

READING BOROUGH COUNCIL
REPORT BY THE INTERIM HEAD OF EDUCATION

TO:	Reading Schools Forum		
DATE:	13 July 2017	AGENDA ITEM:	7
TITLE:	DGS expenditure compared with statistical and south east neighbours		
SERVICE:	Education	WARDS:	All
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1. Purpose and summary of the report

- 1.1 This report examines the reported budgeted expenditure for the dedicated schools grant (DSG) for 2016/17, and the grant allocations for 2017/18 (see sheet 2). It does this by comparing the percentage of the budget allocated to early years and schools, plus the high needs block (HNB), which is the responsibility of the local authority (LA).

2. RECOMMENDED ACTION FOR SCHOOLS FORUM

- 2.1 To establish a schools forum working group to examine further the level of expenditure on the high needs block of the dedicated schools grant.
- 2.2 To ask the working group to report back to schools forum proposals for a strategic plan to reduce the structural overspend over time.

3 Policy context

- 3.1 The Council has the strategic aim of establishing Reading as a learning city and a stimulating and rewarding place to live and visit; and to promote equality, social inclusion and a safe and healthy environment for all. Education and the funding of education is a key factor in the achievement of this aim.

4 Background

- 4.1 The DSG funds schools and is ring fenced for school pupil activity. The grant for the current year is £114,500,000, which funds 43,715 pupils, who attend 65 early years providers, 39 primary schools, 10 secondary schools, four special schools and a pupil referral unit.

5 Report

- 5.1 This report is based on the budget available to Reading LA and its schools for the current financial year, 2017/18. The analysis is based on three spreadsheets, as follows:
- sheet 1 - Individual school budgets 2016-17 and central spend from S251, compared with statistical and south east England neighbours (SNs and SE LAs);
 - sheet 2 - dedicated school grant allocations for 2017/18, compared with SNs and SE LAs;
 - sheet 3 - high needs block expenditure, 2016/17 (top 8 sub-blocks only) compared with SNs and SE LAs.
- 5.2 The sub sections below offer a commentary and analysis of the above worksheets.

INDIVIDUAL SCHOOL BUDGETS 2016-17 AND CENTRAL SPEND FROM S251 (SHEET 1)

- 5.3 The table shows that Reading had the lowest pupil numbers in its SN group (11th of 11) and 6th lowest in the south east region (19 LAs). Its 3-19 settings / school population was by far the lowest of its SNs, and 4th lowest in the south east region. In terms of its ranking based on per pupil expenditure:
- by school population, it is 6th in the SN table, making it the median authority, but over 8 per cent over the mean allocation of £3,517, but nine per cent below the SE mean;
 - it is almost the median SN LA, which is also the mean, in terms of central expenditure, but much higher than the mean and median of SE neighbours.
- 5.4 It is useful to set out central expenditure, as schools forum members always show concerns at any comparison that shows this to be 'high' in any way, particularly against comparators. Table one shows all the central costs charged to the DSG in 2016/17. Of the eight lines, two - the growth fund and copyright licences directly support schools (the former by ensuring funds are available for significant pre-16 pupil growth, including new schools set up to meet basic need - maintained or academy - and the latter for buying licences in the most efficient way).
- 5.5 Of the other lines, the admissions contribution supports the LA's co-ordinating function; the catering line is for maintenance and refurbishment work on school kitchens that from 2017-2018 had to be devolved.; the travel line assists with the transport costs of pupils with SEN(D); and the prudential borrowing supports the funding of the interest and repayment of HNB overspending and capital borrowing for school projects.
- 5.6 Combined budgets comprises 116,000 for school improvement functions; 15,000 for SEN Commissioning; £139,000 for the virtual school for LAC; £224,000 for early help Services (CAT Services; and £136,000 for the multi-agency service hub (MASH).

- 5.7 The central costs budget helps to support the council’s statutory mandatory functions that are required to support schools forum and schools more widely. It covers a small percentage of the costs of the chief executive, finance and senior children services officers, and is specifically allowed in the statutory guidance for schools forums.

Growth Fund	966,000
Admissions	211,000
Prudential Borrowing	50,000
Combined Budgets	630,000
Catering	181,000
School Travel (HNB)	100,000
CopyRight Licence	93,000
Central Costs	79,000
Total	2,310,000

- 5.8 In summary, Reading’s central costs are low, and moreover 55 per cent (about £1.25m) of the costs represent resources that are either returned to schools via formula funding, allocations to specific schools or through efficient procurement (growth fund, school meals and copyright licences. Actual authority costs are 45 per cent of the total - just over £1m, or 1.2 per cent of the total ‘central expenditure’ of 2.7 per cent.

READING DSG ALLOCATION 2017-18 BY SUB-BLOCK (SHEET 2)

- 5.9 The schools block in Reading has an allocation of about £84,000,000. This is 73 per cent of the £114,500,000 DSG total. The mean and median percentages of SN and SE comparators are 76 and 77 per cent respectively. It is the lowest allocation of SN LAs and of the 19 SE LAs. In percentage terms, 76 per cent is four per cent higher, and 77 per cent over five per cent higher. Between four and over five per cent is a significantly greater allocation, and the main reason for this - higher than average early years and HNB expenditure - is set out in detail below in paragraphs 5.10 and 5.11
- 5.10 The early years block is allocated, in round terms, £12,500,000. This is 11 per cent of the DSG - the highest percentage expenditure of all statistical and south east neighbours. It is 2 percentage points - 24 per cent - higher than the mean for former group, and 32 per cent higher than the latter.
- 5.11 The high needs block is allocated just over £18,000,000. This is the third highest allocation in terms of the percentage of the total DSG amongst the SN group, and seventh equal of the 19 south east LAs. It is six percent above the mean for the SN group, and five percent higher than the SE group.

5.12 However, the HNB is also overspending. The table below, reproduced from the table under paragraph 5.6 of the schools forum DSG outturn report (May 2017) shows the HNB structural overspend. In the least two years, it has overspent by £2m each year. This is forecast to increase to £2.2m annually in this and the next financial years. The overspend was offset by £800,000 that was created from reducing the school formula factors in 16-17 by 1.5%, and a forecast £1.7m this year and next. Notwithstanding, the net overspend is forecast to increase from £2m in 2015/16 to £4.4m by the end of the 2018/19 financial year. Schools and Early Years block variances offset each other and the full deficit situation can be shown as the High Needs Deficit. This is made from £1.2m Deficit in 15-16 (after 0.8m was used to reduce) and £2m in-year. The table shows the current and projected impact of the high needs expenditure.

Year	C/Fwd £m	HNB £m	EYB £m	SB £m	Budget £m	Total £m
14-15	(0.400)	1.300	(0.800)	(0.100)	0	0
15-16	0	2.100	0	(0.100)	0	2.000
16-17	2.000	2.000	0	0	(0.800)	3.200
17-18	3.200	2.200	0	0	(1.700)	3.700
18-19	3.700	2.400	0	0	(1.700)	4.400

5.13 A £2m overspend of a £18.1m budget represents an 11 per cent overspend. As the table shows, this level of annual overspending is unsustainable without significant underspends compensating. For last year, this year and the next there are actual and projected underspends of £4.2m. Without these, the overall over-expenditure would have been £8.6m.

5.14 It is true that the HNB is under pressure in most, if not all, LA areas. However, Reading is in the position where the HNB allocation is high compared with other LAs, and there is a significant over-expenditure. Without a clear plan, supported by all schools, the level of HNB expenditure will cause a crisis in Reading's DSG.

READING HNB BREAKDOWN (SHEET 3)

5.15 It is worth examining in detail HNB budgets. The problem is not just the fact that the budget represents a higher percentage of the quantum than comparator LAs. It is that certain of the 'top 8' budget areas within the HNB represent a far higher percentage of the overall budget.

5.16 The first area where the budget is much higher is top-up funding. This applies to all state schools, including all maintained schools, resourced provision, special schools and academy schools. The top-up funding in Reading is 42 per cent of the HNB budget - which is in any case bigger than average. Top-up funding is allocated to support pupils with statements or EHC plans. Therefore, Reading pupils are a) more likely to

have a statement or plan than pupils in other LAs; b) have more resource allocated to them on average or c) both of these.

- 5.17 Reading does not have a high budget for independent providers. It is little above the mean and median of SNs (just over 5 per cent higher), and about 6 per cent below the median of SE authorities. The variance in terms of the key indicator - actual expenditure - is not known for SN or south east LAs for 2016/17. However, Reading's independent schools budget overspends by about £1m against a £2.6m budget - a 40 per cent variance. Half the HNB overspend is due to independent school placements.
- 5.18 The spending on SEN support services is lower than the mean but higher than the median compared with SN LAs, but above the mean and below the median compared with LAs in the south east. This indicates that Reading is not an outlier, and that expenditure is broadly average. However, the question arises whether spending more on specialist support for schools and pupils might help with early intervention work and reduce costs overall. Looking at SN LAs that budget more on SEN support than Reading as a percentage of HNB spend, all have a lower budget as a percentage of the DSG as a whole. However, there is not the same pattern amongst south east neighbours.
- 5.19 There is a correlation between the numbers of statements or EHCPs and HNB expenditure. Taking out pupils with SEN in independent placements, there are 984 pupils with Statements/EHCPs in mainstream and specialist provision (in or out of borough). This is 4.1 per cent of the school population. Taking the 10 south east LAs for which we have comparable data, the average is 3.2 per cent. Reading is highest, with east Sussex the closest to Reading with 3.8 per cent.
- 5.20 The 4.1 per cent figure is almost 30 per cent more than the 3.2 per cent average of the 10 other SE LAs for which comparable data are available. Independent school placements take the Reading percentage to 4.4 per cent. Taken as a percentage of the total SEN pupils (1,056), the 72 pupils in independent schools make up just under 7 per cent of the total statements / EHCPs.
- 5.21 In summary, the financial information we have on SEN budgets and expenditure indicate that Reading's DSG allocates more resources to:
- the HNB than comparator local authorities (see paragraph 5.11-13 above);
 - top up funding to maintained and academy schools - mainstream and special schools, and resourced provision (see 5.16; and
 - independent schools (see 5.17 above).
- 5.21 As per the recommendation, there is a need for a full analysis of the high budget and overspending of key elements of the HNB, with a plan to reduce expenditure and make SEN funding sustainable.

6. The LA would like schools forum support to create a sub group that will review the High Needs Block spend and assist the LA with future changes to address the current deficit position.

In 2015, the LA with schools forum created a sub group and produced ideas and suggested savings (some recommendations after consultation were implemented) and we would like to re-visit these ideas and include fresh ideas on strategies to deal with this ever growing deficit.