

Appendix 4

Dedicated Schools Grant (DSG)

The Dedicated Schools Grant (DSG) is a ring-fenced grant provided by central government to local authorities to fund education and is accounted for separately from the Council's General Fund. The DSG comprises four main funding blocks:

- Schools Block
- Central Schools Services Block
- High Needs Block
- Early Years Block

The High Needs Block supports provision for children and young people with Special Education Needs and Disabilities (SEND), including those requiring Education, Health and Care Plans (EHCPs), specialist placements and alternative provision.

Context and National Framework

Local authorities with DSG deficits are required to demonstrate active management of High Needs spending and long-term plans to restore sustainability. Historically, this has been supported through programmes such as Delivering Best Value (DBV), which Middlesbrough participated in up to Summer 2025.

The DBV programme provided a strong evidence base and highlighted that improving inclusion within mainstream education is critical to managing demand and reducing reliance on high-cost specialist provision. This learning has directly informed the Council's forward approach.

Since Quarter Three, the national framework has evolved significantly. The Government has introduced Local SEND Reform Plan as the primary mechanism for delivering system-wide improvement, alongside confirmation of a High Needs Stability Grant, which will cover up to 90% of DSG High Needs deficits accumulated to March 2026, subject to plan approval.

The Council approach is underpinned by its Local SEND Reform Plan, which sets out a comprehensive and evidence-based programme of system transformation to improve outcomes, reduce demand for high-cost provision and deliver a financially sustainable High Needs Block.

Middlesbrough Council is well advanced in developing its Local Send Reform Plan, working closely with schools, health partners and wider stakeholders. The Plan will set out a sustainable approach to:

- Increasing inclusion within mainstream settings
- Strengthening early intervention
- Improving joint commissioning with health partners
- Reducing reliance in high-cost placements
- Stabilising the High Needs Block over the medium term

Demand and Cost Pressures

The DSG position continues to be driven by increasing demand, complexity of need, and market pressure, consistent with the national position.

Key demand pressures include:

- Continued growth in EHCP's, increasing from 1,669 in 2022 to over 2,040 in 2025, with further increases forecast
- Rising demand for specialist and alternative provision, including increasing numbers of pupils requiring high-cost placements
- Growth in permanent exclusions and alternative provision placements
- Increased complexity of need, resulting in higher cost packages and specialist interventions

The Local SEND Reform Plan identifies that these pressures are closely linked to inconsistent levels of inclusion across mainstream settings, leading to a higher reliance on statutory processes and specialist provision.

These demand pressures also have a wider financial impact, particularly on home to school transport costs, which are funded from the Councils core budget.

Ongoing work to Manage Pressures and Improve Services

A range of operational and strategic actions are being undertaken to manage the High Needs Block and support system improvements.

These actions form part of, and are being further developed through, the Council's Local SEND Reform Plan, ensuring alignment with national policy and long-term sustainability.

Key areas of focus include:

- Strengthening inclusion in mainstream education
- Review of EHCPs
- Improved commissioning and sufficiency planning
- Partnership working with Health
- Development of a revised resource allocation system
- Reduction in exclusion and improved reintegration
- Enhanced governance and financial oversight

These actions are embedded with key reform workstreams, including delivery of an Experts at Hand model, development of a co-produced Universal Offer, and expansion of local inclusion bases, all of which are designed to reduce pressure on high-cost specialist provision.

Financial Position and Outlook

The High Needs Block continues to experience significant financial pressures, resulting in an ongoing DSG deficit.

The Local SEND Reform Plan includes clear outcome measures, including reductions in out-of-area placements, stabilisation of EHCP demand and increased inclusion within mainstream settings, which will underpin improvements in financial sustainability over the medium term

While national reforms provide a more structured financial framework, the position remains dependent on:

- Successful approval and delivery of the Local SEND Reform Plan
- The pace at which inclusion and early intervention reduce demand growth
- Continued Government support

Risk and Assurance

The DSG deficit remains a significant financial risk to the Council.

The Local SEND Reform Plan recognises that there remains a risk that, if the Plan is not approved or does not deliver the intended outcomes at pace, the Council may not secure access to the High Needs Stability Grant or achieve the anticipated financial improvements, which would increase pressure on the overall financial position.

The risk is actively managed through inclusion on the Strategic Risk Register, strong governance arrangements, alignment with the Medium-Term Financial Plan and delivery of the Local SEND Reform Plan.

Summary

The DSG reflects system-wide demand and structural pressures.

Middlesbrough Council has established a strong evidence base through DBV, implemented a range of targeted management actions and developed a comprehensive Local SEND Reform Plan.

The Local SEND Reform Plan provides a clear delivery framework, including measurable outcomes and phased implementation, which supports both improved outcomes for children and young people and the transition towards a financially sustainable High Needs System.

While financial pressures will continue in the short term, the combination of national reform, local delivery and strengthened system leadership provides a foundation for long-term sustainability.