

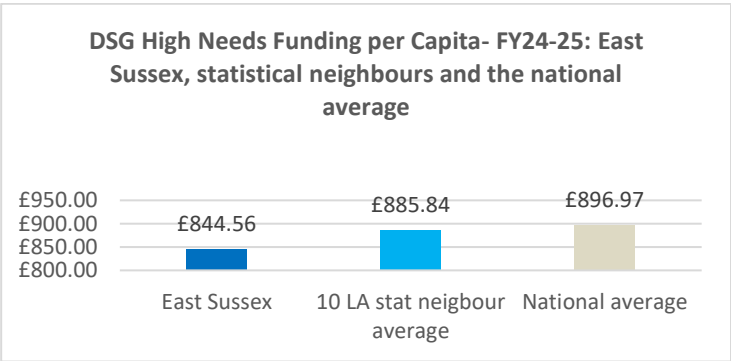
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| Report to:       | East Sussex Schools' Forum   |
| Date of meeting: | 14 November 2025   |
| Report By:       | Carolyn Fair   |
| Title:           | Request for Interblock Transfer from Schools Block DSG to High Needs Block DSG       |
| Purpose:         | To request Schools' Forum feedback and approval of an interblock transfer in 2026-27 |

**Recommendations:**

Schools' Forum are recommended to agree an interblock transfer for 2026-27 and to confirm the amount of the transfer.

**1. Background**

- 1.1 At Schools' Forum in September, we provided an update on the pressure within the High Needs Block (HNB) in 2025-26 and the potential implications for mainstream schools in terms of addressing this deficit.
- 1.2 We have also brought reports to Forum in July and January to approve top-ups to the notional SEND budgets and uplifts to top-ups to mainstream and special schools and FE colleges within 2025-26. These top-ups were intended to help schools meet the costs of statutory provision set out in EHCPs, and (in the case of small mainstream schools) mitigate shortfalls of funding in notional SEND Budgets.
- 1.3 Between 2017-18 and 2024-25, the HNB in East Sussex was sufficient to meet the demands of our statutory requirements to make provision for Children and Young People with EHCPs. This is despite the national trend of increasing HNB deficits on Local Authority balance sheets and acknowledged by CIPFA in their recent value for money assurance exercise carried out within ESCC.
- 1.4 F40 (a cross-party LA campaign group set up by the 40 lowest funded councils for Education) carried out research in 2024 and, as illustrated below, indicated that despite the high number of pupils in specialist provision, ESCC receives comparatively less per-pupil HNB funding than national and statistical neighbour averages. This has significant implications for the flexibility that there is within the ES HNB to meet overall demands within the system.



- 1.5 Although the HNB funding formula takes into account to some extent part of the funding of children in special schools, the bulk of the costs are made up from proxy indicators with a very large share of our overall budget being based on actual spend in 2017/18 financial year. There is no weighting within the formula to account for the number of pupils in the INMS schools, which have an average cost of £46,408 per pupil per year.
- 1.6 Numerous reports and reviews since 2022 have highlighted the need for national systemic change. These include input and analysis by the DfE, Isos Partnership, Ofsted, the Local Government & Social Care Ombudsman, and the National Audit Office. Consequently, a white paper is expected with details of anticipated SEND reforms. On 22<sup>nd</sup> October, the Secretary of State for education confirmed that this paper will now be published early in 2026, in order to incorporate the findings of a recent Education Select Committee report and allow for a further period of co-creation.
- 1.7 Mirroring national trends, the HNB spend in ESCC is now unmanageable within the current and forecast funding envelopes. Spend on placements within independent and non-maintained special schools is the biggest pressure and, last year, 500 placements in this sector (10% of the total number of EHCPs) accounted for 30% of the entire HNB spend. As it stands, the demographic of the high special school population here is unsustainable. If East Sussex had an equivalent number of placements in special schools as national averages (across both the state-run and INMS sectors), there would be an additional £19.3m available within the HNB.
- 1.8 With rising EHCP numbers, increasing parental choice for specialist placements, and a lack of places available in ESCC special schools and academies as factors, this pressure is likely to increase. This means that a decision is required at this Schools' Forum based on the current position. This will enable us to comply with the timetable for making changes to budgets from April 2026.
- 1.9 The HNB working group, a subgroup of Schools' Forum, met in September and October to discuss the HNB position in order to develop recommendations to come back to this meeting for approval. These are laid out in the recommendations section below.
- 1.10 In the November 2024 meeting, Schools' Forum approved a £1m interblock transfer from the schools' block to the HNB. This year, when the schools finance team has provided budget share estimates for planning purposes, it was deemed prudent to use the 2025-26 actual rates as the base rates for future estimates, whilst knowing that any decisions about future interblock transfers would have to be approved by Forum again. Consequently, a £1m interblock transfer in those years is already effectively accounted for in the maintained schools' current 3-year forecasts.

## **2. Supporting Information**

- 2.1 ESCC brought a total £2.836m DSG surplus into 25-26, down from the £15.814m surplus at the beginning of 24-25. The surplus only exists because there was a £5.465m surplus within the Early Years Block and the HNB is in deficit. The overall DSG surplus will be used to offset the DSG overspend forecast this year, but Q2 financial modelling on Early Years and HNB indicates that ESCC will be in an overall DSG deficit position of £20.934m by the end of 25-26:

|  | 23-24 Year-<br>End Position | 24-25 Year-<br>End Position | 25-26<br>Forecast<br>Year-End<br>Position |
|--|-----------------------------|-----------------------------|---|
| Schools Block                                  | 305,708                     | 224,708                     | 52,508                                    |
| Central Schools Services Block                 | 1,085,449                   | 63,349                      | 63,349                                    |
| Early Years Block                              | 3,314,503                   | 5,465,301                   | 4,525,260                                 |
| High Needs Block                               | 11,108,714                  | -2,916,721                  | -25,575,360                               |
|  | <b>15,814,374</b>           | <b>2,836,637</b>            | <b>-20,934,243</b>                        |
| Schools Block - maintained<br>schools balances | 18,251,607                  | 16,036,323                  |   |
|  | <b>34,065,981</b>           | <b>18,872,960</b>           |   |

- 2.2 At Q2 25-26, there was a forecast £4.858m overspend on INMS placements and an in-year forecast £22.658m overspend on the HNB in total. Long-term financial modelling carried out using the DfE's DSG deficit management template indicates that the East Sussex cumulative forecast DSG deficit by the end of 2031-32 is £247.708m.
- 2.3 A National Audit Office 2024 review indicated that an assumed 43% of LAs would have deficits close to or exceeding their reserves by March 2026. For this reason, there is a national statutory override on DSG deficits held on LA balance sheets, meaning that deficits aren't deducted from authorities' reserves. This was recently extended and is now due to expire in March 2028.
- 2.4 Despite the statutory override, the in-year deficits on the DSG still have an impact on the revenue position of the council (which is not covered by DSG). In 26-27, the forecast borrowing costs required to service the in-year deficit is £1.677m. In 27-28, that rises to £2.772m.
- 2.5 There is a forecast budget gap for ESCC of £55.8m for 2026/27. The projected level of strategic reserves of £11.1m as of 1 April 2026 means that the council will have insufficient scope to use reserves to address the budget deficit or any further emergent pressures. Consequently, our position may require us to approach MHCLG for Exceptional Financial Support. This will involve an enhanced level of scrutiny of the financial position and possible requests to pare back the core offer provided by the council to residents and schools.
- 2.6 When ESCC officers met with representatives from the DfE in 2024, they identified the balances which are currently held by maintained schools and that consideration should be given as to whether to use these to offset the overall position. We have decided not to pursue this option as it would only impact maintained schools, causing an inequality between maintained schools and academy funding. This may, however, be an area that the DfE wish to explore should any request for interblock transfer need to go to the Secretary of State.
- 2.7 At the end of 2024-25, £16.036m was held by 101 maintained schools. 7 were in deficits and 94 were in surplus. The balances ranged from £66k deficit to £1.561m surplus. This balance is expected to reduce materially in 2025-26.
- 2.8 There are further uncertainties within the system that will have an impact on both school and HNB budgets. We are expecting confirmation of 2026-27 schools' budgets and funding formula towards the end of November. Due to government postponement of publishing the SEND reforms, we do not know if there will be any

financial impact from the reforms on school budgets, or the timeline for implementing these.

- 2.9 We have modelled the impact of different scenarios of Schools' Block reduction to offset HNB pressures. Due to the lack of 2026-27 schools' budget information, we have modelled the scenarios using 2025-26 funding formula rates, including a Minimum Funding Guarantee rate of 99.8%. Due to legally having to maintain the minimum per pupil level factor, 21 schools would not be impacted by any interblock transfer and the remaining 151 would see a reduction in their budget ranging from 0.02% to 0.94%. (These figures do not necessarily reflect the schools' budget shares for 2026-27).
- 2.10 In light of the uncertainties around LA and schools' budgets for 2026-27 and the SEND reforms, and the differential impact that the interblock transfer would have on individual schools, we are proposing at this point that Forum considers an interblock transfer from the Schools Block to the HNB in 2026-27.
- 2.11 Due to the timescales specified by the DfE, we must make the decision on the transfer at this meeting so changes to budget shares can be made in time for the next financial year. If, however, we find that the settlement for next year is better than expected, we can reverse some or all of the transfer back to schools from the HNB.
- 2.12 The DfE guidance on disapplications request that the purpose of any interblock transfer is to result in the best possible outcomes for schools, pupils, and the LA in the long-term. To this end, we would emphasise the work that has gone into the range of measures intended to reduce expenditure on high-cost low value-for-money placements:
- Schools have access to support and guidance from specialist support services
  - Reviewing and transparency of our funding models for maintained provision
  - Challenging unreasonable costs in the INMS sector
  - Developing cost effective mainstream provision (new special schools and facilities)
  - Addressing notional SEND budget inequalities amongst mainstream schools
  - Increasing inclusion in mainstream schools through enhancing mainstream practice fund
  - An improvement in the placing of EHCPs at secondary phase transfer in mainstream schools between 2024 and 2025
- 2.13 We are hopeful that the government agenda will provide enhanced support and resources that will enable mainstream schools to facilitate a more inclusive and financially sustainable landscape for the country. However, until we have further details of what this will look like, we will have to manage the cost of placements within the current system and the overall envelope of funding available to us.

### **3 Recommendations**

- 3.1 In light of the above, it is recommended that Schools' Forum vote to agree an interblock transfer for 2026-27 on either:
- a. Transfer of £1m (the same amount as 2025-26)
  - b. Transfer of £1.963m (0.5% of the 2025-26 Schools Block)
- 3.2 In the event of Schools' Forum voting against the interblock transfer for 2026-27, it should be noted that ESCC has the option to request a disapplication directly to the Secretary of State for Education.
- 3.3 The HNB working group suggested that forum members consider postponing the decision and asking ESCC to hold the whole deficit for one year in 2026-27, pending the results of the financial settlement and clarification on the national SEND reforms.
- 3.4 If members decide to vote against the transfer or postpone the decision, then Forum is recommended to discuss measures that schools will take to mitigate the pressures in the system, particularly to address the pressure on places in special schools. Schools' Forum will want to consider how they monitor progress against the measures and the associated level of spend on the HNB budget in 2026/27.

***Carolyn Fair***

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