

# **Title of report: Dedicated Schools Grant Deficit Management Plan**

**Meeting: Scrutiny Management Board**

**Meeting date: 6 July 2026**

**Report by: Director of Education, Skills and Learning**

## **Classification**

Open

## **Report Purpose**

To provide Scrutiny Management Board with an overview of Herefordshire Council's Dedicated Schools Grant (DSG) deficit position, progress against the Deficit Management Plan, and alignment with the Local SEND Reform Plan (March 2026).

## **Background**

1. The council continues to manage a significant DSG deficit, driven primarily by sustained demand and cost pressures within the High Needs Block.
2. A structured Deficit Management Plan (DMP) is in place, supported by a detailed actions tracker and governance through programme oversight.
3. The Local SEND Reform Plan (March 2026) forms a critical pillar of recovery, focusing on system-wide transformation rather than short-term cost containment.
4. While progress is being made in improving inclusion, strengthening early intervention, and increasing local provision, financial recovery remains medium to long term.
5. Delivery risks remain significant, particularly around: rising EHCP demand, placement sufficiency, and national funding uncertainty.

## **Meeting objectives**

6. That Scrutiny Management Board receives the update on the Deficit Management Plan, its alignment with the Local SEND Reform Plan and make recommendations or suggested actions in connection with this report.

## Context

7. The growth of children with SEND sees no signs of slowing. The increase since 2023 is 58.7%. the growth in the last 12 months was 18.7%. For context, within Herefordshire at January 2026, 5.7% of the total school population had an Education, Health and Care (EHC) plan. This is an increase of 0.8% over the last 12 months, but is in line with the national average indicating that Herefordshire continues to maintain appropriate thresholds.
8. Of the children with an EHC Plan, 1254 (61.5%) are educated in a mainstream school, nursery or college, 324 (15.9%) are educated in a local authority special school (maintained or academy) and 332 (16.3%) are educated other than at school, awaiting a school or attending an independent school.

## Current DSG Deficit Position

9. The DSG deficit reflects structural imbalance between funding and demand: The primary cost pressures include growth in Education, Health and Care Plans (EHCPs); increased complexity of need; and high reliance on independent and out-of-county placements.
10. The deficit continues to accumulate annually, despite mitigation actions, indicating that cost containment alone is insufficient.
11. In advance of SEND reform, the Government introduced the Safety Valve scheme in 2020/21 giving targeted additional funding alongside stringent action plans and targets for those councils with the highest deficits. 38 councils were included in the Safety Valve scheme until it finished in 2023/24; Herefordshire Council was not part of the programme. Those councils who did attract funding under this scheme now find themselves in a deficit position again, suggesting that the overspend issues are not down to inefficiencies or leadership issues in individual local authorities but to more fundamental system-wide issues.

## Cumulative DSG Deficit and the High Needs Stability Grant

12. The cumulative forecast deficit on the High Needs Block at the end of 2025/26 is currently £36.3 million, which is analysed as follows:

| <b>DSG Deficit</b>                    | <b>2022/23<br/>£m</b> | <b>2023/24<br/>£m</b> | <b>2024/25<br/>£m</b> | <b>2025/26<br/>£m</b> |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Outturn                               | 1.1                   | 5.0                   | 13.8                  | 16.4                  |
| <b>Cumulative DSG Deficit Balance</b> | <b>1.1</b>            | <b>6.1</b>            | <b>19.9</b>           | <b>36.3</b>           |

13. The cumulative DSG deficit is accounted for as an unusable reserve on the Council's balance sheet, as permitted via statutory instrument, which will remain in place until 31 March 2028. This enables all local authorities to ring-fence the DSG deficit from the overall financial position in the statutory accounts.
14. The DfE announced on 23 February 2026 that local authorities would receive funding via a new High Needs Stability Grant (HNSG) to offset 90% of its historic DSG deficits up to and including the 31 March 2026. This would equate to £32.7 million based on the Q4 outturn position. Councils will then have to fund the remaining 10% from its Earmarked Reserves, which would equate to £3.6m.

15. However, allocations of the High Needs Stability Grant will only be paid once a local authority has developed and submitted to the DfE a Local SEND reform plan which is then approved as meeting the required criteria. Herefordshire Council submitted its SEND reform plan on 19 June 2026 in line with the deadline and await final feedback from the DfE. If the plan meets the DfE requirements on first assessment, HNSG funding is expected to be paid sometime during autumn 2026.

### **Funding Implications**

16. The issue of growing High Needs demand can be traced back to 2014, when reforms increased the amount of support available to children and young people with SEND – something that was widely acknowledged as needed. The 2011 green paper that kicked off the reforms describes “a system where parents feel they have to battle for the support they need, where they are passed from pillar to post, and where bureaucracy and frustration face them at every step”. But variable levels of inclusivity in mainstream schools nationally and limited capacity in state special schools meant the state school system could not absorb all the rapidly increasing demand. This has led to widespread use of independent provision – funded by local authorities, at a cost far greater than that of a place in a state school. In Herefordshire our local special schools are at capacity, and we have 332 children in independent provision, 261 of which could be educated in our special schools if there was available space.
17. Whilst there is uncertainty of future funding levels, significant pressures on expenditure within the High Needs Block remain, of which the key factor is increased demand and complexity of need in Special Educational Needs and Disabilities (SEND), as well as a combination of complex factors which include: a low inflationary increase to mainstream school funding; a range of factors putting pressure on school budgets; and historic underfunding of the High Needs block. These factors along with a lack of sufficient appropriate state funded places are driving a higher use of more expensive Independent Non-Maintained School (INMS) provision.

### **The Deficit Management Plan**

18. The following sections outline the actions being taken within existing resources, the actions requiring additional resource to implement, and the areas where further policy decisions will be needed.
19. The key actions in this Management Plan are grouped into four workstreams:
  - a. Intervention First
  - b. Managing demand
  - c. Increasing the sufficiency of local places
  - d. Financial management adjustments
20. These workstreams are also replicated in the SEND Action Plan and SEND Reform Plan and reported into broader governance via the SEND Action Plan’s leadership workstream. Regular updates are presented to Budget Working Group and Schools Forum.
21. The delivery of the Capital Programme including the development of a stronger and more extensive alternative provision in Herefordshire will be fundamental in managing costs moving forward. Service sufficiency planning will also play a key role in supporting the development of inclusion bases in secondary schools (SEND reform) and specialist places including the development of additional special school capacity.
22. A SWAP audit completed in 2025/26 identified that good governance in place around the spending of the DSG for those children that have high needs. Sample testing confirmed that

there are robust processes in place regarding the placement of children with high needs. The Council is facing challenges due to the increase in demand; however, the audit has demonstrated the Council is active in addressing these issues. Examples of this include:

- a. Opening resource base provisioning to reflect the trends and challenges,
- b. Use of the high needs capital grant strategically to create additional spaces (65 extra spaces in the last 18 months) which is all bringing down the high needs spend.

### **Consultees**

23. None

### **Appendices**

24. Appendix A - The Deficit Management Plan

### **Background papers and resources**

25. 'None identified