

1. Background

- 1.1 The Dedicated Schools Grant (DSG) is a ringfenced grant payable to Local Authorities by Government for the funding of both maintained schools and academies. From 2018/19, the Government changed the way it funds the Authority for schools via the DSG to a standard means of allocating resources. This is known as the National Funding Formula (NFF).
- 1.2 The DSG contains 4 blocks, each of which is determined by a separate National Funding Formula which calculates the total funding due to Local Authorities. The Department for Education (DfE) calculated the funding that Local Authorities will receive for the Schools Block as if the National Funding Formula had been applied. As in 2020/21, it still remains the role of the Local Authority to determine the funding to schools and academies via their Local Funding Formula for the Schools and Early Years Blocks.
- 1.3 There is no legal requirement for Authorities to move further to the funding allocation methodology introduced by the NFF in 2018/19 when determining schools and academies funding for 2021/22 using the local formula, however there is a requirement for the Local Authority to consult with schools on the DSG allocation methodology that will be applied.
- 1.4 As referenced above, the DSG is made up of 4 blocks of funding:
 - a) The **Schools** block covers funding for:
 - Individual mainstream schools and academies
 - Growth Funding for planned growth by the Local Authority (LA) in schools.
 - b) The **High Needs** block covers funding for the education of pupils subject to Education, Health and Care Plans from age 0-25 in a range of provision including special schools, mainstream schools, alternative provision, independent specialist provision and Council centrally retained expenditure for High Needs. Funding for the High Needs block has over the past few years, not kept pace with demand.
 - c) The **Early Years** block covers:
 - Two Year old Funding
 - Early Years Funding in Schools and Private, Voluntary and Independent provision
 - Centrally retained expenditure for under 5's.
 - d) The **Central Schools Services** block covers:
 - Funding previously allocated through the retained duties element of the Education Services Grant (ESG) which has been discontinued from 2018/19
 - Central school services which includes the expenditure related to Schools Forum, Premature Retirements, Admissions service, and School Improvement
 - School Licenses
 - Statutory and Regulatory duties.

- 1.5 There is limited flexibility for Local Authorities to transfer funding between the four blocks, even though there are growing demand pressures in the High Needs Block. For 2021/22 the Education and Skills Funding Agency (ESFA) has limited the movement of funds from the Schools Block to other blocks to 0.5% of the total Schools Block Allocation, but only with the agreement of the Schools Forum. Any proposed movement above the 0.5% must be referred to the Secretary of State for approval.
- 1.6 The Authority has a responsibility to ensure that the DSG is deployed in accordance with the conditions of the grant and the School and Early Years Finance (England) regulations 2020. The arrangements for 2021/22 are detailed by the ESFA “2021 to 2022 Schools revenue funding operational guide” published in July 2020 and the “High needs funding 2021 to 2022 operational guide” published in September 2020.

2. DSG Allocations 2021/22

- 2.1 On 20 July 2020, the Department for Education, via the Education and Skills Funding Agency published provisional DSG funding allocations for 2021/22. This included notification that nationally, Schools funding would increase by £2.6bn in 2020/21, £4.8bn by 2021/22 and £7.1bn by 2022/23. Within this funding announcement the Government advised that in 2021/22, High Needs funding for Schools was set to increase by £730m.
- 2.2 Oldham’s share of this overall DSG funding for 2021/22 was initially announced in July at a sum of £261.701m excluding Early Years funding, based on October 2019 pupil numbers. It was subsequently revised on 17 December 2020 based on October 2020 pupil numbers. The 2021/22 DSG allocation for Oldham is £285.413m including the Early years Block; being £21.940m more than the 2020/21 allocations (analysed in Table 1 below).
- 2.3 As there is a requirement to agree the funding formula with schools, consultation with schools and the Schools Forum was required. A budget paper, based on estimated 2019 pupil numbers and an estimated Schools Block allocation of £216.559m, was presented to Schools Forum on 18 November 2020. This suggested a funding allocation methodology for schools; a move towards the 2021/22 NFF cash values in full except for the Area Cost Adjustment factor, which was to be reduced to 1.00000, together with a 0.5% transfer of DSG funding between the Schools and the High Needs Funding Blocks.
- 2.4 The projection that Schools Forum received was that the outturn DSG position for 2020/21 was showing a deficit of £6.186m, mainly due to additional costs of funding from the High Needs block for Special Schools, the Pupil Referral Unit, additional children with statements in mainstream schools, the cost of high cost external placements and an increase in learners accessing Post 16 FE provision.
- 2.5 The funding formula and the 0.5% transfer between blocks as proposed was approved by Schools Forum and provides a minimum funding level per pupil of £4,180 for primary and £5,415 for secondary schools. The funding formula and 0.5% transfer between blocks was subsequently reported to and approved by Cabinet on 14 December 2020.

- 2.6 As advised above, the Council received the final DSG notification for 2021/22 including an amount for the Early Years Block on 17 December 2020. The 2021/22 DSG for Oldham is a total value of £285.413m, which includes additional funding of £16.774m for the Schools Block and £5.243m for the High Needs Block. The total allocation is analysed over the four funding blocks including comparisons to the 2020/21 actual allocations in the table below:

Table 1 – Dedicated School Grant 2021/22

	Schools Block	Central School Services Block	High Needs Block	Early years Block	Total DSG Allocation
	£000	£000	£000	£000	£000
2021/22 Allocation	218,648	2,618	44,432	19,715	285,413
2020/21 Allocation*	201,874	2,689	39,189	19,721	263,473
Variance	16,774	(71)	5,243	(6)	21,940

*2020/21 Early Years allocation includes a retrospective allocation of £275k re 2019/20

- 2.7 The allocations for the Schools and Central Schools Services Block are final. A small proportion of the High Needs Block is subject to change and will be adjusted in Spring 2021. This will include an adjustment for Springboard Free School which is included within the Local Authority allocation and imports/exports (Oldham children educated in schools outside the borough and children from outside the borough educated in Oldham schools). For planning purposes, the allocation for imports/exports has been estimated and the allocation adjusted. The Local Authority will also estimate the Early Years Block based on the January 2021 census when available, as the current figure is based on January 2020, and this is not formally updated until July 2021. In addition, the Early Years Block funding will not be fully finalised until July 2022 because 7/12 of the allocation will be based on the January 2022 census.
- 2.8 Overall, the 2021/22 allocation has increased by £21.940m. For 2021/22, historic commitments funding has been reduced by 20% nationally by the DfE. The DfE will continue to unwind this funding in future years. As a result, the Central School Services Block allocation for Oldham for 2021/22 has reduced by £0.265m although the costs will still be incurred. The impact of this reduction is being managed as part of the Council's 2021/22 revenue budget setting process. The amount for ongoing responsibilities has increased by £0.194m due to an increase of 348 pupils and additional funding of £3.52 per pupil for the Increase in amount for Teachers' Pension Employer Contribution Grant (TPECG) for centrally employed teachers for 2020 to 2021.

3 DSG Deficit

- 3.1 The DSG has been in deficit since 2016/17, largely caused by spending pressures in the High Needs Block in relation to increasing numbers of pupils receiving Education Health & Care Plans (EHCPs), increasingly complex needs, increasing costs of provision, particularly those outside the Local Authority, the Pupil Referral Unit and for Post 16 Education.

- 3.2 There have been transfers of funding from other blocks (including using year end underspends) towards offsetting the deficit and Table 2 below shows the net overall position of the DSG balance for the last few years.

Table 2- DSG Surplus / Deficit

DSG High Needs Block	High Needs Block (Deficit)/ Surplus £000	Movement from Schools Block £000	Savings/ Movement Schools Block £000	Savings/ Movement Early Years Block £000	Overspend CSSB £000	Other £000	DSG (Deficit)/ Surplus £000	Cumulative DSG (Deficit)/ Surplus £000
2015/16	(671)	0	1,399	99	0	10	837	837
2016/17	(2,968)	385	38	1	0	5	(2,539)	(1,702)
2017/18	(4,336)	2,380	682	(55)	0	0	(1,329)	(3,031)
2018/19	(2,665)	1,878	268	826	0	1	308	(2,723)
2019/20	(4,239)	1,594	366	134	(48)	0	(2,193)	(4,916)
2020/21 estimate	(1,473)	1,009	875	0	(54)	0	357	(4,559)
2021/22 estimate	1,542	1,049	(1,539)	0	(41)	0	1,011	(3,548)

High Needs Block

- 3.3 The High Needs Block mainly funds pupils in specialist and alternative settings, such as special schools (both maintained and independent), resource units within mainstream schools, pupil referral units, and pupils with high needs in mainstream and early years settings and post 16 colleges. It also provides central support services such as Hearing and Visual Impairment (HI/VI) services.
- 3.4. Table 3 details the funding allocation for the High Needs Block. The allocation is provisional as there are still adjustments to be confirmed.

Table 3. High Needs Block Allocation

High Needs Block	2020/21 allocation £000	2021/22 allocation £000
High Needs Formula	33,880	38,002
Hospital Allocation	486	592
Additional Allocation	0	0
Special Schools Census	3,965	4,979
Additional funding for Special Free School	213	214
Import/Export Adjustment (not yet known 2021/22)	645	645
Notified High Needs Allocation	39,189	44,432
Estimated Additional allocation imports/exports	0	198
Gross High Needs Allocation	39,189	44,630
Transfer from Schools Block; 0.5% 2020/21 and 0.50% 2021/22	1,009	1,049
Gross High Needs Allocation after transfer	40,198	45,679
Top sliced for Academies for ESFA (recoupment) to pay academies direct. 2021/22 is an estimate	(10,027)	(10,282)
Total High Needs Block	30,171	35,397

- 3.5 The funding for 2021/22 has increased by £5.243m. The place funding for academies/free schools is top sliced from the Local Authority allocation and paid to the school direct.
- 3.6 Despite the additional funding notified for 2021/22, there remains a requirement for the transfer between the Schools and High Needs blocks to continue in Oldham in order for the DSG to be brought back into balance in 2023/24. In total therefore, after allowing for the 0.50% movement of £1.049m, the revised Schools Block is £217.600m and the revised High Needs Block is £45.679m (includes estimated £198k for imports/exports)
- 3.7 Table 4 shows the current recovery plan. Additional pressures of £0.691m not anticipated in the initial recovery plan (nor by the DfE) create a predicted adverse variance of £4.559m in 2020/21. This was reported to the Schools Forum on 13 January 2021 and to Cabinet at its meeting on 23 February 2021, in the month 8 financial monitoring report .
- 3.8 Further anticipated, additional pressures in 2021/22 are offset by the increased funding from Government, estimated savings from Out of Borough placements and favourable adjustments for imports/exports to deliver a potential in-year surplus of £1.011m, despite which there remains a forecast deficit of £4.597m. This reduces to £3.548m with a transfer between Schools and High Needs Blocks.
- 3.9 It is an important element of the financial management of the Authority that the DSG is not in a deficit position and there has been action to address this. However, the current deficit has resulted from the increase in DSG resources being more than offset by the increasing numbers of children with special needs entering the education system, predominantly resulting in increased expenditure in the High Needs Block. Action taken so far to try to reduce the deficit include:
- The revision of Council processes to ensure that Education Health and Care Plans (EHCP) are issued in a timelier manner and reviewed more frequently with regard to the needs of the child
 - Changes to the process for the placement of children out of borough
 - Transfers of funding between the Schools and High Needs blocks
- 3.10 Work will continue during the remainder of 2020/21 and throughout the next few years to address the DSG deficit position, building on the work already in train, with the continued monitoring of the detailed DSG recovery plan. However, it is evident, that progress has been hindered by the impact of COVID-19 and the widespread disruption to the education system during 2020.
- 3.11 The recovery plan has been revisited and this highlights that the DSG deficit forecast for 2020/21 has reduced to £4.559m due to growth funding not spent in 2020/21 but committed for 2021/22. In order to set a realistic timeframe for the removal of the cumulative DSG deficit the plan has been extended by an additional two years to 2023/24.

Table 4 - DSG Recovery Plan

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Opening Balance - Surplus/(Deficit)	(4,916)	(4,559)	(3,548)	(1,879)
Movements per original plan	1,048	5,081		
Original Forecast Variance	(3,868)	522	(3,548)	(1,879)
Estimated Adjustments including Additional (Pressures)/ Savings	(691)	(4,268)	185	123
Estimated Savings Out of Borough	0		286	928
Additional High Needs Funding	0		1,000	1,000
Estimated adjustment re imports/exports	0	198	198	198
0.5% Movement Agreed by Schools Forum				
Revised Net Forecast (Deficit)/Surplus	(4,559)	(3,548)	(1,879)	370

- 3.12 The recommendations of the DfE consultation 'Clarifying the Specific Grant and Ring-Fenced Status of the DSG' have been incorporated in the Schools and Early Years Finance (England) Regulations 2020, which were laid before Parliament on 30 January 2020 and came into force on 21 February 2020. The revised legislation makes it entirely clear, on a statutory basis, that a DSG deficit must be carried forward to be dealt with from future DSG income, unless the Secretary of State authorises an Authority not to do this. The Government's intention is that DSG Deficits should not be covered from general fund resources and that over time they should be recovered from DSG income. This came into force from 29 November 2020 and is applicable for 3 financial years starting in the 2020/21. Local Authorities must charge the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its schools' budget. This account must be presented within the Statement of Accounts.
- 3.13 The new regulations also mean that there will no longer be an automatic 1% trigger for the production of a DSG deficit recovery plan, instead the DfE will focus on those Authorities requiring help through a more measured and targeted approach. As the current recovery plan has been agreed with the Schools Forum, it is appropriate to continue to present information in this format. The Authority will continue to use the recovery plan arrangements as an effective means of monitoring the DSG position and returning the deficit to a surplus and will continue to liaise with the Schools Forum accordingly.