

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

Report to:	Lincolnshire Schools' Forum
Date:	7 October 2021
Subject:	Revised Schools Budgets 2021/22

Summary:

The purpose of this report is to notify the Schools Forum of the revised Schools Budget for 2021/22 and to seek support for the proposed use of the cumulative underspending from 2020/21.

Recommendation(s):

Schools Forum is asked to:

- (1) note the contents of the report, and
- (2) 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 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 figures¹ have been confirmed. Under DfE' regulations, underspends 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 underspends, or address overspendings.

¹ Due to Covid-19 the DfE have not yet published the Early Years adjustment figures for 2020/21.

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 the 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 2020/21

2. The cumulative underspend carried forward at 31/3/21 was £10.542m before accounting for existing commitments of £5.969m. The uncommitted sum of £4.573m represents 0.71% of Lincolnshire's 2021/22 overall DSG (£646.900m). This reflects the net overspends of £1.142m² on budgets in 2020/21 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, prudent financial estimates of those have been made. They total £5.969m. 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 has no proposals for development of new funding commitments.

Proposals for use of the uncommitted sum

5. The cumulative underspend (£10.542m) less existing commitments (£5.969m) leaves £4.573m. 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.

An increasing number of LAs are overspending on their DSG caused by escalating high needs spending as a result of increased demands and complexity of pupils needs. The government previously reported that using LA budget data for 2019/20 it recorded

² The in-year overspend does not take account of the early years 2020/21 adjustment as the LA has not yet received notification of this.

that at the end of 2018/19, about half of all authorities experienced an overspend on their DSG, amounting to over £250m in all, 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 2019/20³. The government has not reported a more up to date position on LAs DSG positions overall since then, but antidotal evidence suggests the position is worsening, even allowing for the increased funding going into high needs. The DfE has recently agreed financial support to five LAs that have the highest DSG deficits worth £97m. Under these agreements, these councils 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 government previously consulted on amendments to the conditions of the DSG for LAs to carry forward the whole of overspends to the schools budget in future years to address. Therefore, overspends need to be managed within the overall 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 a LA, and its going concern status.

Lincolnshire overspent the DSG by £1.142m in 2020/21. The main contributing factor was the High Needs block overspend of £2.405m – the second year high needs spending has exceeded the budget. The overspend would have been greater had one-off monies not been secured in 2020/21.

The Quarter 1 2021/22 financial position on the DSG overall is currently forecasting to be broadly on target, however the DSG, in particular the High Needs block has large, demand-led budgets which 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, 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. The Quarter 2 detailed forecasts will commence in October.

The increased High Needs block funding settlement for LAs in 2022/23 is welcomed through the 8% funding floor rise per head of population. Lincolnshire however is in receipt of protection funding (£8.807m) above the formulaic formula, which creates a level of uncertainty going forward. 2022/23 is the final year of the current schools financial settlement.

The outcomes from central government's 2019 reviews on support for children with SEND, and call for evidence on SEND funding have been delayed further. LAs will therefore need to continue operating within the same legislative and financial framework. The SEND reviews are considering improvements to make sure the SEND system is consistent, high quality, integrated and financially sustainable for the future.

³ DfE source: Clarifying the Specific Grant and Ring-fenced Status of the DSG – Government Consultation Response (January 2020)

The outcomes of these reviews will likely have an impact on high needs funding allocated to LAs and to schools.

Like many LAs, Lincolnshire faces a challenge in establishing a sustainable High Needs block budget due to increased demands. The Forum will be aware of the transformational work that is being undertaken⁴, which has led to a co-produced Lincolnshire Inclusive Ambition strategy and its 10 system ambitions. 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.

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 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 embedded into practices and its output including spending levels, require the uncommitted DSG cumulative underspend to remain in place to support the LA in securing a sustainable DSG budget going forward.

Appendix A highlights the areas of financial variance in 2020/21.

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

- Schools block: the LA plans to continue replicating the national funding formula in 2022/23, 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 government has not confirmed its long-term intentions regarding the continuation of the 'supplementary' funding for nursery schools after March 2022. Financial certainty and stability of Lincolnshire's maintained nursery schools is needed.

Conclusion

An increasing number of LAs continue to incur deficits on their overall DSG account, largely because of overspends on their High Needs blocks. The department have made a

⁴ Lincolnshire Schools Forum: Annual Report on Special Educational Needs and Disabilities – June 2021.

number of changes: 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 a LAs going concern, and the tightened up the 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 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, and the time to allow for the transformational work to be embedded into practices and its output.

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 2022/23, 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 DSG reserves to temporarily manage such unfunded cost pressures, and support transformational activity are seen as important measures to securing a financially sustainable DSG.

The LA must act prudently and avoid overspending the DSG.

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. Although the government has again responded to the financial demands placed on the High Needs block, spending levels continue to grow. 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.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Central DSG Budgets 2020/21 – explanation of major under and overspendings
Appendix B	2020/21 DSG commitments

Background Papers

Document title	Where the document can be viewed
Revised School Budgets 2020/21 – October 2020	Report Reference: (modern.gov.co.uk)

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