

Report of the Director of Children and Families

Report to the Leeds Schools Forum

Date: 5th October 2023

Subject: Dedicated Schools Grant – Medium Term Financial Strategy 2024/25 – 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 three year period 2024/25 – 2026/27 the DSG is projected to overspend at a rate of between £14.4m and £50.9m 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. The projected overspend in 2024/25 means that the proposed reversal of the 2022/23 transfer from the schools block to the high needs block is not now recommended. In addition the council intends to consult on a further block transfer for 2024/25.

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 £1,680m over the next 3 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 gains limit factor on some of the funding increases and this has contributed to created pressures on the DSG account. If the gains limit factor had not been in place, Leeds would have been allocated an additional £34.06m of funding between 2018/19 and 2023/24 across the schools block (£9.5m) and high needs block (£24.56m). A further funding gains limit factor of £2.92m will apply in 2024/25 to the high needs block, based on provisional funding allocations released by the ESFA. Leeds is one of the 32 local authorities out of 150 that will continue to have their funding capped in 2024/25.
- 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 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 three 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. Due to a high level of uncertainty with regards to future national changes in how support for pupils with SEND is delivered and funded the DSG medium term strategy covers the next three financial years. These projections will be subject to further review when certainty over the planning horizon improves and we anticipate we will have a full five year DSG projection by the time of the annual budget report for 2024/25.
- 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. Table 3 shows the projected High Needs position over the next three years. The assumptions and risks associated with the projections for this funding block and plans to address the overspend are set out in further detail in the sections that follow. There is also a small pressure on the central school services block largely due to the phased reduction in DSG for any historical council expenditure no longer deemed eligible for funding.

1.2.3 As a result of the projected overspend shown below, the proposed reversal of the 2022/23 transfer from the schools block to the high needs block reported to Schools Forum in July is not now recommended. In addition, the council intends to consult on a further block transfer for 2024/25.

Table 1 – Dedicated Schools Grant projected income and expenditure

	2024/25	2025/26	2026/27
	£m	£m	£m
Schools Block			
DSG Income	(362.3)	(368.9)	(375.2)
Individual Schools Budgets	355.2	361.6	367.8
De-delegated budgets	6.1	6.3	6.4
Growth Fund	1.0	1.0	1.0
	(0.0)	(0.0)	0.0
Central School Services Block			
DSG Income	(5.1)	(5.1)	(5.3)
CSSB Expenditure	5.3	5.4	5.6
	0.2	0.3	0.3
Early Years Block			
DSG Income	(63.8)	(62.4)	(61.1)
3 and 4 year old entitlement	49.9	48.5	47.1
2 year old entitlement	10.7	10.9	11.1
Other early years provision	3.2	3.0	2.9
	0.0	0.0	0.0
High Needs Block			
DSG Income	(120.3)	(123.4)	(127.0)
Funding passported to institutions	124.7	144.1	167.1
Commissioned services	2.8	2.9	3.0
Directly Managed by Children & Families	7.0	7.2	7.5
	14.2	30.8	50.6
Total DSG Income	(551.5)	(559.8)	(568.6)
Total Expenditure	565.9	590.9	619.5
Total Dedicated Schools Grant Projected Overspend	14.4	31.1	50.9

Table 2 – Dedicated Schools Grant projected cumulative deficit

2024/25	2025/26	2026/27
£m	£m	£m

DSG balance brought forward	(7.0)	7.4	38.5
In year deficit (from table above)	14.4	31.1	50.9
Total deficit on General DSG before further actions	7.4	38.5	89.4
Potential additional funding, if Schools Forum continued to agree a transfer of up to 0.5% of schools block funding to the high needs block	(3.5)	(3.6)	(3.6)
Potential revised cumulative deficit	3.9	31.4	78.7

Table 3 – High Needs Budget projected income and expenditure

	2024/25 £m	2025/26 £m	2026/27 £m
DSG Income Due			
- Full allocation	(134.9)	(138.9)	(143.0)
- Deductions for academy recoupment	14.6	15.5	16.0
- Transfer from Schools Block	0.0	0.0	0.0
Net grant due to LCC	(120.3)	(123.4)	(127.0)
Funding Passported to Institutions			
- SILC and Resource Provision Places	14.9	14.9	14.9
- Out of Area and residential placements	13.2	13.8	14.3
- Alternative Provision (including AIP's)	5.3	5.3	5.3
- SEN Top-ups to Institutions	83.0	98.9	117.8
- Mainstream additional places (£6k blocks)	8.3	11.1	14.8
- Education provision for mental health beds	0.1	0.1	0.1
Commissioned Services			
- Hospital & Home Tuition	2.7	2.8	2.8
- PD & Medical Service	0.1	0.1	0.1
Children's Services			
- Autism support (STARS)	0.5	0.5	0.5
- Children missing out on education	0.5	0.5	0.5
- Management of high needs services	0.2	0.3	0.3
- SEN adaptations	0.2	0.2	0.3
- SEN Inclusion Team	1.5	1.6	1.7
- Sensory Service	2.4	2.4	2.5
- Invest to Save budget	1.0	1.1	1.1
Other items			
- Prudential borrowing for SEMH provision	0.6	0.6	0.6
Total Expenditure	134.5	154.2	177.6
Total (under) / over spend	14.2	30.8	50.6

1.3 Assumptions and risks

SEND Green Paper

- 1.3.1 The Government released a SEND Green Paper for consultation in 2022, which could have significant implications for how support for pupils with SEND is delivered and funded. Drawing on the feedback of this consultation the government has now published the Special Educational Needs and Disabilities (SEND) and Alternative Provision (AP) Improvement Plan. The Improvement Plan sets out how the Department for Education intends to proceed with the proposed changes in the green paper which could have an impact on the projections for the high needs block, but this is too early to quantify.

Funding increases

- 1.3.2 Local authority allocations are currently released on an annual basis and it is not yet known what increases may be available beyond 2024/25. In 2022/23 and 2023/24 supplementary funding for schools and the high needs block was announced in December. Those allocations have been included in the base funding for 2024/25. There is no indication that there will be further supplementary allocations for 2024/25.
- 1.3.3 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 high needs, since 2018/19 the Government has implemented a national funding formula to address historical funding differences. In recent years Leeds received a funding increase of at least 8%, however this will reduce to 5% in 2024/25 and beyond this the DfE has advised local authorities should assume a 3% increase.
- 1.3.5 To provide some context for the potential impact of funding changes, every 1% change in the high needs allocation is equivalent to approximately £1.3m of funding.

Cap on gains

- 1.3.6 Although funding has increased since the national funding formula was introduced, some DSG funding increases have been subject to a funding floor and gains limit factor to ensure a minimum level of increase for every local authority and to reduce the impact of year-on-year changes to funding levels. Although this cap has been removed from the schools block from 2020/21 onwards, it is still in place for the high needs block.
- 1.3.7 Although Leeds has been receiving the maximum increases allowed under the gains limit factor, it is less than the national funding formula entitlement. If this had not been in place, Leeds would have been allocated an additional £34.06m of funding between 2018/19 and 2023/24 across the schools block (£9.5m) and high needs block (£24.56m). A further funding cap of £2.92m will apply in 2024/25 to the high needs block, based on provisional funding allocations released by the ESFA. Leeds is one of the 32 local authorities out of 150 that will continue to have their funding capped in 2024/25.

High needs demand and complexity

- 1.3.8 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

- 1.3.9 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. The projected increases in demand exceed the 3% increase in funding forecast beyond 2024/25. However, there are risks that increases in demand and complexity could be higher than projected.
- 1.3.10 The largest increase in expenditure in these projections is in funding to mainstream schools. Top up funding increased by 24.33% between 2021/22 and 2022/23 and a further 33.45% between 2022/23 and 2023/24. On top of this, additional block funding increased by 80.76% and 91.44% over the same period. Assuming this trend continues, the funding paid to mainstream schools is projected to increase from £23.1m in 2022/23 to £43.0m in 2024/25.
- 1.3.11 A new special free school opened in September 2023 and there have been increases in places available in existing schools. Along with the funding increases required, top ups to special schools (maintained, academies and free schools) are projected to increase from £24.1m in 2022/23 to £31.2m in 2024/25.

Funding paid to high needs settings

- 1.3.12 For 2023/24 the ESFA introduced a requirement for local authorities to increase funding for high needs settings by a minimum of 3% per pupil compared to 2021/22 baselines and a requirement to pay additional funding equivalent to 3.4% per pupil compared to 2022/23 funding levels. For 2024/25, each local authority is required to set a minimum funding guarantee of between 0.0% and 0.5%
- 1.3.13 Places will need to be created to meet future high needs demand. 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 be updated as work continues to develop capacity for future demand.

Inflationary pressures

- 1.3.14 Current inflationary pressures will have an impact on schools and other settings, as well as on the cost of council services funded by DSG, which may in turn place more pressure on DSG.

Funding transfers between DSG blocks

- 1.3.15 Since 2017/18 a total of £19.15m 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 (£17.50m from the schools block and £1.65m from the central school services block).
- 1.3.16 Beyond 2024/25 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.

- 1.3.17 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.
- 1.3.18 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 required local authorities to carry forward any DSG overspends or deficit balances to the following year. Such deficits were ringfenced to be dealt with from future DSG income, rather than being funded by the Council, unless otherwise authorised by the Secretary of State. This provision for ringfencing DSG deficits was originally due to be withdrawn at the end of 2022/23. However it has now been extended to the end of the 2025/26 financial year. If the provision is not extended further the council would require sufficient funding available in other reserves to offset any DSG deficit.
- 2.1.2 Under the current regulations any local authority with a current 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 they believe that they are not taking sufficient action to address the situation. As the council is not currently in deficit the DfE does not require Leeds to prepare a plan for financial sustainability, however as part of good financial management the council will still develop plans to mitigate expected future pressures.

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.