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ITEM

Dedicated Schools Grant 2026-27 – School Block Budgeting Options

SUMMARY

1.1 **Dedicated Schools Grant –** Each year the Department for Education (DfE) announces each authorities DSG allocations, those allocations are based on the financial year rather than the academic year. Government and Local Authority budgets operate on a financial year basis (April to March). Aligning school budgets with this cycle ensures consistency and facilitates smoother financial planning and allocation processes whilst aligning with cabinet ratification.

The 2026-27 DSG allocations are yet to be announced however due to a much later budget announcement scheduled for 26th Nov it is anticipated LA allocations could be as late as the week before Christmas. It is important to bring points of principle forward to enable School's forum to fully understand the both the time constraint and process of balancing the school block.   To ensure that Local Athority accountancy team can prepare school budgets within the deadline (school block school budgets published by 28th Feb of each year) it is important that forum has been consulted on the options before cabinet approval.

1.2 As pupil numbers reduce in the City as per the latest statistical information, it is important to understand the possible impact of such a reduction in pupil numbers on the Schools Block of the DSG.   A reduction in funds allocated at LA level will impact at school level. The impact upon individual schools relies on the methods used to balance the School Block .   It is those methods of maintaining the fairness in the block that need to discussed.

This paper sets out the options available within the school funding guidance.

RECOMMENDATIONS

2.1 To note the tight timeline to set the 2026-27 school budget.

2.2 To note all possible options that may need to be used to enable the schools block to comply with regulations

2.3 To note the requirement to set the budget within the principle of maximum delegation to schools, transparency and fairness.

3.1 Derby remains committed to delegate as much funding directly to schools as possible. Derby is also committed to managing the deficit reported in the DSG, see Qtr 3 monitoring paper for the latest forecast position, and to do that Derby will continue to seek school forum approval for a 0.5% topslice from the school block (separate paper) to the high needs block to support the ongoing challenges.

3.2 **Options to balance the School block**

- **Capping and Scaling** - Capping is applying a maximum percentage of year-on-year funding gain. Scaling is applied to the cap to scale back its impact. It is important to note that capping and scaling is not a reduction in school funding but a limit on the amount of year-on-year funding gain available to an individual school. Irrespective of the capping and scaling mechanism all schools will receive the funding guarantees set within the 2026-27 NFF guidance one published. This particular mechanism helps to prevent excessive year-on-year funding increases (gains) for some schools, allowing for a more even distribution of available funds across all schools in the area. This means that schools with the largest potential gains under the funding formula have those gains limited ("capped") and partially redirected ("scaled") for wider distribution. (Historically this solution has been applied as the preferred method in Derby to balance the School Block)

- **The Minimum Funding Guarantee (MFG)** is a mechanism used in the school funding formula to ensure that schools do not experience a significant reduction in their per-pupil funding year-on-year. The lower the set threshold the more money is release back into the formula – historically Derby has a low number of schools on the MFG, however, if the settlement is not of a significant increase the effect of the MFG diminishes and the percentage available will be dependent on DfE announcement

- **Abatement of formula factors** – There were 15 allowable funding factors in 2025 to 2026; most are compulsory for all local authorities, Derby uses all factors permissible, only London Fringe and sparsity are not applicable to Derby, no school currently has a split site. The following from the DfE guidance sets out what 'mirroring' the formula means, to note Derby has been mirroring the NFF at 100% for many years. In order to balance the school budget Derby may have to consider reducing the 97.5% in line with the operational guidance stated below.

3.3   *Source [Schools operational guide: 2025 to 2026 - GOV.UK](#) Local authorities are required to move their local formula factor values at least 10% closer to the NFF factor value, except where local formulae are already 'mirroring' the NFF. This requirement does not apply to the optional, locally determined factors*

For the purpose of the tightening criteria, local factor values within 2.5% of the respective NFF values are deemed to be 'mirroring' the NFF. This means that local authorities which had factor values within +/- 2.5% of the NFF values in 2024 to 2025 will be allowed to set their 2025 to 2026 factor values anywhere within +/- 2.5% of the 2025 to 2026 NFF values. Likewise, no local authority will be required to move their factor values closer than +/- 2.5% of the 2025 to 2026 NFF because of the 10% tightening requirement.

Any reduced percentage of any factor from the Government's NFF rates in 2026-27 must ensure the minimum per pupil level (MPPL) and the application of the determined percentage for the minimum funding guarantee (MFG) is applied.

3.4   To note that in 2025-26 Derby's per pupil amount allocated to schools was on average 16% greater than the MFL set for both primary and on average with some schools receiving 30% above the MFL. No Derby schools received the basic MFL as stated by the DfE.

3.5   Appendix 1 demonstrates an impact of 0.5% downward adjustment for each of Derby's factors with the funding released based on 25-26 NFF values.