

Title of report: High Needs Budget 2025/26

Decision maker: Cabinet Member for Children and Young People

Decision date: 24th April 2025

Report by: Senior Finance Business Partner – Schools

Service Director: Education, Skills and Learning

Classification

Open

Decision type

Key

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function concerned. A threshold of £500,000 is regarded as significant. Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

Wards affected

(All Wards);

Purpose

To report the recommendations of the Schools Forum for approval by Cabinet, and propose the High Needs Budget for 2025/26.

Recommendation(s)

That the Cabinet:

- a) Notes the High Needs forecast outturn position for 2024/25 (as at Q3, December 2024).**
- b) Considers the recommendations of the Schools Forum held on 14th March 2025 (Option 2 for the SEN Protection scheme, & the details in Appendix 3); and**

- c) Approves the High Needs Budget of £45.7 million for 2025/26 noting the funding gap in 2025/26 of £20.2 million (253% higher than the funding gap agreed for 2024/25).**

Alternative options

1. The Budget Working Group (BWG) & Schools Forum have been consulted on the proposed budget plan and options considered are included at Appendix 3. The Children and Families Act (2014) requires the Council to ensure that the needs of pupils are met and the Council is required to adhere to the Department for Education's (DfE) prescribed arrangements for school and Local Authority as set out in regulations.

The Budget Working Group (BWG) & Schools Forum have also been consulted on affordability options for the SEN Protection scheme, with Option 2 being recommended by Schools Forum for approval by Cabinet.

A Political Group consultation also took place on April 10th 2025 the views of which can be found in the consultees section of this report.

Key considerations

2. The council receives funding for schools and designated central services via the Dedicated Schools Grant (DSG). This is a ring-fenced grant and is allocated by the Department for Education (DfE) in 4 blocks: Schools, Central School Services, High Needs and Early Years. Allocations are based on the DfE's National Funding Formula (NFF) arrangements. This report considers the High Needs Block in detail, however other blocks will be considered in relation to funding block transfers only.
3. The Budget Working Group (BWG) was established to provide an opportunity for officers and schools to consider the ongoing use of Dedicated Schools Grant funding, and to make recommendations to the Herefordshire Schools Forum in respect of the 2025/26 High Needs Budget.

High Needs Forecast Outturn 2024/25

4. The DSG is forecast to overspend by £11.1 million in 2024/25 as at Q3. This will increase the council's total DSG deficit of £6.1 million at 31 March 2024 to £17.2 million at 31 March 2025.
5. The increase in forecast expenditure is largely attributable to an increase in independent school placements, with a 68% increase in places in the 12 month period from January to December 2024. A lack of sufficiency in Local Authority special school places means the Council is reliant on the independent school sector to meet the specialist education needs of children in the county. The increase in Top Up costs (element 3 funding), driven by the national increase seen in Education Care & Health Plans (ECHPs), represents an additional cost pressure in 2024/25.
6. The School and Early Years Finance (England) Regulations 2020 stipulate that a deficit on the DSG must be carried forward to be funded from future DSG income unless permission is sought from the Secretary of State for Education to fund the deficit from general resources.
7. The DSG deficit is accounted for as an unusable reserve on the council's Balance Sheet, as permitted via statutory instrument which will remain in place up to March 2026. This enables

all local authorities to ring-fence the DSG deficit from the overall financial position in the statutory accounts.

8. Beyond the period of the statutory override, the expectation is that any balance on the DSG Unusable Reserve will transfer back to the council's total Earmarked Reserves. The High Needs deficit will have an impact on the council's overall financial position once the override periods ends and this risk is being managed as part of the council's medium term financial strategy. It should be noted that this issue is a major concern amongst local authorities nationally.

High Needs Funding Allocation 2025/26

9. Central government announced the High Needs Block funding allocation for 2025/26 on 18th December 2024. The basic structure of the high needs NFF for 2025/26 is not changing, as the Government is taking time to carefully consider what changes are needed, both to make sure that we establish a fair education funding system that directs funding to where it is needed, and to support the SEND reforms that will be taken forward.
10. Of the £2.3 billion increase in national schools funding, almost £1 billion will be added to the overall high needs budget, bringing the total level of high needs funding in 2025/26 to £11.9 billion. This increase to high needs funding is over 9% compared to the 2024/25 baseline.
Of this total, the DfE are setting aside £480 million for allocation through a 2025/26 Core Schools Budget Grant (CSBG) for special schools and Alternative Provision, which will combine the high needs elements of the 2024/25 Teacher's pay additional grant (TPAG), Teacher's pension employer grant contribution (TPECG) and full-year equivalent of the CSBG (uplift for 12 months of Teacher's pay award in 2025/26, only part year effect in 2024/25).
11. The 2025/26 Education and Skills Funding Agency (ESFA) DSG allocations for Herefordshire are noted in Table 1 below:

Table 1: Herefordshire DSG Allocations

	2025/26		2024/25		Change	
	£m	£m	£m	£m	£m	%
Schools Block	138.165		129.938			
Less recoupment*	(71.030)		(63.107)			
Less NNDR	(1.306)		(1.314)			
Block transfer	(0.691)		(0.650)			
TOTAL Schools Block		65.139		64.867	0.272	0.4%
High Needs Block	28.853		26.817			
Less recoupment**	(4.468)		(3.701)			
Block transfer (from Schools Block)	0.691		0.650			
Block transfer (from Central Block)	0.257		0.077			
Block transfer (from Early Years Block)	0.150		0.150			
TOTAL High Needs Block		25.482		23.992	1.490	6.2%
TOTAL Early Years Block		24.079		16.432	7.647	46.5%
TOTAL Central School Services Block		0.934		0.856	0.078	9.1%
TOTAL DSG Allocation		115.634		106.147	9.487	8.9%

* At this stage academy recoupment has been estimated from the 2025/26 Authority Planning Tool (APT) submission – at the time of writing this report this has not been confirmed by the ESFA.

** Change of special school academy placements for 2025-26 have been added on manually; final total recoupment amount will be confirmed by the ESFA on 1st April 2025.

Proposed Budget 2025/26

12. The High Needs Block gross allocation for 2025/26 is £28.9 million; whilst this represents an increase of £2.0 million (7.6%) on the 2024/25 allocation, it should be noted that this increase is not sufficient to meet identified pressures in this area.
13. The High Needs budget proposed for 2025/26 includes a transfer of £0.7 million from the Schools Block funding, as approved by the Schools Forum (20th January 2025), to support increasing costs for the Special Education Needs (SEN) Protection Scheme. Transfers from other blocks include £0.1 million from the Early Years Block for the SEN inclusion fund, and £0.3 million from the Central Block. The transfer into the high needs block from other blocks therefore totals £1.1 million.
14. Following recoupment deductions (-£4.5 million) and then adding on transfers from other blocks (+£1.1 million) the net funding for the 2025/26 High Needs Block is £25.5 million (as detailed in table 1). The Council have undertaken a detailed analysis of the 2025/26 High Needs block funding requirements with Q3 2024/25 full year forecast being used as the starting point, with additions then being made for inflation (4%), pupil growth, additional placements, and new services. This has created a proposed funding requirement of £45.7 million for 2025/26.
15. The proposed budget therefore will set an in-year deficit of £20.2 million for the High Needs Block, an increase of £14.466 million (253%) compared to 2024/25. Despite the Net High Needs Block allocation increasing by £1.5 million (6.2%) the funding required has increased by £16.0 million (54%), hence the deficit has grown exponentially.

	2024/25 Budget £'000	Growth £'000	Inflation £'000	2025/26 Budget £'000
High Needs Funding required	29,703	14,572	1,383	45,658
% change		49.1%	4.7%	53.7%
Net High Needs Block Allocation	(23,993)		(1,489)	(25,482)
% change			(6.2%)	(6.2%)
Budget deficit	5,710	14,572	(106)	20,176

16. This will increase the council's cumulative DSG deficit of £17.2 million at 31 March 2025 to £37.4 million at 31 March 2026. Measures to contain this deficit and cost and demand pressures will be managed by the Service as part of their DSG Management Plan, and monitored and reported as part of the council's financial and risk management arrangements.
17. Details of the £45.7 million 2025/26 proposed funding requirement are listed in Appendix 3. The key points to note are as follows:
 - Independent school costs (fees, alternative provision, education other than at school, therapy) have increased from Q3 2024/25 full year forecast of £11.3 million to £20.6 million in 2025-26, year on year growth of 81.8%. The current cohort of independent placements in 2024/25 (188 children) have been analysed and projected into 2025/26 to recognise a full year effect of these placements, plus an

inflationary uplift of 4% on fees. 110 new placements have also been added to 2025/26, calculated by using the highest monthly new independent school placement balance from the last 3 months (November 2024 – January 2025), run rated for 12 months. The new placements added reflect the growth seen in 2024/25 which is anticipated to continue in 2025/26. The new placements also have staggered start dates throughout the financial year to aid with costing assumptions.

- An inflationary uplift of 4% has been applied to Herefordshire Council's top up tariff scheme (see Appendix 3 b).
- Placements have increased from 1,089 in 2024/25 to 1,347 in 2025/26 (year on year increase +24%) (Appendix 3).
- Resource bases + Social, Emotional & Mental Health Difficulties (SEMH) base costs have increased by 76% year on year due to an additional 24 placements in SEMH (Social, Emotional & Mental Health), and an additional 2 classrooms in Hampton Dene for Resource base (effective January 2026).
- SEN Protection – following the approval in January 2025 of the schools block transfer of £0.7 million to the high needs block, detailed modelling has now been undertaken. Options were presented Budget Working Group for recommendation to Schools Forum.

18. The SEN protection scheme acts as an “insurance” scheme to ensure that those schools with higher than average numbers of SEN pupils are fairly funded for their threshold costs. In previous years the need for the scheme was positively endorsed by the ex-HMI review, recommended by the Budget Working Group, and then approved by the School's Forum.
19. The Budget Working Group and Schools Forum were presented with 2 options with regards to the SEN protection scheme, and were reminded that the Schools Forum have agreed the transfer of £0.7 million from the schools block to the high needs block in January 2025. Options considered are as follows:

Option 1

As per previous years: (SEN child number x £6k) – (NOR * £175 (Cap))

	Cap	Cost		Schools block transfer	High Needs Block contribution
2024-25 (as at September 2024)	£175	£1,346,750		£650,000	£696,750
2025-26	£185	£2,334,533		£690,827	£1,643,706
2025-26	£195	£2,185,458		£690,827	£1,494,631
2025-26	£205	£2,037,547		£690,827	£1,346,721

Option 1 uses the methodology of (SEN number x £6,000) – (Number of registered pupils (NOR) x £Cap). This is the methodology that has been applied in all previous years. In 2024/25 the Cap was maintained at £175. Increasing the Cap to £185 (to aid with affordability) in 2025/26 would produce a full year cost for SEN Protection of £2.3 million which is not affordable given the pressures on the high needs block. The full year costs have risen from £1.4 million (Q3 forecast for 2024/25) to £2.3 million in 2025/26 due to the increase in SEN number, and also the decrease in number of registered (NOR) pupil number year on year, which in turn increases the SEN Protection pay out as per the formula given.

Compromises within Option 1 (to aid with affordability) were also modelled by increasing the Cap to £195 & £205 which in turn produced full year costs of £2.2 million and £2.0 million respectively. Given the deficit on the high needs block, and the contribution required by the high needs block to attain this level of funding, this was still considered unaffordable.

Option 2

We change the calculation method to:

(SEN child number x £5,052) – (NOR *£185 (Cap))

Basic entitlement primary	£3,790.90
Basic entitlement KS3	£5,342.27
Basic entitlement KS4	£6,022.91
Average	£5,052.03

	Cap	Cost		Schools block transfer	High Needs Block contribution
2024-25 (as at September 2024)	£175.00	£1,346,750.00		£650,000	£696,750.00
2025-26	£185.00	£1,543,553.82		£690,827	£852,727.00

Option 2 considers the same calculation of SEN Protection that has been used in previous years, except with the £6,000/SEN pupil being replaced by a more reasonable and affordable £5,052/SEN pupil (shown in red in the updated calculation above). The £5,052 has been calculated by taking the average of the 2025/26 basic entitlement funding/pupil for primary, KS3 and KS4 (approved by Schools Forum in January 2025 as part of the Schools Block budget 2025/26). This produces a FY cost for the SEN Protection scheme in 2025/26 of £1.5 million which is a more affordable option. **This is the Council's preferred option.**

It must be noted that whilst Option 2 is the Council's preferred option for high needs block budget 2025/26, new options will need to be considered for budget 2026/27 given the increasing costs of the SEN Protection scheme, and the affordability given the deficit on the high needs block. It was noted by the Budget Working Group in January 2025 that whilst the scheme is gratefully received by schools, and was necessary to meet the needs of SEN pupils, affordability would be key in the coming years. The Council will work on new affordable options for the SEN Protection in future years which will be brought to Budget Working Groups/School Forums later this year.

20. The Budget Working Group (BWG) received a presentation on the 14th February 2025, and the Schools Forum on the 14th March 2025, summarising the forecast 2024/25 outturn position and the proposed High Needs Budget for 2025/26. The presentation is summarised in Appendix 3.
21. The Budget Working Group & Schools Forum recommended Appendix 3, SEN Protection Option 2, and the proposed 2025/26 budget of £45.7 million (and hence the 2025/26 in year deficit of £20.2 million) for approval for Cabinet decision.

Community impact

14. The government's national funding formula determines the allocation of funding to schools and the DSG is essential in helping the council achieve its priority to keep children and young people safe and give them a great start in life. The school funding formula must meet the national requirements of the DfE. Within these national guidelines the funding is targeted to support the achievement of improved outcomes for all Herefordshire pupils in accordance with a carefully considered strategy that is subject to annual consultation with schools and governors.

Environmental Impact

15. This is a consultation with the Schools Forum on school and high needs funding and will have no direct environmental impacts. School governing bodies and trustees are responsible for deciding on expenditure and they will be encouraged to minimise waste and resource use in line with the council's environmental policy.

Equality duty

16. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations, and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
17. The mandatory equality impact screening checklist has been completed for this decision and it has been found to have low impact for equality.
18. Due to the potential impact of this project/decision/activity being low, a full Equality Impact Assessment is not required. However the following equality considerations should be taken into account when making a decision about this activity/project:
 1. The high needs block funding provides support for SEN children who are most in need, providing these children with an education.
 2. Block transfer has been recommended to Cabinet from Schools Block to High Needs Block to fund the SEN Protection scheme. This scheme promotes inclusion and equality within schools.

Resource implications

19. The recommendations, if agreed, aim to set a High Needs Budget of £45.7 million which will produce an in year deficit of £20.2 million. This will increase the council's cumulative DSG deficit of £17.2 million at 31 March 2025 to £37.4 million at 31 March 2026. Measures to contain this deficit and cost and demand pressures will be managed by the Service as part of their DSG Management Plan, and monitored and reported as part of the council's financial and risk management arrangements.
20. Herefordshire will retain the current practice of ring fencing the DSG blocks and allocating spend accordingly, with the exceptions being the schools forum approval required for the

0.69m block transfer from schools block to high needs block (SEN Protection), the early years block £150,000 inclusion funding being transferred to high needs block (SENIF), & the central block savings being transferred to high needs block. The DSG grant income is noted within the council's Medium Term Financial Strategy given the increasing deficit position, and given that current legislation about this deficit being ring fenced ending in Mar26. DSG is planned jointly with the Schools Forum.

Legal implications

21. The Schools Forum Regulations 2012 states that the School Forums generally have a consultative role. However, there are situations in which they have decision-making powers, as detailed in Regulation 10. The Regulations state that the council must consult the Schools Forum annually in connection with amendments to the school funding formula, for which voting is restricted by the exclusion of non- school members except for private, voluntary, independent representatives. Voting on de-delegation and the education functions for maintained schools is restricted to maintained school members only.
22. The decision making powers of the Schools Forum are limited, as detailed in the Education and Skills Funding Agency guidance sheet 'School Forum Powers and Responsibilities' published in March 2020.
23. This budget has been set in accordance with the Schools and Early Years Finance (England) Regulations 2023.

Risk management

24. The Budget Working Group (BWG) reviews proposals in detail prior to making recommendations to the Schools Forum. This two stage process helps to ensure greater scrutiny of budget proposals and mitigate against any risks that may be identified. Any identified risks will be monitored and managed by the Children and Young People directorate jointly with the Schools Forum.

Consultees

25. The Budget Working Group were consulted on 14th February 2025, and the Schools Forum on 14th March 2025, and were provided with all options and agreed to proceed with option 2 regarding the SEN Protection scheme which was the Council's preferred option. It was highlighted that whilst the SEN Protection scheme would continue to be funded for 2025/26 alternative options would need to be considered in future budget years due to affordability. On 14th March 2025 Schools Forum recommended all proposals in Appendix 3 for Cabinet Decision.

On April 10th 2025 a Political Group Consultation took place to discuss the High Needs Budget 2025/26. The views of the group were that the proposed 2025/26 budget should proceed as approved by the Schools Forum. The group commented that they feel a lack of control or influence on a growing budget deficit. The Service Director commented on all the mitigations that are currently in place, and that will be put in place, as outlined in the DSG Management Plan. The group agreed that an increase in the Local Authority special school provision is a key lever in reducing costs, as the deficit is being driven by an increase in costs associated with the use of independent schools to meet the needs of special education needs children. The Service Director also commented on the 2014 code of practise, and how restrictive this was for the Local Authority, with hopefully some Central Government reforms addressing this in the near future, along with a Central Government overall increase in special needs funding.

Appendices

Appendix 1 – High Needs Budget 2025/26 vs Forecast Q3 2024/25 vs Budget 2024/25

Appendix 2 – High Needs Budget 2024/25 vs High Needs Budget 2025/26

Appendix 3 – Recommendations Summary High Needs 2025/26

Report Reviewers Used for appraising this report:

Governance	Date Click or tap to enter a date.
Finance	Date Click or tap to enter a date.
Legal	Date Click or tap to enter a date.
Communications	Date Click or tap to enter a date.
Equality Duty	Date Click or tap to enter a date.
Procurement	Date Click or tap to enter a date.
Risk	Date Click or tap to enter a date.
Approved by	Date Click or tap to enter a date.

Please include a glossary of terms, abbreviations and acronyms used in this report.

BWG	Budget Working Group (of Schools Forum)
CAMHS	Children and Adolescent Mental Health Service
DSG	Dedicated Schools Grant
DfE	Department for Education
EHCP	Education Health Care Plan
ESFA	Education and Skills Funding Agency
H3	Home and Hospital Teaching Team (Hub, Home, Hospital)
NOR	Number on Roll, typically at a school
PRU	Pupil Referral Unit
SEN	Special Education Needs
SEND	Special Education Needs and Disability
TPG	Teachers Pension Grant
TPAG	Teachers' pay additional grant
TPECG	Teachers' pension employer contribution grant
CBGG	Core schools budget grant