

Report of the Director of Children and Families Services

Report to the Leeds Schools Forum

Subject: High Needs Block Projections to 2021/22

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1 Summary of report

- 1.1 This report is to inform members of Schools Forum of the latest projections on the High Needs Block (HNB) funding and expenditure to 2021/22 and to provide further information on how these projections have been calculated.
- 1.2 Attached at appendix 1 is a summary of the current projected income and expenditure on the HNB up to 2021/22. There is a great deal of uncertainty around funding beyond 2019/20 but assuming that the current cap on gains continues then the updated projections show that although funding is expected to increase as a result of Leeds benefiting from the new national funding formula, expenditure is also expected to increase as a result of rising demand for support from the HNB leaving a potential in year shortfall each year that will need addressing.

2 Background information

- 2.1 In recent years there have been growing pressures on the HNB with overspends occurring in each year since 2015/16 despite the implementation of a number of savings and transfers of funding from other blocks.
- 2.2 In addition, a new national funding formula for high needs was implemented from 1st April 2018. This formula is based on estimated need rather than allocating funding based on historical spend and has resulted in an increase in funding to Leeds. However, in order for the new formula to be deemed affordable nationally a cap on gains of 3% was put in place which means that the actual funding received by Leeds is lower with a 'loss' of approximately £7m of additional funding under the cap in 2017/18.
- 2.3 During 2017 the council carried out a review of the Leeds HNB and as part of that review a projection was made of the grant income and expenditure for each year up to 2021/22. Within these projections there are a number of areas where assumptions have had to be made about future income and costs. This report

provides further information around these assumptions and identifies the key risks.

3 DSG income due

- 3.1 HNB initial allocations for 2018/19 were announced in September 2017. This notification also included indicative allocations for 2019/20. No information has been made available beyond this date as there is a government wide comprehensive spending review which will have an impact on all future allocations. However, the methodology for calculating the 2019/20 grant in this announcement has been used to estimate the grant due to Leeds in 2020/21 and 2021/22. It is worth emphasising the uncertainty around funding beyond 2019/20. Leeds has been historically funded at a relatively low level on the HNB and is one of the largest gainers from the new national funding formula although the increase in funding has been significantly limited by the cap on gains. These projections assume that the cap continues to be applied beyond 2019/20. This could change in which case there could be a significant uplift to funding for the HNB in Leeds.
- 3.2 In July 2018 a further announcement was made updating the data for the 2019/20 allocations. This showed an increase of £1,668k compared to the indicative allocations issued during 2017. This is largely due to an increase in need identified in the proxy factors used to calculate the grant along with an increase in the 2-18 year old population beyond the original estimates from the Office for National Statistics. A further update is expected in December 2018 to reflect the number of pupils in special schools on the October 2018 census.
- 3.3 There are also ongoing discussions around other potential changes to the national formula. Although these changes are not known at this stage, the July update suggested that the final grant allocations will not be adversely affected as a result of these changes.
- 3.4 Based on the grant calculation methodology, estimated increases in pupil numbers and the transfer of special free school place funding, the grant due in future years is projected to be:-

	2019/20 £000	2020/21 £000	2021/22 £000
Indicative allocation July 2018	69,833		
Estimated future allocations		72,418	75,721
Estimated impact of further increased pupils	672	400	200
Transfer of special free school place funding	670	670	670
Estimated grant due	71,175	73,488	76,591

- 3.5 The increase in basic entitlement as a result of an increase in the number of pupils in special schools (from 1,314 in October 2017 to an estimated 1,482 in October 2018) is partly as a result of the increase in places as Springwell Leeds fully opens and further increases in line with the assumptions made in the Strategic Review of provision for children and young people with Special Education Needs and Disabilities.

- 3.6 All the grant figures quoted above assume that the 3% cap on gains continues in its current form. The 'loss' of grant in 2019/20 based on the July update is estimated to be £5.1m. As a large proportion of the grant is based on population and pupil information, if these items do not increase for Leeds as expected, then the grant allocations will be lower.

4 Deductions for places directly funded by ESFA

- 4.1 From the overall HNB deductions are made by the ESFA for places they pay directly to settings. The summary of the estimated deductions until 2021/22 are as follows:-

	2019/20 £000	2020/21 £000	2021/22 £000
Places funded directly by ESFA			
- Recoupment academies	-310	-332	-332
- Special academies / free schools	-4,070	-4,070	-4,070
- Maintained special post 16	-2,260	-2,260	-2,260
- Maintained mainstream post 16	-114	-114	-114
- AP academies / free schools	-203	-320	-320
- FE colleges & Charitable and Commercial Providers	-3,424	-3,494	-3,558
Estimated Deductions	-10,381	-10,590	-10,654

- 4.1.1 The deductions for recoupment from academies represent place funding for academies with resourced provision. This has not changed for future years as any increase in academies with resourced provision will be offset by a reduction in mainstream resourced provision costs.
- 4.1.2 The deductions for special academies and free schools are for place funding at Springwell Leeds and Lighthouse School. There have been no increases in places commissioned from these settings assumed at this stage.
- 4.1.3 Post 16 funding is currently paid via a separate grant and so place funding for post 16 high needs pupils is deducted from the HNB. Indications have been made that this may not happen in future years and so the current level of deductions for maintained special and mainstream schools has been assumed to continue at this stage. If these deductions do cease, then the HNB expenditure will increase by this value.
- 4.1.4 The deductions for AP academies and free schools are for place funding at Elland Academy and Stephen Longfellow Academy. Based on the 2018/19 high needs operational guide, deductions for AP free school places are delayed for 2 years after the provision has opened. Once deductions are made, they are in respect of actual pupils in the school in the October census who are residents of Leeds and have that school registered as their main or sole school. The deductions above are based on the number of pupils who meet this criteria in the May 2018 census as no further information is currently available.

- 4.1.5 From April 2017, funding was transferred to DSG in respect of high needs place funding for further education colleges and charitable and commercial providers (CCP's). The ESFA then deducts this funding to pay the providers direct. At this stage, exact pupil numbers from September 2019 onwards are not available and so it is assumed that these deductions will increase in line with the Office of National Statistics' (ONS) increases in pupil numbers. There have been significant increases in recent years and so this is an area of risk. An exercise to collate this information for the 2019/20 academic year is due to be completed by the end of November and projections will be adjusted to take account of this information.
- 4.2 Of the deductions, those detailed in paragraphs 4.1.1 to 4.1.3 are of least risk as any increases in these should be offset by reductions in expenditure. The deduction for AP free schools is dependent on how those schools record pupils and so this is an area of risk if the number of Leeds pupils where these settings are their main school increases.
- 4.3 The deductions for further education colleges and charitable and commercial providers is also an area of risk as the number of pupils in these settings is outside the control of Leeds City Council and includes pupils from other local authorities. As part of the grant allocation there is an import / export adjustment to transfer funding to reflect the number of pupils who are the responsibility of one local authority but are placed in another local authority. However, the information used to calculate this adjustment is based on pupil returns from the previous January and so this adjustment will not match the actual impact in the year in which it occurs.

5 Expenditure

- 5.1 Previous reports have been brought to Schools Forum on projected expenditure. These estimates are regularly reviewed and adjusted to reflect the latest information available and the current detailed assumptions are shown in appendix 1.
- 5.2 The future year projections are based on assumptions around planned and anticipated growth in places and the number of pupils requiring support and will be updated as we obtain more up to date information. An updated budget for 2019/20 and estimates for future years will be provided to Schools Forum in early 2019.
- 5.3 The largest area of expenditure remains funding passported to institutions. Although the FFI unit rate decreased from £684 to £600 for most settings, the increase in pupil numbers and complexity of need has resulted in a continued increase in projected costs. The projected expenditure is as follows:-

	2019/20 £000	2020/21 £000	2021/22 £000
SILC and Resourced Provision Places	10,766	11,356	11,977
Outside and external residential placements	6,368	6,178	6,388
Alternative Provision and AIP's	5,256	5,256	5,256
SEN Top-ups to Institutions	33,786	34,921	36,064
Mainstream additional places (£6k blocks)	528	550	572
Education provision for mental health beds	200	200	200

Total Passported To Institutions**56,904 58,461 60,457**

- 5.3.1 The expenditure on SILC places is based on an additional 80 places in October 18 census compared to October 17 census (which is in line with the projected increase in basic entitlement), plus an additional 50 places from 1st September 2019, 2020 and 2021. Resourced Provision expenditure has been increased to reflect the planned increase of an additional 10 places over the next 18 months.
- 5.3.2 The initial projections on outside and external residential placements were based on an assumed reduction in need for these placements. However, as detailed in the budget monitoring report, some of these assumptions have not materialised and so the projected overspend in 2018/19 has now been assumed to continue into future years.
- 5.3.3 Funding for Area Inclusion Partnerships (AIP's) is assumed to continue at the current levels. At the end of each financial year an assessment will be made of AIP balances and projected use of reserves and any excess funding identified will be clawed back from the AIP's.
- 5.3.4 Although the FFI unit rate was reduced to £600 from £684 for most settings, there is still an increase in demand due to increasing numbers and complexity of cases. The projected costs for future years is based on the 2018/19 overspend continuing and increasing to reflect new places and a general uplift in line with ONS population increase statistics. However, this remains the largest area of risk of increased costs.
- 5.3.5 Following changes to the criteria on allocating funding to schools with SEN places above the notional SEN budget, the costs of additional places has reduced significantly. An initial exercise on the 2018/19 cost has shown a projected overspend and this is assumed to continue along with a general increase in line with ONS projections.
- 5.3.6 Since receiving invoices for the education provision of adolescents in private mental health beds the Directorate has successfully negotiated a reduction to the initial charges. As a result the actual cost was significantly lower than the original charges received. The projected outturn for 2018/19 shows an underspend as a result of a reduction in the number of young people though this reduction is not expected to continue in future years.

5.4 The projected costs for Commissioned Services is as follows:-

	2019/20	2020/21	2021/22
	£000	£000	£000
Hospital & Home Tuition	1,504	1,519	1,534
PD & Medical Service	96	98	100
Total Commissioned Services	1,600	1,617	1,634

- 5.4.1 The projected costs for hospital and home tuition reflects the increase in funding reflected in the grant allocations. The ESFA have indicated that funding

allocated to these services could change and these costs will be reassessed in light of any change.

5.4.2 For PD and medical services costs are assumed to be in line with 2018/19 along with an uplift for inflation.

5.5 The projected costs of services funded directly by Children & Families is as follows:-

	2019/20 £000	2020/21 £000	2021/22 £000
Autism support	423	433	443
Children missing out on education	261	265	269
Management of AP	112	114	116
SEN adaptations	141	141	141
SEN Inclusion Team	1,232	1,258	1,284
Sensory Service	2,223	2,269	2,315
Virtual school (Children Looked After)	110	112	114
Total Directly Managed by Children & Families	4,502	4,592	4,682

5.5.1 Following the high needs review in 2017, the funding of the Teenage Pregnancy Service was removed from DSG and so there are no costs going forward.

5.5.2 The majority of the costs detailed above are for staffing and so it has been assumed that costs will increase as a result of pay awards and increases in superannuation contributions. During 2018/19 a number of these services are projecting to be underspent due to staffing vacancies. At this stage, it has been assumed that these vacancies will be recruited to and so the underspends are unlikely to continue. As service budgets are completed these estimates will be changed to reflect the actual budgets and costs of those services.

5.6 There are a number of other costs to the high needs block which are as follows:-

	2019/20 £000	2020/21 £000	2021/22 £000
SEMH prudential borrowing costs	558	558	558
Contribution to reserves	1,000	1,000	1,000
Total Other Costs	1,558	1,558	1,558

5.6.1 A disapplication request was submitted in 2016 with the approval of Schools Forum to be able to charge a proportion of the prudential borrowing costs of the new SEMH provision to the HNB. Approval was received to charge up to £2m per year to the HNB. Following further discussions around the scheme funding, the actual charge to the HNB was reduced to £558k per year with 2019/20 the first year of charging.

5.6.2 In order to reduce the DSG deficit over a number of years, a budget of £1m per year has been set to repay the balance

- 5.7 Although the most up to date information has been used to calculate these costs, there remains an element of uncertainty and risk that the actual costs could be different. In particular, the outcome of the Specialist Provision Funding Review is not yet known and this could have an impact on these projections.

6 Overall Projected Shortfall

- 6.1 The projections detailed above have resulted in projected in year shortfalls as follows:-

	2019/20 £000	2020/21 £000	2021/22 £000
High Needs Block Grant	60,794	62,898	65,937
Projected expenditure	64,564	66,228	68,331
In Year Shortfall	3,770	3,330	2,394

- 6.2 Unless there is a significant increase in funding following the spending review then the options available to fund this shortfall are to either transfer funding from other blocks or to reduce expenditure further within the HNB. If the cap on gains was removed then there would be sufficient additional funding to cover the shortfalls.
- 6.3 At this stage it is assumed that once the 2019/20 funding for the Central Schools Services Block (CSSB) is confirmed, any funding not required for those services will be transferred to the HNB. This value is likely to be at least £500k but could be up to £1m. The government have confirmed that the CSSB will be reduced from 2020/21 onwards and so at this stage, it cannot be assumed that funding will be available to transfer to the HNB after 2019/20.
- 6.4 When the National Funding Formula was first announced, a local or “soft” formula was applied for 2018/19 and 2019/20 which would allow local authorities to transfer up to 0.5% (approximately £2.5m) of the Schools Block with the approval of Schools Forum. It has now been confirmed that the soft formula will continue into 2020/21 and so it is assumed that the ability to transfer 0.5% of the schools block will also continue. The ability to transfer funding from the Schools Block is dependent on support from individual schools and approval by Schools Forum
- 6.5 From the High Needs Block review carried out in 2017, a number of savings were agreed including reducing the FFI unit rate to £600 for most settings and ceasing to fund the Teenage Pregnancy Service. Although these savings have been implemented, if there are no further transfers from other blocks, additional savings will be required.
- 6.6 Should transfers from other blocks as detailed above be approved, then the projected savings still to be found within the HNB are as follows:-

	2019/20 £000	2020/21 £000	2021/22 £000
In Year Shortfall	3,770	3,330	2,394
Transfer from Schools Block	(2,500)	(2,000)	
Transfer from CSSB	(500)	0	
Savings to be identified	770	1,330	2,394

7 Recommendations

- 7.1 Schools Forum is requested to note the contents of this report and that a further report will be submitted early in 2019 with updated projections when more information will be available.