

Report sponsor: Sharon Buckby, Service Director – Learning Skills and Inclusion.
Report author: Janice Hadfield, Head of Finance

Dedicated Schools Grant 2025-26 – Quarter 3 Financial position and forecast outturn.

Purpose

- 1.1 The Dedicated Schools Grant (DSG) is a ring-fenced grant. Regulations allow any underspends or overspends to be carried forward and dealt with as part of the budget setting process for the following financial year.
- 1.2 This report is to give account on the 2025-26 financial position forecasting to the end of the financial year March 2026.

Recommendations

- 2.1 To note the quarter 3 financial position of the DSG showing an in-year deficit of £7.8m. A minor change of £0.005m from quarter 2 reported position of £7.795m.
- 2.2 To note the implications for the 2025-26 DSG reserve in section 4.0 which is predicting a cumulative DSG deficit position of £23.989m.
- 2.3 To note the requirement of the Deficit Management Recovery Plan in section 5.0.

Supporting information

- 3.1 The Dedicated Schools Grant (DSG) for Derby is split into four blocks: Schools Block, Early Years Block, High Needs Block, and a Central School Services Block.

- 3.2 The 2025-26 allocation for the DSG is £373.730m and is made up of four blocks of funding with no change from quarter 2.
- Schools Block £266.756m (included the Mainstream Schools Additional Grant and £1.580m NNDR)
 - Central School Services Block £2.465m
 - High Needs Block £63.586m
 - Early Years Block £40.923m
- 3.3 The overall DSG forecast position at quarter 3 is reporting a deficit of £7.8m made up of an in year deficit £7.559m and a previous year clawback adjustment of £0.241m. No significant change overall from previous quarter 2 £7.795 (£0.005m change). The reasons for the changes are due to a pressure from the Early Years Block reported in section 3.7 partially offset with a reduction in the High Needs Block pressure of £0.192m detailed within section 3.8 of this report.
- 3.4 The government's extension of the DSG statutory override for a core of period of 3 years (up to March 2026) has now been extended to April 2028, affording the short-term financial flexibility needed for authorities as they implement sustainable change, underpinned, and reinforced by the government's longer-term reforms. Derby's deficit position requires the authority to apply the statutory override. The overspending High Needs Block continues to cause a pressure for the Councils general fund to cover the treasury costs of the DSG deficit. This is estimated to cost annually circa £2m based on the current level of the forecast deficit.

The Department for Education shared additional information about the changes to SEND budgets and funding in the Autumn Statement.

The Budget has:

- Confirmed that the Dedicated Schools Grant Statutory Override, which helps LAs to manage SEND costs, will stay in place until the end of the 2027-28 financial year
- Set out that, from 2028-29, central government support to LAs for SEND will be set at a level that means that LAs will not need to build up any further deficits
- And set out that the funding for that, in 2028-29, will be absorbed within the overall government budget, not the Core Schools Budget.
- Budgets from 2028-29 onwards, including the Core Schools Budget, will be confirmed in the 2027 Spending Review

Further detail on support for LAs with historic and accruing deficits, up to 2028-29, and conditions for accessing such support, will be shared in the upcoming Local Government Finance Settlement due week beginning 15th December.

Further detail on SEND policy changes will be set out in the full Schools White Paper in the new year.

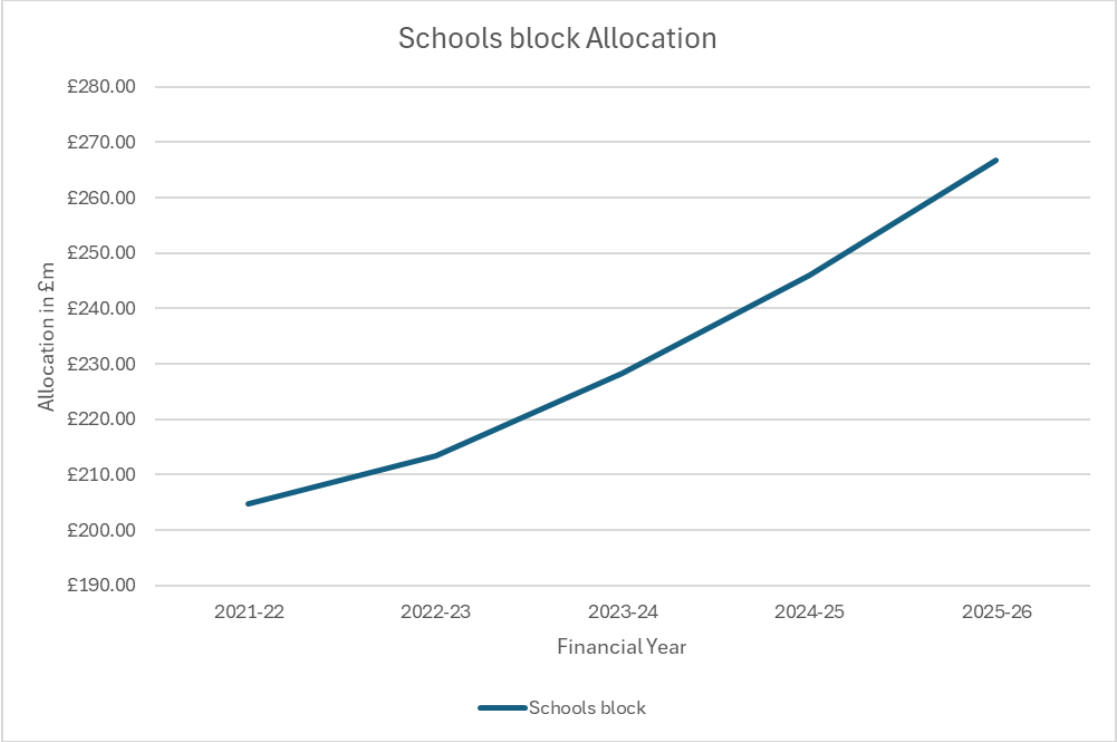
3.5 **School Block** is reporting an underspend of £0.1m **no change from quarter 2**.

To note - recoupment of Academy budgets has been actioned by the DfE, leaving Derby with its maintained school budgets

A summary of the school's block allocation is below.

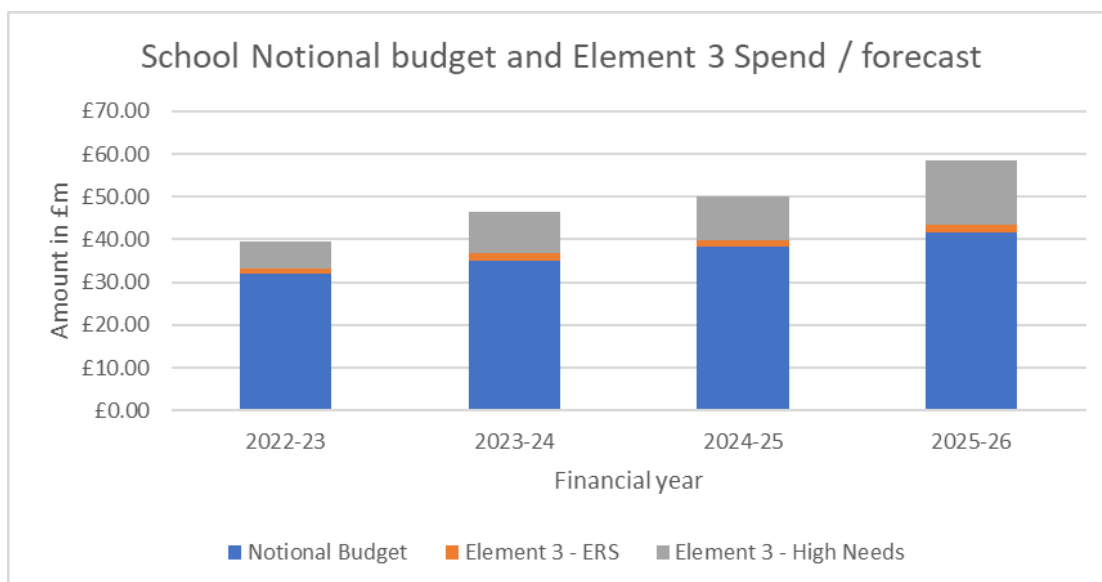
Schools Block	2025-26 £'000	Recoupment £'000	2025-26 retained for maintain schools £'000
Allocation	266,755	199,161	67,594
Transfer to the High Needs Block	-1,334		
Allocation including Transfer	265,421		
Requirement			
Growth Fund	156		-100
Balance to be distributed to Schools through the Funding Formula	265,265		
TOTAL Requirement	265,421		-100

The graph below shows the increased funding in the school's block over the last 5 years.



The schools block funding includes an element of notional SEN funding – for Derby in 2025/26 the notional SEN funding included in the main Schools budgets is circa £41m.

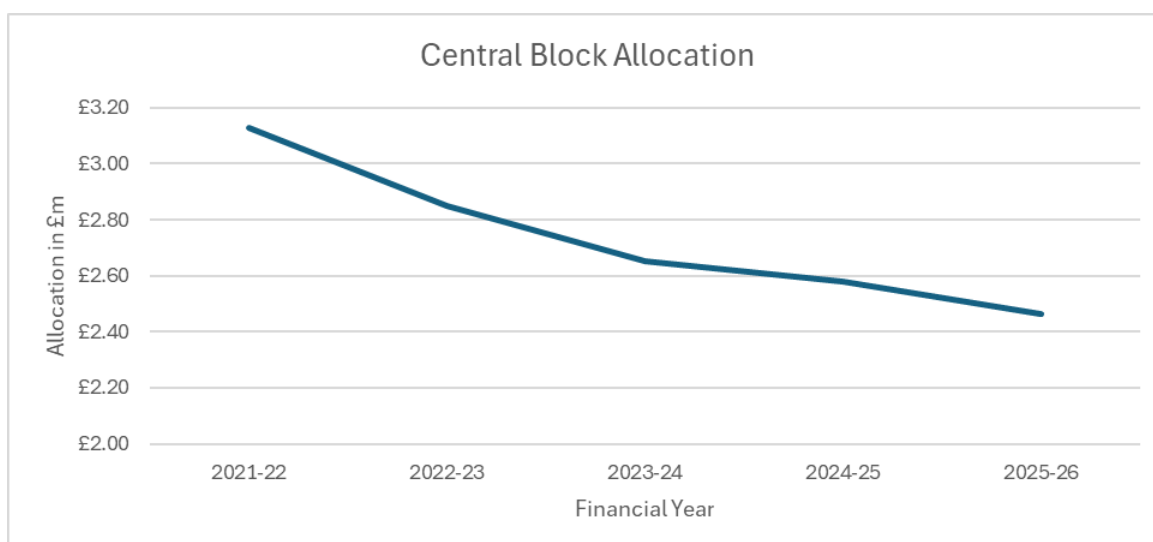
Below shows a breakdown of the funding that maintained schools receive to support SEN across both the School block and High Needs block.



3.6 Central Block is reporting a balance position- no change from quarter 2

The Central Schools Services Block (CSSB) is a component of the Dedicated Schools Grant (DSG) used to fund local authority responsibilities for all schools in an area. It contributes to the cost of services that are retained centrally by the local authority, including those previously funded by the Education Services Grant (ESG). These include duties like admissions, copyright licenses, central pension contributions and school attendance.

The graph below shows the reducing allocation of the CSSB over the last 5 years



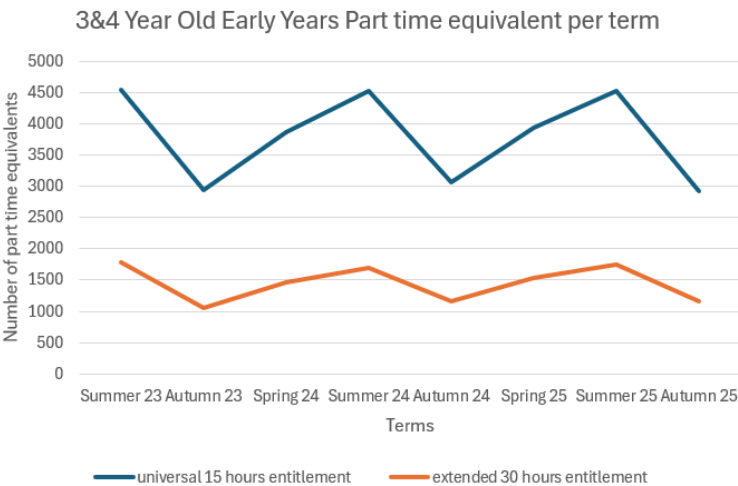
3.7 **Early Years Block is reporting an overspend of £0.235m an increase from a reported balanced position at quarter 2.**

From **September 2025**, working parents of children under the age of five were entitled to 30 hours free childcare per week

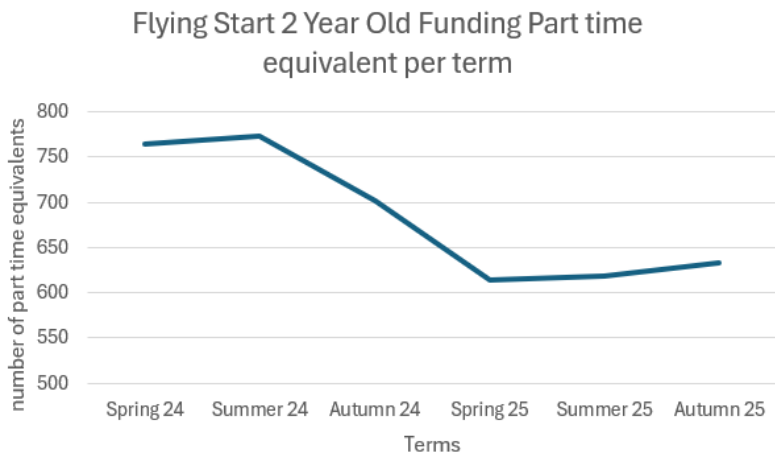
The change from the previous quarter is due to the number of paid weeks for the 9 month to 23 month cohort. Autumn term funding was based on 14 weeks, Derby had already established paid weeks to providers at 15 weeks for the autumn term, resulting in a one-off pressure of **£0.235m**. To prevent reoccurrence of this pressure, future payments periods will be scrutinised to ensure weeks paid to providers are aligned to Government’s funded weeks.

The clawback for 2024-25 has also been actioned by the Dfe (£0.241m) and is included in the reserves adjustment (as reported at Qtr 2) .

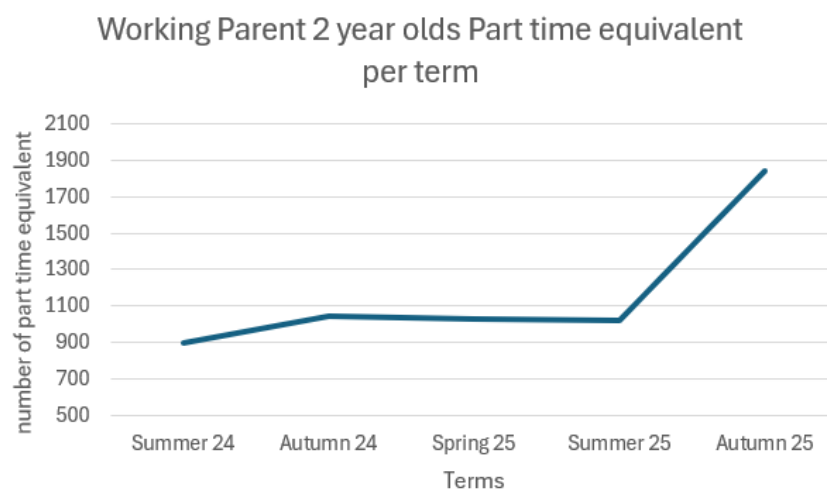
The charts below show the take up of the offer for the 4 cohorts each funded by their specific formula regulations.



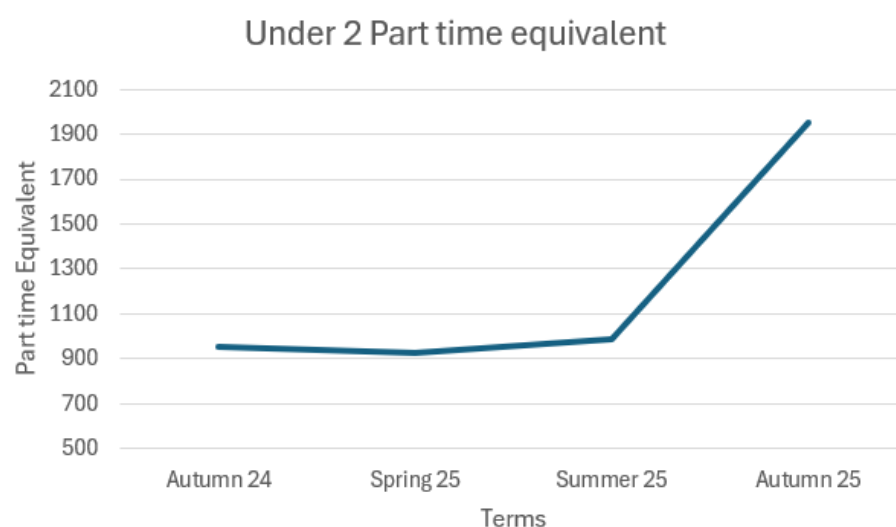
For 3 & 4-year-olds, the graph shows that the numbers of PTE’s are consistent with previous years therefore the actual take up is still predicted to be as the budget set.



For the additional support 2-year-old funding – known as flying start, we are reporting a slight increase to the part time equivalent.



Working parent 2-year-olds entitlement large increase in part time equivalent in Autumn 2025 is due to the increase in the entitlement to 30-hour, the allocation will be adjusted to reflect actual uptake



Under 2-year-olds is the most recent scheme funding 9month to 2 years – the large increase in part time equivalents in the Autumn 2025 is due to increase in the entitlement to 30-hour the allocation will be adjusted to reflect actual uptake.

The forecast breakdown for the 2025- 26 Early Years block is shown in the table below

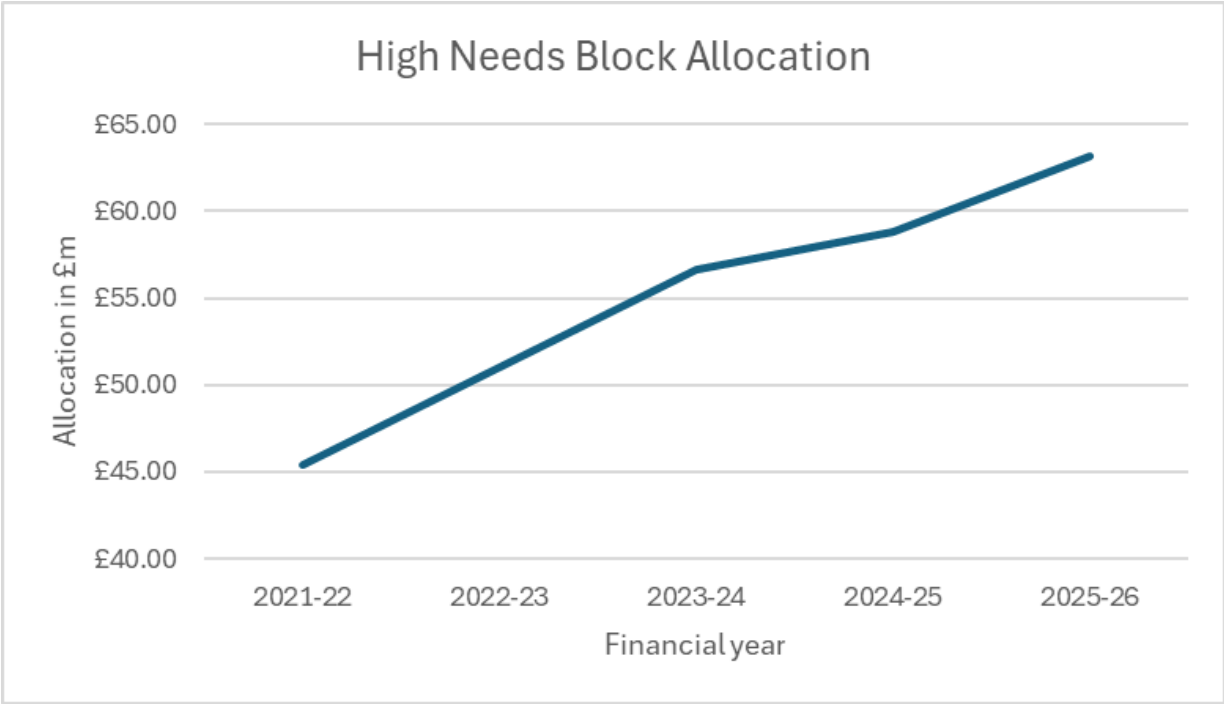
Early Years Block	Budget	Forecast	Variance
	2025-26 £'000	2025-26 £'000	2025-26 £'000
3- & 4-Year-old allocation	18,517	18,517	0
Additional support (previously disadvantaged) 2-year-old allocation	3,052	3,052	0
Early Years Pupil premium	678.66	678.66	0
Disability access fund	289.84	289.84	0
Supplementary funding for Maintained Nursery Schools	1,617	1,617	0
2-year-olds working parents*	6,741	6,741	0
9 months to 23 months working parents) *	10,026	10,026	0
TOTAL Early Years Funding	40,923	40,923	0
Forecast Expenditure			
Additional support (previously disadvantaged) 2-year-old funding	2,907	2,907	0
3- and 4-Year-Old Funding - Universal and Extended hours	17,743	17,743	0
Maintained Standalone Nursery School Funding (MNS)	1,617	1,617	0
Working Parent 2-year-olds	6,478	6,478	0
Working Parent 9 months to 23 months	9,722	9,957	235
Top Slice for EY services	1,154	1,154	0
Early Years Pupil Premium across all age ranges	679	679	0
Additional SENIF/contingency funding across all age ranges	333	333	0
Disability Access Fund across all age ranges	290	290	0
TOTAL forecast expenditure	40,923	41,658	235

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3.8 High Needs Block

The High needs block funding allocation for 2025/26 is £64.937m (this includes the schools block transfer of £1.334m) this is an increase of £0.51m from the original allocation due to increase in import and export funding

The graph below shows the allocation over the last 5 years



The unmitigated budget requirement approved by school’s forum in February 2025 was a total of £71.089m (a deficit pressure of £6.56m). The Cumulative deficit carried forward from 2024/25 was £16.189m.

At quarter 3 the in-year forecast deficit is £7.424m, this is a slight decrease of from £7.616m at quarter 2 of £0.192m, this is due to £0.167m of reduced forecast in the independent sector and a £0.054m favourable change within the Enhanced Resource forecast, due to both lower costs and placement movements, slightly offset by a greater need for agency staff cover for both sickness and vacancies.

The table below shows the breakdown of the High needs forecast against the budget set– (note recoupment is the amount of funds deducted at source by the DfE) with a narrative for the changes in 3.9

High Needs expenditure forecast	Gross Unmitigated budget set	Recoupment and maintained schools Forecast	Net unmitigated budget	Full year forecast Quarter 3	Forecast Variance from original budget (Surplus)/Deficit
	£'m	£'m	£'m	£'m	£'m
Staffing and contingencies	3.588		3.959	3.940	-0.019
Other Local Authorities	3.600		3.600	3.500	-0.100
Independent and non-maintained special schools and Out of Authority costs	12.730		12.730	11.903	-0.827
Post 16 Education	7.490	3.510	3.980	4.220	0.240
Special Schools and PRUS	26.205	10.928	15.277	14.812	-0.465
Enhanced Resource settings	4.100	1.559	2.573	1.859	-0.714
Hospital Medical Tuition	0.426		0.426	0.302	-0.124
Maintained Element 3 (top ups)	12.000		12.000	15.061	3.061
Personal budgets	0.500		0.500	0.300	-0.200
Early Years inclusion fund	0.450		0.450	0.450	0.000
Total Expenditure	71.089	15.997	55.483	56.347	0.852
Funding Allocation	64.529	15.997	48.923	48.923	
Forecast Deficit	6.560		6.560	7.424	

3.9

INMSS and out of authority placements have seen a reduced forecast reported at quarter 3 of (£0.827m) against a budget set of £12.730m, this is a decrease in forecast spend from quarter 2 of £0.167m this is due to the local offer now moving to a placement of choice, the continued application of mainstream preference, expansion of specialist provision, and the focus of maintaining a grip on non S41 placements. We have also focused of transition from INMSS to our Special School places at phased transfer.

Post 16 Education is seeing a variance of £0.240m due to additional placements funded at Derby College. No change from quarter 2.

Special Schools and PRU's have a variance of (£0.465m) due to changes in the commissioned numbers, that have changed since the budget was set, in part due to delays in capital developments. No change since quarter 2.

Enhanced Resource has a variance in quarter 3 of (£0.714m) this is a slight decrease in spend from quarter 2 of £0.054m is due to planned opening dates being later than the budget original plan.

Hospital Medical have seen a variance of (£0.124m) because of reduced places required. No change since quarter 2.

Personal budgets are reporting a variance of (£0.200m) following detailed scrutiny of plans by the SEN team. No change since quarter 2.

Element 3 has seen a significant increase since the original budget was set at £3.061m, and the forecast overspend is currently estimated at £3.061m – No change from the quarter 2 forecast. This is due to the clearing of historic plans that were not included in the original budget.

4.1 Dedicated Schools Grant Reserve Balances

The table below shows the DSG reserves position over the last 8 financial years.

	£ million	
2017 18	6.994	
2018 19	2.836	
2019 20	2.582	
2020 21	4.211	
2021-22	(1.4)	Deficit with commitments
2022-23	(4.443)	Deficit
2023-24	(12.688)	Deficit
2024-25	(16.189)	Deficit
2025-26	(23.989)	Forecast deficit

Total in year deficit for 25/26 is forecast to be £7.559m coupled with the EY clawback of £0.241m will bring the cumulative deficit at the end of 2025/26 to £23.989m as noted in 2.2

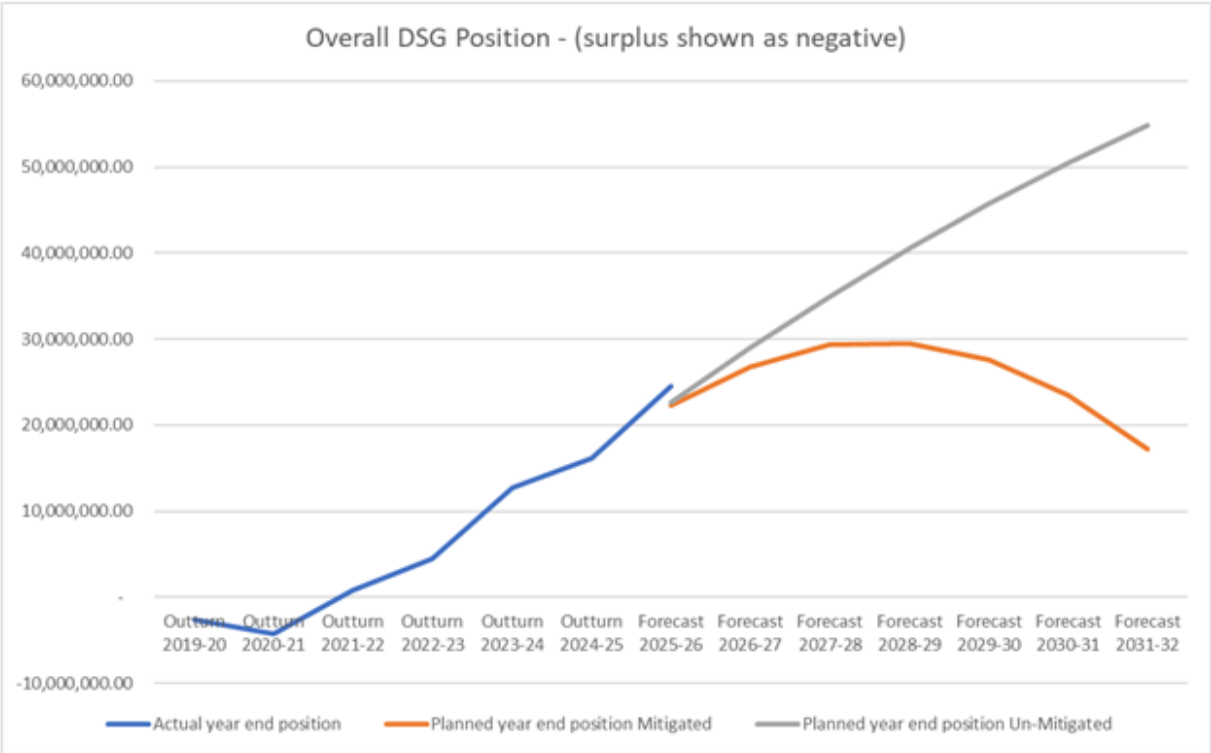
The governments extension of the DSG statutory override for a core period of 3 years (up to March 2026) remains. It is expected that this will be continued through to March 2028 – however this hasn't been officially notified.

5.1 Deficit Management Plan

It is a requirement of the DSG: conditions of grant 2025-26 that local authorities (LAs) have a plan in place to manage their overspend on the DSG.

As outlined previously the HNB deficit management plan identifies the mitigating actions to reduce the deficit. Whilst the statutory override has been extended to March 2028, there remains an expectation that deficits need to be reduced, with tighter controls on spend. The deficit management plan is a multi year plan

The Graph below demonstrates the impact of the transformation work on the cumulative financial position (mitigated) and the position if the mitigations are not accepted.



The Management Plan is divided into three sections:

- a) Sufficiency: Increasing the number of specialist places in local mainstream provision and specialist school provision.

400 places have been commissioned through capital expenditure. There are two projects that have been slipped due to planning requirements and two secondary projects delayed due to discussions regarding the scope of the provision.

The increase in the number of specialist places has seen a reduction in requests for high value nonregulated provision. The financial impact of that is

now starting to come through and several areas are reporting lower spends, reducing the forecast deficit, as a result.

- b) Financial management: Applying value for money criteria - bringing Derby City into line with statistical neighbours on spend per place, as Derby City is second highest spending authority on places. Ensuring funding from the HNB meet statutory funding requirements.

Due diligence measures are in place against all spend. This includes discussions with NHS Derby and Derbyshire regarding spend against health needs.

As outlined in December 2024 school forum papers, the new banding matrix will be matrixed over a two- year period. As agreed with schools, discussions will take place at a school level once the matrix has been applied to discuss how provision meets need and how finances are being applied.

All new plans have funding allocations by the banding matrix. The matrix was developed through a review of needs led banding and where local authorities were seen as applying best value measures.

- c) Focusing on the children in the City to ensure they have the right support in the right place to sustain placements.

A quality review of EHC plans has identified that a significant number, approx. 40%, of plans could have been met through reasonable adjustments the graduated approach and High-Quality Teaching. By receiving effective earlier intervention, specialist teaching interventions and a comprehensive workforce plan often EHCPs would not have been needed, school mobility would be reduced, and more pupils will be able to access the national curriculum alongside their peers.

Often an enhanced education plan or effective SEND support plan could have supported pupils well as they did not require education, health and care support, but were either education or education and health support.

Going forward we shall review where this could be the case and provide an enhanced support plan accordingly with an associated amount of funding applied. Discussions will take place with parents and schools where this is the case in a way forward meeting for all new plans and in an annual review for all existing plans.

To support schools in delivering support for children with additional needs, including catch up due to levels of deprivation, enhanced SEN support for

those transferring in year or at phase transfers three working groups have been established:

- Right time right support – exploring specialist interventions for SEMH providers, communication and interaction and specifically child development, executive functioning for younger children and adolescents. A new transitions programme is being launched on Easter 2026, the detail of which are being finalised.
- Workforce development across the education health and care workforce. Goes live on the Inclusion partnership website in december 2025
- Inclusive curriculum through a repository and communities of practice. Repository to be launched in December 2025.

The current challenges facing the SEND teams include: -

- Area Inspection of SEN/D and Inclusion is due imminently; however, transformation of the service continues.
- Capital delays have impacted on the Tribunal outcomes that have resulted in placements in independent schools.

For more information contact: Background papers: List of appendices:	Janice Hadfield, email Janice.Hadfield@derby.gov.uk
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