

CABINET – 17 MARCH 2026

Update on High Needs Dedicated Schools Grant (DSG) Funding and Deficits

Report by the Deputy Chief Executive (S151 Officer)

RECOMMENDATIONS

1. Cabinet is RECOMMENDED to:

- a) Note the update on the treatment of High Needs DSG Deficits up to 31 March 2026 set out in the Final Local Government Finance Settlement for 2026/27.
- b) Note the changes to High Needs Dedicated Schools Grant (DSG) funding and approve the mid and worst case forecast deficits for 2026/27 (paragraph 21 and Table 1).
- c) Note the funding that is planned to be available to meet the residual element that the council will need to fund following the end of the statutory override.

Executive Summary

- 2. This report explains the arrangements for funding High Needs Dedicated Schools Grant deficits up to the end of 2025/26 as set out by the Government as part of the Final Local Government Finance Settlement for 2026/27.
- 3. It provides an update on the estimated share of the 2025/26 deficit that will need to be funded by Oxfordshire County Council, or relevant council(s), subject to Local Government Reform, when the statutory over-ride ends on 1 April 2028. While the government has not provided information about funding beyond 2025/26 at this time, the report sets out scenarios showing the estimated share of forecast deficits for 2026/27 and 2027/28 that may need to be funded locally and how those compare to existing planned funding.
- 4. The report also sets out a range of forecast deficits that will be used as the basis for monitoring in the Business Management & Monitoring Reports in 2026/27.

Background

- 5. In line with the CIPFA Code of Practice, and the statutory over-ride, which is in place until 31 March 2028, deficits on High Needs on Dedicated Schools Grant (DSG) have been held in an unusable reserve since 2020/21. The forecast deficit of £74.0m in 2025/26 will increase the total accumulated negative balance for High Needs held in this reserve to £166.4m at 31 March 2026.

6. Currently the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, formalise the accounting treatment of the High Needs deficit into an unusable reserve, and explicitly state that 'Local authorities must not charge DSG deficits to a revenue account'.
7. Cash balances for the year are forecast to be lower than they otherwise would be because of negative Dedicated Schools Grant (DSG) balances relating to High Needs. Because this expenditure is currently unfunded it is suppressing the amount of cash balances held by the council. This will have an estimated opportunity cost of £6.66m in unearned interest during 2025/26.
8. The consultation response to the Provisional Settlement sets out that the Government recognises that the current SEND system is not working for children or families, nor is it working for local authorities who continue to face significant financial pressures. The Schools White Paper "Every Child Achieving" published on 23 February 2026 outlines the government's vision for reforming the special educational needs and disabilities (SEND) system. The consultation is open until 18 May 2026.

Approach to Funding Deficits up to 31 March 2026

9. As part of the Final Local Government Finance Settlement for 2026/27, published on 9 February 2026, the Government set out that they will: ¹

"resolve 90% of local authorities' DSG High Needs deficits accrued to the end of 2025/26".
10. All local authorities with a SEND deficit will be eligible to receive grant funding subject to submitting and securing the Department for Education's (DfE) approval of a **local SEND reform plan**.
11. Phase one of the support will address historic deficits up to the end of 2025/26. In 2026/27 all local authorities with a SEND Deficit will be eligible to receive a High Needs Stability Grant (HNSG) covering 90% of their DSG deficit accrued up until March 2026.
12. Grant allocations will be paid by DfE as a Section 31 grant from autumn 2026. Exact payment timings will depend on local authorities meeting local SEND reform plans conditions, but subject to meeting conditions, all payments will be made in the 2026/27 financial year. The remaining 10% will need to be met by the council.
13. To determine the allocation of the High Needs Stability Grant (HNSG) that an individual local authority will receive, DfE and MHCLG will look at the full range of sources available on local authority expenditure to determine the total Dedicated Schools Grant deficit that is eligible for a grant.

¹ [Explanatory note on the government's approach Dedicated Schools Grant deficits - GOV.UK](#)

14. This will include comparing data that the council has submitted in the Section 251 return to the DfE that sets out spending on education and young people's services², draft and published Dedicated Schools Grant notes, DSG S151 assurance sign off, Revenue Outturn data and published accounts. Where these accounts differ, DfE will engage with local authorities directly to determine the reasoning, but if a satisfactory explanation is not provided the lowest total DSG deficit figure will be used to calculate the allocation.
15. The HNSG must be used to "extinguish" DSG deficits. Payments will only be paid once the local authority has developed, submitted and agreed a local SEND reform plan with the DfE. These plans are expected to be developed collaboratively with schools, health, early years settings and post-16 providers. Local authorities will be expected to set out a clear pathway towards an inclusive system in line with the wider vision for SEND reform. The Department for Education will commission local area partnerships to develop these plans. Timeframes for this work are yet to be communicated.
16. Best practice from previous programmes— including Safety Valve and Delivering Better Value— will be shared to support local authorities to develop local plans. Additionally, the government will provide each local area with advisers to help ensure that spending is effective, efficient, and focused on improving outcomes for children and young people.
17. Where the Statutory Override prevents immediate application of the grant to the DSG deficit, the authority will need to:
 - hold the grant in an appropriate reserve; and
 - apply the grant only to reduce the DSG deficit recognised as at 31 March 2026 when the Statutory Override ceases to have effect.
18. Assuming the HNSG funding was received in autumn 2026 it is estimated that interest on cash balances would be £1.5m - £3.0m higher in 2026/27 depending on the interest rate on Treasury Management activities achievable at that time.

Government Approach to Funding Deficits After 31 March 2026

19. There are currently no further details provided on the second or third phases of the scheme to deal with deficits which accumulate in 2026/27 and 2027/28, other than to say that the Government will confirm the detail on further support before the end of the statutory override in March 2028.
20. From 2028/29, SEND spending will be covered by the overall government DEL budget, meaning local authorities will not be expected to fund future SEND costs from general funds, once the Statutory Override ends at the end of

² Local authorities are required, under [section 251 of the Apprenticeships, Skills, Children and Learning Act 2009](#), to prepare and submit an education and children and young people's services budget statement to the Secretary of State for Education.

2027/28. At this stage there is no information about how this will operate in practice.

Dedicated Schools Grant and High Needs Forecast

21. On 17 December 2025, the Department for Education (DfE) confirmed the 2026/27 High Needs Block Dedicated Schools Grant (DSG) allocation for Oxfordshire will be £125.5m before recoupment and £102.0m after recoupment.
22. Expenditure on High Needs DSG funded services has been higher than the available funding since 2020/21 with deficits continuing to grow mainly because of multiple years of demand growth rates higher than available funding rates.
23. During 2025/26 exponential growth in the number of EHCPs, and their cost, in comparison to the grant funding allocated by Government, means the forecast deficit has continued to grow despite action taken through the Deficit Management Plan agreed with the Department for Education (DfE).
24. The material mitigations within the Deficit Management Plan are mainly in relation to statutory sufficiency duties, with planned new special schools and expansion of places scheduled 2026/27 to 2029/30 and new Special Educational Needs (SEN) Units/ Resource Bases. Other mitigations include ensuring equity of funding based on pupils needs and reviewing general efficiencies through service reviews.
25. The forecast as at the end of January 2026 is for a deficit of £74.0m in 2025/26. This would increase the cumulative negative High Needs DSG balance held in reserves to £166.4m at 31 March 2026.
26. Continued increases in demand and inflationary pressures are proving to be considerably more significant than achievable reductions in expenditure which can be achieved through efficiencies and demand management. There is a significant risk that deficits will continue to increase in 2026/27. Table 1 sets out estimated mid and worst case forecast deficits for 2026/27 and 2027/28 and the cumulative deficit at the end of each year for each of those scenarios.

Table 1: Estimated mid and worst Case forecast High Needs DSG in year and cumulative deficits

	2026/27 £m	2027/28 £m
Mid case forecast in year deficit	83.7	106.0
Worst case forecast in year deficit	96.1	142.7
Mid case cumulative deficit	250.2	356.2
Worst case cumulative deficit	262.5	405.2

27. Cabinet are recommended to approve the mid and worst case in year deficits as the basis for monitoring in 2026/27.

Planned Funding for the Residual 10% Element for Phase 1 and Potential Scenarios for Phase 2 and 3

28. The Provisional Local Government Finance Settlement for 2026/27 set out an expectation that local authorities would be required to meet in part some of the historic deficit. On that basis the 2026/27 budget includes an increase in the contribution to the High Needs DSG Deficit Risk Reserve from £4m in 2025/26 to £8m per annum from 2026/27 onwards. Based on these budgeted contributions there would be £41.0m available in the reserve by 31 March 2028.
29. The £25.0m funding that will be held in the reserve as at 31 March 2026 will be sufficient to meet the estimated £16.6m residual element of the Phase 1 deficit up to 31 March 2026. A further £8.0m will be added to the reserve in each of 2026/27 and 2027/28 based on the budget and Medium Term Financial Strategy agreed in February 2026. This will increase the estimated total planned funding for Phase 2 and 3 to £24.4m by 31 March 2028.
30. Table 2, on the next page, combines different assumptions for indicative levels of grant funding with the mid and worst case deficits in Table 1 and compares the residual element that might need to be funded to the estimated planned funding.
31. If the council needed to fund 10% of the deficit in both of those years the current planned funding of £24.4m would be sufficient to meet the mid case (£19.0m) or worst case (£23.9m) residual element. The indicative amount that the council would need to fund assuming a higher residual element in both years is likely to be higher than the existing planned funding. The impact of a requirement to fund 20%, say, is also shown in the table for illustrative purposes.

Table 2: Phase 2 and 3: Indicative Residual Amounts Requiring Funding

	2026/27	2027/28	Total	Variation to Planned Funding
	£m	£m	£m	£m
Mid case forecast in year deficit	83.7	106.0	189.7	
Worst case forecast in year deficit	96.1	142.7	238.8	
Mid case forecast assuming 10% needs to be funded by the council			19.0	-5.4
Worst case forecast assuming 10% needs to be funded by the council			23.9	-0.5
Mid case forecast assuming 20% needs to be funded by the council			38.0	13.6
Worst case forecast assuming 20% needs to be funded by the council			47.8	23.4

32. The level of funding planned to be held in the reserve by 31 March 2028 to meet the residual share will need to be considered through the Budget & Business Planning process for 2027/28, taking account of the actual level of expenditure in 2026/27.

Equality and Inclusion Implications

33. The Equality Act 2010 imposes a duty on local authorities that, when making decisions of a strategic nature, decision makers must exercise 'due regard to the need to eliminate unlawful discrimination... advance equality of opportunity... and foster good relations.'
34. The Equality Act 2010 requires the Council, when making strategic financial decisions, to give due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations. High Needs Dedicated Schools Grant (DSG) funding is directed towards children and young people with special educational needs and disabilities (SEND), for whom disability is a protected characteristic. The financial position outlined in this report therefore has inherent equality relevance.
35. This report does not propose specific changes to services or provision; however, the scale of the High Needs deficit and the requirement for future actions to secure sustainability create a context where decisions may indirectly affect disabled children, young people, and their families. Any future proposals arising from deficit management, SEND reform planning, or changes to provision must be subject to robust Equality Impact Assessments (EIAs), including consideration of cumulative impacts and intersectional vulnerabilities.

36. The Government's requirement for a local SEND reform plan offers opportunities to improve inclusion and outcomes, but financial constraints may also limit flexibility and pose risks to equitable access if not carefully managed. Monitoring of impacts on protected groups will therefore need to be ongoing, with mitigating actions embedded in programme design and implementation.
37. At this stage, noting the updated funding arrangements and associated financial risks does not in itself create direct equality impacts. However, the context set out in this report reinforces the importance of maintaining strong governance around EIAs for any subsequent decisions affecting SEND services, resource allocation, or provision.

Sustainability Implications

38. The Climate Action Framework sets the council's commitment to tackling the climate emergency which is underpinned by the Council's priority to put action to address the climate emergency at the heart of our work.
39. This report does not impact on climate sustainability.

Staff Implications

40. There are no staffing implications arising from this report.

Financial Implications

41. While the announcement about the arrangements for funding the existing deficit means there is more clarity about the impact on the council, there is now a requirement to fund the residual element of the deficit.
42. Funding of £41m in the High Needs DSG Risk Reserve is expected to be available for this purpose by 31 March 2028. Approximately £17m will be required to be funded by the council for the deficit to 31 March 2026. However, with the overspend escalating and expected to be £70.7m in 2025/26, and potentially higher in future years, further funding may be needed by 31 March 2028 to ensure there is sufficient in the reserve by the time the statutory override ends and/or to fund investments needed to help support future service provision.

Comments checked by:

Kathy Wilcox, Head of Corporate Finance

Legal Implications

43. There are no legal implications arising directly from the report. However, the Cabinet is requested to note various aspects of the report in the context that

High needs funding is provided to the council through the high needs block of the dedicated schools grant (DSG), enabling it to meet its statutory duties under the Children and Families Act 2014 and the Education Act 1996. The Council must spend that funding in line with the associated DSG: conditions of grant and The School and Early Years Finance (England) Regulations 2026. The Department for Education updated the High needs funding: 2026 to 2027 operational guide on 11 February 2026.

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