

Report subject	Dedicated Schools Grant (DSG) - Budget Monitoring and High Needs Update at Quarter One 2025-26
Meeting date	29 September 2025
Status	Public Report
Executive summary	<p>The quarter one budget monitoring for the DSG being reported to the council's Cabinet on 1 October is a projected increase in the high needs funding gap for 2025-26 of £11.6m from the budgeted gap of £57.5m. This is a total forecast funding gap of £69.1m. This reflects higher than expected growth in demand in the later months of the last financial year with this higher demand continuing in 2025-26, primarily due to the numbers of education, health and care plans (EHCPs) and increasing costs of provision.</p> <p>Other DSG budgets for 2025-26 are forecast to be balanced.</p> <p>The cumulative deficit on 31 March 2026 is projected to be £180.5m</p>
Recommendations	<p>It is RECOMMENDED that:</p> <p>Schools Forum note the contents of the report.</p>
Reason for recommendations	Schools Forum must be updated on the financial position for the DSG, and budget monitoring is an important element of current year financial management and budget planning for future years.
Portfolio Holder(s):	Councillor Richard Burton – Children and Young People
Corporate Director	Cathi Hadley – Director of Children's Services
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Wards	All
Classification	For Information

Background

1. The DSG budget for 2025-26 was set with a funding gap of £57.5m relating to the high needs block. This budget was set after work was undertaken over autumn 2024 to update the 5-year projections to reflect the latest trends in demand and planned new service activity. A summary of these plans was reported to the Schools Forum meeting in June and the council's Cabinet in July. Other funding blocks were planned to be balanced.
2. Demand in the system from pupils with high needs continued to rise beyond expectations over the end of the last year with the 2024-25 outturn a further £5m overspent compared with the estimate at quarter three last year, with some of this increase expected to be ongoing.
3. The government is being urged to find a solution to the national DSG deficits as a priority and conversations are on-going with representatives of the DfE and Ministry of Housing Communities and Local Government (MHCLG) in seeking an immediate solution to the drain on the council's cash flow and cash balances in funding the DSG shortfall. The only response so far is that the statutory accounting override (which keeps the accumulated DSG deficit out of the council's general fund) has been extended for a further two years to March 2028 for all councils.

DSG Funding adjustments in summer 2025

4. The early years block funding was finalised in August for 2024-25 to reflect the January 2025 schools and early years census data. Clawback of funding was anticipated in finalising the accounts for last year as the updated DfE estimate of take up of the free entitlements from the autumn 2024 data for under 2-year-olds had led to a significant increase in funding being paid by the DfE. The final clawback was £1.9m less than expected.
5. The funding for 2025-26 has been adjusted since the DSG budget was set in January as set out in the table below:

Table 1: DSG Funding Adjustments 2025-26

DSG 2025/26	Jan-25 Forum £000's	DfE Updates £000's	September 2025/26 £000's
Under 2-year-olds	16,389		16,389
2-year-olds	14,021	(914)	13,107
3- & 4-year-olds	22,525	127	22,652
Pupil Premium	384	78	462
Disability Access Fund	229		229
Total Early Years	53,549	(710)	52,840
Schools National Funding Formula	280,709		280,709
Premises	1,930		1,930
Growth Fund National Formula	2,133		2,133
Total Schools	284,772	0	284,772
High Needs Block	64,472	(534)	63,938
Central School Services Block	2,176	(2)	2,174
Total Funding	404,969	(1,246)	403,724

6. The early years budget for 2025-26 was set using the DfE estimates in December 2024. These have been updated by the DfE to reflect the January 2025 census for children aged 2, 3 and 4 but not those under 2. The estimated funding has reduced by £0.7m. Funding allocations are being updated based on termly counts in 2025-26 with the next adjustment in the autumn to reflect the summer term 2025 census. Final funding for the year will be determined in summer 2026.
7. Funding for children under 2 will remain more uncertain than other age groups as there are no trends to rely on for the expansion to 30 hours for working parents from September 2025.
8. The high needs funding has been reduced by £0.5m in-year to reflect the growth in the number of placements in other council provisions and those hosted by the DfE from the January 2025 census. This import/export adjustment is unusually high for 2025-26, reflecting the significant growth over 2024-25 in the number of children and adults up to age 25 in these provisions, with the number in specialist post-16 institutions doubling since January 2024.
9. The £2,000 reduction for the central school services block reflects that funding for historic commitments was not fully restored to previous levels following the annual application process.

High needs forecast 2025-26 at quarter one

10. The year end projection for 2025-26 at quarter one is for a funding gap of £69.1m, compared with a budget of £57.5 as set out in the table below:

Table 2: High Needs Block Budget 2026-26

Expenditure Area	2024/25 Actual £000's	2025-26 Quarter One Forecast			Annual Increase £000's
		Budget £000's	Forecast £000's	Variance £000's	
Independent & Non-Maintained (INMSS)	30,248	31,237	36,004	4,767	19%
Post 16 only providers	8,063	11,982	8,080	(3,902)	0%
Special Schools	19,020	18,306	21,185	2,879	11%
Mainstream & Units	15,570	15,522	18,154	2,632	17%
Other provision (below)	13,494	16,612	20,235	3,623	50%
Funding for EHCPs	86,395	93,659	103,659	10,000	20%
Centrally commissioned (including place funding)	17,640	21,226	20,755	(471)	18%
SEND Expenditure	104,036	114,885	124,414	9,529	20%
Medical and Exclusion	7,870	8,326	9,852	1,526	25%
TOTAL EXPENDITURE	111,906	123,211	134,266	11,055	20%
FUNDING	(62,232)	(65,709)	(65,175)	534	5%
FUNDING GAP	49,674	57,502	69,091	11,589	39%

11. There are many assumptions in the projection this early in the financial year with a significant data lag in the system for new cases and changes in provision. An allowance for future cases has been allocated across provider types according to recent trends so individual categories may be less reliable than the overall total.
12. Other EHCP provision includes therapies, bespoke packages, additional special school payments, central SEND budgets for children in pre-schools and the

inclusion fund. The main area contributing to the projected 50% expenditure growth compared with 2024-25 actual expenditure is bespoke packages for children unable to attend school. This has risen in recent years from only £3.7m in 2021-22 to £11.3m last year. The budget was set with an increase of 25% to £14.1m reflecting recent trends with the forecast now ahead of this at £18m. BCP has been identified as an outlier in all benchmarking groups for the number of children educated in this type of provision (all England, South West and Statistical Neighbours) which is significantly impacting on the budget. This has been attributed to insufficient local provision.

13. The number of EHCPs and average placement costs are both increasing ahead of budget with a 12.4% increase in plans seen over 2024-25. The impact of the special education needs improvement strategy and plan is yet to change the trajectory of demand or reduce the average cost of provision.
14. The initiatives underway for early intervention and the establishment of new mainstream bases are costing more in the short term before longer term savings can be realised. Meanwhile, the expectation of future changes in the SEND system may be bringing forward demand from parents concerned their children might lose the right to support if they wait.
15. A comprehensive SEND update report was presented to the council's Children's Services Overview and Scrutiny Committee on 15 September 2025. A link to the paper is at the end of the report.

Summary of financial implications

16. The impact of the in-year funding adjustments and high needs expenditure overspend provides a projected deficit of £180.5 by 31 March 2026.

Table 3: Summary position for Dedicated Schools Grant

Dedicated Schools Grant	£m
Accumulated deficit 1 April 2025	113.3
Prior year additional funding – early years	(1.9)
Budgeted high needs funding shortfall 2025/26	57.5
High needs funding reduction 2025/26	0.5
High needs overspend 2025/26	11.1
Projected accumulated deficit 31 March 2026	180.5

17. The council's DSG deficit management plan is in the process of being updated for 2026-27 onwards to reflect the most recent position and future service plans.
18. The latest indications from government announcements are that any changes to the system will take many years to unwind the current level of costs for local authorities.

Summary of legal implications

19. The DSG grant conditions for 2025-26 require that any local authority that has an overall deficit on its DSG account at the end of the 2024-25 financial year must keep the schools forum regularly updated about the authority's DSG account and plans for handling it, including high needs pressures and potential savings.
20. 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 she believes that they are not taking sufficient action to address the situation.

Summary of human resources implications

21. None

Summary of sustainability impact

22. None

Summary of public health implications

23. None

Summary of equality implications

24. None – there are no decisions from this report.

Summary of risk assessment

25. The main risk is the growing scale of the accumulated DSG deficit.

Background Papers

26. Children's Overview and Scrutiny Report - September 2025

[SEND Improvement Update.pdf](#)

27. An appendix in the above report provides a copy of the 16 July 2025 report to Cabinet on the DSG budget pressures and planned actions underway in the service. The content of this appendix to the report is similar to that reported to Schools Forum in June 2025.

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Appendices

There are no appendices to this report.