

Report of the Director of Children and Families

Report to the Leeds Schools Forum

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Subject: Dedicated Schools Grant – Medium Term Financial Strategy 2021/22 – 2025/26

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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 2021/22 – 2025/26 the DSG is projected to overspend at a rate of between £6.8m and £8.1m 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 details of the council's DSG management plan will be brought to the November 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. The Council is forecast to receive DSG Funding of £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 £26.4m of funding between 2018/19 and 2020/21 across the schools block (£9.5m) and high needs block (£16.9m).
- 1.1.3 In accordance with requirements set out in the Education Act, some of the DSG can be retained by the council to provide services for schools, however the 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 possible to move some funding between the different blocks of the DSG to address pressures if required. Funding arrangements are reviewed annually, taking into account available funding and priorities set out with the Best Council Plan and supporting strategies. Funding allocations are agreed following consultation with schools and the Leeds Schools Forum.

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.
- 1.2.2 In line with national trends, the key pressure anticipated relates to the high needs block, which provides funding in relation to pupils with special educational needs. The assumptions and risks associated with the projections for this funding block are set out in further detail in the sections that follow. There is also a smaller pressure on the central school services block from 2022/23, due to the phased reduction in DSG for any council expenditure no longer deemed eligible for funding.
- 1.2.3 Table 2 shows the projected cumulative DSG deficit at the end of each year. Also shown is the positive impact if the ESFA removed the cap on gains for high needs funding and if funding continued to be transferred from the schools block to support the pressures on the high needs block, following consultation with schools and approval by Schools Forum. This would however still leave a projected deficit which the Children and Families directorate is developing a plan to address. Further details on this are provided in the sections that follow.

Table 1 – Dedicated Schools Grant projected income and expenditure

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Schools Block					
DSG Income	(343.1)	(357.9)	(367.0)	(372.6)	(379.7)
Individual Schools Budgets	335.7	350.4	359.4	365.0	372.0
De-delegated budgets	4.4	4.5	4.6	4.6	4.7
Growth Fund	3.0	3.0	3.0	3.0	3.0
	0.0	0.0	0.0	0.0	0.0
Central School Services Block					
DSG Income	(4.9)	(4.8)	(4.7)	(4.6)	(4.6)
CSSB Expenditure	4.9	5.0	5.0	5.1	5.2
	0.0	0.2	0.3	0.5	0.6
Early Years Block					
DSG Income	(59.5)	(58.7)	(58.6)	(58.8)	(58.3)
FEEE 3 and 4 year olds	49.0	48.5	48.0	47.4	46.8
FEEE 2 year olds	7.4	7.2	7.7	8.5	8.7
Other early years provision	3.1	3.0	2.9	2.9	2.8
	0.0	0.0	0.0	0.0	0.0
High Needs Block					
DSG Income	(87.9)	(94.8)	(102.1)	(110.2)	(119.1)
Funding passported to institutions	87.3	93.7	101.7	109.1	116.6
Commissioned services	2.0	2.1	2.3	2.4	2.6
Directly Managed by Children & Families	5.6	5.8	5.9	6.0	6.1
	7.0	6.8	7.8	7.3	6.2
Total Dedicated Schools Grant overspend	7.0	7.0	8.1	7.8	6.8

Table 2 – Dedicated Schools Grant projected cumulative deficit

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
DSG balance brought forward	6.3	13.3	20.3	28.4	36.2
In year deficit (from table 1)	7.0	7.0	8.1	7.8	6.8
Total cumulative deficit on General DSG before further actions	13.3	20.3	28.4	36.2	43.0
Potential additional funding:					
High needs block cap on gains removed by ESFA	(3.9)	(3.9)	(3.9)	(3.9)	(3.9)
Transfer of 0.5% of schools block to high needs block	(3.0)	(3.1)	(3.2)	(3.2)	(3.3)
Potential revised cumulative deficit	6.4	6.4	7.4	8.1	7.7

1.3 Assumptions and risks

Funding increases

- 1.3.1 Local authorities are allocated DSG funding based on a combination of pupil data and historical funding. Since 2018/19 the government has been moving towards a national funding formula to address historical funding differences for local authorities and schools. 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. Local authority allocations are released on an annual basis and it is not yet known how this increase will be allocated in 2022/23, or what increases may be available beyond this.
- 1.3.2 Projections in Table 4.18 assume that the minimum funding increases will follow the same trends as in recent 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. In relation to future high needs block funding, the figures presented in the table assume increases in funding will continue at the same rate as recent years. This would however still not provide Leeds with its full high needs funding allocation under the national funding formula, as increases are currently capped. Further details on this are provided below.

Cap on gains

- 1.3.3 Although funding has increased since the move towards the national funding formula, some local authority funding increases have been subject to a cap on gains. 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 2021/22.
- 1.3.4 If the cap on gains had not been in place, Leeds would have been allocated an additional £26.4m of funding between 2018/19 and 2020/21 across the schools block (£9.5m) and high needs block (£16.9m). A further funding cap of £3.9m will apply in 2021/22 to the high needs block, based on provisional funding allocations released by the ESFA.
- 1.3.5 It is not currently known whether a cap will continue to be applied to the high needs block beyond 2021/22. Table 2 above shows the impact on the projected deficit of the current level of cap continuing, as well as the estimated impact on the deficit if the cap ended.

High needs demand

- 1.3.6 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 Leeds has historically been underfunded in comparison to other local authorities. Before the transition to the national funding formula started, in 2017/18 the high needs block funding for Leeds was 25% lower per pupil than the national average. The ESFA's national funding formula seeks to address this historical issue, 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.

- 1.3.7 The projections in Tables 1 and 2 are based on the current data available on forecast increases in special educational needs within the population. There are however risks that demand could be higher than projected, particularly in relation to the impact of COVID-19 on learning and deprivation, the effects of which may only become apparent following the recent re-opening of schools.

Funding transfers between DSG blocks

- 1.3.8 Since 2017/18 a total of £9.8m has been transferred to the high needs block from other funding blocks of the DSG, in order to redirect funding to support special educational needs pressures (£8.15m from the schools block and £1.65m from the central school services block).
- 1.3.9 Beyond 2021/22 it is not known whether funding can continue to be moved between DSG blocks in this way, as the ability for local authorities to do this may become more limited once the full national funding formula is introduced. In addition, any future transfers from the schools block would require annual consultation with schools and approval by the Leeds Schools Forum.
- 1.3.10 Table 2 above shows the estimated funding available if a transfer of 0.5% of schools block funding to the high needs block continued and the impact on the overall deficit. The 0.5% transfer is in line with the current limit that Schools Forums can agree without further approval from the Secretary of State.

1.4 DSG savings plan

- 1.4.1 With effect from the end of 2019/20, new provisions have been added to the School and Early Years Finance Regulations which require local authorities to carry forward any DSG overspends or deficit balances to the following year. These should be dealt with from future DSG income, rather than being funded by the council, unless otherwise authorised by the Secretary of State. In practice Leeds, along with many local authorities, has historically dealt with any overspends on DSG in this way. The new regulations however reinforce that councils should not fund a DSG deficit from their core budget.
- 1.4.2 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, including 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.
- 1.4.3 In September the DfE released a management plan template to help local authorities to manage their DSG. The DfE is encouraging all local authorities to use the template as a planning tool. They expect the plan to be updated and presented at Schools Forum meetings regularly. Local authorities should aim to present the first version of the plan to the Schools Forum in time for budget planning discussions for 2021/22 and before the deadline for any requests to move funding between blocks of the DSG. The DfE

recognises that the management of DSG balances, both bringing spend in line with income and repaying deficits, will take time for some local authorities and the template has been developed in such a way that it is intended to be a live document. The council is planning to bring the first version of the plan to the November Schools Forum meeting.

- 1.4.4 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 current DSG deficit, to the extent that this is possible given any limitations in funding and increases in demand. Options are currently being considered for creating high needs provision in the city, with the intention of improving outcomes while also reducing costs.
- 1.4.5 The DfE also expects to approach selected local authorities with deficits to begin more detailed discussions with them during 2020. In order to make this process manageable, discussions will be limited to a fairly small number of authorities in 2020/21 and will be expanded to other authorities during 2021/22 and subsequent years. The Council is likely to be required to take part in this process at some point, as a DSG deficit of £4m was carried forward from 2019/20 and current projections are for this to increase to £6.3m at the end of 2020/21. However as there are a number of other authorities with more significant DSG deficits than Leeds it is possible that this process may take place in future years.

2 Recommendations

- 2.1 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.