

SCHOOLS' FUNDING FORUM

SUBJECT:	Update on Dedicated Schools Grant (DSG) deficit recovery plans
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SUBJECT:	<p>This paper provides details on the Government response to their 2018 consultation on the requirement for Local Authorities to submit a deficit recovery plan when their accumulated DSG deficit exceeds 1% of their total annual DSG allocation.</p> <p>It also provides an update on Kent's cumulated DSG reserve position at the end of 2018-19 financial year and provides a high-level forecast for the position at the end of 2019-20.</p>
FOR:	Note and comment

1. Introduction & background

- 1.1 The Department for Education consulted all local authorities in July 2018 on proposals to introduce a requirement on them to produce a deficit recovery plan where their accumulated Dedicated Schools Grant (DSG) deficit exceeds 1% of their total annual DSG allocation (before academy recoupment).
- 1.2 The DfE have now published their response to this consultation and this paper sets out some of the detail and also the implications for Kent.

2. Deficit Reporting Requirement

- 2.1 The DfE have stated that they hope by requiring local authorities to provide a recovery plan, they will have greater visibility of deficits and will be able to work with LAs to help bring deficits back into balance.
- 2.2 The DSG is a ring-fenced specific grant and must be used for the purposes defined in the School and Early Years Finance (England) Regulations. As funding is ring-fenced, there is no requirement for a local authority to top up the grant from general council funding, but it is open for them to do so. It is worth noting that Kent County Council has an agreed policy not to top up DSG from general council funding.
- 2.3 The requirement to produce a deficit recovery plan has been set at 1% of the annual DSG allocation, gross of recoupment, excluding maintained school balances. For 2018-19 our DSG allocation before recoupment was £1.178bn, which equates to a 1% threshold figure of **£11.78m**.

- 2.4 The DfE requires all local authorities with a cumulative overspend greater than 1% of their DSG to complete a recovery plan template. The template consists of a narrative and a financial summary and should detail the steps authorities plan to take to bring their deficits back into balance within a three-year timeframe. Recovery plans should be discussed with Schools' Forums and be signed off by the local authority's chief financial officer (CFO) before the plans are submitted to the department.
- 2.5 The DfE have stated that they recognise that this new requirement may prove difficult for some local authorities. If a local authority feels that a three-year time frame is not realistic, it will be able to submit with its plan evidence that states how this may not be achievable.
- 2.6 The DfE will review each recovery plan on a case by case basis and will decide if they can accept a recovery plan that leaves some or all of the accumulated deficit outstanding. This would result in the local authority carrying forward the agreed deficit and the DfE would not require this to be recovered within the three-year period.
- 2.7 Any local authority that proposes to leave part or all of their accumulated DSG deficit outstanding will need to provide a clear explanation as to why their deficits could not be recovered in the short term and provide thorough evidence to support their proposals. The local authority CFO will also need to provide their agreement to these proposals.
- 2.8 The agreement of recovery plans by the DfE will provide local authorities with assurance that they will not be required to repay their deficit faster than set out in their plan. In addition, where the DfE agree that an element of the deficit does not need to be repaid during the period of the recovery plan, assurance will be provided that the local authority will not be called upon to repay any part of that element for at least three years.
- 2.9 Local authorities whose deficit exceeds the 1% threshold will need to submit their recovery plans by 30 June 2019. The DfE intend to give feedback to those authorities by the end of September 2019. Plans will be reviewed by a panel and will look to discuss the viability of the plan as well as establish areas in which the department can support the local authority to bring their deficit into balance.

3. Update on Kent's DSG reserve

- 3.1 Table 1 below provides an update on the cumulative DSG reserve position for 2018-19. Figures in brackets indicate a deficit balance.

	£'m
Balance b/fwd as at 1 April 2018	(2.155)
Academy conversion/closing school deficits write offs	(0.830)
High Needs overspend	(5.743)
School Growth	2.229
Balance c/fwd as at 31 March 2019	(6.499)

- 3.2 The cumulative deficit of £6.499m as at 31 March 2019 equates to 0.55% of our total DSG allocation, meaning we have not breached the 1% threshold and therefore are not required to submit a recovery plan.
- 3.3 We expect the pressure on High Needs to continue into 2019-20 and at this stage we have a rather crude forecast that assumes the growth we have experienced over the last 12 months will continue at the same rate. This equates to an in-year deficit in 2019-20 of £12.7m, which when charged to the DSG reserve will result in us exceeding the 1% threshold (all other things being equal). This means that **this time next year we will be required to submit a deficit recovery plan**. We therefore have best part of a year to consider what evidence we would require to support our recovery plan, what strategy we should adopt in completing the plan and more importantly what realistic management action we would consider putting forward into the plan.

4. Recommendation

- 4.1 Members of the Forum are asked to note and comment on the content of this paper.
- 4.2 Specifically, the Forum is asked to consider what strategy the local authority should consider adopting when producing its recovery plan?

Options as I see them . . .

- a) aim to balance in year spend within in year income within 3 years and repay accumulated deficit on the DSG reserve
- b) aim to balance in year spend within in year income within 3 years and not repay accumulated deficit on the DSG reserve
- c) aim to balance in year spend within in year income within a longer time period (say 5 years) and repay or not repay the accumulated deficit on the DSG reserve
- d) include only savings that we think are sensible (and support our strategic objectives around wider inclusion) and the answer will be what it will be (which might mean our in year spend is higher than our in year income for the foreseeable future) – our S151 Finance Officer may have a view on this!
- e) something else