

Purpose of the Report

This report seeks to:

1. clarify the implications of the Schools Forum not recommending the 0.5% transfer of schools funding to the HNB in 2018-19.
2. update the Forum on the latest projected budget pressure for 2018-19 and beyond.
3. share the mitigating actions to address the current and continued growth of the budget pressure

Background

1. In June and September 2017 two reports (**Appendix 1 and 2**) were considered by the Forum which highlighted the emerging budget pressures in the High Needs Block. These pressures were already being felt in the 2017-18 financial year and would have significant on-going implications for 2018-19.
2. The September 2017 report recommended that a proposal was included in the 2018-19 local funding formula consultation to transfer 0.5% from the schools block to the High Needs block to address these pressures. This recommendation was agreed by the Forum. The consultation also included the implications of schools **not** agreeing to the proposal.
3. Following a three week period of consultation with schools and academies the response to this proposal was not conclusive with 39%, of those that responded, in favour of the transfer and 39% against. A total of 44 eligible responses (38 schools and 6 external Early Years PVI settings) were received to the consultation which was a response rate of only 11.7% for schools and academies.
4. The 2018-19 local funding formula consultation proposals, financial modelling and responses were considered by the Forum at the 7 December 2017 meeting. Following a discussion the Forum voted on the consultation proposals and 4 members voted against the transfer, 2 were in favour and 2 abstained. There were no special school representatives present at the meeting. The draft minutes of this meeting are included at **Appendix 3**, and are due to be agreed at the next Schools Forum meeting on the 8 February 2018.

Information and Advice

5. The decision of the Forum not to recommend the transfer of 0.5% from the Schools Block to the High needs Block (HNB), presents the LA with a number of challenges to contain the spend of the HNB within the grant funding allocation for 2018-19.

6. In previous years there has been the option for local authorities to transfer funding between blocks, but this has not been necessary until now. This is because the Non-ISB DSG reserve has been used to temporarily 'top up' the HNB in 2016-17 and 2017-18 by £360k and £891k respectively.
7. The forecast overspend for the 2017-18 financial year is now £3.7m (after the transfer of £0.891 million) and this will create a deficit of £0.4m, on the Non-ISB reserve, at the end of the financial year.
8. The HNB funding allocation for 2018-19 has been confirmed and there will be an additional £2.7m available, but this will not be sufficient to fund the projected overspend for 2018-19 and to recover the projected deficit. Therefore it is inevitable that even if the County Council so considers an application to the Secretary of State for the 0.5% transfer (see paragraph 30), there will still be a need to reduce the allocation to Schools, Partnerships and Families from April 2018.

Projected Budget Pressure for 2017-18 and Beyond

9. In June 2017 the Forum considered a report for a projected budget pressures of £891,000. The Forum agreed to use the Non ISB reserve to cover the pressure for one year only.
10. In September 2017, a further report was considered, highlighting the increasing pressure on the High Needs Block due to:
 - a significant increase in the number of children and young people (CYP) with an education, health, care plan (EHCP), accessing specialist education provision, in education other than at school (EOTAS) and independent non-maintained schools (INM)
 - increased parental expectations that pupils will stay on in specialist educational provision post 16 and beyond, as a result of the Children and Families Act 2014 and SEND reforms
 - changes to funding from health for continuing care, previously paid to special schools.
 - increasing pressure on schools to improve attainment in the context of a highly academic curriculum, has resulted in increased challenges for schools to include CYP with the most complex needs in mainstream schools
 - Nottinghamshire special schools being full, which has led to an increase in the number of externally commissioned places in specialist education provision (EOTAS and INM).
11. Since the September 2017 report, local Clinical Commissioning Groups (CCGs) have notified NCC of their intention to cease payments to mainstream schools to support them in meeting health and care needs of identified children. This is being implemented on a case by case basis and has resulted in additional costs to the HNB, both from High Level Needs (HLN) and INM budgets.
12. Consequently the overspend for 2017-18 is now forecast to be £3.7 million (after the contribution of £0.891 million from the Non ISB reserve). If the projected overspend cannot be paid from the reserve, the high needs block will be required to cover the deficit. This means that the HNB would be further reduced by £400k

13. Work has been undertaken to project the HNB expenditure for 2018-19 and beyond and this is included at **Appendix 4** and shows a projected overspend of £5.330 million (including the deficit brought forward from 2017/18) in 2018-19 and £6.333 million in 2019-20.

Data Supporting Recent Growth in Demand

14. There has been growth in the demand for all services supported by the High Needs Block in 2016-17 and 2017-18 and expects this to continue into 2018-19 and beyond.

15. In January 2017 585 CYP with EHCPs were attending mainstream provision. This has increased from 442 in January 2015. This has resulted in an increase in HLN spending to support schools to meet the needs of CYP with SEND in mainstream settings.

16. The number of CYP requiring a place in specialist provision has increased by 50% between 2014/15 and 2017/18. In addition the average cost of each place has increased by 50% in the same period. The overall impact of these increases is that the spend has tripled in EHCP CYP in Alternative provision and INM School Placements.

17. In the same period, the number of special school places has increased by 6%, from 903 to 958 which is a fraction of the overall increase in need.

18. The total number of children and young people (CYP) being educated in INM in 2017-18 is now 269 and a further 440 are being educated in FE Colleges. This is an increase of 64 and 29 respectively in comparison with 2016-17, at the same point in the year (i.e. autumn term). The average cost of a place in INM is £40,000 compared to £21,316 in a special school setting. The average cost of a place in FE is £12,618 and this is the LA's preferred option for all CYP with an EHCP from 18 to 25 years of age, wherever an FE College can meet their educational needs.

Mitigating Actions to Address the Current and Continued Growth of the Budget Pressure

19. It was agreed at the September 2017 Schools Forum, that there is a need for a shared understanding around the current use of the High Needs Block to inform the strategic development of different types of provision in ways which are beneficial to children with complex needs, more cost effective while remaining fair across Partnership Development areas.

20. The Schools Forum agreed to work in partnership with all schools and the local authority to carry out an in-depth review to fully understand the effectiveness of the current use of the HNB to inform the most effective and efficient ways to allocate this funding in future. The review will be carried out by an independent consultant, commissioned by NCC in agreement with the schools forum and will be funded from the High Needs Strategic Planning Fund of £322,000. This fund was a grant given to all LAs, by the ESFA, to support them in carrying out a review of their High Needs Provision (**Appendix 5**).

21. This Strategic Planning fund will also be used to deliver a number of key activities, as outlined in the High Needs review draft action plan in **Appendix 6**. This aims to ensure that the HNB is spent effectively to meet the needs of CYP with SEND within the allocated budget.
22. NCC has just consulted on the use of the Specialist Capital Grant (report to Schools Forum, September 2017). The outcome of the consultation is that the majority of respondents are in favour of the grant being used to increase specialist provision in Nottinghamshire schools, in the areas of highest need.
23. NCC has centralised all commissioning for social care and EHCP specialist provision in order to secure economies of scale through joint commissioning of places. This includes exploration of the use of Block Purchasing of places at a fixed rate, in order to reduce the need for spot purchasing of places at high cost.
24. Nottinghamshire County Council submitted Expressions of Interest (EOIs) to the Regional Schools Commissioner (RSC) for funding for 2 new special schools, which would have provided more places in Nottinghamshire special schools, thereby reducing the need for additional high cost places in external specialist provision. Unfortunately both EOIs were unsuccessful.
25. The creation of 42 additional places in Nottinghamshire's special schools are planned from April 2018 and a further 15 places from September 2018. These additional places have reduced the predicted need for additional INM places to meet rising demand, from 120 to 63 in the financial year 2018-19.
26. In June 2015, due to the fact that some partnerships continued to permanently exclude at the same rate as was previously the case, the LA consulted the schools forum on implementing a full cost recovery mechanism from excluding schools to cover the cost of NCC providing full time education for children and young people permanently excluded. Schools forum approved the proposal at their meeting in October 2016.
27. Additional budget control measures are being put in place which includes the High Needs review and vacancies in teams funded through the High Needs Block being frozen.

Options to Address the Projected Budget Pressure

28. As previously stated an additional £5.330 million is required to balance the high needs budget in 2018-19.
29. The proposal to generate the 0.5% transfer to the HNB would only equate to £2.345 million and is less than the amount required to set a balanced budget for 2018-19. Other HNB budget reductions would also need to be made with effect from 1 April 2018.
30. The local authority can apply to the Secretary of State for agreement of a funding transfer where a Schools Forum has opposed it. This would require political approval and a disapplication request to be submitted before 19th January 2018.
31. The method by which the reduction would be made was outlined in the consultation document with a per pupil amount being deducted outside of the funding formula. A

disapplication request has already been made for this and we are awaiting a response from the Secretary of State. If the request is rejected the transfer would need to be actioned via the funding formula.

32. The options available to balance the HNB in 2018-19 are:

- Option 1 – The Schools Forum reconsider their decision to recommend to the County Council the 0.5% transfer. This would provide £2.345 million of the £5.330 million required and would limit the reductions which would have to be made to budget headings within the HNB as illustrated in **Appendix 7-9**.
- Option 2 – the local authority consider an application to the Secretary of State to transfer 0.5% of the Schools Block to the HNB as a contribution toward the budget pressures on the HNB.
- Option 3 – methods for reducing allocations from the 2018-19 HNB by £5.330 million are considered as illustrated in **Appendix 7-9**.

33. The Non-*ISB* reserve will be fully utilised by the end of the current financial year and will not, therefore, be a funding option.

34. Like all other authorities, Nottinghamshire County Council is facing a budget shortfall over the medium term. Over the next three years (to 2020-21) the County Council is predicted to have to find savings totalling £50.1 million. This means that the local authority will not be in a position to fund any overspend on the Dedicated Schools Grant

35. If there isn't significant change in the High Needs environment (including funding allocation from central government) there will be continued pressure on the HNB into 2019-20 and further budget control measures will be needed.

RECOMMENDATION/S

That the Schools Forum:

1. Notes the content of the report
2. Acknowledges that the current financial position of the HNB is unsustainable and needs to be addressed.
3. Considers retaking the vote regarding the 0.5% transfer.
4. Considers the alternatives for funding the HNB shortfall
5. Continues to receive reports from the High Needs review on-going until Summer 2018 as part of the mitigating actions

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