

Schools Forum 8 July 2020

Change in Treatment of Dedicated Schools Grant (DSG) Deficits

- 1.1 Following a recent consultation, the DfE has made a significant change to the School Finance Regulations and DSG conditions of grant, relating to the way that DSG deficits are treated.
- 1.2 To date, if there was a DSG deficit at the end of the financial year, Schools Forums have had to approve the carrying forward of such a deficit to future years schools budgets. If such approval was not forthcoming, the default position was that the deficit fell to the local authority's general fund, unless specific authorisation from the Secretary of State for Education was granted. Forum may recall that when T&W last had a deficit on DSG, in 2018, the Forum was asked to specifically authorise the carrying forward of the deficit to the following years DSG.
- 1.3 DSG deficits have become much more significant over the last few years as a result of pressures on the high needs block. In the DfE's recent (January 2020) paper 'Clarifying the specific grant and ring-fenced status of the DSG' they note that "*at the end of 2018/19, about half of all authorities experienced an overspend, amounting to £250m in all*". 'Half of all authorities' amounts to around 75, implying an average deficit in these authorities of over £3m. "*The national net position was an overspend of £40m and authorities were forecasting that there would be a net overspend of £230m at the end of 2019-20.*"
- 1.4 Given the legislative position described in 1.2 above, not surprisingly "*This has led some local authority Chief Finance Officers.....to conclude that if their DSG account is in deficit, they need to be able to cover the deficit from the authority's general reserves. We know that a similar view is held by organisations that audit local authority accounts. Given the size of some authorities' DSG deficits....there is a risk that covering DSG deficits from general funds may lead authorities to make spending reductions in other services that they would not otherwise make*"
- 1.5 In the above context, the DfE has changed the legislative position such that "*a DSG deficit must be carried forward to be dealt with from future DSG income, unless the Secretary of State authorises the LA not to do this*". The DfE are clear that "*These arrangements will begin to operate from budget setting for the financial year 2020/21 and will therefore affect any deficits held at the end of 2019/20*".
- 1.6 In effect, then, the DfE have reversed the longstanding position formerly in place. This reflects the unprecedented pressure on DSG, created by a combination of the DfE's legislation in recent years in relation to high needs, the DfE's ring-fencing of DSG blocks and demographic pressures impacting upon high needs.
- 1.7 In the DfE's consultation response document, it is noted that "*Overall funding for schools and high needs, compared with 2019/20, is increasing by £4.8bn in 2021/22 and £7.1bn in 2022/23 and will be need to be split between schools and high needs. In making that decision we will be mindful of the pressures on high needs.*" The implication is that following the substantial increase in high needs funding in 2020/21, further increases are likely in the following two years and that the scale of this increase

will be linked to the scale of the high needs budget problems that are apparent in local authority DSG budget positions.

- 1.8 The document also states that *“we intend to review the funding formula for high needs over the next year or two and in doing so will take account of the patterns of expenditure that LAs’ deficits, alongside other evidence, will help to identify; and what they tell us about LAs’ need to spend. As part of the review, we will identify any changes needed to the current formula so that it reflects LAs’ need to spend.”* Whilst this approach might be seen as a welcome recognition of reality, there is also an obvious danger of simply rewarding authorities that spend more, regardless of whether this reflects a higher level of need in their area compared to other local authorities.

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