

Scrutiny Report

Committee: Scrutiny Committee

Meeting or Proposed Decision Date – [31_March_2025]

Key Decision – no



Dedicated Schools Grant and Deficit Management Plan Update

Chair of Committee: n/a

Executive Member(s): Cllr Heather Shearer

Local Member(s) and Division(s) affected: all

Executive Director: Claire Winter

Executive Summary

The Dedicated Schools Grant (DSG) is provided by the Department for Education to fund Somerset education provision. Due to the nationwide trend of dramatically rising need affecting children with special educational needs and disabilities, the High Needs block is significantly overspent, with a deficit projected to rise further over coming years.

Recommendations

That Scrutiny Committee are asked to consider and comment on:

- a) The scale of the current financial pressure and the associated risk to the Council
- b) The proposal for significant revision to the DSG Deficit Management Plan

Reasons for Proposals

A new DSG Deficit Management Plan is being developed for Executive decision, and this will need to be rigorously devised, delivered and monitored.

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Background and purpose of report

- The Dedication Schools Grant (DSG) is a ring-fenced grant provided by the Department for Education to the local authority for the financing of the local education system age 0-16. It must be deployed in accordance with the conditions of grant and the latest school and Early Years Finance (England) Regulations. Detailed guidance for each block is contained within various operational documents issued by the Education Funding & Skills Agency (EFSA). The DSG settlement for 2025/26 is set out in Table 1 below, the amount received is £591.423m, an increase of 10.68% from 2024/25.

Table 1: DSG Allocations

DSG Block	2024/25 £m	2025/26 £m	(Increase) / Decrease £m %	
Schools Block: For distribution through the formula for mainstream schools and academies	388.980	416.883	(27.903)	(7.17)%
Growth funding	2.147	1.510	0.637	29.67%
Total School Block	391.127	418.393	(27.266)	(6.97)%
Central Schools Services Block: For local authority core functions, admissions and historic commitments	4.620	4.472	0.148	3.20%
High Needs Block: Funding for pupils with special educational needs in mainstream, special and independent special schools, for pupils in alternative provision and local authority or commissioned services for high needs pupils	87.405	94.860	(7.455)	(8.53)%
Early Years Block: Funding for the early year entitlement includes: <ul style="list-style-type: none"> Funding for the universal 15 hours entitlement for all 3 and 4 years olds Funding for the additional 15 hours entitlement for all 3 and 4 years old children of eligible working parents Funding for the 15 hours entitlement for 2 years olds receiving additional support Funding for the 15 hours entitlement for 2 years old children of eligible working parents (to be extended to 30 hours from 1 September 2025) Funding for the 15 hours entitlement for 9 month old up to 2 year old children of eligible working parents from September 2024 to be extended to 30 hours from 1 September 2025)	51.215	73.698	(22.483)	(43.90)%
TOTAL DSG	534.367	591.423	(57.056)	(10.68)%

- The role of the local authority is to manage the allocation of funding to schools and early years settings in the local area. While the Department for Education has created a National Funding Formula, that formula includes an element of local variation. That local formula must be agreed through the council's statutory Schools Forum. Other elements of the DSG, such as the High Needs Grant allocations, are decided by the local authority. Funding for mainstream education is for children aged 0-16. Funding for high needs education extends to age 25.

Dedicated Schools Grant Deficit

- The actual, current forecast and projected DSG deficits to 31 March 2026 are shown in Table 2. The DSG position is forecast to reach a cumulative DSG Deficit of £99.125m by 31 March 2026.
- The allocation provided to Somerset for the High Needs element of expenditure has been insufficient to meet statutory obligations for successive years with a resultant forecast deficit at Month 7 for the DSG as a whole for 2024/25 of £66.678m. The High Needs Budget for 2024/25 was set at £96.349m, with an £18.853m deficit. At Month 7, the in-year deficit was forecast to be £32.669m.
- The longer-term forecast is for the deficit to continue to grow significantly, such that the accrued deficit would reach £267.312m by 2029/30.

Table 2: Dedicated Schools Grant Deficit

Dedicated School Grant Deficit	31/03/2024	31/03/2025	31/03/2026
	Actual	Forecast	Forecast
	£m	£m	£m
DSG Deficit Balance brought forward 1 April	(20.730)	(33.911)	(65.211)
In-year Deficit	(13.181)	(31.300)	(33.914)
DSG Deficit Balance carried forward as at 31 March	(33.911)	(65.211)	(99.125)

- As one of the conditions of the Dedicated Schools Grant, local authorities with DSG deficits are required to prepare and implement a DSG Deficit Management Plan. The Department for Education (DfE) recognises that in some cases it may take several years to recover any DSG deficits.
- The Authority shared its Deficit Management Plan with the DfE in January 2024; however it is recognised that costs in the High Needs Block continue to escalate. Therefore, the authority is in the process of refreshing its DSG Deficit

Management Plan with support from external consultants. The refreshed plan will be shared with Schools Forum and Members when complete.

8. This is a national issue being experienced by many local authorities and in 2020, the Government introduced a statutory override for a period of three years (up to end of March 2023). The override allowed local authorities' DSG deficits to be ringfenced from the wider local authority reserves, so that the accumulating deficit was not required to be met by General Fund reserves. Subsequently, the Government agreed to extend the DSG statutory override by a further three years and the override is now due to end on 31 March 2026. This was intended to provide more time for the sector to work to find solutions to manage demand and its escalating costs. However, no solution has been found, and many authorities continue to experience escalating costs that exceed available grant allocations with the DSG Deficit Reserve continuing to increase year on year.

Deficit root causes

9. The drivers of cost growth are due to the way that financial liabilities are acquired, the statutory framework within the SEND system, and rising demand.
10. The statutory SEND system has been heavily criticised by the [National Audit Office](#), the [Public Accounts Committee](#), the [Institute for Fiscal Studies](#), [CIPFA](#) and the [LGA](#). Systemic factors restricting the ability to manage cost are:
 - a. The legal barrier for access to an Education Health and Care Plan (EHCP) is extremely low
 - b. There are two legal considerations in determining whether a child is placed in a low-cost or high-cost placement, which are parental preference and what is 'efficient and economic', however nationally and locally courts have not recognised contesting parental preference on financial grounds
 - c. Once a plan has been granted, it is almost impossible to cease that plan, and the entitlement to funded support is from age 0 to 25
 - d. Once a school place has been granted, including very high-cost independent places, it is almost impossible to end that placement, other than by the child ageing
11. Local authorities generally are facing increased demand for funded support. By December 2024, Somerset had issued 5,672 Education Health and Care Plans (EHCP) for pupils with SEND, which is an increase of more than 220% in the last four years (Dec 2020: 2,535 EHCPs).
12. The contextual factor that has arisen in the past five years has been a dramatic rise in emotional dysregulation in children, primarily linked to autism and ADHD. Emotional dysregulation is the presentation of non-conforming, disorderly or aggressive displays of distress. There is no clear evidence to determine why the rise is dysregulation, and associated applications for financial support has arisen, but there are a range of possibly contributory factors, namely:

- a. A positive increase in awareness and reduction in stigma associated with neurodiversity
- b. Increase in cost of living putting pressures on the family environment
- c. Lockdown and school closure communicating to children that school experience is not inevitable
- d. Disruption of critical emotional and social developmental stages during Covid
- e. School accountability system promoting attainment over inclusion
- f. Falling birthrate and low funding awards reducing ability of schools to invest in changed provision

Deficit Management Plan

13. The DSG Deficit Management plan is being revised. It will build on the existing DMP and Children's Transformation Plan but further increase the level of ambition and pace with the aim of halting the rising costs and paving the way for deficit reduction. The key elements of the draft plan are:
- a. **Specialist units:** Increasing the number of places available for children age 5-16 who need specialist education, either in a special school or on a mainstream school site.
 - b. **Mainstream funding:** Changing the approach to funding top-ups in mainstream schools with the introduction of an 'acute' funding band and a review of banding criteria and associated funding model.
 - c. **Support in the early years:** Expanding the resource supporting children in the earliest years of life, including direct support to early years providers.
 - d. **School age support:** Reducing the need for plans by increasing capacity to undertake specialist assessment so that support is more responsive to identified conditions, and expanding the use of Enhanced Learning Provisions within secondary schools
 - e. **Post 16 support:** Expanding the availability of supported internships and developing a progressive FE offer that fills current gaps in provision.
 - f. **Alternative provision:** Increasing the availability of effective alternative provision within mainstream schools, regularising the contracting of alternative provision so that is aligned with a curricular model of progression and evolving the delivery of PRUs and Behaviour Partnerships.
 - g. **High-cost placements:** Improving the effectiveness of annual reviews to secure better outcomes proportionate to investment and improving the quality of contract management of independent school provision.

Links to Council Plan and Medium-Term Financial Plan

14. The Local Government Finance Settlement for 2025/26 states that the statutory override and accounting for Dedicated Schools Grants (DSG) deficits is due to end on 31 March 2026. The settlement consultation advised that the Government intends to set out plans for reforming the SEND system in further detail during 2025/26 and that this will inform any decision to remove the statutory override. The removal of the statutory override without a government led solution to addressing the cumulative deficit and aligning funding and the

cost of demand, presents a significant risk to the financial resilience of the Council. **By 31 March 2026, the forecast cumulative DSG deficit of £99.125m is at a scale which would exceed the forecast level of Earmarked Reserves and General Fund Reserves. If the Council does not have sufficient Reserves the Interim Chief Financial Officer (Section 151 Officer) will be required by law to issue a Section 114 Notice.**

15. Should the statutory override expire on 31 March 2026, the latest estimate is that 53% of all councils would issue a S114 notice at that point, rising to 63% in 2026/27. For this reason, the DSG Deficit Management Plan (DMP) is a critical element of the council's financial planning.

Other options considered

16. The Council must respond to this critical challenge or risk triggering a Section 114 notice, therefore no other options than a Deficit Management Plan have been considered. In relation to the plan itself, the Council is being advised by an external consultancy, Peopletoo, to ensure that all strong practices have been considered in the further development of the plan.

Key considerations for the Council

Scrutiny comments / recommendations:

17. The Dedicated Schools Grant overspend, analysis of root causes and overview of planning process was considered by Children and Families Scrutiny on 10 February 2025. The Committee requested a further briefing in May 2025 and determined to seek a response from the Executive on whether we have received an adequate response from the Secretary of State on our correspondence on this issue, and requested consideration be given to briefing materials for all councillors on this topic.

Consultation and feedback

18. The programme of work that supports the DMP has been extensively consulted on with schools and parent carers. An informal programme of consultation with schools, settings and parent/carers on priorities for change took place in April 2024. A formal consultation on funding option and a new model of provision was launched in September 2024 for six weeks. The response to the formal consultation was very positive on both funding and provision, and this positive response was similar across schools and parent/carers.

Financial and Risk Implications

19. **Risk:** demand increases above assumptions. Budgets for 2025/26 are being set based on a set of assumptions and forecast level of demand for high needs places and services based on 2024/25 expenditure and commitments.

If demand exceeds the set of assumptions, the result will be a higher level of deficit.

20. **Mitigation:** monthly monitoring and forecasting is in place. Mitigations have been delivered as set out the current Deficit Management Plan however, agreed mitigations to date have not yet reversed the trajectory of escalation. A revised Deficit Management Plan is therefore under development and will be subject to Executive decision-making in spring 2025.

Current Risk Score:

Likelihood	5	Impact	5	Risk Score	25
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Projected risk score if recommended actions are agreed and delivered:

Likelihood	4	Impact	4	Risk Score	16
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Legal and Procurement Implications

21. The Children and Families Act 2014 sets out extensive duties for the local authority in relation to:
- Creating and maintaining Education, Health and Care Plans
 - Naming school places for children with SEND
 - Providing suitable education to children who cannot be educated in mainstream education for any reason
 - Funding educational provision other than at school with consideration of what is efficient and economical
22. Local education authorities are subject to ongoing scrutiny and legal proceedings through SEND appeals, complaints and tribunals to the Local Government and Social Care Ombudsman and SEND Tribunals. Escalating demand has resulted in increased conflict in the system, as need outpaces provision. The success of the plan depends on the ability to more successfully meet need.
23. The Council has a duty to deploy its DSG High Needs Block funding and High Needs Provision Capital Allocation in accordance with the DfE's conditions of grant.

HR / Workforce Implications

24. The Council has recently consulted on a very extensive staffing reorganisation. The structures being implemented in Education have been devised in line with the objectives of the DMP and will support its implementation.

Equalities Implications

25. Children with disabilities are disproportionately impacted by the crisis within the SEND system nationally. The revised DMP has a focus on deficit reduction, but

this can only be achieved through better serving the needs of children with special educational needs and disabilities.

Community Safety Implications

26. Somerset has recently been inspected as part of a Joint Thematic Area Inspection of Serious Youth Violence. As part of that review it was identified that the low level of annual reviews being amended by the Council increases the risk that children at risk of serious youth violence who have Education Health and Care Plans may have plans that are not up to date, and therefore needs are potentially not being met, elevating the risk of exclusion, which is itself associated with a higher risk of serious youth violence. Somerset has a very high level of exclusions and suspensions which disproportionately affect children with SEND. The DMP includes measures designed to mitigate these risks.

Climate Change and Sustainability Implications

27. One of the principles being adopted in the creation of new specialist places is the education should be 'Local First' in order to reduce the distances travelled to school by children with SEND, which can be very considerable and are often in single occupant taxis, which should benefit children but also have a beneficial effect on emissions.

Health and Safety Implications

28. Somerset Council collects data from school on Health and Safety incidents. A new category of incident has been introduced which is 'dysregulation'. Incidents are regularly occurring as a result of child dysregulation which has a detrimental impact on employees in schools who can suffer injury and distress. The DMP has been designed to mitigate these effects by better meeting the needs of dysregulated children.

Health and Wellbeing Implications

29. An Education Health and Care plan is a plan that should identify health needs and provide appropriate support for these needs to be met. The SEND Action Plan, which is the programme plan that will enable the DMP to be delivered in a multi-agency context, has been devised in close cooperation with local health teams.

Social Value

30. No social value implications have been identified.

Background Papers

31. SEND Action Plan

Appendices

32. None.

Report assurance checklist ahead of report publication (for Audit, Executive, Full Council and Scrutiny Committees)

	Officer Name	Date Completed
Legal & Governance Implications	Jill Byron and Alyn Jones	12/03/25
Finance & Procurement	Nicola Hix	10/03/25
Workforce (*)	n/a	
Asset Management (*)	n/a	
Executive Director	Claire Winter	12/03/25
Executive Lead Member	Cllr Heather Shearer	12/03/25
Consulted:	Councillor Name	12/03/25
Local Division Members	n/a	
Opposition Spokesperson(s)	Cllr Steven Pugsley	12/03/25
Relevant Scrutiny Chair(s)	Cllr Diogo Rodrigues	12/03/25

Note:

Directors may nominate additional officers to act on their behalf

(*) – these areas only need to be consulted on proposals if the proposals have workforce or asset management implications

Reports will not be published if assurance checklist has not been adequately completed – report author to liaise with Democratic Services well ahead of publication deadlines

