

Appendix 1

ITEM x

Dedicated Schools Grant (DSG) Deficit Management Plan – January 2023

High Needs Working Group – 19th January 2023

Summary and recommendation:

This paper sets out:

The updated position audit on Croydon's DSG (High Needs Block) management plan based on the latest information.

High Needs Working Group are asked to:

Note the progress to date on the Recovery Plan as well as the DfE Safety Valve work with the local authority and its implications.

1. Background

- 1.1** The Department of Education (DfE) has clearly specified that all Local authorities with an overall deficit on its DSG account at the end of the financial year or whose DSG surplus has substantially reduced during the year are expected to co-operate with the DfE in handling that situation as part of the grant condition.
- 1.2** The Secretary of State may also impose specific conditions of grant on individual local authorities that have an overall deficit on their DSG account, where it appears that the local authority is not taking sufficient action to address the situation.
Other grant conditions include:
 - a) Provide information as and when requested by the Department for Education (DfE) about its plans for managing its DSG balance as well as information on pressures and potential savings on its High Needs budget;
 - b) LA is Required to meet with officials from DfE as and when they request to discuss the LA's plans and financial position on its Deficit Management Plan;
 - c) Expected to keep School's Forum updated regularly about the Local Authority's DSG account and plans for managing it, including high needs pressures and potential savings.
- 1.3** This paper aims to update High Needs Working Group, and subsequently Schools Forum and Cabinet (General Purposes & Audit Committee Members) with the Quarter 3 forecast (2022/23) position as part of the grant conditions.
- 1.4** The paper will further provide some useful updates on the High Needs Deficit Recovery Plan on which the LA has been communicating with the DfE Safety Valve Team. This paper will finally highlight some useful context underlying this whole exercise.

2 Context and Trend Analysis – Outturn from 2020/21 – Forecast 2022/23.

2.1 Until recently, the High Needs Block has reported significant overspend. The block for example reported a £6.7m and £5.7m overspend in 2019/20 and 2020/21 respectively with an accumulative deficit of £27.9m at the end of 2021/22 prior to the DfE post year-end adjustments. The final outturn variance for 2021/22 was £3.47m representing a significant improvement over the last three years. Chart 1 below provides some trend analysis

Chart 1 - Trend analysis – In year overspend and cumulative position

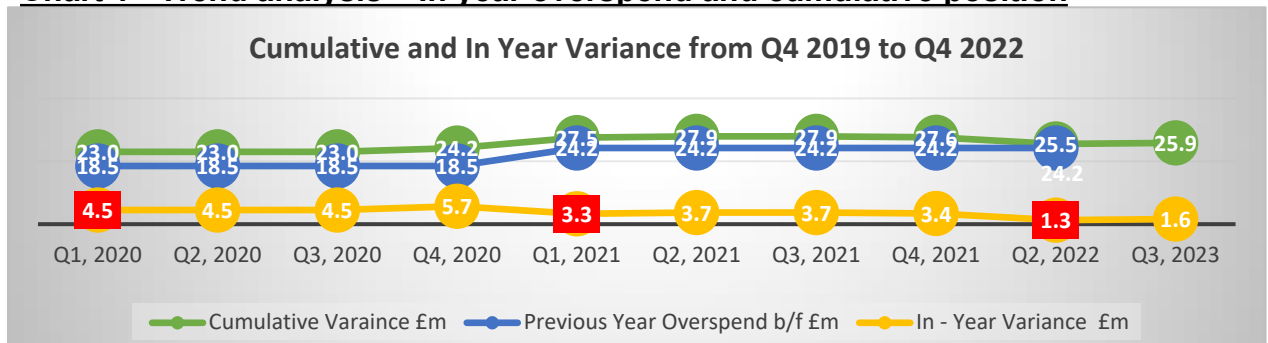


Table 1 Trend of High Needs variance over the four years and nine months.

High Needs Overspend	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	£'m	£'m	£'m	£'m
Financial Year 2019/20	6.7	6.6	7.1	6.7
Financial Year 2020/21	4.4	4.6	4.6	5.7
Financial Year 2021/22	3.5	3.6	4.1	3.47
Financial Year 2022/23	1.3	1.3	1.6	1.6

3 Position Audit - Croydon DSG Management plan

3.1 The current in-year High Needs overspend forecast as of December 2022 (Period 9) is £1.65m. The current position shows that the deficit recovery plans are robust and delivering some tangible savings as shown in table 1 above and table 2 below.

Table 2. Trend Analysis- Plan Vs Actual over the years

Performance Measurement	2019-20 £,000	2020-21 £,000	2021-22 £,000	Forecast 2022-23 £,000
Deficit Recovery Plan - Projections	5,635	4,472	4,105	1,285
Actual Outturn	5,434	5,744	3,468	1,695
Deviation from target	-201	1,272*	-637	410

The £1.2m deviation from the plan in 2020/21 was due unexpected historical funding in dispute which was resolved that year.

3.2 The main reason for the adverse movement is the increasing demands related to complex and severe needs cases as well as FE colleges and Out of Borough placements.

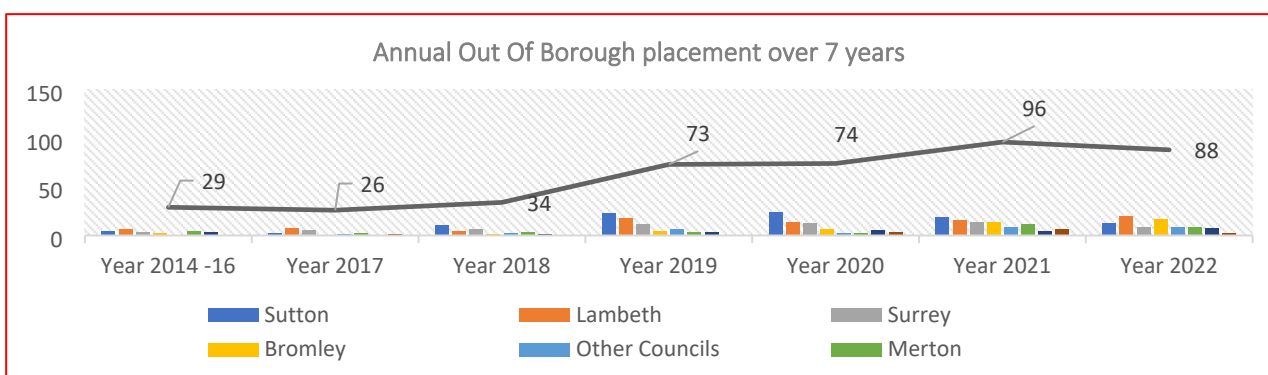
3.3 The local authority has done significant work over the last two years on reducing the reliance on independent and out of Borough placements. They represent high-cost placements compared to local placements and difficult to negotiate top up rates. There is additional SEND transport cost to the Local Authority. Table (1) below represents the most recent (estimated) data provided on Croydon Out Of Borough Placements.

Table 3. Out Of Borough placements over the years

Local Authority	Year 2014 -16	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Total
Sutton	5	3	11	23	24	19	13	98
Lambeth	7	8	5	18	14	16	20	88
Surrey	4	6	7	12	13	14	9	65
Bromley	3	1	2	5	7	14	17	49
Other Councils	1	2	3	7	3	9	9	34
Merton	5	3	4	4	3	12	9	40
Wandsworth	4	1	2	4	6	5	8	30
Southwark		2			4	7	3	16
Total	29	26	34	73	74	96	88	420

- 3.4** The trend below shows that 2021 was the highest peak regarding placement of pupils in other local authorities. There are significant financial risks associated with Out of Borough placements to both the General Fund and the High Needs DSG.

Chart 2. Current Out of Borough placements.



4 Department for Education (DfE)

- 4.1** The Department for Education (DfE) recently introduced an additional intervention project called the 'safety valve' (SV) programme. This initiative is designed to assist local authorities with the very highest percentage of cumulative DSG deficits on their balance sheet. The rationale is to inject cash in a form of both capital and revenue to fund the provision of more school places for children with special educational needs and disabilities (SEND) as well as clear the agreed historical deficits. This intervention will be implemented once the local authority reaches an agreement with the DfE.
- 4.2** The local authority has meet all the DfE requirement needed for the consideration for the cash intervention to extinguish the historical DSG deficit of approximately £27.6m. Table 2 below shows a five-year strategic forecast of the overall DSG deficit. This table is an extract from the approved plan submitted to the DfE late 2022.

Table 4 Overview of Croydon Deficit Recovery Plan

Metrics	Baseline	Target 31.3.23	Target ** 31.3.24	Target 31.3.25	Target 31.3.26	Target 31.3.27
HNB DSG Allocation - 5%/3%	-73.28	-82.29	-86.41	-89.00	-91.67	-94.42
HNB spend	76.75	83.58	87.39	89.72	91.66	94.40
Totals invest / (Savings)	5.41	1.95	6.79	-2.76	-3.63	-4.66
In year Overspend /(Underspend)	2.77	1.28	0.98	0.72	-0.01	-0.02
Cumulative DSG surplus/deficit	24.50	25.79	26.76	27.49	27.48	27.46
Cumulative DSG - Do Nothing Option	26.78	27.42	29.11	34.43	42.63	52.44

** The recent published indicative allocation for 2023 is higher than £86.41m

5 Management Plan – Work Streams

- 5.1** The local Authority has identified 6 key service strategies / deliverable projects aimed at reducing the overall DSG deficit over a 5 year period and finally bring it in line with grant funding.
- 5.2 Demand Management and High-Cost Placements** - The strategic aim is to reduce the in-year overspend and bring the High Needs spending in line with the DSG grant funding within five years. This will be done through effective demand management at the EHCP assessment stage and using effective resource utilization of commissioned places and type of education provision. (Reducing the need for out of borough independent high-cost places)
- 5.3 Contract Management** - The final strategic objective is cost savings through effective contract management in the provision of therapies aimed at a more sustainable service with positive outcomes and value for money. The Local Authority is in discussions with Schools Forum to support the provision of therapies at all the schools including the mainstream schools in order to motivate them to accept more Special Education Needs pupils through the use of school's block (growth) budget. This will be an excellent strategic fit and a win for all stakeholders.
- 5.4 Update on Assumptions and implications-** It should be noted that the in-year deficit may not be reduced to nil by the end of year 3 due to potential financial risk associated with the overall deficit plan linked to the ESFA / DSG funding methodology. Reference table 2 above.
- whilst the 2022/23 total income reflects confirmed allocations, future High Needs Block allocations have assumed a 5% estimated adjustment for inflation in 2023/24 and 3% thereafter.
 - transfers from the school block not expected in 2023/24
 - Any additional grant from the DfE will be used to fund unexpected rise in complex and severe cases.
- 5.5 Update on Governance** - The SEND Board continue to undertake annual reviews of all the SEND Transformation Strategies to ensure they continue to meet the needs of the Children and Young People as outlined in the Children and Family Act 2014. This may lead to potential operational changes to the strategies and priorities possibly leading to a gap in the expected savings. Quarterly reports will be shared with all stakeholders including Schools Forum, SEND Board, and General Purposes & Audit Committee Members.

5.0 Current identified risks

- Potential impact the DfE SEND review may have on the current strategies
- More than expected number of EHCP cases in future years as forecasting model based on current demographic information hence has limitations in forecasting accurate future data of pupils with EHC plans.
- Likely demand from Special Schools for an increase in top up funding due to increasing needs and cost of services
- Change in the Special schools funding methodology
- Budget management under the locality model and synergy issues with staffing and processes
- Ensuring that pupil (EHCP) data recorded on the systems (Capital One) used in analysing education provision placements are up to date due some manual intervention regarding adding the provision manually due to non-automatic rollover.

5.1 Key Opportunities includes:

- Strong working relationship between the local Authority and Schools forum in all the various Recovery strategies including the recent funds allocated to therapies.
- The DfE recently published the 2023/24 High Needs DSG allocations with additional grants and the introduction of a minimum funding guarantee of 3% over the 2021/22 funding to special schools.
- Croydon could also deploy a DSG disapplication request through the DfE Safety Valve Team to keep the 2023/24 additional grant to offset some of the accumulative deficit. Otherwise, the Local Authority may invest the additional funds in commissioning places in special schools for severe and complex cases to forestall the ever-increasing dependence on Out of Borough and independent placements.

Summary and recommendation:

This paper sets out:

The updated financial and organisational position of Croydon's High Needs Block management plan based on the latest information.

High Needs Working Group is asked to:

Note the progress to date on High Needs Recovery Plan and recent updates regarding discussions with the DfE Safety Valve Team and finally the above potential risks and opportunities

