

Urgent Decision Taken on Behalf of Cabinet

Report to the Leader of the County Council and the Cabinet Member for Children, Young People and Schools
Report submitted by: Interim Executive Director of Education and Children's Services
Date: 9 March 2018

Part I

Electoral Divisions affected:
All

Dedicated School Grant - Addressing the Forecast Overspend in the High Needs Block

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Executive Summary

The High Needs Block (HNB) of the Dedicated Schools Grant (DSG) which funds Special Education within Lancashire Schools and Academies for the financial year 2018/19 is forecast to overspend by circa. £8.5m. The report approved by Cabinet on 18 January 2018 entitled "School Budget 2018/19" balanced this funding gap through the use of DSG reserves but also noted that a review was underway to move quickly to a position where forecast expenditure was in line with the available budget.

This report sets out the financial situation, the reason action is required now, the measures being adopted and ratified by School Forum, and the mitigating actions that are being undertaken.

Reason for Urgency

This decision is urgent and cannot await the next meeting of Cabinet on 12 April 2018. The reason for this is that in order for these measures to be enacted they must be included within Individual School Budgets which must be issued by 9 March 2018. This decision is therefore being taken on behalf of Cabinet by the Leader of the County Council and the Cabinet Member for Children, Young People and Schools in accordance with the provisions of Standing Order 34(1).

This is deemed to be a Key Decision and the provisions of Standing Order No. 27 have been complied with.

Recommendation

The Leader of the County Council and the Cabinet Member for Children, Young People and Schools are recommended to endorse and approve Option B outlined within this report.

This decision should be implemented immediately for the purposes of Standing Order 35 as any delay could adversely affect the execution of the County Council's responsibilities. The reason for this is that Individual School Budgets will be issued to schools on 9 March 2018.

Background and Advice

The 2018/19 School Budget was approved by Cabinet on 18 January 2018. Within the Financial Implications section of the report (page 395 of the agenda pack) it stated that, despite HNB increasing from £107m to £110m in 2018/19, the forecast expenditure is expected to exceed available funds by circa. £8.5m. It stated that:

"In order to avoid utilising School Forum reserves in 2018/19, a comprehensive review of HNB will be undertaken by the LA with the support of School Forum to ensure that expenditure is contained within the gross HNB allocation of circa. £110m. This will minimise the call upon DSG reserves."

It should be noted that the funding issues and measures proposed within this report are being experienced by many other Local Authorities (LA) and is not specific to Lancashire. The approach being adopted by Lancashire to these pressures is to reduce HNB utilised centrally as much as possible to minimise the impact on schools and to approach any reduction in funding to schools as a joint efficiency target between the LA, Schools Forum and the individual schools impacted.

The level of DSG reserves, after expected calls upon them for the 2017/18 financial year will be in the region of £11m. This represents just over 1% of the total 2018/19 DSG which is extremely low and needs to be protected for any unforeseen eventualities in 2018/19 such as any increase in schools in financial difficulty.

The forecast overspend represents a worsening of an existing situation. The 2017/18 HNB is expected to overspend by circa. £6m. This is the result of a number of factors:

- An increase in the number of High Needs pupils (the same as our comparators).
- The complex nature of many pupils' needs which are often expensive to meet.
- Increased demand for post-16 places resulting from the raising of the statutory education age.
- Pressure on available specialist places increasing costs.
- Pressure on mainstream school budgets raising the likelihood of exclusions or the need for specialist placements.

Two options exist for dealing with this over spend:

Option A: Seek approval from School Forum to transfer, for one year, additional funds from the main School Block funding stream to address this forecast overspend which will be automatically returned to School Block after one year. This will resolve the situation funding situation for one year but leave the mainstream funding for all schools at a lower level for one year and still not resolve the over spend within the HNB.

Option B: Initiate a number of actions as set out in the table below which will remove a significant proportion of the over spend in 2018/19 and avoid diverting funds from the main Schools Block which will increase pressure on the all Primary and Secondary schools in Lancashire. Some use of reserves is included in this option, to ensure that the impact at individual school and provider level is manageable.

School Forum and SEN Officers are of the view that the latter option is the only viable alternative and can be achieved with minimal disruption to the delivery of services to SEN pupils.

The table below sets out the measures that have been identified by Officers within Special Educational Needs, School Improvement, Schools Finance and School Forum. The measures identified are across both delegation to Schools and Academies and the centrally retained element with the LA and focussed towards minimising the impact on funding received directly by schools.

HNB Savings Proposals for 2018/19

| Adjustment/Saving | £m | £m |
|---|-----------|-------------|
| Central/Non-School | | |
| School Block Transfer (small underspend from 2017/18) | 0.7 | |
| Review of Alternative Provision provided by LCC | 1.0 | |
| Central School Services Block (CSSB) Efficiencies | 0.4 | |
| Out of County provision – procurement review | 1.0 | |
| Re purposing of HNB funds no longer supported by Schools Forum | 0.9 | |
| SEND review of commissioned places at Special Schools | 0.2 | |
| Further Education funding to be based on a pro-rata system and a reduction of the additional top up funding. This reduces the funding differences between FE sector and schools | 0.75 | 4.95 |
| School Specific | | |
| Special Education Resource Facilities (SERF units) within mainstream schools funded on occupancy rather than capacity – schools will be funded for all the pupils in their care | 0.6 | |
| Special School Specific Funding re-alignment | 1.3 | 1.9 |
| Total | | 6.85 |

The savings proposals for implementation in 2018/19, which incorporate the phased introduction of some proposals, do not generate the full level of estimated £8.5m overspend. It is proposed that the shortfall will be met from DSG reserves.

The savings proposals have been refined following various discussions and representations. The revised proposals to be implemented in 2018/19 have retained a focus on applying changes immediately to adjust inequalities in the existing arrangements but look to offer a longer period of transition around the implementation of other proposals.

The smaller than proposed reductions in school specific funding are being phased over two years with no reduction until September 2018. The longer period of transition will allow greater time for schools and providers to adjust to the new financial circumstances and to identify and implement savings and efficiencies at LA and school level in a more measured and considered way. The LA will seek views from across all partners about the best approach in minimising the impact of any reductions.

It should be noted that savings estimates are provisional based upon best available information. Monitoring will be undertaken throughout the year to ensure that the budget remains within available resources.

The measures outlined represent the measures which can be taken now to resolve the immediate financial issue. Officers will be working with Schools and School Forum to undertake a more detailed review to ensure that available funding is utilised in the most efficient and effective way moving forward.

Consultations

Consultation and communication of the issue and the necessary remedial action has been as follows:

- School Forum have received a detailed presentation of the overall budget position which focussed on the HNB expenditure issue. A comprehensive conversation was undertaken and the School Forum accept the need to undertake the proposed actions and the need to protect the current low level of reserves.
- Post Forum decision letters have gone out to all schools outlining the proposed actions.
- Detailed and regular ongoing discussions internally with School improvement and Special Educational Needs.
- Presentations to, and discussions with, the Lancashire Special School Head Teachers Association (LaSSHTA) and their sub-group. Special School feedback currently being received.
- Lancashire Secondary Heads Association (LASSH).
- Primary Heads in Lancashire Association (PHIL).

Implications:

This item has the following implications, as indicated:

The key implication from this report is a reduction in the anticipated expenditure within the HNB to ensure it meets the operational budget of circa. £110m.

Risk management

Operational

The result of these changes will be a decrease in funding that otherwise would have been passed to Lancashire Schools and Academies and other providers. This will result in:

- A reduction in payments to Further Education (FE) colleges for post 16 pupils. SEN are currently undertaking a review of this activity to see how placements for this sector can be achieved in a more cost effective manner using a wider variety of providers.
- Funding to the majority of Lancashire Schools and Colleges will only be affected by a small amount, SEN funding accounting for only a very small proportion of their total funding.
- Funding retained within the LA will need to be utilised differently to ensure that the key objectives of the service are still met. Work is on-going to ensure minimal impact.
- The 30 Special Schools are hardest hit by these measures but revisions in the savings proposals have sought to minimise the level of impact on the sector and to introduce any reductions in a phased and more manageable way. Work is currently underway within SEN and Schools Finance to fundamentally review the SEN banding and funding arrangements for special schools and to work with individual schools to ensure that they can continue to deliver their services whilst setting balanced budgets.

Legal

There are no specific legal implications arising from the proposals in this report.

Financial

This report has no financial implications for the County Council's revenue or capital budget. It relates to HNB funding delegation to Lancashire Schools and Academies and DSG funds used by the LA to support pupils with Special Educational Needs. The measures within the report will ensure that the funding delegated to Schools and Academies begins to align to the allocation provided by the Education, Skills and Funding Agency over a phased basis. Failure to implement these actions will result in DSG reserves being fully utilised in 2018/19.

List of Background Papers

| Paper | Date | Contact/Tel |
|------------------------|-----------------|---------------------------|
| School Budgets 2018/19 | 18 January 2018 | Andrew Good/(01772) 53453 |

Reason for inclusion in Part II, if appropriate

N/A