24th January 2019

DSG Recovery Plan

1. Introduction

1.1 For some time now, the Schools Forum has been tackling the issue of how to manage the "overspend" on DSG arising primarily from pressure on High Needs funding.

1.2 The DfE and ESFA have noted over the last two years that more authorities are reporting a cumulative DSG deficit. As announced in July 2018, through conditions of grant the DFE will require a report from all local authorities that have an overall cumulative DSG deficit of 1% or more at the end of the 2018 to 2019 financial year, outlining their recovery plans. The 1% calculation will be based on the latest published DSG allocations for 2018 to 2019, gross of recoupment, as at the end of the 2018 to 2019 financial year.

1.3 To this end, the DfE published consultation on the implementation on new arrangements for reporting deficits on the DSG.

1.4 This paper:

- Shares the Government consultation (this was targeted at local authorities not Schools themselves)
- Outlines some of the key points
- Shares the Council's response to the consultation
- Updates on December Funding announcements
- Outlines the Council's plan for preparing a Recovery Plan

2. Government consultation: key points

2.1 The consultation document is attached at Appendix 1.

2.2 The key points to note are:

- Recovery plans are due in by 30 June
- Local authorities that have an overall cumulative DSG deficit of 1% or more at the end of the 2018 to 2019 financial year, will need to submit a Recovery Plan.
- The Recovery plan should look to bring the overall DSG account into balance within a maximum of three years (this could be extended on an exception basis)
- As DSG funding is ring-fenced, there is no requirement for local authorities to top-up the grant from general funding or from non-ring-fenced revenue reserves.
- Evidence will need to be provided explaining the issues and plans.
- The extent to which the plan is supported by schools and other stakeholders will need to be covered.

3. Council response to the Consultation

Below are details of the comments made by the Council in response to the Consultation. We are awaiting a response from Government.

3.1 The Council notes that the comment that "In the last two years the number of authorities reporting a cumulative DSG deficit has substantially increased". The Council would be interested to understand why the Government believes this is the case? As this issue is clearly a national one, the Council would be interested in what is being done at a national level to tackle this issue.

3.2 The Government plans to tighten up reporting may well be part of the answer but without understanding the underlying causes of such deficits nationally, it is difficult to assess whether this plan will work. Could the Government share its thinking further on this matter?

3.3 The Council welcomes the comment that "As funding is ring-fenced, there is no requirement for local authorities to top-up the grant from general funding or from non-ring-fenced revenue reserves". The Council would encourage the DfE/ESFA to make this point in all School Funding documentation including the Operational Guide. At times comments made by the ESFA officers at events have contradicted this point.

3.4 In the context of the above point, the Council was surprised to read the comment that "Even though there is no requirement to subsidise DSG from general funding, local authorities cannot continue to build up cumulative deficits on DSG provision. In this scenario, local authorities may come under pressure to address the cumulative deficit on DSG provision through drawing on other resources". The Council would seek further clarification on two matters:

- Given the continued reduction in general local government funding, what "other resources" is the Government referring to?
- On the basis that there is no requirement to subsidise the DSG, the Council's view is that the deficit will be carried until it is cleared. Whilst one would attempt to clear it as soon as possible, is the Government suggesting it would intervene at some point?

3.5 One of the reasons for a deficit could be inadequate funding. At what point might the Government accept that local authorities/schools are doing an "outstanding" job but funding is simply inadequate? If this conclusion is reached could local areas expect more funding? If the answer is No then could the Government advise what it would expect "outstanding areas" to do next?

3.6 Under the proposed approach, the Government can effectively set funding at a totally inadequate level, watch all Councils run up deficits and simply require recovery plans without addressing funding issues. The issue of funding must be explored further. If certain conditions are met then areas must be able to access additional funding. The Council would welcome clarification on this might work.

3.7 The Government suggest that it "may accept a recovery plan that leaves some or all of the deficit accumulated to date outstanding". The word "accept" indicates the Government will accept/reject a plan. On this basis, the Council has various questions:

- The process for reviewing/assessing recovery plans is not set out in the consultation. Can the Government describe what the process will be?
- Can the Government describe on what basis it would "accept" or "reject" a plan?
- If a plan is rejected, will the Government offer further advice or guidance? Will plans have to be resubmitted?
- Will the Government be offering support to those areas that it feels are struggling to address high needs deficits?

4. December funding announcements

4.1 In December the Government announced:

- an additional £250 million of high needs funding – £125 million for 2018-19; £125 million for 2019-20; - £84k for Rutland in each year;
- a further £100 million top-up to the Special Provision Capital Fund for local authorities in 2019-20 – allocation to be confirmed
- that it is commissioning 'SEN Futures', a flagship package of long-term research and analysis to provide evidence on the impact of current SEN provision on children and young people's outcomes, and to assess the value for money of SEN provision in England.
- holding, in early 2019, an evidence-gathering exercise on the financial incentives in the current arrangements, in particular on the operation and use of mainstream schools' notional SEN budget, which pays for the costs of special educational provision up to £6,000.

4.2 These announcements and the additional funding are welcome but in the short term do not solve our current deficit on the DSG.

5. Recovery Plan preparations

5.1 Current position on the DSG

- The current position is that we are projecting a deficit on the DSG of £124k at the year end (please refer to 18/19 forecast paper). This would represent <1% of our total allocation.
- This means that whilst we still have a problem, a Recovery Plan may not need to be formally submitted to the DfE although we still need to have one in place as the 19/20 projections indicate further overspends.

5.2 Five year projections

- As part of the Recovery Plan, we are looking to produce a 5 year projection which will show likely funding and costs covering the next 5 years.
- This will tell us the extent of the challenge over the coming years.
- It will also enable us to model different scenarios including for example:

    - Transferring in more funding from Schools Block
    - Additional increases in funding
    - Reduction in tariffs (amounts paid to setting to meet needs)
    - Children coming in to/"leaving" High Needs provision
- We envisage being able to share this modelling at the April meeting

5.3 Actions underway

- A Strategic Development Plan is in place and has been led by the multi-agency SEND Strategic Group since 2017. The actions within the plan underpin our Inclusion Strategy and are aimed at increasing the inclusion of children with SEND locally, thereby reducing the pressure on the high needs budget.
- A School Inclusion summit was held in November 2018 with a view to engaging schools in developing alternative approaches to tackling the high needs pressure. The actions from this meeting have been included in the SEND Development Plan which is to be considered at the next meeting of SEND Strategic Group in early 2019.
- We will be consolidating all actions into a draft Recovery Plan for presentation in April.

6. Recommendations

Schools Forum should:

- Note the requirements of the Recovery Plan and that further guidance is awaited from Government
- Note that there is no requirement for the Council to subsidize the DSG from general funding
- Note that a draft Recovery Plan including 5 year projections will be presented in April

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12th January 2019

Appendix 1

Consultation on the implementation of new arrangements for reporting deficits of the dedicated schools grant

Since the Department for Education introduced the dedicated schools grant (DSG) in 2006, a small number of local authorities have overspent their DSG allocations and found themselves in a cumulative DSG deficit. In these situations, regulations have required that local authorities seek the approval of their schools forum in allowing them to carry over the overspend and offset it against the following year's DSG. Previously, when a local authority found itself to have a DSG deficit of over 2%, we've asked for an explanation, and an account of what its plan is for bringing its budget back into balance.

In the last two years the number of authorities reporting a cumulative DSG deficit has substantially increased. Because of this, we've decided that there is a need to tighten up the reporting arrangements. As announced in July 2018, we will through conditions of grant require a report from all local authorities that have an overall cumulative DSG deficit of 1% or more at the end of the 2018 to 2019 financial year, outlining their recovery plans. The 1% calculation will be based on the latest published DSG allocations for 2018 to 2019, gross of recoupment, as at the end of the 2018 to 2019 financial year.

DSG Deficit Recovery Plans

DSG is a ring-fenced specific grant, provided outside the local government finance settlement. It must be used in support of the schools budget for the purposes defined in the School and Early Years Finance (England) Regulations. As funding is ring-fenced, there is no requirement for local authorities to top-up the grant from general funding or from non-ring-fenced revenue reserves.
For this reason, DfE intends to require all local authorities with a cumulative overspend on DSG provision to produce recovery plans detailing the steps they plan to take to provide statutory services within the annual funding envelope. These recovery plans should be discussed with, and if possible, agreed with, the local schools forum.

Even though there is no requirement to subsidise DSG from general funding, local authorities cannot continue to build up cumulative deficits on DSG provision. In this scenario, local authorities may come under pressure to address the cumulative deficit on DSG provision through drawing on other resources.

Where a local authority has a cumulative overspend, producing a deficit on its DSG reserve, its recovery plan should look to bring the overall DSG account into balance within a maximum of three years. We recognise that this may prove difficult for some local authorities. Where this is the case, we would be open to receipt of evidence explaining the problem, and may accept a recovery plan that leaves some or all of the deficit accumulated to date outstanding. This means that the local authority would carry forward the amount agreed as a deficit, but we would not require this to be recovered within the three-year period. In all cases, we will expect local authorities' recovery plans

to demonstrate how they will bring in-year spending in line with in-year resources within three years at most.

Any authorities that propose to leave part or all of their accumulated DSG deficit outstanding will need to provide a clear explanation as to why their deficits could not be recovered in the short term and provide thorough evidence to support their proposals. They will also need agreement from their Chief Finance Officer (CFO).

We expect a range of evidence to support local authority recovery plans. We would expect this to have already been presented to schools forums. We are aware that DSG deficits are usually caused by high needs pressures, and in these cases the evidence required in the recovery plans will typically include what we already look for in block movement disapplication requests. Authorities will, however, need to address whatever the main causes of overspending on the DSG have been.

The evidence should include:

- A full breakdown of specific budget pressures locally that have led to the local authority incurring a cumulative DSG deficit of over 1%. Where this has resulted from high needs pressures, information should include the changes in demand for special provision over the last three years, how the local authority has met that demand by commissioning places in different sectors (mainstream and special schools, further education and sixth form colleges, independent specialist provision and alternative provision), and if there have been any reductions in the provision for mainstream school pupils with high needs

- Where the deficit has resulted from high needs pressures, an assessment and understanding of the specific local factors that have caused an increase in high needs costs to a level that has exceeded the local authority's high needs funding allocations; and a plan to change the pattern of provision where this is necessary, as well as to achieve greater efficiency and better value for money in other ways; together with evidence of the extent to which the plan is supported by schools and other stakeholders

- A detailed recovery plan showing how the authority intends to bring its DSG reserve back into balance within three years, showing clearly how expenditure will be contained within future funding levels

- If the authority judges that it cannot recover the whole of its cumulative DSG deficit within three years, it must explain the reasons for this. If the authority wishes to defer recovery of some of the cumulative deficit, it must show in its recovery plan that it is able to at least contain its expected in year expenditure within its expected in year DSG income by the end of the three-year period

- Details of any previous movements between blocks, what pressures those movements covered, and why those transfers have not been adequate to counter the new cost pressures

- Assumptions on assumed future transfers between blocks of the DSG, if permitted in future years, and evidence of support from the schools forum and wider school community for these

Reporting DSG Deficits

Following discussion with MHCLG, we believe that there are currently inconsistencies in the way local authorities report their DSG reserves or deficits in the statistical returns that are submitted to MHCLG. We have agreed that DSG reserves or deficits should in future be reported as a separate ring-fenced reserve in RO returns, and MHCLG will be changing guidance to reflect this. What this means for local authorities is that DSG deficits will not need to be covered by an equivalent amount in local authorities' general reserves. Consequently, new lines will be added to the 2018/19 RO returns and local authorities will be expected to state what their cumulative DSG deficit is every year. This should reconcile to the s.251 returns that local authorities submit to DfE every year. These changes will ensure that the full extent of DSG deficits is reported consistently across the sector on an annual basis.

Next Steps

The consultation period regarding the DSG deficits will end on 7 December, after which we will finalise what needs to be included in recovery plans, setting a submission deadline for June 2019 in respect of deficits at the end of 2018 to 2019. We will be meeting local authority representatives this autumn to discuss the implementation plans and ensure that these changes are introduced as smoothly as possible. Please see the table below to understand how the addition of the DSG deficit recovery plans will fit into the current funding year's assurance schedule:

Action	Deadline
Launch of DSG deficit consultation	Early November
School block movement disapplication deadline	30 November
End of DSG deficit consultation	7 December
Section 251 2019 to 2020 Budget statements submitted	4 March - 30 April
Section 251 budget statement 2019 to 2020 checks to be completed	1 May - 26 June
Deadline for submission of DSG recovery plans	30 June
Review of recovery plans	July-September
Deadline for submission of CFO assurance statement on use of DSG in 2018 to 2019	Mid-September

If you have any comments on the proposals please respond to amsgfunding.comms@education.gov.uk by 7 December 2018.