

Appendix 12

Education Funding and Dedicated Schools Grant 2026/27

Introduction

- 1.1 In conjunction with the National Funding Formula (NFF) the Dedicated Schools Grant (DSG) funding is allocated over four blocks and the indicative Dedicated Schools Grant for 2026/27 totals **£222.114m** after deductions for national non-domestic rates and direct funding of high needs by Education & Skills Funding Agency (ESFA).
- 1.2 This budget has 4 elements - budgets delegated to individual schools (Schools Block), support to high needs pupils (High Needs Block), provision for early years expenditure (Early Years Block), and support for central services (Central Services Block).

Funding Allocations

- 1.3 The following table provides a summary of the amounts to be received in 2026/27 and a comparison to that received in 2025/26. It should be noted though that the above amounts are subject to change during the year as the Schools Block includes amounts which are passported directly to academies (known as recoupment), and certain elements of the High Needs Block are paid directly to providers.

Table 1 - Dedicated Schools Grant (DSG) after deductions 2026/27

DSG Block	2025/26 £m	2026/27 £m	Increase £m	Increase %
Schools Block	150.103	156.767	6.664	4.4
Central School Services Block	1.136	1.464	0.328	28.9
High Needs Block	33.283	36.037	2.754	8.3
Early Years Block	22.647	27.846	5.199	23.0
TOTAL DSG AFTER DEDUCTIONS	207.169	222.114	14.945	7.2

1.4 Schools Block

2026/27 DSG Schools Block allocation, after business rate deduction, is an increase of £6.664m (4.4%) compared with 2025/26. Also, there is an Area Cost Adjustment (ACA) added to the model this year to reflect both General Labour markets and teacher pay scales. However, it should be noted that the Schools Budget Support Grant (SBSG) and the National Insurance Contributions (NICs) grant have been rolled into the above allocations for 2026/27, having previously been separate grant allocations outside of the initial DSG allocations.

DSG Schools block funding is allocated based on the National Funding Formula (NFF), which is based on the October 2025 census:

Table 2 – Pupil Numbers

	October 2025 census numbers	October 2024 census numbers	Difference
Primary	13,254	13,515	(261)
Secondary	8,827	8,805	22
Total	22,081	22,320	(239)

APPENDIX 12

Funding for Schools budgets comprises:

- a) Dedicated Schools Grant (DSG) - this is the main funding stream allocated to schools by the LA.
- b) Pupil Premium Grant – this is distributed by the Council to maintained schools only. The allocation is set out by the (ESFA) with academies receiving this funding directly.

The minimum funding guarantee (MFG) is in place at 0.00% this year following consultation with Schools Management Forum, who are looking to align over the next few years with the hard National Funding Formula whilst best possible supporting the primary school settings experiencing reducing school roll numbers along with one secondary reduction. The formulation of the budget is also aligned with government guidance and the necessary approvals required from Schools Management Forum (SMF), which are public documents. SMF approved principles modelled in option 2a on 14 January 2026. The Schools Budgets has been submitted for Middlesbrough schools on 20 January 2026 within the required deadline along with political ratification.

The standard approach followed by the Local Authority in setting the Schools Budget is to set budgets by block which mirror the DSG income received. For 2026/27 a request for High Needs funded services to be supported by a transfer from Schools Block as done in 2025/26 was not approved by SMF on 14 January 2026 (0.5% would have equated to £0.787m for 2026/27).

DSG allocation is updated throughout the year as pupil numbers are confirmed. During this process any unallocated balance is put to DSG Reserve, reported in the council balance sheet as “DSG unusable Reserves”. This is not currently a council liability. Any surplus in schools block, identified as Growth funding and agreed by SMF, is used to support the following year(s) place planning and sufficiency across Middlesbrough schools.

1.5 Central School Services Block (CSSB)

The CSSB is made up of two categories, historic and ongoing commitments with funding totalling £1.464m for 2026/27 for Middlesbrough. This includes Teachers’ Pension Employer Contribution (TPECG) funding for centrally employed teachers.

The grant has increased significantly in comparison to previous trends due to the historic element now being eroded and the new funding formula now implemented. Due to this overall, there is a £0.328m, 28.9% increase from 2025/26.

The services funded can be found in the SMF DSG CSSB report 2026/27 of 14 January 2026.

1.6 High Needs Block

For 2026/27 Middlesbrough’s indicative allocation is £36.037m. The indicative allocations are based on the latest mid-2025 ONS population estimate for Middlesbrough. The High Needs Block allocation for 2026/27 is finalised during 2026/27 taking into account the Spring 2026 pupil numbers and any other deductions and recoupment. There are major issues with the High Needs Block with expenditure being above the income received as detailed in paragraphs 1.8 to 1.13.

1.7 Early Years Block

The funding split of the indicative £27.846m for Early Years in 2026/27 is shown in **Table 3** below:

APPENDIX 12**Table 3 – Indicative Early Years Block Funding 2026/27**

Description	2026/27 (Provisional) £
3 & 4 Year Old Universal Entitlement	8,214,006
3 & 4 Year Old Additional 15 hours	2,859,497
2 Year Old Families Receiving additional support	3,759,987
2 Year Old Working Parent Entitlement	4,471,588
Under 2s Entitlement	7,745,175
Early Years Pupil Premium (EYPP)	367,172
2 Year old Pupil Premium	246,986
Under 2s Pupil Premium	10,901
Disabled Access Fund (DAF) 3&4yo	127,725
Disabled Access Fund (DAF) 2yo	34,125
Disabled Access Fund (DAF) Under 2yo	8,775
Maintained Nursery Supplementary Funding	0
TOTAL	27,845,936

Note: This is a provisional allocation (based on January 2025 census numbers)

The required SMF noting of rates and the approval of Special Education Needs (SEN) and pass through rate for the Council was agreed on 14 January 2026.

2025/26 forecast DSG position

- 1.8 Currently after deductions and academies recoupment the Council will receive DSG of £70.630m in 2025/26. The forecast expenditure is £79.631m, a forecast year-end overspend of £9.000m within 2025/26 as shown in **Table 4**.

Table 4 - Dedicated Schools Grant (DSG) after recoupment and deductions 2025/26

	2025/26 Income Forecast	2025/26 Expenditure Forecast	2025/26 Forecast Year-end Overspend	Balance as at 31/3/2025	Forecast Cumulative DSG Deficit as at 31/3/2026
	£m	£m	£m	£m	£m
Early years	23.058	23.058	0.000	(0.749)	(0.749)
Schools Block	13.277	13.277	0.000	(0.490)	(0.490)
High Needs	33.159	42.159	9.000	23.515	32.515
Central school services block	1.136	1.136	0.000	(0.021)	(0.021)
TOTAL	70.630	79.630	9.000	22.213	31.213

- 1.9 As shown in **Table 4** above there was a £22.213m total cumulative deficit on the DSG grant at the end of 2024/25, which included £23.515m attributed to the High Needs Block. The DSG deficit is predicted to increase during 2025/26 and it is currently forecast that there will be a total cumulative DSG deficit of £31.213m on 31 March 2026, including £32.515m relating to the High Needs Block.
- 1.10 The pressure has been driven up by increasing Education and Health Care Plans (EHCPs). There are now over 2000 children with an EHCP in Middlesbrough. This

APPENDIX 12

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%. Alongside this, Middlesbrough has continued to experience high levels of permanent exclusion leading to higher numbers of children requiring provision to be made for them as a result of exclusion.

- 1.11 On completion of the Delivering Better Value (DBV) work, the early evaluation has identified that there would be a pressure in the current year. However, additional risks were highlighted as part of the DBV programme; specifically, that this may not be achieved without significant change regarding inclusion in mainstream schools. Inclusion within mainstream has remained a challenge, which has resulted in continued increased demand for specialist provision. These are over commissioned places which has resulted in financial pressure to provide place funding. Alongside this, there has also been an increase in rates from specialist providers across the board and significant increased pressure from rising permanent exclusions.

A range of management actions are being taken following the completion of the DBV programme these include initiatives such as:

- Work with health colleagues to identify health contributions where relevant
- On-going reviews of Education, Health and Care (EHC) assessments
- Training for staff and school staff to support children remaining in mainstream settings
- Reintegration of Excluded pupils to mainstream where possible
- Governance of High Needs budget
- Service review and modelling
- Review of Top-ups in line with Improvement Plan and the implementation of a new resource allocation system
- Reduce Exclusions
- Consider notional SEND budget and how this is used,
- Linking school inspection in with SEND and Alternative Provision Improvement plan,
- Review school reserves and examination of potential of implementing a policy (subject to SMF) for taking excess reserves back into High Needs where relevant and appropriate.

- 1.12 The Dedicated Schools Grant (DSG) is currently subject to a statutory override by central Government which instructs Councils to account for the DSG deficits and resulting negative balance in a separate reserve and not to fund it by using its General Fund resources. This was planned to end on 31 March 2023, however the Government recently extended the arrangement to at least 31 March 2028.

- 1.13 Whilst the Government have recognised the DSG deficit issue with various announcements as detailed in the main report, there is still a high level of uncertainty in relation to a Government funding solution and the statutory override only being extended until the end of 2027/28 presents a significant risk to the Council's financial position. This is as the forecast DSG deficit at 31 March 2026 of £31.213m is greater than all of the Council's forecast usable revenue reserves of £25.937m at 31 March 2026, and the DSG deficit is currently forecast to increase in future years of the MTFP by more than the forecast increase in reserves. Like many local authorities, this could result in the Council being subject to a s114 Notice in the future without a solution by the Government. This will remain a significant risk whilst the Council awaits the detail of the Schools White Paper and further announcements on how the government will deal with historic and accruing deficits which are due to be published in the coming months.