Agenda Item No: 5a

Dedicated Schools Grant (Safety Valve) and Financial Management

To:	Schools Forum
Meeting Date:	15 July 2022
From:	Director of Resources & Chief Finance Officer Cambridgeshire County Council
Electoral division(s):	All
Outcome:	Schools Forum considers the financial context and consequences of the high needs block deficit and the way forward in the context of the DfE safety valve programme
Recommendation:	Schools Forum is invited to note and comment on this report.

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1. Background

1.1 This report aims to summarise the current financial position arising from the deficit in the high needs block, some of the implications for local financial management and the importance of the opportunity presented by the safety valve process. Mindful of the growth in the deficit to date and the opportunity to address this now presented, I have submitted this report in my capacity as the chief finance officer for the County Council, which includes a statutory role to make arrangements for the proper administration of the financial affairs of the local authority.

1.2 Schools Forum is very familiar with the annually recurrent and carried forward deficit that has arisen in the high needs block of the dedicated schools grant (DSG). The growth in the year-end deficit carried forward at each year end is shown in the final column of the table below:

	EHCPs (as at January Census)		High Needs Budget		High Needs Expenditure		High Needs Deficit	
	Numbers	Annual Growth	£000	Annual growth	£000	Annual growth	In year £000	Accumulated £000
2016/17	3429	7.0%	63,001	1.7%	65,701	3.9%	2,700	113
2017/18	3822	11.5%	65,006	3.2%	69,632	6.0%	4,626	642
2018/19	4198	9.8%	68,360	5.2%	77,196	10.9%	8,836	7,286
2019/20	4690	11.7%	71,041	3.9%	82,619	7.0%	11,578	16,630
2020/21	5327	13.6%	76,627	7.9%	89,163	7.9%	12,536	26,829
2021/22	6100	14.5%	85,327	11.4%	100,178	12.4%	14,851	39,264

This shows that whilst there has been significant growth in the size of the high needs block budget since 2016/17, the growth in expenditure has been even quicker, and therefore the carried forward deficit each year is accumulating at a growing rate.

1.3 The accumulated deficit as at 31 March 2022 was £39.3m and is projected to exceed £50m by 31 March 2023. Based on the current trajectory the deficit would exceed £100m by 2027-28. There is widespread consensus that this is not a sustainable or acceptable financial position

2. Current handling of the deficit

2.1 Since the mid-2000s, dedicated schools grant has been provided on a ringfenced basis. This means that the grant can only lawfully be expended for the purposes set out in the regulations, such as schools and settings delegated budgets, and for high needs and early years provision. In 2020, as the national picture with overspending in the high needs block continued to worsen, further Regulations[1] were made which created a ringfence in the other direction, prohibiting Councils from contributing general funds to the deficits and effectively requiring local authorities to ringfence the deficit and hold this as a negative reserve.

2.2 This accounting treatment and statutory regime is unlike other areas of local government

[1] The Local Authorities (Capital Finance & Accounting) (England) (Amendment) Regulations 2020.

finance. In its general fund budget, the Council is not permitted to set an unbalanced budget and must take statutory action to avoid exhausting its reserves where this is at risk. Schools Forum will be aware of high-profile examples nationally and locally where Councils have needed to follow the statutory process due to financial resilience failures and the implications for national intervention and service delivery that follow.

2.3 The Regulations permitting a ringfenced deficit were made by the Department for Levelling Up, Housing and Communities (rather than DfE) and expire in March 2023. There is uncertainty as to whether they will be extended, given that they are anomalous compared to the wider local government finance regime, which brings into to sharp focus the risk of the local area carrying a large and growing deficit and how this would need to be treated in that event. In other words, without renewal of the Regulations, or collectively addressing the deficit through DfE's safety valve process, the local area faces finding £50m to pay off the accumulated deficit, alongside addressing the recurrent overspend each year.

2.4 The above paragraphs explain how the Council has *accounted* for the deficit to date. In *cashflow* terms, the deficit represents funds that have already been expended by the Council to deliver services to children and young people with high needs. Although it is currently unlawful for the Council to account for deficit from its general funds, in effect it has had to use the cash in its general and earmarked reserves, and working capital, to enable the level of expenditure on the high needs block to continue above the budgeted level. There are both actual and opportunity costs from this necessary deployment of cashflow.

3 County Council financial context

3.1 The County Council's annual revenue net budget for 2022-23 is £456.6m. The Council's current policy is to maintain a general unearmarked reserve equivalent to 4% of its budget. Holding this level of reserve is a recent development - prior to setting its budget in February 2022, policy was to hold this balance at 3%. The increase is principally a reflection of the assessment that the risks and uncertainties facing the Council are elevated, chief amongst these are the impacts of the pandemic on expenditure and income, inflationary pressures and the uncertainty relating to the high needs block deficit. In February 2022, Full Council voted a County Council precept increase of 4.99% in total, the maximum allowable, in view of these risks and deploying funds to local services.

3.2 Notwithstanding these steps as part of financial risk management, an adverse scenario for the high needs block deficit would be a very significant financial challenge. It is also evident that DfE anticipate local areas will fully identify and implement savings opportunities inside the DSG (across the blocks) *before* considering other national and local funding sources. This means we need to successfully secure a safety valve deal, and deliver the actions and initiatives required. The alternative is implementation of more difficult and deeper savings measures locally without national support.

3.3 The majority of the Council's revenue expenditure in the general fund is focused on demand led budgets, which, like the high needs block, are relied on by vulnerable people and their families:

- Older People and Adult Social Care (£109.6m revenue budget in 2022-23)
- Learning Disability Partnership (£79.6m)
- Safeguarding Children (£53.3m)
- Home to School Transport (£29.2m)

3.4 All of these budgets have faced growing demand and a constrained funding envelope in recent years. The level of recurrent overspend on the high needs block is pronounced relative to the spending pressures the Council has experienced in those other demand-led budgets. While this is the case in many areas across the country and is reflective of the current national SEND framework, it is also acknowledged that more steps will need to be taken locally to address overspending and bring the position into control. Cross-referencing the other budgets the Council is responsible for also illustrates the risk should the accumulated deficit or part of it revert to the local authority general fund. There would be significant knock-on implications for the funding of these relied on local services in that scenario.

4. Safety valve

4.1 Through the Council's Chief Executive, Executive Director of People Services, Service Director: Education and Chief Finance Officer, the Department for Education has invited the Council to participate in the third round of the safety valve programme. Officials have been clear with the Council, at the outset, that although the challenging national context and Cambridgeshire's low funding base is acknowledged, the focus of the programme and negotiations must be on proactive local steps to bring the deficit under control. Only once Ministers are confident that the local area has a sustainable plan for bringing the annual deficit into in-year balance, will some national funding support for the historic deficit be considered.

4.2 The report submitted to Schools Forum by the Service Director: Education and Head of SEND Services 0-25, at this meeting, outline in more detail the transformation programme, planning and review activity and initiative development that are underway to address these challenges. This is in anticipation of submitting credible and comprehensive plans to the DfE in September and October.

4.3 For the financial year 2022-23, Schools Forum agreed a block transfer from the Schools Block to the High Needs Block of 0.5%. This was strongly welcomed by the local authority and has enabled positive investment in transformative activity in the high needs block, providing a springboard so that we can accelerate engagement with the DfE process. The Council has been informally advised that all of the safety valve deals in the first and second round of the programme have included a recurrent block transfer from schools block to high needs block across the multi-year span of the deals. We understand block transfers at a higher level than currently agreed in Cambridgeshire, for one year, have been permitted on a multi-year basis. Linked to this, in DfE's current consultation on a move to a direct national funding formula, it is proposed to retain the facility to make block transfers, including for multi-year agreements such as the safety valve. This supports the likelihood that this could form a long-term part of the schools funding architecture.

4.4 There is a tight window leading up to mid-September for the preparation and submission of a DSG deficit management plan as part of the safety valve programme. For the reasons set out in this paper, it is imperative for the local funding of high needs services, as well as the Council's wider financial position, that a safety valve deal is reached, national funding is unlocked and progress to a sustainable annual spending position is then continuously delivered. This will require the collective leadership of the Council and Schools Forum, on behalf of the local education system, to commit to and endorse the reforms and decisions necessary in the overall interests of the local area.