

<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Interim Director of Education and Partnerships, Caroline Cannon
<b>Submitted to:</b>	Audit Committee
<b>Date:</b>	25 September 2025
<b>Title:</b>	Management of the Dedicated Schools Grant Risk Within the Strategic Risk Register
<b>Report for:</b>	Information
<b>Status:</b>	Public
<b>Council Plan priority:</b>	Delivering Best Value

<b>Proposed decision(s)</b>
<p>The report is provided for information purposes.</p> <p>It is requested that the Audit Committee:</p> <ul style="list-style-type: none"> <li>• Notes the work undertaken regarding the management of the High Needs element of the Dedicated Schools Grant [DSG] and the current position regarding the statutory override and cumulative DSG deficit.</li> <li>• Considers whether they have received sufficient information to be assured that there are appropriate arrangements in place to manage the risk.</li> </ul>

<b>Executive summary</b>
<p>The report is provided for information purposes and seeks to inform the Audit Committee regarding the management of the Dedicated Schools Grant risk within the Strategic Risk Register.</p> <p>It outlines the role of the Dedicated Schools Grant with specific reference to the High Needs budget which is used to fund provision for children and young people aged 0-25 with special educational needs.</p> <p>It provides information regarding the statutory override which is currently in place, and what this means in terms of risk management, with reference to current service demand pressures and the financial impact of this. This includes data regarding some of the demand drivers and projected forecasts.</p>

The report also details the findings of the Delivering Better Value programme along with a high needs review and the actions taken as part of this project to address demand pressures and mitigate additional costs. Reference is also made in the report to the ongoing transformation and improvement work to slow the growth rate in high needs spend and improve the financial position of the High Needs budget.

## **1. Purpose**

1.1 To provide information to the Audit Committee regarding the management of the Dedicated Schools Grant risk within the Strategic Risk Register.

## **2. Recommendations**

2.1 That the Audit Committee

- Notes the work undertaken regarding the management of the High Needs element of the Dedicated Schools Grant [DSG] and the current position regarding the statutory override and cumulative DSG deficit.
- Considers whether they have received sufficient information to be assured that there are appropriate arrangements in place to manage the risk.

## **3. Background and relevant information**

3.1 The Dedicated Schools Grant [DSG] is a national formula-driven, ring-fenced grant which is provided to local authorities from Government to fund education for schools, early years and high needs. The DSG cannot be used for purposes other than those specified in the Conditions of Grant and Regulations.

3.2 The Local Authority is responsible for using the high needs element of the DSG to fund provision for children and young people with special educational needs and disabilities (SEND) from their early years to age 25, enabling both local authorities and institutions to meet their statutory duties under the Children and Families Act 2014. High Needs Funding is also intended to support good quality Alternative Provision for pre-16 pupils who, because of exclusion, illness, or other reasons, cannot receive their education in mainstream or special schools.

3.3 The DSG High Needs budget [HNB] funds independent school placements, special school places, places in alternative provision, places in mainstream school resources bases, commissioned services and funding for pupils in mainstream schools. The Local Authority is also responsible for using the high needs funding to provide 'top up' funding to mainstream schools to deliver provision which is greater than what would ordinarily be available in a mainstream school.

3.4 The total value of the High Needs budget for Middlesbrough in 2025/26 is circa £33m post recoupment.

3.5 Within the DSG, the early years and schools block carry a very small surplus as a contingency to support placement and capacity demands. However, for several years, Middlesbrough Council High Needs block of the Dedicated Schools Grant budget has been running at a deficit outturn. As a result of this, there is an overall cumulative deficit for the DSG of £22.213m at 31 March 2025 and a forecast further in-year deficit for 2025/26 of £9m.

3.6 At present, there is a statutory override in place which was due to end in March 2026, but which has recently been extended until 31 March 2028 to tie in with the transition to a reformed Special Education Needs and Disabilities (SEND) system, details of which will be set out in a White Paper in the autumn.

3.7 Under the statutory override (currently until 31<sup>st</sup> March 2028) the DSG deficit is required to be kept in a separate reserve and cannot be funded by using the Council's General Fund resources and therefore does not directly affect either the Council's revenue outturn or the balance sheet. There are however investment opportunities foregone due to the cashflow implications of funding the DSG deficit from the Council's revenue resources.

3.8 The risk to the Local Authority is if the statutory override ceases, is that the current £22.213m cumulative deficit will need to be added to Council accounts, along with ongoing in year financial pressures over the next three financial years. This is currently expected to total circa £55m. This would eradicate the Council's general reserves and would present a critical risk to the Council's overall financial viability should the override be withdrawn. Should this happen, a Section 114 notice would likely need to be issued as the Council would be unable to set a balanced budget and have a precarious reserves position to function.

3.9 The risk relating to the removal of the statutory override, along with the risk of significant increase in pressure on the high needs budget are both included in the Strategic Risk Register.

3.10 The driving factors in the increased high needs expenditure are:

- Rising numbers of children with special educational needs. There are around 4000 children with special educational needs at SEN Support level in Middlesbrough. This represents around 15.52% of the overall school age population.
- Increasing numbers of children with an Education Health and Care Plan [EHCP]. There are just over 2000 children with an EHCP in Middlesbrough. This represents around 7.76% of children within the school age population. Between 2020 and 2024, the number of children with an EHCP in Middlesbrough increased by 59%.
- High levels of permanent exclusion; Middlesbrough is above national and regional averages for the rate of permanent exclusion. There are approximately 300 children who require provision to be made for them as a result of exclusion.
- As a result of the above demand, special schools and alternative provisions in the town continue to operate above capacity

3.11 The local authority has statutory obligations to children with an Education, Health and Care Plans along with those children who have been permanently excluded from school which it cannot renege on.

3.12 The picture regarding high needs funding pressures is not unique to Middlesbrough and the challenges are part of the national picture for special educational needs.

- 3.13 A National Audit Office report published in October 2024 highlighted the demand increases on high needs budgets nationally and the financial impact of this on public spending and The Chartered Institute of Public Finance and Accountancy (CIPFA) estimate that almost half of all Councils responsible for children and young people with SEND would need to issue Section 114 notices either in the immediate or medium term should the override cease.
- 3.14 Since 2021, Middlesbrough Council has been delivering on a SEND & Disability Strategy and an accompanying Inclusion Strategy which has aimed to strengthen leadership and governance for SEND, along with improved systems and processes to support an effective SEND system. During this period, local partnerships have been strengthened and there are now additional specialist resources within the local authority to respond to needs effectively. Examples of this include a strong Educational Psychology service along with a 0-25 Inclusion and Outreach Team.
- 3.15 As part of these strategies, a sufficiency plan has also been implemented using the High Needs Capital Provision Allocation funding, provided to the Local Authority by the Department for Education, to build new schools and extend existing provisions across the town to increase capacity. This has culminated in the introduction of over 250 new school places since 2021 along with two successful free school bids.
- 3.16 In 2023, to acknowledge the growing pressures outlined above, Middlesbrough Council received a £1.045m grant from the Department for Education for the roll out of the Delivering Better Value [DBV] programme.
- 3.17 The data and analysis behind the DBV grant application was undertaken by Newton Europe and CIPFA on behalf of the Department for Education.
- 3.18 The aim of the work, which was underpinned by a robust delivery plan, was to provide grant funding between 2023 and 2025 to support Middlesbrough to begin to implement sustainable change and consider transformation and improvement priorities that would address demand pressures, slow the growth rate in high needs spend and improve the financial position of the high needs budget.
- 3.19 The DBV analysis identified that:
- HNB expenditure has grown by 39% since 2019/20.
  - Key areas of overspend and continuing pressures in the HNB include the high costs related to the number of children and young people required to be placed in high cost out of area independent non-maintained special schools, the costs related to the increasing number of children requiring Alternative Provision as a result of high exclusion and suspension rates in Middlesbrough and the increasing number of children and young people requiring special school placements.
  - Expenditure in special schools and independent non-maintained special schools forecast to account for 72% of total expenditure by 2028.
  - Relative to other LAs, the level of mainstream spend in Middlesbrough is notably low. Increased financial support for mainstream schools is a necessary element of a strong inclusive system.

- 3.20 If no mitigating action is taken, the DBV analysis estimated that the overspend in high needs budget was forecasted to be as high as £76.5m by 31<sup>st</sup> March 2028.
- 3.21 The action plan for the Delivering Better Value programme focussed on a number of key opportunity areas. The first of these opportunity areas was to increase capacity for mainstream inclusion.
- 3.22 As part of this work, 29 SEND & Inclusion clinics were undertaken by LA staff with school leaders in mainstream schools across Middlesbrough. The focus of these clinics was to explore how funding for SEND was being utilised and better understand what the strategic planning in terms of staff and school resources looked like in each school. This work identified areas which were fed into the SEND workforce development plan and ongoing commissioning priorities.
- 3.23 Alongside this, the LA appointed a Family Liaison Officer to support communication with families. This work has included the development of promotional material to provide improved information, advice and guidance for families along with events and coffee mornings to encourage networking. A new parent carer forum has also been established to support coproduction with families at a strategic level.
- 3.24 The second opportunity area that was identified in the DBV programme was Transitions across the 0-25 age range and specifically Year 6 to 7 transitions.
- 3.25 The work on transitions was delivered through a working group with schools and settings, and culminated in the publication of a good practice guidance for transition which was launched at a Transition conference for schools in Spring 2025. There is now a set of common principles for standardising transition which have been developed for the local area.
- 3.26 The third opportunity area in the DBV programme was around workforce development. This work has included a range of workshops, conferences, training sessions and resources being delivered to stakeholders across the 0-25 SEND system.
- 3.27 Five full day development sessions were held for 60 school SEND Coordinators which include expert and lived experience speakers to deliver bespoke content aimed at addressing Middlesbrough's specific challenges.
- 3.28 A partner organisation, Whole Education, who exist to support capacity for self-assessment, knowledge exchanges and good practice sharing were commissioned to provide a professional development programme for schools. This was backed up by national SEND experts and coordinated via Tees Valley Education multi-academy trust who partnered with the LA to lead these activities along with refreshing local network groups to support the work.
- 3.29 Finally, to support a systematic approach to SEND in Middlesbrough, a brand-new ranges and thresholds document has been developed in partnership with schools. This work has seen 13 early adopter schools, led by a small group of senior school leaders, review their approach to a common framework for early intervention and identification

of SEND needs to support the development of a brand-new local area graduated approach – The Middlesbrough SEND Ranges and Thresholds. The launch of this town wide is due to take place in September 2025.

3.30 There were also some additional smaller projects undertaken under the DBV project umbrella. This include:

- Work with health colleagues to identify health contributions where relevant,
- On-going reviews of Education, Health, and Care Plans (EHCPs), prioritising children in out of area independent specialist placements
- A review of our multi-agency decision making processes for Education, Health and Care Plans
- On going work with school to prioritise the reintegration of excluded pupils into mainstream school where possible
- Continued early intervention and prevention work with schools to reduce exclusions,
- Review of maintained schools' reserves and updated policy regarding the use of those reserves

3.31 The Delivering Better Value Grant finished in March 2025, with an extension to Summer 2025 due to carry over funds.

3.32 There have been some quantitative and qualitative impact measures as a result of the work undertaken to date:

- There is reducing reliance on out of area independent specialist placements as local provision is developed – data for Middlesbrough from a recent SEN2 publication shows positive performance against national and regional averages as more children receive their specialist education in area.
- The growth in the number of referrals for statutory assessment of Education, Health and Care Need is slowing
- Investment in workforce development is supporting a strengthened graduated response with participating staff reporting increased confidence and a better develop skill set to meet the needs of children locally.
- Permanent exclusion rates have plateaued with a slight reduction in the number of children being permanently excluded
- There have been less school days lost to suspension
- An increasing number of children who have been permanently excluded from school are being reintegrated back into mainstream provision.
- There is now more assessment provision locally, with increasing numbers of children accessing these early intervention pathways

3.33 The latest mitigated analysis does show improvement with a revised forecast deficit of circa £55m by 2028. However, despite the improved longer-term forecast, the in-year position remains as one of deficit and the level of cumulative deficit remains unsustainable within the context of the existing and anticipated future budget envelope.

3.34 This is because despite work to improve early intervention and prevention via the Delivering Better Value grant, the numbers of children with special educational needs continues to grow and exclusions rates remain significantly higher than national

averages. The impact of the transformation and improvement work is still in its infancy, with likely long term financial impact being seen between 3-5 years after implementation or over the lifetime of a child's journey through education.

- 3.35 It is also important to note, that the above must be viewed in the context of anticipated national reforms, which are due to be announced by the Department for Education in Autumn 2025 to address the significant challenges in the system.
- 3.36 It is essential that the LA continues to take an approach aimed at improvement, transformation and cost mitigation to make further progress towards a model of delivery which mitigates additional spend. The risk of not doing this is that the deficit will continue to grow with an expectation that if the current override ends, then the position of either or both revenue and balance sheet implications, will transfer to the Council for financial year by 31<sup>st</sup> March 2028.
- 3.37 In parallel to the DBV programme, the Local Authority has also explored other avenues for income to offset high needs budget spend.
- 3.38 There is a recoupment policy in place to seek contributions from schools towards early intervention and prevention provision. The value of recoupment income is circa £1m based on 2024-25 figures.
- 3.39 In addition, local authorities also retain the ability to transfer up to 0.5% of funding out of the Schools Block into the High Needs Block, with the agreement of the Schools Management Forum. In the 2024/25 and 2025/26 financial years, Middlesbrough Schools Management Forum agreed for 0.5% funding from the Schools Block of the Dedicated Schools Grant (DSG) to be transferred the High Needs Block. This was in acknowledgement of the demand and expenditure pressures outlined above, along with a collective agreement that the funds be used to deliver additional early intervention and prevention provision. The value of this is circa £0.750m based on 2025/26 figures.
- 3.40 As part of the supplementary work for the DBV programme, a high needs review also took place between Sep 2024 and Feb 2025.
- 3.41 The review supported and triangulated with the ongoing work related to DBV corroborating the key challenges related to high needs funding in Middlesbrough, the ongoing pressures in the High Needs Block (HNB) and some of the cost avoidance measures that should be put into place to work towards financial sustainability.
- 3.42 Following this review, and with the support of Schools' Management Forum, the Local Authority is working in partnership with schools and settings to implement a new resource allocation system. This new system will streamline funding distribution, incentivise inclusion in mainstream and support early intervention and prevention. This project will be delivered by July 2027 and is being supported via flexible use of capital receipts.



- 3.43 A High Needs Strategic Group and a High Needs working group are in place to deliver this project with regular performance reports being shared with Schools Management Forum who will provide governance and oversight for the project delivery.
- 3.44 The work to implement the new resource allocation system also forms part of the Children's Services Transformation Plan.
- 3.45 Alongside the introduction of the new resource allocation system, staff from the Local Authority Inclusion and Specialist Support Service continue to deliver on strategic improvement priorities intended to slow growth in demand and mitigate further high needs expenditure. These include work with schools to reduce exclusions, strengthening the local area graduated response and increasing local provision for children with complex needs to support more children to be educated in their local communities which avoids the need for expensive, independent, out of area placements.
- 3.46 The Local Authority has also recently been awarded a grant through the Association of Directors of Children's Services Regional Improvement and Innovation Alliance which will be used to continue to fund SEND workforce development activity.
- 3.47 A new SEND & Inclusion Strategy is under development to be launched in January 2026 which will outline this next phase of delivery, and will be aligned to national reforms.
- 3.48 There is a multi-agency strategic SEND & Inclusion Board in place to provide governance and oversight to the delivery of this work within the service. This group meets 6 weekly and is chaired by the Director of Education and Partnerships.

#### 4. Other potential alternative(s) and why these have not been recommended

- 4.1 The paper is for information only, and a decision is not being sought on the topic at this time.

#### 5. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including procurement and Social Value)	The report details the DSG financial position in Middlesbrough, the statutory override and possible future implications of any changes to the statutory override, and how we account for the DSG deficit.
Legal	n/a
Risk	Strategic Risk - <b>SR16</b> - Removal of the statutory override preventing the Designated School Grant (DSG) deficit from being met from general fund resources.

	Directorate Risk - <b>09-021</b> Significant increase in pressure on the High Needs Budget
Human Rights, Public Sector Equality Duty and Community Cohesion	n/a
Reducing poverty	n/a
Climate Change / Environmental	n/a
Children and Young People Cared for by the Authority and Care Leavers	n/a
Data Protection	n/a

## Appendices

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## Background papers

Body	Report title	Date

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