

## Manchester City Council Report for Information

**Report to:** School Forum Committee – 15 July 2024

**Subject:** High Needs Block (HNB) Recovery Update

**Report of:** Amanda Corcoran - Director of Education

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### Summary

The Dedicated Schools Grant (DSG) is a ringfenced grant, that has four separate funding blocks, of which one is the high needs block (HNB), funding specialist education provision for children and young people up to 25 years old with Special Education Needs and Disabilities (SEND). The HNB is the most financially volatile block of the DSG, which has been recognised nationally as part of the Department of Education (DfE) DfE “SEND and Alternative Provision Improvement Plan”.

Manchester’s DSG 2023/24 in-year outturn position was £6.445m overspend, increasing the cumulative DSG position to an £7.803m overspend, due to pressures in the HNB. The 2023/24 HNB overspend was £9.340m, primarily due to increased growth and cost in Education Health and Care Plan (EHCP), Post-16 and Independent Sector Placements (ISP) areas

Before recovery and assuming the same level of growth, current DSG forecasts shows the DSG overspend increasing to £81.964m by 2025/26. This report provides a progress update on Manchester’s HNB recovery plan and covers:

- Potential funding gap over the next three years, details with and without recovery actions (section 2)
- Benchmarking (section 3)
- Updated on HNB recovery actions for continuing SEND improved outcomes and financial stability (section 4).
- Schools Block transfer consultation for the financial year 2025/26 (section 5)

### Recommendations

All Schools Forum members are asked to note and comment:

- 2023/24 HNB £9.340m overspend
- Potential funding gap over the next three year and the impact on DSG position.
- HNB recovery action plan update, trying to address the increasing funding gap.
- Potential financial risk to the Council with DSG ring fencing regulation due to end March 2025.
- 0.5% Schools Block transfer consultation

### Financial Consequences

None directly arising from this report

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**Background documents (available for public inspection):**

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

19 September 2022	Schools Forum Agenda Item 4: High Needs Block (HNB) Recovery Plan
March 2023	SEND and Alternative Provision Improvement Plan
June 2023	Post-16 SEND Commissioning Project Plan 2023
May 2023	Post 16 SEND Strategic Commissioning Report
20 November 2023	Schools Forum Agenda Item 4: High Needs Block (HNB) SEND Improvement Measures Recovery Plan Update
17 June 2024	Schools Forum Agenda Item 6: Dedicated Schools Grant (DSG) and School Balances 2023/24 Outturn Report

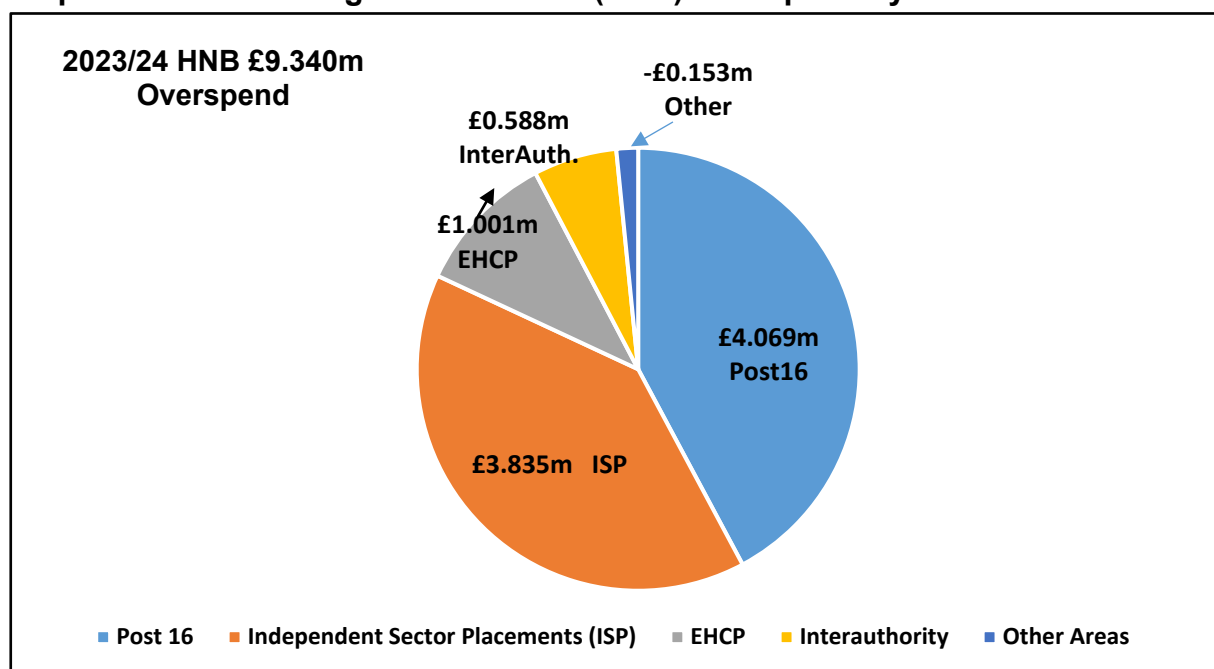
# 1 Introduction

- 1.1 The DSG is a ring-fenced grant, made up of four blocks: schools, central school services, early years, and high needs. A substantial proportion of it is paid directly to schools and other settings to provide education services. Unlike other parts of the grant the HNB has significant pressures and is the underlying cause of the DSG cumulative overspend of £7.803m. The current projected in-year HNB overspend for 2024/25 is £27.181m pre-recovery actions, which reduces to £19.051m post recovery.
- 1.2 This report for ease of reference is structured as follows:  
Section 2: HNB Forecast  
Section 3: HNB Benchmarking  
Section 4: Update on HNB recovery actions.  
Section 5: Schools Block transfer consultation for 2025/26 Budget Setting

## 2. High Needs Block (HNB) Forecast

- 2.1 HNB overspend 2023/24 of £9.340m is despite on-going work on recovery actions, as reported to School Forum November 2023. Graph one below, details the 2023/24 HNB overspend, showing the three main areas causing the overspend:
- Post 16 provision
  - Independent Sector Placements (ISP)
  - Education, Health, and Care Plans (EHCPs)

**Graph One: 2023/24 High Needs Block (HNB) Overspend by area**



- 2.2 Concern is that the HNB structural overspend position will continue to increase. The Council needs to take action to try to mitigate the financial instability of the DSG, as the overall overspend could be £81.964m by 2025/26.

2.3 **Funding gap** - DfE have advised that the HNB element of the DSG budget will increase around 5% each year over the next three financial years, this is a drop of 7% compared to 2023/24. Table 1 below, shows that if the activity and inflationary pressures seen in 203/24 of 18% continues in future years it will increase the gap between expenditure and income.

**Table One: Forecast Financial Position Pre-Recovery HNB Next 3 Years**

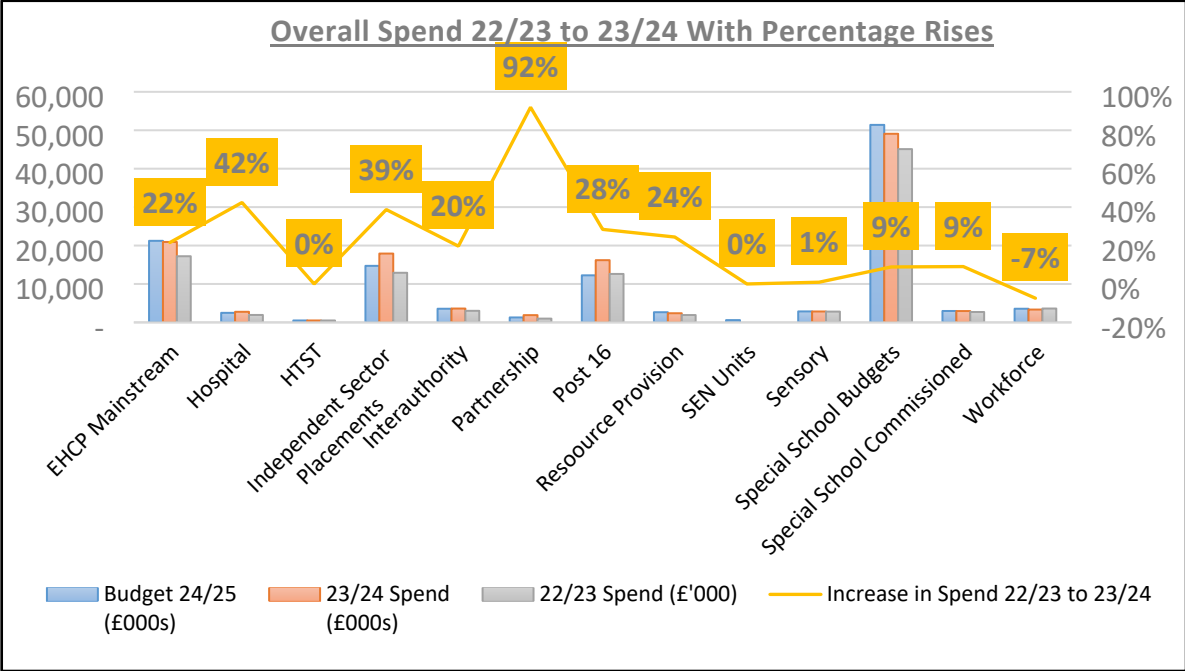
	2022/23	2023/24	2024/25	2025/26	2026/27
<b>HNB Budget After Recoupment £m</b>	<b>103.155</b>	<b>115.409</b>	<b>120.025</b>	<b>126.221</b>	<b>132.838</b>
<b>% Uplift</b>	<b>14%</b>	<b>12%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>
<b>Outturn £m</b>	<b>105.295</b>	<b>124.749</b>	<b>147.205</b>	<b>173.202</b>	<b>204.969</b>
<b>% Uplift</b>	<b>14%</b>	<b>18%</b>	<b>18%</b>	<b>18%</b>	<b>18%</b>
<b>Shortfall in Year HNB £m</b>	<b>2.141</b>	<b>9.340</b>	<b>27.180</b>	<b>46.981</b>	<b>71.858</b>
<b>Cumulative Deficit DSG £m</b>	<b>1.358</b>	<b>7.803</b>	<b>34.983</b>	<b>81.964</b>	<b>153.822</b>

2.4 The HNB gap is forecast to increase to £46.981m in 2025/26 and £71.858m 2026/27. By the end of 2026/27 the cumulative deficit for the DSG, if all other DSG blocks remain within budget will increase to £153.822m.

2.5 **Growth in Demand** - Graph two below, shows the three largest increases in spend (excluding hospital school, which had additional funding 2023/24) are:  
**1. Partnership and S5+ 92%.**  
**2. ISP 39%.**  
**3. Post 16 28%.**

2.6 These areas of spend are already outstripping the budget allocation for 2024/25, prior to any increases for activity or inflation over the next year.

**Graph Two: Change in Spend 22/23 to 23/24 with Initial 24/25 Budget**



### 3. Benchmarking

- 3.1 Benchmarking has been undertaken, table two below sets out the rankings against seven councils who are leading on the SEND Change Programme and/or have had a “Good” Ofsted SEND inspection. Within the benchmarking table one is the highest rank in terms of numbers in each of the comparators.
- 3.2 Key observations:
- Manchester has a greater number of EHCP than its comparators, whereby Manchester ranked number 1 in EHCP per 1,000 population between 2-18 years.
  - Manchester is ranked 12<sup>th</sup> in terms of numbers of all 150 councils, 54.7 EHCP per 1,000 is 28% higher than comparators and 35% nationally.
  - Manchester has the highest proportion of EHCP on DfE advised statistical neighbours based on social deprivation.
- 3.3 Manchester does well in terms of keeping provision with mainstream schools, it has 41% more EHCPs in mainstream schools than comparators. Manchester also ranks highest in the number of pupils at special schools.
- 3.4 Manchester is lower than comparators in the number of placements in SEN units and resource provision. This has been identified in the recovery plan and is being addressed by the opening of more resourced provisions and two SEN units in September 2024.
- 3.5 ISP and Post 16 both rank third, indicating Manchester is more effective of keeping placements in Manchester Local Authority mainstream and special schools rather than the independent sector, which negates some of the expenditure higher ranked comparators receive.
- 3.6 If Manchester’s EHCP was at similar levels to other Local Authorities, so EHCPs were around comparators i.e. 28% lower, it is likely this overspend would not exist.

**Table Two: Statistical benchmarking - Number of EHCP plans per 1,000 (2-18yrs population)**

Local Authority	No. of EHCP/Statement up to 25 per 1,000 2 to 18 Population	Rank No. Children EHCP per 1,000 2-18 Population	Rank Mainstream Schools/Academies	Rank Resource Provision/ SEN Units	Rank Special Schools/Academies	Rank ISP	Rank Post 16
Manchester	54.7	1	1	5	1	3	3
Leicester	42	4	5	3	4	5	6
Hartlepool	41.6	5	6	2	2	1	4
Portsmouth	45.5	2	4	1	3	7	1
Calderdale	43.4	3	2	7	6	2	5
Leeds	31.2	7	7	6	5	6	2

<b>Wakefield</b>	41.1	6	3	4	7	4	7
<b>Average 6 LA</b>	42.8						
<b>Average All 150 LA</b>	40.6						
<b>Manchester Rank All Authorities</b>		12	15	80	10	80	62

3.7 Manchester has agreed measures to help with SEND Improvement and recovery actions, detailed in section four of the report, to help offset the overspend as outlined in table one.

#### 4 High Need Block (HNB) Recovery Update

4.1 The recovery plan is made up of four workstreams, which the HNB board have reviewed due to the increased 2023/24 overspend and the potential future funding gap (as detailed in section two above), table three below illustrates the updated expected savings.

**Table Three: Recovery Plan Expected Savings**

<b>Workstream</b>	<b>Saving 2024/25 £'000</b>	<b>Saving 2025/26 £'000</b>	<b>Saving 2026/27 £'000</b>	<b>Total Saving (over 3 yrs.) £'000</b>
Workstream 1: Strengthen mainstream schools' graduated response	1,030	1,030	1,030	3,090
Workstream 2: Reviewing and responding to children with an EHCP	850	2,230	3,660	6,740
Workstream 3: Commissioning of Specialist provision	3,940	4,490	5,550	13,980
Workstream 4: Generate income for HNB and review other spend	2,310	5,110	5,410	12,830
<b>Total</b>	<b>8,130</b>	<b>12,860</b>	<b>15,650</b>	<b>36,640</b>

#### 4.2 Workstream 1 - Strengthen mainstream schools' graduated response

This workstream focuses on strengthening the graduated response to need in mainstream schools.

- Expansion of early years inclusion funding to reception pupils, to allow time to establish if the intervention in place has positive impact on pupils' need.
- Review of the early year's pathways, to identify what works well and any areas that can be improved on in supporting early years SEND needs.
- Evaluation of outreach services, including the development of an enhanced outreach offer.

- Year 6 mentoring scheme to support children with additional needs as they transition to secondary school
- Meeting needs of neurodiverse children in mainstream schools project
- Developing a 3-tier approach to alternative provision

**4.3 Workstream 2: Reviewing and responding to children with an EHCP.**

Due to the growth in EHCP requests, there are currently over 8,000 EHCP plans across the city, Manchester is looking how best to manage resources to continue to effectively maintain EHCPs.

**4.4 Workstream 3: Strengthening commissioning of specialist provision.**

The commissioning team are working to ensure high-cost specialist education placements provide value for money. The expansion of the current post-19 offer is underway, and increasing the number of internship available, which should have a positive impact on the Post-16 spend.

**4.5 Workstream 4: Generating income for HNB and review other spend.**

Income generated to support the HNB so far includes school's excessive clawback mechanism, also reviewing grant conditions to determine where funding can align to support recovery actions.

4.6 DfE school's operational regulations allows for school block transfer to HNB, this is where funds (up to 0.5%) are top sliced from school block and moved to the HNB. The block transfer is prior to mainstream school's budgets being calculated, so the block transfer incorporates both maintained and academy schools.

4.7 Included in workstream 4 as reported to, and approved by School Forum November 2024, included the option for a 0.5% block transfer if the improvement measures in the workstreams did not have the expected positive impact HNB financial stability. Given the increase in the HNB overspend and the future funding gap, this option needs to be consulted on for the 2025/26 budget setting process.

**5. Schools Block transfer consultation - 2025/26 Budget Setting**

5.1 Manchester have never proposed a school block transfer but have tried other recovery measures to try to mitigate the HNB pressures. Several other councils have actioned a block transfer for a number of years due to their HNB financial pressures. In 2023/24, five of the ten Greater Manchester authorities actioned a block transfer.

5.2 Despite allowing time for recovery actions to embed and make progress, there is an increasing HNB overspend, with lower increases in funding and projected growth, resulting in a projected HNB overspend of £34.816m next financial year. Table four below illustrates the HNB pressure after recovery actions (including a block transfer) over the next three years. The Councils

feels it is now necessary to propose a 0.5% school block transfer for 2025/26 budget setting.

- 5.3 DSG balances are separate from the Council’s wider financial position. This ringfencing mechanism was put in place 2020 ending March 2025, which allows DSG deficits to be separated from council’s wider accounts. DSG ringfencing rules end at 2024/25, if this is not continued councils will need to demonstrate their ability to cover DSG overspends from their future available reserves from 2025/26. The Council’s overall reserves are reducing year on year.
- 5.4 School Forum are asked to note that the 2025/26 DSG forecast overspend is greater than the Council’s general reserves balance, which is a financial risk to the Council.

**Table Four: HNB Pressures After Recovery Actions.**

	Pressure 2024/25 £'000	Pressure 2025/26 £'000	Pressure 2026/27 £'000
HNB Pressure	27,181	47,676	72,641
Less Recovery Actions	8,130	12,860	15,650
<b>Remaining HNB Pressure</b>	<b>19,051</b>	<b>34,816</b>	<b>56,991</b>

- 5.5 Along with the block transfer proposal (which is prior to mainstream school’s budgets being calculated, so incorporates both maintained and academy schools), the Council is proposing for 2025/269 the suspension of the automatic clawback mechanism for maintained schools. It is deemed unfair to action both, the block transfer, and subject maintained schools to the automatic clawback of excessive balances.
- 5.6 A full consultation will be carried out with all local maintained schools and academies, between 16<sup>th</sup> July 2024 to 20<sup>th</sup> September 2024. The Council intends to offer webinars to schools that want to discuss the consultation proposals prior to submitting a response. The consultation is not available at the time of writing this report but will be tabled at July’s Schools Forum.
- 5.7 The outcome from the school’s consultation will be presented to School Forum September 2024 for approval. After considering the consultation outcome and the financial risk to the Council, if School Forum does not approve the block transfer the Council will have no choice and will need to apply for a disapplication to the Sectary of State for approval of the block transfer.

## **6. Conclusion and Recommendations**

- 6.1 The number of children with Education, Health and Care plans (EHCPs) continues to increase more than funding increases year on year. The DSG deficit is growing despite a robust recovery plan being in place. The Council is seeking to transfer 0.5% (c.£2.5m) from the 2025/26 Schools Block to the High Needs Block. This is subject to schools’ consultation and approval by the



Schools Forum. If any transfers exceed 0.5% or occur without approval, a disapplication to the DfE is required.

6.2 All Schools Forum members are asked for note and comment:

- 2023/24 HNB £9.340m overspend
- Potential funding gap over the next three year and the impact on DSG position.
- HNB recovery action plan update trying to address the increasing funding gap.
- Potential financial risk to the Council with DSG ring fencing regulation due to end March 2025.
- 0.5% Schools Block transfer consultation with schools.