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Copied to Norfolk Members of Parliament

Invitation to reduce or remove Dedicated Schools Grant (DSG) High Needs Block (HNB) disapplication request

Response on behalf of **Norfolk County Council**

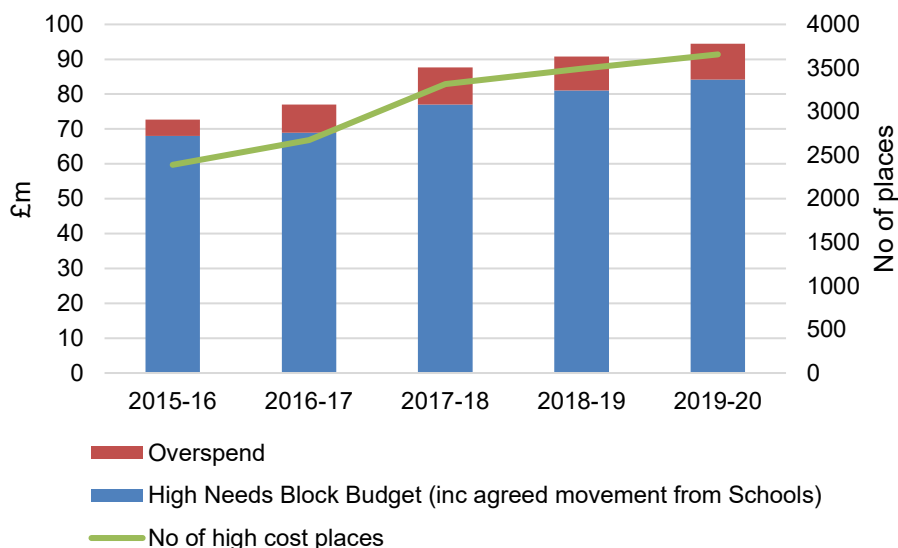
Norfolk County Council appreciates the opportunity set out in the Secretary of State for Education's letter to local authorities dated 17 December 2018 to respond to the Government's invitation to reconsider the level of its DSG HNB disapplication request. The Council in particular welcomes the announcement of additional HNB funding for 2018-19 and 2019-20 which is worth £1.803m per year for Norfolk. Unfortunately, this allocation falls short of the amount that would be required to deliver a sustainable HNB budget position in the short to medium term because of the very severe pressures being encountered within these budgets. As such, for the reasons set out in further detail in this response, the **Council is strongly of the view that its request** as originally submitted 29 November 2018 must be maintained.

Norfolk's disapplication request was submitted with the support of the Schools' Forum and seeks to transfer £4.580m of funding from the schools block to the HNB, representing the additional schools block funding for 2019-20 that Norfolk will receive under the new National Funding Formula unit values. Following the announcement of additional funding for 2018-19 and 2019-20, the Council has reviewed the overall 2019-20 budget position and considers that it is insufficient to cover the significant demand in Norfolk for high needs places which means that it would not be prudent to reduce or withdraw the disapplication request. In light of the additional funding announcements, on 11 January 2019, the Council informed Schools' Forum of its intention to maintain the disapplication request as previously submitted and reiterated in this response. The table below sets out the cost pressures for 2019-20, above the HNB allocation.

Remaining cost pressures for 2019-20	£m
Cost pressures	
Independent Special School places and Alternative Provision	5.857
Maintained Special School places	3.318
SEN top up funding to mainstream schools	2.750
SEN top up funding to FE colleges	0.825
Local authority hosted services to schools	0.131
SEN units	0.316
Personal Budgets	0.217
Total Cost	13.414
Funding sources	
Additional £1.8m announced 17 December 2018	-1.803
Growth and new places funding	-1.362
Disapplication request	-4.580
Total Funding	-7.745
Forecast Deficit 2019-20	5.669

Norfolk is already carrying an outstanding DSG deficit of £8.087m from previous financial years, with a forecast £5.514m deficit for 2018-19 (after taking into account the additional £1.803m funding announced for the current year), meaning that the position at the start of 2019-20 will be a £13.601m deficit position. Even if the request to transfer £4.580m is successful, there remains a forecast deficit of £5.669m for 2019-20 as set out above. Left unmitigated, this would mean a total deficit position forecast at the end of 2019-20 of around £19.270m.

Norfolk spends 89% of the HNB on high needs places in state special schools, independent schools, and Alternative Provision. In this context it is important to note that there is evidence of a diversion of cost pressures from schools to HNB budgets. From 2015-16 to 2018-19 there has been a 10% movement of pupils with an EHCP/statement from mainstream schools into high needs places. The provision of high needs places from 2015-16 to date has increased by 1,102, at a cost of £22.277m. In the same period, the HNB has only increased by £12.039m. This results in a shortfall in funding of £10.238m, which has to date been covered in part by offsetting it against underspends on the Early Years block and the Schools block. To mitigate this position, the Council has also reviewed the remaining 11% of the HNB, reviewed the SEN top-up funding paid to mainstream schools, and reviewed all of the services provided as a local authority direct to schools. The overall position of the HNB, including the forecast for 2018-19 and 2019-20, is shown in the chart below.



Recognising the scale of the challenge, Norfolk County Council has identified £3.000m of local authority resources within its budget planning for next year to contribute towards supporting the HNB position, which includes £1m of funding in 2019-20 to enable the delivery of service transformation alongside the investment in new state special school places and additional SEN units. However, the Council's general fund budget is itself under very substantial pressure in 2019-20 and this represents the maximum amount the Council can provide to support HNB requirements. It is not a viable or sustainable approach for locally raised funding to be used to meet shortfalls in DSG and this is particularly challenging in the context of the very acute pressures on all local authority budgets as a result of wider funding reductions from Government. This demonstrates that the Council is taking whatever action it reasonably can locally but recognises that it will not be possible to address these challenges in isolation and would welcome the opportunity to work with the Government to develop a solution that will be effective for the future and last into the future. This is a national as much as a local issue.

As Section 151 Officer, the Executive Director of Finance and Commercial Services is required by section 114 of the Local Government Finance Act 1988 to report to Members if it appears that the expenditure the authority proposes to incur in a financial year is likely to exceed the resources available to it to meet that expenditure. It is the view of the Executive Director of Finance and Commercial Services that, if left unresolved, the pressures and level of forecast overspend are such that the HNB position could represent a very real medium-term threat to the overall financial viability of the whole Council. The level of deficit, even if the disapplication request were approved in full, will still be rising, and the Council's external auditors are beginning to ask questions about the position. The DfE's decision on the Council's disapplication request will therefore have a very significant bearing on the Executive Director of Finance and Commercial Services' judgement about the Council's financial resilience and the robustness of its Budget.

The Leader and all Norfolk County Councillors have no desire to see this resilience disturbed with the authority being put into a difficult financial position through no fault of its own. As was said above this is not just a local issue but a national issue that needs to be resolved on that basis.

As set out in the Council's response to the recent consultation on the implementation of new arrangements for reporting deficits of the DSG, Norfolk understands that moving money out of direct school budgets to deal with this pressure is not an ideal or sustainable solution, but equally the DfE must acknowledge that neither are local authority budgets in a position to meet this shortfall. Decisions to fund DSG from local resources will inevitably have an impact on

other vital services delivered by the Council, and in the event that the disapplication request were unsuccessful, it would have a very significant impact on Children's Services council funded budgets in particular. The Council's disapplication request has been submitted on the basis of working in collaboration with Schools' Forum, and the level of the request is reflective of this. However, it should be noted that if the Council were free to operate without regard to the pressures being experienced within wider school budgets, the level of the request would actually have been significantly higher in order to fully address the deficit position and the serious underfunding experienced within HNB budgets.

The Council's plans to balance the HNB are based on a five-year recovery plan, recognising the scale of the demand for specialist education and support. A significant factor in Norfolk is an over-reliance on the independent special school sector, with places costing an average of £40,000 per place as opposed to local state special schools at an average of £16,000 per place, which are mostly rated as good or outstanding. In recognition of this, the Council has recently agreed to support £120m of capital borrowing as part of a wide-ranging SEN transformation programme, to build new state special school places and additional SEN units. Taken together, the Council's plans are expected to enable Norfolk to balance its high needs block over five years and repay the deficit built up from previous years. This is however entirely reliant on the proposed movement of £4.580m to reduce the cost pressure being approved, and it must be emphasised that the scale of the problem is such that this level of movement will be required for each of the next five years, not simply in 2019-20.

As the Secretary of State for Housing, Communities and Local Government said only this week he is conscious of the need for multi-year funding which is why we need to be assured that other ministers and departments are taking the same approach.

For the reasons set out above, **the Council considers that it is not in a position to withdraw or amend its disapplication request and hopes that this will be approved in full.** Nevertheless, the Council very much welcomes the additional funding and the recognition in the Secretary of State's written statement to parliament of 17 December that these recently announced measures will only start to address the pressures on high needs budgets. A solution to this emerging crisis will require a serious and focussed collaboration between local authorities and other stakeholders, and as such Norfolk is encouraged that the Secretary of State has indicated a willingness to engage with councils to deal with these issues. Further context and background information has been included in Norfolk's original disapplication request, and the response to the consultation on reporting DSG deficits. The Council welcomes the opportunity to work with Government to address these challenges and would be happy to provide any further detailed information that might be required to support decision making as part of this process.

Yours faithfully,



Simon George
Executive Director of Finance and Commercial Services
Norfolk County Council