Report to:	Cabinet Council	**Date of Meeting:**	2 December 2021 20 January 2022
Subject:	High Needs Funding Allocations		
Report of:	Executive Director of Children's Social Care and Education	**Wards Affected:**	(All Wards);
Portfolio:	Cabinet Member - Education		
Is this a Key Decision?	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:

The Sefton High Needs Block - Dedicated Schools Grant (DSG) funding closed with a financial deficit of £8.2m at the end of 2020/21 and it is currently estimated to overspend by more than £1.8m in the current financial year increasing the overall deficit to more than £10m at the end of 2021/22

The Government changed the financial rules regarding the treatment of any financial deficit on the HN (DSG) Block in 2020/21 making it no longer possible for the Council to offset any DSG deficit against Council Reserves and so reducing the financial risk to the Council's current Medium Term Financial Plan. However, the continual increase in demand for High Needs support and the anticipated increase to the deficit on the HN Block over the next few years is still of serious concern as there is no clarity from the Government over how future / accumulated DSG deficits will be resolved.

The current funding model within the council used to support High Needs placements has not been reviewed and placement costs have not been uplifted since 2013/14. The financial forecasts for the 5 in-house Special Schools indicate that they will all face significant financial hardship over the next three years unless the existing funding values are increased. This would lead to Special Schools having to make significant financial savings in spending commitments reducing the number of places they could provide for children with SEND which in turn would mean more reliance in expensive Out of Borough placements for children increasing the cost pressures facing the HN Block further.

Through the current High Needs review, a key feature was to develop a new funding model for HN placements that was transparent, right-sized Special School budgets and provided stability for in-house placements. This new funding model has been produced that addresses the key actions required within the review however the cost of implementing the new funding model would increase the projected HN Block deficit by up to £2m per annum.

Recommendation to Cabinet:

(1) That Cabinet be requested to note the report and refer to Council for approval.

Recommendations to Council: That:

(1) Council note the current / projected High Needs Block DSG deficit position

(2) Council approve the uplift in funding to Special Schools and other SEND Resource Bases in Sefton and the impact that this will have on the forecast deficit on the HN Block in the medium term.

(3) Council approve that a report be provided to February Cabinet by the Director of Children's Social Care and Education on the future high needs funding allocation and the latest advice on funding methodology and the treatment of deficits held by Councils

(4) Council agree that subsequent quarterly reports be provided to cabinet and council as required on the latest position with regards to the high needs budget and the development of further provision within the Borough; and

(5) Council agree that following engagement with the relevant Government Departments that a financial plan be developed to mitigate against the risk exposure currently faced and that this be agreed with the Councils External Auditor.

Reasons for the Recommendation(s):
Ensure the stability of existing / new in-house placements and support for SEND Children
Provide transparency over the level of funding allocated to SEND placements
Reduce requirements to use more expensive Out of Borough placements for SEND Children
Provide clarity on the financial position facing the council and the proposed approach that the council will take in order that members can make informed decisions and the financial sustainability of the council is maintained

Alternative Options Considered and Rejected: (including any Risk Implications)

Retain the status quo and continue to fund placement costs to Special Schools and other SEND Resource Units at existing levels. However, unless funding levels are increased, all Sefton Special Schools will be required to make significant budget savings which will impact on the number of SEN children they can support and mean an increase in Out of Borough placements and higher placement costs.

What will it cost and how will it be financed?

(A) Revenue Costs

The forecast deficit on the DSG High Needs Block is identified in Section 5 paragraph 5.7 of the report. If Council agree to implement new High Needs funding model for Special Schools and SEN Resource units in 2022/23 this will increase the in-year deficit by approximately £2m p.a. This additional cost could potentially be phased in and managed by using some of the Special Schools projected surplus balances with agreement from the Schools Governing Bodies.

The Department for Education has provide clarification regarding the treatment of the ring-fenced status of the DSG", The regulations have been changed to ensure councils do not use general funds to pay off cumulative dedicated schools grant (DSG) overspends to prevent any impact in investment in other Council services. However, the DfE has not stated how the growing HN debt nationally is to be addressed and so this still presents a risk to Councils and will be closely monitored and reported through appropriate channels

(B) Capital Costs

These are not known at this time however, any adaptations or increases in SEND provision will be funded from SEND capital Grant funding

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): All implications are detailed in the report
Legal Implications:
Equality Implications: There are no equality implications
Climate Emergency Implications: The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y

Contribution to the Council's Core Purpose:

Protect the most vulnerable: allows a Sefton wide focus on educational support of children with SEND.
Facilitate confident and resilient communities: Proposals allow greater localised control and focus on the SEND requirements of the borough of Sefton in the review and delivery of SEND Specialist Education Placements and Support Services.
Commission, broker and provide core services: Proposals strength the role of Strategic

SEN Commissioning at a Sefton borough level and encourages greater collaboration with in-house SEND Settings for better outcomes for children.
Place – leadership and influencer: proposals set out the road map for greater local control of SEN demand / provision by the Council.
Drivers of change and reform: Proposals allow for a Sefton wide focus on educational inequalities in provision for children with SEND
Facilitate sustainable economic prosperity. Proposals allow for a broader financial focus on the borough of Sefton for education SEN support
Greater income for social investment: Proposals allow for a broader financial focus on the borough of Sefton for education SEN support
Cleaner Greener; creation of more in-house SEN provision should reduce SEN children's transport journeys.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD.6571/21) and the Chief Legal and Democratic Officer (LD.4773/21) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

Meetings with schools' emails, video conference calls (various interested parties / Government Officers / Regional LA Officers), letters

Implementation Date for the Decision

Following the expiry of the "call-in" period for the Minutes of the Cabinet Meeting

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Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

1. Introduction/Background

1.1 In 2014 the Children and Families Act introduced a new approach to meeting the needs of children and young people with Special Educational Needs, including Education, Health and Care (EHC) Plans replacing Statements of Special Educational Need. The age range that these legal documents covered was extended from a maximum of 19 up to potentially 25 if a young person was still making progress in education.

1.2 The new system increased the prominence of parental preference when looking at school placements for children with EHC Plans with limited exceptions where a Local Authority can refuse to name the parental preference.

1.3 At the same time as this occurring, school budgets have not received the increases in budgets year on year that have been required to maintain the level of provision they were previously able to put in place, reducing their overall ability and confidence in meeting SEN. This has had a resulting impact on parental confidence in mainstream schools being able to meet their children's needs. Where mainstream schools have attempted to support children, they have increasingly done so using 1:1 Teaching Assistants supporting the child full time in their class. This is an expensive approach to meeting needs both for schools and the Local Authority, and national studies have indicated that the use of 1:1 Teaching Assistants does not always achieve the best outcomes for children in all situations.

1.4 This position has been reflected nationally and locally in a growth in requests for EHC Assessments to determine whether an EHC Plan is required for a child, and an increase in requests for specialist provision for children who have an EHC Plan. When Local Authorities attempt to use exceptions to name a placement other than parental preference parents have the right of appeal to the SEN Tribunal. Current figures for the SEN Tribunal indicate that 95% of Tribunal decisions are made in favour of the parental appeal.

1.5 With this background and context in mind, Sefton has seen a year on year increase in the number of pupils with EHC Plans, the numbers in specialist provision and the numbers being placed in expensive independent provision, either due to lack of capacity of places in Sefton maintained schools or due to parental preference. These increases in demand have had a significant impact on the High Needs Budgets for Sefton, reflecting the same picture nationally.

1.6 Sefton's High Needs Block overspent last year (2020/21) by £2.815m taking the Deficit Balance brought forward on High Needs to a level of £8.249m. This was due mainly to growing expenditure against SEN Support top up awards to mainstream schools across Pre and Post 16and the cost of sending Children and Young People with SEND to expensive out of Borough Specialist School placements. These areas are, and continue to be, the focus of the High Needs review.

1.7 To reduce costs restrictions were put in place on Top Up funding awards during 2020/21, and again in this current year, so that only the pupils in transition years were to be funded afresh, or reviewed, and existing funding payments for the other year groups were just to be rolled forwards at the same levels for a period of time, initially - to July 2021; and again from July now to December 2021 to allow time for any new mainstream Banded funding structure to evolve, and be rolled out. This direction precluded any new requests for additional Top Up funding, unless by reason of a pupil moving towards or having an assessment for an EHC Plan. This has kept costs down over the last 12 months and made the funding process less onerous for schools and the SEND team.

1.8 Through the Sefton Schools Forum, Officers also requested for Schools to offer some contribution from their funding Block towards High Needs budget pressures for the last three years (including 2021/22) to help suppress the level of overspending in each year.

1.9 Early Years similarly made contributions to High Needs from their funding Block up until 2020/21, when the management of the SEN Inclusion fund transferred to Early Years from High Needs in 2021/22 and is being funded from Early Years funding.

1.10 Over the last 3 years there has been a general underspending against the SEN Support Teams charged against High Needs. This has, annually, contributed up to £0.500m saving due to post vacancies. Essential changes to Complex and Sensory Needs and Inclusion services are underway this year as part of the Education Excellence restructure. Although these will be cost neutral it will inevitably reduce any saving available to contribute to HN cost pressures as new posts are filled.

1.11 The Year on Year funding for High Needs from 2020/21 to 2021/22 saw the second-year increase of the Governments 3-year funding programme of a net £3.936m. However, this increase included the former Teachers Pay and Pensions Grant for Special schools and Alternative Provision settings of £0.649m, which is ring-fenced to schools, leaving funding growth of just £3.287m for High Needs spending. In 2021/22 the Schools Forum agreed to a smaller supplementary contribution to High Needs, of £0.430m from the Schools Block (£0.824m in 2020/21) and with the retention of Early Years funding in 2021/22 of £0.200m to manage the SEN Inclusion Fund, the net year on year funding increase to High Needs was £3.342m.

1.12 There was no contribution from Early Years Block in 2021/22, due to the creation of a SEN Inclusion Fund within the Early Years Block which transferred SEND demand for Early Years settings over from High Needs Block to Early Years Block.

1.13 High Needs spending is reported to Schools Forum regularly, and the key pressure areas are highlighted to Forum Members, in particular, around Top up mainstream costs and Special Schools funding and of course Independent out of Borough special schools, where numbers and costs have increased significantly, largely due, in part, to a lack of in-house provision, and also increased parental demand through judicial process.

2 Forecast outturn position for High Needs 2021/22

2.1 Despite the additional Government funding to support HN pressures in 2021/22, it remains significantly below the level of forecast spending. The forecast for 2021/22 includes additional in-house places that have been created and agreed across Resourced Provision and Special Schools from this September to meet new demand, but this has saved on more costly Out of Borough placements across external provision

2.2 Sefton is forecasting an overspend of between £1.8m (current forecast) and £2.3m this year. This level of overspending may be less than 2020/21 (£2.8m) and is a move in the right direction, but funding is still not enough to keep up with demand- led spending especially as the current overspend only includes the partial costs of new placements from September.

2.3 The table below shows the current spend pressures against the High Needs Block by key service area for 2021/22 (August 2021).

High Needs Expenditure areas	Forecast 2021/22 + Deficit/ (-) Underspend
Primary Mainstream School Top Ups	0.190m
Primary Resourced Unit Top Ups	0.073m
Secondary Mainstream School Top Ups	0.303m
Residential Placements – Independent settings	0.322m
Special provision - Non-Maintained Special Day Schools Out of Borough	0.865m
Maintained Special School Places and Top Ups	0.392m
Post 16 (19-24) Top Up costs	0.239m
Outreach	-0.108m
High Needs SEN Support Teams	-0.580m
Mid-Year change to HN Funding for increases to IMPORT/EXPORT numbers	0.186m
Other net variations	-0.092m
Total Forecast Overspending 2020/21	**1.790m**

Brought forward HN DSG Deficit	**8.249m**
Forecast C/FWD HN Deficit to 2022/23	**10.039m**

3 Indicative High Needs 2022/23

3.1 2022/23 is the final year (year 3) of the Government's promised funding increase, and some indicative figures have been provided to Local Authorities in July 2021. These are subject to deductions made for Non-Maintained school funding by the Education Skills Funding Agency (ESFA), and after assuming a similar adjustment would be made as for 2021/22, the comparable year on year figures show an increase in funding of £3.280m. However, no contribution from Schools Block will be expected in 2022/23 and so this increase would be netted down by the loss of this funding stream by £0.430m to a net increase of £2.85m.

3.2 The total High Needs funding for Sefton in 2022/23 is expected to be around £38.506m after adjustments for a top slice of funding by the ESFA towards places at Independent schools and colleges and non-Maintained schools. This figure is inclusive of Teachers Pay and Employers pension costs from previous years relating to Maintained Special Schools and Alternative Provision settings, which were first embedded into the High Needs baseline in the current year 2020/21 at the same value of £0.649m. This funding is ring-fenced to Special schools and AP, leaving a balance of £37.857m to support all High Needs commitments in 2022/23.

3.3 Future funding increases for High Needs beyond 2022/23 are still not known. The Government is currently conducting a national High Needs review, which will look at spending and whether the funding mechanism needs to change to reflect current need, rather than contain historic factors. It was hoped that the outcome of the review would be released earlier this year but to date nothing has been published. The High Needs Block funding levels for 2022/23 will be confirmed in late December 2021 when the Department for Education release the Dedicated Schools Grant allocations to Local Authorities for 2022/23.

4 Change in Treatment of Dedicated Schools Grant (DSG) Deficits

4.1 Following the consultation on "Clarifying the Specific Grant and Ringfenced Status of the Dedicated Schools Grant" in January 2020, the DfE made a significant change to the School Finance Regulations and DSG conditions of grant, relating to the way that DSG deficits are to be treated from 2020/21.

4.2 Prior to this change, if there was a DSG deficit at the end of the financial year, Schools Forums have had to approve the carrying forward of such a deficit to future years schools' budgets. If such approval was not forthcoming, the default position was that the deficit fell to the local authority's general fund, unless specific authorisation from the Secretary of State for Education was granted.

4.3 DSG deficits have become much more significant over the last few years because of pressures on the high needs block. In the DfE's consultation they noted that "at the end of 2018/19, about half of all authorities experienced an overspend, amounting to £250m in all". 'Half of all authorities' amounts to around 75, implying an average deficit in these authorities of over £3m. "The national net position was an overspend of £40m and authorities were forecasting that there would be a net overspend of £230m at the end of 2019-20." Likewise in its recent submission to the Comprehensive Spending Review the Local Government Association stated that '•We are pleased that the DfE has recognised the challenges that councils are facing in delivering SEND support, with the allocation of an additional £780 million for high needs budgets in 2022/23, but it is vital that the Spending Review provides councils with long-term sufficiency of, and certainty over, funding to support children with SEND, including a commitment to write off councils' existing High Needs Block deficits which we estimate to be worth around £600 million'

4.4 Given the legislative position described in 4.2 above, not surprisingly, this led some local authority Chief Finance Officers to conclude that if their DSG account was in deficit, they would need to be able to cover the deficit from the authority's general reserves. It is understood that a similar view was held by organisations that audit local authority accounts. Given the size of some authorities' DSG deficits there was a risk that covering DSG deficits from general funds may have led authorities to make significant spending reductions in other services that they would not otherwise have made.

4.5 In the above context, the DfE changed the legislative position such that "a DSG deficit must be carried forward to be dealt with from future DSG income, unless the Secretary of State authorises the Local Authority not to do this". The DfE was clear that the new arrangements would begin to operate from budget setting for the financial year 2020/21 and so would therefore affect any deficits held at the end of 2019/20.

4.6 In effect, then, the DfE have reversed the longstanding position formerly in place. This reflects the unprecedented pressure on DSG, created by a combination of the DfE's legislation in recent years in relation to high needs, the DfE's ring-fencing of DSG blocks and demographic pressures impacting upon high needs.

4.7 If councils are unable to pay off their cumulative DSG deficits "within a reasonable time" they must agree a recovery plan which could have conditions attached including "management change" or requiring SEND budget sign-off from DfE.

4.8 The new approach is causing unease within several councils. LGC has learned the government's new approach has led to some representative organisations considering taking legal advice on the issue. The Society of County Treasurers said that, as the new arrangements do not clarify how cumulative DSG overspends will be paid off, it leaves councils waiting for an "unspecified development" such as extra funding to pay off the debt. In a statement, it added: "Section 151 officers across the country are going to have to make individual judgements about how they respond and it will then be interesting to see how external auditors interpret such practice as to most it may look like wishful thinking or, at best, a case of imprudent financial practice."

4.9 Several external auditor companies have also expressed concern that councils with significant DSG overspends and relatively low usable reserves will be uncomfortable with the government's approach. "There is no statutory undertaking to underwrite this deficit. In that scenario, both 151 officers and auditors would be concerned about the council's financial position overall. It would be more helpful if the department stated that, if the [DSG] goes to deficit, then the Government is going to underwrite it. The new approach of removing School Forums' ability to veto deficits being carried over to future years effectively makes the DfE "arbiters" of arrangements of how cumulative deficits are going to be paid off, with councils having no control over school spending

4.10 However continual increase in demand / pressure on SEND services nationally means that more and more Local Authorities are now reporting significant deficits against their DSG HN Block funding and so is a financial risk to the Government that needs to be addressed.

4.11 The DfE has set up the 'Safety Valve Project' which has been working in collaboration with several Local Authorities, who have been reporting significant deficits balances against their DSG funding. Councils who have signed up to the "safety Valve Project" have access to additional Government funding to support and to underwrite accumulated deficits against DSG funding and also help with the implementation of action plans to address HN Block spending deficits going forward.

4.12 Sefton formally wrote to the DfE to request being included in the 'Safety Valve' project for help with the current High Needs deficit. Officers met with representatives from the ESFA to seek support from the Government in underwriting the accumulated deficit within the High Needs Block. However, in the meeting the ESFA stated that Sefton could not be included in the 'safety valve' project as our deficit is not significant enough to be part of the project.

4.13 The ESFA stated that Sefton is only to be included in the 'intervention programme' (as are all LA's with a deficit) under which the ESFA will provide support and challenge but offers no funding support. There is an expectation that the Council will work towards setting an in-year balanced HN budget for 2022/23 and produce an action plan to reduce the accumulated deficit

5 Future SEN Demand

5.1 Officers within the SEND Team have been reviewing the current / future demand from children in Sefton requiring SEND support and whether there are any gaps in provision and how the Local Authority can provide support in the most cost-effective way. A refreshed Graduated Approach guidance document has been produced and shared with schools to promote and support the level of SEN Support expected before a child should require an EHC Plan. The Local Authority has also engaged with one of the DfE's partner services, Whole School SEND, to roll out training to mainstream school leaderships teams – 'Every Leader a Leader of SEND' to again emphasise the importance of mainstream inclusion and the roles schools have to play in this.

5.2 As part of the High Needs Funding Review, the funding structure available to mainstream schools has also been reviewed, to ensure appropriate high needs funding is available to schools, whilst also balancing the budgetary aspects. A new banding system will allocate specific amounts for a child against the level of assessed need for them, ensuring certainty for schools and the Local Authority as to the amount of funding a child will receive. The new system will also time-limit the length of additional funding available to children without an EHC Plan, recognising that long term high levels of need would require an EHC Plan, and serving to focus the interventions put into place for a child over that period of time for the maximum impact.

5.3 Schools are also being encouraged to consider and request group funding applications, looking at provision suitable for cohorts of children, rather than each child individually. This will enable schools to plan more creatively and meet children's needs more appropriately in mainstream with less reliance on 1:1 teaching assistants (although this will remain an option for schools when they feel this is the appropriate method of providing for a child). This approach is also anticipated to produce savings for schools and the Local Authority.

5.4 However, despite this and other ongoing efforts, over the next five years it is anticipated that the number of children with EHC PLAN's requiring additional specialist support will increase by at least 194. Most of the additionality is required within the secondary sector where current provision is very limited compared to primary sector provision. However, increases in primary sector support are also required. A breakdown of net increase in numbers by need is as follows:

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Special Schools					
Secondary ASD	20 (Year 7)	20 (Year 8)	20 (Year 9)	20 (Year 10)	20 (Year 11)
SEMH KS1 &2	24	12			
SEMH KS3 & 4 (including 20 places moved from IMPACT)	6 (Year 7) 20 from IMPACT	6 (Year 8)	6 (Year 9)	6 (Year 10)	6 (Year 11)
Resourced Bases					
Hudson ASD	8				

Freshfield ASD	8				
Redgate SLD	8				
Secondary ASD	20				

5.5 There is currently not enough capacity in-house to accommodate the forecast increases in numbers and so it is imperative that the Local Authority creates the appropriate additional and cost-effective provision through the SEN capital programme. This must also include ensuring mainstream schools are equipped and encouraged to meet needs where possible, whilst maintaining high standards for all pupils.

5.6 There are currently 126 children accessing Independent 'Out of Borough' SEND Placements at a cost of more than £6m, however over the next five years 87 of the current cohort of children would naturally leave their current placements. The cost of these placements is more than £4.3m and so there is the potential for some savings from this situation if the Local Authority can place future demand in-house rather than in Out of Borough Placements. This would help mitigate some of the forecast increase demand costs over this time-period.

5.7 The Local Authority is investigating several options with a range of schools to increase capacity within Sefton. Projects being investigated include two special schools working with the Local Authority to open a bespoke sixth form provision which would enable young people to undertake skills training, internships and apprenticeships with local businesses; developing a provision within a secondary academy to support young people with ASD; working with secondary academies to identify additional Resource Base provision for the children coming through primary schools; adapting buildings in several schools to provide accommodation enabling pupils to remain in mainstream schools; moving the complimentary education service to more appropriate provision and expanding their remit; working with Social Care to develop a 38 week provision in borough.

5.8 The following table provides an overview of the accumulated financial deficit position of the High Needs Block since 2017/18 and future forecast deficit projection. The forecast deficit position assumes that funding increases from 2023/24 at the same rate as 2022/23 and also assumes any future increased demand for SEN places is provided either, through additional in-house Special School provision or the redesignation of some internal School Resource Units so they are able to accommodate more challenging children and reduce the pressure for Special School places

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	Aug 2021/22 £'000	F'Cast 2022/23 £'000	F'Cast 2023/24 £'000	F'Cast 2024/25 £'000
HN Expenditure								
Increase in spend compared to previous year / forecast demand	***1,390***	***1,485***	***3,002***	***2,101***	***2,317***	***3,429***	***2,400***	***2,400***
Total HN Expenditure	**28,541**	**30,026**	**33,028**	**35,129**	**37,446**	**40,875**	**43,275**	**45,675**
NET ESFA Funding - (9% uplift assumed from 2022/23)	26,062	26,448	27,278	31,290	34,577	37,857	41,264	44,978
Special/AP Teachers Pay & Pensions funding	0	0	0	0	649	649	649	649
Schools Block Funding Contribution	0	450	795	824	430	0	0	0
Early Years Block Contribution	0	200	200	200	0	0	0	0
Other grants e. 6th Form Grant (integrated with HN funding from 2020/21)	650	650	264	0	0	0	0	0
Total HN Funding Allocation	**26,712**	**27,748**	**28,537**	**32,314**	**35,656**	**38,506**	**41,913**	**45,627**
In-Year (Surplus) / Deficit	1,829	2,278	4,491	2,815	1,790	2,369	1,362	48
Transfer of Early Years Balances			-2,700					
Balance Bfwd from Previous Year	-464	1,365	3,643	5,434	8,249	10,039	12,408	13,770
Accumulative (Surplus) / Deficit	1,365	3,643	5,434	8,249	10,039	12,408	13,770	13,818

5.9 Based upon these projections there is the potential for a break-even situation to be achieved in the budget by 2024/25. This is dependent however, on the Local Authority being able to create the required specialist placements within the maintained sector in the timeframes required and providing the appropriate level of funding to those schools to enable them to deliver the levels of support required, with appropriately qualified staffing, facilities and therapeutic support. If the Local Authority is to be able to reduce independent placements it must have placements available that provide the appropriate support, and so either influence parental preference to choose maintained provision instead, or be of sufficient levels to withstand the challenge of tribunal appeals and be able to evidence an ability to meet a child's needs as equally as the independent provision. If this is achieved, whilst there will still be a low level of children requiring independent provision due to complexity of need, this should reduce the levels of independent placements significantly.

5.10 One of the key elements of this factor is not just the funding for places to be agreed but also the availability of sites to house the provision required. Current special school buildings where additional spaces will be required are already at maximum physical capacity, with limited options for build expansion. New/repurposed sites will be required to enable satellite provision to be created for these settings. This will require capital funding to enable this to take place. If this cannot be done or sites cannot be made available there is a significant risk to this work being successful and the budget reaching a break-even position. It is envisaged there may need to be an ‘invest to save’ approach required to enable build/refit projects to take place to create the budget savings in the longer term.

5.11 The accumulated DSG deficit is a major financial concern to the Council and as such, will be reported to the external auditor and annual reports will come back to cabinet and council tracking progress

6 High Needs Funding Formula Review

6.1 The funding mechanism for High Needs funding to Special Schools, Resource Units and AP settings was last reviewed back in 2012/13. Since that time, both Place and Top-up funding has remained relatively constant although settings have seen annual uplifts in pay and price increases. Demand for places has grown exponentially across the Borough, especially since 2018/19 when demand started to exceed supply of local places, leading to many children having to be placed in expensive out of Borough Independent or Non-maintained Special Schools.

6.2 External Special provision can be extremely expensive, and the costs can make a big impact on High Needs overspending, and once committed to, are difficult to reduce, as numbers move from year to year and new entrants are added. Average annual costs of a placement in an Independent special school are £46,000 pa compared to a Sefton Special School at £22,500 pa

6.3 Sefton’s Special schools cater for a range of special needs and disabilities with all children having an Education Health and Care Plan and ideally would be the preferred path for placing Sefton Children requiring specialist education provision. As the number of EHC PLANs increases the plan should be to grow the internal Sefton Maintained SEND provision, whilst reducing the need for external placements, with the increased costs of one, being offset by the reducing costs of the other

6.4 Although many of our Special Schools are taking in extra pupils above their agreed number capacity is an issue at some in-house provision who are now finding it hard to be able to accept more pupils on request and so this is leading to independent special schools being selected as an alternative.

6.5 Growing in-house provision is dependent on several factors, not least the physical ability of local schools to accommodate extra places The expansion of in-house SEND provision is an issue that is being addressed through SEN Capital investment programme, however the amount of capital funding provided from the Government is not that great and only minor changes in school settings can be brokered through this programme.

6.6 The geography of the Borough and its Special Schools can also cause issues, not just for attendance, but for the extra costs of home to school transport, which is always under pressure as a Council budget and so any expansion programme of SEN provision has to be carefully managed.

6.7 The current financial forecast for Sefton's Maintained Special Schools indicates that, although all 5 Special schools are currently in a surplus position, as at 31 March 2021, balances are likely to quickly deteriorate over the next 2 to 3 years with all schools being in a deficit budget position unless a revised funding mechanism is in place. The table below provides an anonymised financial forecast for all 5 schools (as at August 2021), however individual school forecasts may have changed due to changes in placements / student needs etc for the new academic year.

	School A	School B	School C	School D	School E
Balances B'fwd 2020/21	£321,398	£246,389	£713,554	£415,958	£937,389
Est. Balances 31/03/2022	£114,238	£101,206	£345,648	£151,485	£693,314
Est. Balances 31/03/2023	-£204,999	-£1,289	£154,440	-£108,318	£235,258
Est. Balances 31/03/2024	-£659,919	-£194,626	-£132,323	-£513,039	-£477,806

6.8 As part of the High Needs review programme, the current High Needs Formula Funding Model has been reviewed to make it fit for purpose going forward, provide transparency over the level of funding provided for each placement and provide financial stability for schools going forward.

6.9 Thus new funding model would address the projected deficit position facing all Sefton Special Schools and right size their school budgets and provide stability of placements for existing/future SEND placements.

6.10 The cost of implementing the proposed new High Needs Formula model will approximately add an additional £1.8m of cost pressure over a 2-year period. This would be over and above the existing estimated in-year deficit pressure highlighted above in paragraph 5.7. However, it would right-size the Sefton Special Schools budgets and ensure they did not fall into a deficit position. It should also ensure that the schools are able to meet the needs of the children in their placements successfully, with appropriate staffing levels and provision able to be provided for the children.

6.11 It was felt that no new funding model could be introduced while Special Schools currently held such high balances (£2.6m end of 2020/21), with one school alone holding just under £1m in balances. The additional financial cost of the new funding model could be phased in and managed by using some of the Special Schools projected surplus balances to offset part of the initial pressure on the HN budget in the first two years of implementation. This would help lessen the impact on increased High Needs spending, whilst also ensuring the financial stability of Special Schools budgets over the next three to four years. The table below provides an overview of the revised financial deficit position facing the HN Block if this was agreed:

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	Aug 2021/22 £'000	F'Cast 2022/23 £'000	F'Cast 2023/24 £'000	F'Cast 2024/25 £'000
Accumulative (Surplus) / Deficit	1,365	3,643	5,434	8,249	10,039	12,408	13,770	13,818
Additional cost of implementation of New HN Funding Model - 1st April 2022						1,686	1,916	1,916
Contribution from Special School balances to support implementation						-780	-280	0
Revised (Surplus) / Deficit						13,314	15,406	15,734

6.12 If this approach was approved by Council Members, then this would need to be discussed, and accepted, with schools once an agreed mechanism was put out to a consultation process.

6.13 This would also allow time for the planned development of new places to increase in-house SEND provision over the next couple of years to meet forecast demand, and thereby help to reduce reliance on expensive out of Borough placements.

6.14 If the Council continues to apply the current funding model rather than the revised funding model then 3 special schools will have exhausted all balances by 31/3/2023 and all schools will be forced to reduce current spending commitments to balance in-year budget deficits in future years.

6.15 Any reduction in staffing levels in Special Schools will inevitably affect the existing number of In-House placements in Sefton schools and again increase the reliance on more expensive placements in Out of Borough provision leading to higher overspending against High Needs Budgets.

7.0 Financial Context and Implications

7.1 This report outlines the significant financial issues facing the council in relation to its High Needs Budget and DSG. From the report there is a consistent and substantial financial gap each year between the resources that are available for this provision and the demand and resulting costs that exists.

7.2 Within the report there is a recommendation to increase the funding to schools that will maintain current provision. This funding is more than that available to the council therefore it further increases the risk exposure that the council will face.

7.3 The report details that currently the Department for Education is clear that councils general fund resources should not be used to fund the DSG, however it is unclear as to how deficits that continue to grow in both Sefton and nationally should be funded. As a result of this, this deficit represents a significant issue for the future financial sustainability of the council.

7.4 The financial forecasts within the report outline a position that assumes further annual increases in budget like previous years and the provision of more places within Sefton that will reduce the cost of out of Borough placements. Similarly the report also outlines that it is hoped that these future resource allocations and indeed details of potential revised methodology for funding and changes to the High Needs regime including how deficits will be treated will be forthcoming via the comprehensive spending review and wider local government settlement in the last quarter of 2021.

7.5 In addressing this issue within the council , in the first instance it is proposed that the February Cabinet meeting will receive a report from the Executive Director of Children's Social Care and Education on the future funding allocation and overall approach to High Needs that central government will take forward and what that will mean for the estimates and approach contained within this report. Likewise, if no changes are proposed, the council will need to understand what that will mean for this budget and risk going forward. Following that it is proposed that each quarter a report will be presented to Cabinet by the Executive Director for Children's Social Care and Education that will provide updates on provision of the service, financial implications including assessment of progress against these latest estimates and also details of the propose investment plan to develop more provision within Sefton that will reduce risk and cost and is central to the financial assumptions in this paper.

7.6 Whilst this work will be positive in managing the councils exposure moving forward, in the event that central government does not provide advice on how deficits will be met that removes the risk to the Council, it is recommended that the Council will need to start to develop a financial plan for how any deficit will be met should this need to be funded. The Councils current general fund or earmarked reserves would not provide the ability to fund this size of deficit and for the financial sustainability of the council, it cannot increase as is currently the case in perpetuity. This long-term plan would be included in future budget planning and engagement with the External Auditor will be required to ensure that the approach is robust and provides the required assurance that the council has a plan in place.

7.7 As stated, whilst central government guidance is that the general fund should not be used to fund this deficit, the council cannot accommodate such financial exposure without having a long term remedial plan in place, whilst acknowledging that this will reduce the funding available for core general fund service delivery.