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| **Schools Forum 21st March 2019** | Item  |

**SUBJECT: DSG budget monitoring report for January 2019**

**LEAD OFFICER: Marius Karsten-Strydom**, Children, Schools and Families Finance

**RECOMMENDATION**

**That the Forum:**

1. **notes the forecast financial position of the DSG as at January 2019**
2. **Purpose of report and executive summary**

1.1 Detailed analysis of budgets as at the end of January 2019 by departmental budget managers show a number of over and underspends that combine to forecast a net overspend of £4.821m as per the tables below.

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| **Dedicated Schools Grant** | **2018/19****Current Budget** | **Full year Forecast****(as at Jan)** | **Forecast Variance at year-end** |
| **£000** | **£000** | **£000** |
| Delegated expenditure | 130,088 | 129,686 | (402) |
| Retained Items | 21,410 | 26,633 | 5,223 |
| Income | (151,498) | (151,498) | 0 |
| **Total**  | **0** | **4,821** | **4,821** |

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| **Dedicated Schools Grant** | **Schools Block** | **High Needs Block** | **Early Years Block** | **Total all Blocks** |
| **£000** | **£000** | **£000** | **£000** |
| Delegated expenditure | (424) | 89 | (67) | (402) |
| Retained Items | (270) | 5,541 | (48) | 5,223 |
| **Total**  | **(694)** | **5,630** | **(115)** | **4,821** |

* 1. DSG funded services are subject to strict grant conditions and are not used by the Council for any other purposes.
1. **Details**
	1. Significant over and (underspends) identified to the end of January 2019 are detailed in the table below.

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| **Dedicated Schools Grant** | **Schools Block** | **High Needs Block** | **Early Years Block** | **Total all Blocks** |
| **£000** | **£000** | **£000** | **£000** |
| Rate adjustments | (119) |  |  | (119) |
| Bulge class funding | (305) |  |  | (305) |
| SEN statement payments to Merton maintained schools |  | 659 |  | 659 |
| ARP |  | (92) |  | (92) |
| Additional HNB grant |  | (483) |  | (483) |
| Other small over and underspends |  | 5 | (67) | (62) |
| **Delegated expenditure** | **(424)** | **89** | **(67)** | **(402)** |
| Additional SEN provision |  | 783 |  | 783 |
| Independent day school provision |  | 3,635 |  | 3,635 |
| Independent residential school provision |  | (680) |  | (680) |
| FE and post 16 ISP |  | 439 |  | 439 |
| Out of borough maintained school and academy places |  | 888 |  | 888 |
| Alternative education |  | 326 |  | 326 |
| SEN statement payments to Merton academies |  | 192 |  | 192 |
| Early Years support team |  |  | (48) | (48) |
| Parenting cover | (226) |  |  | (226) |
| Other small over and underspends | (44) | (42) |  | (86) |
| **Retained Items** | **(270)** | **5,541** | **(48)** | **5,223** |
| **Total**  | **(694)** | **5,630** | **(115)** | **4,821** |

* 1. School funding is updated for business rate adjustments undertaken by the valuation office during the year. Additional funding is provided for increases and deductions made for reductions. This year we are expecting a net reduction resulting in an estimated underspend of £119k.
	2. Bulge class funding was set aside for possible secondary expansion. We were able to place all children in 2018/19 in existing schools or planned bulge classes which resulted in an underspend of £305k.
	3. SEN EHCP payments to Merton maintained schools are estimated to overspend by £659k. This is based on information available as at January and will fluctuate with changes identified by schools and other Local Authorities towards year-end. Any new EHCPs processed will also affect this estimate.
	4. The ARP budget this year is expected to underspend by £92k. This is mainly because we kept this budget at a higher than required level for 2018/19 as we expected a new ARP coming on line for 2019/20 which would require this budget to be increased again.
	5. Due to national lobbying to central government for additional high needs block funding, additional grant of £483k was awarded for 2018/19 and 2019/20.
	6. The additional SEN provision budget is expected to overspend by £783k. This includes cost for one to one support as a result of more requests being received for additional support due to the complexity of cases; additional therapy costs such as SALT and OT charged from independent and out of borough placements as well as cost for home tutors.
	7. The independent day school provision is estimated to overspend by £3.635m. The number of students placed in this type of provision has steadily increased over the past few years as detailed in the table below.

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|  | **Expenditure****£000** | **Pupil Numbers** |
| **12/13** | £2,372 | 69 |
| **13/14** | £2,826 | 84 |
| **14/15** | £3,634 | 97 |
| **15/16** | £4,100 | 116 |
| **16/17** | £4,720 | 124 |
| **17/18** | £6,040 | 140 |
| **18/19** | £8,600 | 202 |

* 1. The independent residential school provision is estimated to underspend by £680k. This is as a result of substantial efforts to keep this cost as low as possible as this is the most expensive provision for the borough.
	2. Further Education and post 16 Independent Specialist Provision is forecast to overspend by £439k due to the increased number of students in this cohort. This is linked to the legislation changes requiring local authorities to fund the education of SEND pupils up to the age of 25 whilst the grant to fund this cohort has not been increased.
	3. Out of borough maintained school and academy placements are expected to overspend by £888k. The number of places funded out of borough has increased due to the increased number of EHCPs Merton had to support.
	4. The cost of alternative education is expected to overspend by £326k in the current financial year. The number of places funded has increased in line with the number of EHCPs in Merton.
	5. SEN statement/EHC plan payments to Merton academies is estimated to overspend by £19k. Any new EHCPs processed will affect this estimate. These costs have increased as academies also take proportionately more pupils from Merton’s rising EHCP population.
	6. The Early Years support budgets are expected to underspend by £48k in the current financial year. This is due to keeping vacant posts where possible to ensure we spend within the 5% cap on the overall Early Years block we have for 2018/19 and to support the overall pressure on the DSG.
	7. The parenting cover budget is expected to underspend by £226k at the end of January. This is the first time in quite a few years that this budget has underspent due to the unpredictable nature of these expenses.
	8. There are various other small over and underspends predicted across the DSG totalling £148k underspend. This, combined with the items described above, equals the reported overspend forecast of £4.821m.
1. **Future pressure**
2. The overall cost for SEN has increased significantly over the past three years as a result of increased numbers of pupils being supported. The table below details the impact of the increase (Jan 19 figures not finalised yet but will be added for the June report).



1. Merton has moved £600k from the schools block to the high needs block for 2019/20 to provide support for this increase. This represents 0.49% of the maximum allowable 0.5% above which ESFA approval is required.
2. Merton has not requested a higher amount to be transferred as schools are also struggling. This was evident in the number of schools requesting to set deficit budgets for 2018/19.
3. Dependant on the final outturn figure, the current year deficit will move the DSG reserves into a negative position. Due to the size of the deficit Merton will be required to submit a deficit recovery plan to the ESFA. This report will be shared with Schools Forum.
4. There are already some councils in this position and the directors of Children, Schools and Families as well as Corporate Services both continue to work with their professional counterparts to lobby nationally for government to address the pressures.
5. We have also been working closely with other south west London authorities to identify value for money practice and joint commissioning initiatives aimed at reducing costs.
6. **Financial, resource and property implications**

4.1 The financial implications are detailed in the main body of this report.

1. **Legal and statutory implications**
	1. No legal implications at this stage.
2. **Human rights, equalities and community cohesion implications**
	1. None at this stage.
3. **Appendices**
	1. None

1. **Background Papers – the following documents have been relied on in drawing up this report but do not form part of the report:**
	1. Centrally held financial information and other papers held by the Children Schools and Families Finance Team.
2. **Report author**

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Further information about Merton Council can be obtained from its web site [www.merton.gov.uk](http://www.merton.gov.uk)