



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

Report to:	<b>Lincolnshire Schools' Forum</b>
Date:	<b>05 October 2023</b>
Subject:	<b>Revised Schools Budgets 2023/24</b>

**Summary:**

The purpose of this report is to notify the Schools' Forum of the revised Schools Budgets for 2023/24 and to seek support for the proposed use of cumulative underspending from 2022/23.

**Recommendation(s):**

Schools' Forum is asked to:

- (1) note the contents of the report,
- (2) support the Local Authority's proposed use of the uncommitted sum, as outlined in section 4.

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, Procurement and migration 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 overspends to their DSG to be dealt with in the new year or future years. This would be subject to DfE oversight to ensure any overspends are 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.

The Department for Levelling Up, Housing and Communities (DLUHC) amended the Local Authorities Capital Finance and Accounting (England) Regulations 2003 so that for financial years beginning April 2020 to 31 March 2026, any DSG deficit at the end of the financial year must be held in a separate reserve within the LAs accounts. The DLUHC regulations set statutory rules for how DSG deficits must be calculated, the calculation covers the whole of the DSG and where it is in deficit in entirety.

The Education Skills and Funding Agency (ESFA) are now running three programmes offering direct support in respect of the effectiveness and sustainability of LAs high needs systems: the safety valve intervention programme, the Deliver Better Value (DBV) in SEND programme and the ESFA support programme. The aim of all three programmes is to secure sustainable management of LAs High Needs blocks.

The safety valve intervention programme will continue to target the LAs with the highest DSG deficits. The programme requires the LA to develop a substantial plan for reform to rapidly place them on a sustainable footing. The primary goals are to appropriately manage demand for Education Health Care (EHC) plans and use appropriate and cost-effective provision. 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. Upon reaching an agreement, LAs will receive incremental funding to eliminate their historic deficits generally spread over five years. When the programme was launched in 2020/21 five LAs received financial support worth £97m. This expanded to a further nine LAs worth £300m in 2021/22. An additional twenty deals have been agreed in 2022/23 worth a further £585m. A link to these agreements are as follows: [Dedicated schools grant: very high deficit intervention - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/dedicated-schools-grant-very-high-deficit-intervention).

The DBV in SEND programme targets LAs with less severe but either substantial and/or growing deficit issues. The programme has similar aims to the safety valve intervention programme by providing dedicated support and funding (£85m) to help a further fifty-five LAs with substantial, but less severe, deficit issues to reform their high needs systems and spending.

For those LAs not on either of the above programmes the ESFA will continue to provide support through the development of appropriate DSG management plans.

There continues to be an increasing number of LAs who are incurring a deficit on their overall DSG, largely with the High Needs block being the contributing factor. The total SEND deficits across Councils in England was estimated to be £2.3bn at the end of 2022/23 by the Association of Directors of Children's Services. The DfE acknowledges the challenges the system is facing, and the SEND Green paper acknowledged the

unsustainable SEND system and considers ways to address this. The Special Educational Needs and Disabilities (SEND) and Alternative Provision (AP) Improvement Plan Right Support, Right Place, Right Time (published in March 2023) is the mechanism for implementing change.

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 concerns 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 caused by increased demands and cost of services.

### **The carry forward for 2022/23**

2. The cumulative underspend carried forward at 31/3/23 was £13.823m<sup>1</sup> before accounting for existing commitments of £4.341m. The uncommitted sum of £9.482m represents 1.31% of Lincolnshire's 2023/24 overall DSG (£725.181m). This position reflects the net underspends of £3.285m<sup>2</sup> on budgets in 2022/23 held centrally within the DSG. Details are set out per block in Appendix A.

### **Existing commitments**

3. A review of existing commitments has taken place including updating for decisions made, and prudent financial estimates of those have been made. They total £4.341m. Details are set out in Appendix B. Some commitments continue to be earmarked and refined, however as work streams are finalised, spending will start to take place. In addition, other financial commitments may materialise, particularly due to the changing landscape of SEND.

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

4. The cumulative underspend (£13.823m) less existing commitments (£4.341m) leaves £9.482m. 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 the High Needs block with an estimated two thirds of LAs with DSG deficits, valued at over £2.3bn. The Government response to the 2023/24

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<sup>1</sup> The cumulative underspend reflects the approval from Secretary of State decision to capitalise £0.780m for the sufficiency of school places in early years.

<sup>2</sup> The in-year underspend takes account of the early years 2022/23 adjustment.

DSG settlement was welcomed, however the funding increase of 3% per head is modest in 2024/25 and will place significant pressure on Lincolnshire in managing the cost demands within its 2024/25 allocation. Medium-term financial planning is indicating an in-year overspend for 2024/25 in light of demand and price changes. This forecast in-year overspend would need to be met from available reserves to provide a balanced budget. Refinement of assumptions will take place over the coming months, as the position becomes clearer. A higher cost base includes increased demand and prices in alternative provision; an increasing number of Education Health Care plans being issued, and mainstream schools unable to meet need, therefore special school places are being exhausted, which is leading to more external placements being required (a 14% increase in SEND placements over the last 16 months), and unfavourable market conditions has seen placement costs increase by over 30%. It is also important to ensure the LA delivers fair funding for Lincolnshire state schools in supporting children and young people with SEND by responding to the higher costs of education delivery with funding levels being considered for 2024/25.

With the nature of the services that the High Needs block provides, which is driven by large, demand-led activities, it is difficult to change spending levels quickly, as can be demonstrated with the number of LAs involved and the size of their deficit. Therefore, having a sufficient level of reserves to draw on is important to avoid going into a DSG deficit and provide the LA time to deliver change. The c.£9m reserves will support the LA over the short to medium-term where in-year overspends occur on the High Needs block.

As previously reported, there continues to be a growing trend nationally, and this growth is being experienced in Lincolnshire with more young people requiring specialist support which is having a material financial impact on the High Needs block. The annual SEND report to the Schools' Forum in June 2023 illustrated the impact of the concerted efforts being made across the SEND partnership to ensure that EHC plans are provided for the children who need higher levels of support. Lincolnshire is lower than the national trend in relation to the growth in the number of EHC plans, requests for assessment and the number of new EHC plans issued in 2022. Nevertheless, financial challenges remain, and difficult decisions will be required to ensure Lincolnshire avoids overspending its DSG. In Lincolnshire, transformational work is still considered fundamental to 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. Lincolnshire's Inclusive Ambition which incorporates a system ambition 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 SEND Transformation Board is governing the transformational process and its key work streams, including monitoring of progress against our ambitions.

Detailed budget planning and trajectory work, and sector engagement will take place in the autumn to substantiate the requirements of high needs spending, including

being able to quantify potential financial risks. Information will be shared in the January Forum meeting.

Prudent management of the DSG to avoid overspending is key. Lincolnshire underspent its High Needs block by £2.307m in 2022/23, however the Healthy Minds service was temporarily funded by another funding source (£0.860m) and a further temporary underspend on Alternative Provision free school places (£1.630m). Without this, the High Needs block would have been overspent.

The 2023/24 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 added with the cost rises being seen).

Lincolnshire will continue to be funded through the funding floor (3% increase per head of population) and will be in receipt of £7.527m protection funding 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.

Although financial planning is indicating an in-year overspend in 2024/25 (2024/25 High Needs block funding versus 2024/25 forecast spending), in light of demand and price changes, Lincolnshire's desire still remains to achieve a balanced sustainable budget on its High Needs block ensuring funding is directed to the right activities and cost-effective provision to maximise the outcomes for young people with SEND. 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 (that funds schools delegated budgets) to the High Needs block to manage unfunded cost pressures. The reserves enable the block transfer discussion to be pushed back temporarily, however with increasing demand and cost rises, and a tighter financial environment, Lincolnshire is heading in this direction in the coming years, as things stand.

In Summary, 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; cost rises, and the time to allow for the transformational work and change to be embedded into practices and its output including spending levels, the available DSG reserves is required to support the LA in securing a sustainable DSG budget in the short to medium-term.

Appendix A highlights the areas of financial variance in 2022/23.

Although there are financial risks within the other DSG funding blocks, the LA have steps and mitigations in place to manage those, such as the affordability of the schools

national funding formula, early years participation levels, and the Central Schools Services historic commitments.

### Conclusion

The report provided an overview of the national context of DSG deficits caused by unsustainable spending on the High Needs block with an estimated two thirds of LAs with DSG deficits, valued at over £2.3bn.

Lincolnshire is in a good financial position from having a surplus DSG balance, however careful and prudent management is required going forward in light of the increasing demand and cost rises, and a tighter DfE financial environment, and early medium-term financial planning is indicating an in-year overspend in 2024/25, which would be offset by the available reserves. Detailed budget planning and trajectory work (including the impact of transformation), and sector engagement will take place in the autumn to substantiate the requirements of high needs spending, including being able to quantify potential financial risks.

The LA proposes that the remaining sum is not committed and held in reserves due to the challenging future outlook. This will provide Lincolnshire with the time to effectively respond to these challenges by meeting unfunded cost pressures temporarily. The LA is not proposing to move up to 0.5% of the Schools block funding in 2024/25.

The LA must act prudently and avoid overspending the DSG.

#### **a) Risks and Impact Analysis**

The greatest financial risk remains 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 Government has responded positively to the financial demands placed upon the High Needs block in recent years, but 2024/25 is a more modest funding settlement. The SEND Transformation Board is governing the transformational process and its key work streams, including monitoring of progress against our ambitions. Lincolnshire remains in a good position financially to respond to the demands including the use of the reserves, and the High Needs Block will continue to require careful and prudent management going forward.

Central Schools Services Block (CSSB) historical commitment funding reductions will continue to be reviewed including dialog with the Department to secure a long-term solution for the PFI contract ending in August 2032.

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Central DSG Budgets 2022/23 - explanation of major under and overspendings
Appendix B	2022/23 DSG commitments

## 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 2022/23 - October 2022	<u><a href="#">Report Reference: (moderngov.co.uk)</a></u>

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