

Report subject	Finance Update – 2024-25 Dedicated Schools Grant (DSG) Budget Monitoring and 2025-26 Financial Settlement, and School Block Transfer to High Needs
Meeting date	18 November 2024
Status	Public Report
Executive summary	<p>This report provides the latest DSG budget monitoring for 2024-25, with the DSG funding gap estimated at £44.5m (compared with the budget gap of £28m) and an accumulated deficit at March 2025 of £108m.</p> <p>Due to the change in government, there is delay in the DfE issuing the DSG information for 2025-26. General policy announcements have been made to enable local authorities to consider their local mainstream formula and whether any disapplication of the expected regulations will be needed. This report includes consideration of the local mainstream formula and a transfer of school block funding to high needs.</p> <p>The deadline for disapplication requests remains according to the usual annual timescale of 18 November 2024. DfE accept that consultation with schools and Schools Forum will not have concluded by that date.</p>
Recommendations	<p>It is RECOMMENDED that Schools Forum:</p> <p>Note the information in the report, and specifically the request to the DfE to disapply aspects of the expected regulations for 2025-26 as follows:</p> <ol style="list-style-type: none"> 1. To allow a transfer from the school block to high needs of 1%. 2. To enable all schools to contribute to a transfer to enable the minimum per pupil funding levels to be reduced by close to 1%.
Reason for recommendations	Schools Forum to be consulted on the mainstream schools funding formula and transfer to high needs.
Portfolio Holder(s):	Councillor Richard Burton, Children and Young People

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Wards	Council-wide
Classification	For consultation

Background

1. The publication of the notional schools and high needs national funding formula (NFF) allocations for 2025-26 has been delayed by the general election with this not expected until late November. The final DSG allocations will follow in December as usual.
2. The Chancellor's October budget 2024 included that the national core schools budget will increase by £2.3 billion, £1 billion of which will go towards supporting the special educational needs and disabilities system, equivalent to 6% growth.
3. The government also noted the aim to reform England's SEND provision to improve outcomes and return the system to financial sustainability.
4. The BCP DSG funding levels in 2024-25 for context are £263 million for the mainstream school formula, £2 million for basic need mainstream pupil growth in September 2024 and £61 million for the high needs budget.
5. In advance of the department confirming the mainstream schools NFF factor values and allocations a summary policy note was published in October 2024. This set out the structure of the schools NFF for 2025-26 and confirmed that there will be no substantial changes compared with the current year. The structure of the NFF is included in Appendix 1.
6. Due to the delay in confirming the NFF factor values, the DfE will not be issuing the usual modelling authority proforma tool (APT) for 2025-26 until the December Settlement because it has limited use until factor values are known. The local consultation with schools will not therefore be able to illustrate any individual school impact from varying the NFF funding values in the local formula until the January 2025 Schools Forum meeting.
7. As the individual NFF factors for 2025-26 will operate in the same way as in 2024-25, the disapplication process to vary the statutory requirements will work to similar timelines as last year with the deadline of 18 November 2024. It is therefore expected that local authorities would be able to plan and submit any disapplication requests in advance of the publication of the NFF allocations and supporting products. It is accepted that the outcome of the consultation with schools and Schools Forum will not be available by this date.
8. The DSG schools block also includes funding for basic need pupil growth and this is expected to operate as usual although no specific policy announcements have been made.

Local authority formulae in 2025-26

9. As in previous years, local authorities will be responsible for deciding local funding formulae for mainstream schools in their area. It will need to align with the NFF within set tolerances with any departures requiring a disapplication from the DfE.
10. A summary of the NFF funding positions for schools in 2024-25 is included in the table below for context.

Table 1: Summary of outcome for BCP schools of the 2024-25 NFF

Formula Position	2024-25 Number of Schools	%
Minimum Funding Guarantee (MFG) formula top up	10	11%
Minimum Per Pupil Funding Level (MPPFL) formula top up	28	31%
Fully formula funded	53	58%
Total	91	100%

11. In recent years, the number of schools fully formula funded has been increasing while those receiving MPPFL top up has been reducing as schools move towards the NFF. Lower funded schools with relatively few pupils attracting characteristic funding received the largest boost in funding in the initial years of the NFF through the MPPFL. This was then followed by higher increases in formula unit values with the top up required then reduced. The priorities for funding of the new government may change or accelerate this trend.
12. Pupil characteristics attracting funding are reflected in the local formula school budget allocations one year before being funded through the NFF primary and secondary units of funding to allocate the DSG to councils. The NFF funding per pupil for 2025-26 will have been fixed based on school data from October 2023. As more schools become fully funded according to the main formula, data changes at the October census each year have greater impact on individual school funding levels and formula affordability.

NFF Affordability

13. As a result of the NFF using lagged data, there was a £0.5m shortfall in the mainstream NFF funding allocation to the council in 2024-25. Any surplus DSG growth fund allocations can be used to cover this but an overall shortfall in school block funding remains possible.
14. The guidance for 2024-25 to achieve affordability suggested a priority order for adjusting the NFF to achieve balance with it proposed this is used in 2025-26 if there is a shortfall in funding and no transfer to high needs is agreed. The order is as follows:
 - a) Reducing the unit values of the basic entitlement factors for each phase by the same proportion up to the maximum permitted (2.5% below the NFF was allowed in 2024-25).
 - b) Reducing all other unit values equally up to the maximum permitted (2.5% below the NFF in 2024-25).
 - c) Setting the MFG below the NFF value to the lowest level permitted
 - d) Seeking a late disapplication to reduce the MPPFLs.

Growth Fund

15. Growth funding is allocated to schools either through the formula (implicit growth for permanent expansions) or from the central budget for temporary expansions (explicit growth). In recent years there has been surplus growth funding available to balance the mainstream schools NFF shortfall or transfer to other budgets.
16. The current year guidance says that the growth fund can be used only to:
 - support growth in pre-16 pupil numbers to meet basic need
 - support additional classes needed to meet the infant class size regulation
 - meet the costs of new schools (these are new schools identified from the latest census data)
 - meet the revenue costs for schools of removing or repurposing surplus places
17. The discretionary aspect of the current policy relates to the central growth fund for temporary growth through bulge classes and the contingency for basic need places not yet commissioned.
18. The local growth fund policy was updated in 2024-25 to reflect the revised DfE guidance. This is included at Appendix 2.
19. Unless the national requirements for the growth fund are changed, there are no plans to change the general basic need growth fund policy for 2025-26. However, proposals might be brought forward to use for the revenue costs of repurposing surplus capacity.
20. A central budget estimate for basic need growth will be included in the papers for the January 2025 meeting.

Transfer of school block funding to high needs

21. Only a small surplus of school block funding has been available in recent years (if all schools were to receive their full NFF allocations and appropriate provision is made for in-year pupil growth). The surplus in 2024-25 was £0.4 million and it is again expected to be small as the trend for increasing pupil needs annually is not expected to be reversed in the October 2024 census.
22. High needs block allocations are unknown for 2025-26 but the scale of the current funding shortfall is expected to grow further to £60 million as shown in the separate paper on the agenda.
23. The Interim Director of Education and Skills has added an invest-to-save inclusion fund as a new pressure in the current year. Schools have been consulted on the final proposals and the intention is to continue this in future. This £2.8m fund is included in the forecast expenditure for 2025-26 and is designed to help schools become more inclusive to reduce the use of high cost specialist placements, reduce the use of alternative provision in the local system and reduce the number of new ECHNA assessments for the future. The investment plan and feedback from schools is included as Appendix 3.
24. In 2024-25 the DfE agreed a transfer of funding of £1.3 million (0.5%) from the £265 million schools block funding. Due to the low level of surplus funding from the schools block, schools did not receive their full NFF allocations, and the local formula reduced the NFF allocations to ensure that all mainstream schools contributed to the transfer as follows:

- a. reducing MPPFL by 0.45% (required DfE approval)
 - b. setting an MFG of 0.4% (within the regulations)
 - c. reducing the basic entitlement by 0.45% (within the 2.5% tolerance permitted)
25. Other options considered last year were that some schools were excluded from contributing any of their NFF to the transfer:
- a. Schools with increased funding only to contribute through capping per pupil gains. This option is within the regulations and does not require specific DfE approval as long as Schools Forum agree a level of transfer up to 0.5%.
 - b. Schools receiving minimum per pupil funding levels to be excluded from contributing by reducing the basic entitlement funding only which does not impact on the level of funding these schools are allocated (simply increasing the amount of top up funding above the formula). This option is within the regulations as long as the reduction to the basic entitlement is within the set tolerance. If outside, other factors could also be reduced to remain within the regulation tolerances.
26. An application has been submitted to the DfE this year for a 1% transfer (estimated at £2.7 million) as noted in the 2 October 2024 SEND update report to Cabinet. It is proposed that the NFF is reduced according to a similar scheme as applied in the current year, with this estimated as follows:
- a. reducing MPPFL by 1% (requires DfE approval)
 - b. setting an MFG below the NFF and within tolerance (within the regulations)
 - c. reducing the basic entitlement by 1% (within the 2.5% tolerance permitted)
27. The final proposed amounts of NFF reductions and school level impact will be confirmed after the DSG settlement, APT and school data is received in December and will be available for the January meeting to enable Schools Forum to support a 1% transfer, a lesser amount or no transfer.
28. In the meantime, a short consultation with schools will be undertaken to establish preferences for Schools Forum to consider in January 2025 where a recommendation to the council is to be agreed.

DSG Budget Monitoring 2024-25

29. As part of the council's approved budget for 2024-25 it was recognised that the funding for high needs would be short by £28 million (45%).
30. The 2024-25 expenditure forecast report from the service to Cabinet in October 2024 increased this funding gap to £44.5 million (71% overspend against the grant allocation). The reasons for the increase were set out in detail as part of that report with the link included at the end of this report. This information is similar to that provided to the September 2024 Schools Forum meeting (link also provided below).
31. The excess of expenditure over grant has been ongoing nationally since the introduction of Education, Health and Care Plans (EHCPs) were introduced under the Children's and Families Act 2014.
32. Table 2 below sets out the current 2024-25 position regarding the expenditure on the high needs block of the DSG. This shows the allocation of £62.3 million (including the transfer of £1.3 million from the schools block) which was within an overall DSG grant allocation of £363 million. Expenditure in other DSG blocks is projected at the related funding levels.

Table 2: Forecast High Needs Revenue Expenditure 2024-25

Revenue Expenditure	Government Grant £m	Original Budget £m	Latest Estimate £m
DSG - Grant Funded Expenditure	62.3	62.3	62.3
Additional Budgeted Expenditure		28.0	28.0
Further Additional Expenditure			16.5
Total Estimated Expenditure	62.3	90.3	106.8
Dedicated Schools Grant (DSG) Funding	-62.3	-62.3	-62.3
Total DSG Grant Funding	-62.3	-62.3	-62.3
Net Overspend / Unfunded	0.0	28.0	44.5

33. Locally the deficit has been growing exponentially for several years with the result that the forecast accumulated deficit as of 31 March 2025 is now estimated to be £108m rising to £168million a year later if current trends continue.
34. The council is in dialogue with government about the high needs deficit and implications for the council.

Financial Implications

35. These are set out above in the body of the report.

Legal Implications

36. Schools Forum must be advised of the DSG Settlement for 2025-26 when it becomes available, and schools and Schools Forum must be consulted on mainstream schools funding proposals.
37. The process to disapply any of the expected regulations must be completed according to the timetable set out by the DfE.
38. Schools Forum has a range of decision making powers and these will need to be taken in the January 2025 meeting to enable budgets to be distributed to schools by 28 February 2025.

Summary of human resources/sustainability/public health implications

39. None

Summary of equality implications

40. An equalities impact assessment has not been undertaken as the operation of the DSG and expenditure to be met from each block is prescribed by the DfE. The council is running a large DSG deficit to support pupils with additional needs.

Summary of risk assessment

41. The main risk within the DSG is the high needs funding gap for which there is currently no government solution.
42. There continues to be a risk that projected costs will rise further as activities to date to reduce demand are yet to be fully implemented. Improvements in commissioning have not yet become embedded and the review of special school banding has not yet concluded.

Background papers

43. DfE policy notes published on 3 October 2024:

<https://www.gov.uk/government/publications/pre-16-schools-funding-local-authority-guidance-for-2025-to-2026>

44. Cabinet Report 2 October 2024: High Needs Schools Grant Expenditure Forecast

[http://ced-pri-cms-02.ced.local/documents/s52985/Hlgh%20Needs%20Schools%20Grant%20Expenditure%20Forecast.pdf?\\$LO\\$=1](http://ced-pri-cms-02.ced.local/documents/s52985/Hlgh%20Needs%20Schools%20Grant%20Expenditure%20Forecast.pdf?LO=1)

45. Schools Forum 23 September 2024: Quarter 1 Budget Monitoring and High Needs Update 2024-25

[http://ced-pri-cms-02.ced.local/documents/s52866/DSG%20monitoring%20Q1%2024-25.pdf?\\$LO\\$=1](http://ced-pri-cms-02.ced.local/documents/s52866/DSG%20monitoring%20Q1%2024-25.pdf?LO=1)