

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

Report to:	Lincolnshire Schools' Forum
Date:	08 October 2020
Subject:	Revised Schools Budget 2020/21

Summary:

The purpose of this report is to notify the Schools Forum of the revised Schools Budget for 2020/21 and to seek support for the proposed use of the underspending from 2019/20.

Recommendation(s):

Schools Forum is asked to:

- (1) note the contents of the report, and
- (2) support the Local Authority's proposals for 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 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.

New provisions have been put into regulation 8, paragraphs (7) and (8), and Schedule 2 Part 8 of the School and Early Years Finance (England) Regulations 2020, which require LAs with overspends on their DSG to carry them forward 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. With financial pressures impacting LAs finances generally, added with the Covid-19 impact, LAs will be required to find solutions through its DSG management.

The carry forward for 2019/20

2. The cumulative underspend carried forward at 31/3/20 was £12.618m before accounting for existing commitments of £7.312m. The uncommitted sum of £5.306m represents 0.89% of Lincolnshire's 2020/21 overall DSG (£595.282m). This reflects the net underspendings of £0.064m¹ on budgets in 2019/20 held centrally within the DSG. Details are set out per block in Appendix A.

Existing commitments

3. A thorough review of existing commitments have taken place and prudent estimates of those have been made. They total £7.312m. Details are set out in Appendix B. Some commitments continue to be earmarked and cannot be fully quantified at this stage, however as work streams are finalised or the government's position is confirmed, spending will start to take place.

Proposed developments

4. The LA has no proposals for development.

Proposals for use of the uncommitted sum

5. The cumulative underspend (£12.618m) less existing commitments (£7.312m) leaves £5.306m. However, as stated in paragraph 3 above, there are likely to be other commitments that arise during the year within the schools arena 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 & disabilities (SEND) and the uncertainty in the financial environment going forward. The following section provides an explanation of the LA position.

There is significant economic uncertainty due to Covid-19, which has led to the government postponing the autumn budget. This would have involved a future years spending commitment for departments.

High Needs block

The outcomes from central government's 2019 reviews on support for children with SEND, and call for evidence on SEND funding have been delayed until next year. A promise has been made that a review of high needs funding will take place within 4 years, however this will need to take into account the conclusions of the support for children with SEND review and longer term

¹ The in-year underspend also takes into account the early years adjustment of a reduction of £0.219m into Lincolnshire's DSG – the LA was informed in July 2020.

changes to the SEND system. LAs will need to continue operating within the same legislative and financial framework until that point.

Like many LAs, Lincolnshire faces a significant challenge in establishing a sustainable High Needs block budget due to increasing demands for Education Health Care (EHC) plans. At January 2020, Lincolnshire reported 5,119 children and young people (0-25) with an EHC plan, which is a 10% increase from the prior year (4,654). More pupils in Lincolnshire have EHC plans than the England average (3.3% compared to 3.1%), and Lincolnshire now maintains 55% more statutory plans that it did at the start of the SEND reforms.

At 1 September 2020, Lincolnshire has now 6,049 children and young people (0-25) with an EHC plan.

A significant piece of work has been undertaken to substantiate current EHC plan trends and future trajectories, if current processes continue. The output from this exercise is being quality assured, and financial analysis is in place to be applied to understand the financial consequence of these future trajectories. From a high level perspective, the high needs spending and impact of future trajectories are financially unsustainable. Even allowing for the government's investment in high needs funding, Lincolnshire overspent its High Needs block in 2019/20 by £2.451m, and is forecasting a further overspend in 2020/21, which is likely to continue in future years without actions being taken.

Appendix A highlights the areas of overspending in 2019/20. It is the first year the High Needs block has overspent. There are a number of budgets within the High Needs block that are large, demand-led, and can be difficult to estimate (e.g. SEND related budgets, including out of county placements, top up funding for EHC plans for mainstream schools, special school placements, and meeting the education needs for pupils through alternative provision arrangements). 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.

Transformational work commenced last year to consider the way partners across Lincolnshire work together to support children and young people with SEND. This led to a co-produced Lincolnshire Inclusive Ambition strategy, which is underpinned by 10 system ambitions. Key activities to support this strategy include SEND Advice line (SALL); rollout of the Valuing SEND; revised graduated approach guidance; strengthen the Local Offer; a new performance framework, to name a few. This transformational work is intended to secure 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 its central government allocation.

Overall DSG Position

LAs that are in a troubling financial position on their DSG (a substantial in-year overspend or cumulative DSG deficit balance at the end of the financial year) will be required to complete a DfE DSG management plan setting out the LAs plans for bringing the DSG spend back into balance within a timely period. This

is in response to half of all authorities experiencing an overspend on their DSG, amounting to over £250m in all at the end of 2018/19, or a national net DSG overspend position of £40m, and authorities were forecasting that there would be a net overspend of £230m at the end of 2019/20².

Lincolnshire's desire is to achieve a balanced budget on its High Needs block through a programme of works delivered by its Inclusive Ambition strategy, which will ensure funding is directed to the right activities to maximise the outcomes for young people with SEND. This includes the majority of children who have SEND can fulfil their potential in mainstream settings through having the right support available including at transition points. To date the Inclusive Ambition appears to be welcomed. Lincolnshire does not want to be forced into a position 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 DfE continues to also review the remaining blocks (Schools, Central School Services and Early Years) that make up the DSG. Each blocks of the DSG is now determined by a separate national funding formula. The areas of financial risk (for affordability purposes) include the following for the remaining blocks:

Schools block

- The LA Primary and Secondary Units of funding used to finance the Schools block, which schools budget calculations are based on, use the previous years' data / characteristics. This therefore does not take account of up to date pupil characteristics and any associated costs. Such costs have to be managed within the Schools block. There is a particular concern regarding the significant increase in update of Free School Meals and how this is managed due to lagged funding as identified in National Funding Formula for Schools – Update 2021/22 paper.
- The DfE continues to use historic spending to finance some school formula factors e.g. premises, such as rates adjustments. This time lag does not take account of current year rises in costs (particularly for rates' rises) therefore such cost increases have to be managed within the existing funding levels.

Central Schools Services block (CSSB)

- The CSSB funds the LAs ongoing responsibilities and historic commitments for its support to schools. In 2020/21, the DfE reduced historic commitment funding by 20% (£0.556m) to £2.224m, and have since confirmed a further reduction of 20% in 2021/22 (£0.445m). This historic budget currently funds the four special schools PFI contractual commitment (affordability gap / unavoidable costs) in place (end date August 2032), and the schools broadband services (end date October 2022). This area remains a financial concern based on the government's current position, and the LA is continuing to follow up these concerns with the department.

² DfE source: Clarifying the Specific Grant and Ring-fenced Status of the DSG – Government Consultation Response

Early Years block

- The DfE have not confirmed its long-term intentions regarding the continuation of the 'supplementary' funding for nursery schools after August 2021. Financial certainty and stability of Lincolnshire's maintained nursery schools is needed.

Conclusion

An increasing number of LAs are now incurring a deficit on their overall DSG account, largely because of overspends on their High Needs blocks. The department has made a number of changes recently: these include changes to the regulations on how overspends are to be managed going forward, which depending on their scale could impact audit opinions on an LAs going concern, and the tightened up of rules under which LAs have to explain to the DfE their plans for bringing the DSG account back into balance.

Lincolnshire is currently not in this position and has available reserves to draw upon to allow for thoughtful planning to take place, engagement with the sector and to embed new practices. It is however important to recognise that based on planned expenditure on the High Needs block and future trajectories; measured need to be 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 anticipated growth in costs in the area of SEND; the much tighter financial environment expected going forward, and to provide time to allow for the transformational work to be embedded into practices.

The LA has the ability to transfer up to 0.5% of the Schools block funding to an alternative block (such as High Needs) following consultation with all schools and academies, to manage unfunded cost increases. The LA is not proposing to move funding from the Schools block in 2021/22, which is taking place in a number of LAs across the country. This will be subject to an annual review by the LA when considering its High Needs block financial position. The LA proposal to retain the financial capacity within the DSG reserves to temporarily manage such unfunded cost pressures, and the transformational activities are seen as important measures to securing a financially sustainable DSG.

The LA must act prudently and avoid overspending the DSG.

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Central DSG Budgets 2019/20 - explanations of major under an overspendings.
Appendix B	2019/20 DSG commitments

Background Papers

Document title	Where the document can be viewed
Revised Schools Budgets 2019/20 – October 2019	https://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=166&MId=5319&Ver=4

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