

Options for the DSG / High Needs Block 2017/18 Budget Gap Resolution

1. Under the National Funding Formula (NFF), the High Needs Block (HNB) gains. The Government's damping mechanism reduces this gain, from £16m under an undampened formula, to £8.2m.
2. Even with this £8.2m gain, the High Needs Block is under resourced (over spent). This is a problem the Schools Forum has understood for some time, but this under resourcing (over spending) needs fixing now.
3. For 2017/18, the size of the under resourcing (over spending) is £7.02m. Officers conclude that we must solve this problem now because, even where we solve the 2017/18 budget position – and even with the dampened gain in the NFF - there will be a deficit in the High Needs Block in future years. Our initial modelling shows that we can take a range of specific actions to offset the cost of the projected growth in the number of high needs places and other pressures. On top of these actions however, we will need to take a further currently unspecified £1.85m of projected spend out of the HNB each year from April 2018 – and we will still have a cumulative deficit of £320,000 by 2022/23.

	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast
DSG HNB In Year Income Change	-£0.08	£2.79	£2.24	£0.20	£0.20
Net Pressure Brought Forward from previous year	-£0.50	-£2.31	£1.01	£1.84	£0.33
DSG Expenditure Change In Year	-£1.94	£0.33	-£1.50	-£1.81	-£1.81
Impact of Transfer of Schools Block or Early Years Block monies in year	£0.20	£0.20	£0.10	£0.10	£0.10
Sub Total Net Cost Pressure In Year HNB Position	-£2.31	£1.01	£1.84	£0.33	-£1.18
Grand Total Net Cumulative HNB Budget Year End Balance	-£2.31	-£1.31	£0.54	£0.87	-£0.32

We will need to come back to this. For now, we must focus on 2017/18.

4. We have looked at 6 options. Following initial analysis, we have discounted 3 outlying options (options 1, 5 and 6) and we have looked more closely at 3 mid-range options (options 2, 3 and 4). In assessing the options, we are mindful of the need to balance:
 - a. Equity between the elements of the DSG system
 - b. Sustainability in the context of the longer term
 - c. Deliverability – it would not be acceptable to set a DSG budget, which runs too high a risk of failure

A pro and cons analysis of options 2,3 and 4 is shown at the end of this report.

5. The 6 options we have looked at revolve around the central questions of
 - a. The maximum value of savings that can be achieved in the High Needs Block in 2017/18, combined with the minimum amount of additional spend that is needed for the creation of new places.

- b. The maximum value the Forum is minded to put into the High Needs Block in 2017/18 by transferring money from the Schools Block.

6. The 6 options are:

- a. Option 1 - No Schools Block transfer – take the full £7.02m out of the High Needs Block (DISCOUNTED)
- b. Option 2 - Transfer the £2.1m headroom from the Schools to the High Needs Block, taking £4.9m of spending out of the High Needs Block**
- c. Option 3 - Transfer a total of £4.5m from the Schools to the High Needs Block (£2.1m headroom; £2.4m explicit contribution), taking £2.5m of spending out of the High Needs Block**
- d. Option 4 – Transfer a greater sum e.g. £5.6m from the Schools to the High Needs Block (£2.1m headroom; £2.4m explicit contribution; £1.1m further contribution), taking £1.4m of spending out of the High Needs Block**
- e. Option 5 – Transfer the maximum sum possible from the Schools to the High Needs Block (under the worst case scenario MFG model), a total of £6.7m, taking the remaining sum of £0.3m out of spending in the High Needs Block (DISCOUNTED)
- f. Option 6 – Manage the resolution of the High Needs Block under resourcing (over spending) by significant use reserve or borrowing for repayment in future years. (DISCOUNTED)

7. Although option 6 is discounted, under all of these options, the Forum may consider using up to a recommended maximum of £500,000 of the DSG's reserve to reduce the value of transfer or the value of spend to be taken out of the High Needs Block in 2017/18. If we assume this, then the following gaps are present under options 2,3 and 4 (assuming the same value of Schools Block contribution):

- a. Option 2 £4.4m
- b. Option 3 £2.0m
- c. Option 4 £0.9m

8. We have set up the reports for this meeting on the basis of Option 3 because this is the option that we have consistently shown to the Forum over the autumn term and have communicated with schools (including through the consultation). Though the dynamic of this contribution has changed, due to the impact of data change in the October 2016 Census, this option provides for a Schools Block contribution of £4.5m, which is what we have previously set out. Option 3 also is assessed to be the most realistic starting point for consideration.

9. This is said with reference to how the £7.02m pressure within the High Needs Block is created, by:

- a. The cost of the creation of new places in the 2017/18 DSG: £4.355m, of which £2.4m relates to the 1st tranche of SEND places agreed by the Schools Forum and £1.955m relates to SEMH places and the 2nd tranche of SEND places from September 2017.
- b. The remaining net £2.665m created by pressure within existing provisions. 3 key drivers of cost pressure increase are mainstream SEND statements growth (estimated £0.6m) and out of authority / independent placements (estimated £0.9m), which added to the £1.5m overspend against the 2016/17 planned high

needs block budget (largely brought about by additional places in special schools) basically explains the £2.665m.

10. This indicates then that we would need to achieve £2.665m of saving in the High Needs Block, or transfer a sum of this value from the Schools Block, to balance the DSG in 2017/18 without using reserve. With the potential saving options in the High Needs Block listed below, and a £2.1m contribution from the Schools Block under option 2, and use of £0.5m of reserve, we would balance the DSG. However, there would be a much reduced budget for places creation – c. £0.9m, which would not cover the cost of the 1st tranche of places.

11. The table below shows the adjustments to High Needs Block spending that are already included in the calculation of the £7.02m and then further adjustments that have been identified and discussed by officers and are put forward for the Forum’s consideration. The sum of these further adjustments is £922,400.

Adjustments Already Included in Presented Figures	HNB Delegated	HNB Central	Total
A 1.5% reduction in Place-Plus Top up Values	299,000		299,000
A 1.5% reduction in the High Needs Block central budgets		120,000	120,000
A 1.5% reduction in the Mainstream SEN Funding Floor	15,000		15,000
Sub Total of Adjustments Already Made	314,000	120,000	434,000
DSG GAP 2017/18 - AMOUNT OF ADDITIONAL SAVING TO FIND UNDER OPTION 2			4,400,000
DSG GAP 2017/18 - AMOUNT OF ADDITIONAL SAVING TO FIND UNDER OPTION 3			2,000,000
DSG GAP 2017/18 - AMOUNT OF ADDITIONAL SAVING TO FIND UNDER THE EXAMPLE OPTION 4			900,000
Additional Possible Adjustment Options	HNB Delegated	HNB Central	Total
1. Additional 3.5 % reduction to High Needs Block central budgets - 5% in total		360,900	360,900
2. 50% Reduction in the value of the specialist equipment budget to special schools *1	18,750		18,750
3. Full cessation of the specialist equipment budget to special schools	18,750		18,750
4. Further reduction in the value of the Mainstream SEN Funding Floor (lump sum to 75%)	172,000		172,000
5. Reduce the formulaic 50% Range 4D / 50% range 5 funding for non-statemented in AP to 75% / 25%	200,000		200,000
6. Scale back the rate / number of additional HNB funded places created in 2017/18 *2	152,000		152,000
Sub Total of Full Value of Additional Options	561,500	360,900	922,400
GRAND TOTAL OF SAVINGS AS A % OF TOTAL BUDGET	1.6%	4.6%	2.0%
<i>Total of saving (excluding use of reserve)</i>	<i>875,500</i>	<i>480,900</i>	<i>1,356,400</i>
Notes			
*1 This is a 50% reduction on the 2016/17 budget. This budget was reduced in 2016/17 by 50% from £75,000 to £37,500			
*2 The original DSG budget provision already assumes that 90% of new places will be filled. This assumes 2/3rds filled at Sept 17 then 100% from Jan 18			

12. This then illustrates what would happen within the High Needs Block under an example option 4. In order to take further spending out of the High Needs Block in 2017/18, to reduce the value of the Schools Block contribution, we would need to increase the value of adjustments shown in the table above and / or more significantly scale back the creation of additional high needs places.

13. The difference in the value of contribution from the Schools Block under options 3 and 4 is £1.11m. If the Schools Forum takes the view that option 3 is realistic, difficult but palatable, the crux of the discussion is how the remaining £1.11m DSG gap is resolved, with a choice between seeking to achieve further reduction in High Needs Block spending in 2017/18 or by taking a higher value of contribution from the Schools Block.

14. For illustration at this point, the tables below show a fully worked starting example of an option 4, with a further £1.11m contribution from the Schools Block.

DSG 2017/18 - Gap Resolution Under Option 4

1) Adjustments made to get to the £7.02m DSG Gap Figure

	Early Years	Primary Formula	Secondary Formula	Schools Block Central	HNB Delegated	HNB Central	Total
1. Contribution to a matched funded Early Years SEN Inclusion Budget *1	300,000						300,000
2. A 1.5% reduction in Place-Plus Top up Values					299,000		299,000
3. A 1.5% reduction in the Mainstream SEN Funding Floor					15,000		15,000
4. A 1.5% reduction in the High Needs Block central budgets						120,000	120,000
Sub Total of Adjustments Already Within the £7.02m DSG Gap Figure	300,000	0	0	0	314,000	120,000	734,000

2) Possible Adjustments to resolve the £7.02m DSG Gap Figure under Option 4

	Early Years	Primary Formula	Secondary Formula	Schools Block Central	HNB Delegated	HNB Central	Total
5. Transfer of the implicit Schools Block growth to the High Needs Block		1,487,000	657,650				2,144,650
6. Option 3 explicit reduction in pupil-led formula values (the amended NFF 1.5% based model)		1,307,500	1,039,600				2,347,100
7. Additional explicit transfer from the Schools Block (the 2% model) *2		200,150	246,800				446,950
8. Additional explicit transfer from the Schools Block (the 3% model) *2		315,130	350,700				665,830
9. A reduction of 5% in the value of the transferred Education Services Grant				70,057			70,057
10. A further reduction of 5% in the DSG Matched Contribution *3				24,121			24,121
1. Additional 3.5 % reduction to High Needs Block central budgets - 5% in total						360,900	360,900
2. 50% Reduction in the value of the specialist equipment budget to special schools *4					18,750		18,750
3. Full cessation of the specialist equipment budget to special schools					18,750		18,750
4. Further reduction in the value of the Mainstream SEN Funding Floor (lump sum to 75%)					172,000		172,000
5. Reduce the formulaic 50% Range 4D / 50% range 5 funding for non-statemented in AP to 75% / 25%					200,000		200,000
6. Scale back the rate / number of additional HNB funded places created in 2017/18 *5					152,000		152,000
Sub Total of Possible Additional Adjustments under Option 4	0	3,309,780	2,294,750	94,178	561,500	360,900	6,621,108

3) Use of DSG Reserve

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VALUE OF THE DSG GAP THAT HAS BEEN BRIDGED

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GRAND TOTAL OF ADJUSTMENTS (1 + 2)	300,000	3,309,780	2,294,750	94,178	875,500	480,900	
GRAND TOTAL OF ADJUSTMENTS AS A % OF TOTAL BUDGET	0.7%	1.4%	1.4%	3.8%	1.6%	4.6%	

Notes

*1 This £300,000 for additional specific Early Years SEND provision (it is an internal topslice to fund Early Years retained expenditure)

*2 The figures here show the additional saving on the previous model e.g. the 2% model shows the additional saving from the 1.5% model

*3 This reduction would be on top of the already agreed reduction of £836,000; this additional saving would not be transferred into delegated budgets

*4 This is a 50% reduction on the 2016/17 budget. This budget was reduced in 2016/17 by 50% from £75,000 to £37,500

*5 The original DSG budget provision already assumes that 90% of new places will be filled. This assumes 2/3rds filled at Sept 17 then 100% from Jan 18; 1/3rd at Sept 17 = + £321k

Option	Why considered	Pro	Con
2. Transfer £2.1m (implicit) from the Schools to the High Needs Block, taking £4.9m from the High Needs Block	Does not need a reduction in formula values - schools are allocated what our current formula says they are entitled to	Justifiable for Schools Block Uplifts the starting value of the HNB under NFF (helps with 2018-2023 HNB affordability)	Reduction of £4.9m from the High Needs Block is not deliverable in one year Will not allow high needs places creation The HNB may be of insufficient value in 2017/18 to meet costs already in existence
3. Transfer £4.5m from the Schools to the High Needs Block, taking £2.5m from the High Needs Block	As option 2 above, plus a reduction in the formula values akin to the 1.5% reduction discussed at previous Forum, but now reflecting the NFF	A better than previously modelled and communicated explicit contribution from the Schools Block Further uplifts the starting value of the HNB under NFF (helps with 2018-2023 HNB affordability)	Still leaves a very challenging gap for the High Needs Block in 2017/18 (£2.5m) and then under NFF from April 2018 Places creation likely to be scaled back in 2017/18 or postponed (which simply pushes the cost into 2018/19 but does not resolve the affordability problem) Results in a more challenging financial settlement for primary & secondary schools in 2017/18 than under above options Reduces the Schools Block NFF starting baseline (3% protection) more than under the above options
4. Transfer £5.6m from the Schools to the High Needs Block, taking £1.4m from the High Needs Block	As above, but takes a further £1.1m out of the Schools Block to reduce the level of change in High Needs Block Operates on the basis of implementing a range of proportionate actions across the Schools and High Needs Blocks, and across delegated and centrally managed activities	Recognises what can be securely delivered in one year from the High Needs Block Enables the creation of new high needs places in 2017/18 Individual mainstream schools remain protected by the MFG Secures the removal of	Results in a more challenging financial settlement for primary & secondary schools in 2017/18 than under above options Reduces the Schools Block NFF starting baseline (3% protection) more than under the above options

		<p>the aggregate overallocation of the DSG of £2.5m</p> <p>Protects the saving options that have been identified for potentially supporting the 2018-2023 HNB affordability</p> <p>Uplifts the starting value of the HNB under NFF (helps with 2018-2023 HNB affordability)</p>	
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