

Policy paper

# Approaches to specialist school funding

August  
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**Confederation**  
of School Trusts

**The voice of school trusts**

# Introduction

## Foreword

Consensus can be a very difficult thing to achieve. Yet there is consensus that our current approach to the education we provide for some of our most vulnerable children is not working for too many of them. A significant and continuing rise in demand has put significant operational pressure on schools, local authorities, and health care providers, creating pinch points and distress for many parents and children. There is widespread agreement that we cannot continue with our current approach to special educational needs and alternative provision. There is less clarity on what that means.

CST members trusts have long highlighted the importance of these settings in ensuring a functioning and responsible education system for all. In recent months, we have intensified our work in this area, alongside initiatives from government, to work towards a vision of how we get to a better place.

We have heard from the leaders of trusts with specialist and alternative provision settings of the very significant financial concerns shared by many, with inflationary pressures across all areas of spending set against the financial constraints of so many local authorities, with substantial long-term High Needs deficits. This discussion paper seeks to draw together an analysis of the current situation, the concerns for the future, and recommends immediate and longer-term action.

Additional funding is essential, but it can only be a sticking plaster for a broken system. We need a fundamental rethink of our approach to special needs and alternative provision that enables more flexible, needs-driven provision and is funded on the real costs of support. Cost must not be the primary driver of that change – our children's lives and potential must be our guiding star – but it is an inescapable factor, and one that must be fully considered to ensure a sustainable and successful approach.

## The context

Special schools and alternative provision settings are not in control their own admissions. The decision is made by the local authority (or a tribunal) and special schools have no statutory right to refuse a placement, and can only ask the Secretary of State to review a decision under s496 of the Education Act (1996). The level of funding (the number of funded places and level of top-up funding) is decided by the local authority and most local authorities are operating a deficit on High Needs. Consultation, collaboration, agreement and local dispute resolution are expected at points, but are not requirements, with limited scope for appeal and arbitration.

## Special schools

Special schools have a duty to admit a pupil where the school is named in the Education Health and Care Plan. This may be a local authority or tribunal decision. As the Admissions Code does not apply to special schools, a special school's "capacity" does not have a direct bearing on the



number of pupils placed. Special schools are not expected to attend a tribunal, unless they are called as a witness by either the LA or a family.

The number of places in a special academy is recorded in its funding agreement with the Department for Education. If an academy trust wishes to make a significant change to the number of places, it must consult the relevant local authority and submit a request to the DfE.

If a local authority wishes to make a change to the number of places it should use the annual funded places process, which expects (but does not require) any changes to be agreed, in writing, between the local authority and institution, by November. There is a two-week window for a local authority or an institution to query the outcome of the process in January each year. This annual process updates the 'working' school capacity as referenced on Get Information About Schools, but not the funding agreement, leading to misalignment.

A local authority is not obliged to pay place funding for pupils placed at a special school in excess of the number of funded places, where the actual costs of making the additional provision are marginal and can be accommodated within top-up funding. However, place funding is referred to as "core funding", and the absence of their being a requirement on local authorities to pass this on – either in full or pro-rata – is at odds with its intended purpose "to provide a base level of funding for institutions and financial stability for institutions to help with stability of provision and planning".

The local authority determines the amount of top-up funding. Top-up funding is intended to reflect the cost of the commissioned provision. Many local authorities use a matrix or banded system, whilst some fund in respect of cohorts or use an average cost related to the school's designation. Some have arrangements to fund costs above the standard framework.

The Minimum Funding Guarantee (MFG) methodology, whilst an assessment of total funding, only allows amendments to be made via top-up funding and does not explicitly cater for unplanned and unfunded places, risking inconsistent application. Intended to set a minimum and to provide protection against loss of funding, it is in practice often treated by LAs as a maximum or a guideline. There is no other mechanism for special schools to receive guaranteed funding increases, beyond the MFG mechanism. MFG has only provided an uplift of funding in one year out of the last 11.

The "place plus" funding system was devised at a time of assumed surplus capacity in special schools, though there was no transparency on how this capacity was assessed and assumed. If this was ever correct, it is no longer the case. Costs met by providers have increased considerably over recent years, set against the MFG ranging from -1.5% to 0% for almost all years other than 2023-24. Whilst the independent sector can set fees so as to break even or make a profit, there is a growing need to support special schools and academies in situations where placements are made with no space, and funding does not meet the cost of provision.



## Alternative provision settings

A child may be placed in an alternative setting for a period of time because of a suspension or permanent exclusion or where a child has health-related needs, which mean they are unable to attend a mainstream school full-time. Many schools also make use of AP services, before the need for suspension or permanent exclusion arises. In most cases the intention is for these children to return to their mainstream school and the length of the placement should be determined by the needs of the pupil.

When local authorities make arrangements for AP (including hospital education), this is normally funded from their high needs budget. There is flexibility for local authorities to devolve some decision-making and funding for AP to schools, and this can be effective in promoting inclusion and accountability. Where a pupil remains on-roll of a mainstream school, the school is effectively acting as a commissioner of AP and retains accountability for the child's education.

AP can receive high needs funding in different ways through:

- core funding: the annual allocation of funding based on an amount per place (place funding)
- top-up funding: the funding required over and above the core or place funding, to enable a pupil to participate in education (especially when an EHC plan is in place) is paid by the local authority or school that commissions each place
- service funding: locally negotiated funding for AP services, such as outreach, which are outside the place funding and top-up funding model, usually based on a service level agreement

Top-up funding for AP is not usually related to an assessment of SEN. A standard top-up funding rate is often set for each PRU, AP academy or AP free school, which reflects the overall budget needed to deliver the provision for pupils and students attending. When determining top-up funding, local authorities should take account of the overall budget required for the AP to remain financially viable. There is often a very fluid movement of pupils and students in and out of AP during a year. The extent of this movement can create uncertainty and volatility in an AP school's budget planning. Local authorities should recognise such fluctuations and trends to inform a more transparent and simplistic mechanism for administering the distribution of top-up funding.

The High Needs Operational Guidance (HNOG) advises local authorities that it is important that top-up funding relates to pupils actually occupying places. The aim of the system of place funding and top-up funding is to give a proper balance between sustainable income for the AP school, and flexibility to commission AP that meets the needs of individual pupils. Funding based solely on places, which may or may not be occupied, risks spending scarce resources on places that are not needed either by local authorities nor by schools and academies. It also ties up funding that would otherwise allow decisions to be taken about the most appropriate AP for an individual pupil. It is unclear how this "*proper balance*" could have been sustained when the place funding element has been devalued over time.



## Hospital education

Hospital education provision is funded by the local authority on a per place basis or as a centrally funded service or service level agreement. School finance regulations require that hospital education places are funded at least at the same level per place as in the previous funding year, which is similar to the MFG for special schools. Whilst the HNOG is explicit about the funding increase allocated through the NFF (7% for 2025/26, 3% in 2024/25, 5% in 2023/24 and 8% in the preceding three years), there is no requirement for the local authority to pass on this increase:

*“Local authorities should consider carefully, following discussion with their maintained hospital schools, academies, and other providers of hospital education, how much of this increase is passed on to them, taking into account any increase in their cost.”*

## High Needs Budgets and deficits

In its report of *Spending on special education needs*<sup>1</sup>, the Institute for Fiscal Studies concluded:

*“Central government funding for high needs currently totals nearly £11 billion and has increased substantially, with a 59% or £4 billion real-terms rise between 2015–16 and 2024–25. However, even with this substantial rise, funding has not kept pace with the increase in pupils with EHCPs. As a result, per-EHCP funding has fallen by around a third in real terms over this period.*

*Nearly two-thirds of the increase in spending has been driven by increased spending on pupils in special schools, with a £900 million increase in top-ups for state-funded special schools and a £900 million rise in spending on fees for pupils in independent special schools between 2015–16 and 2022–23. The latter accounts for very few pupils (30,000 in total), but placements are extremely high-cost in independent special schools (£61,500 per year) compared with the state-funded sector (£23,900). Local authorities have probably had to rely on such provision due to capacity constraints in state-funded special schools and a lack of effective provision in mainstream schools.*

*High needs spending has been consistently higher than funding by £200–800 million per year between 2018 and 2022, mainly because local authorities have a statutory obligation to deliver the provision set out in EHCPs. As a result, local authorities have accumulated large deficits in their high-needs budgets, estimated to be at least £3.3 billion in total by this year. An accounting fudge known as the ‘statutory override’ has kept these deficits off local authorities’ balance sheets and prevented many from having to declare bankruptcy. This short-term fix is currently due to end in March 2026.*

*The government’s own forecasts suggest annual spending on high needs will rise by at least £2–3 billion between 2024–25 and 2027–28, which largely reflects projected increases in EHCPs and need over the next few years. Even with the additional £1 billion announced in the 2024 Autumn Budget, these increases in spending would imply cumulative local authority deficits of over £8 billion*

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<sup>1</sup> Sibeta, L and Snape, D (2024) *Spending on special educational needs in England: something has to change*. Institute for Fiscal Studies.

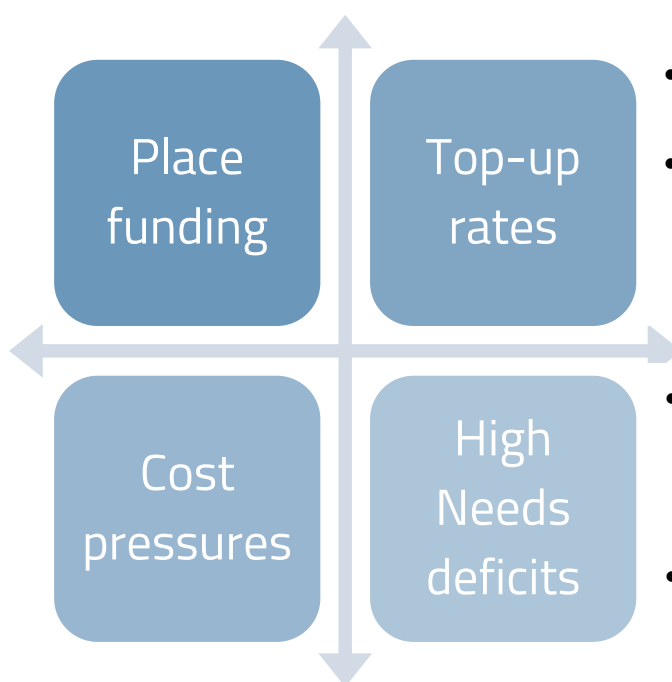
*by 2027 assuming high-needs funding is held constant in real terms. Given the statutory obligations attached to EHCPs, this should be the default assumption for the public finances.”*



## Key issues

- Erosion of value
- Funding for additional places
- Capacity and commissioning

- Outside of SCTN scope
- Different staff and spend profile and pressures
- Health and care costs



- Erosion of value and increased burden
- Impact of Minimum Funding Guarantee levels on Special schools and absence for AP

- Pressure through Deficit Management Plans and Safety Valve agreements
- 'Bankruptcy' and cashflow concerns of S151 officer

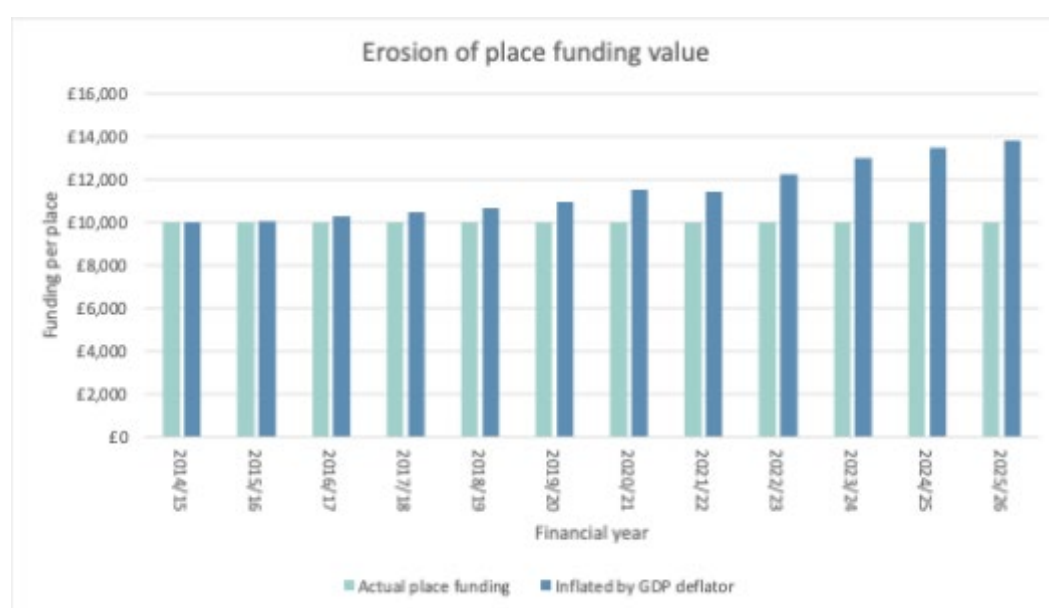
Policy gaps: clarity on the role of specialist and alternative provision settings within plans for SEND reform, Spending Review outcomes, the resolution of the High Needs deficit and future of the statutory override, a fair national funding formula for High Needs, operational guidance that support strategic partnership in the interests of children and young people

Impact on the equality of provision for children and young people with disabilities: a policy assertion that the higher percentage increase in the high needs budget compared to funding for mainstream schools represents a positive equalities impact ignores changes in the number of children and the level of need. The funding allocated for 2025/26 does not "enable local authorities to help them access the right educational provision and thereby address educational inequalities for those with SEND".



## Place funding

The policy decision to hold place funding at £10,000 since 2013 has led to an erosion of value, which has been compounded by the ability to withhold place funding for above planned-place numbers, meaning councils have a perverse incentive to under-estimate sufficiency needs to reduce their costs. The chart below shows the impact when comparing to the GDP Deflator. This assumes that where school costs have exceeded this level they have been matched by additional specific grant funding, such as the Core Schools Budget Grant. Inflating the place funding in line with the GDP Deflator since 2014/15 would have resulted in a 38% increase by 2025/26. This policy decision has resulted in a systematic shift of funding from place to top-up. In order to achieve a real terms standstill, top-up funding would have required an above inflation increase each year.



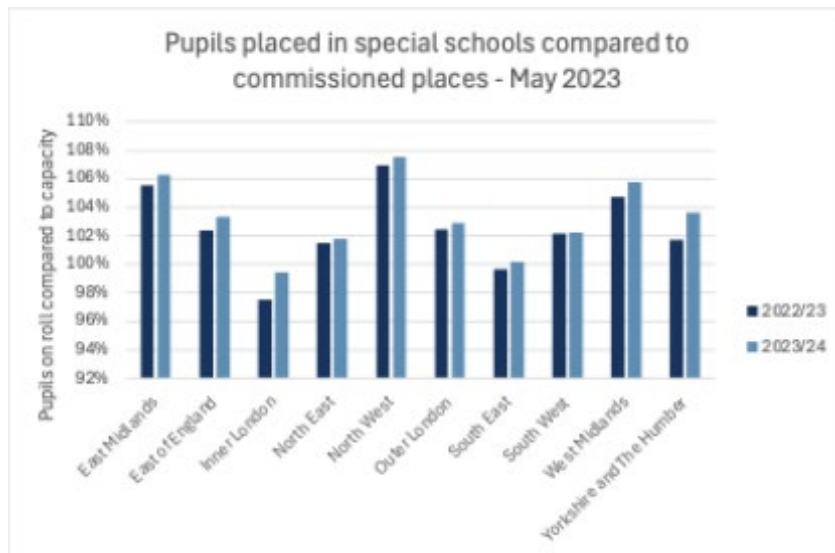
As explained above, a local authority is not required to fund additional places over and above those commissioned through the place-planning process if it is clear that the marginal cost of an additional pupil does not require the funding of a full place. However, in some local authorities, routine non-payment for additional places, following lagged commissioning appears to be a mechanism for controlling spending rather than a fair assessment of the full cost of provision.

Published data<sup>2</sup> for the 2022/23 academic year, for special schools, shows that across England there were 4,000 more pupils in special schools that commissioned places. This rises to over 10,000 in 2023/24<sup>3</sup>. If these places were not funded in full, this amounts to underfunding of over £100m.

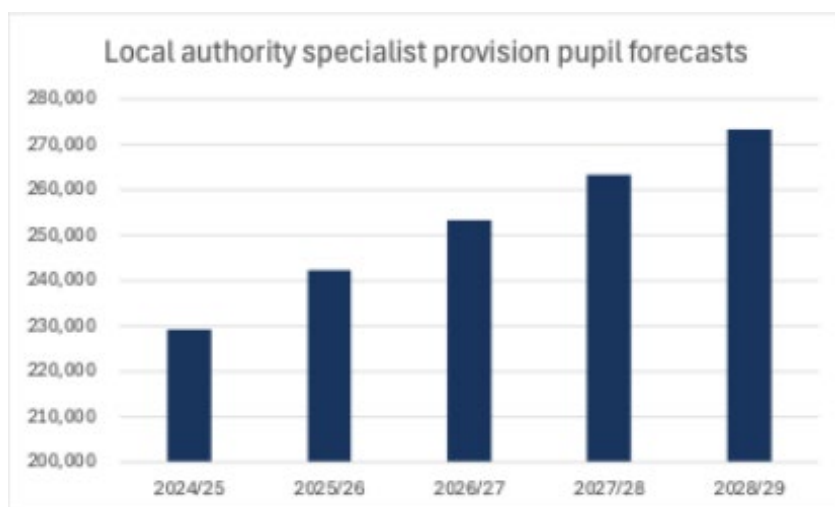
<sup>2</sup> <https://explore-education-statistics.service.gov.uk/data-catalogue/data-set/08e8052c-361e-4fbe-98fe-58c5e1486311>

<sup>3</sup> <https://explore-education-statistics.service.gov.uk/data-catalogue/data-set/bd631d86-c7df-4fad-95d4-79780e708f4d>





With local authorities forecasting<sup>4</sup> a sustained increase in the number of pupils in specialist provision, the arrangements for consistently recording the physical capacity of a specialist setting, accurately commissioning the number of places required for the coming year (or preferably three years to aid planning) and then reliably funding those places on a consistent basis will become ever more important.



<sup>4</sup> <https://explore-education-statistics.service.gov.uk/data-catalogue/data-set/f004f616-9836-4958-8416-9c7740af1c69>

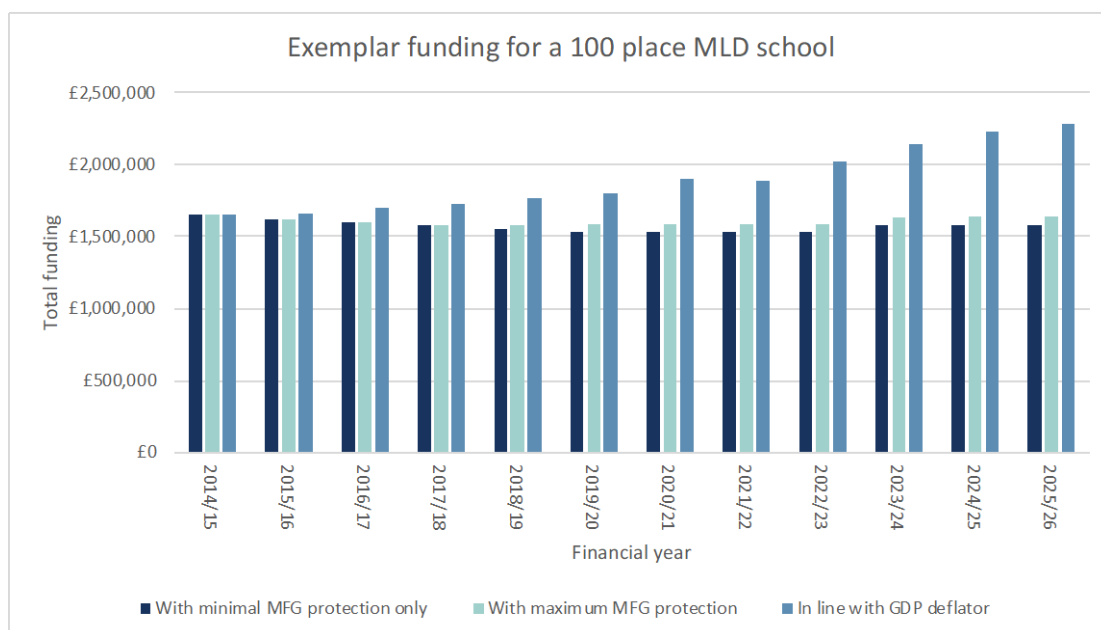
## Top-up rates

As covered above, many local authorities have used the special school MFG rate as a benchmark rather than a minimum. Over the years, the MFG has provided very minimal protection, without any expectation of the maintenance of funding levels in real terms, as shown in the table below.

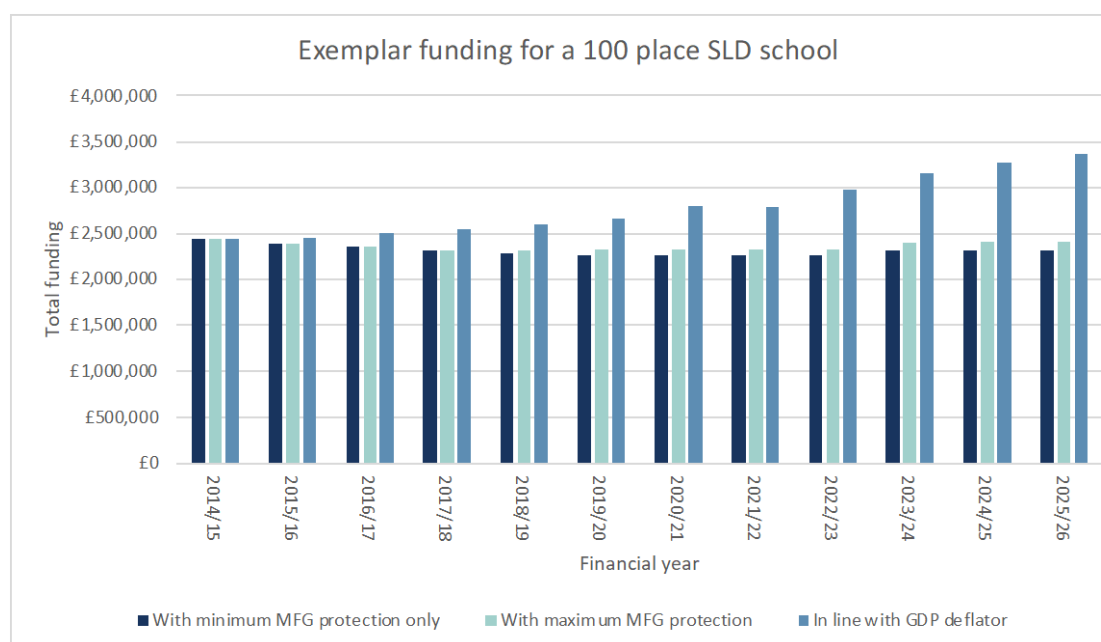
|         | MFG minimum | MFG maximum | GDP deflator<br>(March 2025<br>data) |
|---------|-------------|-------------|--------------------------------------|
| 2015/16 | -1.5%       | -1.5%       | 0.7%                                 |
| 2016/17 | -1.5%       | -1.5%       | 2.3%                                 |
| 2017/18 | -1.5%       | -1.5%       | 1.6%                                 |
| 2018/19 | -1.5%       | 0.0%        | 2.1%                                 |
| 2019/20 | -1.5%       | 0.5%        | 2.4%                                 |
| 2020/21 | 0.0%        | 0.0%        | 5.4%                                 |
| 2021/22 | 0.0%        | 0.0%        | -0.6%                                |
| 2022/23 | 0.0%        | 0.0%        | 7.1%                                 |
| 2023/24 | 3.0%        | 3.0%        | 5.9%                                 |
| 2024/25 | 0.0%        | 0.5%        | 3.8%                                 |
| 2025/26 | 0.0%        | 0.0%        | 2.7%                                 |

Alternative provision settings do not get the protection of the MFG, allowing rates to reduce in cash terms solely on the decision of the local authority.

Taking the impact of a fixed place funding rate, and top-up rates inflated only by the MFG, the impact for an exemplar Moderate Learning Difficulties school with a top-up rate of around £6,500 is a theoretical loss of £642-707k over the period 2014/15 to 2025/26.



For similar sized Severe Learning Difficulties school with a much higher top-up rate £14,300, the impact is £946-£1,041k over the same period. With funding at only the MFG rates at around £24k in 2025/26, the equivalent funding rate if inflated using the GDP deflator would have been £34k.



It is impossible to imagine how a school could sustain the same level of educational provision with funding reductions of this magnitude.

A final small, but important point on top-up funding. Specialist settings do not routinely receive the same sort of additional funding as a mainstream school. For example, if they are operating

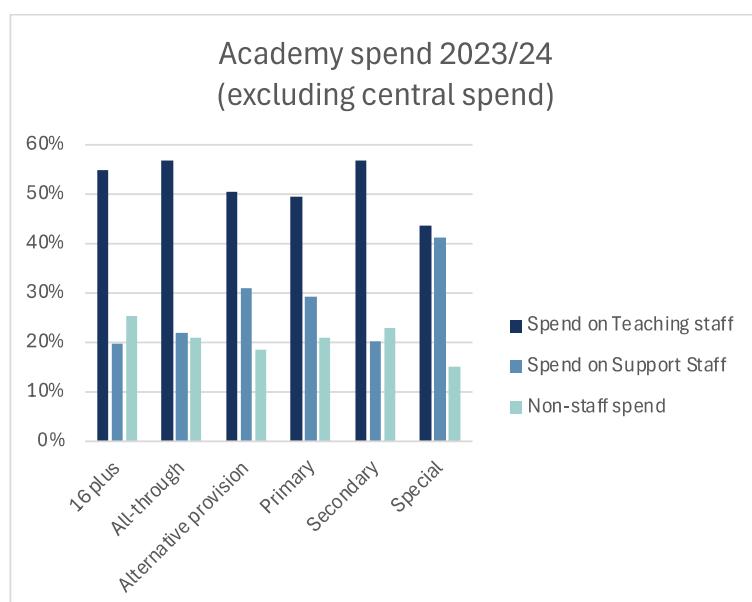
over a split site, this is now part of the NFF for mainstream schools but at the discretion of the local authority for a special school. Specialist settings also often report no recognition in the funding settlement for the cost of providing a meal to disadvantaged pupils, or recognition of the higher cost of delivery, a situation that will become unmanageable when eligibility extends to all those whose families are in receipt of Universal Credit. It is difficult to understand the inequity of a funding system that supports mainstream schools in these respects but not those that educate those with the highest need, including those with a disability.



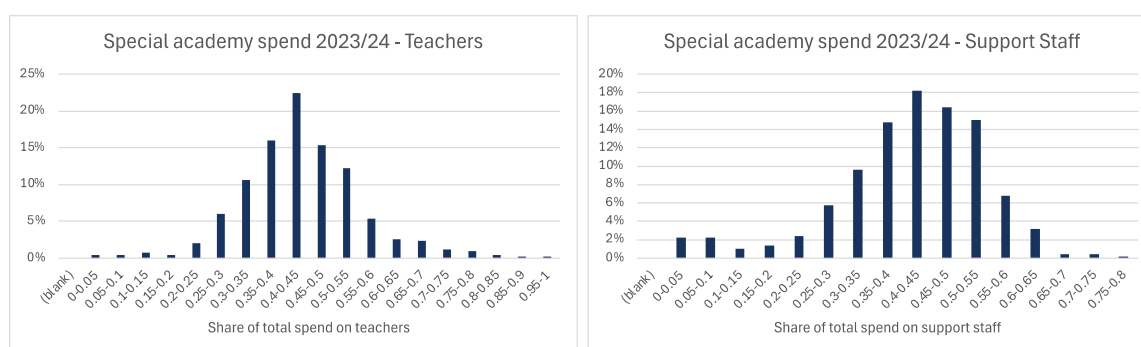
## Cost pressures

There are two significant issues in respect of cost pressures in specialist and alternative provision settings. The first is that these are not assessed nationally as part of the School Costs Technical Note (SCTN) which is the basis of the DfE evidence to the School Teachers Review Body in respect of the affordability of a recommended pay award for teachers. The second is that there is no absolute requirement for a local authority to understand cost pressures for settings in its area when determining top-up rates. It is a "should" not a "must". So, cost pressures affecting this vital part of the education sector are not securely understood at a local or national level.

Specialist settings have a different staff profile to mainstream schools. In any year when the pay award for support staff differs substantially from that of teachers, the cost pressure profile also varies. The spend profile shown in the chart below has been drawn from the AAR data for academies for 2023/24.



Whilst alternative provision settings are, on average, more like a mainstream school, we know that averages mask the extremes. Indeed, for special schools there can be considerable variation:



In the exemplar schools set out above, the MLD school receives 40% of its funding from top-ups, whereas the SLD school is the reverse. This is significant as all recent additional funding grants, for pay and pension increases have been distributed to local authorities on a per place basis.



Where local authorities have passed this funding on in the same manner, without utilising available flexibilities, the distribution does not match the cost profile.

Specialist settings also often face higher costs than mainstream schools, for example the cost of providing a school lunch, not simply for the catering but also the supervision and support.

There is an argument that says that many schools found their reserves boosted during the pandemic, providing a cushion during times of high inflation. Specialist settings remained open whilst other schools closed, significantly reducing this opportunity. With many operating with a higher than average energy usage, the impact of high prices added further challenge.

As funding is squeezed across the public sector, care and health support for children in specialist settings becomes harder to access, leaving schools and trusts making good the deficit in order to meet provision set out in EHCPs. For example, in its report in January 2025, the Public Accounts Committee<sup>5</sup> noted that *“waiting lists for speech and language therapy are significant, with more than 40,000 children waiting for more than 12 weeks as at June 2024”*. In some settings this can lead to teaching assistants delivering what are essentially health and therapy interventions, without the resources or training to do so

## High Needs deficits

There is much variation in the level of deficit in High Needs budgets across the country, but for local authorities within the Safety Valve and Delivering Better Value programme, the pressure on High Needs budgets will be intense. There will be a focus on actions to reduce the High Needs deficit at the local authority with close monitoring of Deficit Management Plans. In local authorities where the size of the High Needs budget threatens the viability of the whole local authority at the end of the statutory override (extended last month until the end of the 2027/8 financial year), the S151 Officer will be rightly concerned about any action that increases the deficit and may also have cashflow difficulties. This will inevitably impact on spending decisions, and top-up rates in particular.

The relationship between a trust with one or more specialist provision settings and the commissioning local authority is of strategic importance to both. However, all key decisions rest with the local authority. Where relationships, particularly over funding are difficult, the DfE will examine cases and consider remedial action only where there is clear evidence from a school or college that a local authority is not meeting the DSG conditions of grant. Otherwise, the only way for a special school/academy to have a placement reviewed is via a s496 referral<sup>6</sup> and the recourse for funding disputes suggested in the Operational Guidance, after exhausting a local authority's complaints procedure, is a referral to the Local Government and Social Care Ombudsman or the Secretary of State.

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<sup>5</sup> Public Accounts Committee, *Support for children and young people with special educational needs* (2025)

<sup>6</sup> S496 of the Education Act 1996, [Power to prevent unreasonable exercise of functions](#)

With all decisions about funding for specialist provision settings made at a local level, there is no assessment of financial headroom<sup>7</sup> included in the DfE evidence to the School Teachers Review Body, and so no measure of the affordability of the recommended pay award for teachers, or the impact of a support staff pay award, important given the different staffing profile for these settings.

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<sup>7</sup> School Costs: Technical Note, an assessment of school cost pressures compared to funding increases for mainstream schools only



# The future

## Procedural change for 2026/27

Whilst the policy proposals for SEND reform are developed and discussed, with full implementation potentially some years off, there are some important procedural changes that could be made to improve the financial stability of the specialist settings sector and manage the risk of financial failure. We recognise some of these changes may require legislative changes or the collection of additional data. These procedural changes include:

- Simplification of the funding mechanism for additional grant streams, both those inside the Core Schools Budget Grant envelope and the legacy funding that remains outside, to provide a protected and predictable local place funding allocation for special schools and AP settings, pending more fundamental reform
- Setting the MFG level at a realistic value to embed the recognition of real cost pressures
- Including special schools and alternative provision settings in the Schools Costs Technical Note and affordability assessments
- A clear explanation in the Equality Impact Assessment that accompanies the schools and high needs policy statement if the MFG level falls below the relevant GDP Deflator level, as this implies a real terms reduction in funding.
- Secure access to additional funding routes for PFI costs and split sites, as provided for mainstream schools
- Secure access to funding to meet the real cost of a free school meal in a specialist setting for eligible children
- A very clear requirement to make payments on a monthly basis, reducing the need for schools to chase the local authority in order to avoid a cashflow crisis
- An expectation that additional placements, over and above commissioned levels will always attract place funding, paid by the commissioning authority, unless there are exceptional circumstances
- Clarity that a placement cannot be considered as confirmed until funding has been agreed between commissioner and provider, with a duty on both to be reasonable and evidential.

## Longer term reform

The specialist provision sector forms a crucial element of inclusive education. A national funding framework that recognises the real cost of provision and funds it with fairness, predictability and equity is essential. Whilst this could be through an adaptation of the NFF methodology (an approach that CST proposed in its paper on funding policy, Funding Futures), or developments of the current model, it should not be left till last but designed in from the start.







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