



**Open Report on behalf of Heather Sandy, Executive Director - Children's Services**

Report to:	<b>Lincolnshire Schools' Forum</b>
Date:	<b>06 October 2022</b>
Subject:	<b>Revised Schools Budgets 2022/23</b>

**Summary:**

The purpose of this report is to notify the Schools' Forum of the revised Schools Budgets for 2022/23 and to seek support for the proposed use of cumulative underspending from 2021/22.

**Recommendation(s):**

Schools' Forum is asked to:

- (1) note the contents of the report,
- (2) to agree to the recommendation to capitalise £0.780m of Dedicated Schools Grant revenue monies for childcare sufficiency purposes by securing new childcare places, through a vote to enable it to be taken forward through the Disapplication Request process for DfE for Secretary of State (SoS) approval, and
- (3) support the Local Authority's proposed use of the uncommitted sum, as outlined in section 5.

The views of the Schools' Forum will be reported to Children's Services Directorate Leadership Team and Executive Councillor for Children's Services, Community Safety and Procurement before final decisions are made.

**Background**

1. The Dedicated Schools Grant (DSG) is a ring-fenced grant that can only be spent for the purposes outlined in the Department for Education's (DfE's) School's and Early Years Finance (England) Regulations.

A revision to the Schools Budget is necessary each year to reflect the under or overspending arising on the DSG in the previous financial year and adjustment to the

DSG once the Early Years figures have been confirmed. Under DfE' regulations, underspendings are carried forward automatically to the following financial year and the Local Authority (LA) must consult with the Schools' Forum over its plans to utilise underspendings, or address overspendings.

Under Schedule 2 of the School and Early Years Finance (England) Regulations 2022, LAs are required to carry forward overspend to their DSG to be dealt with in the new year or future years. This would be subject to DfE oversight to ensure any overspend is recovered. LAs can apply to the Secretary of State to disregard this requirement, if it wishes to fund any part of the deficit from a source other than the DSG.

LAs with DSG deficits under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 (SI 2020 No 1212), made by what is now the Department for Levelling Up, Housing and Communities (DLUHC) are required to hold the DSG deficit in a separate reserve within LAs accounts. This is now the accounting treatment that LAs must follow while those regulations are in force (up to and including the accounts for 2022/23). This statutory override currently in place does not require LAs to make provisions from its general reserves to cover any DSG deficit that exists. It is unclear at this stage what the position will be for 2023/24.

LAs with DSG deficits are required to report to the DfE on managing their future DSG spend, which is governed by the School and Early Years Finance (England) Regulations 2022.

This is in the context of the increasing number of LAs who are incurring a deficit on their overall DSG largely due to overspend on their High Needs block. The DfE reported through the government's SEND Green Paper that two thirds of LAs are in deficit by the end of 2020/21, valued at over £1bn. The SEND Green Paper acknowledged the unsustainable SEND system and spending still outstripping funding.

The DfE launched a Safety Value programme in 2020/21 with agreed financial support to five LAs that have the highest DSG deficits worth £97m. This expanded to a further nine LAs worth £300m in 2021/22 and will be expanded in 2022/23 to incorporate an additional cohort of LAs. Under these agreements, these LAs are expected to agree to a plan of action to make them more sustainable in the long-term and stop deficits growing. The primary goals are appropriately managing demand for Education Health Care (EHC) plans and using appropriate and cost-effective provision. The Department's latest programme Delivering Better Value in SEND support programme is intended to complement the Safety Valve intervention programme by providing dedicated support and funding to help a further fifty-five LAs with substantial, but less severe, deficit issues to reform their high needs systems and spending.

LAs, such as Lincolnshire must ensure careful management of the DSG takes place to avoid overspending of the DSG. Section 151 officers and auditors have raised concern where growing DSG deficits without a sustainable recovery plan are impacting the overall financial position of the LA, and its going concern status. This is in the context

of financial pressures facing LA finances following the pandemic and rising inflation caused by world events.

### **The carry forward for 2021/22**

2. The cumulative underspend carried forward at 31/3/22 was £11.969m before accounting for existing commitments of £4.331m. The uncommitted sum of £7.638m represents 1.12% of Lincolnshire's 2022/23 overall DSG (£679.872m). This position reflects the net underspends of £3.288m<sup>1</sup> on budgets in 2021/22 held centrally within the DSG. Details are set out per block in Appendix A.

### **Existing commitments**

3. A thorough review of existing commitments has taken place including updating for decisions made, and prudent financial estimates of those have been made. They total £4.331m. Details are set out in Appendix B. Some commitments continue to be earmarked and refined, however as work streams are finalised or the government's position is confirmed, spending will start to take place. In addition, other financial commitments may materialise.

### **Proposed developments**

4. The LA is seeking to utilise DSG funding to contribute towards creating new childcare places in the county for sufficiency reasons. The LA is proposing to capitalise £0.780m from the DSG reserve, which had previously been earmarked for Early Years initiatives (£0.977m). This had originated from the government's rollout of the disadvantaged 2-year-old funding. The service has considered the existing commitments against this earmarked funding in the decision to prioritise this towards capital funding.

The LA must report annually to elected Council members on how we are meeting our statutory childcare sufficiency duty, to secure sufficient childcare, and make this report available and accessible to parents. The LA undertook a series of childcare providers and parent sufficiency surveys during April – May 2022. The surveys were designed to review the availability, accessibility and sustainability of childcare in Lincolnshire.

To ensure the LA meets its childcare sufficiency duty, there are areas in Lincolnshire identified as requiring additional childcare places in the immediate future. A development plan has been produced, however capital investment will be required to support the plan. The LA has exhausted all previous DfE capital funding for early years and childcare developments and the service has a capital budget remaining of £0.040m to invest in projects where they are required to meet the childcare sufficiency duty. The Council's existing capital programme is also being reviewed to ensure it is affordable due to record levels of inflation caused by world events. As an illustration, the cost of construction for 'All Work' rose by 24.5% in April 2022 compared to one year prior, according to the Department for Business, Energy and

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<sup>1</sup> The in-year underspend takes account of the early years 2021/22 adjustment.

Industrial Strategy (BEIS) due to rising cost of electricity, oil and many other raw materials.

Capital investment of £0.780m is sought to secure new childcare places in areas of need within the sufficiency report and childcare delivery plan. The LA recommendation to capitalise £0.780m of DSG revenue funding will require a Disapplication Request to the DfE for Secretary of State (SoS) approval. The LA has successfully received approval for such a request a number of years ago.

The Schools' Forum is asked to support the recommendation through a vote for it to be taken forward to the SoS. The Children's Services Directorate Leadership Team and Executive Councillor for Children's Services, Community Safety and Procurement have approved this recommendation to proceed.

The Annual Childcare Sufficiency Report 2022 can be found through the following link: <https://www.lincolnshire.gov.uk/early-years-education/support-childcare-providers/7>

### **Proposals for use of the uncommitted sum**

5. The cumulative underspend (£11.969m) less existing commitments (£4.331m) and proposed developments (£0.780m) leaves £6.858m. However, as stated in paragraph 3 above, there are likely to be other commitments that arise during the year within the DSG remit that the LA will be required to respond to.

The LA proposes that the remaining sum is not committed and held in reserves due to the current spending levels in the area of Special Educational Needs and Disabilities (SEND) and the uncertainty in the financial environment going forward. The following section provides an explanation of the LA position.

The report earlier outlines the national context of DSG deficits caused by unsustainable spending on their High Needs block reporting two thirds of LAs with DSG deficits, valued at over £1bn. The government response to the 2022/23 DSG settlement was welcomed, however the SEND Green Papers timeline for securing a financially sustainable system appears unlikely to be achieved in the short-term. Prudent management of the DSG to avoid overspending is key. Lincolnshire underspent its High Needs block by £1.964m in 2021/22, however some services were temporarily funded by other funding sources (£1.317m) and a temporary underspend on Alternative Provision free school places (£1.673m). Without this, the High Needs block would have been overspent.

The 2022/23 financial position on the DSG overall is currently forecasting to be broadly on target. The DSG, in particular the High Needs block has large, demand-led, and can be difficult to estimate budgets (e.g. SEND related budgets, including out of county placements; top up funding for EHC plans for mainstream schools; special school placements; meeting the education needs for pupils through alternative provision arrangements, and supporting the sector financially to meet unforeseen costs that were not budgeted for in delegated high needs budgets, but are subject to

government decisions to allow them to be fully quantified). In Lincolnshire there continues to be a growing trend for more specialist support for young people which is having a material financial impact on the High Needs block.

Lincolnshire's transformational work is considered fundamental to continue securing further improved outcomes for young people with SEND through a truly integrated approach, whilst also securing an offer for Lincolnshire that is financially sustainable within the central Government allocation. The SEND Transformation Board is governing the transformational process and its key work streams, including of monitoring of progress against our ambitions. The Schools' Forum received the Annual report on Special Educational Needs and Disabilities in the June 2022 Schools' Forum meeting, providing a comprehensive overview of Lincolnshire's position, including the transformational activities taking place. Fundamental to this is Lincolnshire's Inclusive Ambition which incorporates a system ambition that aims to ensure that the majority of children with special educational needs can fulfil their potential in mainstream settings where practitioners are clear how to meet their needs and the right support is available to do so at an early stage.

The announced increase in High Needs block funding settlement for LAs in 2023/24 is again welcomed through the 5% funding floor rise per head of population. Lincolnshire will continue to be funded through the funding floor and will be in receipt of £8.692m protection funding (£8.607m in 2022/23) above the formulaic formula. The LA is therefore mindful of future changes to the SEND system and how this could impact the financial regime, but it is hoped the government continue to manage funding changes in a planned and co-ordinated way through protection arrangements to avoid cliff-edge funding.

Lincolnshire's desire is to achieve a balanced budget on its High Needs block will ensure funding is directed to the right activities and cost-effective provision to maximise the outcomes for young people with SEND. This includes the majority of children who have SEND fulfilling their potential in mainstream settings through having the right support available including at transition points. Lincolnshire does not want to be forced into a position of making difficult decisions of retracting its comprehensive early help support package to schools, or to seek a transfer of up to 0.5% of the Schools block to the High Needs block to manage unfunded cost pressures.

The trajectory of funding for High Needs blocks is not considered to be sustainable by central Government. The SEND Green paper acknowledges the unsustainable SEND system and considers ways to address this. The outcomes of the consultation will likely have an impact on high needs funding allocated to LAs and to schools, but timescales are presently unclear.

The uncertainty of future High Needs block funding and the much tighter financial environment expected going forward; the growth still being experienced in EHC plans and the requirement for more specialist placements, and the time to allow for the transformational work to be further embedded into practices and its output including

spending levels, require the uncommitted DSG cumulative underspend to remain in place to support the LA secure a sustainable DSG budget going forward.

Appendix A highlights the areas of financial variance in 2021/22.

There remain other financial risks within the other DSG funding blocks:

- Schools block: the LA plans to continue replicating the national funding formula in 2023/24, however this will be subject to affordability, for example using lagged pupil characteristics data, and the extent this will impact the FSM Ever 6 data.
- Central Schools Services block: the funding of historic commitments in place whilst the government reduce funding by 20% each year.
- Early Years block: the growth in early years participation numbers that has been experienced during the summer term, which is being funded through the January 2022 census snapshot by the government, which is considered low, due to the pandemic. Autumn and spring data estimates will be considered for affordability in the current year. Also, financial sustainability of providers in delivering early years entitlement in these challenging economic times, which is subject to government funding levels beings set. In 2021/22, the number of available childcare places has reduced by 431 across the county.

### Conclusion

This is in the context of the increasing number of LAs who are incurring a deficit on their overall DSG. The DfE reported through the government's SEND Green Paper that two thirds of LAs are in deficit by the end of 2020/21, valued at over £1bn, caused by overspends on their High Needs block. The SEND Green Paper acknowledged the unsustainable SEND system and spending still outstripping funding.

The department have made a number of changes: these include changes to the regulations on how overspends are to be managed going forward; the statutory override that is due to expire in 2022/23 which does not require LAs to make provision from its general reserves to cover a DSG deficit, although depending on their scale could impact audit opinions on an LAs going concern, and the tightened-up rules under which LAs have to explain to the DfE their plans for bringing the DSG account back into balance.

Lincolnshire remains is a strong position financially to respond to the demands, and the High Needs Block will continue to require careful and prudent management going forward. Lincolnshire is currently not in a deficit position with available reserves, however based on planned expenditure on the High Needs block and future trajectories; action is being taken to ensure spending is directed to the right activities to maximise the outcomes for young people with SEND, whilst also securing an offer for Lincolnshire pupils that is financially sustainable within its central government allocation.

The LA proposes that the remaining sum is not committed and held in reserves due to the future outlook of rising costs; a much tighter financial environment expected going forward in the medium term; changes proposed through the government's SEND Green

Paper, and the time to allow for the transformational work to be embedded into practices and its output ensuring the financial capacity is there within the DSG reserves, including temporarily managing unfunded cost pressures. The LA is not proposing to move up to 0.5% of the Schools block funding in 2023/24.

The LA must act prudently and avoid overspending the DSG.

**Consultation**

**a) Risks and Impact Analysis**

The greatest financial risk remains around High Needs block funding and spending. High Needs Funding continues to see growth in the demand for more specialist support for young people, which is having a material financial impact on those centrally held budgets of the High Needs block. The SEND Green paper acknowledges the unsustainable SEND system and considers ways to address this. The outcomes of the consultation will likely have an impact on high needs funding allocated to LAs and to schools, but timescales are presently unclear.

The announced increase in High Needs block funding settlement for LAs in 2023/24 is again welcomed, and Lincolnshire will continue to see protection through the funding floor. Lincolnshire remains in a strong position financially to respond to the demands, and the High Needs Block will continue to require careful and prudent management going forward, including the management of reserves.

The SEND Transformation Board is governing the transformational process and its key work streams, including monitoring of progress against our ambitions. It remains prudent to retain financial flexibility to support Lincolnshire in securing a sustainable financial position in the medium term, particularly with a much tighter financial environment expected going forward.

**Appendices**

These are listed below and attached at the back of the report	
Appendix A	Central DSG Budgets 2021/22 - explanation of major under and overspendings
Appendix B	2021/22 DSG commitments
Appendix C	Lincolnshire’s Childcare Sufficiency Assessment

**Background Papers**

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Revised School Budgets 2021/22 - October 2021	<u>(Public Pack)Agenda Document for Lincolnshire Schools' Forum, 07/10/2021 13:00 (moderngov.co.uk)</u>

This report was written by Mark Popplewell, Strategic Finance Lead - Children's Services, who can be contacted on or [mark.popplewell@lincolnshire.gov.uk](mailto:mark.popplewell@lincolnshire.gov.uk).