

Title of report: High Needs Funding and Dedicated Schools Grant (DSG) Deficit Management Plan

Meeting: Herefordshire Schools Forum

Meeting date: 18 October 2024

Report by: Senior Finance Business Partner

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

To report on the pressures facing the High Needs budget and to report on progress delivering the Deficit Management Plan (ESFA tool).

Recommendation(s)

That:

- a) The High Needs 2023/24 final outturn budget position to be reviewed by Schools Forum**
- b) The High Needs 2024/25 forecast outturn be reviewed and agree that regular budget monitoring reports are presented to future schools forums**
- c) Review the mitigation actions used in preparing the deficit management plan and managing the DSG deficit. Schools Forum to highlight & identify any further mitigations that could be taken.**

Alternative options

1. Alternative options for managing the dedicated schools grant (DSG) High Needs overspend and reducing the deficit will be fully considered by the Budget Working Group prior to formulating final budget recommendations for consideration by Schools Forum in March 2025.

2. The High Needs budget will require further detailed work following the expected Department for Education (DfE) funding announcement in December 2024 and recommendations will be agreed by Schools Forum in March 2025 prior to a formal decision by the Cabinet member for Children and Young People.

Key considerations

3. The DSG is intended to meet the educational costs of pupils in primary and secondary education, as well as the educational costs of special educational provision for children and young people with Special Educational Needs (SEN) in post-16 provision, including those aged over 19 and up to 25 who have an Education Health Care Plan (EHCP). The DSG cannot be used for purposes other than those specified in the conditions of grant and regulations. High needs funding is one element of this.
4. High needs funding is provided to all local authorities through the High Needs block of the Dedicated Schools Grant (DSG), to enable them to meet their statutory duties under the Children and Families Act 2014. Local authorities then pass it to schools and other providers for individual children, as well as using it to provide specified specialist support services. The DSG is ring-fenced, meaning that authorities cannot allocate this funding for purposes other than education.
5. Members of the forum will be aware from previous reports that Herefordshire slipped into a cumulative DSG deficit position at the end of 2021/22 financial year. The deficit was solely attributed to overspend in recent years in the High Needs block due to the legal requirement in the Children's Act to meet pupil need irrespective of available financial resources. Although the deficit was initially modest, it has risen considerably since 2021/22.

High Needs Outturn 2023/24

6. The High Needs DSG block overspent by £5.1 million 2023/24. This increased the Council's cumulative DSG deficit to **£6.1 million at 31 March 2024**.
7. The key pressures contributing to the overspend in 23/24 were:
 - Out-county schools (£2.3 million)
 - Post-16 top-ups (£0.5 million)
 - Mainstream top-ups (£0.3 million)
 - SEN Protection scheme (£0.4 million)
 - Special school top-ups (£0.7 million)
 - School top-ups (£0.8 million)
 - Early Years Special Educational Needs and Disabilities (SEND) grants (£0.2 million)
 - Complex Needs (£0.3 million)

High Needs Budget 2024/25

8. On 12 April 2024, the schools forum recommended a High Needs Budget of £29.7 million for 2024/25, for approval by the Cabinet Member for Children and Young People, noting the funding gap in 2024/25 of £6.5million. It was reported that the proposed budget reflected the forecast overspend position for 2023/24 and included expected future growth in demand for services, particularly in respect of increases in school top-ups, out of county places and post-16 requirements.
9. The latest forecast outturn position indicates that the in-year deficit will be higher than when the budget was set, with particular pressure on independent school places. The latest forecast end of year position indicates an overspend of £7.6million. This would take the **cumulative deficit to £13.7 million** as at 31 March 2025.
10. For complex needs, as at August 2024 forecast is in line with budget at £2.7 million full year.

Dedicated Schools Grant (DSG) Unusable Reserve

11. The DSG deficit is accounted for as an unusable reserve on the council's Balance Sheet, as permitted via statutory instrument, which will remain in place up to March 2026. This enables all local authorities to ring-fence the DSG deficit from the overall financial position in the statutory accounts.
12. Beyond the period of the statutory override, the expectation is that any balance on the DSG Unusable Reserve will transfer back to the council's total Earmarked Reserves. The High Needs deficit will have an impact on the council's overall financial position once the override periods ends and this risk is being managed as part of the council's medium term financial strategy. It should be noted that this issue is a major concern amongst local authorities nationally.
13. The Annual Report 2023/24 of the External Auditor of the Council references the challenges around managing the DSG and states that the deficit, along with the direction of travel, "represents a risk to the financial sustainability of the Council." The auditor made an improvement recommendation that "In order to reduce the forecast DSG deficit, the Council needs to work with schools and other stakeholders and partners to ensure that expenditure is reduced."

DSG Deficit Management Plan

14. The Schools Forum initially discussed the Council's DSG Deficit Management plan at its meeting on 13 January 2023. At this time the Council's deficit was relatively modest, at £0.3million. The plan outlined the sufficiency work that had taken place and future plans in development.
15. The Council has given updates to forum and the Education and Funding Agency (EFSA) since that time, outlining the developments that have taken place since the original plan was approved. This has included:
 - Detailed Sufficiency study completed Autumn 2023 which sets out a shortfall of 37 special school places annually over the next five years
 - New autism resource bases established September 2023 – 2 primary and 2 secondary places to provide 8 places each total 32
 - New early years and primary age base (Widemarsh Explorers) 15 FTE places – opening from September 2023

- New Special Free School– DfE announced Herefordshire was successful in bidding for a new 80 place special free school March 2024
 - New Autism Base – Additional mainstream autism base opened in Leominster Primary September 2024
16. The <https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2024-to-2025> DSG Conditions of Grant 2024/25 requires that any local authority with an overall deficit on its DSG account at the end of the 2023 to 2024 financial year, or whose DSG surplus has substantially reduced during the year, must be able to present a plan to the Department for Education (DfE) for managing their future DSG spend. However, the expectation is that all local authorities will have a plan in place to support effective spending, including those in surplus.
 17. To support local authorities in developing a plan, the ESFA released a DSG Management Plan tool/template in July 2024. It is a very detailed spreadsheet, and draws from information submitted from various returns.
 18. The DSG Management tool identifies the drivers behind the current DSG deficit and forecasts this deficit through to subsequent years, up to 2031. Strategies to mitigate deficit increases and cost pressures (which will increase the deficit) are also included.
 19. Plans that have been put in place so far to mitigate the DSG spend include nurture hubs, autism resource bases, Widemarsh and National Star. These will continue in future years.
 20. Future strategy mitigations which were presented to Budget Working Group on 4 October 2024, and which will be incorporated into the detailed DSG template for presentation to the ESFA over the coming months, are as follows:
 - September 2025 – additional mainstream autism base class to open at Aylestone
 - January 2026 – additional places will be available at Hampton Dene
 - September 2026 – additional mainstream autism base class to open at Aylestone (increasing from Sep25)

In addition, there are future plans to be taken forward and business cases worked up in the following areas:

- New free school timescale likely 2026
- Rebuild of Westfield School
- Ongoing scoping to establish additional special provision at a satellite base for up to 40 children
- Ongoing feasibility work with mainstream schools to develop additional resourced provision
- Pilot of new model of nurture hub delivery to support inclusion in Key Stage 1
- Business case to find new accommodation for HPRS to strengthen three tier alternative provision to avoid exclusions
- Programme for inclusion of neurodiversity in schools to strengthen inclusion in primary schools

- SEMH Intervention Leads providing intensive in-school support to avoid exclusion
 - Review of Section 75 agreement and complex needs spend
21. The detailed DSG Management template is in the process of being completed by service and finance colleagues and a summarised view of actions being taken and impact on the High Needs budget and deficit will be presented to Budget working group and Schools forum as part of the budget discussions in March 2025.
 22. **Result of BWG consideration:** *The Budget working group discussed the question as to further mitigations (other than the ones presented) that could be put in place to reduce the DSG deficit. Nothing further than what is already being done was noted. It was discussed if any further SEN funding was going to be made available by central government – it was noted that during the Labour Party conference this was being looked at.*
 23. **Result of BWG consideration:** *The Budget Working Group also discussed if any further cost savings could be achieved by schools. It was agreed that no further cost savings could be made without impeding quality. It was noted that more funds are needed for strategies & training to support a child. It was also noted by schools that the ‘SEND alternative change procedure’ (which includes training programs) being put in place by the Council was very welcome.*
 24. **Result of BWG consideration:** *The Budget working Group also considered that there was an Internal Audit review/self-assessment of schools coming up to identify areas where financial controls could be strengthened. If areas of weakness are found, then controls would need to be put in place to strengthen procedures. It was discussed if this would be helpful for schools. The feedback from the group was that it has to be manageable, targeted and well defined to be helpful. Schools would then be willing to take part.*

High Needs Budget 2025/26

25. An announcement on High Needs funding is expected in December 2024. Detailed work will be undertaken early in the spring term 2025 and an updated budget proposal will be discussed with the Budget Working Group in March 2025. The final High Needs budget will be agreed at the Schools forum in March 2025 for recommended approval by the Cabinet Member for Children and Young People.
26. In the meantime, the 2024/25 High Needs budget will be closely monitored, and it is recommended that budget monitoring reports are regularly presented to the Schools Forum.

Community impact

27. Increasingly schools and high needs funding is directed by government and the Council can only allocate funding given by government and in accordance with operational guidance. School governing bodies retain the responsibility to spend the school budget on meeting pupil needs. schools, colleges and post-16 providers and potentially parents will need to be consulted on any changes to the High Needs services.
28. These services contribute to delivery of the ambition in the adopted County Plan for 2024-2028 to support children and young people to thrive, be safe and for families to be supported. The County plan states that the belief is that children and young people are best supported in their family networks and within highly effective schools and flourishing communities.

Environmental Impact

29. This is a consultation with Schools Forum on school and High Needs funding and will have no direct environmental impacts. School governing bodies and trustees are responsible for deciding on expenditure and they will be encouraged to minimise waste and resource use in line with the Council's Environmental Policy

Equality duty

30. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows: A public authority must, in the exercise of its functions, have due regard to the need to –
- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
31. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. It is a requirement of the Children's Act (2014) that the needs of children must be met and as such all children with high needs are assessed equitably through use of a tariff assessment matrix and funding is allocated in accordance with the assessment.

Resource implications

32. At this stage there has been no government announcement on schools funding. Should that announcement come forward on 30 October 2024, any financial assessment will be indicative only pending the final DSG announcement by government expected in December 2024.
33. The High Needs DSG is currently projected to have a cumulative DSG deficit of £13.7million by 31 March 2025. The External auditor has highlighted this as a risk to the financial sustainability of the Council.

Risk management

34. The BWG reviews all proposals in detail prior to making recommendations to the Schools Forum. This two-stage process helps ensure greater scrutiny of budget proposals and mitigate against any risks that may be identified. Any identified risks will be monitored and managed by the Children's and Young People Directorate jointly with Schools Forum. Specifically financial risk will be managed throughout the year with the BWG and the council Finance Team.

Consultees

35. No consultation has yet been undertaken with schools, early years providers or service users. The BWG was consulted on 4 October 2024 and Schools Forum will be informed of all comments at the meeting. The BWG will consider the budget proposals further after the budget consultation with schools has been completed and the DfE have announced final DSG allocations in December 2024.

Appendices

Appendix 1 Budget Working Group presentation 4 October 2024

Background papers

Herefordshire Schools Forum 13 January 2023 – Agenda Item 6 DSG Deficit Management Plan
[DSG: conditions of grant 2024 to 2025 - GOV.UK \(www.gov.uk\)](#)

Report Reviewers Used for appraising this report:

Please note this section must be completed before the report can be published

Governance	Jen Preece	Date 10/10/2024
Finance	N/A	
Communications	Luenne Featherstone	Date 09/10/2024
Equality Duty	Harriet Yellin	Date 10/10/2024
Procurement	N/A	Click or tap to enter a date.
Risk	N/A	Click or tap to enter a date.

Approved by Liz Farr and Rachael Sanders Click or tap to enter a date.