

<b>REPORT:</b>	<b>Audit and Governance Committee</b>	
<b>DATE OF DESISION</b>	<b>March 2023</b>	
<b>REPORT TITLE:</b>	<b>Dedicated Schools Grant (DSG) Deficit Management Plan</b>	
<b>CORPORATE DIRECTOR / DIRECTOR:</b>	<b>Debbie Jones, Interim Corporate Director of Children, Young People &amp; Education</b>	
<b>LEAD OFFICER:</b>	<b>Shelley Davies Director, Education and Youth Engagement</b>	
<b>LEAD MEMBER:</b>	<b>Cllr Gatland – Cabinet Member for Children, Young People &amp; Learning</b>	
<b>AUTHORITY TO TAKE DECISION:</b>	<b>Audit and Governance Committee to note the updated DSG Management plan in terms of performance, risks, and updates on Government policy on the DSG</b>	
<b>KEY DECISION?</b> [Insert Ref. Number if a Key Decision]	<b>NO</b>	<b>REF. NO: Not Applicable</b>
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>NO</b>	<b>Public</b>
<b>WARDS AFFECTED:</b>	<b>All</b>	

## 1 SUMMARY OF REPORT:

- 1.1 This report provides some significant updates regarding the Dedicated Schools Grant (DSG) Deficit management plan put in place around 2019/20 to address the in-year overspend of £6.7m reported that year and the trend. There has since been significant fall in the in-year overspend over the last few years to a reported position of £3.47m at the end of 2021/22 and an outturn forecast overspend of £1.65m for 2022/23 as at the end of December 2022.

The success of the management plan is driven by robust strategic budget monitoring, key strategic work streams, demand management initiatives, regular review of cost of provision, supply management through alternative service provision and efficient resource utilisation across the SEND sector with a strong project management team.

- 1.2 The report highlights the overall performance of the plan, governance requirements, risks, and recent Department for Levelling Up, Housing and Communities (DLUHC) regulation regarding extending the Statutory Override for the Dedicated Schools Grant for another three (3) years from 2023-24 to 2025-26. This regulation reduces the overall financial risks posed by the deficit falling on the council unearmarked general fund reserves.

## **2 RECOMMENDATIONS**

- 2.1 Audit and Governance Committee is asked to note the overall performance of the delivery of the Deficit Recovery Plan which is being undertaken by the local authority to address the historical DSG deficit and the progress report including risks and opportunities.

## **3 REASONS FOR THE RECOMMENDATIONS**

- 3.1 Reporting on the progress of the Deficit Recovery plan to this committee and to School Forum is an essential governance requirement as part of the DSG grant conditions for individual local authorities that have an overall deficit on their DSG account.

The grant condition requires all local authorities with an overall deficit on its DSG account at the end of the financial year to meet the following requirements.

- a) Provide information as and when requested by the Department for Education (DfE) about its plans for managing its DSG balance as well as information on pressures and potential savings on its High Needs budget.
- b) Meet with officials from DfE as and when they request to discuss the LA's plans and financial position on its Deficit Management Plan.
- c) Expected to keep School's Forum updated regularly about the Local Authority's DSG account and plans for managing it, including high needs pressures and potential savings.

## **4. BACKGROUND AND UPDATES**

- 4.1 Under the current DSG grant conditions, Local Authorities with an overall deficit on its DSG Account at the end of the financial year or whose DSG surplus has significantly reduced during the year is expected to submit a plan (DRP) to the ESFA which demonstrates how the Local authority plans to recover the deficit within three year or how it intends to manage it.
- 4.2 The Department for Education (DfE) introduced an additional intervention project called the 'Safety Valve' (SV) programme. This initiative is designed to assist local authorities with the very highest percentage of cumulative DSG deficits on their balance sheet. The rationale is to inject cash in a form of both capital and revenue to fund the provision of more school places for children with special educational needs and disabilities (SEND) as well as clear the agreed historical deficits. This intervention will be implemented once the local authority reaches an agreement with the DfE
- 4.3 This (SV) intervention programme expects those affected local authorities to develop substantial saving plans with reforms to their high needs systems and budget processes. The DfE will provide support and challenge, aimed at helping the Local Authority to reach sustainable high needs spend using two key areas: These are:
- (i) Demand management through the EHCP assessment processes.
  - (ii) Well-managed placement of education provision in a cost-effective way as well as effective resource utilisation

4.4 Croydon Council reported an overall net cumulative DSG deficit of £21.295m for 2021/22. Table 1. below shows the overall DSG Balances at the end of the financial year 2021/22 as well as post end of year adjustment after discussions and recommendations from the DfE Safety Valve team.

4.5 The local authority recently triggered S114 hence would not be in the position to use any general funds to eliminate any part of the deficit, or otherwise to add general funds to its schools budget which may require it to apply to the Secretary of State under regulation 31(1)(b) to disregard the requirement to carry deficits forward under regulation 8(7), to the extent of the amount of general funds that it wishes to use.

Table 1. Revised Cumulative DSG position.

Details	Balance b/d 31/03/2022	DfE	Commitment /accrued	Balance b/d post Safety Valve
DSG Reserves	Total £m	Total £m	Total £m	Total £m
High Needs Block	27,688	-3,186*	0	24,502
Early Years	-2,982	612	2,370	0
Schools Block	-3,411	2,574	837**	0
<b>Balance b/d</b>	<b>21,295</b>	<b>0</b>	<b>3,207</b>	<b>24,502</b>

DfE agreed in principle for those commitments to be actioned. \* Payment for the agreed spot purchase of therapies \*\*

## 5. CROYDON DSG MANAGEMENT PLAN

5.1 The purpose of the management plan as per the DfE guidance is to:

- Comply with DSG conditions of grant.
- Monitor how DSG High Needs funding is being spent and compare data on high needs spend with other Local Authorities
- Highlight areas where Local Authorities may wish to review spending to improve future strategic plans for the provision of children and young people with special education needs and disabilities.
- Part of the overall desire to reduce both the in-year cumulative DSG overspend before the government ends the Statutory Override (Accounting Treatment to ring fence the deficit from general fund reserves) for the Dedicated Schools Grant.
- To provide assurances that Local Authorities are achieving value for money from their DSG spend and are fully cognisant of and capture all the potential operational and financial risks.

5.2 The DfE uses a special template that contains comparative data on special provision and placements, Section 251 budget and outturn data and High Needs National Funding Formula illustrative allocations.

5.3 The local authority is required to complete the template. The completed plan is then reviewed by a team from the DfE (Safety Valve Team). An extract from that complex formula driven forecast template was presented to the High Needs Working Group and referred to table 3 below and appendix 1 in this report.

5.4 School Forum was briefly updated on the plan on the 6<sup>th</sup> of February 2023,

5.5 The Director of Children's Services (DCS) and the Section 151 Officer (CFO), in accordance with the expected timetable have had the opportunity to review the most

recent plan submitted to the Safety Valve team.

- 5.6 The Council officers have been meeting with officers from the ESFA throughout this year to review the plan.

## 6. PERFORMANCE OF THE DSG MANAGEMENT PLAN

- 6.1 The current in-year High Needs overspend forecast as of December 2022 (Period 9) is £1.65m. The current position shows how robust the Deficit Recovery Plan is. The in-year position represents significant improvement over the last two years in producing some tangible savings as shown at table 2 below. Detailed performance analysis and charts are presented in appendix 1.

Table 2. Trend Analysis- Plan Vs Actual over the years

Performance Measurement	2019-20 £,000	2020-21 £,000	2021-22 £,000	Forecast 2022-23 £,000
Deficit Recovery Plan - Projections	5,635	4,472	4,105	1,285
Actual Outturn	5,434	5,744	3,468	1,695
Deviation from target	-201	1,272*	-637	410

The £1.2m deviation from the plan in 2020/21 was due unexpected historical funding in dispute and £410k deviation at P9 is due to additional funding for some complex cases in 2 special schools.

- 6.2 The local Authority has identified 6 key service strategies / deliverables projects aimed at reducing the overall DSG deficit over a 5-year period and finally bring it in line with grant funding by 2026/27.

Table 3 – Extract from the DfE Deficit Management Plan Template (6th October 2022) Version

	2021-22 £,000s	2022-23 £,000s	2023-24 £,000s	2024-25 £,000s	2025-26 £,000s	2026-27 £,000s
<b>Planned DSG position (surplus)/deficit</b>	£24,502	£25,785	£26,764	£27,489	£27,478	£27,462
<b>Unmitigated expenditure forecast</b>		£401,710	£422,810	£439,084	£454,973	£469,975
<b>Savings forecast</b>		-£643	£708	£4,602	£8,214	£9,818
<b>Mitigated expenditure forecast</b>		£402,353	£422,102	£434,482	£446,759	£460,157

- 6.3 The above table demonstrates the overall movement in the DSG deficit over the next few years under the plan submitted to the DfE on the 6th of October 2022.

## 7. DEPARTMENT OF EDUCATION VIEW ON HISTORIC DSG DEFICIT BALANCES

- 7.1 The department recognises that some local authorities will still not be able to pay off their historic deficit from the DSG over the next few years regardless of their best efforts in implementing a robust deficit recovery plan. Two approaches taken by the government is the statutory override rule as well as the “Safety Valve” intervention programme.
- 7.1 There has been recent government decision announcing an extension to the Statutory Override for the Dedicated Schools Grant for the next 3 years from 2023-24 to 2025-26. This reduces the overall financial risks of the deficit falling on the council unearmarked general fund

reserves.

- 7.2 The “Safety Valve” initiative introduced by the DfE was initially intended to help local authorities with the very maximum percentage of cumulative DSG deficits on their balance sheet. The rationale is to introduce cash in a form of both capital and revenue to fund the provision of more school places for children with special educational needs and disabilities (SEND) as well as clear the agreed historical deficits of almost £27.4m at the end of 2025/26 as shown in table 3 above.
- 7.3 The Council had already undergone some robust financial and SEND data validation process with the “safety Valve” team from the DfE to ensure there the local authority qualifies for the funding. The next stage is confirmation of funding in exchange of an agreement to meet all the financial targets specified in the 5 years Deficit Delivery Plan.

## **8. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 8.1 The financial considerations are incorporated above and within the DSG Management Plan.
- 8.2 Based on the current plans, a deficit would remain at the end of 2026/27 of approximately £27.4m if not covered by the Safety Valve intervention.
- 8.3 The risk related to the statutory override has been extended for another 3years. This implies that external auditors will not expect the deficit remaining to be recovered in full or held against unearmarked general fund reserves for the next three years to financial year 2025-26.
- 8.4 The governance arrangement rooted within the DfE deficit plan monitoring process ensures, extended oversight by the SEND Board, Schools Forum, Council Executive Directors including transparency and opportunity to challenge the progress against the Recovery Plan.
- 8.5 The regular reporting requirement to all the above stakeholders including the Audit Committees provides another layer for challenge and opportunity for improvement. This assurance process was highlighted as a recommendation by the external auditor’s report in the information for Public Interest issued in 2020 when the Local Authority issued S114.

Approved by: Interim Head of Service, Finance on behalf of the Corporate Director of Finance and Section 151 Officer.

## **9. LEGAL CONSIDERATIONS**

- 9.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Local Government Finance Act 1992 section 31A (calculation of council tax requirement) places the Council under a statutory duty to set a balanced budget and section 28 (budget monitoring: general) of the Local Government Act 2003 requires the Council to review its calculations from time to time during the year and to take such action, if any, as it considers necessary to deal with any deterioration in its financial position..
- 9.2 Dedicated Schools Grant (DSG) is paid to the Council by the Secretary of State under the Education Act 2002 section 14 (power of Secretary of State to give financial assistance for purposes related to education or children etc.). It is a ring-fenced specific grant provided outside the local government finance settlement. The formal terms of the grant require it to

be used in support of the schools budget for purposes defined in regulation 6 and schedule 2 of The Schools and Early Years Finance (England) Regulations 2022.

- 9.3 The Education and Skills Funding Agency Guidance on DSG: Conditions of grant 2021-2022 require any local authority with an overall deficit on its DSG account to present a Plan to the DfE for managing their future DSG spend and to keep the schools forum regularly updated about the authority's DSG account and plans for handling it including high needs pressures and potential savings.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Legal Services and Monitoring Officer.

## **10. HUMAN RESOURCES IMPACT**

- 10.1 There are no direct Human Resources considerations arising from this report. If there are subsequent proposals that affect the workforce as a result of the budget limit set, consultation and planning must be in line with HR policies and procedures and HR advice must be sought from the school's assigned provider. Council HR should be kept informed of proposals.

Approved by: Debbie Calliste, Head of HR for Children, Families and Educations on behalf of the Director of Human Resources

## **11. EQUALITIES IMPACTS**

- 11.1 The Council has a statutory duty, when exercising its functions, to comply with the provisions set out in the Sec 149 Equality Act 2010. The Council must, in the performance of its functions, therefore have due regard to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- 11.2 The funding allocations and formulae are set nationally and are therefore already subject to an equality assessment. The Council is also committed to the government's vision - an education system that works for everyone. No matter where they live, whatever their background, ability or need, children should have access to an excellent education that unlocks talent and creates opportunity. We want all children to reach their full potential and to succeed in adult life.

- 11.3 In setting the Education Budget 2021/22, the Council has taken into account the need to ensure targeted funding is available for work on raising the attainment of disadvantaged pupils who are likely to share a "protected characteristic" (as defined in the Equality Act 2010) and close the gap between them and their peers.

- 11.4 The Council will ensure that the system for distributing funding is fair in order to support the life chances of our most vulnerable children and young people; a fairer funding system will help provide all schools and all areas with the resources needed

to provide an excellent education for all pupils irrespective of their background, ability, need, or where in the country they live.

- 11.5 This will help the Council meet its equality objective “to improve attainment levels for white working class and Black Caribbean heritages, those in receipt of Free School Meals and Looked after Children, particularly at Key Stage 2 including those living in six most deprived wards.”

Approved by: Denise MacCausland, Equality Programme Manager

## **12. ENVI-RONMENTAL IMPACT**

- 12.1 There are no direct implications contained in this report.

## **13. CRIME AND DISORDER REDUCTION IMPACT**

- 13.1 There are no direct implications contained in this report.

## **14. DATA PROTECTION IMPLICATIONS**

### **14.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF ‘PERSONAL DATA’?**

**NO**

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**CONTACT OFFICER:**

**Charles Quaye** (Interim) Head of Finance  
Children, Families and Education

### **APPENDICES TO THIS REPORT**

1. Dedicated Schools Grant (DSG) Deficit Management Plan