes examples of good practice in this area.

80. Local authorities can also retain funding in their high needs budget to support schools that are particularly inclusive and have a particularly high proportion of pupils with high needs which may be of a type that is not fully captured by the proxy measures in the formula. Isos research showed a lack of consistency and effectiveness in local authorities’ use of this funding. The Government agrees that clearer guidance would be useful.

81. Shropshire currently uses high needs funding to target additional resources to schools where a school’s notional SEN budget does not provide enough £6,000s towards meeting the needs of the number of high needs pupils in the school. Additional resources are also provided to Shropshire schools to ensure that they have at least 20% of their notional SEN budget remaining for pupils with lower level additional needs, after contributing £6,000 towards meeting the needs of their high needs pupils.

82. The Government welcomes examples of good practice as part of the consultation process.
83. Currently maintained special schools, special academies and non-maintained special schools receive funding of £10,000 per place from either the local authority or the EFA, plus top-up based on pupils needs. However, provision in independent schools is funded wholly by local authorities. From 2017-18 the proposal is to offer independent special schools on the section 41 approved list the opportunity of receiving a grant from the EFA for the place funding at the rate of £10,000 per place. This would reduce the top-up funding required from local authorities.

84. In relation to early years, Isos research concluded that local authorities should work with early years’ providers to establish clear expectations about the support pre-school settings are expected to provide from within their core funding, and the circumstances in which additional advice, training or resources would be provided. The Government believes this should be done as soon as possible if not already done.

85. Later this year the Government will consult on specific measures that would help local authorities improve the support provided to early years’ settings. In the meantime local authorities are allowed to use early years and high needs allocations to provide SEN support to early years’ children.

86. In relation to post-16, Isos proposed that:
   - mainstream post-16 providers should receive, through the post 16 funding formula, the funding that is currently paid to them as place funding of £6,000 per place
   - local authorities should have a role in determining approaches to distributing additional funding outside the formula to providers who admit a higher proportion of students with SEN, and to incentivise more inclusion
   - all specialist places in special post-16 institutions should be funded at £10,000 per place.

87. The Government considers that there is merit in these proposals and that these changes would complement others outlined in this consultation to bring better alignment throughout the funding system and would encourage better partnership working between local authorities and institutions as well as discourage over-identification of students with high needs.

88. The Government considers that a formulaic allocation would be most appropriate for institutions which have a small number of students with high needs. This would reduce the bureaucracy of collecting information on places required for very small numbers of students. They also consider that the proposals would fit well with the way they are proposing to allocate funding to local authorities.

89. The Government is proposing to introduce the concept of a special unit or resourced provision in FE and sixth form colleges. Such provision would attract funding of £6,000 per place in addition to the amount the national formula allocates for all the college’s students. There would need to be a process for collecting information from local authorities about how many high needs places are to be funded each year in these institutions, to inform the EFA’s funding allocations.
90. Under the Isos proposals, provision in specialist institutions that cater wholly or mainly for students with high needs would all receive a flat rate of £10,000 per place as their core funding. A flat rate amount per place would considerably simplify the funding for these institutions. As now, the Government envisages that the number of places to be funded in maintained special schools and special academies would be determined by local authorities as a result of their strategic planning and partnership with institutions. Non-maintained special schools and special post-16 institutions would be funded for their places using the latest available data on student numbers available to the EFA.

91. The Government acknowledges that before endorsing these proposals, FE and sixth form colleges, special post-16 institutions and other post-16 providers will want to know more about how such proposals would work in practice. The results of further work will be shared in the second phase of this consultation.