Meeting date:	12th October 2023
Report to:	Solihull School Forum
Subject/report title:	DSG Management Plan 2023-24
Report in name of:	Assistant Director for Education and Learning
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Schools affected:

☒ All Primary | ☒ All Secondary

Type of Report	For Forum to express view to the Local authority
Forum Voting	Whole of Forum
Public/private report:	Public

1. Executive Summary

1.1 This report explains that as a DBV authority with a significant and rising HNB deficit, the government requires Solihull to develop a DSG Management Plan that sets out the Council's plan to deal with an overspending high needs block. The report details the components of what a plan must include, and the consequences of not achieving a balanced budget.

1.2 The report also details the financial implications of the first draft plan that has been developed, together with the actions the council are considering to be built into the plan.

2. Decision(s) recommended:

2.1 Solihull school Forum is invited to express their views on the contents of this report and the mitigations under consideration.

2.2 School Forum are also asked for their initial views on what other mitigations might contribute to getting the high needs budget to match annual income and then to reduce the cumulative deficit.

3. Matters for Consideration

3.1 **Appendix 1** sets out government requirements for local authorities with a high needs deficit.

3.1.1 Solihull was a first-tranche local authority in the first wave of the DBV programme from September 2022. The first phase of that process culminated in the approval of a plan to mitigate high needs block spending pressures and the payment of a £1.0m grant to support implementation of the agreed actions.

3.1.2 However, at a headline level the mitigations do not fully deal with the current and projected deficit. The DBV process estimates that annual expenditure will exceed grant by £19.1m by 2026-27 leading to an accumulated deficit of £81.5m without any action, and, even after mitigations, an annual overspend of £16.8m and an accumulated deficit of £72.7m.

3.1.3 The HNB overspent by £3.89m in 2022-23 giving an accumulated deficit of £16.36m at the end of 2022/23. This is currently forecast to rise by a further £2.5m to £19.9m by the end of 2023-24.

3.1.4 The draft management plan shows that the latest modelling of demography in the management plan shows an unmitigated in-year deficit of £5.9m, with a cumulative deficit of £35.6m by 2026-27. The mitigated position shows a 2026-27 position of in-year deficit £3.9m and a cumulative deficit of £31.7m. This is before any potential schools block transfer.

3.1.5 A note on the draft management plan is given in Appendix 2.

3.1.6 The latest modelling of demography with DBV and additional mitigations shows a 2026-27 position of in-year deficit £3.9m and a cumulative deficit of £31.7m.

3.1.7 The first draft of the management plan continues to be a work in progress, but the detailed modelling highlights 3 key features:

(a) The time lags for actions to translate into reduced need to spend mean that current mitigations are insufficient within the short term.

(b) The Council faces pressures for supply of places that we cannot resist in the short term – particularly in respect of Alternative Provision and demand for specialist SEN places, even where we now think the demography will change over longer time periods.

(c) To support these pressures, whilst we consider cases for further mitigations, a schools block transfer of 0.5% to 2.0% would make a significant impact on the in-year and cumulative deficits until the mitigations begin to impact, as shown in the Options Table of the Management Plan. Specifically, the funding would be used to fund additional alternative provision programmes and current levels of demand for specialist places until the financial impact of the new ASD special schools impacts on independent placements.

3.1.8 Appendix 1 also describes the nature of the DSG deficit over-ride, which expires 31 March 2026. At this point, the accumulated deficit will have a major impact on the finances of the entire Council. For closure of accounts at the end of 2023-24 CIPFA are recommending explicit disclosure of any deficit in the whole-Council accounts.

3.1.9 From 2023-24 Solihull is required to have a DSG Management Plan (Appendix 1 section 1.4). Solihull has a HNB Recovery plan that was prepared from 2019-20, for

Members, and School Forum, but this is superseded by these government requirements.

3.2 The DSG Management Plan will include:

(a) Recent out-turn financial data for the last 4 years.

(b) Forecast position 2023-24 and annually to 2029-30 showing unmitigated and mitigated forecasts.

(c) Estimates of the numbers of pupils driving the financial position (historic and forecast, mitigated and unmitigated).

(d) Local authority commentary (See Appendix 2)

(e) Narrative on placements in each type of specialist provision

(f) Narrative on inclusive practice

3.3 The mitigations to deal with current and accumulated deficit:

3.3.1 The DBV mitigations involve:

(a) Supporting children's goals and aspirations without an EHCP from Mainstream schools.

(b) Supporting children's goals and aspirations in Mainstream Provision instead of Maintained Special Schools.

3.3.2 This is to be achieved by a programme of action focussing on supporting school inclusivity and removing barriers to inclusion.

3.4 However, the DBV programme does not fully address the annual or accumulated deficit, so further mitigations are required.

3.5 The management plan must consider both forecast additional costs and potential for mitigating savings.

3.5.1 Draft plan includes further mitigations:

(a) Remodelling demographic forecasts – focusing on areas of growth of demand, and quantifying expected reduced level of EHCPs from a reducing population.

(b) Demographic review to include scope to increase impact of DBV mitigations, e.g. even greater impact in reduction of use of (out of borough) special schools.

(c) Costing impact by using a standard model of average cost for each type of provisions (to be updated annually)

(d) Reducing expenditure in HNB by £500,000 per year in areas other than pupil top-ups.

(e) Consideration of a transfer of funding from the schools block of the DSG to the high needs block to fund current demand for alternative provision and specialist places in special schools.

(f) A 2nd special free school - taking as a start point the unsuccessful recent 2nd free school bid. That bid forecast savings to the DSG to peak at circa £4m once full capacity is reached, which would be 5 years after opening. Up to then savings range from £798,000 after the first year to £2.4m after 3 years and to £4m after 5 years. The borrowing costs would be a pressure on the general fund but would need to be included in the above overall pressures summary to achieve this range of savings for the DSG. The precise nature of the school to have regard to latest demographic modelling.

(g) Additional pressures for alternative provision, but at this stage with no mitigating action for cost reduction. Further supply side of alternative provision – e.g. establishment of primary PRU provision, establishment of Year 11 programme, pupils without a school place programme.

4. Implications and Considerations

4.1 Impact on schools:

4.1.1 There will be a positive impact on schools – increasing inclusivity without necessarily increasing costs. There will also be positive impacts in improved support services and additional AP and specialist provisions.

4.1.2 However, a schools block top-slice would have an adverse impact on school funding, and at higher levels may have a negative impact on the proposals to reduce need to seek EHCPs and for less reliance on specialist provision.

4.2 Consultation and Scrutiny:

4.2.1 The DBV programme has been communicated and consulted on widely with stakeholders.

4.2.2 Outcomes of revised demographic modelling will be communicated widely to stakeholder groups.

4.2.3 Other areas such as a new special school and a schools block transfer have statutory requirement regarding consultation.

4.3 Financial implications:

4.3.1 The DSG Management Plan must set out a credible plan to firstly establish a balanced annual spend of the high needs block, and then set out how the accumulated deficit will be dealt with. The first draft sets out the current pressures and mitigations but does not achieve the required goal of balancing annual spend with grant.

4.4 Legal implications:

4.4.1 Deployment of resources must still ensure responsibilities under the Childrens Act 2014 are properly discharged and must also ensure legal requirements on Councils to effectively manage their finances are met.

4.5 Risk implications, including risk appetite:

4.5.1 Risks concerning high needs spending are on the Council Risk Register.

4.6 Equality implications:

4.6.1 Major policy changes will require an equalities impact assessment. The mitigations proposed in the plan do not imply an adverse impact on pupils receiving high needs block funding.

5. List of appendices referred to:

5.1 Appendix 1 - Government requirements for local authorities with a high needs block deficit (from the DfE Schools operational guide 2024-25).

5.2 Appendix 2 – Briefing note on the draft DSG Management Plan.

5.3 Appendix 3 – Draft DSG Management Plan.

6. Background papers used to compile this report:

6.1 DBV grant bid January 2023

Appendix 1

Government requirements for local authorities with a high needs block deficit

Source – [Schools operational guide: 2024 to 2025 - GOV.UK (www.gov.uk)]

7. Government Programmes

7.1.1 The Government are now running 3 programmes with the aim of securing sustainable management of local authorities' high needs systems. There are now 34 local authorities with safety valve agreements and a further 55 local authorities are engaged with the department through the Delivering Better Value in Special Educational Needs and Disabilities (DBV in SEND) programme. The continuing Education and Skills Funding Agency (ESFA) support programme will offer support to local authorities which are not part of these programmes, tailored to their financial position. These programmes share an aim to support local authorities to manage their high needs funding sustainably and in the best interests of children and young people.

7.1.2 Solihull was a first-tranche local authority in the first wave of the DBV programme from September 2022. The first phase of that process culminated in the approval of a plan to mitigate high needs block spending pressures and the payment of a £1.0m grant to support the agreed actions.

7.1.3 However, at the headline level the mitigations do not fully deal with the current and projected deficit, which the DBV process estimates that annual expenditure will rise to £58.7m by 2026-27 leading to an accumulated deficit of £81.5m without any action, and after mitigations, a deficit of £78.3m.

7.2 DSG deficits and high needs exceptional funding

7.2.1 Following consultation in 2019, the Government amended the school finance regulations, to give statutory backing to a new process for handling DSG deficits.

7.2.2 In terms of looking at the overall position on DSG, a local authority must now:

(a) carry all the deficit forward to set against the schools budget in the next financial year; or

(b) carry part of the deficit forward to set against the schools budget in the next financial year and carry the rest of it forward to the following financial year; or

(c) not set any of the deficit against the schools budget in the next financial year but carry all the deficit forward to the following financial year.

7.2.3 These provisions are being repeated in each set of school finance regulations so that part or all of the deficit can be carried forward further a year at a time, to be dealt with through DSG that will be received in future years.

7.2.4 If the local authority sets any part of the deficit against the schools budget for the next financial year, it must plan to eliminate that part of the deficit through funding from the DSG that it will receive during that financial year.

7.2.5 If the local authority carries any part of the deficit forward to the following financial year, that means it is not planning to eliminate that part of the deficit from DSG received in the next financial year but will need to eliminate it from DSG received in future years.

7.3 DSG Deficit over-ride

7.3.1 The government has amended local government accounting rules so that, on a temporary basis, DSG deficits are treated in a special way for accounting purposes (this is different to the treatment for the purposes of the school finance regulations).

7.3.2 The Department for Levelling Up, Housing and Communities (DLUHC) has amended The Local Authorities Capital Finance and Accounting (England) Regulations 2003 to provide that for the financial years beginning on 1 April 2020 **and ending on 31 March 2026**, any DSG deficit at the end of a financial year must not be charged to a general fund but must be charged to a separate fund established and used solely for the purpose of recognising deficits in respect of the schools budget. This has the effect of separating any deficits from a local authority's general fund.

7.3.3 Any additional DSG deficit at the end of 2021 to 2022 and subsequent years must be added to this separate fund and DLUHC have now extended the operation of these regulations up **to the end of financial year 2025 to 2026**.

7.3.4 These regulations alter the position on handling DSG reserves for those authorities who had a DSG deficit at the end of 2020 to 2021 or have an in-year DSG deficit in any subsequent year up to 2025 to 2026. The DLUHC regulations set statutory rules for how a DSG deficit is to be calculated each year and that the whole of it must be put in an unusable reserve. The calculation covers the whole of the DSG and where the overall outcome is a deficit, it is not possible to hold separate reserves with surpluses in them for sub-blocks of the DSG.

7.3.5 The government, and specifically DfE advisors to Solihull in respect of Solihull's deficit, have made clear that current policy is that the over-ride will not be extended after 31 March 2026. This means that accumulated DSG deficits will fully count against local authorities general balances and will therefore have a major impact on the financial standing of any council in this situation. The clear signal from the government is that local authorities must have robust plans to not only deal with an annual revenue budget but also to deal with any accumulated deficit to the extent the Council's overall financial position is viable.

7.3.6 Councils are required by law to have balanced budgets. If the council is deemed "unsustainable" by the chief finance officer, as a last resort a section 114 order can be issued, which bans all new expenditure, except for safeguarding vulnerable people and statutory services.

7.3.7 Once the section 114 order is in place, councils then have a 21-day breathing period, during which all current services continue as normal. Within that time, the council must produce an alternative budget. This could involve extensive redundancies, selling off council assets, or renegotiating contracts and making reductions in services. If the council still cannot make the budget balance, external auditors will try to find a viable budget. At this point, central government will get more heavily involved.

7.4 DSG management plans

7.4.1 Many local authorities have been incurring a deficit on their overall DSG account, largely because of overspends on the high needs block.

7.4.2 Starting in 2020 to 2021, the DfE extended the rules under the DSG conditions of grant to state that any local authority with an overall deficit on its DSG account at the end of the previous financial year, or whose DSG surplus has substantially reduced during the year, must cooperate with the department in handling that situation by:

(a) Providing information as and when requested by the department about its plans for managing its DSG account in the 2023 to 2024 financial year and subsequently.

(b) Providing information as and when requested by the department about pressures and potential savings on its high needs budget.

(c) Meeting with officials of the department as and when they request to discuss the local authority's plans and financial situation.

(d) Keeping the schools forum updated regularly about the local authority's DSG account and plans for managing it, including high needs pressures and potential savings.

7.5 DSG management plans should be discussed with the schools forum on a regular basis and should set out the local authority's plans for bringing the DSG spend back into balance.

7.6 The Government expects the DSG management plan to be co-produced. Relevant leads in the finance and SEN areas should sign off each version, (with sign off to be at least at assistant director level).

7.7 Where a local authority has a substantial in-year overspend or cumulative DSG deficit balance at the end of the financial year, its management plan should look to bring the overall DSG account into balance within a timely period.

7.8 In all cases, the Government expects local authorities' management plans to focus on how they will bring in-year spending in line with in-year resources and address whatever the main causes of overspending on the DSG have been.

7.9 The Government expects a range of evidence to support local authority management plans. The department will continue to review the management plan process and has provided a template DSG deficit management plan for local authorities to use. The department expects all evidence to have been presented to schools forums.

7.10 The evidence should include:

(a) A full breakdown of specific budget pressures locally that have led to the local authority's current DSG position. Where this has resulted from high needs pressures, information should include the changes in demand for special provision over the last 3 years, how the local authority has met that demand by commissioning places in different sectors (mainstream and special schools, further education (FE) and sixth form colleges, independent specialist provision and alternative provision) and if there have been any reductions in the provision for mainstream school pupils with high needs.

(b) An assessment and understanding of the specific local factors that have caused an increase in high needs costs to a level that has exceeded the local authority’s high needs funding allocations; and a plan to change the pattern of provision where this is necessary, as well as to achieve greater efficiency and better value for money in other ways; together with evidence of the extent to which the plan is supported by schools and other stakeholders.

(c) Evidence of how the local authority intends to bring its DSG account back into balance within a timely period, clearly showing clearly how expenditure will be contained within future funding levels.

(d) Details of any previous movements between blocks and any proposed block movements. A detailed explanation of why these have not been sufficient in the past and why they will be needed going forward to meet the local authority’s high needs pressures is required.

Appendix 2

DSG Management Plan V1 October 2023 Briefing Note

Officers have now completed a first iteration of a formal DSG Management Plan as required by the government for Solihull Local Authority to demonstrate how we intend to firstly, ensure annual spend on high needs does not exceed the annual grant awarded by the government, and secondly, how we intend to deal with the accumulated deficit.

The first iteration of the plan builds on the work undertaken during last year under the Delivering Better Value (DBV) programme that culminated in a successful grant application of £1.0m to deliver the mitigations identified from the research and analysis work undertaken with the DfE and Newton Consulting.

Crucially, the plan incorporates the DBV mitigations into a fundamental re-working of demographic and trend projections based on the latest national data set of January 2023 SEND census. The methodology fully accords with DfE recommended practice. Further details on the demographic modelling are given below.

The plan also incorporates additional mitigations to constrain in-year levels of high needs spend.

a. The original DBV analysis showed an unmitigated position, by end of 2026-27 of an annual HNB overspend of £19.12m, with an accumulated deficit of £81.45m.

b. The original DBV mitigated forecast for the end of 2026-27 was to reduce the forecast in-year deficit to £16.80m with a cumulative deficit to £72.68m.

c. Officers updated this in May 2023 with 2022-23 actual out-turn and actual 2023-24 DSG block grant figures, to give a revised forecasts for 2026-27 of in-year deficit of £12.19m with a cumulative deficit forecast of £54.23m.

d. The latest modelling of demography in the management plan shows an unmitigated in-year deficit of £5.9m, with a cumulative deficit of £35.6m.

e. The latest modelling of demography with DBV and additional mitigations shows a 2026-27 position of in-year deficit £3.9m and a cumulative deficit of £31.7m.

The latest modelling suggests positive news that demographic factors should substantially reduce the projected deficits. However the mitigations so far do not bring the recurrent spend into balance by 2026-27, and the removal of the deficit accounting "over-ride" would pose considerable risk to whole-Council financial position.

The management plan will be regularly reviewed and updated, and the assumptions evaluated, and modified.

However, the current outcomes highlight 3 key features:

a. The time lags for actions to translate into reduced need to spend mean that current mitigations are insufficient within the short term.

b. The Council faces pressures for supply of places that we cannot resist in the short term – particularly in respect of Alternative Provision and demand for specialist SEN places, even where we now think the demography will change over longer time periods.

c. To support these pressures, whilst we consider cases for further mitigations, a schools block transfer of 1.0% to 2.0% would clearly make a significant impact on the in-year and cumulative deficits until the mitigations begin to impact, as shown in the Options Table of the Management Plan.

SEND Demographic Summary - Oct 2023

1. **Context**

Solihull is experiencing a changing demographic picture. The changes include significant falling rolls at primary age driven by a falling birth rate. Over the last 5 years the birth rate has fallen by 11% which will impact schools up to and including reception intake in September 2027. However, in the secondary phase there is ongoing pressure with secondary Year 7 intake forecast to peak in September 2027. This is due to significant inward migration into Solihull, particularly in KS2. From September 2028 secondary rolls are forecast to start to fall. The secondary bulge will then move into the post-16 phase causing a growth in the post-16 cohort expected to peak in 2032.

2. **SEND Forecasting**

Nationally, SEND forecasting processes are under development and are too new to have been through a validation process. In June 2023, the DfE published guidance on forecasting the number of pupils with an EHCP. There preferred model is a population-based model that calculates an EHCP rate per national curriculum year that can then be mapped onto future population data. This methodology has been used to create a new forecasting model for Solihull. It is important to note that the DfE model has its limitations. The model has a focus around reception to Year 11 only and not across the 0-25 cohort required for the planning of SEND provision. Solihull's model has been adapted to include the 0-25 age range and has produced forecast for pre-16 age group and the post-16 age group. The model will need to be reviewed considering the learning this year, to check that baseline data around EHCP rates per year have not changed and to validate the outcomes against actual data produced each January. The model will then be reviewed to improve forecasting accuracy.

3. **Modelling outcomes**

Unmitigated forecast – Assumes existing placement trends continue and the only change is demographic.

Mitigated forecast – Applies a set of assumptions to the unmitigated forecast that takes account of strategic changes in placement and new EHCP trends. The Solihull mitigated forecast applies assumptions around the impact of the opening of the Heights Special School on placements outside of the Borough from January 2024 onwards and the roll out of DBV outcomes on mainstream inclusion and the proposed reduction in new EHCPs for forecasts from January 2026 onwards. The current agreed mitigations only apply to the pre-16 cohort, no mitigation has been applied to the post-16 cohort this year.

4. **Findings – Unmitigated forecasts**

- The total number of pre-16 pupils with an EHCP is forecast to peak in Jan 2027 before starting to fall due to the 11% drop in the birth rate.

- Post-16 cohorts are forecast to increase by 27% by 2030. The impact of the increase in post-16 cohorts is that it will mask the decline in the lower age group, suggesting a 7.6% increase between now and the peak in Jan 2028.

- Pre-16 demand for special school places will peak in Jan 2027 with an ongoing reliance on out of Borough placements and on high-cost independent provision which will increase by around 10% on Jan 2023 levels before starting to decline post Jan 27. It is important to note that the unmitigated forecast does not make any assumptions around the impact of the Heights.

- Post 16 demand will see growth across all sectors including specialist post-16 and larger numbers in the post-16 phases in independent special schools up to and beyond 2030.

5. **Potential Impact of mitigation**

- On the overall number of EHCPs mitigation has minimal impact as this reflects a reduction of 8 new EHCPs per year applied to Pre-16 pupils and so brings about an overall 1.7% fall in the number of 0-25 pupils with an EHCP by 2030. However, this mitigation is cumulative so will have an ongoing impact year on year and beyond the forecast period.

- The real impact of the mitigation assumptions is in future placement trends. The key outcome of the DBV project is to support and increase mainstream inclusion. Based on the agreed DBV outputs a 1% shift from special schools to mainstream schools has been applied from January 2026 delivering a year-on-year increase in the number of pupils with an EHCP in mainstream schools by Jan 2030.

- Mitigated forecasts show an increase in demand for LA and academy special schools, as the increase in supply of places (116 places at the Heights catering for pupils with Autism) drives placement trends. At Jan 2023, 54% of independent placements were for pupils with Autism as their primary need. Therefore, forecasts assume a 15% shift between independent special school placements in the first two years of opening of the Heights reducing to a 5% shift for subsequent years as the new school fills. By 2030 this could reduce independent placements by half.

- However, forecasts indicate that the significant growth in post-16 demand is likely to mask the successful impact of pre-16 mitigations.