



Leaders' Committee

Children's Services finance pressures Item no: 5

Report by: Caroline Dawes **Job title:** Head of Children's Services
Date: 26 February 2019
Contact Officer: Caroline Dawes
Telephone: 020 7934 9793 **Email:** Caroline.dawes@londoncouncils.gov.uk

Summary This report updates Leaders' on recent work that London Councils has undertaken to understand the financial pressures facing Children's Services in London. It identifies ongoing overspends in Children's Social Care and shortfalls in funding for children and young people with Special Educational Needs and Disabilities (SEND). The report also outlines research recently commissioned by London Councils to gather further evidence on the cost drivers fuelling these overspends, identify good practice and present policy solutions for London local government.

Recommendations Leaders' Committee is asked to:

- Note the findings of London Councils' survey into Children's Services funding pressures, and ongoing work to gather evidence on cost drivers, good practice and policy solutions
- Agree to receive a further report on policy recommendations that will emerge through the qualitative research to ensure that London local government is well placed to take collective action to reduce costs and improve outcomes in Children's Services.

Children's Services finance pressures

Introduction

1. 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 in the summer of 2017 to better understand the extent and potential causes of financial pressures across Children's Services, with all authorities responding. The findings of this survey were reported to Leaders' Committee in October 2017 and were used as the basis for a substantial lobbying campaign throughout the year.
2. London Councils undertook a similar survey of the boroughs in the summer of 2018 to understand how cost pressures had changed between 2016-17 and 2017-18 and to be able to quantify the scale of current overspends and shortfalls.

Children's Social Care

Overspends on Children's Social Care

3. Across all boroughs in 2017/18 the total spend on Children's Social Care (CSC) was £1.7 billion. The survey conducted by London Councils revealed that 27 boroughs reported an overspend in CSC in 2017/18, amounting to an aggregate overspend of £111.9 million across London (or an average of 12 per cent of budgets). There is considerable variation in spend across London ranging from a 4 per cent underspend to a 35 per cent overspend. 11 boroughs have managed to reduce their budget gap since 2013/14.
4. However, the aggregate overspend across 27 boroughs for the previous year was £91 million (an average of almost 10%), over £20 million less than in 2017/18. Therefore, it would appear that the pressure on CSC budgets is intensifying across London.
5. Despite CSC funding being relatively protected compared with other services, trend analysis shows there has been consistent overspending against planned budgets since 2010-11. In the last two years, however, the extent of financial pressure London boroughs are experiencing in CSC has become more acute with many boroughs now reporting that overspending in this area is a more significant issue than Adult Social Care, despite the latter being a bigger area of spend.

Demand and performance trends

6. Despite a national trend towards an increase in Looked After Children (LAC), the London boroughs have collectively kept the total number of LAC relatively constant, with 10,033 LAC in 2013/14 and 9,918 in 2017/18. However, there is considerable variation in numbers with 15 boroughs experiencing a growth in LAC numbers; 5 of these with an increase of over 20 per cent. The change in number of LAC across the London boroughs ranges from a decrease of 24 per cent to an increase of 40 per cent since 2013/14.
7. Over the same time period, the number of children on child protection plans in the capital has increased by almost a quarter, yet the average duration of child protection plans has reduced by 14 per cent. This trend, coupled with the stable LAC numbers, points to a concerted effort by social work professionals across London to transform outcomes for children quickly and effectively.
8. The number of social workers across London has also increased by 5 per cent from 2,084 in 2013/14 to 2,193 in 2017/18, which may in part be a response to the rise in numbers of children on a child protection plan. The increase in social workers may account to some extent for the stability of the LAC numbers and reduction in time spent on child protection plans. The median caseload for LAC teams has remained relatively constant between 13 and 15, which is another positive indicator of London's performance. However, the increase in social workers, whilst clearly impacting positively on outcomes, will also have cost implications.
9. There is a risk, given the current and predicted significant budgetary overspends, that current spend levels on CSC, for example on staffing, become unsustainable, which in turn may have a detrimental impact on the performance of London's Children's Services going forward.

Possible explanations of overspends in CSC

10. The largest proportion of the CSC budget is spent on LAC placements, with 39 per cent of the total overspend on CSC attributed to children's placement costs, and these costs have been increasing considerably, for example spend on external residential placements has increased by 42 per cent from 2014/15 to 2017/18 across 25 boroughs, despite the overall LAC numbers remaining stable across London.

11. The next largest area within CSC spend is staffing, with 29 per cent of the collective borough overspend in 2017/18 attributed to core staffing. London has seen a 13% increase in agency staff spend since 2013/14, which puts significant pressure on staffing budgets.
12. In addition, the decreasing budgets in other, non-statutory areas, such as youth services and early intervention are likely to be putting more pressure on the front door, thereby playing a part in the rise in the number of children on a child protection plan in London and driving up spend across the capital.
13. The number of Unaccompanied Asylum Seeking Children (UASC) Looked After Children in London has also increased over the last five years by 106 per cent. While the Home Office provides some funding for the placement of UASCs, London Councils estimates that there is a funding gap of £18 million between spending and funding for UASCs in London. Therefore, the rise in the number of UASCs adds to the pressure on placements available and creates, overall, more pressure on placement budgets.
14. The number of care leavers aged 18-20 has increased by 27 per cent since 2013/14, which again has increased budgetary pressures for CSC. The cost of providing continuing support to care leavers, including UASC, has been added to by the introduction of new burdens by the government which have not been fully funded.
15. In general, the survey found no consistent explanation between boroughs as to what is driving overspends. OFSTED inspection outcome, size of council budget, the profile of the LAC population and, more broadly, the children and young people population are likely to be important contextual factors. They do not, on the evidence provided by the quantitative survey in 2018, explain the spread and size of overspends alone.
16. In summary, there are a number of factors that are likely to be responsible for intensifying the pressure on CSC budgets, including increase in social workers, rising cost of LAC placements and reduction in non-statutory services. The variation in activity and spend data, particularly around LAC numbers and costs, however, make it difficult to draw any simple conclusions as to what is driving up costs in CSC.

Special Educational Needs and Disabilities (SEND)

Shortfalls in the high needs block

17. Rising demand and costs of pupils with SEND is a considerable concern across London local government. The cost of provision for children and young people with SEND who have an Education, Health and Care Plan (EHCP) is funded via the High Needs Block (HNB) within the Dedicated Schools Grant (DSG) provided directly to local authorities by the Department for Education (DfE).
18. The insufficiency of the government's High Needs funding allocations has meant that all London boroughs bar one spent more than the amount allocated through the HNB in 2017/18, creating an aggregate 'funding gap' across these 32 boroughs of £78 million. This funding gap has reduced from the £107 million from 2016/17, in part due to the government increasing its allocations to the HNB by 8.6 per cent and in part due to significant efforts made by the London boroughs to reduce the shortfall in funding.
19. In comparison with London borough CSC overspends, the variation between boroughs is not so wide in that all bar one borough are experiencing a shortfall in funding. However, there is still significant variation in the scale of the shortfall across the 32 boroughs ranging from 1 per cent to 44 per cent. Seven boroughs have a shortfall of over 10 per cent.
20. Between 2013/14 and 2017/18 borough spend on high needs has increased by £141.6 million (17 per cent), yet high needs allocations from government have only increased by £87.2 million (11 per cent).
21. Boroughs have met this substantial shortfall through a number of means, all of which will have had an impact on wider school budgets or council spending. These options include transferring funding from the Schools Block, using DSG reserves or council general funding. However, these options are likely to become unsustainable in the mid to long term. Transferring funding from the Schools Block has been capped to 0.5 per cent from April 2018, Schools Forums' are becoming increasingly reluctant to agree to transfers, and reserves and general funding are dwindling.

22. 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 overspend of £19.4 million in SEN transport budgets in 2017/18.

Demand trends

23. 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. Since 2013/14 the number of pupils with EHCPs has increased by 16% across London compared with 9% increase nationally.
24. The number of EHCPs in London has risen by 32 per cent since 2013/14, which suggests that the Children and Families Act 2014 has been a significant driver in creating more demand. The Act increased the age range of eligibility for support from statutory school age to 0-25, increasing the total number of children and young people with an EHCP by 8% nationally. It has also raised parental awareness and expectations around the level and type of support that their child is entitled to receive, thereby generating more referrals for assessments in many areas.
25. Pupils with an EHCP costing up to £20,000 make up three quarters of all EHCPs. There are, however, still a significant number of pupils with an EHCP costing over £100,000 – a total of 237 pupils across 23 boroughs in 2017/18. The number of higher cost EHCPs in a borough can dramatically increase the high needs spend in that area. It is very difficult to forecast, and therefore budget for, these EHCPs given the relatively small numbers and specific types of need.

Possible causes of rising costs for provision for children and young people with SEND

26. The significant rising demand is clearly a major factor in driving up spend in the high needs block. The increase in number of children and young people with SEND is creating capacity problems in special schools, resulting in more children and young people with SEND being placed in more expensive independent placements. Our analysis reveals that the cost per place in independent special schools is £47,292, over double the average cost per place in maintained special

schools at £22,025. Clearly more children and young people placed in independent provision will put more strain on high needs budgets.

27. Another significant area driving up costs is the behaviour of mainstream schools.

Mainstream schools are facing cost pressures of their own, as additional costs such as pension and National Insurance contributions have not been factored into the Schools Block allocations they receive through the national funding formula. The National Audit Office has quantified these additional costs at 1.6 per cent per year. 73 per cent of London's schools have faced a real terms funding reduction this year due to insufficient funding allocations from the DfE. Many mainstream schools are choosing to divert funding away from their un-ringfenced notional SEND budget to be able to cope with the wider additional cost pressures they are facing. This means that, in some cases, schools are less willing to take on children with EHCPs, as they do not feel they have sufficient funds to support them.

28. In addition, intelligence provided by boroughs officers suggests that concern about impact on results is leading some schools to take non-inclusive approaches to admitting children with SEND and/or taking children with SEND off the school roll. In turn, this appears to be increasing reliance on more expensive specialist placements, which limits availability of these places for children whose needs are better met through these placements, thereby driving up costs further.

29. There is a fairly clear narrative around what is driving up demand for provision for children and young people with SEND. However, what is not clear is whether costs have increased at the same time and what local authorities have been able to do to mitigate this upward trajectory in costs.

Lobbying and policy activity

30. A significant amount of lobbying activity has been undertaken over the past year working with SLT and ALDCS across both funding and policy functions at London Councils, including:

- Meeting with the Secretary of State for Education with the Mayor of London, subsequent Ministerial letters and provision of supporting evidence for SLT and ALDCS Ministerial letters.
- Meetings with civil servants at the DfE and MHCLG on an ongoing basis

- Submissions to the Autumn Budget 2017, the 2018/19 Local Government Finance Settlement, the Education Select Committee, Public Accounts Committee and National Audit Office.
- Appearances at the Education Select Committee and London Assembly to give evidence on London's shortfall in the high needs block
- Regular lobbying of and engagement with London MPs

31. The results of London Councils' most recent survey into the cost pressures facing London's Children's Services are being disseminated widely through a report, press work, a parliamentary briefing, member briefing and directly to key partners. London Councils will continue to share these findings to key audiences, for example by promoting parliamentary questions on this area, over the next six months.

32. London Councils is also undertaking policy activity in this area to identify good practice examples across London where boroughs have worked closely with mainstream schools to ensure inclusive approaches to supporting children with SEND and also on a range of different methods used to reduce costs and improve services for SEN transport.

33. In December the Department for Education announced an additional £350 of funding for the high needs block over two years. London will receive £42 million over the two-year period, which London Councils welcomed. Based on the shortfall in funding in 2017-18, and assuming spending increases in 2018-19 at the same rate as in 2017-18, a broad estimate of the shortfall in funding allocations for 2018-19 would be at least £100 million. In this context, the £21 million of additional funding in 2018-19, while welcome, falls significantly short of what is required.

34. Similarly, in recognition of the financial pressure facing social care, the Chancellor announced in the 2018 Budget an additional £410 million funding for children and adult services in 2019/20 across England. This funding is welcome, yet it is unlikely to be make a significant difference given the scale of London's overspends which are likely to continue to increase given current demand and cost pressures.

35. Additional funding is vital to ease the pressure on Children's Services. The recent funding announcements suggest that there is more to be done to convince the government of the level of further investment required in the high needs block to support local authorities to reduce costs whilst continuing to deliver excellent services to children and young people.

Research

36. The analysis of the quantitative research into the funding pressures facing children's services in London has provided some helpful headline figures and clues as to what is driving up costs across the capital. It does not provide, however, the full picture as to why costs are spiralling in London so rapidly, or other easy solutions as to the question of how local authorities could improve practice.
37. In discussions with the DfE it has become clear that London needs a stronger body of evidence around costs and also needs to show how it is taking steps to improve services and reduce costs as much as possible, rather than rely only on calls for additional funding. By demonstrating that London local government is willing to embrace change and by testing out more innovative, collaborative ways of working, it should strengthen our case for more investment in Children's Services.
38. Therefore, London Councils, working closely with CELC, ALDCS and SLT, has commissioned ISOS to undertake further qualitative research to achieve a fuller understanding of what is driving up costs, identify best practice and consider whether that picture could be replicable elsewhere in London. The work will aim to identify policy solutions for London Councils and boroughs to take forward to help ease the pressure facing London's Children's Services.
39. Is it anticipated that a final report will be delivered by ISOS by the end of May. This report will be discussed at a member event later in the year.
40. It will be important for London Councils' Leaders' to engage with the recommendations of this report, helping to galvanise London local government to take action to reduce costs and improve outcomes across Children's Services. As part of this conversation, it is likely that the London boroughs will need to engage

with innovative and collaborative ways to do this on a regional and sub-regional level. This will require a broad consensus across London local government.

Recommendations

41. Leaders' Committee is asked to:

- Note the findings of London Councils' survey into Children's Services funding pressures, and ongoing work to gather evidence on cost drivers, good practice and policy solutions
 - Agree to receive a further report on policy recommendations that will emerge through the qualitative research to ensure that London local government is well placed to take collective action to reduce costs and improve outcomes in Children's Services.
-

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None