

Report of the Director of Children and Families

Report to the Leeds Schools Forum

Date: 7th October 2020

Subject: Dedicated Schools Grant – Medium Term Financial Strategy 2022/23 – 2026/27

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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 2022/23 – 2026/27 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 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 £2,623m 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 £30.4m of funding between 2018/19 and 2021/22 across the schools block (£9.5m) and high needs block (£20.9m). A further funding cap of £1.9m will apply in 2022/23 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 cumulative DSG deficit at the end of 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 £3.0m and £4.6m 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 2022/23, 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

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|--|----------------|----------------|----------------|----------------|----------------|
| | £m | £m | £m | £m | £m |
| Schools Block | | | | | |
| DSG Income | (329.6) | (348.4) | (358.2) | (365.4) | (370.3) |
| Individual Schools Budgets | 321.3 | 340.1 | 349.8 | 356.9 | 361.7 |
| De-delegated budgets | 4.9 | 4.9 | 5.0 | 5.1 | 5.2 |
| Growth Fund | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Central School Services Block | | | | | |
| DSG Income | (5.2) | (5.2) | (5.2) | (5.3) | (5.3) |
| CSSB Expenditure | 5.3 | 5.3 | 5.4 | 5.5 | 5.6 |
| | 0.1 | 0.1 | 0.2 | 0.2 | 0.3 |
| Early Years Block | | | | | |
| DSG Income | (57.5) | (55.3) | (53.2) | (51.1) | (49.2) |
| 3 and 4 year old entitlement | 47.2 | 45.5 | 43.7 | 42.0 | 40.4 |
| 2 year old entitlement | 7.3 | 7.0 | 6.8 | 6.5 | 6.3 |
| Other early years provision | 3.0 | 2.8 | 2.7 | 2.6 | 2.5 |
| | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| High Needs Block | | | | | |
| DSG Income | (96.0) | (103.3) | (111.4) | (120.1) | (129.4) |
| Funding passported to institutions | 90.8 | 98.7 | 107.2 | 115.4 | 124.4 |
| Commissioned services | 2.5 | 2.7 | 2.9 | 3.2 | 3.4 |
| Directly Managed by Children & Families | 5.7 | 5.8 | 5.9 | 6.0 | 6.1 |
| | 3.0 | 3.9 | 4.6 | 4.5 | 4.5 |
| Total DSG Income | (488.3) | (512.2) | (528.0) | (541.9) | (554.2) |
| Total Expenditure | 491.4 | 516.2 | 532.8 | 546.6 | 559.0 |
| Total Dedicated Schools Grant overspend | 3.1 | 4.0 | 4.8 | 4.7 | 4.8 |

Table 2 – Dedicated Schools Grant projected cumulative deficit

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|--|------------|-------------|-------------|-------------|-------------|
| | £m | £m | £m | £m | £m |
| DSG balance brought forward | 6.8 | 9.9 | 13.9 | 18.7 | 23.4 |
| In year deficit (from table above) | 3.1 | 4.0 | 4.8 | 4.7 | 4.8 |
| Total deficit on General DSG before further actions | 9.9 | 13.9 | 18.7 | 23.4 | 28.2 |
| Potential additional funding, if Schools Forum continued to agree a transfer 0.5% of schools block funding to the high needs block | (3.1) | (3.1) | (3.3) | (3.4) | (3.4) |
| Potential revised cumulative deficit | 6.8 | 7.7 | 9.2 | 10.5 | 11.9 |

1.3 Assumptions and risks

National SEND review

- 1.3.1 The Government announced a Special Educational Needs and Disabilities (SEND) Review in 2019 however the outcome of this has now been delayed three times. The review was intended to improve capacity and support for families as well as assessing what was behind the continual rise in Education, Health and Care Plans. The review would then boost outcomes, improve value for money and address historic underfunding experience by Leeds and other local authorities. As such, 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.

Funding increases

- 1.3.2 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 what increases may be available beyond 2022/23.
- 1.3.3 Projections in Table 1 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.
- 1.3.4 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.

- 1.3.5 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 136th out of 150 local authorities for per pupil funding on this basis.
- 1.3.6 The figures presented in the table assume an 8% increase in high needs funding each year, in line with the national minimum in recent years. There is however a risk that the national increase could be lower.
- 1.3.7 It is also possible that the high needs funding increase could be higher than estimated. In 2021/22 Leeds received the maximum 12% increase and for 2022/23 the maximum 11% increase. However it is not possible to estimate what Leeds may be entitled to in future years, or the maximum increase the ESFA will allow. However 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

- 1.3.8 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 2022/23. It is not currently known whether a cap will continue to be applied to the high needs block beyond 2022/23.
- 1.3.9 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 £30.4m of funding between 2018/19 and 2021/22 across the schools block (£9.5m) and high needs block (£20.9m). A further funding cap of £1.9m will apply in 2022/23 to the high needs block, based on provisional funding allocations released by the ESFA. Leeds is one of the 36 local authorities out of 150 that will continue to have their funding capped in 2022/23.

High needs demand and complexity

- 1.3.10 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.
- 1.3.11 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

- 1.3.12 The ESFA does not require local authorities to increase the per pupil funding paid to settings each year, however there is some pressure from the sector to do this. No decisions have yet been made to amend the funding rates and the projections are therefore based on existing rates, including any known inflation.
- 1.3.13 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

- 1.3.14 Since 2017/18 a total of £12.69m 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 (£11.04m from the schools block and £1.65m from the central school services block).
- 1.3.15 Beyond 2022/23 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.
- 1.3.16 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.
- 1.3.17 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 With effect from the end of 2019/20, new provisions were 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 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 current 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.