



Education & Skills  
Funding Agency

**This document  
has been  
withdrawn.**

# **Dedicated schools grant (DSG) deficit recovery plans**

**Guidance for local authorities**

**March 2019**

# Contents

|  |    |
|--|----|
| Summary  | 3  |
| About this guidance  | 3  |
| Review date  | 3  |
| Who is this guidance for?                                      | 3  |
| Main points  | 3  |
| Overview of the new requirement for DSG deficit recovery plans | 4  |
| DSG recovery plan template                                     | 6  |
| Narrative tab  | 6  |
| Financial Summary tab  | 6  |
| Submitting the recovery plan                                   | 7  |
| DSG deficit recovery plan evidence                             | 8  |
| Evidence requirements  | 8  |
| Key deadlines  | 10 |
| Further information  | 11 |

# Summary

## About this guidance

This is guidance from the Education and Skills Funding Agency (ESFA). This means that recipients should have regard to it when producing recovery plans for DSG deficits. The guidance covers the necessary requirements that all local authorities with a deficit of 1% or more should fulfil when submitting their recovery plans.

## Review date

This guidance will next be reviewed in January 2020.

## Who is this guidance for?

This guidance is for local authorities.

## Main points

All local authorities that have a cumulative DSG deficit of 1% or more at the end of a financial year are required to submit a recovery plan outlining how they will bring their deficit back into balance in a three-year time frame.

Local authorities that are required to submit a recovery plan should do so by 30 June in the following financial year.

A recovery plan template has been provided by the department that local authorities should complete.

## Overview of the new requirement for DSG deficit recovery plans

As announced in July 2018, the department requires a recovery plan from all local authorities that have an overall cumulative DSG deficit of 1% or more at the end of the 2018 to 2019 financial year.

The 1% calculation will be based on the latest published total DSG allocations for 2018 to 2019, gross of recoupment, as at the end of the 2018 to 2019 financial year, and excludes maintained school balances.

In previous years we have asked authorities with a cumulative deficit of 2% or more to provide plans outlining how they will bring their deficits back into balance. The decision to move the threshold to 1% is in recognition of the increase in local authorities recording a DSG deficit over the last two years.

It is hoped that by requiring all local authorities with a cumulative deficit of 1% or more to provide a recovery plan, the department will have better visibility of deficits and will be able to work with authorities to help bring deficits back into balance.

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.

ESFA will require all local authorities with a cumulative overspend greater than 1% of their DSG to complete the recovery plan template provided and submit it to the department. The plans 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.

We recognise 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.

We will review each recovery plan on a case by case basis and will decide if we can accept a recovery plan that leaves some or all of the deficit accumulated to date outstanding. This would result in the local authority carrying forward the agreed deficit and we would not require this to be recovered within the three-year period.

Any local authorities that propose 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. They will also need agreement from their CFO.

As we indicated in the consultation document, the Ministry of Housing, Communities & Local Government (MHCLG) has changed its guidance on the reporting of DSG reserves in its statistical returns.

DSG reserves, positive or negative, should in future be reported as a separate ring-fenced reserve in revenue outturn (RO) returns. This is a separate and additional reserve to the school balances reserve that is already specified.

Any kind of local authority revenue reserve may be either negative or positive. Since ring-fenced reserves are not taken into account in assessing local authorities' ability to set a lawful balanced budget, DSG deficits will not need to be covered for that purpose by an equivalent amount in local authorities' general reserves.

We will restate this in guidance for section 251 statements and chief finance officer DSG assurance returns.

More widely, the agreement of recovery plans will give assurance that local authorities will not be called upon to repay the DSG deficit faster than set out in the plan; and where we agree that an element of the deficit does not need to be repaid during the period of the recovery plan, that will give assurance that the local authority will not be called upon to repay any part of that element for at least three years.

Once authorities have submitted their plans by 30 June 2019, we will begin to review each plan with the intention of giving feedback to local authorities by the end of September 2019.

All 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 local authorities to bring their deficits into balance.

## DSG recovery plan template

In response to feedback from local authorities, we have designed a template that should be used when submitting a recovery plan. There are two tabs on the template, **Narrative** and **Financial Summary**.

### Narrative tab

The **Narrative** tab gives local authorities the opportunity to share with the department in detail reasons as to why they have a DSG deficit. As local authorities would when submitting block movement requests, they are required to answer all of the questions in the boxes provided. Please note that each box has a limit of 3,000 words.

Local authorities should provide detailed responses to each question in order for us to have a complete understanding of the pressures local authorities have faced, and the savings they intend to make. The majority of questions require local authorities to answer them in the box located directly below them.

Once local authorities begin to answer the question on row 35, they will note **Add Row** and **Delete Row** buttons. For every area in which a local authority proposes to implement savings over the next three years they should click **Add Row**. This will then automatically add a row to the **Financial Summary** tab where local authorities will be able to input their figures to the table. Local authorities should, in detail, explain how they will be making the savings in this area on the narrative page as this will directly link to the figures that have been input on the financial tab.

The same method of input will be used for the question on row 38, where local authorities should discuss the local pressures that have contributed to their deficit. As they did with the savings question on row 35, local authorities should **Add Row** for each pressure they believe has contributed to their deficit and this will automatically generate a row on the **Financial Summary** tab for them to populate with figures. Again, local authorities should explain in detail the local circumstances that have resulted in their DSG deficit. If local authorities wish to remove any rows that they have created, they should click the **Delete Row** button.

### Financial Summary tab

On the **Financial Summary** tab, local authorities will be able to use the **DSG Recovery Plan** table to input figures that show the cost savings and pressures that they have already experienced, as well as ones they expect to experience in the future. Local authorities can follow the key to understand which cells will need to be populated before submitting their recovery plan.

This table is populated by adding in rows on the **Narrative** tab for the questions on rows 35 and 38. For each row on the recovery plan, local authorities should input the **Block** in column C, **Type of provision** in column D, and **Action** in column E.

Local authorities will be able to use the drop down list in column E to select their pressure and saving areas. If a local authority has a different saving or pressure, they should select **other** and ensure that their action is explained in the linked row on the narrative tab.

Local authorities should then populate the cells with financial figures that show a decrease in their DSG deficit year on year. For their saving areas, local authorities should ensure that all figures are entered as negative values. For pressures, all figures should be entered as positive values.

The table is formatted to automatically calculate **Net in year Forecast Outturn Variance**, **DSG Balance**, and **DSG Balance**, revised after local authorities have input all of their financial data. Any block underspends against allocations should also be shown in the savings section of local authorities' recovery plans.

In order for the calculations to update correctly, local authorities should enter their closing 2018 to 2019 balance into cell **F20**. Local authorities are able to select cells and view the formulae at the top of the page to ensure that the calculations are correct.

At the bottom of the page, there is a table to capture the number of pupils on Education, Health and Care Plans (EHCPs). Authorities should populate these cells with the number of plans at the end of each financial year, this will ensure consistency in reporting, enabling the department to have complete visibility when it is analysing the recovery plan.

## Submitting the recovery plan

Once local authorities have completed both the **Narrative** and **Financial Summary** tabs, they should submit their recovery plans with any supporting documents to [financial.management@education.gov.uk](mailto:financial.management@education.gov.uk).

## DSG deficit recovery plan evidence

We expect a range of evidence to support local authority recovery plans. We would expect this to have already been presented to schools forums.

We are aware that DSG deficits are usually caused by high needs pressures, and in these cases the evidence required in the recovery plans will typically include what we already look for in block movement disapplication requests.

Local authorities will however need to address whatever the main causes of overspending on the DSG have been.

## Evidence requirements

Evidence should include a full breakdown of specific budget pressures on DSG funded services locally that have led to the local authority incurring a cumulative DSG deficit of over 1%.

Where this has resulted from high needs pressures, information should include the changes in demand for special provision over the last three years, how the local authority has met that demand by commissioning places in different sectors (mainstream and special schools, further education and sixth form colleges, independent specialist provision and alternative provision), and if there have been any reductions in the provision for mainstream school pupils with high needs.

Where the deficit has resulted from high needs pressures, the evidence should include an assessment and understanding of the specific local factors that have caused an increase in high needs costs to a level that has exceeded the local authority's high needs funding allocations. There should also be a plan to change the pattern of provision where this is necessary, as well as to achieve greater efficiency and better value for money in other ways, together with evidence of the extent to which the plan is supported by schools and other stakeholders.

Evidence should include a detailed recovery plan showing how the authority intends to bring its DSG reserve into balance within three years, showing clearly how expenditure will be contained within future funding levels

If the local authority judges that it cannot recover the whole of its cumulative DSG deficit within three years, it should explain the reasons for this. If the local authority wishes to defer recovery of some of the cumulative deficit, it should show in its recovery plan that it is able to at least contain its expected in year expenditure within its expected in year DSG income by the end of the three-year period.



Evidence should include details of any previous movements between blocks, what pressures those movements covered, and why those transfers have not been adequate to counter the new cost pressures. If local authorities have already submitted information to the department that they believe would support their application, they should provide the reference number and also any changes to the information that have occurred since it was submitted.

Evidence should include assumptions on assumed future transfers between blocks of the DSG, if permitted in future years, and evidence of support from the schools forum and wider school community for these.

## Key deadlines

| Action   | Deadline                 |
|--|--------------------------|
| Section 251 2019 to 2020 budget statements submitted                             | 4 March to 30 April 2019 |
| Section 251 budget statement 2019 to 2020 checks to be completed                 | 1 May to 26 June 2019    |
| Deadline for submission of DSG deficit recovery plans                            | 30 June 2019             |
| Review of DSG deficit recovery plans   | July to September 2019   |
| Deadline for submission of CFO assurance statement on use of DSG in 2018 to 2019 | Mid-September 2019       |

## Further information

[High needs funding arrangements: 2019 to 2020](#)

[Dedicated schools grant \(DSG\): 2019 to 2020](#)

[Written ministerial statement](#)

[Letter from the Secretary of State to local authorities](#)

[Residential special schools and colleges: support for children](#)



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