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## Summary Sheet

### **Name of Committee and Date of Committee Meeting**

Overview and Scrutiny Management Board – 31 January 2018

### **Report Title**

High Needs Finance Update and Budget Sustainability

### **Report Author(s)**

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### **Ward(s) Affected**

All

### **Summary**

This paper outlines the financial position in 2017/18 of the High Needs Block of the Dedicated Schools Grant (DSG). It evidences the recent growth in demand for special educational places and the impact on cost compared to previous years.

Options to bring the High Needs Budget to a sustainable level are explored in light of the changes to the High Needs Fair Funding Formula, National Schools Funding Formula and the Council's SEND Sufficiency Strategy.

### **Recommendations**

That Overview and Scrutiny Management Board:-

- Note the in-year High Needs forecast of expenditure at December 2017.
- Note the growth in demand for Education and Health Care Plans in Rotherham.
- Note options to provide future budget sustainability, the outcome of consultation with schools and the recommendation of Schools Forum.

### **Background Papers**

SEND Sufficiency Report to Cabinet (September 2017)

## **High Needs Finance Update and Budget Sustainability**

### **1. Recommendations**

#### **1.1 That Overview and Scrutiny Management Board:-**

- Note the in-year High Needs forecast of expenditure at December 2017.
- Note the growth in demand for Education and Health Care Plans in Rotherham.
- Note options to provide future budget sustainability, the outcome of consultation with schools and the recommendation of Schools Forum.

### **2. Background**

#### **2.1 The Dedicated Schools Grant (DSG) is a ringfenced grant from the Department for Education (DfE) to fund education provision. It is made up of three funding blocks:**

- Schools – Individual mainstream schools and academies.
- High Needs – funding for the education of pupils subject to Education, Health and Care Plans (EHCPs) from age 0-25 in a range of provision including special schools, mainstream schools, alternative provision, independent specialist provision and Council centrally retained expenditure for High Needs.
- Early Years – Two Year old Funding; Early Years Funding in Schools and Private, Voluntary and Independent provision (PVI)s; and local authority retained expenditure for under five year olds.

#### **2.2 Schools and Early Years Services are delivered within their respective funding block allocation. The High Needs Block in Rotherham is in deficit.**

#### **2.3 Rotherham faces considerable pressure in continuing to meet the needs of pupils with Special Educational Needs and Disabilities (SEND). There are increasing numbers of pupils with an Education, Health and Care Plan (EHCP) or its predecessor, the Statement of Special Educational Needs (SEN) and in-borough special school provision is currently over-subscribed.**

#### **2.4 Wherever possible children and young people should have their needs met in their chosen mainstream setting, educated alongside their peers within their local community. However for children with more complex needs, specialist settings can sometimes be more appropriate. Whether they are educated in mainstream schools or through specialist provision, these children and young people have a right to additional funding from the High Needs Budget through which their educational needs must be met.**

#### **2.5 During recent years Rotherham has faced growing demand on the High Needs Budget which has resulted in a recurrent annual deficit. In 2015/16 the High Needs in-year deficit was £1.004m; in 2016/17 it was £4.632m (a cumulative deficit of £5.636m); and in 2017/18 it is forecast to be £5.075m (a cumulative deficit of £10.711m).**

- 2.6 Over the same three year period the number of children and young people with EHCPs, and their predecessor a Statement of Educational Need (SEN), has risen. In 2015/16 (Jan-16) the number of EHCP/SEN was 1,230; in 2016/17 (Jan-17) it was 1,539; and in 2017/18 the current position (Nov-17) is 1,776.
- 2.7 The High Needs Budget allocation has increased year on year but, partly due to Rotherham's low High Needs funding baseline compared to neighbouring, statistical and national local authorities, the budget uplifts have not been sufficient to match the acceleration in demand and the increase in the cost of provision.
- The funding for High Needs in Rotherham has historically been at less than 10% of the overall DSG (*Appendix 1 – High Needs Budget as a Percentage of Overall DSG*).
  - The unforeseen rise in EHCPs since January 2015 (and subsequent growth in specialist placement demand) has moved at a quicker pace than estimated and hence faster than plans to increase in-borough capacity and choice.
  - There is a strategy to increase high needs provision in Rotherham by 125 places; however a lead in time whilst capital works are completed will mean that the current budget pressure will remain for the next two financial years.
- 2.8 As part of the new National Funding Formula for Schools the DfE have introduced new ring-fenced criteria which limits the previous flexibility that existed to transfer funding from the Schools Block to one of the another blocks. From 2018/19 the amount that can be transferred has been capped at 0.5%. In Rotherham this is the equivalent of £924k.
- 2.9 A “disapplication” request by the Council was made to the DfE on 30<sup>th</sup> November 2017 to allow a transfer in excess of 0.5% from the School Block to the High Needs Block in response to the High Needs funding shortfall.

### 3. Key Issues

- 3.1 The latest High Needs budget monitoring for December 2017 is reporting an in-year overspend of £5.075m. The forecast cumulative deficit – the deficit carried forward from previous years added to the in-year forecast – is £10.711m.

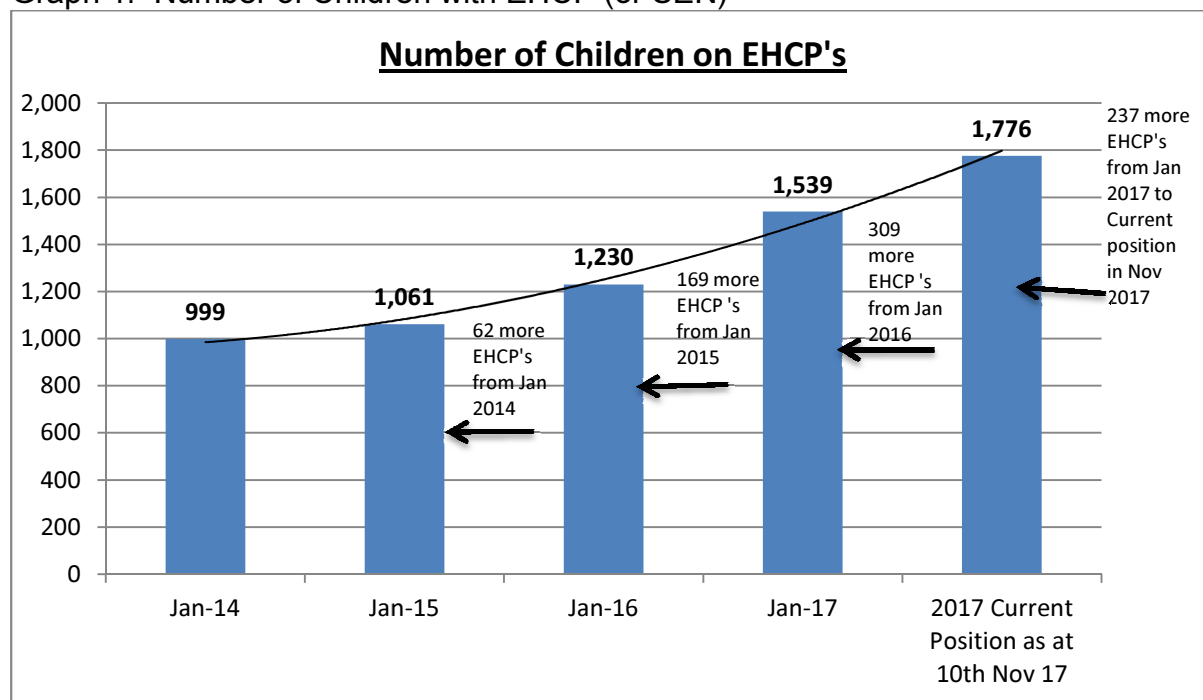
Table 1: Financial Deficit and Rise in EHCPs

Year	In-Year Deficit (£m)	Cumulative Deficit (£m)	No. of EHCP or SEN	Rise in EHCP from previous year
2015/16	1.005	1.005	1,230	169
2016/17	4.631	5.636	1,539	309
2017/18*	5.075	10.711	1,776	237

\*End Dec-17 full year expenditure forecast / Current EHCPs (Nov-17)

- 3.2 The number of EHCPs (or SEN) in Rotherham is 1,776 (November 2017). The High Needs budget in Rotherham has been in deficit for the last three years in common with many other local authorities. Over the same period, the number of children and young people with EHCPs or SEN Statements has dramatically increased. The High Needs budget has increased, through annual uplifts and transfers of funding from the Schools Block, however this has not been sufficient to keep up with demand for specialist and bespoke education places.

Graph 1: Number of Children with EHCP (or SEN)



- 3.3 In September 2017, The Association of Directors of Children's Services (ADCS) issued a survey to all directors of children's services in order to develop a better understanding of the pressures on High Needs funding. The survey aimed to quantify the financial pressures on High Needs budgets while also identifying the key contextual drivers creating the demand for High Needs funding.
- 3.4 85 local authorities, from 152 top-tier authorities in England, responded to the survey. 68 local authorities reported an overspend on the High Needs Block budget totalling £140m in 2016/17. Local authorities managed this overspend by:
- Utilising DSG reserves, as a result a number of local authorities reported that their DSG reserves are now either depleted or in deficit.
  - Transferring funding from the schools and early years block within the DSG.
  - Carrying the High Needs block deficit forward into the current financial year.
- 3.5 There has been a significant increase in the number of children with SEND who require High Needs support due to:
- The extension of support to young people up to the age of 25 (previously up to age 19) for which local authorities have received no additional funding.

- The needs of children with special educational needs and/or disabilities are becoming more complex and this is driving increased financial pressures across the system.
- There is a shortage of local specialist educational provision to meet need, particularly in relation to ASD and SEMH, and this is resulting in increased specialist placements with independent providers, some of which are located outside of the local area.
- Local authorities are also seeing increased demands for top-up funding across all settings

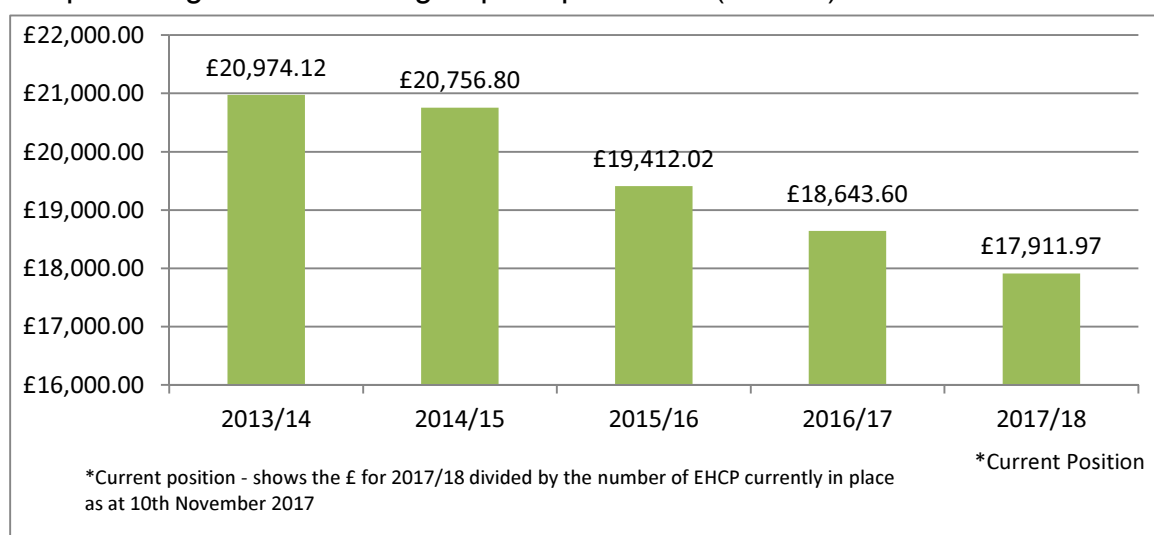
3.6 Rotherham's High Needs budget allocation has gone up, but at a slower rate than demand – demand which is attributed to combination of those factors evidenced through the ADCS survey. As a result there has been a reduction in average spend per EHCP. The graphs below show the reduction in spend per plan and the theoretical cost threshold per plan based on the budgeted allocation per year.

3.7 The graphs below show:

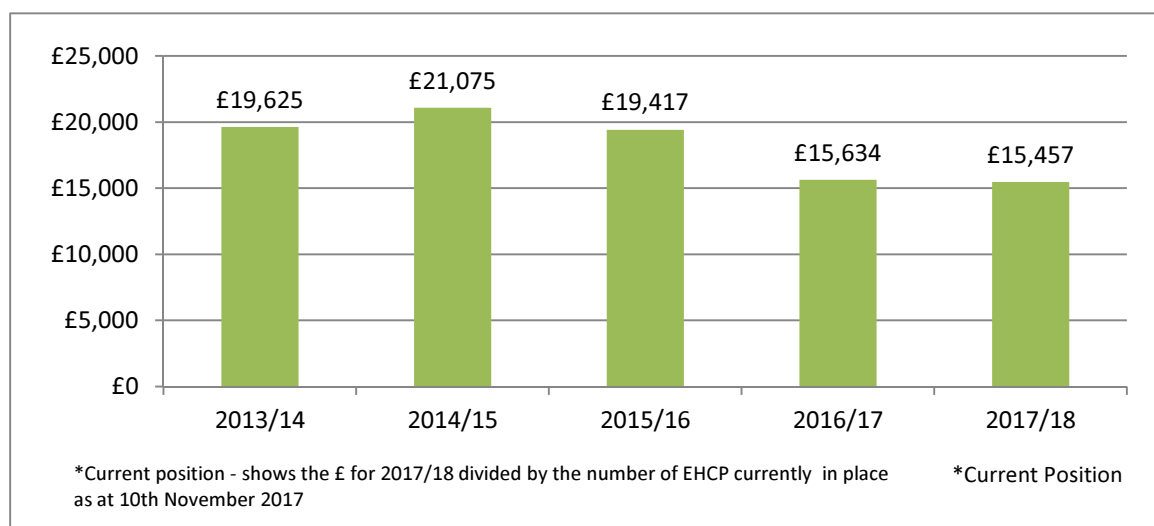
- Graph 2 – Average spend per plan;
- Graph 3 – The parameters that would apply if spend was limited to annual allocations – budget per plan; and
- Graph 4 – Annual allocations less previous years' deficits – adjusted budget per plan. A theoretical comparison based on reducing the in-year allocation by the previous year's deficit (i.e. paying off the deficit) before allocating funding for the coming year.

The challenge of operating within the existing financial envelope is clear and currently unachievable.

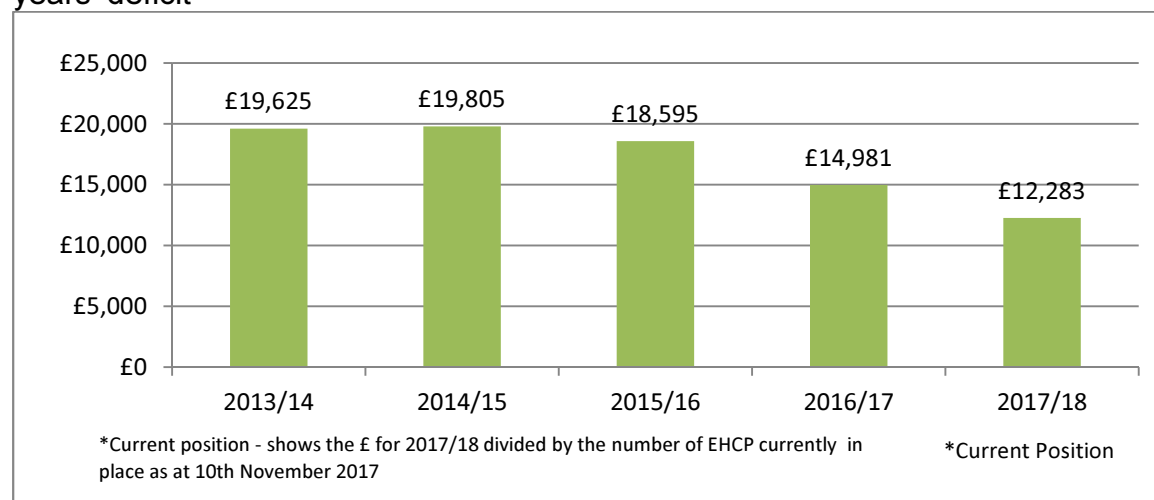
Graph 2: High Needs Average Spend per EHCP (or SEN)



Graph 3: High Needs Budget Allocation per EHCP (or SEN)



Graph 4: High Needs Budget Allocation per EHCP (or SEN) adjusted for previous years' deficit



- 3.8 The immediate aim needs to be for a re-basing of the high needs budget and the implementation of the SEND Sufficiency Strategy – Cabinet paper in September 2017 – to reduce the average cost per educational placement to a level that is sustainable over the long term.
- 3.9 The council has met demand for SEND placements via the commissioning of places not just in mainstream but in special schools, sixth form provision, alternative provision and independent specialist provision. An increase in pupils needing special school provision and specialist provision in other settings has led to increased costs. Insufficient places in specialist provision remains an issue in the borough. This has been mitigated to a degree with 135 new special school places being utilised compared to January 2015 and will be further addressed through the implementation of the SEND Sufficiency Report to Cabinet in September 2017 and the creation of a further 125 places.
- 3.10 The table below shows the educational setting for children and young people with education and health care plans and where there are increases (and pressures) in terms of placements.

Table 2: Education Placement Mix – January 2015 to November 2017

	Number of EHCP/SEN Jan-15	EHCPs across settings Jan-15	Number of EHCP/SEN Nov-17	EHCPs across settings Nov-17
Total	1,061		1,776	
Rotherham Mainstream Education	433	40.8%	533	30.0%
Rotherham Special Schools	535	50.4%	670	37.7%
Rotherham - Pupil Referral Units	17	1.6%	49	2.8%
Out of Authority Provision	68	6.4%	142	8.0%
Rotherham Other Provision (P-16 & EOTAS)	8	0.8%	382	21.5%

	EHCP Growth Jan-15 to Nov-17	EHCP growth across Settings %	Percentage of additional EHCP places compared to Jan-15
Total	715		
Rotherham Mainstream Education	100	14.0%	23.1%
Rotherham Special Schools	135	18.9%	25.2%
Rotherham Pupil Referral Units	32	4.5%	188.2%
Out of Authority Provision	74	10.3%	108.8%
Rotherham Other Provision (P-16 & EOTAS)	374	52.3%	4675.0%

3.11 All settings have experienced rises in demand since 2015. The number of out of authority places has more than doubled. This has had the most significant impact on the High Needs budget as shown in Table 3.

Table 3: Spend on out of authority placements

Year	OoA Spend £m	Increase £m
2015/16	5.397	
2016/17	7.426	2.029
2017/18	8.649	1.223

3.12 The sufficiency strategy over the coming years will focus on transferring children currently educated in out of authority provision to in-borough. This will save an average of £35k per place.

3.13 There are 142 children in receipt of education outside of the authority. It will not be appropriate to move all of the children and young people who are in settled placements that are working well and producing good outcomes. However for some children and their families a move to an educational placement in Rotherham would be preferable. If 25% of children currently educated outside of Rotherham in higher cost settings were brought into Rotherham provision the full year cost saving would be £1.2m.

- 3.14 The High Needs Fair Funding Formula indicative allocation for Rotherham is due to increase compared to the 2017/18 level, rising over three years to approximately £30.5m by 2020/21. Based on the expenditure forecast this financial year to fund current levels of education provision for children with identified special educational needs and disabilities, there would be a shortfall compared to the cash limit in the next two years of £2.485m and £0.885m respectively.

#### **4. Options considered and recommended proposal**

- 4.1 Option 1: Do nothing – this is not a realistic option given the existing budget pressures and further predicted growth in demand.
- 4.2 Option 2: To implement the SEND Sufficiency Strategy and earmark approximately 80 children and young people to place back in Rotherham, over two years, rather than in out of authority provision. This would save in the region of £1.2m per annum and by 2020/21 align expenditure with estimated future funding allocations. It would not resolve the cumulative deficit balance.
- 4.3 Option 3: As per option 2 with an additional proposal to fund the existing budget gap by transferring funding from the Schools Block of the DSG. If this option was to be explored further there are various methods regarding the amount that could be transferred and the timeframe (number of years) it would need to be applied for in order to ensure financial sustainability.

##### *Scenarios presented to Schools Forum*

Scenario 1: Transfer 0.5% of the schools block to the high needs block. Schools Forum can approval this proposal which would transfer £0.924m into the high needs budget for 2018/19.

Scenario 2 (**Recommended by Schools Forum**): Transfer the National Funding Formula uplift – of 1.3% in 2018/19 and 2.3% in 2019/20 for Rotherham Schools – in the schools block to the high needs block for two years. This option proposes transferring the additional funding over and above the 2017/18 Schools Block baseline into the High Needs Block in 2018/19 and 2019/20. It is the preferred option of schools forum.

Scenario 3: Transfer 2.4% from the schools block into the high needs block in each of the next two financial years. This option does risk impacting significantly on some mainstream schools ability to sustain existing levels of provision without significant use of reserves or setting deficit budgets; it would provide a greater proportion of initial funding to bridge the high needs funding gap.

- 4.4 In Appendix 2 two versions of the High Needs Budget Strategic Financial Plan have been developed to show the impact of scenarios 1 and 2 on the estimated in-year budget gap and the ongoing cumulative deficit.



- 4.5 Appendix 3 shows that Rotherham schools allocation per pupil is in the top one third nationally (based on 2017/18 allocations) and highest relative to statistical neighbours. Whilst accepting the challenges that may fall on individual schools for the fixed two-year period of time that a block transfer was in place, it would be a temporary reduction from an above average baseline.

## **5. Consultation**

- 5.1 The scenarios 1 – 3 were presented to Schools Forum on the 24<sup>th</sup> November and at a joint High Needs and Finance Sub-Group on the 29<sup>th</sup> November. Both groups recommended that scenario 2 was progressed.
- 5.2 Wider consultation with all Rotherham schools ran until 15<sup>th</sup> December to review the impact of all scenarios on their medium term financial plans. They were asked to feedback to their school forum representatives a preferred option/scenario.
- 5.3 Feedback from the consultation with schools was as follows.

110 schools were consulted.  
There were 58 responses.

Scenario 1 (transfer 0.5% only) – 49 schools (44%)  
Scenario 2 (transfer 1.3% only) – 9 schools (8%)  
Scenario 3 (transfer 2.4%) – 0 schools  
No response – 52 schools (47%)

## **6. Timetable for Decision Making**

- 6.1 A disapplication request to the Department of Education regarding the transfer of more than 0.5% of the Schools Block of the DSG to the High Needs Block was submitted to the DfE on 30<sup>th</sup> November 2017 and we expect to receive notification of a decision by 19<sup>th</sup> January 2018.

## **7. Financial Implications**

- 7.1 The financial implications are contained with sections 3 and 4.

## Appendix 1 – High Needs Budget as a Percentage of Overall DSG

Dedicated schools grant: 2017-18 allocations local authority summary	2013-14 DSG allocations prior to deductions for academies recoupment and direct funding of high needs places by ESFA			2014-15 DSG allocations prior to deductions for academies recoupment and direct funding of high needs places by ESFA			2015-16 DSG allocations prior to deductions for academies recoupment and direct funding of high needs places by ESFA			2016-17 DSG allocations prior to deductions for academies recoupment and direct funding of high needs places by ESFA			2017-18 DSG allocations prior to deductions for academies recoupment and direct funding of high needs places by ESFA			2018-19 DSG allocations prior to deductions for academies recoupment and direct funding of high needs places by ESFA		
	As % of total	2013-14 high needs block allocation (£million)	2013-14 total DSG allocation (£million)	As % of total	2014-15 high needs block allocation (£million)	2014-15 total DSG allocation (£million)	As % of total	2015-16 high needs block allocation (£million)	2015-16 total DSG allocation (£million)	As % of total	2016-17 high needs block allocation (£million)	2016-17 total DSG allocation (£million)	As % of total	2017-18 high needs block allocation (£million)	2017-18 total DSG allocation (£million)	As % of total	2018-19 high needs block allocation (£million)	2018-19 total DSG allocation (£million)
Dudley	12.6%	29.42	234.32	12.7%	29.96	235.28	13.2%	30.79	232.95	13.3%	31.48	235.81	12.6%	30.85	243.94	12.3%	30.79	250.00
St Helens	13.4%	17.06	127.05	13.6%	17.35	127.99	14.2%	18.11	127.14	14.3%	18.35	128.64	13.9%	18.65	134.23	15.4%	21.49	139.89
Tameside	8.1%	13.81	171.09	8.3%	14.42	174.48	8.6%	15.00	173.69	8.4%	14.98	178.07	10.1%	19.03	187.81	9.9%	19.40	195.03
Wigan	10.6%	24.20	227.47	10.9%	25.05	229.10	11.3%	26.00	229.12	11.5%	26.47	230.75	11.3%	27.44	243.34	11.3%	28.20	249.11
Barnsley	11.2%	17.43	155.47	11.3%	17.74	156.50	11.7%	18.60	159.54	11.9%	18.88	159.24	12.4%	21.53	173.09	12.1%	21.86	181.00
Doncaster	12.2%	26.32	215.64	12.3%	26.93	219.56	12.5%	27.84	222.30	12.4%	28.07	226.64	12.3%	28.93	235.12	12.3%	29.73	242.28
Rotherham	9.0%	19.26	213.85	9.3%	20.12	217.04	9.6%	20.86	217.02	9.6%	21.18	220.05	11.3%	25.73	228.45	12.6%	29.52	234.82
Wakefield	9.5%	22.57	237.10	9.7%	23.24	240.32	9.9%	23.85	240.27	10.0%	24.45	245.23	10.5%	27.07	258.28	10.8%	28.76	266.61
Hartlepool	13.2%	9.90	74.85	13.0%	9.85	75.55	14.1%	10.48	74.36	14.2%	10.62	74.69	13.4%	10.59	79.30	13.1%	10.56	80.58
Redcar and Cleveland	13.8%	14.87	107.41	13.7%	14.71	107.43	14.1%	14.95	106.29	14.1%	15.07	106.80	14.3%	16.11	112.38	13.9%	16.01	114.82
North East Lincolnshire	14.3%	15.44	107.78	14.3%	15.63	109.65	13.1%	15.92	121.17	13.5%	16.12	119.22	13.4%	17.11	127.75	13.5%	17.68	130.60
North Lincolnshire	11.8%	13.72	116.18	12.0%	14.09	117.3	12.3%	14.78	119.88	12.2%	14.90	122.47	12.3%	15.56	126.37	12.4%	16.23	130.44
Telford and Wrekin	12.8%	15.53	121.06	12.7%	15.64	122.72	12.7%	16.18	127.64	12.4%	16.45	132.35	14.5%	20.15	139.02	14.6%	21.29	145.76
In-Year Block Transfer		0			1.16			2.94			2.99			3.00				
Revised Rotherham High Needs Budget					21.28			23.8			24.17			28.73			29.52	

Rotherham has consistently had a lower high needs allocation than statistical neighbours.

The impact of this has been exacerbated during the last two years due to the increase in demand for specialist placements, this coming as a direct result of the significant rise in EHCPs.

Plans for developing local provision at a lower cost are progressing and will provide greater choice and varied provision, for SEMH in particular. This will mean that some of the more expensive out of authority costs are avoided in future years.

## Appendix 2 – High Needs Budget – Strategic Financial Plan (Scenario 1 and Scenario 2)

<b>High Needs MTFS (Scenario 1)</b>					
	<b>Outturn 2016/17</b>	<b>Forecast 2017/18</b>	<b>Indicative 2018/19</b>	<b>Indicative 2019/20</b>	<b>Indicative 2020/21</b>
	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>
<b>Area</b>					
Special Schools	11,538	12,099	12,859	13,432	13,835
Primary Resource Units	284	163	163	163	163
Secondary Resource Units	276	283	283	283	283
Top up Funding	2,687	3,319	2,995	2,995	2,995
Alternative Provision	3,605	4,253	4,853	4,853	4,853
Out of Authority Placements	7,426	8,649	7,513	5,913	5,113
Inclusion Services	2,058	2,492	2,492	2,430	2,369
Other Education Services	814	847	847	872	899
<b>Total Expenditure</b>	<b>28,689</b>	<b>32,105</b>	<b>32,005</b>	<b>30,941</b>	<b>30,509</b>
<b>Funding</b>	<b>24,057</b>	<b>24,031</b>	<b>29,520</b>	<b>30,056</b>	<b>30,508</b>
<b>Over spend</b>	<b>4,631</b>	<b>8,074</b>	<b>2,485</b>	<b>885</b>	<b>1</b>
Transfer from Schools Block		3,000	924	vote 18/19	0
Top In-Year Budget Allocation		0	924		1
Contribution to deficit reduction		-3,000	1,561	885	1
<b>Cumulative Deficit</b>	<b>5,636</b>	<b>10,711</b>	<b>12,272</b>	<b>13,157</b>	<b>13,158</b>

<b>High Needs MTFS (Scenario 2)</b>					
	<b>Outturn 2016/17 £ '000</b>	<b>Forecast 2017/18 £ '000</b>	<b>Indicative 2018/19 £ '000</b>	<b>Indicative 2019/20 £ '000</b>	<b>Indicative 2020/21 £ '000</b>
<b>Area</b>					
Special Schools	11,538	12,099	12,859	13,432	13,835
Primary Resource Units	284	163	163	163	163
Secondary Resource Units	276	283	283	283	283
Top up Funding	2,687	3,319	2,995	2,995	2,995
Alternative Provision	3,605	4,253	4,853	4,853	4,853
Out of Authority Placements	7,426	8,649	7,513	5,913	5,113
Inclusion Services	2,058	2,492	2,492	2,430	2,369
Other Education Services	814	847	847	872	899
<b>Total Expenditure</b>	<b>28,689</b>	<b>32,105</b>	<b>32,005</b>	<b>30,941</b>	<b>30,509</b>
<b>Funding</b>	24,057	24,031	29,520	30,056	30,508
<b>Over spend</b>	<b>4,631</b>	<b>8,074</b>	<b>2,485</b>	<b>885</b>	<b>1</b>
Transfer from Schools Block		3,000	2,339	4,174	0
Top In-Year Budget Allocation		0	2,485	885	1
Contribution to deficit reduction		-3,000	146	-3,289	1
<b>Cumulative Deficit</b>	<b>5,636</b>	<b>10,711</b>	<b>10,857</b>	<b>7,568</b>	<b>7,569</b>

### **Appendix 3: LA Schools Block table unit of allocation per pupil**

Average for England was £4,618.73

Yorkshire & Humber was £4,575.23

Statistical neighbours was £4,576.09 as below:

LA	SBUF
<b>Rotherham</b>	£4,777.49
<b>Hartlepool</b>	£4,763.39
<b>North East Lincolnshire</b>	£4,673.42
<b>Tameside</b>	£4,626.46
<b>Redcar and Cleveland</b>	£4,618.91
<b>Wakefield</b>	£4,573.29
<b>Wigan</b>	£4,549.82
<b>Doncaster</b>	£4,547.16
<b>Dudley</b>	£4,501.34
<b>North Lincolnshire</b>	£4,496.73
<b>Barnsley</b>	£4,491.03
<b>St Helens</b>	£4,485.77
<b>Telford and Wrekin</b>	£4,384.32

**STATISTICAL NEIGHBOUR  
AVERAGE**

£4,576.09