

	Schools Forum 17 June 2020
	Report from the Strategic Director of Children and Young People
Dedicated Schools Grant Financial Outturn 2019/20	

Wards Affected:	All
Key or Non-Key Decision: (only applicable for Cabinet, Cabinet Sub Committee and officer decisions)	N/A
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	N/A
No. of Appendices:	Appendix A: DSG Outturn 2019/20 Appendix B: Maintained School Balances
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	<p>Olufunke Adediran Head of Finance – Children & Young People Tel: 0208 937 1196 Email olufunke.adediran@brent.gov.uk</p> <p>Dena Aly, Senior Finance Analyst – Children & Young People Tel: 0208 937 2179 Email: dena.aly@brent.gov.uk</p>

1. Purpose of the Report

- 1.1. This report sets out the final Dedicated Schools Grant (DSG) outturn against the budget set for 2019/20 and provides detail on the overall £4.9 million deficit.

2. Recommendation(s)

- 2.1. Schools Forum is asked to note this report.

3. Summary

- 3.1. The DSG budget is in deficit by a total of £4.9m in 2019/20 after the use of planned DSG reserves of £2.5m. This position was primarily due to a £3.8million deficit on the High Needs block mainly due to demand led pressures

on top-up funding to mainstream settings, residential and independent settings, and post-16 providers. There is a £1.0m deficit against the Schools' block due to a pressure on the growth budget and a £0.6m pressure against the Early Years block due to the impact of maintaining 2-year-old provision at a higher rate of funding than that provided by the DfE. These pressures were offset by underspends in the Central Services block and the Sixth form funding.

- 3.2. The School and Early Years Finance (England) Regulations 2020 make clear the requirement for any DSG deficit balance to be held within the local authority's overall DSG and carried forward to be recovered from future years funding and/or recovery plans agreed with the DfE.

4. 2019/20 DSG Outturn

Table 1

Funding Blocks	DSG Funding (£m)	Outturn £m	Over/ (Under)spend £m
Schools Block	229.9	230.9	1.0
Sixth Form funding	3.6	3.4	(0.2)
High Needs Block	58.7	62.5	3.8
Early Years Block	24.6	25.2	0.6
Central Block	2.3	2.0	(0.3)
Total DSG	319.1	324.0	4.9

- 4.1. The schools funding formula for 2019/20 was set in December 2018 and the final DSG budget was confirmed in February 2019. The DSG expenditure budget totals £319m, which is supported by £316m of grant income and £2.5m of DSG reserves released in consultation with Schools Forum as one off funding.
- 4.2. The £319m represents the total cost of funding education to early years and school age pupils in the borough before recoupment of funds by the Department for Education (DfE) to fund the borough's Academies and free schools. In 2019/20, the DfE from the Schools Block and the High Needs block income recouped £122m. In addition, £3.6m of sixth form funding is received and passed onto maintained schools that have sixth form provision. The budget is detailed in Appendix A.
- 4.3. At the end of 2019/20 overall the DSG is in deficit of £4.9m largely due to pressures on the High Needs block and the pupil growth fund. The deficit will need to be recovered from future years funding and/or through recovery plans agreed with the DfE.

5. Schools Block

- 5.1. Of the £230m Schools block budget, £111m was allocated directly to Brent maintained schools, £115m has been recouped and allocated directly to academies, leaving a remaining expenditure budget of £4m to fund centrally retained items.
- 5.2. The schools block is in deficit of £1m which is mainly due to a £1.4m pressure against the growth budgets, which covers the cost of the Choice and Fair Access panel (CAFAI) arrangements for new arrivals to Brent schools, as well as the impact of rising rolls in schools. The growth in pupil numbers has mainly been within the secondary school phase and in 2020-21, this budget has been increased in line with forecast secondary growth following a consultation with schools and with the agreement of Schools Forum.
- 5.3. The pressure was offset by underspends in other schools block funded budgets, including a £0.2m underspend on the funds allocated to schools, mainly due to changes to National Non-Domestic Rates (NNDR) allocations. The original allocations were prudently estimated to ensure there was enough funding overall to cover any NNDR rate increases. Following a revaluation in 2019/20, schools funding has been updated to account for these changes.

6. High Needs Block

- 6.1. The High Needs Block budget is £58.7m and the allocation includes a contribution of £1.1m (or 0.5%) of Schools Block income and £1.5m of DSG reserves. Of this allocation, £7.1m was recouped by the DfE to allocate directly to academies.
- 6.2. The block supports high needs pupils in specialist provision, in mainstream settings, and provides specialist support services and is reporting a deficit of £3.8m with the main cost driver being the significant growth in the number of children with Education, Health & Care plans (EHCPs). The High needs expenditure exceeded the allocated block income from the DfE by £6.7m.
- 6.3. The growth identified in EHCPs is a national challenge and the Ofsted Annual Report 2018 stated that the level of demand for local authorities to undertake EHC needs assessments had increased by over 50% since 2015. This trend over the last 5 years evidenced locally in Brent has seen a 35% growth in the number of EHCPs. As at the end of 2018/19, there were 2,173 EHC plans and at the end of 2019/20, this number increased by 12% to 2,435 despite the overall pupil population remaining broadly the same.

- 6.4 There have been notable increases in Post 16 EHCPs where young people with SEND can remain in education provision until they are 25 years of age. This has led to a pressure of £1.7m following an increase from an average number of 182 in 2018/19 to an increased average number of 256 EHCPs in 2019/20. Also included in this pressure is approximately £0.5m of '£6k place funding' charged as an additional cost to the High Needs block by further education colleges. The DfE has recently clarified that colleges should no longer make this charge and confirmed that the commissioning local authority should not incur the charge. It is therefore expecting that this will be a significant cost avoidance in 2020-21.
- 6.5 There are also increased overspends on Out of Borough mainstream top ups of £1.9m and on residential and independent educational settings of £0.5m, principally due to increased numbers of pupils, but also because of increases in the prices charged by external providers.
- 6.6 The increased demand has had knock on effects on other areas of the High Needs Block such as the speech and language therapy budgets and the Education Psychology service budget, which are reflecting pressures of £0.9m. The rise in EHCPs has also had an impact on the council's general fund budgets and has resulted in increased demands for children's social work and occupational therapy services.
- 6.7 Officers are working on proposals to increase the amount of special provision within the borough, notably for secondary pupils and 16-25 year old SEND students. Work is continuing with Special schools on developing lower cost but good quality post-16 High Needs provision.
- 6.8 The 2020/21 High Needs Block allocation for Brent includes an additional £5m of funding, but current expenditure will need to be reduced to achieve a balanced in-year budget, ahead of a medium term plan to recover the DSG deficit.

7. Early Years

- 7.1. The Early Years Block budget is £24.7m and includes a £1m contribution from reserves. The block's funding allocation is calculated based on the prior year's January census data and the DfE make retrospective census adjustments annually. Therefore due to take up of places being lower than anticipated, this led to an underspend position in 2018/19 hence the reserve balance was created.
- 7.2. 95% of the funding received is passed on to providers, with 5% funding centralised support for early years. The Nursery Education Grant budget

allocations for 2-year-old provision (NEG 2) and for 3 and 4-year-old provision (NEG 3 & 4) are set at the start of the year according to estimated take up. Payments are then made according to actual pupil numbers each term.

- 7.3. This block is reporting a deficit of £0.6m due to the amounts paid to providers exceeding the income allocation because of supporting providers by maintaining 2-year-old provision at £6 per hour, a higher rate of funding than that received by the DfE.

8. Central Items

- 8.1. The Central Block allocation of the DSG, which totals £2.3m, funds central services for schools and the final outturn showed an overall underspend of £0.3m on these budgets. The underspend was mainly due to underspends on in the school effectiveness and school admissions teams caused by in-year staffing vacancies.

9 DSG Balances

- 9.1. The DSG Reserves opening balance at the start of the year was £2.5m. Of this, there was a planned use of £1.5m of reserves as part of the 2019-20 High Needs Block budget setting, approved by Schools Forum. The remaining £1m of reserves was depleted due a prior year adjustment to the Early Years Block Budget (which is consistent with the £1m early years block underspend in 2018-19), and a remaining in-year DSG overspend of £4.9m (Appendix A). Therefore, at the end of 2019-20, there is a DSG deficit of £4.9m.

10 School Balances

- 10.1 Due to the closure of schools in March because of the COVID-19 pandemic, not all schools had finalised their accounts and submitted their outturn in time for the year-end closure deadlines. Therefore, in the absence of finalised accounts, balances have been consolidated based on latest estimates provided by schools.
- 10.2 Of the 56 maintained schools in Brent, 11 schools had not finalised their 2019/20 accounts, therefore estimated reserves balances previously provided have been used.
- 10.3 Overall school balances have decreased by £2.5million from £16.1million in 2018/19 to £13.6 million in 2019/20 (Appendix B). Of the 56 maintained schools, 27 have increased their overall reserves balance and 29 decreased their balance over the financial year.

- 10.4 Of the 47 maintained primary schools, 28 (60%) decreased their reserve balance by an average of £165k, and 19 (40%) increased their reserve balance by an average of £73k. There are six primary schools which are now in a deficit position. Of the 47 maintained primary schools, 29 have closed with balances of 8% or less, and 18 have balances of 8% or more.
- 10.5 There are only 2 maintained secondary schools. One has a relatively low reserve balance and one has a reserves balance of 9% of income.
- 10.6 Special Schools and PRUs mostly increased their reserves balances in 2019/20, and Nursery Schools balances increased, with 3 of the 4 nursery schools finishing with healthy reserves balances, and one in a deficit.
- 10.7 In summary, whilst there is a mixed picture in how individual schools are managing their financial position, the figures suggest that in 2019/20 schools in Brent have mostly been able to manage pressures without significant deterioration of their financial position. However, many schools have reduced their reserves balance over the year, and it is not yet known if they can continue to do so in 2020/21 and beyond.
- 10.8 The funding and expenditure pressures will persist, and are likely to require schools to take action to balance their budgets. Of the 7 schools in deficit, the majority are expected to set a balanced budget for 2020/21, whilst a small number may require a licensed deficit agreement to recover the deficit over a 3 year period. The schools in deficit will be monitored closely throughout the year.

11 Financial Implications

- 11.1 The overall DSG budget is reporting a £4.9m deficit for the first time. This is the same challenge faced by most Councils including most London Boroughs that had forecasted to be in deficit positions at the end 2019/20. The DfE regulations (the School and Early Years Finance (England) Regulations 2020) make clear the requirement for any DSG deficit balance to be held within the local authority's overall DSG and carried forward to be funded from future years funding and/or recovery plans agreed with the DfE. This also means that authorities cannot fund a deficit from the general fund without the Secretary of State's approval.
- 11.2 Longer-term actions will be required to recover the deficit and a task group will be set up by the council to coordinate and monitor these actions. Some of these actions to reduce costs and mitigate the deficit include developing Alternative Provision education in the borough; increasing the amount of special provision within the borough for secondary phase pupils and 16-25 year old SEND students; developing new Additionally Resourced Provisions (ARPs); utilising

the West London Alliance (WLA) of Local Authorities to develop its commissioning arrangements to address cost pressures for the High Needs block and a full and comprehensive banding review of EHCP funding. A combination of these longer-term recovery actions and anticipated funding increases will reduce the deficit.

- 11.3 The depletion of the DSG reserves in 2019/20 removes the availability of contingency funds to deal with one-off emerging pressures and planned investments.

12 Legal Implications

- 12.1 There are no legal implications for this report.

13 Equality Implications

- 13.1 Not applicable.

14 Consultation with Ward Members and Stakeholders

- 14.1 Not applicable.

15 Human Resources/Property Implications (if appropriate)

- 15.1 Not applicable.

Report sign off:

Gail Tolley

Strategic Director of Children and Young People