



Department  
for Education

# **Clarifying the Specific Grant and Ring-fenced Status of the Dedicated Schools Grant (DSG)**

**Government consultation**

**Launch date 11 October 2019**

**Respond by 15 November 2019**

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## Introduction

The Department is consulting on changing the conditions of grant and regulations applying to the Dedicated Schools Grant (DSG), so as to clarify that the DSG is a ring-fenced specific grant separate from the general funding of local authorities, and that any deficit an authority may have on its DSG account is expected to be carried forward and does not require to be covered by the authority's general reserves.

This public consultation exercise seeks views on making such changes and will allow those with comments, views or concerns to express them. The Government will then make a decision on the proposed changes, in time to inform the setting of local authorities' budgets for the financial year 2020-21.

## Who this is for

- Local Authorities in England
- Schools Forums
- Those who audit Local Authorities in England
- Other interested parties

## Issue date

The consultation was issued on 11 October 2019.

## Enquiries

If your enquiry is related to the policy content of the consultation you can contact the team on:

- by email: [DSGArrangements.Consultation@education.gov.uk](mailto:DSGArrangements.Consultation@education.gov.uk)

If your enquiry is related to the DfE e-consultation website or the consultation process in general, you can contact the DfE Ministerial and Public Communications Division by email: [Consultations.Coordinator@education.gov.uk](mailto:Consultations.Coordinator@education.gov.uk) or by telephone: 0370 000 2288 or via the [DfE Contact us page](#).

## Additional copies

Additional copies are available electronically and can be downloaded from [GOV.UK DfE consultations](#).

## The response

The results of the consultation and the Department's response will be [published on GOV.UK](#) in Winter 2019.

## About this consultation

Since 2006 the Department 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 Dedicated Schools Grant (DSG), made under section 14 of the Education Act 2002. This specific grant must be spent on the local authority's Schools Budget, which is defined in regulations (currently the School and Early Years Finance (England) (No 2) Regulations 2018).

At the end of each financial year, a local authority may have underspent or overspent its DSG allocation. The conditions of grant for the DSG provide that any underspend must be carried forward to the next year's Schools Budget. To date, the conditions of grant have provided three options for dealing with an overspend:

the local authority may decide not to fund any of the overspend from its general resources in the year in question, and to carry forward all the overspend to the schools budget in future years

the local authority may decide to fund part of the overspend from its general resources in the year in question, and carry forward part to the schools budget in future years

the local authority may decide to fund all of the overspend from its general resources in the year in question

Carrying forward an overspend to the schools budget in future years requires the consent of the local schools forum, or if that is not forthcoming the authorisation of the Secretary of State. In practice, schools forums have almost always approved the carrying forward of an overspend.

Until the last few years, few local authorities were recording DSG overspends, and those overspends were small. However, pressures on the high needs budget have led to more and larger overspends in recent years. Local authorities' budget data for 2019-20 shows that at the end of 2018-19, about half of all authorities experienced an overspend, amounting to over £250m in all, while others were still carrying forward surpluses. The national net position was an overspend of £40m, and authorities were forecasting that there would be a net overspend of £230m at the end of 2019-20.

The Government announced at the end of August 2019 that funding for schools and high needs will rise by £2.6bn for 2020-21, £4.8bn for 2021-22, and £7.1bn for 2022-23, compared to 2019-20. This includes £780m extra for high needs in 2020-21: the division of funding between schools and high needs for 2021-22 and 2022-23 has yet to be determined. This additional funding will help many local authorities to bring their DSG accounts into balance, but a number of authorities will already have substantial deficits at the end of 2019-20 and will not be able to recover them immediately.

The DSG is a specific grant, and the conditions of grant make clear that it can only be spent on the Schools Budget, and not on other aspects of local government expenditure. But where there is an overspend on the DSG, local authorities may currently decide to fund that from general resources. This has led some local authority Chief Finance Officers (often referred to as section 151 officers, with reference to section 151 of the Local Government Finance Act 1972) to conclude that if their DSG account is in deficit, they need to be able to cover the deficit from the authority's general reserves. We know that a similar view is held by organisations that audit local authority accounts. Given the size of some authorities' DSG deficits, and the other pressures on authorities' reserves, there is a risk that covering DSG deficits from general funds may lead authorities to make spending reductions in other services that they would not otherwise make.

The Government's intention is that DSG deficits should not be covered from general funds but that over time they should be recovered from DSG income. No timescale has been set for the length of this process.

The Department has held discussions with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Ministry of Housing, Communities and Local Government (MHCLG) about changes that we might make to the DSG conditions of grant and the regulations in order to create certainty that local authorities will not have to pay for DSG deficits out of their general funds. The proposals we are now making following these discussions are described below, and 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.

## Proposals

We propose to change the conditions of grant for the DSG with effect from the end of the financial year 2019-20 (ie, any overspend at the end of 2019-20 will fall under the new arrangements). This is therefore expected to inform and affect budget setting processes for 2020-21, as well as the presentation of reserves in the annual accounts for 2019-20. Subject to the outcome of consultation, we propose 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.

The main reason for including the second bullet is that some local authorities have traditionally made small contributions from their general fund to some elements of the schools budget, unconnected to considerations relating to DSG deficits, and we would not wish to prevent this in future.

**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.

**Question 2:** As noted in the context section, carrying forward an overspend to the schools budget in future years currently requires the consent of the local schools forum, or if that is not forthcoming the authorisation of the Secretary of State. This is set out in [regulations 8\(6\) and 8\(10\) of the School and Early Years Finance \(England\) \(No 2\) Regulations 2018](#). If the conditions of grant are changed so that the local authority must carry forward the whole of any DSG overspend to the schools budget in future years, it will no longer make sense to require the schools forum to agree such a carry forward. We therefore propose to delete regulations 8(6) and 8(10) from the new regulations for the financial year 2020-21.

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?

**Question 3:** The purpose of making these changes to the conditions of grant and to the regulations is to establish clearly that local authorities will not be required to cover any DSG deficit from general funds, and therefore do not need to have free general reserves available to match the deficit.

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?

## Respond online

To help us analyse the responses please use the online system wherever possible. Visit [www.education.gov.uk/consultations](http://www.education.gov.uk/consultations) to submit your response.

## Other ways to respond

If for exceptional reasons, you are unable to use the online system, for example because you use specialist accessibility software that is not compatible with the system, you may download a word document version of the form and email it or post it.

### By email

[DSGArrangements.Consultation@education.gov.uk](mailto:DSGArrangements.Consultation@education.gov.uk)

### By post

Funding Stakeholder Engagement Team  
Academies and Maintained Schools Funding Division: Funding Directorate  
Education and Skills Funding Agency  
Bishopsgate House  
Feethams  
Darlington  
DL1 5QE

## Deadline

The consultation closes on 15 November 2019



Department  
for Education

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