



Leaders' Committee

Children's Services financial pressures Item no: 8

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Summary

This report updates Leaders' Committee on recent work that London Councils has undertaken to understand the cost pressures within Children's Services in London. It sets out findings from London Councils' survey into financial pressures which revealed considerable and persistent overspending in children's social care, an immediate pressure caused by a shortfall in high needs funding of the Dedicated Schools Grant (DSG) caused by growth in Special Educational Needs and Disabilities (SEND) pupils, and considerable overspending in SEN transport.

The report outlines potential lobbying activity to secure greater recognition from government in the face of these pressures.

Recommendations

Leaders' Committee is asked to:

- note the ongoing work to be undertaken in relation to children's social care pressures in relation to the Fair Funding Review, and the need to support further lobbying on this key issue where possible (see paragraphs 25-28); and
- support the proposals set out in paragraph 29-34 to undertake more immediate lobbying with regard to SEND funding shortfalls.

Children's Services financial pressures

Introduction

1. In recent months, it has become increasingly apparent that the financial pressures within children's services are becoming more acute. Both Treasurers and Directors of Children's Services have raised concerns about these pressures in London, in particular within children's social care and in the related area of the high needs block of the Dedicated Schools Grant (DSG) – which is used to fund children with special educational needs and disabilities (SEND).
2. London Councils, working closely with the Association of London Directors of Children's Services (ALDCS) and Society of London Treasurers (SLT), undertook a detailed survey between June and August 2017 to better understand the extent and potential causes of these financial pressures, with thirty-one authorities responding.
3. This report sets out the headline findings from that survey and outlines the next steps for lobbying in both areas.

Children's Social Care

Financial Context

4. In 2016-17, London boroughs spent £1.6 billion on children's social care (CSC): the second largest area of expenditure after adult social care (ASC), which accounts for £2.4 billion. Since 2010-11, CSC is the only service where expenditure has increased in real terms (by 10%) compared with *reductions* in all other services; for example, up to 57% in planning and development.
5. Despite CSC being relatively protected compared with other services, trend analysis shows there has been consistent overspending against planned budgets since 2010-11. However, in the last year, the extent of financial pressure London boroughs are experiencing in CSC has become more acute, with many boroughs reporting that overspending is a more significant issue than ASC, despite the latter being the biggest area of spend.
6. London Councils has begun to reflect this in its lobbying; for example, within the major strategic representations to government for the March Budget and forthcoming Autumn Budget. Following the successful lobbying by the sector in

relation to adult social care funding pressures that resulted in over £2 billion of new funding in the March Budget, the LGA has similarly begun to emphasise the funding pressures on CSC – reporting that £2 billion of the £5.8 billion overall funding gap across local government as a whole by 2020 will be within CSC.

Extent of overspending

7. In order to understand in more depth what is driving the growing trend in overspending, London Councils undertook a detailed survey to capture children's social care costs and help inform future lobbying on this issue.
8. It found that, despite planned spending being relatively protected compared with other services, almost all (27 of the 30 boroughs who responded to the question) overspent against children's social care budgets in 2016/17, averaging £3.5 million per borough. The aggregate overspend across all 30 boroughs was £91 million (almost 10%). There is little difference between outer London (10%) and inner London which averaged 9%.
9. This represents a growing trend as, amongst the 23 boroughs providing trend data over the past four years, the number of boroughs overspending increased from 16 to 22. Not only is overspending becoming more widespread, but the *scale* of overspending has increased up by £1 million on average per borough from £2.3 million in 2015/16 to £3.3 million (for those 23 boroughs) in 2016/17.
10. This corroborates trend analysis of revenue outturn and budget data that shows 7 out of 10 shire counties, 8 out of 10 London boroughs and unitary authorities, and 9 in 10 metropolitan districts overspent in 2016-17¹, and that the proportion of authorities overspending is increasing.

Possible causes

11. With such a widespread level of overspending both in London and across the country – and in such a complex service area – there is no one single reason to explain the problem. However, the survey has improved the level of understanding of the key drivers of the overall pressures – and of where attention may need to be focussed, both in terms of lobbying and in terms of remedial or preventative measures.

¹ Comparing DCLG's revenue account budget data with provisional revenue account outturn data for 2016-17

12. The survey found that the key drivers of overspending in London relate to expenditure on core staffing and looked after children placements, which together account for 95% of the aggregate overspend across London (but together only comprise 71% of overall budgets). The impact of growing numbers of Unaccompanied Asylum Seeking Children (UASC) also has a particularly disproportionate impact in London – and is an especially big driver within certain boroughs.
13. With regard to staffing, recruitment and retention was identified as a key challenge. Between 2013/14 and 2016/17, aggregate spend on agency staff increased by 21% from £88 million to £107 million.²
14. The growing proportion, and costs, of specialist looked after children (LAC) placements emerged as the other key driver of overspending. While, overall numbers of LAC (start of year) fell slightly from 9,017 in 2013/14 to 8,878 in 2016/17 across 29 boroughs providing data, the number of children requiring an external residential placements increased (by 13% between 2014/15 and 2016/17), and expenditure on these placements increasing by 23% over the same period. External placements are the most expensive – costing an average £3,063 per week, compared to £2,288 for secure remand, £851 for external fostering, and £430 for in-house fostering. The survey found that 23 out of 25 boroughs are overspending on external residential placements.
15. One potential explanation for this is that the increase in Unaccompanied Asylum Seeking Children (UASC) in London has increased overall pressure on placements available through "in-house" arrangements, requiring boroughs to use more expensive external placement options, with the knock-on impact on placement budgets.
16. However, in general, the survey found no clear causal patterns amongst boroughs that are overspending, as neither deprivation levels, performance levels (as measured by OFSTED ratings) nor size of council budget appear to have a significant relationship to the size of overspending.

² Across 21 boroughs providing data

Special Educational Needs & Disabilities (SEND)

17. Expenditure on pupils with SEND is a separate issue that is causing increasing concern amongst Treasurers and Directors of Children's Services. It is funded from a specific grant (the "high needs block" within the Dedicated Schools Grant) rather than general core funding.
18. London has experienced a rapid increase in demand for places for pupils with high needs in recent years, far exceeding growth in other regions and that of London's mainstream school population. London Councils' survey found that, since 2013/14, the number of pupils with EHCPs increased by 10%, with actual expenditure increasing by 16% (£117 million). However, this growth has not been recognised in government funding allocations, as high needs allocations to London boroughs increased by just 2% (£14 million) over the same period.
19. The issue has become particularly acute in 2016/17 when the number of pupils with Education, Health and Care Plans (EHCPs) grew by 4.2%, around three times the 1.3% growth rate for the general pupil population. The insufficiency of the government high needs funding has meant that 26 out of 31 London boroughs spent more than the amount allocated through the high needs block of the DSG in 2016/17, creating an aggregate 'funding gap' across these 26 boroughs of £100 million (£3.9 million per borough).
20. Meeting this substantial shortfall had a major impact on wider schools funding including around £46 million being diverted from other blocks within the DSG, boroughs having to draw on £20 million of reserves, carrying forward previous DSG underspending (£11 million), utilising general funds (£5 million).
21. These short-term measures to meet the funding gap are unsustainable and there are now nine boroughs in London with a cumulative DSG deficit carried forward into 2017/18 totalling £30 million. This is not a one-off pressure as Special Educational Needs (SEN) pupil numbers are expected to increase further in 2017/18 and will be significantly higher in London than the rest of England.
22. The provisional school funding allocations for 2018-19 were published on 14th September as part of the government's final National Funding Formula. It confirmed additional funding within the High Needs Block of just £124 million in

2018-19 nationally (£27 million for London), and restrictions on movement between the schools and high needs blocks from 2018/19, which will be limited to just 0.5% of authorities' total schools block, and can only be made with the agreement of the schools forum.

23. In the context of the existing £100 million shortfall across the capital, the additional £27 million for London boroughs does not go far enough. The removal of flexibility between blocks within the DSG will remove the main mechanism currently used by boroughs to ensure all schools meet their responsibilities for pupils with SEND and top up the insufficient levels of funding provided through the high needs block, seriously limiting boroughs' options for dealing with any funding shortfalls. While the formula includes proxies for high need (through deprivation and other measures) and reflects changes in pupil numbers and general 2-18 population – it does not recognise increasing *incidence* of SEND meaning the continued disproportionate growth in London is unlikely to be reflected going forward.
24. Finally, the survey highlighted another significant area of overspend within children's services across London, SEN transport. The exponential growth in the number of children with SEND and the increasing complexity of need caused overspends in SEND transport budgets in 26 out of 30 London boroughs in 2016/17, which equates to an average £1 million overspend per borough. Across 20 boroughs providing full data over time, spend on SEN transport increased by 20% between 2013/14 and 2016/17.

Future work and lobbying

Children's social care

25. Overspending by almost £100 million per annum will put greater pressure on other services and is likely to be unsustainable, given the further cuts to core funding of 26 per cent over the next three years to 2020.
26. Children's social care is funded via core government grant - Settlement Funding Assessment (SFA), and the children's services relative needs formula within SFA has not been updated since 2013. The government has renewed its commitment to undertaking a new assessment of need as part of the Fair Funding Review. As such, this represents the best opportunity for influencing levels of funding for children's social care - from a technical perspective. To support London Councils'

lobbying on the Fair Funding Review, further work will be undertaken to understand the causes of rising costs of placements, and variation in costs, across London; the cost shunting impact of rising UASC numbers; and the reasons for different levels of agency staff usage – all of which contribute to the significant overspending in 2016-17.

27. However, as the Fair Funding Review will take at least 18 months and a new funding formula will not be implemented until April 2020 at the earliest, it is proposed that further lobbying is carried out in the more immediate future to raise awareness of the acute funding pressure boroughs are facing now and in the next 2 years.

28. London Councils officers met with DCLG officials to share the headline findings from this survey and raise awareness about the seriousness of this financial pressure to support DCLG's evidence to HM Treasury ahead of the Budget in November.

Special Educational Needs and Disabilities (SEND)

29. There is a growing concern amongst officer groups, including SLT and ALDCS, that London needs collectively to lobby government to secure more funding and greater flexibility to deal with SEND funding pressures.

30. London Councils wrote to the Secretary of State for Education following the second round consultation on the National Funding Formula in March 2017, stressing that pressures on high needs budgets are amongst the most acute of any local government service area in London. It called for the high needs block to have an automatic mechanism to ensure that funding increases as demand rises; and for a substantial injection of additional funding into the high needs block to keep pace with the triple pressure of rapidly rising demand, rising prevalence rates and changing types of need. Similarly, SLT wrote to the Secretary of State on 25 August 2017 to raise the issue of significant overspends in high needs budgets across London.

31. London Councils' Autumn Budget submission called on government to:

- Provide real terms funding per pupil for high needs allocations and SEN transport, taking into account future growth in the number of SEN pupils
- Recognise the existing shortfall in funding in the high needs block and take steps to compensate local authorities

- Continue to allow local authorities full flexibility to transfer funding between the schools and high needs block of DSG.

32. London Councils' officers are in discussion with DCLG officials to raise awareness of the scale of this issue and have asked for it to be reflected in any discussions with HM Treasury ahead of the Autumn Budget.

33. London Councils intends to raise the issue of SEND funding at a forthcoming meeting with the Secretary of State for Education and the Mayor of London, as part of a wider discussion of school funding pressures.

34. It is proposed that London Councils undertakes a concerted lobbying campaign to raise awareness of this funding pressure that is particularly acute in London compared with other areas to ensure appropriate funding levels to protect and enhance the lives of some of the capital's most vulnerable children. This work would involve significant media and parliamentary activity, as well as galvanising parent groups, to raise the profile of the lack of adequate funding for SEND children.

Recommendations

35. Leaders' Committee is asked to:

- Note the ongoing work to be undertaken in relation to children's social care pressures in relation to the Fair Funding Review, and the need to support further lobbying on this key issue where possible (see paragraphs 25-28); and
- support the proposals set out in paragraph 29-34 to undertake more immediate lobbying with regard to SEND funding shortfalls.

Financial Implications for London Councils

36. None

Legal Implications for London Councils

37. None

Equalities Implications for London Councils

38. None