

SUBJECT: DSG outturn report for the year ended March 2019**LEAD OFFICER: Marius Karsten-Strydom, Children, Schools and Families Finance****RECOMMENDATION****That the Forum:**

- a) notes the outturn position of the Dedicated School Grant (DSG) as at 31st March 2019, and
- b) except for the underspend in the Attain budget, agree to use the underspends in the other blocks to reduce the overspend in the High Needs Block resulting in a net deficit of £2,908,962 held in reserves as detailed in Appendix 1

1. Purpose of report and executive summary

- 1.1 At the end of March 2019 the DSG budgets showed a number of over and underspends that combine to result in a net overspend of £3.523m as detailed in the tables below.

| | 2018/19 Final Budget | 2018/19 Mar Outturn | 2018/19 Outturn Variance |
|--------------------------------|-------------------------------------|------------------------------------|---|
| Dedicated Schools Grant | £000 | £000 | £000 |
| Delegated expenditure | 124,507 | 123,348 | (1,159) |
| Retained Items | 21,410 | 26,092 | 4,682 |
| Grant Income | (145,603) | (145,603) | 0 |
| Use of Reserves | (314) | (314) | 0 |
| Total | 0 | 3,523 | 3,523 |

| Dedicated Schools Grant | Schools Block | Central Schools Services Block | High Needs Block | Early Years Block | Total all Blocks |
|--------------------------------|--------------------------|---|---------------------------------|----------------------------------|-----------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Delegated expenditure | (430) | - | (37) | (692) | (1,159) |
| Retained Items | (269) | (32) | 4,996 | (13) | 4,682 |
| Total | (699) | (32) | 4,959 | (705) | 3,523 |

- 1.2 DSG funded services are subject to strict grant conditions and are not used by the Council for any other purposes.

2. Details

- 2.1 Merton's Schools, Central Schools Services, and Early Years blocks underspent during 2018/19 while the High Needs Block overspent. Some of these underspends were as a result of management action to reduce the overall overspend expected in the DSG as a whole.
- 2.2 The main reason for the overspend in the HNB is increased numbers of Education Health and Care Plans (EHCPs) over the past couple of years which have not been met with corresponding increases in grant funding. This has resulted in the HNB overspend becoming progressively larger.
- 2.3 In the past, Merton was able to put plans in place to fund smaller levels of increases. The sheer volume of increase in recent years has just been too large for the borough to cover due to the limited availability of local maintained provision and the time it takes to increase this through expansion and new build.
- 2.4 In the three years from January 2013 to January 2016, the total number of statements and EHCPs increased from 888 to 1,075 (increase of 187 cases, 21%). In the three years from January 2016 to January 2019, the total number of statements and EHCPs increased from 1,075 to 1,712 (increase of 637 cases, 59%). The table below details the impact of the increase on the various types of provision over the past four years.

| Type of provision | Jan 2016 Total Statements and EHCPs | | Jan 2017 Total Statements and EHCPs | | Jan 2018 Total Statements and EHCPs | | Jan 2019 Total Statements and EHCPs | |
|---|-------------------------------------|-------------|-------------------------------------|-------------|-------------------------------------|-------------|-------------------------------------|-------------|
| | No | % | No | % | No | % | No | % |
| Early Years (inc. Private & Voluntary Settings) | 0 | 0% | 1 | 0% | 7 | 0% | 7 | 0% |
| Mainstream School (inc. Academies) | 422 | 39% | 461 | 37% | 526 | 35% | 584 | 34% |
| Additional Resourced Provision | 110 | 10% | 111 | 9% | 116 | 8% | 125 | 7% |
| State Funded Special School | 358 | 33% | 388 | 31% | 416 | 27% | 440 | 26% |
| Independent Schools | 132 | 12% | 153 | 12% | 176 | 12% | 228 | 13% |
| Post 16 College and traineeships | 25 | 2% | 93 | 7% | 183 | 12% | 212 | 12% |
| Post 16 Specialist | 10 | 1% | 25 | 2% | 44 | 3% | 37 | 2% |
| Alternative Educative | 15 | 1% | 10 | 1% | 22 | 1% | 28 | 2% |
| No placement (including NEET) | 3 | 0% | 0 | 0% | 28 | 2% | 51 | 3% |
| Total | 1075 | 100% | 1242 | 100% | 1518 | 100% | 1712 | 100% |

- 2.5 Merton's deficit recovery plan details the reasons for the increase in case load, what Merton has done so far to address the pressures, and plans for further action. The recovery plan will be discussed with the Schools' Forum as a separate report.
- 2.6 The main 2018/19 DSG variances are detailed in the following table with an explanation for each item below the table:

| Dedicated Schools Grant | Schools Block | Central Schools Services Block | High Needs Block | Early Years Block | Total all Blocks |
|---|---------------|--------------------------------|------------------|-------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Rate adjustments | (107) | | | | (107) |
| Growth fund underspend | (305) | | | | (305) |
| SEN statement payments to Merton maintained schools | | | 457 | | 457 |
| ARP | | | (92) | | (92) |
| Special schools | | | 81 | | 81 |
| Additional HN grant allocation | | | (483) | | (483) |
| Early Years 3&4 YO offer | | | | (692) | (692) |
| Other small over and underspends | (18) | | | | (18) |
| Delegated expenditure | (430) | - | (37) | (692) | (1,159) |
| Additional SEN provision | | | 1,426 | | 1,426 |
| Independent day school provision | | | 3,601 | | 3,601 |
| Independent residential school provision | | | (1,046) | | (1,046) |
| Other LA maintained provision | | | 866 | | 866 |
| Post 16 FE and 6 th form colleges and independent special institutions | | | 120 | | 120 |
| Parenting cover | (186) | | | | (186) |
| Attain | (50) | | | | (50) |
| Other small over and underspends | (33) | (32) | 29 | (13) | (49) |
| Retained Items | (269) | (32) | 4,996 | (13) | 4,682 |
| Total | (699) | (32) | 4,959 | (705) | 3,523 |

- 2.7 Business rates are estimated in January each year and allocated to schools through the schools funding formula. Allocations to schools are adjusted during the year for the actual rates and any adjustments made to ensure they have the correct amount of funding to pay the invoices issued. In the current year the difference between the estimate and the final invoices resulted in a £107k underspend (£508k overspend in 2017/18).
- 2.8 The growth fund underspent by £305k. This is mainly due to estimated secondary bulge class funding which was not required during 2018/19 as existing secondary school places were used to place most of the secondary school bulge and only two bulge classes required additional funding.
- 2.9 SEN statement/EHCP payments to maintained schools overspent by £457k during 2018/19 (£364k in 2017/18). This is due to an increase in cost from £3,832k in 2017/18 to £4,289 in 2018/19 as a result of increasing caseloads without sufficient corresponding increase in funding.

- 2.10 The ARP budget this year underspent by £92k (£164k in 2018/19). The ARP budgets have not been reduced as Merton is planning to increase the provision during 2019/20.
- 2.11 The special school budget overspent by £81k. This is because the special schools were funded for seven children more than estimated at budget setting.
- 2.12 Additional grant was awarded by central government to support LAs with HNB pressures during 2018/19. Merton received £483k which was used to reduce the overall overspend of the HNB.
- 2.13 The Early Years Funding Formula underspent by £692k. This includes an estimated grant adjustment of £318k. The final adjustment is expected to be made in July 2019 as a result of to grant calculation methodology. The overall underspend is due to the difference in how payments are made to settings compared to how grant is received from the ESFA. Payments are calculated based on the termly census counts while the government grant is calculated based on 5/12^{ths} and 7/12^{ths} of the January 2018 and January 2019 census counts.
- 2.14 The additional SEN provision budget overspent by £1.426m (£711k in 2017/18). 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 speech and language therapy (SALT) and occupational therapy (OT) charged from independent and out of borough placements as well as cost for home tutors.
- 2.15 The independent day school provision overspent by £3.601m (£1.319m in 2017/18). The number of students placed in this type of provision has steadily increased over the past few years as detailed in the table below.

| | 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 | £6,117 | 149 |
| 18/19 | £8,565 | 210 |

- 2.16 The other local authority maintained provision budget overspent by £866k in 2018/19, (£172k in 2017/18). Due to increased numbers our placement cost in this provision increased from £2,486 to £3,012.
- 2.17 The post 16 FE and 6th form college and Independent Specialist Institutions budget overspent by £120k in 2018/19 (£356k underspend in 2017/18). Costs

increased from £1,704 to £2,180 due an increase in caseloads where young people can now be supported until age 25.

- 2.18 The parenting budget underspent this year by £186k (£71k overspend in 2017/18). This budget is volatile and changes with parenting leave requirements.
- 2.19 The Attain budget underspent by £50k. This will be carried forward as a specific earmarked reserve to enable the partnership to agree how this should be spent in 2019/20.
- 2.20 There are various other small over and underspends across the DSG totalling £67k underspend. This, combined with the items described above, equals the reported overspend of £3.523m.

3. Accumulative reserve position

- 3.1 The table below sets out the movements in Merton's DSG reserve for 2018/19. The detailed DSG reserves at the end of the financial year can be found at appendix 1.

| Description | Amount £000 |
|--|----------------|
| Attain underspend added to reserves | 50 |
| Merton Music Foundation joint funding contribution to deliver the national music plan. | (23) |
| Schools Causing Concern reserve paid to schools in financial difficulty | (181) |
| Use of EY 2YO development reserve for development work | (111) |
| Use of EY 2YO development reserve towards overspend | (372) |
| ASD base/SEN pilot reserve towards overspend | (50) |
| Permanent exclusion reserve towards overspend | (72) |
| Unfunded deficit carried forward | (3,078) |
| 2017/18 reserve usage | (3,837) |

- 3.2 The cost pressure expected in 2019/20 is detailed in the deficit recovery plan as well as how we expect the reserve to change. The figures are based on assumptions as to how caseloads will move in future and that grant contributions will continue on the current methodology.

4. Financial, resource and property implications

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

5. Legal and statutory implications

- 5.1 No legal implications at this stage.

6. Human rights, equalities and community cohesion implications

6.1 None at this stage.

7. Appendices

7.1 Appendix 1: DSG reserves as at 31 March 2019

8. Background Papers – the following documents have been relied on in drawing up this report but do not form part of the report:

8.1 Centrally held financial information and other papers held by the Children Schools and Families Finance Team.

9. Report author

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Further information about Merton Council can be obtained from its web site

www.merton.gov.uk

Appendix 1

Children, Schools and Families Reserves for 2018/19

| Narrative | Responsible Officer | Revenue Cost Code | Opening Balance 2018/19 | in-year | Year-end | | Closing Balance 2018/19 |
|------------------------------------|---------------------|-------------------|-------------------------|-------------------------|-----------------------|-------------------------|-------------------------|
| | | | | Transfers from reserves | Transfers to reserves | Transfers from reserves | |
| ASD Base/SEN Pilots | Karla Finikin | 900002-9739 | 50,000.00 | | | -50,000.00 | 0.00 |
| National Music Plan | Jane McSherry | 900002-9739 | 23,000.00 | -23,000.00 | | | 0.00 |
| Attain | Jane McSherry | 900002-9739 | 119,628.00 | | 49,686.00 | | 169,314.00 |
| Early Years 2 year old development | Allison Jones | 900002-9739 | 482,206.00 | -110,560.00 | | -371,646.00 | 0.00 |
| Additional allocation to SCC | Jane McSherry | 900002-9739 | 180,578.00 | -180,578.00 | | | 0.00 |
| Permanent exclusions funding | Keith Shipman | 900002-9739 | 72,395.00 | | | -72,395.00 | 0.00 |
| Deficit reserve carried forward | Jane McSherry | 900002-9739 | | | | -3,078,276.00 | -3,078,276.00 |
| | | | 927,807.00 | -314,138.00 | 49,686.00 | -3,572,317.00 | -2,908,962.00 |