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### Guidance

# DSG: conditions of grant 2020 to 2021

Updated 30 January 2020

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## 1. Summary

These conditions of grant have been prepared by the Education and Skills Funding Agency (ESFA) to assist local authorities in the operation of the dedicated schools grant (DSG) which is payable to local authorities under section 14 of the Education Act 2002. The conditions of grant have been updated for the 2020 to 2021 financial year.

### 1.1 Expiry or review date

This guidance will be reviewed in December 2020.

### 1.2 Who is this publication for?

This guidance is for local authorities.

## 1.3 Key points

These conditions of grant have been revised for the 2020 to 2021 financial year to update the dates and the relevant website references, to amend the arrangements for transfer of funding between blocks, and to amend conditions of grant relating to DSG deficits.

## 2. Terms on which the grant is paid

The formal terms of grant given by the Secretary of State under section 16 of the Education Act 2002 state that:

- we will pay the grant as a ring-fenced specific grant and it must be used in support of the schools budget as defined in the School and Early Years Finance (England) Regulations 2020; it can be used for no other purpose.
- at the end of the 2020 to 2021 financial year the Chief Finance Officer (CFO) of the local authority is required to append an additional note to the statement of accounts confirming the deployment of the DSG in support of the schools budget as required by the [Accounts and Audit \(England\) Regulations 2015](#); the CFO is also required to confirm the final deployment of the DSG in support of the schools budget
- the Secretary of State reserves the right to recover the grant where there is evidence that a local authority has used it for any purpose other than to support the schools budget or has failed to comply with any other condition of grant

## 3. Grant allocation and payment

### 3.1 Purpose of the grant

The grant is paid in support of the local authority's schools budget. It is the main source of income for the schools budget.

Local authorities are responsible for determining the split of the grant between central expenditure and the individual schools budget (ISB) in conjunction with local schools forums. Local authorities are responsible for allocating the ISB to individual schools in accordance with the local schools' funding formula.

Local authorities can add to the schools budget from local sources of income, subject to the provisions below.

## **3.2 Allocation of grant to local authorities**

The methodology underlying the allocation of DSG to individual local authorities can be found in the DSG technical note.

## **3.3 Payment arrangements**

We will pay the grant to local authorities in 25 instalments on the dates set out below. Initial payments will be based on the total DSG allocation notified in December 2019 minus the total share of the ISB recouped for academies, as submitted by each local authority on their authority proforma tool (APT) in January 2020 and deductions for high needs places.

The basic method for calculating recoupment will be to take the ISB share calculated by the local authority from the APT in January 2020. We plan to publish detailed recoupment guidance for 2020 to 2021 in February 2020.

We will make recoupment adjustments throughout 2020 to 2021 as further schools convert to academies. These will be based on the converted school's share of ISB, taking into account the 80% rates relief applied to academies and will be proportional to the period of the financial year for which the school is an academy.

## **3.4 Allocation of grant to schools by local authorities**

Local authorities retain responsibility for setting the overall level of their ISB and for determining schools' budget shares, subject to the School and Early Years Finance (England) Regulations 2020.

Each local authority's scheme for financing schools must contain a provision which sets out the frequency with which the budget share will be made available to governing bodies of maintained schools.

## **3.5 Transfer of funds between DSG funding blocks**

The following conditions apply to the transfer of funds between the four DSG funding blocks:

1. Subject to the paragraphs below, local authorities must not allocate money designated in the DSG settlement tables as schools block to items of spend other than budget shares for mainstream primary and secondary schools

(excluding funding for nursery classes and for places reserved for pupils with special educational needs), or money retained centrally for growth in schools, as defined in paragraphs [4] to [7] of Schedule 2 to the School and Early Years Finance (England) Regulations 2020.

2. Local authorities may allocate up to 0.5% of money designated as school block to other items with the consent of the schools forum.
3. Local authorities must consult with all local maintained schools and academies if they propose to allocate schools block money to other items. The schools forum must take into account the outcome of that consultation before deciding whether to give their consent.
4. The local authority can apply to the Secretary of State for permission to allocate schools block money to other items if they do not secure the consent of the schools forum as above, or if they wish to allocate more of the schools block money to other items than would be permitted under point 2. In the case of the Secretary of State giving such permission, this may be for all or part of the sum requested by the local authority and may be given subject to conditions.

### **3.6 Determination of the local schools funding formula and funding for high needs pupils**

The following conditions apply in relation to setting the local funding formula, and the funding for high needs pupils:

1. The local authority must maintain a single formula for funding both maintained schools and academies in its area.
2. In constructing the formula, the local authority must take account of the circumstances of all academies and maintained schools in its area.
3. The formula must allocate at least 80% of the delegated schools block funding through pupil-led factors (basic entitlement, deprivation, prior attainment, looked after children, English as an additional language, pupil mobility, minimum level of per-pupil funding for primary and secondary schools, and differential salaries of teachers near London).
4. When spending DSG centrally on duties relating to all schools (as set out in Schedule 2, Parts [1 to 5] of the School and Early Years Finance (England) Regulations 2020), the local authority must treat maintained schools, including voluntary aided schools and foundation schools, and academies, on an equivalent basis. Schools such as voluntary aided schools, foundation schools, and academies, cannot therefore be charged for services that are provided free of charge to community and voluntary controlled schools, and paid for out of the centrally held DSG. This does not include funding that has been retained centrally from maintained school budgets only (as set out in Schedule 2, [Parts 6 and 7] of the School and Early Years Finance (England) Regulations 2020), where some statutory duties relate to community and voluntary controlled schools only. However, in these situations authorities should not charge voluntary aided and foundation schools if requested to provide services to

these schools and where there is no charge to community and voluntary controlled schools for the same service.

5. The local authority must treat children and young people with high needs on a fair and equivalent basis when making arrangements for their funding, regardless of whether they are placed in maintained provision, academies and free schools, providers in the further education sector, or non-maintained and independent provision.
6. The local authority, in deciding on top-up funding rates for the pupils to be placed in its maintained special schools and special academies it previously maintained, must not reduce the budget of any special school or special academy such that it would be lower in the 2020 to 2021 financial year than in the 2019 to 2020 financial year, if all the pupils in the special school or special academy were placed by the local authority, and the number and type of places remained the same in both the 2019 to 2020 and 2020 to 2021 financial years. The local authority can apply to the Secretary of State to set a specified percentage reduction instead.
7. When a pupil who requires top-up funding has already been placed in an institution and is in receipt of top-up funding from the local authority at 31 March 2020, the local authority must continue the agreement with the institution to make top-up payments until the pupil has left the institution, or the agreement is replaced by another. The local authority must likewise enter into such an agreement when a pupil is placed by the local authority in an institution at a later date.
8. The local authority must make high needs top-up payments in a timely fashion on a basis agreed with the institution. These must be monthly unless otherwise agreed.
9. The Secretary of State reserves the right to impose more specific conditions of grant on individual local authorities in relation to the use of DSG for top-up funding for pupils and students with high needs, where they believe the actions of the local authority are unreasonable. This is most likely to occur as a result of a failure to agree and pay top-up in a timely manner, where a pupil or student has already been placed by the local authority in an institution.

### **3.7 Allocations to academies**

In some circumstances local authorities need to make direct payments to academies. In the 2020 to 2021 financial year these will include:

- top-up funding for high needs pupils
- funding calculated under the early years single funding formula
- payments for pupils admitted who have been excluded from other schools
- any allocations from the local authority's growth fund or falling rolls fund

## 4. Use of grant monies

Local authorities have continuing responsibility for financial regularity in maintained schools. Section 151 of the Local Government Act 1972 requires the local authority to appoint an officer responsible for making the necessary arrangements for local financial and management controls; this person is usually known as the CFO. Under these arrangements, the CFO will need to ensure that the grant monies are spent on the purpose for which they are intended.

In particular, the CFO will need to ensure that expenditure charged to the schools budget falls within the definitions set out in regulations 6 and 7 of the School and Early Years Finance (England) Regulations 2020. In August 2021, we will provide local authorities with an outturn assurance statement for the CFO to sign to certify the actual deployment of the DSG.

Under the [Accounts and Audit \(England\) Regulations 2015](#), a local authority is required to undertake an annual review of its system of internal control. It is also required to report, with its annual accounts, on its arrangements in an annual governance statement (AGS) which must be prepared in accordance with proper practices as published by CIPFA. In undertaking such reviews and preparing their AGS, local authorities should consider the arrangements for allocating DSG budget shares to schools including procedures for ensuring the robustness of pupil data. Local authorities should be able to provide evidence that demonstrates that they have effective procedures for forecasting pupil numbers at school level, if required to do so by their own internal auditors or external auditors.

## 5. Accounting

### 5.1 Year end procedures

Local authorities are responsible for ensuring that the DSG is deployed in support of the schools budget. This includes both DSG funding allocated to central expenditure within the schools budget and funding for the ISB.

In principle, all DSG funding must be allocated to the schools budget in the year in which it is paid to the local authority by ESFA. Where the final adjusted DSG payment for the year exceeds the local authority's original budget provision, the local authority, after consulting the schools forum, may carry the additional grant forward to the following financial year.

Grant allocated through the ISB will automatically count as expenditure in support of the schools budget and will have to be allocated to budget shares in the year in question. Where actual schools' expenditure exceeds the ISB, this will normally

be financed by a net reduction in schools' reserves. Conversely, where actual schools' expenditure falls short of the ISB, this will be explained by a net increase in schools' reserves.

At the end of the financial year, the central expenditure element of the schools budget may be under or overspent. If there is an underspend in respect of central expenditure at local authority level this should be separately identified within the associated notes to the accounts. The underspend must be carried forward to support the schools budget in future years, including any of the budget that is moved into earmarked reserves.

There are new arrangements for handling overspends with effect from the end of the 2019 to 2020 financial year.

New provisions have been put into regulation 8, paragraphs (7) and (8), and Schedule 2 Part 8 of the School and Early Years Finance (England) Regulations 2020, so that local authorities are required to carry forward overspends to their schools budget either in the immediately following year or the year after. They can apply to the Secretary of State to disregard this requirement. In the case of the Secretary of State giving such permission, this may be for all or part of the sum requested by a local authority, and permission may be given subject to conditions.

The impact of these statutory provisions will be that a local authority with a DSG deficit from the previous year must either:

- carry the whole of the deficit forward to be dealt with in the schools budget for the new financial year, deducting all of it under regulation 8(7)(a) from the money available for that financial year
- carry part of it forward into the new financial year and the rest of it into the following financial year, using regulation 8(7)(b)
- carry all of it into the following financial year, using regulation 8(7)(c)
- apply to the Secretary of State under regulation 8(8) for authorisation to disregard the requirements in regulation 8(7) if it wishes to fund any part of the deficit from a source other than the DSG

This creates, on a statutory basis, a new requirement that a deficit must be carried forward to be dealt with from future DSG income, unless the Secretary of State authorises the local authority not to do this.

The [Accounts and Audit \(England\) Regulations 2015](#) incorporate a requirement for a note to the statement of accounts confirming actual deployment of the DSG.

## **5.2 Further conditions relating to DSG overspends and deficits**

Any local authority that has an overall deficit on its DSG account at the end of the 2019 to 2020 financial year, or whose DSG surplus has substantially reduced

during the year, must co-operate with the Department for Education (DfE) in handling that situation. In particular, the local authority must:

1. Provide information as and when requested by the department about its plans for managing its DSG account in the 2020 to 2021 financial year and subsequently.
2. Provide information as and when requested by the department about pressures and potential savings on its high needs budget.
3. Meet with officials of the department as and when they request to discuss the local authority's plans and financial situation.
4. Keep the schools forum regularly updated about the local authority's DSG account and plans for handling it, including high needs pressures and potential savings.

The Secretary of State reserves the right to impose more specific conditions of grant on individual local authorities that have an overall deficit on their DSG account, where he believes that they are not taking sufficient action to address the situation.

### **5.3 Further conditions relating to additional allocations of DSG**

If the Secretary of State provides an additional allocation of DSG to a local authority, they may attach further conditions to that allocation beyond those set out in this document.

### **5.4 Repayment of DSG**

The Secretary of State reserves the right to recover the grant where there is evidence that a local authority has used it for any purpose other than to support the schools budget.

The Secretary of State may require the local authority to repay as much of the DSG as considered reasonable in the following circumstances:

- the local authority fails to comply with any of the conditions of the grant
- the local authority fails to use the DSG for the purposes for which it is given
- the external auditor indicates that they are not satisfied with the treatment of DSG in the local authority's accounts

### **5.5 Local authority reporting requirements**



Local authorities are not required to produce separate final accounts for schools' expenditure or for the use of the grant.

The grant received from ESFA and its deployment between central expenditure and the ISB should be clearly identifiable within the additional note to the local authority's statement of accounts to demonstrate compliance with the limit on central items. Local authorities should refer to CIPFA's statement of recommended practice (SORP) guidance note for practitioners.

At outturn stage, the CFO is required via a signed statement to confirm final deployment of the DSG in support of the schools budget and in accordance with grant conditions.

## 5.6 External audit arrangements

Appointed auditors are responsible for auditing the financial statements of each local authority and for reaching a conclusion on the local authority's overall arrangements for securing economy, efficiency and effectiveness in the use of resources. The deployment of, and accounting for, DSG in support of the schools budget, and the arrangements for securing economy, efficiency and effectiveness in DSG and schools' expenditure fall within the scope of the work that appointed auditors may plan to carry out, having regard to the risk of material error in the local authority's accounts and significance to overall arrangements for securing value for money.

Local authorities should maintain proper arrangements to ensure value for money. They should also provide assurance to DfE that the grant is being deployed in accordance with grant conditions, so that DfE can provide appropriate assurance to Parliament.

DfE is subject to external audit by the National Audit Office (NAO) to support Parliament's need for assurance about DfE's grant funding to schools. From time to time the NAO may need to undertake audit work, for example on local authorities' disbursement and monitoring of the grant, and its deployment in maintained schools.

## 6. Dedicated schools grant payment dates for the 2020 to 2021 financial year

Instalment	Payment date
1	03 April 2020
2	16 April 2020

3	30 April 2020
4	12 May 2020
5	22 May 2020
6	03 June 2020
7	22 June 2020
8	03 July 2020
9	22 July 2020
10	05 August 2020
11	21 August 2020
12	03 September 2020
13	22 September 2020
14	05 October 2020
15	22 October 2020
16	04 November 2020
17	20 November 2020
18	03 December 2020
19	22 December 2020
20	06 January 2021
21	22 January 2021
22	03 February 2021
23	22 February 2021
24	03 March 2021

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