

REPORT:	Audit and Governance Committee	
DATE OF DECISION	1 February 2024	
REPORT TITLE:	Dedicated Schools Grant (DSG) Deficit Management Plan	
CORPORATE DIRECTOR / DIRECTOR:	Debbie Jones, Interim Corporate Director of Children, Young People & Education	
LEAD OFFICER:	Shelley Davies, Director, Education and Youth Engagement	
LEAD MEMBER:	Cllr Gatland, Cabinet Member for Children, Young People & Learning	
AUTHORITY TO TAKE DECISION:	To note the updates on the (DSG) Deficit Management Plan on performance, risks, and governance.	
KEY DECISION? [Insert Ref. Number if a Key Decision]	No	Reason: Not Applicable
CONTAINS EXEMPT INFORMATION?	No	Public
WARDS AFFECTED:	All	

1 SUMMARY OF REPORT:

- 1.1 This report provides some important updates regarding the Dedicated Schools Grant (DSG) Deficit Management Plan, which has been in place since 2019/20. The management plan is being implemented successfully; however, there is a level of risk from increasing numbers of Children and Young People with complex Special Education Needs.
- 1.2 The report focuses on the overall performance of the DSG Deficit Management Plan against key qualitative and quantitative performance metrics for the 2023/24 financial year as well as the outturn forecast as at quarter 3 of 2023/24. These important metrics are:
- Ensuring all governance requirements under the DSG grant conditions are met.
 - Meeting the agreed DfE Safety Valve Financial and non-financial targets.
 - Confirmation that the accounting treatment of the DSG grant and budget allocation are compliant with the annually issued Department for Education (DfE) Operational guidance and the School and Early Years Finance (England) Regulations 2022.
 - Assurance and robustness of the Special Education Need and Disability (SEND) budget monitoring process.

2 RECOMMENDATIONS

2.1 The audit and Governance Committee is asked to note:

- a) The key performance targets set under the DfE Safety Valve agreement.
- b) The overall performance of the Deficit Recovery Plan against the target and challenges and risks of delivery.
- c) The impact on the accounting treatment of the DSG deficit as provided for in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146, as amended by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 and the Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2022.
- d) Challenges faced by the service with the implementation of new Education system (Synergy) from Capita One.

3 REASONS FOR THE RECOMMENDATIONS

3.1 Reporting on the progress of the Deficit Management Plan to this committee and to School Forum is a critical governance requirement as part of the DSG grant conditions for individual local authorities that have an overall deficit on their DSG account.

3.2 The 2023/24 grant conditions require any local authorities with an overall deficit on its DSG account at the end of the financial year to meet the following requirements:

- a) Provide information as and when requested by the department about its plans for managing its DSG account in the 2023 to 2024 financial year.
- b) Provide information as and when requested by the department about pressures and potential savings on its high-needs budget.
- c) Meet with officials from the department as and when they request to discuss the authority's plans and financial situation.
- d) Keep the Schools Forum regularly updated about the authority's DSG account and plans for managing it, including high needs pressures.

3.3 In addition to the above, the Council is required to submit quarterly performance returns and thereafter meet with the DfE Safety Valve team to discuss the report as well as how the Council has demonstrated its compliance with the funding regulations and to address any risks or concerns.

3.4 The Secretary of State (SoS) reserves the right to impose more specific conditions of grant on individual local authorities that have an overall deficit on their DSG account, where the SoS believes that they need to take more action to address the situation.

4. BACKGROUND AND UPDATES

4.1 Under the current DSG grant conditions, Local Authorities with an overall deficit on their DSG Account at the end of the financial year or whose DSG surplus has significantly reduced during the year are expected to submit a Deficit Recovery Plan (DRP) to the DfE which demonstrates how the Local authority plans to recover the deficit within five years.

4.2 The Council successfully signed a "Safety Valve" (SV) agreement with the (DfE) early last year to receive a cash intervention of £27.4m. This agreement forms part of the initiatives designed to assist local authorities with the very highest percentage of cumulative DSG deficits on their balance sheet. The rationale is to inject cash in a form of both capital and revenue to fund the provision of more school places for children with special educational needs and disabilities (SEND) as well as clear the agreed historical deficits. The final cash intervention allocated to the Local Authority excludes capital.

5. KEY CROYDON (SV) AGREEMENT WITH DfE AND UPDATES

- 5.1 Financial Target under the DfE SV agreement: Table 1 below shows the annual payment expected from the DfE cash intervention award, which the Council received £10.960m in March 2023. A further payment of £3.290m was paid last year after Council demonstrated that it is on target to deliver the 2023/24 set financial targets showed in line 2 of table 1.
- 5.2 Unlike other local authorities the Council did not commit to provide any cash injection from its General Fund budget or transfer from reserves to reduce the overall DSG deficit. This was due to a Section 114 notice being in place at the time, which meant that such a commitment would only have been viable with regard to the Council's resources.
- 5.3 Non-Financial DfE targets signed under the SV agreement: The main non-financial targets set within the SV agreement are:
- 5.4.1. Completely implement the local authority's (LA's) "Locality Special Educational Needs and Disabilities (SEND) Support" model with early intervention for SEND pupils.
 - 5.4.2. Increase leadership capacity in schools to support pupils with SEND and their families.
 - 5.4.3. Develop partnerships and networks that support school-led improvement and inclusive practice.
 - 5.4.4. Increase SEND local provision, which includes increasing capacity in Addington Valley Academy, St Nicholas Primary School and across Croydon's education estate.
 - 5.4.5. Increase usage of Alternative Provision (AP) by right-sizing the commissioning of placement numbers at Croydon's pupil referral unit (PRU) and other AP
 - 5.4.6. Develop a combined work of local SEND College Pathways for 19–25-year-old students delivered in partnership between Coulsdon College Croydon and Waddon Youth Disability Service
- 5.4 All the non-financial targets listed in paragraphs 5.4.1 to 5.4.6 are on target with significant milestones reached.

This includes all the relevant staff needed to support the "Locality Special Educational Needs and Disabilities" (SEND) Support model referred to in paragraph 5.4.1.

Their role also involves training, peer reviews, and support for school leaders. There is evidence of greater commitment from both special schools and mainstream headteachers to the DSG Deficit Management plan when it was presented at the Schools Forum due to a shared commitment, as mentioned in paragraph 5.4.3.

6. PERFORMANCE OF THE DSG MANAGEMENT PLAN

- 6.1 The cash intervention under the SV agreement with the DfE is payable to the Council over a period of 5 years as shown in line 3 of table 1 below. The first instalment being £10.960m, followed by three instalments of £3.290m with a final payment of £6.580m in 2026/27.
- 6.2 These financial targets were agreed and signed under the SV agreement. Table 1 below is useful in understanding the direct correlation between the Council receiving the cash intervention (Line 3) from the DfE and the financial targets set to reach is shown in Line 2. Croydon forecast / actual performance is presented in line 1.

6.3 Performance Target - below represents financial targets linked to payment expected from the DfE. The overall forecast shows the LA is on target, albeit with significant risks, as the positive deviation is only £20k. See Table 1 below.

Table 1. DfE High Needs Overspend target under the Deficit Management Plan.

Reference	Forecast - to assess whether LA is on track to achieve a £0 DSG deficit at the end of its Safety Valve agreement.	Outturn 22 /23	23-24 Target - as per agreement	Q3 Forecast 23-24	Forecast 24-25	Forecast 25-26	Forecast 26-27
		£m	£m	£m	£m	£m	£m
Line 1	Cumulative DSG deficit - brought forward (deficit at the beginning of financial year)	-21.295	-15.384	-15.384	-12.799	-10.078	-6.675
Line 2	In the year DSG deficit (before Safety Valve and local contributions)	-5.049	-0.725	-0.705	-0.569	0.113	0.121
Line 3		-26.344	-16.109	-16.089	-13.368	-9.965	-6.554
Line 4	Safety Valve programme contribution	10.960	3.290	3.290	3.290	3.290	6.580
Line 5	Local contribution	-	-	-	-	-	-
Line 6	Cumulative DSG deficit - carry forward (deficit at end of financial year)	-15.384	-12.819	-12.799	-10.078	-6.675	0.026
Line 7							

6.4 The success of the management plan so far is driven by clear vision for the support needed to effectively manage current and emerging needs through robust strategic planning and budget monitoring.

6.5 Line 7 in Table 1 shows that the overall deficit is expected to be extinguished by 2026/27. The cash intervention (line 5 in Table 1) payments expected from the DfE depend on the LA meeting the in-year target in line 3. The service has accomplished most of the strategies and financial targets set by the DfE in line 3.

6.6 Section five of this paper highlights all the key strategic work streams agreed with the Department for Education (DfE), demand management initiatives, regular review of cost of provision and supply management using the High Needs Provision Capital Allocations to create new educational provisions in line of the DSG Deficit Management Plan. This includes the expansion of Enhanced Learning Provisions in the borough.

6.7 **Key Areas reporting overspend** - Out of Borough and Independent schools budget makes up the significant area of spend due to increases in top-up funding – Forecast overspend due to an increase in complex cases above that expected, requiring out-of-borough placement to meet needs. The service is in discussions with local providers to set up Enhanced Learning Provision during the Autumn Term.

7. ACCOUNTING TREATMENT AND ALLOCATION OF DSG - COMPLIANT WITH SCHOOL AND EARLY YEARS FINANCE (ENGLAND) REGULATIONS

7.1 The Local Authority has validation checks built into its chart of account and budget process that ensures compliant with the School and Early Years Finance (England) Regulations 2022 regarding expenditure type funded from the DSG. These validation checks ensure that cost is allocated to the right expenditure type under the DfE Section 251 guidelines and definition.

7.2 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 have been amended (in 2020 and again in January 2023) to provide that any DSG deficit in relation to accounts prepared for the financial years falling within the period beginning with 1st April 2020 and ending with 31st March 2026. must not be charged to a general fund but must be charged to a separate fund established, charged, and used solely for the purpose of recognising deficits in respect of the school's budget. This has the effect of separating any such deficit from a local authority's general fund.

- 7.3 As part of the conditions agreed with the DfE, an Officer from the Safety Valve Team audited the 2022/23 S251 outturn with a focus on the High Needs expenditure classification in the returns.
- 7.4 There were a few items identified which should be funded from the General Fund. These include £208k for education psychologist costs, £57k for parents in partnership, and £250k for SEND Transport support. The Audit also identified transactions that should have been funded from High Needs DSG block. This includes the £450k 19-25 Croydon College Pathways and £460k Direct Payments for SEND Transport.

8. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 8.1 The financial considerations are incorporated above and within the DSG Deficit Management Plan.
- 8.2 The risk related to the statutory override has been extended for another 3 years. This implies that external auditors will not expect the deficit remaining to be recovered in full or held against non-earmarked general fund reserves for the next three years to financial year 2025-26.
- 8.3 The LA is monitoring the EHCP assessment processes and thresholds to ensure they are timely and in line with statutory duties. The continued rate of requests to assess presents a challenge and is increasing the caseload per EHCP coordinator to above 200. It is critical that we have the most current robust (SEND) pupil data to ascertain existing and emerging needs since that underpins the robustness of the forecast and reduces the risks.
- 8.4 The governance arrangement rooted within the DfE Deficit Management process ensures an extended oversight by the SEND Board, Schools Forum and Council Corporate Directors including transparency and opportunity to challenge the progress against the Recovery Plan.
- 8.5 The regular reporting requirement to all the above stakeholders including the Audit and Governance Committee provides another layer for challenge and opportunity for improvement. This assurance process was highlighted as a recommendation by the external auditor's Report in the Public Interest issued in 2020.
- 8.6 The budget monitoring reporting is based on a DfE robust financial monitoring template, which contains a separate risk section split into required and optional information, which the DfE considers as best practice for discussion with the Safety Valve team. These monitoring reports are submitted to the DfE in line with set deadlines. The DSG forecast position is also included in the Council's monthly financial performance reports to Cabinet.
- 8.7 A new risk identified is the systems changeover process from Capita to Synergy. The implementation process has slowed down the data validation process, which may affect the quality of the forecast in the short term from January 2024.

Approved by Allister Bannin, Director of Finance (Deputy S151), (24/01/2024).

9. LEGAL IMPLICATIONS

- 9.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Local Government Finance Act 1992 section 31A (calculation of council tax requirement) places the Council under a statutory duty to set a balanced budget and section 28 (budget monitoring: general) of the Local Government Act 2003 requires the Council to review its calculations from time to time during the year and to take such action, if any, as it considers necessary to deal with any deterioration in its financial position.
- 9.2 The Dedicated Schools Grant (DSG) is paid to the Council by the Secretary of State under the Education Act 2002 section 14 (power of Secretary of State to give financial assistance for purposes related to the provision of education or childcare, etc.). It is a ring-fenced specific grant provided outside the local government finance settlement. The formal terms of the grant require it to be used in support of the schools' budget for purposes defined in Regulation 6 and schedule 2 of The School and Early Years Finance (England) Regulations 2022 for the financial year 2022/23 and of The School and Early Years Finance (England) Regulations 2023 for the financial year 2023/24 and of The School and Early Years Finance and Childcare (Provision of Information About Young Children) (Amendment) (England) Regulations 2024 for the financial year 2024/25 once those Regulations come into force on 13 February.
- 9.3 The Education and Skills Funding Agency Guidance on DSG: Conditions of grant 2023- 2024 place a number of requirements on a council with an overall deficit on its DSG account, including the requirement to present a Plan to the DfE for managing their future DSG spend and to keep the schools forum regularly updated about the authority's DSG account and plans for handling it including high needs pressures and potential savings.
- 9.4 Regulation 30 L of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended sets out provisions which apply to any Local authority which has a deficit in its Schools Budget prepared for the financial years falling within the period beginning with 1st April 2020 and ending with 31st March 2026. In these circumstances, the authority –
- (a) must not charge to a revenue account an amount in respect of that deficit; and
 - (b) must charge the amount of the deficit, calculated in accordance with paragraph (4) or (5) of Regulation 30L, to an account established, charged, and used solely for the purpose of recognising deficits in respect of its school's budget.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Legal Services and Monitoring Officer. (29/01/2024)

10. HUMAN RESOURCES IMPACT

- 10.1 There are no direct Human Resources considerations arising from this report. If there are subsequent proposals that affect the workforce as a result of the budget limit set, the appropriate school's HR policies and procedures will need to be followed, and HR advice must be sought from the school's assigned provider. Council HR should be kept informed of proposals.

Approved by: Debbie Calliste, Head of HR for Children, Families and Educations, on behalf of the Director of Human Resources. (24/01/2024)

11. EQUALITIES IMPACTS

- 11.1 The Council has a statutory duty, when exercising its functions, to comply with the provisions set out in the Sec 149 Equality Act 2010. The Council must, in the performance of its functions, therefore, have due regard to:
- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 11.2 The funding allocations and formulae are set nationally and are therefore already subject to an equality assessment. The Council is also committed to the government's vision - an education system that works for everyone. No matter where they live, whatever their background, ability or need, children should have access to an excellent education that unlocks talent and creates opportunity. We want all children to reach their full potential and to succeed in adult life.
- 11.3 In setting the Education Budget 2021/22, the Council has taken into account the need to ensure targeted funding is available for work on raising the attainment of disadvantaged pupils who are likely to share a "protected characteristic" (as defined in the Equality Act 2010) and close the gap between them and their peers.
- 11.4 The Council will ensure that the system for distributing funding is fair in order to support the life chances of our most vulnerable children and young people; a fairer funding system will help provide all schools and all areas with the resources needed to provide an excellent education for all pupils irrespective of their background, ability, need, or where in the country they live.
- 11.5 This will help the Council meet its equality objective "to improve attainment levels for white working class and Black Caribbean heritages, those in receipt of Free School Meals and Looked after Children, particularly at Key Stage 2 including those living in six most deprived wards."
- Approved by: Naseer Ahmad for the Equalities Manager. (24/01/2024)

12. ENVIRONMENTAL IMPACT

- 12.1 There are no direct implications contained in this report.

13. CRIME AND DISORDER REDUCTION IMPACT

- 13.1 There are no direct implications contained in this report.

14. DATA PROTECTION IMPLICATIONS

- 14.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

CONTACT OFFICER: Charles Quaye (Interim) Head of Finance, Children, Young People and Education