

Report of the Director of Children and Families

Report to the Leeds Schools Forum

Date: 6th October 2022

Subject: Dedicated Schools Grant – Medium Term Financial Strategy 2023/24 – 2027/28

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Summary of main issues

1. The Dedicated Schools Grant (DSG) is allocated in four blocks: schools, high needs, early years and central schools services.
2. Over the five year period 2023/24 – 2027/28 the DSG is projected to overspend at a rate of between £0.8m and £17.7m per year if no action is taken. The majority of the overspend is on the high needs block and the council is currently reviewing the options available for managing this as required by the Department for Education.
3. Further updates on the council's DSG management plan will be brought to future Schools Forum.

Recommendations

4. Schools Forum is asked to note the medium term projections for the Dedicated Schools Grant and the work ongoing to identify and implement actions in order to achieve a balanced financial position.

1 Main issues

1.1 Background

- 1.1.1 The Dedicated Schools Grant (DSG) is allocated by the Education and Skills Funding Agency (ESFA) and is the main source of income for local authorities' schools budgets. It consists of four funding blocks: schools, high needs (special educational needs), early years and central school services (provided by the council). The Council is forecast to receive DSG Funding of approximately £2,652m over the next 5 years and further details are provided in Table 1.
- 1.1.2 Along with many other local authorities, Leeds is currently not receiving the full allocation of DSG due under the national funding formula, as there is a cap on some of the funding increases and this has created pressures on the DSG account. If the cap on gains had not been in place, Leeds would have been allocated an additional £32.3m of funding between 2018/19 and 2022/23 across the schools block (£9.5m) and high needs block (£22.8m). A further funding cap of £1.86m will apply in 2023/24 to the high needs block, based on provisional funding allocations released by the ESFA. Further details on funding are provided in the sections that follow.
- 1.1.3 In accordance with the Education Act, some of the DSG can be retained by the council to provide services for schools, though the vast majority is passed directly on to schools and other educational settings. There is some flexibility within the regulations in how funding is allocated out to schools and it is also currently possible to move a small proportion of funding between the different blocks of the DSG to offset overspends, although this is subject to strict regulations and requires annual consultation with schools and Schools Forum approval.

1.2 Projections

- 1.2.1 As shown in Table 1 below, the schools block and early years block budgets are expected to balance over the next five years, based on previous trends and forecast data. Table 1 shows the projected DSG deficit for each year. Table 2 shows the projected cumulative DSG deficit at the end of each year.
- 1.2.2 In line with national trends, the key pressure anticipated in the MTFs for DSG relates to the high needs block, which provides funding in relation to pupils with special educational needs. This is projected to overspend by between £0.7m and £17.7m each year. The assumptions and risks associated with the projections for this funding block and plans to address the overspend are set out in the sections that follow. There is also a smaller pressure on the central school services block from 2023/24, due to the phased reduction in DSG for any historical council expenditure no longer deemed eligible for funding.

Table 1 – Dedicated Schools Grant projected income and expenditure

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Schools Block					
DSG Income	(340.4)	(350.5)	(357.0)	(363.0)	(368.0)
Individual Schools Budgets	332.9	342.9	349.3	355.2	360.1
De-delegated budgets	5.6	5.7	5.8	5.9	6.0
Growth Fund	1.9	1.9	1.9	1.9	1.9
	0.0	(0.0)	0.0	0.0	0.0
Central School Services Block					
DSG Income	(5.1)	(5.1)	(5.2)	(5.3)	(5.3)
CSSB Expenditure	5.2	5.3	5.4	5.5	5.6
	0.1	0.2	0.2	0.2	0.3
Early Years Block					
DSG Income	(59.0)	(57.2)	(55.4)	(53.7)	(52.0)
3 and 4 year old entitlement	48.6	47.1	45.7	44.3	42.9
2 year old entitlement	7.4	7.2	7.0	6.8	6.6
Other early years provision	3.0	2.9	2.7	2.6	2.5
	0.0	0.0	0.0	0.0	0.0
High Needs Block					
DSG Income	(108.3)	(111.0)	(113.7)	(116.7)	(119.8)
Funding passported to institutions	99.2	106.4	113.5	120.7	126.6
Commissioned services	2.7	2.8	2.9	3.0	3.0
Directly Managed by Children & Families	7.1	7.2	7.3	7.5	7.6
	0.7	5.4	10.0	14.5	17.4
Total DSG Income	(512.8)	(523.8)	(531.3)	(538.7)	(545.1)
Total Expenditure	513.6	529.4	541.5	553.4	562.8
Total Dedicated Schools Grant overspend	0.8	5.6	10.2	14.7	17.7

Table 2 – Dedicated Schools Grant projected cumulative deficit

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
DSG balance brought forward	(0.6)	0.2	5.8	16.0	30.7
In year deficit (from table above)	0.8	5.6	10.2	14.7	17.7
Total deficit on General DSG before further actions	0.2	5.8	16.0	30.7	48.4

Potential additional funding, if Schools Forum continued to agree a transfer 0.5% of schools block funding to the high needs block	(3.2)	(3.3)	(3.4)	(3.4)	(3.5)
Potential revised cumulative deficit	(3.5)	(1.2)	5.6	16.9	31.1

1.3 Assumptions and risks

National SEND review

- 1.3.1 At the end of March 2022, the government published its long-awaited SEND review. The review identified 3 key challenges facing the SEND and alternative provision system.
1. Navigating the SEND system and alternative provision is not a positive experience for too many children, young people and their families.
 2. Outcomes for children and young people with SEND or in alternative provision are consistently worse than their peers across every measure.
 3. Despite the continuing and unprecedented investment, the system is not financially sustainable.
- 1.3.2 The SEND review sets out government’s proposals for a system that offers children and young people the opportunity to thrive, with access to the right support, in the right place, and at the right time, so they can fulfil their potential and lead happy, healthy and productive adult lives. The public consultation ran until the end of July 2022 and we are now awaiting the resulting white paper. The recommendations of the SEND Review will have important implications for how support for pupils with SEND is delivered and funded and could therefore have a significant impact on the projections for the high needs block.
- 1.3.3 The Department for Education, with the support of the Department of Health and Social Care, has also commissioned Ofsted and the Care Quality Commission to develop a new area SEND inspection framework to operate from early 2023. This will replace the framework established in response to the Children and Families Act 2014, which introduced joint area inspections of services for children and young people with SEND from 2016. Ofsted and CQC consulted on proposals for the new framework from 13 June 2022 to 11 September 2022. A response will be published in Autumn 2022.

Funding increases

- 1.3.4 In 2019/20, the Government also announced a three year funding settlement for the schools and high needs blocks of the DSG, providing a combined national rise of £7.1bn by 2022/23 compared to 2019/20. An indicative funding announcement has been made for 2023/24 only and it is not yet known what increases may be available beyond that year.
- 1.3.5 In January 2022, advice was received that local authorities should assume a 3% year on year increase in high needs funding in future years. If increases were not as high as

expected for the schools and early years blocks this would be matched by a reduction in funding allocated out to settings.

- 1.3.6 In relation to the central school services block funding, these projections are based on the current funding mechanism. However the Department for Education (DfE) has advised there will be a future consultation on the services this block funds. Some services may become traded arrangements with schools and therefore DSG funding may reduce.
- 1.3.7 In relation to high needs, in the past Leeds was significantly underfunded for and in 2017/18 the high needs block funding for Leeds was 25% lower per pupil than the national average. Since 2018/19 the government has been moving towards a national funding formula to address historical funding differences. This is currently in a transitional phase and while the funding for Leeds has increased it is not yet at the full allocation in the national formula. Leeds still receives less than the national average per pupil for high needs funding when taking into account all maintained and special school pupils, and ranks 133rd out of 150 local authorities for per pupil funding on this basis.
- 1.3.8 The figures presented in the table assume a 3% increase in high needs funding each year, in line with advice received in January. There is however a risk that the national increase could be lower.
- 1.3.9 It is also possible that the high needs funding increase could be higher than estimated. In 2021/22 Leeds received the maximum 12% increase, in 2022/23 the maximum 11% increase and in 2023/24 Leeds will receive the maximum 7% increase. To provide some context for the potential impact of funding increases, for every 1% increase in the high needs allocation there would be approximately £1m of additional funding received.

Cap on gains

- 1.3.10 Although funding has increased since the move towards the national funding formula, some DSG funding increases have been subject to a cap on gains during the transitional period. Although this cap has been removed from the schools block from 2020/21 onwards, it is still in place for the high needs block until at least 2023/24. It is not currently known whether a cap will continue to be applied to the high needs block beyond 2023/24.
- 1.3.11 Although Leeds has been receiving the maximum increases allowed under the cap on gains, it is less than the national funding formula entitlement. If the cap on gains had not been in place, Leeds would have been allocated an additional £32.3m of funding between 2018/19 and 2022/23 across the schools block (£9.5m) and high needs block (£22.8m). A further funding cap of £1.86m will apply in 2023/24 to the high needs block, based on provisional funding allocations released by the ESFA. Leeds is one of the 30 local authorities out of 150 that will continue to have their funding capped in 2023/24.

High needs demand and complexity

- 1.3.12 In line with the national picture, Leeds has experienced an increase in high needs demand and complexity in recent years, with this trend expected to continue. However as

noted above there is currently still a cap on funding increases and to date any additional funding received by Leeds has been exceeded by increased costs.

- 1.3.13 The projections in tables 1 and 2 are based on the current data for forecast population changes in special educational needs in Leeds, combined with trend analysis over the past three years. However there are risks that increases in demand and complexity could be higher than projected, particularly in relation to the long term impact of COVID on learning and deprivation, the effects of which may only become apparent after a number of years.

Funding paid to high needs settings

- 1.3.14 As a result of the supplementary high needs funding for 2022/23, Schools Forum were informed in July 2022 to increase the FFI unit rate from £650 to £672 for mainstream, early years and post 16 settings. At this stage the unit rate is not expected to increase further in 2023/24 for these settings.
- 1.3.15 For special schools, the proposal was to increase the FFI unit rate from £684 to £708. In addition, the high needs operational guide for 2023/24 has set a minimum funding guarantee (MFG) for special schools of 3% compared to 2021/22 baseline funding. The increase applied in 2022/23 goes some way towards that requirement, but it is expected that there will be a similar increase in the FFI unit rate for special schools in April 2023.
- 1.3.16 Places will need to be created to meet future high needs demand, and the rates payable will vary according to the type of need and setting. As some future provision is still to be developed, the projections assume that funding rates for the increased demand will be in the middle cost band for existing settings. The modelling will continue to be updated as work continues to develop capacity for future demand.

Funding transfers between DSG blocks

- 1.3.17 Since 2017/18 a total of £15.81m has been transferred to the high needs block from other funding blocks of the DSG, in order to redirect funding to settings to support special educational needs pressures (£14.16m from the schools block and £1.65m from the central school services block).
- 1.3.18 Beyond 2023/24 it is not known whether funding can continue to be moved between DSG blocks in this way, as the DfE has indicated the ability for local authorities to do this in future will become more limited.
- 1.3.19 If funding transfers are still allowed in future, any transfers from the schools block to the high needs block would require annual consultation with schools and approval by the Leeds Schools Forum.
- 1.3.20 Table 2 shows the estimated funding available if a transfer of 0.5% of schools block funding to the high needs block continued. The 0.5% transfer is in line with the current limit that Schools Forums can agree without further approval from the Secretary of State.

2 DSG savings plan

- 2.1.1 In 2020, the Department for Levelling Up, Housing and Communities (DLUHC, then MHCLG) introduced a statutory override that separated local authorities' Dedicated Schools Grant (DSG) deficits from their wider finances. The effect of the override is that local authorities do not need to make provision from their general reserves to cover their DSG deficits. This statutory override is due to end at the end of the 2022/23. A consultation with local authorities has recently closed on extending this statutory override. If they are extended, these regulations reinforce that councils should not fund a DSG deficit from the general fund.
- 2.1.2 However any local authority with an overall deficit on its DSG account, or whose DSG surplus has substantially reduced during the year, must co-operate with the Department for Education (DfE) in managing that situation. This includes providing information on plans for managing the DSG account and meeting with officials from the DfE as and when requested. The Secretary of State may also impose more specific conditions of grant on individual local authorities that have an overall deficit on their DSG account, where he believes that they are not taking sufficient action to address the situation.
- 2.1.3 A previous review by Children and Families of the high needs block in 2017 identified a range of options to reduce costs, which were consulted on with stakeholders and implemented as appropriate at the time. The Children and Families directorate are carrying out further work to identify a medium-term plan which looks to bring the high needs block back into balance and addresses the projected DSG deficit, to the extent that this is possible given any limitations in funding and increases in demand. Additional high needs provision is already being created in the city and further opportunities to develop this will be explored, with the intention of improving outcomes while also reducing costs.

3 Recommendations

- 3.1 Schools Forum is asked to note the medium term projections for the Dedicated Schools Grant and the work ongoing to identify and implement actions in order to achieve a balanced financial position.