

Cabinet

Date of Meeting: 9 March 2021

Report Title: Dedicated Schools Grant Management Plan 2021/22 to 2024/25

Portfolio Holder: Cllr Kathryn Flavell, Children and Families

Senior Officer: Ged Rowney, Director of Children's Services

1. Report Summary

- 1.1. Many local authorities are experiencing financial pressures from expenditure on pupils with special educational needs and disabilities (SEND) significantly exceeding the funding provided via the Dedicated Schools Grant (DSG) high needs block.
- 1.2. Where there is an overspend, this is held on a DSG Reserve and carried forward to the next financial year. In a survey of councils conducted in October / November 2020 by the F40 Group, 69 (90%) of the 77 councils who responded expected a deficit DSG reserve at the end of 2020/21.
- 1.3. In three cases the gap between high needs funding and actual spend is expected to be greater than the total amount of high needs funding received (the three councils in question have high needs funding ranging from £25m to over £40m). A further 11 councils have a gap that is expected to exceed 40% of their high needs funding. As the funding shortfall is carried forward as a pressure the deficit can quickly escalate when activity exceeds annual funding.
- 1.4. This is becoming an issue for Cheshire East Council and is caused by the number of pupils with an education, health and care plan (EHCP) increasing significantly in volume, complexity and cost compared to much lower annual increases in funding levels. It is therefore important we act swiftly to put in place mitigations.

- 1.5. The Council is forecasting a DSG Reserve deficit of £7.8m (20% of high needs funding) by 31st March 2021. Therefore, the Council has taken immediate action to forecast the deficit going forward and implement mitigating actions to manage expenditure.
- 1.6. These actions include the development of the Access to SEND Services framework which is focused on strategies to manage demand by better meeting needs of children and young people earlier and the SEND Sufficiency Review which aims to increase local provision to both reduce costs and improve the experience for children and young people. Both these documents were approved by the SEND Partnership and will be published soon.
- 1.7. To help councils with managing and presenting their high needs spending the Department for Education (DfE) released a “DSG Management Plan” template in autumn 2020. This aims to bring all the strategies, issues and mitigating actions into one place.
- 1.8. Cheshire East Council has produced a local version of the DSG Management Plan. This is based on a series of assumptions for pupil numbers and average costs for each area of high needs spend and the impact of mitigations that can be introduced to give both the unmitigated and mitigated positions. A prudent approach has been adopted and therefore the forecasts are a worst case scenario.
- 1.9. As part of the completion of the Management Plan it is expected that there is consultation with key stakeholders. Subject to approval of the draft Plan then that process will begin in due course.
- 1.10. Children and Families Overview and Scrutiny has had some discussion of the plan and proposals at a dedicated meeting on 26th February 2021.
- 1.11. It is acknowledged there are also issues arising from the additional spending in terms of cashflow and the impact on the Council’s balance sheet. These issues are being discussed with the Council’s auditors and relevant Government departments.

2. Recommendations

2.1. Cabinet is recommended to:

- 2.1.1. Note the issues with the level of DSG high needs funding received by the Council and the potential impact on the Council’s DSG Reserve in terms of the position before and after mitigations.

- 2.1.2. Approve the underlying assumptions and strategies in the Draft DSG Management Plan for 2021/22 to 2024/25.
- 2.1.3. Note the mitigations that have been included and the necessary steps to deliver those projects.
- 2.1.4. Agree the Draft DSG Management Plan 2021/22 to 2024/25 as a basis for consultation with key stakeholders.
- 2.1.5. Agree to an annual update of the DSG Management Plan to enable progress to be monitored leading to necessary adjustment to plans.

3. Reasons for Recommendations

- 3.1. The Council is facing increasing levels of pressure from expenditure on pupils with SEND. This exceeds the DfE's funding allocations and has led to the Council's DSG Reserve being in a deficit position. The expectation is that the deficit cannot be recovered in the medium term under current arrangements.
- 3.2. The Council does not have any provision with its Medium Term Financial Strategy (MTFS) to assist with DSG spending.
- 3.3. The DfE has released a DSG Management Plan template and the Council is expecting to be required to submit an approved plan to form the basis of discussions with the DfE on the intended actions and assumptions.
- 3.4. Such a plan needs to be approved by Cabinet and used for consultation with stakeholders to ensure they are aware of the issues and the actions required.

4. Other Options Considered

- 4.1. The Council needs a Management Plan to engage with the DfE and stakeholders on the expenditure projections and mitigation projects for high needs expenditure.
- 4.2. A local version of the DfE template has been generated given the need to reflect the current methods of collating financial data and to allow a range of summary information to be held in a single document. The DfE template did not provide that flexibility.
- 4.3. The option of "do nothing" is not considered acceptable in this situation given the scale of the issues.

5. Background

Additional Responsibilities

- 5.1. The Council has a legal duty to meet the needs of children with SEND under the Children and Families Act 2014.
- 5.2. The Council's responsibility was significantly increased by the Act to change to deliver services up to age 25. That change coupled with a significant increase in the volume of needs assessments being submitted has led to a 25% increase in EHCPs over the period April 2016 to March 2019.
- 5.3. Based on that trend and the growth in the level of needs assessments submitted plus EHCPs allocated in 2020/21, the number of EHCPs is forecast to nearly double from 2,738 (November 2020) to 5,003 by 2024/25 with an associated increase in expenditure as the Council has to meet identified needs.
- 5.4. The increase in EHCPs is being seen across the Borough and not specific to an area. An examination of type of need by area is underway.

Funding Issues

- 5.5. High needs funding is not expected to increase at the same rate. High needs funding is provided by the DfE through the national high needs funding formula. The formula currently has a number of issues:
 - it does not fully reflect EHCP volumes,
 - it includes factors relating to deprivation which penalise Cheshire East and it is not clear how these are directly linked to high needs.
 - the total amount going through the formula has not been increased to acknowledged demand,
 - a review of the national formula has been signalled but that is several years away and may not provide any assistance.
- 5.6. For 2020/21 and 2021/22 the DfE has responded to the concerns raised by local authorities and provided above inflation increases in high needs funding of 8.5% and 10% respectively. This is positive news but is not yet matching demand and also leaving the four previous years without sufficient funding. The position from 2022/23 in terms of high needs funding is not yet known. It has been assumed at 3% per annum which is a prudent assumption.

- 5.7. This gap between expenditure and funding has taken the Council's DSG Reserve balance into a deficit position of -£2.6m at 31st March 2020. Based on the third quarter review forecasts reported to Cabinet on 2nd February 2021 this deficit balance will increase to -£7.6m at 31st March 2021.
- 5.8. The forecasts based on expenditure data at the end of December 2020 reflect the same overall figure. This is broken down into:
- High Needs Pressure +£9m
- Early Years / Central Block underspend -£1.1m
- 5.9. This is based on indications are that the pressure has increased with the number of EHCPs nearing 3,000. However, underspending on early years has offset that increase.
- 5.10. It is important to note that there is a difference between the forecast DSG reserve balance of £7.6m for 2020/21 quoted here and the results from the management plan (which are based on numbers of pupils multiplied by average costs). The model has to use average costs but final 2020/21 outturn information will be used to update the plan. Overtime we will be able to adjust the average costs to ensure the management plan reflects the outturn.

DSG Management Plan

- 5.11. The (DfE) has released a "DSG Management Plan" template to help councils present all the strategies, issues and mitigating actions into one place.
- 5.12. Cheshire East Council has produced a local version of the DSG Management Plan from 2021/22 to 2024/25. This is based on a series of assumptions for each area of high needs spend and the impact of mitigations that can be introduced to give both the unmitigated and mitigated positions. The unmitigated position is set out below:

	<i>Unmitigated Forecast</i>					4 year
	2020/21	2021/22	2022/23	2023/24	2024/25	% Change
EHCPs	2,738	3,187	3,683	4,278	5,003	83%
Unmitigated Spend £m	50.0	57.2	66.0	77.4	92.3	85%
DSG Reserve £m *	-13.0	-26.5	-47.6	-78.7	-123.4	

* Note - the 2020/21 DSG Reserve Balance quoted here is based on average costs rather than actuals and will be updated using the 2020/21 outturn in due course.

- 5.13. A key headline is that without mitigations the Council's DSG Reserve will have a potential deficit balance of £123m by 31st March 2025. As set out below, even after making challenging assumptions around new provision to ensure best value is achieved, without a substantial increase in DSG funding, the Council is facing a potential DSG Reserve deficit of £81m by 31st March 2025 on the **mitigated** position.
- 5.14. The mitigations contained within the plan will be taken forward and appropriate approvals will be requested as part of normal business.
- 5.15. The DSG Management Plan figures are based on the number of EHCPs multiplied by the average cost for each type of placement. This reflects a higher DSG Reserve deficit for 2020/21 of -£13m in the table. This difference to the DSG reserve balance is either a result of underspending on other areas of DSG, mainly early years, or suggests the Council is providing services at lower than average cost levels in some areas of the SEND service.
- 5.16. Given the existing shortfall plus future demand projections the expectation is that the deficit DSG Reserve balance cannot be recovered in the medium term.

Meeting SEND Needs

- 5.17. The Council has a scaled approach to meeting the needs of pupils with EHCPs. This is outlined in the Council's SEN Toolkit and summarised as:
- SEND support in mainstream schools.
 - Mainstream school with additional support.
 - Resource provision within a mainstream school.
 - Special school.
 - Private / independent specialist provision.
- 5.18. This tiered approach is also matched in the increasing cost of each type of provision.
- 5.19. While the Council has to consider parental preference it has a finite amount of SEN places available in the borough and once these are full then options such as places in nearby local authorities or independent / private providers are considered. Other local authorities will also be looking to place pupils in Cheshire East Schools.

- 5.20. The level of need is determined by the SEND Panel based on the needs assessment information and draft EHCP. Schools can trigger a needs assessment at any point and the Panel decision will determine the best local setting for the child.
- 5.21. A key part of the Council's plan to reduce high need spend is by increasing the Council's own level of provision. Certain elements of this work have already begun and these are factored into the unmitigated position.
- 5.22. The Council recognises that additional work is required and the plan outlines the following measures. It is important to note that the expansion of local provision also brings significant levels of additional costs, however, these are invest-to-save projects when set against the target reduction in the forecast DSG deficit of £42m.

The Mitigations

Mainstream Provision

- Improvements to SEND support specifically around autism and education psychology.
- Introduce additional Enhanced Mainstream Provision.

Resource Provision

- Additional RP places in mainstream primary and secondary schools.

Special School Provision

- Additional special school places.
- Introduce three additional special schools / expand existing sites.
- Additional Supported Internship places.

Private / Independent Specialist Provision.

- Reduce the use of these settings where possible as a result of the increase in the Council's own provision.
- Challenge price rises and not supporting independent school requests for annual inflationary increases unless evidence based.

Further Education

- Additional Supported Internship places to assist transition to adulthood.

- 5.23. These are in addition to an annual line by line budget review of high needs to establish if any reductions to spend could be achieved.

5.24. Further details of the DSG Management Plan and the impact of the mitigations are contained within **Appendix 1**.

5.25. The impact of the mitigations is complex as it reflects the new costs and resulting savings compared to higher cost provision. Inevitably some of the mitigations impact on more than one area.

Closing the Funding Gap

5.26. If the mitigations are delivered within the timescale in the plan it will result in savings with a total benefit on the reserve of £42m by 2024/24, however that still leaves a potential DSG Reserve deficit of £81.2m at March 2025.

	2020/21	<i>Mitigated Forecast</i>			2024/25	4 year % Change
		2021/22	2022/23	2023/24		
EHCPs	2,738	3,063	3,483	4,054	4,748	73%
Mitigated Spend £m	49.9	53.4	57.8	64.3	75.3	51%
DSG Reserve £m *	-12.9	-22.7	-35.5	-53.5	-81.2	

* Note - the 2020/21 DSG Reserve Balance quoted here is based on average costs rather than actuals and will be updated using the 2020/21 outturn in due course.

5.27. Further illustrations of how to close the gap are set out below however, none of these are realistic options:

- funding from high needs would have to increase by 20% per annum from 2021/22 to 2024/25 to start breaking even, or
- EHCP volumes would have reduce by over 600 down to 2,700 in 2022/23 to match funding, or
- Significant reductions of £3,600 per EHCP would be needed to reach an average cost level of £12,900 per EHCP in order to match **expected funding levels in 2022/23** . Further reductions in average cost would be required in 2022/23 to 2024/25 to match available funding.

5.28. It is unlikely these would be possible and further work is needed to assess options and engage with the DfE.

5.29. As further context, the table below sets out the 2024/25 DSG reserve deficit using greater annual increases in high needs funding:

Impact of High Needs Funding Increases		
	Mitigated	Un-mitigated
	Reserve Deficit	Reserve Deficit
10% increase pa	£61,218,779	£103,411,674
15% increase pa	£45,856,837	£88,049,732
20% increase pa	£29,524,896	£71,717,791

Additional Support

- 5.30. Delivery of the mitigations will be a challenge and the intended actions will need support from the Government in terms of additional capital funding for the Council and support with the establishment of additional special schools / special school places in the Borough. The Council will need to review the allocation of capital resources for the next few years to prioritise special schools / SEND provision.
- 5.31. It would be helpful for the DfE to also recognise that placing limits on year on year changes to special school funding limits the scope for savings where lower levels of need are being met.

Summary

- 5.32. The plan is a complex document with a large number of assumptions that use average costing levels to general expenditure figures. As such it is sensitive to EHCP forecasts and the basis for the average costs.
- 5.33. A significant programme of change is needed to deliver the mitigated position. However, that will not close the gap.
- 5.34. The Council cannot deliver the plan in isolation, it will require support from settings, regular monitoring and support from the DfE to deliver it.

6. Implications of the Recommendations

6.1. Legal Implications

- 6.1.1. The right to an assessment of a child or young person's special educational needs, the production of an Education, health and care plan (EHCP) which meets those needs and the commissioning of the required provision to meet those needs as set out in the EHCP are statutory requirements under the Children and Families Act 2014.

6.2. Finance Implications

- 6.2.1. The Council's DSG Reserve has a deficit balance of -£2.6m at 1st April 2020.
- 6.2.2. The third quarter year review figures for DSG are predicting that the DSG Reserve deficit will increase to -£7.6m at 31st March 2021 due to high needs pressure. That is after restating the DSG Reserve back to nil.
- 6.2.3. If the pressure on high needs funding continues to exceed the annual increases in DSG (which are not certain over the medium term) the deficit will quickly escalate in value as significant amounts of funding are needed to correct the deficit balance.
- 6.2.4. There could be implications on the Council's base budget as a result of:
- 6.2.4.1. Increased transport costs due to increases in pupils with an EHCP and additional settings. This could be partially offset by the use of local provision meaning less distance is travelled and costs are reduced.
- 6.2.4.2. Additional SEND Service staff resources to manage the additional EHCPs and the programme of mitigations.
- 6.2.5. Both of the issues have been recognised in the Council's budget plans for 2021/22 in terms of additional growth for transport and the SEND service. Given the levels of growth being forecast in the management plan it is expected that further growth will be needed from 2022/23 onwards.

6.3. Policy Implications

- 6.3.1. The SEND Code of Practice (January 2015) provides statutory guidance on duties, policies and procedures relating to Part 3 of the Children and Families Act 2014 and associated regulations and applies to England.

6.4. Equality Implications

- 6.4.1. The SEND Code of Practice looks to ensure the assessed additional needs of Children with special education needs are provided for to enable them to reach agreed outcomes.

6.5. Human Resources Implications

- 6.5.1. Due to the increased demand for needs assessments the workloads of staff remain high and ability to meet legal and statutory requirements

remain a challenge. Volumes increased by 18% in 2019 and are forecast to increase by more than 25% in 2020.

6.6. Risk Management Implications

6.6.1. The key risks are:

6.6.2. An impact on the Council's base budget (Council Tax, NNDR and general grants) as a contribution may be required to manage the high needs pressures or DSG Reserve balance.

6.6.3. Service levels reduce as funding is not sufficient and the Ofsted revisit raises further issues which damage reputation and result in the Council remaining in "improvement".

6.7. Rural Communities Implications

6.7.1. There are no direct implications for rural communities.

6.8. Implications for Children & Young People/Cared for Children

6.8.1. It is essential that the Council makes best use of resources to ensure that children and young people receive the services they need and must be provided.

6.9. Public Health Implications

6.9.1. There are no direct implications for public health.

6.10. Climate Change Implications

6.10.1. Many pupils are educated out of borough at high costs and with long travel journeys. The SEND Provision plan is generating additional in borough school places, but this is unable to match the increased level of demand. We do however have a high proportion of SEND pupils in our mainstream schools compared to other authorities.

7. Ward Members Affected

7.1. All Members are affected as a result of high needs funding paid to schools, specific settings and to fund high needs related services across Cheshire East.

8. Consultation & Engagement

8.1. The report has been subject to internal consultation. However, Cabinet approval will start a process of consultation on the Plan for 2021/22 to 2024/25.

8.2. The DfE template recommends consultation with the following groups:

- Elected members of the Council.
- Schools Forum.
- Education institutions.
- Parents and carers.
- Children and young people.
- Health partners.

9. Access to Information

9.1. The DfE Management Plan guidance can be found at this [site](#).

9.2. The Schools Forum papers are available at this [site](#).

10. Contact Information

10.1. Any questions relating to this report should be directed to the following officer:

Name: Jacky Forster

Job Title: Director of Education and Skills

Email: jacky.forster@cheshireeast.gov.uk