From: Beverley Fordham, Cabinet Member for Education & Skills

Christine McInnes, Interim Corporate Director Children's, Young People & Education

To: **Children's, Young People and Education Cabinet Committee** – 20 January 2026

Subject: Special Educational Needs (SEN) Funding – 2026-27 Payment Uplifts

Decision no: *25/00108*

Key Decision : Yes*:*

- *It affects more than 2 Electoral Divisions*
- *It involves expenditure or savings of maximum £1m – including if over several phases*

Classification: Unrestricted

Past Pathway of report: N/A

Future Pathway of report: Cabinet Member Key Decision

Electoral Division: All

Is the decision eligible for call-in? *Yes*

Summary: The Government has recently confirmed the funding allocations for the High Needs Block of the Dedicated Schools Grant for 2026-27 will be frozen at the same level as 2025-26 with no increase for demography changes or general inflation. Local Authorities remain responsible for agreeing the distribution of this funding in accordance with Government guidance. The Council has been overspending this grant each year since 2018-19, with costs forecast to exceed the grant received by c£70m this year (2025-26), which when added to previous years SEN deficits (and other contributions) will reach an accumulated deficit of c£136m by March 2026. The Government requires Local Authorities to hold DSG debts separately and so is currently not part of the Council's General Fund. This arrangement is due to come to an end after March 2028 after which the Government have indicated that future special educational needs (SEN) costs will be met nationally, although details on how this will work, (including what will happen to legacy deficits) and the future responsibilities and risks to the Council are still to be confirmed. The lack of sufficient

reassurance from Government on these future arrangements means the SEN deficit continues to be one the Council's biggest financial risks.

The Cabinet Member will be required to make a decision ahead of the next Cabinet Committee on the SEN payment rates for SEN services funded from the High Needs Block including payments made to mainstream schools (top up funding and SRPs), early years providers (SEN Inclusion Fund), Pupil Referral Units (PRUs), alternative provision, special schools and Post 16 providers (FE colleges and specialist post 16 institutions). This paper sets out the current circumstances and key considerations that will need to be reviewed in preparing for the decision, and provides the CYPE Cabinet Committee an opportunity to comment ahead of the final recommendations.

Recommendation(s):

The Children's, Young People and Education Cabinet Committee is asked to **NOTE** the update and that the Cabinet Member for Education & Skills will make a decision on the future payment rates for SEN services; and **AGREE that** this update report concludes the Cabinet Committee consideration process for the decision.

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1. Introduction

1.1 The Department of Education (DfE) provides Local Authorities with a specific ring-fenced revenue grant each year to fund the school budgets (mainstream primary & secondary schools), early years free-entitlements for children under 5, high needs (Special Educational Needs Education Placements including special schools) and central services for schools. This is known as the Dedicated Schools Grant (DSG). It is the Local Authority responsibility to distribute this funding to schools, eligible early years and to provide SEN services and other services for schools in Kent. A separate decision report was presented to this Cabinet Committee in November outlining the principles of setting the Schools Block (mainstream primary and secondary school budgets) and Early Years Block (for free entitlement rates) in 2026-27. This paper specifically relates to the funding of SEN services from the High Needs Block of the DSG.

1.2 Following a significant delay, the Government has recently confirmed the High Needs Block of the DSG, used to fund SEN services, will be frozen at 2025-26 levels for 2026-27, whilst at the same time confirming they are intending to publish details of future SEN reforms (which we are assuming will include reformed funding arrangements) in the Spring. In recent years this Grant has increased each year. The approach taken by Government for 2026-27 was unexpected and combined with the late notification has meant we have had to review our planned approach.

1.3 The original intention was to bring forward proposals for changes to the current SEN model and proposed rates for 2026-27. In light of the ambiguity in funding of SEN services, planned proposals to introduce the second phase[1] of changes

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[1] In January 2025, the Cabinet Member approved the first phase of the new SEN Funding Model focused on mainstream schools with the introduction of the Communities of Schools and associated budget allocations, which have been in place since September 2025 (Key Decision: 24/00120 - Special Educational Needs Funding System). The second phase is focused on the development of a

to the Special Educational Needs funding models in Kent for state-funded schools covering mainstream, specialist resource provisions (SRPs) and special schools will be postponed for consideration at a future Committee meeting, with current funding arrangements continuing during 2026-27. However, rates under the existing SEN payment model for schools, early years & post 16 providers still need to be confirmed by the Council for 2026-27.

1.4 Local Authorities are required to publish schools budgets by 28th February for 2026-27 therefore the Council must still decide whether it intends to commit, at this time, to a general inflationary uplift to existing payment rates for SEN services provided by mainstream schools (top up funding and SRPs), early years providers (SEN Inclusion Fund), Pupil Referral Units (PRUs), alternative provision, special schools and Post 16 providers (FE colleges and specialist post 16 institutions).

1.5 Due to the late notification of funding and the need to review further the implications of agreeing a general inflationary increase for 2026-27 across SEN services, it was not possible to present detailed final proposals as part of regular Cabinet Committee consultation on planned Key Decision. Therefore, this report is intended to bring the current circumstances to the attention of the CYPE Cabinet Committee ahead of a formal decision being taken by the Cabinet Member before the next Cabinet Committee on 17 March. This item provides an opportunity for Members to make comments or raise questions in relation to the planned approach to progressing the required decision and as such supports the principles of Cabinet Committee consideration of proposed Executive activity. Any matters raised by the Committee will be taken into account by the Cabinet Member when the decision is taken.

2. Key Considerations

2.1 An annual key decision is taken (normally between December and January) to confirm the SEN payment arrangements in the forthcoming financial year for state-funded schools and early years providers, and eligible Post 16 providers (FE college and specialist post 16 institutions). This decision also informs the approach to be taken with independent schools and other commissioned SEN services (such as tuition).

2.2 The Council must decide whether to make any significant change to the payment model and/or confirm the payment rates (including any general uplifts). These recommendations must also be in line with Department of Education requirements.

Update on High Needs Block Grant

The Government normally publishes information on the DSG for the forthcoming financial year in July but this was significantly delayed and publication of the High Needs Block for 2026-27, used to fund SEN services, was not announced until 17th December. This confirmed grant funding for 2026-27 would effectively be frozen at 2025-26 levels[2]. There was no increase

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banding system to allocate funding for our most complex children, based on the level of support required rather than diagnosis (i.e. primary need type).

for demography or general inflationary pressures. This is unprecedented. In the past 5 years the grant has increased between 3.7% to 12%, with the grant increasing by 6.7% in 2025-26. The grant increase is normally used to help offset the cost of any general inflationary increase applied to SEN payments made by the Council, alongside wider demand pressures. With no confirmed increase in grant funding for 2026-27, any increase in payment rates for educational providers will be an added pressure to the High Needs Block and increase the overall SEN deficit, unless wider efficiencies can be identified. These would have to be in addition to actions already being taken to reduce the deficit.

2.3 At the same time as the Grant announcement, in the Autumn the Government also confirmed the intention for national SEN funding changes, alongside wider system reforms. Limited information has been published at this stage, but the provisional local government settlement indicates there will still be a role for local authorities in managing the SEN funding system and that Councils would be expected to continue to put in place plans to manage the system effectively (presumably within reformed grant funding) and to work to keep the deficits as low as possible. In return, local authorities should not expect to have to fund future SEN costs from the General Fund, once the government instrument for keeping SEN deficits off the Council's balance sheet (known as the statutory override) comes to an end after March 2028. Although what this means in reality and how historic deficits will be resolved is still unclear. Further information is expected in the coming months alongside the delayed publication of the White Paper in early 2026 on future SEND reforms. The continual ambiguity on the expected future responsibilities and risk to the Council in relation the SEN deficits means these deficits are still considered to be one of the Council's biggest financial risks. Therefore, any decision to increase the deficit further must be considered carefully, with full consideration of the risks arising from a lack of clarity of how this overspend and increase in the SEN deficit will be addressed in future years and any resulting savings requirements.

2.4 In the meantime, the Council continues to overspend its High Needs Grant. In 2025-26 is forecast to overspend by approximately £70 million (20% of the grant) and ending the year with an accumulated deficit on the DSG of c£136m (including historic deficits and contributions). Continual demand for specialist placements has led to a further rise in demand for independent places during 2025-26, which will put further pressures on the High Needs Block in 2026-27 and increase the overall deficit.

2.5 KCC is one of 38 Local Authorities with a DfE Safety Valve Agreement in place with the Department of Education (DfE). This is to support Councils with the highest overspends on SEN services and to achieve a financially sustainable longer-term position. The agreement means the DfE are making additional contributions of £140 million, alongside an £82 million contribution from KCC itself, to pay off the estimated accumulated deficit and help to balance the high needs budget. In return for this, KCC must implement actions intended to resolve the in-year overspend and achieve future financial sustainability. The Safety Valve agreement has avoided the need for KCC to otherwise impose up

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[2] apart from the rolling in of grants previously received separately and already fully committed in previously years.

to £222 million of spending reductions on SEN services over the equivalent period (2022 to 2028). Whilst Central Government have indicated they will assume responsibility for funding SEND from April 2028, it is still unclear how this will work and how the legacy debt will be resolved, before any residual debts are brought onto Council balance sheets from 2029. Therefore, the Council continues to still be bound by the agreement at the time of writing.

Considerations when setting the payment rates for SEN providers

2.6 Any standard payment rate increases for educational providers have to be balanced between adding further pressure to the Council's High Needs block (and increasing the SEN accumulated deficit) and recognising inflationary pressures that SEN education providers are facing including the rise in teachers' and support staff salaries along with wider inflationary changes.

2.7 In the past, payment rate increases had been linked to an increase in the grant. Between 2013 and 2020, general inflationary uplifts on payment rates were not applied. However, since 2020-21, payments rates have been increased as grant funding has started to increase. Kent's payment rate increases for SEN services normally mirror the primary & secondary school increases set by Government (in 2026-27, primary and secondary school budgets are expected to increase between 0% and just over 2%). In Kent 14% of schools will receive 0% increase. This means, mainstream schools will be expected to make efficiencies to fund their inflationary pressures.

2.8 The DfE have provided very little guidance to local authorities on the approach to SEN payment uplifts in light of a lack of funding certainty. The DfE have confirmed local authorities must ensure special schools get at least the same payment rate (per place) as previous year (with the minimum funding guarantee set at 0%). However, there are no such protections for the rest of sector (i.e. mainstream schools, PRUs/Aps, Early years providers and Post 16 providers). The DfE guidance also states "We expect local authorities to respond appropriately to schools' cost pressures in 2026 to 2027 to secure the provision required for the pupils they place there, taking account of any inescapable cost increases". It is not clear what they mean by "inescapable cost increases" but suggests local authorities are not expected to fully fund inflationary cost increases incurred by education providers, with providers expected to identify efficiencies where possible to offset cost increases.

2.9 The main cost pressures for education providers will be staffing. For schools this amounts to around 80% of all costs. SEN services also tend to rely more heavily on teaching support staff. Increases in staffing costs are not yet confirmed. The DfE have requested the School Teacher's Review Body (STRB) announce their recommendations on the Teachers Pay award earlier and no later than 28th February to support schools with planning. Salaries of support staff are set either locally by the schools or in line with the Kent Pay Scheme. Therefore, the Council's decision on pay award will significantly impact school budgets which in turn will also be informed by changes in National Living Wage and Foundation Living Wage as most teaching support staff are grade KSD or below.

2.10 Where increases in payment rates are not sufficient to meet inflationary costs, schools will be expected to make efficiencies to compensate either in the short term, through the possible use of reserves or other short measures such as holding of vacancies, or implementation of longer term savings across both/either staffing and non-staffing budgets. Where general efficiencies cannot be achieved this may result in changes to the wider school offer. For some mainstream and early years providers, this will come on top of providers having to reduce costs to offset reduced funding from declining pupil numbers.

2.11 Where schools do not make the necessary efficiencies to fund cost increases and have insufficient reserves, education providers will fall into deficit and will need to take remedial action. For schools who are part of an academy trust or free school (and early years & post 16 providers) this will need to be managed by themselves. For maintained schools, who form part of this Council, this poses an additional risk to the local authority, who will need to provide additional support to schools (through the Education People) to set a future balanced budget. Failure to do so could result in the Local Authority removing delegation from the school. Whilst the potential impact is different for academy vs-local authority-maintained schools, the Council is required to treat schools the same, regardless of their designation.

2.12 Increasing the SEN payment rates for state-funded schools, early years and post 16 providers, also influences the approach to be taken with other commissioned SEN services such as independent schools. No standard inflationary increase is applied to independent schools, a standard price increase process is undertaken by commissioning & procurement, with individual negotiations where necessary. Increases in state-funded special school payments rates does influence these discussions. However, the potential impact of withholding prices increases could have a more immediate effect for children in these placements, than the state funded sector, where independent schools could more easily refuse or, argue that their business will become financially unsustainably, and so forcing the local authority to seek alternative placements.

2.13 Options being considered include:

- Do Nothing: SEN payment rates from 2025-26 remain unchanged for 2026-27
- Applying an uplift to SEN payment rates, up to 2%, in line with mainstream school budgets, adding to the pressure on the High Needs Block and increasing the deficit. A 1% increase equates approximately to £3 million cost to the High Needs Block.
- Apply a variable approach to different payment types to reflect their financial circumstances and ability to deliver efficiencies (including use of reserves). This is expected to reduce the impact on the High Needs Block and utilise other funding sources.
- Delay the decision to apply an uplift to the SEN payment rates until further information is published by the DfE on future funding arrangements.

2.14 The Schools Funding Forum (a statutory body to support school funding decisions made up by school leaders across Kent) were made aware of the position on the 9th January, who conveyed their disappointment that the Government had not been clearer on their intentions or recognised general inflationary pressures in the grant allocations for 2026-27. They recognised the reality that you cannot spend money you do not have, and the challenges of being even handed with the maintained vs independent schools. Although they felt strongly, independent schools should not receive beneficial treatment at the expense of maintained schools' provision and the sector should also be expected to seek efficiencies. They had agreed to communicate their dissatisfaction directly with Central Government.

3. Financial Implications

3.1 Total revenue spending on impacted SEN services is set out in table 1 along with the estimated cost of 2% uplift.

3.2 This spending is expected to be funded from the High Needs Block of the DSG which is a specific ring-fenced education grant from the DfE. Any general rate increases for SEN payments would be expected to be fully met from the DSG and would not be a direct cost to the General Fund. However, whilst the intention is for recommended increases to be met from grant funding, it should be noted, in relation to High Needs, the Council has agreed to fund £82m from General Fund towards the accumulated High Needs deficit (estimated to be £222m by 2027-28) arising from the total spend on SEN services exceeding the annual Grant received from the DfE for High Needs services since before 2018-19.

3.3 The High Needs Block is significantly overspent (in-year overspend equates to 20% of the annual grant allocation) and therefore, it should be expected any additional costs to be funded from the grant will need to be matched by either the equivalent savings or confirmation of additional resources to offset these costs. The Council is already undertaking actions which is expected to bring down the in-year deficit in future years, through wider SEN transformation activities, any extra costs will add to the length of time it will take to achieve a breakeven budget. The Government have yet to provide clarity on the future funding arrangements for SEN and the risks this poses to the Local Authority.

3.4 Ultimately if this Council has to make further contributions to fund the SEN deficit, this will impact the Council’s future financial sustainability, which could trigger the need for further interactions to address that financial resilience.

4. Legal implications

4.1 The Council is required to set the schools budget in accordance with Education Act 2002 and the Conditions of DSG Grant 2026-27. School Budgets must be published by 28th February of each year for the forthcoming financial year.

4.2 High needs funding [“HNF”] is provided to local authorities through the high needs Block of the dedicated schools grant enabling them to meet their statutory duties under the Children and families Act 2014 and the Education Act 1996. Local Authorities must spend that funding in line with the associated dedicated schools grant, conditions of grant and The School and Early Year Finance (England) Regulations.

4.3 The Government published operational guidance for high needs funding 2026 to 2027 on 17th December 2025.This Government Guidance must be followed by Local Authorities for distribution of their HNF Block and work under the SEND

Code of Practice 2015. These guidance documents were used in the development of the current funding models. Links are provided below in the 'Supporting Documents' section. The Code of Practice states that: "Schools are not expected to meet the full costs of more expensive special educational provision from their core funding […] the responsible local authority, usually the authority where the child or young person lives, should provide additional top-up funding where the cost of the special educational provision required to meet the needs of an individual pupil exceeds the nationally prescribed threshold"

4.4 In addition to the Code of Practice, the DfE has also published operational guidance for the administration of LAs HNF budgets (the "Guidance"). The Guidance states that LAs should plan for HNF budget, gives advice on what can be provided, and information on which costs LAs are not expected to contribute to as part of any HNF allocation.

4.5 Under the Children and Families Act 2014 KCC has a duty to 'to support the child and his or her parent, or the young person, in order to facilitate the development of the child or young person and to help him or her achieve the best possible educational and other outcomes'.

4.6 The Schools Funding Forum generally have a consultative role whose composition, constitution and procedures of schools forums are set out in the Schools Forums (England) Regulations 2012 (S.I. 2012/2261) (as amended).

5. Equalities implications

5.1 This will be completed as part of determining the recommendations.

6. Data Protection Implications

6.1 There are no data protection implications

7. Other corporate implications

7.1 Further corporate implications will be considered as part of determining the final recommendations.

8. Governance

8.1 This report is intended to set out the current circumstances and areas of review that will be considered ahead of a decision by the Cabinet Member as part of the decision, which will have to be taken before the next Cabinet Committee on 17 March 2026.

8.2 As per normal arrangements, the Key Decision will confirm the strategic approvals and finance allocations, with authority delegated to the relevant Senior Officer to take the necessary actions to implement the decision.

9. Conclusions

9.1 The Government is expected to announce measures in the Spring to reform the Special Education Needs (SEN) System that are intended to provide better outcomes for children with Special Educational Needs and financial sustainability. In the meantime, local authorities are still expected to put in place plans to keep the SEN deficits as low as possible.

9.2 The Cabinet Member for Education and Skills will be asked to make a decision, ahead of the next CYPE Cabinet Committee as to whether to apply a standard inflationary increase to SEN payment rates across state-funded schools, and payments to early years and post 16 providers, recognising the possible impact on price negotiations with other commissioned services i.e. independent schools.

9.3 This decision will need to balance the impact of inflationary increases on education providers and adding pressure to the High Needs Block which will increase the Council's SEN deficit. This is in the context of a lack of information on how a future funding system will work, and the recent funding announcement to suspend the current funding formula for the High Needs Grant and effectively freeze the 2026-27 grant allocation at 2025-26 levels.

Recommendation(s):

The Children's, Young People and Education Cabinet Committee is asked to **NOTE** the update and that the Cabinet Member for Education & Skills will make a decision on the future payment rates for SEN services; and **AGREE that** this update report concludes the Cabinet Committee consideration process for the decision.

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10. Background Documents

10.1 Background Key Decisions linked to this report:

- *24/00120 - Special Educational Needs Funding System. Available at:* ***https://democracy.kent.gov.uk:9071/ieDecisionDetails.aspx?ID=2945***

10.2 Safety Valve Agreement. Available at: ***https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1143013/Kent_Safety_Valve_Agreement_2022_2023.pdf***

10.3 Dedicated Schools Grant Terms & Conditions: Available at: ***https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2026-to-2027/dsg-conditions-of-grant-2026-to-2027***

10.4 Department of Education (DfE) High Needs Funding Guidance (latest published 17 December 2025 for 2026-27 financial year). Available at: ***https://www.gov.uk/government/publications/high-needs-funding-arrangements-2026-to-2027/high-needs-funding-2026-to-2027-operational-guide***

10.5 *Children and Families Act 2014, c. 6. Enacted 13 March 2014. Available at:* ***https://www.legislation.gov.uk/ukpga/2014/6/contents***

10.6 *Education Act 1996, c. 56. Enacted 24 July 1996. Consolidated version in force as of 5 April 2025. Available at:* ***https://www.legislation.gov.uk/ukpga/1996/56/contents***

11. Appendices

11.1 None

12. Contact details

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