

## 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 2021/22, 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 2022/23 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. For 2022/23 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 “School and Early Years Finance (England) regulations 2021”. The arrangements for 2022/23 are detailed by the ESFA “ Schools operational guide: 2022 to 2023 “published in July 2021 and the “High needs funding 2022 to 2023 operational guidance” published in August 2021.
- 1.7 The Oldham DSG has been in a deficit position since 2016/17, i.e., resources spent have been in excess of grant funding available. As a result, the Department for Education through the Education and Funding Skills Agency have been monitoring the financial position of the DSG and has required the Authority to submit a Recovery Plan for review. The DSG financial information presented follows the currently required format of the Recovery Plan.

## **2. DSG Allocations 2022/23**

- 2.1 On 19 July 2021, the Department for Education, via the Education and Skills Funding Agency published provisional DSG funding allocations for 2022/23. This included confirmation that nationally, schools funding had increased by £2.6bn in 2020/21 and £4.8bn in 2021/22 and would increase by £7.1bn by 2022/23. Within this funding announcement the Government advised that in 2022/23, High Needs funding for Schools was set to increase by £780m.
- 2.2 Oldham’s share of this overall DSG funding for 2022/23 was initially announced in July 2021 at a sum of £274.906m excluding Early Years and growth funding, based on October 2020 pupil numbers. It was subsequently revised on 16 December 2021 based on October 2021 pupil numbers. The 2022/23 DSG allocation for Oldham is £297.200m (increased to £298.955m when the High Needs additional funding of £1.756m is added as explained at paragraph 2.7) including the Early Years Block; being £13.424m more than the 2021/22 allocations.
- 2.3 Funding is allocated to schools via a formula and as there is a requirement to agree the funding formula with schools, consultation with schools and the Schools Forum is required. A budget report, based on estimated 2020 pupil numbers and an estimated Schools Block allocation of £227.493m, was presented to Schools Forum on 17 November 2021. This suggested a funding allocation methodology for schools; a move towards the 2022/23 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. However, following the Spending Review of October 2021 and the announcement that there would be £1.6bn in additional funding for 2022/23 budgets on top of the year-on-year increase already confirmed, it was suggested to Schools Forum that the proposed transfer of 0.5% would be reviewed to see if there was still a requirement for a transfer once detailed funding was known.
- 2.4 The projection that Schools Forum received in November 2021 was that the outturn DSG position for 2021/22 was showing a deficit of £3.731m, 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. However, as advised above, this agreement was on the basis that this was subject to review once the detailed additional funding information (arising from the Spending Review) was announced and ensuring that the funding provided a minimum funding level per pupil of £4,265 for primary and £5,525 for secondary schools. The funding formula and 0.5% transfer between blocks was subsequently reported to and approved by Cabinet on 13 December 2021.
- 2.6 As advised above, on 16 December 2021, the Council received the final DSG notification for 2022/23 including an amount for the Early Years Block. The 2022/23 DSG for Oldham is a total value of £298.955m, which includes additional funding of £8.431m for the Schools Block and £6.607m for the High Needs Block. The total allocation is analysed over the four funding blocks including comparisons to the 2021/22 actual allocations in the table below:

**Table 1 – Dedicated School Grant 2022/23**

	Schools Block £000	Central School Services Block £000	High Needs Block £000	Early years Block £000	Total DSG Allocation £000
2022/23 Allocation**	227,079	2,417	51,158	18,301	<b>298,955</b>
2021/22 Allocation*	218,648	2,618	44,551	19,714	<b>285,531</b>
<b>Variance</b>	<b>8,431</b>	<b>(201)</b>	<b>6,607</b>	<b>(1,413)</b>	<b>13,424</b>

\*2021/22 Schools Block and High Needs Block excludes the transfer of £1.049m from the Schools Block to the High Needs Block. The High Needs Block includes the adjustment for imports/exports.

\*\*2022/23 Schools Block includes £1.813m for National Non-Domestic Rates which the ESFA will pay billing authorities directly.

- 2.7 The autumn 2021 spending review confirmed £1.6 billion funding for schools and high needs, for the 2022/23 financial year, above the previous settlement for that year. This funding will be allocated through the schools supplementary grant 2022 to 2023. The allocation for Oldham is £6.626m. In addition to the schools supplementary grant, Local Authorities have been allocated a share of £325m additional High Needs funding for 2022 to 2023, on top of the DSG high needs block allocations, calculated under the national funding formula. Oldham's allocation of this High Needs funding is £1.756m. This has been included in the High Needs Block for 2022/23 in the table above. 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 2022. This will include an adjustment for Springboard and Halcyon Way Free Schools which are 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 at the same allocation as for 2021/22. The Local Authority will also estimate the Early Years Block based on the January 2022 census when available, as the current figure is based on January 2021, and this is not formally updated until July 2022. In addition, the Early Years Block funding will not be fully finalised until July 2023 because 7/12 of the allocation will be based on the January 2023 census.

2.8 Overall, the 2022/23 DSG allocation has increased by £13.424m. For 2022/23, 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 2022/23 has reduced by £0.201m although the costs will still be incurred. The impact of this reduction is being managed as part of the Council's 2022/23 revenue budget setting process. The amount for ongoing responsibilities has increased by £0.011m due to an increase of pupils.

### 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) to partially offset the deficit and Table 2 below shows the net overall position of the DSG balance for the last few years. The estimated position at the end of 2022/23 shows a substantial improvement with only a small deficit of £0.113m.

**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	(817)	1,009	954	264	(54)	0	1,356	(3,560)
2021/22 estimate	290	1049	(768)	0	(40)	0	531	(3,029)
2022/23 estimate	3,751	0	(795)	0	(40)	0	2,916	(113)

### 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 for 2022/23 and compares it to 2021/22. The allocation is provisional as there are still adjustments to be confirmed, as outlined earlier in section 2.7.

**Table 3 - High Needs Block Allocation**

High Needs Block	2021/22 allocation £000	2022/23 allocation £000
High Needs Formula	38,002	42,313
Hospital Allocation	592	634
Additional Allocation	0	0
Special Schools Census	4,979	5,477
Additional funding for Special Free School	228	228
Import/Export Adjustment (not yet known 2022/23)	645	750
<b>Notified High Needs Allocation</b>	<b>44,446</b>	<b>49,402</b>
Estimated Additional allocation imports/exports	105	0
<b>Initial High Needs Allocation</b>	<b>44,551</b>	<b>49,402</b>
Additional allocation to High Needs Block following the Spending Review 2021	0	1,756
<b>Gross High Needs Allocation</b>	<b>44,551</b>	<b>51,158</b>
Transfer from Schools Block; 0.50% 2021/22	1,049	0
<b>Gross High Needs Allocation after transfer</b>	<b>45,600</b>	<b>51,158</b>
Top sliced for Academies for ESFA (recoupment) to pay academies direct. (2021/22 is an estimate)	(10,282)	(10,840)
<b>Total High Needs Block</b>	<b>35,318</b>	<b>40,318</b>

- 3.5 Following the autumn 2021 spending review, there has been a further additional High Needs allocation for Oldham of £1.756m for the 2022/23 financial year. Therefore, the total allocation for 2022/23 for High Needs is £51.158m and the funding for 2022/23 has increased by £6.607m (from £44.551m to £51.158m). The place funding for academies/free schools is top sliced from the Local Authority allocation and paid to the schools directly.
- 3.6 Due to the additional funding notified for 2022/23, it is anticipated that there will no longer be a requirement for the transfer between the Schools and High Needs blocks to continue in Oldham in 2022/23. It is anticipated that the DSG can be brought back into balance in 2023/24 without the need for a transfer, as shown in Table 4. In total therefore, the Schools Block is £227.079m and the High Needs Block is £51.158m (excluding the £6.626m supplementary grant for schools).

### Recovery Plan

- 3.7 Table 4 shows the current recovery plan. This shows a projected deficit of £3.029m at the end of 2021/22. This was reported to the Schools Forum on 19 January 2022 and is included in the Council's Month 8 Financial Monitoring Report.
- 3.8 Further anticipated, additional pressures in 2022/23 are offset by the increased funding from Government and estimated savings from Out of Borough placements to deliver a potential in-year surplus of £2.916m after reversing the indicative transfer. However, there remains a cumulative forecast deficit of £0.113m. Given the anticipated funding for 2023/24, this then moves to a surplus position of £2.522m at the end of 2023/24 rather than the deficit of £0.844m that had previously been expected.

- 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 includes:
- 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 2021/22 and throughout 2022/23 and beyond to ensure that the projected surplus position by 2023/24 is achieved.
- 3.11 The recovery plan has been remodelled and this highlights that the DSG deficit forecast for 2021/22 has reduced to £3.029m due to growth funding not spent in 2021/22 but committed for 2022/23. However, it produces a surplus for 2023/24.

**Table 4 - DSG Recovery Plan**

	2021/22 £000	2022/23 £000	2023/24 £000
Opening Balance - Surplus/(Deficit)	(3,560)	(3,029)	(113)
Movements per original plan	5,081	0	0
<b>Revised Forecast Variance</b>	<b>1,521</b>	<b>(3,029)</b>	<b>(113)</b>
Estimated Additional (Pressures)/ Savings	(4,550)	2,284	879
Additional High Needs Funding per the announcement	0	1,756	1,756
Reverse Indicative Transfer		(1,124)	
<b>Revised Net Forecast (Deficit)/Surplus</b>	<b>(3,029)</b>	<b>(113)</b>	<b>2,522</b>
<b>Previously Reported Net Forecast (Deficit)/Surplus (Nov 21)</b>	<b>(3,731)</b>	<b>(382)</b>	<b>844</b>

- 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 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. Oldham has complied with this in the 2020/21 accounts.

- 3.13 These 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 will continue to liaise with the Schools Forum accordingly.
- 3.14 The Authority has been liaising with the DfE/ESFA due to its deficit position to agree action to bring the DSG back into at least a balanced position by 2023/24. To date the discussions have been constructive. In view of the projected surplus by 2023/24, it is expected that the DfE will be satisfied with the current position.