

High Needs Block Funding Allocation 2025/26

Key Messages

The Forum is asked to **note**:

- The overall arrangements and 2025/26 budget requirements for pupils and students with high needs.
- The increase in demand for provision for young people with special education needs and disabilities (SEND) and the resultant pressure on the overall High Needs Block (HNB).
- The overall HNB deficit position for 2025/26 and our plans to develop a Dedicated Schools Grant (DSG) deficit management plan.
- That the increased funding per place in special schools is in line with the High Needs Funding 2025/26 Operational Guidance.
- That the Sheffield Inclusion Centre's and Hospital and Home Education's allocations have also increased in line with the guidance.
- That the total resource allocation of £43,463 for special schools in 2025/26 is based on commissioned place numbers and top-ups due to be paid by Sheffield.
- That we have continued to use a now established funding formula, to distribute an increased sum of money to schools hosting integrated resources.
- That 450 integrated resource (IR) places are being funded. Provision for these places and a small number of new places opening in year has been made. A provision of £5.8m from the High Needs block has been made for the existing 450 places and new places.
- That Base Funding for integrated resources has been increased by 2% in comparison to 2024/2025.
- In previous years a provision has been made for growth to fund additional pupils. Due to pressures on the High Needs Block, this provision has been reduced from £6m in 2024/2025 to £4m in 2025/2026.
- There is a continued investment in the localities budget of £1.37m transferred from the Schools Block as agreed by the December Education Funding Forum.
- As described in Paper 4, funding has been made available to support children and young people with Education, Health and Care Plans (EHCPs).
- For the academic year 2025/2026, funding will be allocated to support pupils in schools with SEND needs but no EHCP. Arrangements are still being identified but the focus will be on locality funding.
- The planned expenditure on Specialist Support Services is £63,766k.
- Due to the increasing numbers of pupils being excluded from school, a new financial provision has been established to support their education from day six.

1. High Needs Block Forecast and Financial Position

- 1.1 Based on the initial 2025/26 forecast for the High Needs Block, our current expectation is an expenditure of £126.4 million, compared to a gross annual allocation of £114.6 million. This results in an anticipated in-year deficit of approximately £11.8 million, as outlined in the table below. The growing number of exclusions, rising demand for EHCPs, increased pressure on SEND placements and the expanding need for alternative provision continue to exert significant pressure on our financial resources.

Financial Position (2025/26)	Amount (£ million)
Gross Annual Allocation	114.6
Expected Expenditure	126.4
In-Year Deficit	11.8

- 1.2 For the first time, we anticipate a cumulative DSG deficit due to the sustained rise in demand for SEND support, EHCPs, and exclusions. While funding allocations have increased in recent years, income levels have not kept pace with the accelerating demand for SEND services. This mismatch between funding and need continues to drive financial pressures across the system. We are currently reviewing our in-year expenditure, and our cumulative deficit position will be informed by actual financial performance up to March 2025. A further update will be provided at the June Forum meeting.
- 1.3 Recognising the urgency of addressing this financial challenge, we are undertaking a comprehensive review of all expenditure areas. As part of this process, we are committed to developing a DSG deficit management plan by June 2025. This plan will outline a sustainable approach to managing the increasing financial pressures while ensuring continued support for children and young people with SEND.
- 1.4 Whilst acknowledging the mounting pressures on our DSG resources, we firmly believe that early intervention and prevention must remain a priority. Our strategic focus is on strengthening investment in mainstream schools to enable more children to receive the right support at the right time within their local educational settings. By doing so, we aim to reduce long-term reliance on specialist services, improve outcomes for children and young people, and establish a more sustainable financial position in the future. To support this approach, we are maintaining our investment in SEND Support and have planned a substantial increase in EHCP top-up funding for mainstream schools.

2. National Context

- 2.1 Sheffield's situation is not unique. According to the National Audit Office's October 2024 report on support for children and young people with special educational needs, nearly one in two local authorities across the country is facing a High Needs Block deficit.

2.2 National Audit Office Report: Support for Children and Young People with Special Educational Needs (October 2024)

"Following the Children and Families Act 2014, there have been significant increases in the number of children identified as having SEND, particularly those with EHCPs specifying a need for support in more expensive settings. Since 2015, demand for EHCPs has increased by 140%, leading to 576,000 children with plans in 2024. There has also been a 14% increase in the number of pupils receiving SEN support, reaching 1.14 million in schools. These changes have driven up the overall cost of the SEND system.

2.3 Although the Department for Education (DfE) has increased high-needs funding—rising by 58% in real terms between 2014-15 and 2024-25 to £10.7 billion—the system is still not delivering better outcomes for children and young people, nor is it preventing local authorities from facing significant financial risks. The DfE estimates that approximately 43% of local authorities will have deficits exceeding or close to their reserves by March 2026. This contributes to an estimated cumulative deficit of between £4.3 billion and £4.9 billion once accounting arrangements preventing these deficits from impacting local authority reserves are due to end. As such, the current system is not achieving value for money and is unsustainable."

2.4 These findings highlight the pressing need for systemic reforms at both national and local levels to ensure a more sustainable and effective SEND funding model

3. High Needs Pupils and Students

3.1 Pupils and students supported by high needs funding include:

- Pupils aged from birth to 19 with high levels of SEND in schools, academies, colleges or other settings.
- Those aged 19-25 with SEND in further education who have an EHC Plan.
- School-aged pupils placed in alternative provision such as a Pupil Referral Unit (PRU).

3.2 Extensive work has been undertaken to review the current provision in the city, identifying gaps in provision and contributing to our Inclusion Strategy. This work is ongoing.

4. Places to be Funded for 2025/26 in Special Schools and Integrated Resources (IRs)

4.1 The High Needs Operational Guide 2025/2026 recommends that the funding for special schools is increased against 2023/2024 levels at a minimum rate of 0%. Sheffield is mindful of the cost pressures being faced by all our

schools and has used an average of 2% inflation to add £450 to each special school place. This brings special school funding into line with the increases being experienced in mainstream schools.

- 4.2 In line with the High Needs Operational Guide, Sheffield needs to fund the base funding for pupils from other local authorities in Sheffield schools and recover the funding from the National Funding Formula and the import / export exercise.
- 4.3 A significant proportion of our special schools are delivering provision from multiple sites and work has been undertaken with the working group to identify the additional cost pressures. For 2025/2026 (as we did last financial year) priority has been given to ensure that all of our special schools receive inflationary increases. In 2024/2025, following discussion at the Working Group, and to demonstrate the intention to develop a split site formula for our special schools in future years, £50k has been included in the budget for those schools operating on more than one site. For 2025/2026 this has been increased to £60k for the six special schools operating on multiple sites.
- 4.4 The number of places in special schools has followed the trend in the previous years and continued to rise in-year. For this February meeting of the Education Funding Forum, we are issuing budgets for the commissioned numbers of pupils in our special schools and IRs. No provision has been identified to fund additional specialist pre- and post-16 provision. Any growth will need to be funded from the growth pot.
- 4.5 Funding for IRs will be distributed using the funding formula approved previously. As the top-up funding is now based on the per pupil funding in the mainstream formula, it has automatically increased. The base funding of £10k has been reviewed again for 2025/26 and it is recommended that the base funding increase by 2% to £10,757.73.
- 4.6 The number of IRs has risen significantly in the last three years. For 2025/2026 we are funding 450 places from Reception to Year 11 with a very small number of post-16 places funded outside the funding formula.
- 4.7 IRs are funded through a combination of funding from the Schools Block and High Needs Block. As many of the IRs are hosted in academies, the funding for IRs has become increasingly complex. Academies are funded using 5/12th of 2024/2025 and 7/12th 2025/2026. The funding rates for 2025/2026 are shown in Appendix 2.
- 4.8 The table below shows the total funding being committed for specialist places in special schools, IRs and growth from the High Needs Block.

	2024/25	2024/25	Variance
	£'000s	£'000s	£'000s
Special Schools	39,960	43,463	3,503
Integrated Resources	5,616	5,802	186
Provision for additional places	6,000	4,000	-2,000
	51,576	53,265	1,689

- 4.9 We are proposing that the Forum notes the resource allocation of £53,265 for 2025/26.
- 4.10 As was the case last year, in addition to the commissioned placements, there are further pupils whose parents have indicated a preference for a special school placement. We will continue working with special schools, mainstream schools and parents/carers over the coming months to prepare these pupils through supported and tailored transition planning and facilitating joint planning between current and new schools.
- 4.11 We will also continue to develop and provide outreach and emotional wellbeing services. Our moderated decision-making on placements – through the EHC Placement Panel – has ensured that all decisions to name mainstream schools are compatible with provision and that schools and academies should be providing for pupils with a range of SEN. The SEND Code of Practice operates on a presumption for mainstream education, and our Inclusion Strategy aims to develop capacity, skills and competence in mainstream settings in line with national policy and the statutory guidance.
- 4.12 The increase in demand for special education provision has been underpinned by a combination of key factors including population growth matched to increasing complexity. We are continuing to progress a strategic review of provision and a business case to enable delivery of better support for pupils, drive shared accountability and effective demand management.

5. Mainstream Top-up

- 5.1 Paper 4 describes the changes in funding mechanisms for supporting pupils with additional needs, both with and without an EHC Plan.

6. Funding for the Sheffield Inclusion Centre (SIC)

- 6.1 The Sheffield Inclusion Centre (SIC) has a delegated budget and has its own Management Committee. At the current time, a proposal is being considered to change the provision being made and therefore their funding. In line with special schools the funding at the SIC will increase by 2% and their split site funding will increase in line with the special schools to £60k.

- 6.2 If the proposal is accepted, the estimated cost is around £5m.
- 6.3 In addition to the above base budget, the SIC is also eligible for Pupil Premium funding and pupil-led funding for all in-year exclusion from excluding schools.

7. Funding for 16-24-year-old Students

Post-16 High Needs Education ESFA Element 3 Top-up Funding – an Overview

- 7.1 The funding of post-16 students with high needs, based in further education (FE) colleges or independent specialist providers (ISPs) and other settings, is markedly different to schools' pupil financing.
- 7.2 Sheffield City Council receives funding via the Government's DSG to fund high needs learners aged between 16 and 25, under rules prepared and managed by the ESFA. This specifically relates to Element 3 funding, as noted below. These high needs learners are a subset of the wider group who have an EHCP. The EHCP is the legal document that states the provider in Section I and determines which further education colleges or institutions the local authority is statutorily obliged to contract with.
- 7.3 There are three levels of funding of a high needs student:
- **Element 1** (E1) is the study programme funding that providers are paid to educate each student, roughly averaging £5,500 per academic year and drawn down by the provider directly from the ESFA via their student data returns.
 - **Element 2** (E2) is the key level of support funding that covers any additional education support that is priced at £6,000 or above. An FE college or an ISP is usually allocated a specific number of high needs places it is likely to require in any given academic year and this is directly claimed from the ESFA when submitting student data returns. The setting will also usually generate the initial overall costing of providing the support to a learner with an EHCP, and this is then validated. It can then request any agreed E3 funding above this threshold from the local authority. If a student requires anything under the £6,000 worth of additional support, then the provider will not be able to claim E2 and must fund this cost from existing resources.
 - **Element 3** (E3) is known as the 'Top-Up' funding.
- 7.4 The distribution of this funding is a statutory duty placed on local authorities. Sheffield City Council is obliged to pass on the Element 3 funding on behalf of the ESFA to those eligible FE providers. In the 2023/24 academic year, the total Element 3 funding allocated was over £3.5 million.
- 7.5 The local authority has the delegated responsibility for managing and distributing the E3 through its standard contracting and commissioning frameworks. The process is auditable and under current contracting

arrangements as in previous years, a waiver is in place to ensure funding can be allocated under contract to those eligible FE colleges or institutions for the 2025-26 academic year. As this funding will be continued to be allocated in this manner for the foreseeable future, a longer-term waiver covering multiple academic years, or a possible constitutional amendment is being investigated with Sheffield City Council Commercial Services that will allow a seamless contracting process in future academic years.

- 7.6 An allocation in excess of **£4.5m** from the High Needs Block has been made for post-16 place provision delivered through Longley Park, Sheffield College and Sheaf Training. This includes both Element 2 and Element 3.

8. Additional Grants

- 8.1 2024/2025 was the first year that the DfE has distributed special school additional grant funding requiring local authorities to carry out local consultation. Consultation was completed in January 2025 with just three schools responding. We have now distributed the following three grants in line with the allocation from the DfE:
- Teachers' Pension Employer Grant 2024.
 - Teachers' Pay Additional Grant 2024/2025.
 - Core School Budget Grant.

9. Specialist Support Services

- 9.1 The following specialist support services, including those for pupils with sensory impairments, or tuition for pupils not able to attend school for medical or other reasons are also funded from the High Needs Block/Early Years Block. Also included are the costs of independent and out-of-city places.

	2025/26 £'000s
Out of City – special schools	2,051
Independent placements (pre-16)	10,221
Independent Placements (post-16)	3,843
Post-16 SEN - colleges and other	4,439
Post 16 Direct Deductions by ESFA	6,172
Home and Hospital	Estimate 1,762
Children With Disabilities	1,161
SEN Places Growth Fund	4,000
SEN Transport	4,332
EHCP Top-ups (including localities)	14,717
Vision Support	1,235
Autism	768
Hearing Impaired	2,576
Early Years SEND and Inclusion Support	1,209
Exclusion Prevention	1,902
Speech and Language	171
Virtual School	524
Inclusion and attendance	1,130
Early Help Services	336
Elective Home Education	195
Vulnerable Groups	136
Children missing Education	336
Extended Curriculum	198
Children Involvement Team	241
VSP Delivery	111
Total	63,766

10. Recommendations

The Education Funding Forum is asked to **note**:

- The overall arrangements and 2025/26 budget requirements for pupils and students with high needs.
- The overall HNB deficit in 2025/26 and plans to produce a deficit management plan.
- The 2% Minimum Funding Guarantee (MFG) for special schools, integrated resources and the Sheffield Inclusion Centre (SIC) against the financial year 2024/2025.
- The increase in the split site funding for special schools and the SIC from £50k in 2024/2026 to £60K per school for 2025/2026.
- The distribution of three additional grants following consultation.
- The £4m provision being made for growth in the specialist sector, including additional places in special schools from September, pre- and post-16 growth in places.
- The continuation of the £1.37m transfer from the Schools Block to locality funding.