

Committee: Cabinet

Date: 27 January 2020

Wards: All

Subject: DSG Recovery Plan

Lead officer: Director, Children, Schools and Families

Lead member: Cabinet Member, Children's Services, Cabinet Member Schools and Adult Education

Contact officer: Rachael Wardell

Recommendations:

1. To note the Recovery Plan requested by the Department of Education in response to Merton's overspend on the Dedicated Schools Grant caused by significant overspending of the high needs block, and the context and background in which this Recovery Plan has been required.
 2. To continue to lobby central government to ensure sufficient funding is made available through the DSG to achieve the intentions of the Children and Families Act 2014 for all children and young people to be able to achieve their full potential.
-

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. This report outlines the context and background to the overspend in the Dedicated Schools Grant (DSG) in the 2018/19 financial year, and in the current financial year (2019/20), which has led to the Department for Education requiring Merton Council to produce a five-year 'Recovery Plan' with the purpose of bringing the DSG back into balance.
- 1.2. The five-year Recovery Plan submitted to the DfE is provided as an Appendix to this report.
- 1.3. The current five-year Recovery Plan, which is modelled on forecast requirements and government funding in the next five years, does not show the DSG coming back into balance during this period. This is because the forecast demands on the DSG continue to exceed the anticipated funding made available at this time.
- 1.4. The Children, Schools and Families Directorate is meeting with representatives from DfE on Tuesday 11 February to discuss the Recovery Plan in further detail, and to determine what the realistic prospects are for bringing the DSG back into balance. Feedback will be provided to Cabinet following this meeting.

2 DETAILS

- 2.1. Background to the DSG: The Dedicated Schools Grant is a ring-fenced specific grant. It must be used in support of the schools budget as defined in the School and Early Years Finance (England) (No 2) Regulations 2018; it can be used for no other purpose.

- 2.2. The DSG is divided into four notional blocks – the schools block, **the high needs block**, the central school services block (which allocates funding to local authorities for their ongoing responsibilities towards both maintained schools and academies) and the early years block. Each of the four blocks of the DSG are determined by a separate national funding formula.
- 2.3. In consultation with the schools forum, local authorities make decisions about the delegation of funds to schools and on the spending of funds held centrally, most of which is within the ‘high needs block’ used for making high needs provision for children and young people with special educational needs and disabilities. (High needs funding is allocated and can be used in accordance with the High Needs Funding Operational Guide).
- 2.4. Within the DSG the schools block is ring fenced, but (for 2019-20) local authorities had limited flexibility to transfer funding from the schools block to other areas where this matched local circumstances. The DfE anticipated that most proposals by local authorities to move funding from the schools block would arise as a result of pressures on their high needs budgets. To a certain extent this provision recognised the pressures emerging within the high needs block as the impact of the reforms in the Children and Families Act 2014 began to be felt across many local authorities.
- 2.5. Where a local authority has an overall deficit of DSG of 1% or more it is required to submit a recovery plan to the Department for Education, setting out how it plans to bring the overall DSG account into balance.
- 2.6. Merton SEN Context: Since the implementation of the Children and Families Act 2014, Merton has seen a significant increase in children and young people supported through Education Health and Care Plans.. This is in keeping with a significant national rise in the numbers of young people supported in this way, but the increase in Merton has notably been steeper than in many other local authority areas. Some of this national increase must have been both anticipated by government and intentional, because (among other provisions) the Act extended the age range beyond statutory school age, to the under 5s and up to 25 for eligibility for this support. However, no ‘new burdens’ funding was made available to cover these additional costs. For the coming financial year, the DfE has made available some additional funding nationally in acknowledgement of these financial pressures. Merton’s share of this national allocation has been built into our recovery plan spreadsheet, which is attached as Appendix 2.
- 2.7. In January 2016, the number of young people with Statements or Education Health and Care Plans was 1075. In January 2017 this had increased to 1242, by January 2018 to 1518 and by January 2019 (by which time all statements had been converted to EHCPs) to 1712. At the end of November 2019 there were 1973 EHCPs and this figure continues to rise. This increase is reflected in the financial pressures now clearly present in the High Needs Block of the DSG.
- 2.8. Merton Financial Context: Historically Merton had been able to contain its education spending within the DSG, leading to regular underspends which generated a ‘DSG Reserve’. In the budget outturn report for 2017/18, the Council reported about the DSG: *DSG funded services overspent by £1.896m. These budgets are not within the council’s general fund and*

cannot be offset against the local authority funded budgets. The overspend will be funded from the DSG reserve and applied after consultation with Schools Forum. The report went on to state: The pressure on the high needs block will continue in 2018/19. Due to the low level of DSG reserves, it is expected that this will go into a negative position at the end of next financial year, joining some other London LAs.

- 2.9. This prediction proved to be true and in the budget outturn report for 2018/19 the Council reported about the DSG: *DSG funded services overspent by £3.523m. Of this overspend, £494k was funded from the DSG reserve. The DSG ended with a deficit at year-end of £2,909k. This will be carried forward as a negative reserve, similar to other boroughs.*
- 2.10. In both years, the overspends, which eventually could not be contained within the DSG reserve, were attributable to overspends on the high needs block. In 2017/18 the main reasons for the variance were an overspend of £1,319m on Independent Day School Provision and £364k on EHCP allocations to maintained primary and secondary schools. In 2018/19 the main reason for the overspend related to £3,601m on Independent Day School provision. Other overspends included £661k on EHCP allocations to Merton primary and secondary schools, £879k on EHCP allocations to out of borough maintained primary, secondary and special schools, and £1.426m on one-to-one support, OT/SLT and other therapies as well as alternative education.
- 2.11. The number of children with Education Health and Care Plans has continued to grow, and with this growth an associated increase in spending which is required to meet the Council's statutory duty in respect of children's special educational needs. In this month's financial monitoring report to Cabinet, DSG is forecast to overspend by £10,557m an increase of £198k over last month. The cumulative overspend position at the end of last year, is therefore currently forecast to increase to £13,476m at the year end and is projected to increase further in future years. Clearly this is unsustainable.
- 2.12. Measures already taken, and proposed to be taken to try to manage down the spend in this area, while still complying with the Council's statutory duties, are outlined in the narrative to the DSG Recovery Plan attached as Appendix 1.
- 2.13. Treatment of DSG Deficits: The DfE's DSG Deficit Recovery Plan Guidance (March 2019) confirms that: *The DSG is a ring-fenced specific grant, provided outside the local government finance settlement. It should 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**, but it is open to them to do so.* Despite this, prudent accounting treatment has required the Council to make financial provision within its MTFS for this growing deficit.
- 2.14. In October 2019, possibly in response to a number of local authorities proposing significant cuts to services in order to be able to make financial provision to cover the growing DSG deficits, the DfE initiated a consultation on changing the conditions of the DSG Grant (<https://www.gov.uk/government/consultations/consultation-on-changing-the->

[dedicated-schools-grant](#)). The consultation proposed: *changing the conditions and regulations applying to the dedicated schools grant (DSG) to clarify that it is a ring-fenced specific grant, separate from the general funding of local authorities. It will also clarify that local authorities are expected to carry forward any deficits they may have on their DSG account, and the deficit does not have to be covered by their general reserves.*

2.15. We are awaiting confirmation of the outcome of this consultation.

3 ALTERNATIVE OPTIONS

3.1. The DSG Deficit Recovery Plan is required by the DfE because of the size of Merton's DSG deficit. The Recovery Plan originally provided was a three year plan, which demonstrably did not recover the deficit position. By agreement with the DfE, Merton therefore has produced and submitted a five-year Recovery Plan. This is the plan appended to this paper. However, as shown in the narrative for the plan, the continuing increase in the number of young people needing an Education, Health and Care Plan means that the deficit cannot be recovered within five years. Following the meeting with representatives from DfE scheduled for 11 February, any possible alternative options will be put before Cabinet.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. All expenditure in the DSG is undertaken in consultation with the Schools Forum. The Recovery Plan is shared with the Schools Forum.

5 TIMETABLE

5.1. Submission of 5 year Recovery Plan to DfE 12 November 2019

5.2. Presentation of 5 year Recovery Plan to Cabinet for information 27 January 2019

5.3. Meeting with DfE to discuss Recovery Plan 11 February 2020

5.4. Further actions TBA.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. The significant financial implications from this deficit and its management are covered in detail in the two Appendices. This pressure has also been reflected in the Business Plan Report elsewhere on this agenda. Members should note that we have reflected the latest (Period 8) forecast DSG deficit for 2019/20 of £10.557m in the MTFs. This compares to the £9.280m forecast deficit for 2019/20 in the table appended to this report (reflecting our submission to the DfE at the time).

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. The right to an assessment of a child's special educational needs, the production of an Education, Health and Care Plan which meets those needs and the commissioning of the required service provision outlined in the plan are statutory requirements under the Children and Families Act 2014.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. Children and young people with special educational needs and disabilities have protected characteristics (age, disability) under the Equalities Act 2010. Meeting those children and young people's needs mitigates some of the disadvantage they may experience as a result of their special educational needs and/or disabilities.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. Young people with Special Educational Needs and Disabilities are over-represented in the cohort of young people involved with the youth justice system.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. Children and young people with special educational needs and disabilities are more vulnerable than the child population in general. Meeting our statutory duties in respect of these children and young people enables the Council to help manage some of the health and safety and other risks to which they may be exposed.

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- DSG Recovery Plan Narrative for revised submission November19 final
- 5 year DSG recovery plan template updated V2

12 BACKGROUND PAPERS

- 12.1. Children and Families Act 2014:
<http://www.legislation.gov.uk/ukpga/2014/6/part/3/enacted>
- 12.2. SEND Code of Practice:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/398815/SEND_Code_of_Practice_January_2015.pdf
- 12.3. School and Early Years Finance (England) (No 2) Regulations 2018
<http://www.legislation.gov.uk/uksi/2018/1185/contents/made>
- 12.4. High Needs Funding 2019 to 2020 Operational Guide
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/811096/High_needs_funding_operational__guide_2019_to_2020.pdf
- 12.5. DSG Recovery Plan Guidance:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/786390/DSG_deficit_recovery_plan_guidance_2019_to_2020.pdf

This page is intentionally left blank