

Briefing Note

To: Cabinet Scrutiny Committee

From: Keith Abbott, Director of Finance and Corporate Services

Date: 28 November 2008

Subject: **Dedicated Schools Grant (DSG) Difficulties**

1. How is DSG calculated?

1.1. DSG for Local Authorities is based on a snapshot count of all pupils in maintained schools, early years PVI providers and pupils in alternative curriculum on the 3rd Thursday in January. The total number of full time equivalent pupils is multiplied by a single funding value set by the DCSF. The amount per pupil for Kent which applies for 2008/09 is £3,938.26. A different rate applies to every local authority.

1.2. On 19th June 2008 following verification of pupil numbers, the DCSF confirmed that the DSG allocation for Kent for 2008/09 is £773.9m. This represents a cash increase of £22.068m on last year's grant. Table 1 below provides a breakdown of the calculation used in arriving at our final allocation.

1.3. Table 1 – Dedicated Schools Grant for 2008-09

		2008-09
Total pupils for the 2008-09 Dedicated Schools Grant	A	197,113
2008-09 guaranteed per pupil unit of funding (£)	B	£3,938.26
Gross DSG Total (£m) A x B		£776.280
Less deduction for Academies transferring Axton Chase (£m)		<u>£2.366</u>
ADJUSTED TOTAL DSG (£m)		<u>£773.914</u>

1.4. In addition to funding schools' delegated budgets, including special schools and the additional costs associated with Statements of SEN, the DSG is required to fund the full range of costs of supporting Kent pupils not in school and it must also meet the costs of Kent pupils placed in special provision outside Kent.

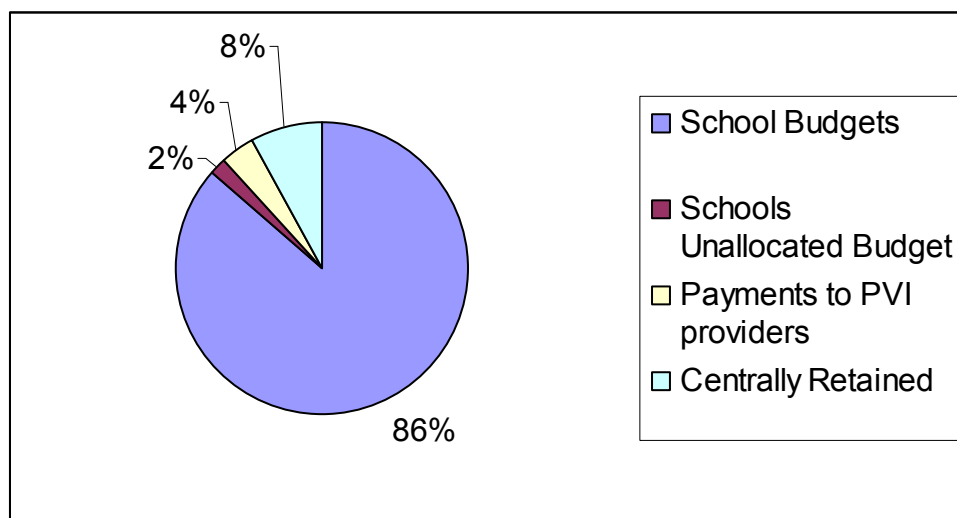
1.5. A number of services that directly support pupils or schools are not delegated and are referred to as 'centrally retained'. In the main these are either services that cannot sensibly be delegated, such as managing the Kent admissions process, or services specific to a minority of pupils such as very high cost specialist SEN support not available in Kent's schools.

1.6. As well as pupils aged 5-16, DSG must support the provision of the free 3 & 4 year old Early Years entitlement, together with support and training for those early years settings that are run by private, voluntary and independent providers.

1.7. It is important to note, therefore, that the same funding value (£3,938 in 2008-09) is applied to all pupils of all ages 3-16, but in practice the costs that are incurred vary dramatically. Costs range from around £3,000 per full time early years and

primary pupil, with no SEN, up to around £15,000 for special school pupils, and much higher if pupils have to be placed in independent or private residential special schools. Furthermore a range of support and administrative functions have to be accommodated from within these per pupil allowances.

- 1.8. Structurally DSG falls, therefore, into three main sectors, plus a contingency provision. These are shown overleaf in the chart of the 2008-09 allocation. Prescriptive detailed government regulations dictate what costs must be met from DSG, which must be delegated, and which may be retained centrally.



2. Difficulties Arising from the Structure of DSG and Government Limits

- 2.1. The main issues that arise from the Grant method and structure are :

- The Central Expenditure Limit (CEL)
- impact of high cost pupil number increases
- impact of academy transfers

2.2. The CEL

- 2.2.1. Regulations define what elements of spending have to be delegated to schools, and which may be managed centrally. In order to protect school budgets and ensure LAs are passing on a fair proportion of annual DSG increases, DCSF regulations set a 'Central Expenditure Limit' (CEL). Put simply LAs are not allowed to increase the spending on centrally retained budgets at a faster rate than school budgets (incl. Early Years payments), unless they specifically obtain the agreement of the Schools Forum, or failing that, the Secretary of State.

- 2.2.2. This restriction can create significant problems. Three issues are illustrated below:

- 2.2.3. Rising SEN expenditure. It is widely acknowledged that with higher survival rates and advances in treatment, infants born with severe mental and physical difficulties are making up an increasing proportion of the population. Every year therefore numbers of pupils requiring additional, costly, support in their education are rising when overall pupil numbers are falling. Costs met from the centrally retained budgets will therefore require a greater increase than the delegated school budgets (which are reducing because of falling rolls). This breaches the

CEL and requires specific Schools Funding Forum agreement.

2.2.4. Fixed costs. Many central costs by their very nature are largely fixed, unless the overall demand on the Kent service were to be dramatically reduced. A good example is the admissions service. The cost of running the annual arrangements for allocating school places does not vary in line with pupil numbers. Relatively small annual reductions in pupil numbers do not translate into cashable administrative savings. Therefore central costs stay fixed as school budgets (based on falling rolls) reduce and the CEL is breached.

2.2.5. Differential Inflation. The situation can arise where certain statutory, economic or market force circumstances cause costs to rise on some central budgets that do not impact on schools, either at all, or to the same degree. Schools are generally well protected now as the government ensure that DSG increases at least match teachers' pay awards, which account for around 75-80% of school spending.

2.3. High cost pupils

2.3.1. As well as the impact on the CEL referred to above, an increase in the number of more costly pupils presents significant budget pressures because the DSG calculation provides Kent with only a standard 'average' allowance for each pupil.

2.3.2. There are two ways in which this creates a budget problem –

2.3.3. Firstly primary pupils are on average funded at a rate below the DSG rate, but secondary numbers generally are above. With only primary numbers falling at present, the reductions in DSG exceed the savings from having to fund fewer primary pupils. This means less money available for both schools and central budgets.

2.3.4. Secondly if overall the proportion of pupils requiring significant additional support rises (as it is), the DSG unit rate is insufficient to meet that rising average cost. The only way in which such cost increases can be managed is by minimising the annual inflationary increase allowed to schools generally to well below the rate of DSG increase allowed by DCSF. This also has implications for CEL.

2.4. Academy Transfers

2.4.1. A new system for funding Academies was introduced from 2008-09 by DCSF. Academy pupils attract DSG funding for Kent at the average rate. DCSF then top-slice Kent's DSG to fund the individual academies, but the amount taken exceeds by some margin the DSG earned by their pupils. This is because Academies generally receive higher than average per pupil funding (tending to be in receipt of deprivation funding, and/or high levels of SEN and poor prior attainment funding). They also receive a share of certain central costs, which in practice do not reduce just because a school becomes an Academy.

2.4.2. These transfers reduce the overall funding flexibility available within the Schools funding system as large cash sums are being withdrawn from Kent's control, and they put pressure on central budgets to be cut, or cause breaches of the CEL.