

**Item 6**

**Recommendations of the Early Years Block Working Group**

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**Brief Summary**

On 25 November 2025, the Early Years Block Working Group considered several reports, including:

1. **Dedicated Schools Grant Monitoring 2025/26 and 2026/27 Forecast**
2. **Early Years Block Funding Arrangements 2026/27**
3. **Clawback Exemption Request 2026/27**
4. **Supply Cover Insurance and Maternity Scheme for Lancashire Schools Arrangements 2026/27**
5. **Any Other Business**

A summary of the information presented, and the Working Group's recommendations are provided in this report.

**Recommendations**

The Forum is asked to:

- a) Note the report from the Early Years Block Working Group held on 25 November 2025
- b) Ratify the Working Group's recommendations.

**Detail**

On 25 November 2025, the Early Years Working Group considered several reports. A summary of the information presented, and the Working Group's recommendations are provided below:

**1. Dedicated Schools Grant Monitoring 2025/26 and 2026/27 Forecast**

Members considered the most recent Dedicated Schools Grant Monitoring report. Following the reporting of the council's DSG deficit of £22.43m at March 2025, monitoring has been provided showing the period 1-7 budget monitoring position of the DSG and longer-term financial forecast.

The DSG is currently forecasting a **£65.29m** overspend at 31 March 2026, with a forecast cumulative DSG deficit total of **£87.72m**. **There are however additional forecast financial implications on DSG due to the SEND recovery plan, with current forecasting showing an anticipated increase in the in year overspend to**



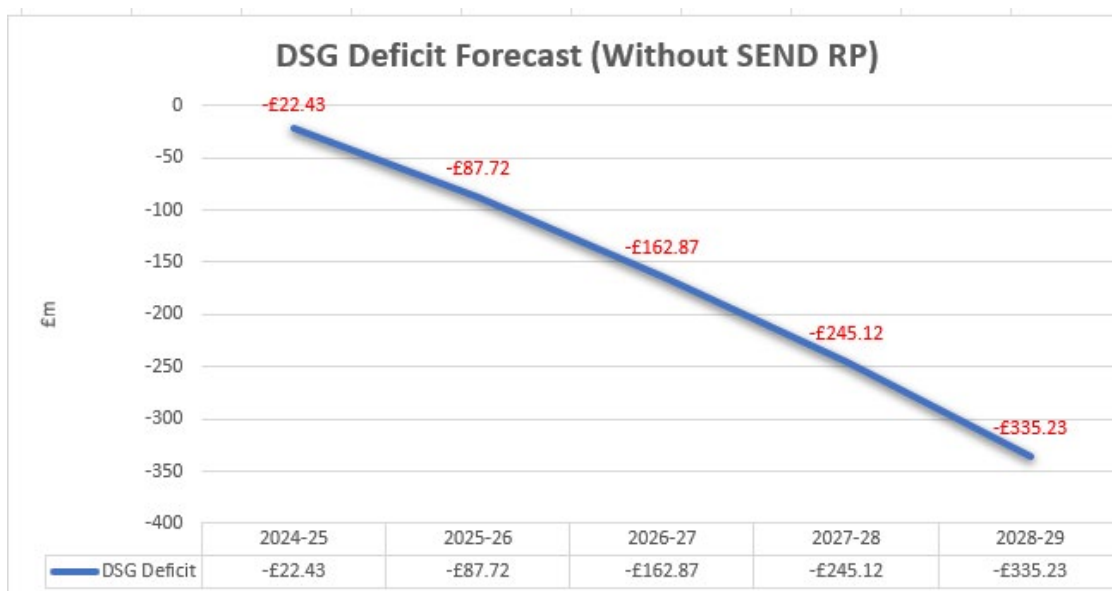
**£119.16m, resulting in a forecast cumulative DSG deficit of £142.44 by March 2026.** Further details are provided later within the report.

There remains significant ongoing financial pressure facing the HNB block as the demand and costs continue to rise as the number of children and young people with EHCPs continues to grow, but the HNB Block funding from DfE has not kept paced and increased in line with this growth. Over the years, this has created financial pressures on a national level resulting in many authorities holding deficit DSG balances.

The remaining DSG funding blocks are forecast to remain near to the agreed budget line. Detailed DSG monitoring was provided to members.

### DSG Period 1-7 Budget Monitoring 2025/26

DSG Monitoring 2025/26 - High Level Summary			
	Budget (£)	Forecast (£)	Variance (£)
High Needs Block	£208,328,762	£272,762,231	£64,433,469
Early Years Block	£202,149,983	£202,151,164	£1,181
Schools Block	£1,051,778,166	£1,052,519,056	£740,890
Central School Services Block (CSSB)	£8,633,102	£8,496,545	-£136,557
Early Years Block DSG Adj 2024/25	£0	£248,456	£248,456
<b>Total</b>	<b>£1,470,890,013</b>	<b>£1,536,177,453</b>	<b>£65,287,439</b>



### SEND Recovery Plan – DSG Impact

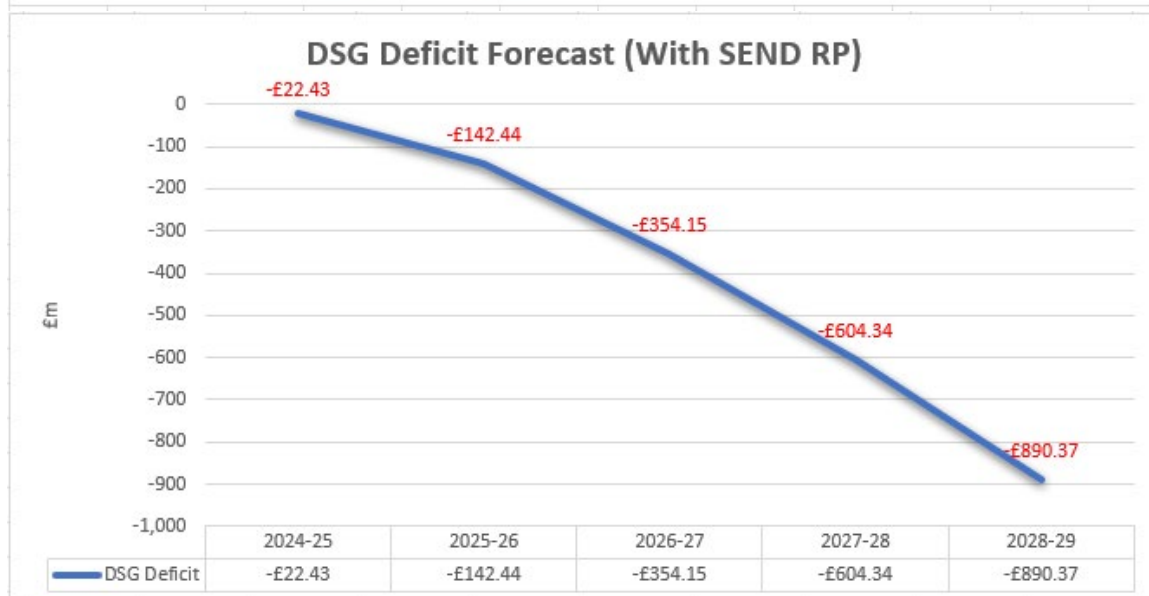
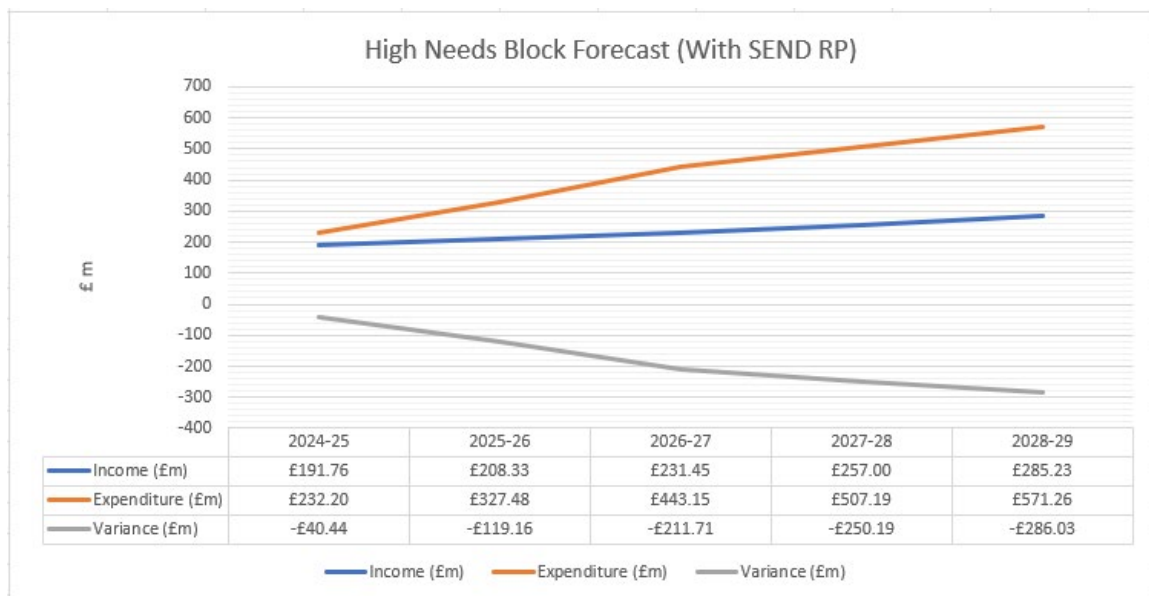
As detailed within the papers of the schools forum working group papers in September/October, whilst the monitoring position shows current DSG spend to date, the impact of clearing the backlog and increasing compliance rate is forecast to further increase the financial pressure on the HNB DSG.



The latest forecasting from October now indicates a further 3,327 (23%) EHCPs are currently projected to be issued By March 2026, resulting in 17,508 EHCPs by the end of March 2026. The number of EHCPs is expected to increase thereafter, with the total number of EHCPs projected to be 23,418 by March 2029. This includes an assumption that 1,000 EHCP's are ceased annually.

Due to Lancashire special schools being at full capacity, the forecast assumes that 48.40% of the additional EHCPs will be placed at independent provision at an average placement cost of £57,000. The remaining 51.60% are assumed to be placed within mainstream schools at an average placement cost of £9,100, however **the financial implications will only be known once all EHCPs are finalised.**

The impact of this is a forecasted in year overspend of **£119.16m within the HNB in 2025/26, and a total DSG deficit of £142.44m by March 2026.**



The impact of the SEND recovery plan is being regularly monitored, and an updated forecast position will be presented at the next working groups

## **Statutory Override**

Currently there is a statutory override in place, which specifically allows councils to exclude deficits related to HNB DSG from their main revenue accounts. This means these deficits do not count against the council's general fund and councils are not required to immediately balance these deficits by reducing budgets to finance the shortfall. The override was introduced in financial year 2019/20 and has recently been extended again, until March 2028 due to the growing scale of SEND-related financial pressure.

Whilst the impact of a DSG deficit on the council's revenue budget is mitigated by the statutory override, the council is still required to finance the deficit as expenditure is being incurred without the cash being received to fund it.

Ordinarily councils are not allowed to borrow for revenue expenditure. Under the Local Government Act 2003 local authorities are however able to borrow for the purpose of prudent management of their financial affairs.

According to the [County Councils Network](#), at March 2025 the debt accrued by councils stood at £4bn. With SEND costs rising 23% over the last twelve months, and with demand showing no sign of abating, these deficits are projected to grow to a total and cumulative deficit of **£17.8bn by 2029**.

The statutory override has been a necessary stopgap, but it is not a solution. The conclusion of the sector is that without decisive reform and sustainable funding, local authorities will face escalating financial pressures that threaten both SEND provision and wider council services.

### **The working group:**

#### **Noted and thanked for the updated report**

##### **Discussion Summary:**

- **It was noted that the expected deficit is greater than budgeted, while also excluding the SEND recovery, mainly due to independent placement charges.**
- **High Needs Block spend has increased from the £0.5M budgeted to a forecasted £3.4M spend because backdated EHCP funding was included.**
- **Sector commitment to backdate 20 weeks was noted; nationally only 50% of EHCPs are on time, but Lancashire performs better as other LAs do not backdate.**
- **Question raised why the additional £3.4M wasn't budgeted originally; officers explained forecasting is difficult due to demand and changes, but improvements are expected from April with updated data and a better model.**



- **Officers confirmed a balanced budget must be submitted, though this is challenging, and forecasts change throughout the year; DSG deficit will remain on the agenda.**
- **Concerns about lack of data and no clear methodology; officers stated systems have improved but are not perfect, with full catch-up expected in around 12 months. No ready solution yet, and other LAs' processes are being reviewed.**
- **Suggestions included using termly census and pupil access planning for EY data; officers noted council borrowing to counter the deficit but lack of funding limits options.**
- **Questions on health sector engagement highlighted minimal involvement; officers said this is a separate conversation but confirmed an early warning system exists for schools, though it's not an application process.**
- **Officers confirmed parents can submit EHCP requests direct to the LA.**

## **2. Early Years Block Funding Arrangements 2026/27**

### **D**

Following the report and modelling presented to the Early Years Block Working Group in June 2025, Lancashire County Council proposed retaining 3% of the Early Years Block centrally for the 2026/27 financial year. A consultation was had and the results were discussed at Forum on 14<sup>th</sup> October 2025.

The forum had voted on a 0% retention and officers decided to consult with the Department for Education (DfE). However, when officers requested DfE to adjudicate, the request was declined. Instead, DfE instructed officers to return to the forum and work collaboratively to reach a decision, considering options such as a 1% retention or other possible increases.

Officers explained that the scope of duties is extensive, making it difficult to administer the current system effectively. The primary reason the local authority is permitted to retain funding is to manage these statutory functions. While this approach has been used previously, current financial deficits mean it cannot be sustained at previous levels. The proposed retention equates to 1% of the grant, and different funding iterations have been drafted, while awaiting confirmation from the government, including considerations of headroom and rates.

There will be no formal consultation on this matter. Instead, the plan is to arrange an extraordinary Early Years Block Working Group meeting via Teams, followed by a full forum meeting a week later to vote on the working group recommendations.

Officers emphasized that the DfE only considers decisions made by the forum, so collaboration is essential to reach a period of relative agreement.



Finally, officers clarified that the additional 2% retention proposed would be allocated to the High Needs Block for children requiring specialist support and general HNB expenditure. However, this allocation will not offset any existing deficit.

**The working group:  
Noted the update.**

**Discussed:**

- **Members of the early years funding team left the meeting at this point as requested by members.**
- **Administering the system is primarily handled by Mel's team (placement).**
- **Question raised: How do wages factor into this? Increases are never in line with the National Living Wage (NLW). Officers noted that NLW increases have a bigger impact on PVI providers, who can only work with the funding received.**
- **Officers explained Lancashire has roughly the same number of staff as Blackpool for the entire county, making funding essential to meet statutory duties.**
- **Staffing costs for all teams total £1.543M, which would be covered by a 1% retention.**
- **Members stated that a 3% retention seemed unmanageable, with one setting estimating a £200,005 loss. A compromise is needed to avoid uncertainty and ensure sustainability.**
- **Some members suggested that reducing the cut to 2% would be easier to manage and translate into fees and budgets.**
- **It was noted that a lower % will still place a reasonable burden on settings, especially those solely reliant on government funding.**
- **Concern raised that an impact assessment has not been completed; settings in lower deprivation areas may be disproportionately affected.**
- **Only 10 weeks remain to setting the budget, which is difficult to communicate, and make decisions in a short timeframe.**
- **Officers provided an example: base rate headroom is 29p; a 1% retention would reduce this by 7p, but an increase would still occur.**
- **Estimated reductions based on the LA's 2025/26 data: under-2s by 11p, age 2 by 8p, and ages 3–4 by 7p.**
- **Papers will include figures for discussion at the Teams meeting.**
- **Members expressed confidence that the retention will not be 3%.**

**Councillors indicated that 2.9% was initially requested, but decisions will be reviewed again**

### **3. Clawback Exemption Request 2025/26**

In July 2025, the Forum considered the School Balances and Clawback Policy for 2025/26 and agreed that clawback should be reintroduced on excessive revenue



balances at March 2026. Historically the guideline balance was set at 12% of Consistent Financial Reporting (CFR) income for all phases of maintained school with a minimum threshold of £75,000, however it was decided that the CFR threshold would be reduced to 8% for 2025/26 school balances.

The 8% will be implemented with immediate effect and will be applied on school balances at 31 March 2026.

The Local Authority has received several clawback exemption requests. The one presented to the early years block working group for consideration is regarding an exemption request for a Nursery School in Lancashire. The Nursery is requesting an exemption request of £22,313 for a project.

The project is to replace several carpets throughout the school building. The school intended to start the work in the Spring term, this was postponed due to potentially relocating as instructed by the LA. The school received confirmation in the Autumn term that the school will not be relocating and now plan to go ahead with the replacement carpets.

#### **The working group:**

- **The group queried why the work would not be completed before year-end. It was noted that there is no certainty it will be carried out as planned. A pre-emptive exemption request has therefore been submitted.**

**The working group recommends the exemption request for approval.**

#### **4. School Teaching and Support Staff Supply Reimbursement Scheme 2026/27**

Each year reports are presented to the Forum about the arrangements for the School Teaching and Support Staff Supply Reimbursement Scheme. This report sets out proposals for the 2026/27 Scheme changes for consideration.

The Supply Insurance Scheme had been underspent by £131,000 for the year 2024/25. The Schools Forum agreed to hold this underspend within the Supply Reimbursement Scheme reserve. The reserves are currently held at circa £1.67m.

The scheme arrangements agreed with the Forum looked to increase premiums in line with increasing the reimbursement rates.

Following the finalisation of the supply scheme arrangements with the Forum in January 2025, individual offers were issued to schools and academies for consideration.

The tables below show the previous year's take-up and the existing take-up.

*2024/25 Take up including academies*



<b>Block</b>	Teaching plus support staff cover	Teaching no support staff cover	Support staff cover only	Total
Early Years Block	12	2	1	15
Schools Block	153	145	4	302
High Needs Block	23	3	1	27
<b>Total</b>	188	150	6	<b>344</b>

#### *2025/26 Take up including academies*

<b>Block</b>	Teaching plus support staff cover	Teaching no support staff cover	Support staff cover only	Total
Early Years Block	12	3	1	16
Schools Block	139	118	4	261
High Needs Block	24	2	0	26
<b>Total</b>	175	123	5	<b>303</b>

In 2025/26, 41 fewer school joined the scheme in comparison to the previous year. For reference, only 1 additional school signed up for the scheme in 2024/25 than were involved in 2023/24.

#### **April 2025 to October 2025 Monitoring**

In 2023/24, the processing of claims moved to within the Schools Finance team, this has allowed us to monitor the scheme more closely. Based on the number of claims submitted from April to October 2025, the 2025/26 scheme is forecasted a c£1.3m underspend at March 2026. Modelling is provided in the table below.

<b>Year</b>	<b>Number of claims submitted April - October</b>	<b>Number of claims submitted April - March</b>	<b>Scheme Outturn Position</b>
2023/24	1378	3342	£37,080
2024/25	1418	3492	£131,791
2025/26	1268	3093 Forecast	-£1,333,211 Forecast

Members should be aware that the scheme outturn for 2025/26 may subject to change if the number of claims is lower or higher than anticipated. Members should be advised that, on average based on scheme patterns, c40% of claims are submitted during April to October, therefore a large influx of claims is expected prior to the year-end deadlines. Therefore, the current modelling may not be a true reflection of the year end position. It is anticipated that the scheme will end the financial year with an underspend, based on the patterns from previous scheme years.

As per usual practice, the scheme outturn for this financial year will be presented to the working groups during the summer term meetings.



The 2025/26 Service Level Agreement can be found in Appendix A for reference.

## **Scheme Proposals 2026/27**

### *Scheme Operation*

The operation of the scheme has been flexible in recent years. It is proposed that the existing scheme rules operating in 2025/26 should remain in place for 2026/27.

### *Scheme Premiums*

A 4% increase had been awarded for teaching staff from September 2025, for support staff an increase of 3.2% had been awarded from April 2025. It is usual practice to increase teaching and support staff premiums annually so that reimbursement rates can also increase in line with pay rises for the different categories of staff. Due to the level of reserves held, it is proposed that charges remain at the 2025/26 levels.

### *Reimbursement rates*

It is usual practice to increase the reimbursement rates to reflect the increase in scheme premiums and the current financial modelling of the scheme. Therefore, it is proposed to increase the scheme reimbursement rates simply by 4% for both teaching and support staff.

### *Option for Consideration*

- For the charges to be held at the 2025/26 level and increase the reimbursement rates by 4% to recognise the level of reserves held.

## **Service Offer to Schools**

Once scheme arrangements and charging/reimbursement rates are finalised by the Forum in January 2026, a formal individualised 2026/27 scheme offer will be issued to all schools and academies.

### **The working group:**

**Noted the report**

**Recommended the option for approval.**

## **5. Any Other Business**

**A verbal update was provided from Mel on operational changes to inclusion funding processes and system improvements.**

- **The new automated system linked to Requests for Inclusion (RFI) aims to streamline approvals and improve monitoring. Technical issues caused a temporary pause, but the system is now live and functioning.**

**Members raised other questions, discussion summary below.**

### **Inclusion Fund Payments:**

- **Payment Timeframes: There is no statutory deadline for processing Inclusion Fund or EHCP payments. However, the local authority aims to process approved requests within 3–4 weeks.**
- **Dedicated Contact: Funding queries (e.g., “Has our Inclusion Funding been authorised?” or “When can we expect payment?”)**



should be directed to the Inclusion mailbox, not individual staff, to ensure timely responses and avoid delays.

- **Impact of New System:** The automated system now applies inclusion funding once an RFI is accepted, reducing manual intervention and improving tracking. While this should speed up payments, recent technical issues required a short pause to resolve errors before relaunch.

#### **EHCP Top-Up & Portage:**

- **30-Hour Provision:** EHCP top-up funding applies to children eligible for extended hours (30 hours). However, inclusion funding is not routinely backdated once an EHCP is agreed, which may affect settings' expectations.
- **Portage Transition:** Inclusion funding will continue during Portage referral and transition periods. Funding will not stop when a child moves into Portage support, ensuring continuity for settings and families.

#### **School Commissioned Reimbursement Scheme:**

- **Educational Psychologist Commissioning:** The reimbursement scheme for schools commissioning external educational psychologists has been discontinued.
- **Reason:** The local authority has rebuilt internal educational psychology capacity, reducing reliance on external providers.
- **Impact on Early Years:** The change applies across sectors, including early years. While internal capacity has improved, members noted that delays in accessing educational psychology support remain a concern.

