

**28<sup>th</sup> November 2018**

**REVIEW OF THE LEVEL OF DSG CARRY FORWARD**

*Report of the Director of Children's Services*

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**1. Purpose**

- 1.1 To outline an approach to managing the level of the Dedicated Schools Grant (DSG) carry forward.

**2. Summary**

- 2.1 This paper reviews data on DSG carry forward levels and outlines an approach to managing the future level of carry forward.

**3. Recommendations**

- 3.1 The Forum is asked to endorse:
- (i) a target for a general contingency level of DSG carry forward of £8m, as set out in section 7 of the paper,
  - (ii) a target for a specific reserve of DSG carry forward for high needs of £2m, as set out in section 8 of the paper,
  - (iii) the approach to managing a reduction in the level of DSG carry forward which is set out in section 9 of the paper.

**4. Background**

- 4.1 The DSG is ring-fenced for funding the Schools Budget, covering the schools, early years, high needs and central services blocks. Unspent resource from the DSG is carried forward to future years and can be used to support the following year's budget or held as a reserve.

- 4.1 At the September meeting the Forum requested a review of the level of DSG carry forward to inform decisions on the 2019-20 budget setting process. It was requested that this review consider historic Hertfordshire data on the level of carry forward as well as information from other authorities. A particular aim of the exercise is to establish what level of carry forward is appropriate as a contingency.

## **5. Levels of DSG carry forward in Hertfordshire**

- 5.1 Annex A shows the level of DSG carry forward in Hertfordshire since 2011-12. The size of the carry forward peaked at 31/03/2015 and has since gradually reduced. It rose between 31/03/17 and 31/03/2018 because of the slippage of expenditure in respect of the disapplication and special school capital projects from 2017-18 to 2018-19.
- 5.2 The majority of the underspend originated during 2012-13 and 2013-14 as a result of underspending, in particular underspends on the budgets for Independent Placements and 2 year olds. (When 2 year old funding was first introduced, numbers built up more gradually than assumed in the DfE estimates on which funding was based.). Since 2014-15 the DSG carry forward has reduced because large sums have been used to support the Schools Budget each year and these have exceeded the in- year underspends.

## **6. DSG carry forwards in other local authorities**

- 6.1 All authorities have to publish their amount of DSG carry forward in their annual accounts and annex B shows the level of DSG carry forward held by other south east counties at 31/03/2018. A number of neighbouring authorities have a deficit on their DSG. We are aware from regular discussions with neighbouring authorities that many have seen major overspending in recent years, in particular due to pressures on high needs. As a result the DfE has just launched a consultation on new requirements for authorities with deficits of more than 1% of DSG, to produce recovery plans showing how they will eliminate their deficits.
- 6.2 This overspending on high needs has been occurring despite the fact that many authorities have used the limited flexibility provided under the ring-fencing of the schools DSG block and moved 0.5% of their schools block funding to support the high needs block. Thus their schools block budgets are less than the schools block of DSG. This contrasts with Hertfordshire where, due to the use of carry forward the schools block budget exceeds the schools block of DSG.

The precarious financial position of many other authorities means that their figures do not provide a good guide to what constitutes an appropriate level of DSG carry forward.

6.2 We have raised the issue of the level of DSG carry forward with the DfE. Their informal feedback was that the level of DSG carry forwards varies widely between authorities and they have no recommended level. Under current arrangements, authorities with a DSG balance of greater than 5% have to provide an explanation to the DfE.

## 7. The County Council's reserves policy in the non-schools budget

7.1 There is no national guideline on what level of reserves is appropriate for local authorities to hold for the non-schools budget. Each authority is expected to make an informed judgement based on its circumstances and the level of risk it faces.

7.2 Hertfordshire's reserves policy for its non-schools budget is to hold a general contingency reserve of 4% of the net revenue budget (equating to approximately £30m), plus specific reserves in respect of particular uncertainties or issues.

7.3 If this policy were to be applied to the Schools Budget it would be appropriate to modify it. Unlike HCC's budget, the majority of the Schools Budget comprises budget shares calculated before the start of the year and not subject to in year variation. Therefore it is suggested that it would be appropriate to calculate the general contingency as 4% of the variable parts of the Schools Budget.- i.e. excluding primary and secondary budget shares. The variable elements of the budget include the early years, high needs and central services blocks as well as the Growth Fund.

Using this approach the target general contingency would be approximately £8m, calculated as follows:

<b>Calculation of DSG general contingency</b>	<b>£m</b>
Schools Budget 2018-19	957.098
Less: Primary and secondary budget shares	(746.760)
Variable elements of budget	<b>210.338</b>
X 4%	<b>8.414</b>

To this would need to be added any specific reserves that are considered necessary. This is a decision informed by the potential level of risk, which is considered in the next section.

## 8 Specific Budget Risks

8.1 Some risk is inherent in the management of all large and complex budgets. However, experience from other authorities indicates that unplanned overspending on high needs is a particular and current risk. The table below shows the DSG carry-forwards of Kent and Hampshire over recent years. In each case a substantial DSG reserve has been rapidly used up, largely in funding high needs overspends, and both authorities now have DSG deficits.

DSG carry forwards/(deficits) (£m)	Hampshire		Kent	
31/3/2015	31.363		19.241	
31/3/2016	19.498		13.204	
31/3/2017	6.599		(1.830)	
31/3/2018	(4.503)		(2.155)	

(Kent's DSG deficit at 31/3/2018 would have been £12.155m except for a County Council contribution of £10m.)

- 8.2 In view of the widespread overspending on high needs in other authorities, it is considered prudent to include a specific contingency in the DSG carry forward in respect of this. The SEN Strategy Development Fund of approximately £1m provides some reserve but it is suggested that this should be enhanced by a specific reserve in the DSG carry forward of £2m. This equates to approximately 2% of the high needs budget.
- 8.3 Combined with the general contingency of £8m, this suggests a target for the DSG carry forward of approximately £10m.
- 8.4 A further budget risk relates to using carry forward in a way whereby one off funding that cannot be sustained indefinitely becomes locked into the budget base, for example by the Minimum Funding Guarantee. Hertfordshire has aimed to address this by putting in place the MFG exception for one off funding in budget shares and otherwise using carry forward for specific time limited budgets.

## 9. Reaching the target carry forward

- 9.1 In recent years Hertfordshire has budgeted to use significant amounts of DSG carry forward to support the Schools Budget. £5.8m is being used in 2018-19 and it is proposed to allocate £6m of carry forward to the schools and central services funding blocks in 2019-20. In principle this approach should lead to the fairly rapid run down of the DSG carry forward. However the budgeted use of carry forward has been offset in recent years by persistent underspending, particularly in the high needs and early years blocks.
- 9.2 The budget strategy is to spend in line with the DSG blocks. It is suggested that to be consistent with this strategy, the approach to lowering the carry forward towards the target level should be by reducing underspending in the high needs and early years blocks. This will also avoid the risk of Hertfordshire failing to meet the "passporting" requirement for 3 and 4 year old funding.

The following developments are expected to reduce underspending significantly:

- i) Early Years Block
  - Increasing funding for deprivation in early years budget shares
  - Changes to early years SEND funding.
- ii) High Needs
  - Increasing pressures on high needs budgets.
- iii) Growth Fund
  - Reducing the size of this budget and funding any start-up costs of new schools from carry forward.

It is proposed to work towards a target DSG carry forward figure of approximately £10m by continuing to allocate £6m of carry forward annually to the schools and central services blocks, whilst minimising underspending elsewhere in the Schools Budget.

## **10. Conclusion**

- 10.1 The Forum is asked to support the recommendations in section 3 of the paper.

**ANNEX A**

<b>Hertfordshire's DSG carry forwards 2011-12 to 2017-18</b>	
<b>Year</b>	<b>DSG carry forward £m</b>
31/03/2018	23.334
31/03/2017	21.289
31/03/2016	22.013
31/03/2015	27.057
31/03/2014	26.701
31/03/2013	17.218
31/03/2012	8.371

**ANNEX B**

<b>DSG Carry Forwards/(Deficits) of other South East counties as at 31/03/2018</b>	
<b>Local authority</b>	<b>Carry forward/(deficit) £m</b>
Kent	(2.155)
Essex	(5.096)
Hampshire	(4.503)
Surrey	4.043
Suffolk	(0.335)
Cambridgeshire	(0.720)
Buckinghamshire	6.968