

**Report of the Director of Children and Families Services**

**Report to the Leeds Schools Forum**

**Subject: Dedicated Schools Grant 2017-18 – Outturn report and forward view**

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**1 Summary of 2017/18 Outturn**

- 1.1 This report is to inform members of Schools Forum of the final 2017/18 outturn on the Dedicated Schools Grant (DSG) and provide a high level update on some key issues that are likely to have an impact on the 2018/19 financial position.
- 1.2 This report shows an overall in year underspend of £0.782m on general DSG. This has been used to reduce the deficit balance brought forward from 2016/17 of £4.161m which means there is a deficit balance on general DSG of £3.379m to be carried forward to 2018/19.
- 1.3 This is an improvement of £0.554m on the position that was reported to Schools Forum members in February, which equates to 0.13% variance of the projected expenditure. The most significant area of overspend is on the high needs block as previously reported although the overspend is less than forecast in February mainly because of lower spend than previously projected on top-up payments.
- 1.4 There was an in year overspend of £0.103m on de-delegated DSG. A surplus of £0.528m was brought forward from 2016/17 making a total year end surplus of £0.425m to be carried forward into 2018/19.
- 1.5 Overall, the variance on general DSG is analysed as follows:-

	Month 10 Projection			Final Outturn			Change
	Funding £000	Projection £000	Variance £000	Funding £000	Projection £000	Variance £000	
School's Block	317,772	317,112	(660)	317,531	316,835	(696)	(36)
Early Years Block	52,275	49,972	(2,303)	51,720	49,264	(2,456)	(153)
High Needs Block	57,199	59,934	2,735	57,198	59,568	2,370	(365)
<b>Total in-year underspend</b>	<b>427,246</b>	<b>427,018</b>	<b>(228)</b>	<b>426,449</b>	<b>425,667</b>	<b>(782)</b>	<b>(554)</b>
Deficit balance b/fwd			4,161			4,161	0
<b>Deficit balance c/fwd</b>			<b>3,933</b>			<b>3,379</b>	<b>(554)</b>

(note – a negative figure is an underspend and a positive figure an overspend)

- 1.6 A more detailed explanation of the key variances is provided for each of the DSG blocks in sections 2 to 4.

## 2 Schools Block

- 2.1 The majority of the Schools Block is allocated to primary and secondary schools (ISB), with smaller amounts for de-delegated services and a central provision. At the end of the year, there was an underspend of £696k which is an increase of £36k compared to February. The actual costs and variances are summarised below:-

	Latest Estimate £000	Outturn £000	Variance £000
DSG Income Received	(324,708)	(317,531)	7,177
Individual Schools Budget	311,768	304,363	(7,405)
Central Provision			
- Equal Pay costs	1,037	1,037	0
- Growth Fund	2,900	2,469	(431)
- Former ESG Retained Duties	1,724	1,724	0
- All other central provision costs	2,240	2,203	(37)
<b>Total Schools Block</b>	<b>(5,039)</b>	<b>(5,735)</b>	<b>(696)</b>
<b>De-delegated budgets</b>	<b>5,039</b>	<b>5,142</b>	<b>103</b>

(note: a bracketed figure is an underspend and a positive figure an overspend)

- 2.2 When a school becomes an academy, funding payments are made directly by the Education and Skills Funding Agency (ESFA). For Leeds City Council this means that there is a reduction in grant income which is largely matched by reduced expenditure, though overall there is a slight underspend as a result of recoupment adjustments on NNDR in respect of schools which have converted to academies during 2017/18.
- 2.3 Due to slippage in planned places there was an underspend of £431k on the Growth Fund. However, it is expected that the costs slipped from 2017/18 will be incurred during 2018/19 resulting in a potential pressure in that year. There are also a number of minor underspends totalling £37k on other central provision budgets.
- 2.4 The overspend on de-delegated services is due to increasing maternity pay costs above normal levels (an overspend of £284k) which is partly offset by underspends on all other de-delegated budgets. Overall de-delegated budgets were overspent by £103k. The de-delegated reserve has therefore reduced to £425k at the end of 2017/18. At Schools Forum in January 2018 it was reported that £300k of this would be utilised during 2018/19 to reduce de-delegated costs in that year, which would leave £125k to carry forward into 2019/20.

## 3 Early Years Block

- 3.1 The Early Years Block was underspent by £2,456k, which was a change of £153k compared to the projection in February. The actual costs and variances are summarised below:-

	Latest Estimate	Outturn	Variance
	£000	£000	£000
DSG Income Received	(50,234)	(51,720)	(1,486)
FEEE 3 & 4 year olds	38,672	39,169	497
FEEE 2 year olds	8,265	7,772	(493)
SEN Inclusion Fund	515	97	(418)
Early Years Pupil Premium	552	491	(61)
Disability Access Fund	172	77	(95)
Early Years Centrally Retained Funding	2,058	1,658	(400)
<b>Total Early Years Block</b>	<b>0</b>	<b>(2,456)</b>	<b>(2,456)</b>

(note: a bracketed figure is an underspend and a positive figure an overspend)

- 3.2 Due to the way Early Years is funded (with the final grant income based on the pupil numbers as at January 2017 and January 2018) there is a difference between the number of places funded and the number of places paid to providers. Some of these savings may be non-recurring depending on pupil numbers at the January census. As previously reported, the final grant allocation for 2017/18 will not be confirmed until later this year. However, an estimate has been made of what this adjustment will be and has been included in the above figures. Any variance between this estimate and the final allocation will be taken account of in 2018/19.
- 3.3 For 2 year olds the January census has usually been the lowest of the year and in order to not overspend this budget, the amount paid to providers is £5.05 an hour while the funding is £5.20 per hour to compensate for this. However, the pupil numbers for 2017/18 have not been the case this year. This means that there was £225k more income than expenditure in 2017/18. Although the funding to Leeds City Council for 2018/19 remains at £5.20 per hour, to reflect the impact of the underspend the amount to be paid to providers has been increased to £5.10 per hour.
- 3.4 For 3 and 4 year olds the funding received is effectively for more places than the payments made to providers. Overall, there was £1,359k more funding than expenditure. Based on initial details from the January census there has been a significant take up of the additional 15 hours offer for working parents in the private, voluntary and independent sector, though this is partly offset by a lower than expected take up in schools. Again, although the funding to Leeds City Council for 2018/19 remains at £4.81 per hour, to reflect the impact of the underspend the amount to be paid to providers has been increased from £4.20 to £4.25 per hour.
- 3.5 In addition, part of the funding was allocated to specific areas. Of these, the SEN Inclusion Fund has received fewer applications for funding than expected which has resulted in an underspend of £418k. For 2018/19, the process for requesting SENDIF has been simplified with settings able to apply directly to the fund rather than a professional referral being required. The rate is set at a level just below the value of FFI, in line with the tiered approach of support available to SEN.

- 3.6 There was no call on the early year's contingency fund and so this was £400k underspent. As a result of this, the contingency budget for 2018/19 has been reduced to £170k.
- 3.7 The Disability Access Fund was underspent by £95k. This is because the DfE estimates the number of children that are eligible, but does not take into account whether they are claiming their universal entitlement to early education. It has been assumed that the final grant received will be reduced by this amount.
- 3.8 Although there is a significant underspend in Early Years, within the High Needs Block there is a projected overspend of £219k on Early Years Funding for Inclusion.

#### 4 High Needs Block

- 4.1 The High Needs Block was overspent by £2,370k which is an improvement of £365k compared to February. The actual costs and variances are summarised in the table below:-

	Latest Estimate £000	Actual £000	Variance £000
DSG Income Received	(56,776)	(57,198)	(422)
Funding Passported to Institutions			
- SILC and Resource Provision Places	9,761	10,236	475
- Deficit SILC balances	300	0	(300)
- Outside and external residential placements	6,628	7,668	1,040
- Alternative Provision (including AIP's)	4,327	4,941	614
- SEN Top-ups to Institutions	27,289	29,175	1,886
- Mainstream additional places (£6k blocks)	1,000	930	(70)
- Mental Health beds for adolescents	0	196	196
- SEMH set up costs	0	550	550
Commissioned Services			
- Hospital & Home Tuition	1,294	1,276	(18)
- PD & Medical Service	94	94	0
Children's Services			
- Autism support (STARS)	393	347	(46)
- Children missing out on education	257	233	(24)
- Management of AP	105	105	0
- SEN adaptations	141	154	13
- SEN Inclusion Team	1,773	1,054	(719)
- Sensory Service	2,328	2,275	(53)
- Teenage pregnancy	214	231	17
- Virtual school (Children Looked After)	103	103	0
Other items			
- Contribution to reserves	769	0	(769)
<b>Total High Needs Block</b>	<b>0</b>	<b>2,370</b>	<b>2,370</b>

(note: a bracketed figure is an underspend and a positive figure an overspend)

- 4.2 Following receipt of updated DSG allocations the academy recoupment is lower than expected though there are some increases in deductions for provision paid directly by the ESFA. In addition, a further £18k has been added to the allocation to specifically fund increased hospital costs giving an increase in funding of £422k.
- 4.3 The SILC academy conversion did not take place during 2017/18. As a result the expected deficit on conversion to academy status will not need to be funded until 2018/19 and so this budget was not spent.
- 4.4 There have been ongoing discussions with the Area Inclusion Partnerships around sustainable budgets for 2017/18 to enable them to continue to make provision for children with exceptional social, emotional and mental health needs. The budgets that have been agreed, together with some claw-back of reserves, will result in a saving of £1.2m rather than the £1.8m that was proposed.
- 4.5 SEN top-ups to institutions continues to be the largest area of overspend, largely as a result of increased demand and complexity of cases. Overall, the overspend was £1.886m. This overspend in this area has reduced since projected in February due to the complex nature of forecasting these costs.
- 4.6 There are a number of charges from private hospitals for the education provision for mental health hospital beds for young people. Work has taken place to establish responsibilities and reduce the cost of these charges. As a result, the additional cost was £196k per year rather than the £350k initially estimated.
- 4.7 Costs of £550k were incurred for the new SEMH provision, largely for staffing set up costs for the new sites opening in 2017/18.
- 4.8 The outside placements and external residential placements budget was £1,040k overspent. Although a number of outside placement pupils have been brought back into Leeds, it has not been possible to reduce the costs sufficiently to prevent this overspend. In addition, there has continued to be an increase in numbers of specialist education and residential placements which have resulted in further costs on this budget.
- 4.9 As reported to Schools Forum in February 2017, the Early Years Block is now funding some of the SENIT and Portage costs, freeing up £600k high needs funding.
- 4.10 There have been further underspends on service provided directly by Children and Families which have partly been as a result of reduced expenditure and additional income generated which reduced the call on DSG.
- 4.11 The budget was set with an assumption that there would be a contribution of £769k towards the deficit reserve brought forward from 2016/17. As a result of the overspends detailed above, this specific contribution will not now be made.

## **5 2017-18 Reserves**

- 5.1 The 2017-18 estimated DSG funding has been adjusted for expected changes in the various blocks, though the final amount will not be confirmed by the Education and Skills Funding Agency until later in the year. The table below shows the position as at 31<sup>st</sup> March 2018.

General	De-delegated	Total
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	£000	£000	£000
Balance b/fwd from 2016/17	4,161	(528)	3,633
2017/18 Variances			
- School's Block	(696)	103	(593)
- Early Years Block	(2,456)		(2,456)
- High Needs Block	2,370		2,370
<b>Balance c/fwd to 2018/19</b>	<b>3,379</b>	<b>(425)</b>	<b>2,954</b>

## 6 Forward view to 2018/19 main issues

- 6.1 When the budget for 2018/19 was set following the review of the High Needs Block carried out by Children & Families, it included a number of proposals to address the underlying budget pressures. Although it is still early in the new financial year, a number of issues are emerging that are likely to have an impact on the 2018/19 budget.
- 6.2 Within the Schools Block the largest risks are around the Growth Fund as a result of the slippage in places from 2017/18 and the potential continuing overspend on maternity pay costs. However it is too early in the year to estimate an impact of these issues.
- 6.3 Based on earlier years' underspend, the Early Years Block is projected to also underspend in 2018/19, though as the hourly rate to providers has increased, this underspend is not expected to be at the same level, therefore an underspend of £1,000k is projected. In addition, there is a risk that the income adjustment relating to 2017/18 may be slightly different to the amount assumed.
- 6.4 There are a number of areas within the High Needs Block where variances are currently projected. These include:-
- 6.4.1 The North West SILC deficit currently stands at £1,355k, which will need to be funded on conversion to academy status. Work is ongoing with the SILC on the 2018/19 budget, though there is a risk that the deficit could increase.
- 6.4.2 Following a review of costs at the SEMH provision, there is an increase in top up funding of £276k.
- 6.4.3 A continued increase in place and top up funding at specialist provision is estimated to produce an overspend of £250k.
- 6.4.4 Current indications from the Funding For Inclusion database suggest that there is likely to be an overspend of approximately £300k on top-ups to institutions other than specialist provision. However, further work is needed to verify this amount.
- 6.4.5 Outside and Residential Placements – although the number of outside placements has reduced following the opening of new SEMH sites, the number has not yet reduced to the level assumed in the budget. As a result there is risk of an overspend on this budget, though work is ongoing to analyse this further.
- 6.4.6 Clawback of excess AIP balances is expected to result in approximately £250k of funding coming back into the High Needs Block.

- 6.4.7 For 2018/19, a budget was set to pay back some of the deficit reserve. Due to the projected overspends above it is now unlikely that the contribution will be made, which will result in £946k less expenditure.
- 6.4.8 At February's Schools Forum, a query was raised on the level of DSG deductions in relation to Alternative Provision Free Schools. Since then, we have received confirmation from the Education & Skills Funding Agency of these deductions which is in line with the budget set for 2018/19.
- 6.4.9 Overall, it is expected that there could be an overspend of approximately £500k on DSG during 2018/19. A more detailed monitoring report will be presented at the Schools Forum in October following further work.

## 7 High Needs Block and overall DSG future year projections

- 7.1 Attached at appendix 1 is an assessment of the impact of the 2017/18 outturn and the main issues for 2018/19 identified above on the projections of future years costs and the overall DSG balance.
- 7.2 An adjustment has been made to take into account a proposed change on place funding for special free schools. At the moment, this is funded separately by the ESFA, but they are currently consulting on changes to bring this into the DSG to be funded in the same way that mainstream and academy special schools currently are. Overall the impact on Leeds for 2019/20 is expected to be cost neutral, but the grant due and the ESFA deductions have been adjusted to reflect this proposal.
- 7.3 Overall there is still a high level of uncertainty on funding levels from 2020/21 onwards as this is subject to a comprehensive spending review and no further information has been received since previously reported to Schools Forum. It is assumed that the 3% cap on gains will remain and the estimated value of this cap is shown at the end of appendix 1.
- 7.4 Based on current estimates and assuming a contribution of £1m a year to reduce the deficit DSG, further savings or increased funding is required to balance the high needs budget in each of the next 3 years as follows:-

£000

2019/20	2,921
2020/21	1,703
2021/22	658

For 2019/20 this could be achieved by transferring funding from the schools and central services to schools blocks, although this would be subject to further consultation with schools and approval from Schools Forum. However, this option is unlikely to be available for future years.

- 7.5 As the projections of future years costs include repaying £1m each year towards the deficit reserve, assuming that the shortfall detailed above is funded, the estimated deficit on general DSG will stand at:-

£000

2017/18	3,379
2018/19	3,618
2019/20	2,618
2020/21	1,618
2021/22	618

## **8 Recommendations**

- 8.1 Schools Forum is requested to note that the deficit on the general DSG is £3.379m, with de-delegated reserves standing at a surplus of £0.425m. These balances will be carried forward to 2018/19.
- 8.2 Schools Forum is requested to note the potential budget pressures in 2018/19 and that a more detailed budget monitoring report will be provided at the next Schools Forum meeting.