

Proposed Decision to be taken by the Leader of the Council on or after 8 November 2019

The Specific Grant and Ring-fenced Status of the Dedicated Schools Grant – Warwickshire County Council’s Response to the Government Consultation

Recommendations

That the Leader of the Council:

1. Approves the draft response to the Government’s consultation of the specific grant and ring-fenced status of the Dedicated Schools Grant set out in the Appendix.
2. Authorises the Strategic Director for Resources to make any amendments necessary in finalising the response by the 15 November 2019, providing they are consistent with the approach set out in this draft response.

1. Purpose of the Report

- 1.1. On 11 October the Department for Education (DfE) launched a short consultation on the Specific Grant and Ring-fenced Status of the Dedicated Schools Grant (DSG), with a closing date of 15 November 2019. This report sets out the background to the consultation and basis of the County Council’s proposed response to the questions raised.

2. Background

- 2.1. Since 2006 the DfE has funded local authorities for their current expenditure on schools, early years and children and young people with high needs through a specific grant known as the DSG. The grant must be spent on the local authority’s Schools Budget, which is defined in regulations.
- 2.2. At the end of each financial year, a local authority may have underspent or overspent its DSG allocation. The conditions of grant state that any underspend must be carried forward to the next year’s Schools Budget. The conditions of grant for dealing with an overspend currently allow the local authority to decide to:

- Carry forward all the overspend to the schools' budget in future years, with the consent of the Schools Forum;
 - Fund all the overspend from its own resources in the year; or
 - A combination of the two.
- 2.3. Until the last few years, few local authorities were recording DSG overspends. However, pressures on the high needs budget have led to more and larger overspends in recent years. At the end of 2018-19 about half of all authorities overspent, amounting to a gross overspend of over £250m and a net overspend of £40m. Authorities are forecasting that the net overspend will increase to £230m by the end of 2019-20. These national trends reflect the local position in Warwickshire, where DSG overspends totalling £4.9m million have been funded from underspends elsewhere across the authority over the last four years.
- 2.4. Whilst the grant conditions provide for options on how to manage a DSG overspend, most local authority Chief Finance Officers (s151 officers) take the view that, if their DSG account is in deficit, they need to be able to cover the deficit from the authority's general reserves. This is also the position taken by local authority auditors. The reputational risk of having our accounts qualified as well as there being insufficient funding in the DSG to realistically expect the overdrawn account to be brought back into balance in the short to medium-term was the basis for the Council writing off the overspends in recent years.
- 2.5. Given the size of some authorities' DSG deficits, and the other pressures on authorities' reserves, the Government have accepted that there is a risk that covering DSG deficits from general reserves may lead authorities to make spending reductions in other services that they would not otherwise make.
- 2.6. Linked to this is the Government's announcement at the end of August 2019 that funding for schools and high needs will rise by £7.1bn by 2022-23, compared to 2019-20. It is the Government's view that this additional funding should help local authorities to bring their DSG accounts into balance; whilst acknowledging several authorities will already have substantial deficits at the end of 2019-20 and will not be able to recover them immediately.
- 2.7. The purpose of the consultation is to make clear the Government's intention that DSG deficits should not be covered from general funds but that over time they should be recovered from DSG income and to consult on the changes to the grant terms and conditions and regulations that will deliver this.

3. The Proposal

- 3.1. The Government's proposal is that future arrangements for dealing with overspends will be worded as follows:
- The local authority must carry forward the whole of the overspend to the schools budget in future years;
 - The local authority may not fund any part of the overspend from its general resources, unless it applies for and receives permission from the Secretary of State to do so.
- 3.2. The proposals are intended for implementation from the start of the financial year 2020-21, so that local authorities would take them into account in setting budgets for 2020-21 and any overspend at the end of 2019-20 will fall under the new arrangements.

4. County Council's Position

- 4.1. The draft response of the County Council is attached at **Appendix A**. This makes it clear that we strongly welcome the proposal and support the intention that schools and all partners that provide service to schools and pupils should work collectively to make the most effective use of the resources available and that the services are sustainable.
- 4.2. The revised approach, if implemented, will clearly have significant implications for the 2020-25 MTFs where we were anticipating having to set aside significant levels of reserves to fund future DSG overspends.

5. Financial Implications

- 5.1. If the DSG grant conditions are changed in line with the Government's intentions then the need for the Authority to consider "making good" any DSG overspend is removed. This will mean less of the Authority's reserves will need to be set aside for this purpose, thereby potentially releasing additional time-limited resources to support the delivery of the 2020-25 Council Plan.
- 5.2. The additional Government funding for schools announced as part of the 2019 Spending Review will reduce some of the pressure on the DSG. However, it is likely initiatives to reduce demand will still be needed to bring the level of spending in line with the DSG resources available over the medium term. The process and timescales for achieving this are not set out in the consultation

paper and will depend on the detailed guidance that will accompany the revised grant conditions.

6. Environmental Implications

6.1. There are no specific environmental implications for the authority as a result of this report.

7. Background Papers

7.1. None.

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This report was not circulated to members prior to publication.

Warwickshire County Council's Draft Response to the Government Consultation on the Specific Grant and Ring-fenced Status of the Dedicated Schools Grant

Question 1

Do you agree that we should change the conditions of grant so that future arrangements for dealing with DSG overspends are worded as follows:

- ***the local authority must carry forward the whole of the overspend to the schools' budget in future years;***
- ***the local authority may not fund any part of the overspend from its general resources, unless it applies for and receives permission from the Secretary of State to do so.***

Warwickshire County Council fully supports the proposed changes to the terms of the grant conditions.

Question 2

Do you agree that we should delete regulations 8(6) and 8(10) from the new School and Early Years Finance (England) Regulations for the financial year 2020-21, so that local authorities are able to carry forward any DSG overspend to the schools' budget in future years as the new conditions of grant will require?

Warwickshire County Council fully supports the changes to the regulations proposed. As part of the guidance notes supporting the new regulations it would be helpful if these could specifically confirm that the new arrangements apply to any overspends at the end of 2019-20, as intended.

Question 3

Do you agree that the proposed new conditions of grant and regulations will establish clearly that local authorities will not be required to cover any DSG deficit from general funds?

Whilst the new conditions of grant and regulations will establish clearly that local authorities will not be required to cover any DSG deficit from general funds, it would also be helpful if this change was also reflected in the Statement of Recommended Practice on the Local Authority Accounting for the 2019-20 Closure of Accounts. This is because this sets out the basis on which we are required to compile our accounts and the basis on which we are audited.