



Lessons from Auditors' Annual Reports on Managing Dedicated Schools Grant Deficits

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Executive summary

Grant Thornton's Auditors' Annual Reports (AARs) for 2024/25 show a sharp and worsening decline in the financial sustainability of councils' Dedicated Schools Grant (DSG) deficits. For some councils, demand for, and complexity of, Special Educational Needs and Disabilities (SEND) has been increasing for a decade, with cumulative DSG deficits now approaching—or even equal to—their usable reserves.

Although the government announced in February 2026 that it will cover up to 90% of historic SEND deficits accrued by 31 March 2026 through a new High Needs Stability Grant, councils will still need to fund at least 10% of the accrued deficits as at that date themselves; and bear responsibility for at least some of any further deficits incurred before statutory override ends on 31 March 2028. This makes strong management planning essential.

2024/25 saw Grant Thornton's first ever statutory recommendation raised in relation to DSG deficits. For most councils, DSG deficits increased in 2024/25, even when the councils were participating in government support programmes. Our AARs identified examples of councils working imaginatively to try to contain their growing deficits – for example using educational psychologists and new capital programmes. However, we also identified examples of underlying weaknesses in management planning and oversight; and a real difficulty in influencing any reduction in the demand for SEND. Many councils also face weaknesses in the quality, efficiency, and commissioning of SEND provision, compounding overspends. Looking outside the classroom, they have also seen spending on assessments and transport to school double in real terms since 2019/20.

Councils need to urgently strengthen planning, governance, and financial control to minimise residual DSG deficits by 2028.

The government's announcement in February 2026 did undoubtedly point to easing of pressure on councils; and the Education for All Bill in May 2026 points to wider planned reform within the system. However, the transition of financial responsibility to central government will take years, and councils need to remain mindful of the pressures they still face while we wait for the current national approach to change.

This report explains the background to DSG deficits, for those new to local government; offers insights from AARs for 2024/25; and provides five top questions for gaining assurance that your council is doing everything it realistically can while we wait for national changes.



02

Introduction

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The situation now

Grant Thornton audited 62 councils with SEND responsibility in 2024/25. Thirty-three of these (just over half) received a statutory or key recommendation in relation to the financial sustainability of DSG deficits, compared to 15 for 2023/24. Of those receiving recommendations about the financial sustainability of deficits, one third also received recommendations in respect of the economy, efficiency and effectiveness of the SEND service which was being financed by the deficits.

On 9 February 2026, the government pledged to cover up to 90% of historic SEND deficits accrued up to the end of 2025/26. The government estimated that the deficits in question would be worth more than £5 billion by that time.

All councils with a SEND deficit will be eligible for a High Needs Stability Grant in 2026/27, providing they have a local SEND reform plan approved by the Department for Education (DFE).

Responsibility for SEND spending will move fully to the Treasury from 1 April 2028, the day after statutory override arrangements are due to end. The Office for Budget Responsibility estimates that it will cost the Treasury at least £6.3 billion per annum once it takes on responsibility for SEND. Saving on SEND is likely to be high on the government's agenda; and the transfer to Treasury has been described as the "first phase" of the "transition to a reformed SEND system".

The Committee of Public Accounts highlighted on 6 March 2026 that SEND reform could help make significant savings on the cost of taking children and young people to school, as well as changing the way that education is delivered once they get there. The Committee called for more clarity around the government's plan.

There is little detail yet on how the exact value of the High Needs Stability Grant will be decided, but the government is unlikely to offer an open cheque book. Taken together, the overall deficit that councils are left with (for their remaining share of deficits to the end of 2025/26 and for their share of deficits built up in 2026/27 and 2027/28) is still likely to run into hundreds of millions, and there will be no further central government assistance from 2028/29 onwards.





How we arrived here

The Children and Families Act 2014 gave families of children with SEND direct involvement in the educational choices for their children.

Education and Health Care Plans (EHCPs) were introduced under the Act. These are legal documents outlining the children's special needs and requirements, which local authorities are obliged to cater for.

SEND diagnosis increased exponentially in the ten years that followed. The National Audit Office (NAO) estimated in [October 2024](#) that 1.9 million children and young people aged 0 to 25 years had been diagnosed with special educational needs (SEN) by January 2024.

Councils have been spending more than they are granted for SEND year on year, resulting in them incurring high value cumulative DSG deficits.

[The NAO](#) estimated in October 2024 that the cumulative DSG deficit for England would be approaching £5 billion by March 2026. It also reported that outcomes for children and young people with SEND had not actually improved during the period over which the cumulative deficit was built up.

The Government has twice approved statutory override for DSG deficits, initially from 1 April 2020 until 31 March 2026; and then from 1 April 2026 until 31 March 2028.

There are currently two different programmes of Government support that various councils are participating in, although both are now closed to new entrants: The Safety Valve Programme (which provides intensive monitored recovery funding); and the Delivering Better Value Programme (which offers diagnostic support to improve SEND sustainability and efficiency).

Grant Thornton's AARs for 2024/25 show a sharp and worsening decline in the financial sustainability of council's DSG deficits. For some councils, demand for, and complexity of SEND has been increasing for a decade, with cumulative DSG deficits now approaching—or even equal to—their usable reserves.

In February 2026, the [government announced](#) changes to the future funding arrangements for SEND, and published a new [Policy Paper](#) outlining a future revised policy approach towards SEND.

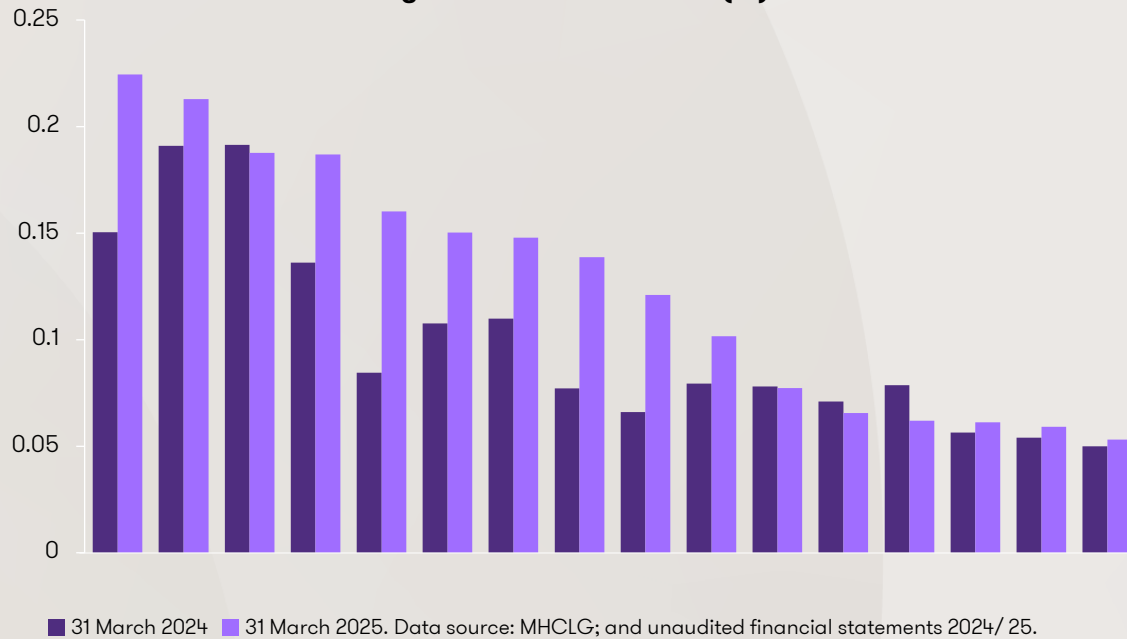




What the 2024/25 financial statements show us

For most of the councils we audited, the DSG deficit was higher as a percentage of core spending power at the end of 2024/25 than it had been at the end of 2023/24. Sometimes this was even when councils were receiving support, either through the Safety Valve Programme or the Delivering Better Value Programme. This indicated a risk of significant weakness in underlying arrangements.

Figure 1: DSG Deficit/ CSP (%)



Increases in DSG deficits during 2024/25 indicated risks of significant weakness in arrangements.

Regional trends were noticeable in 2024/25, with some parts of the country carrying much higher value deficits per capita (for 0 to 25 year olds) than others, and only one part of the country avoiding an overall deficit per capita for 0 to 25 year olds completely.

Figure 2: DSG Deficit per young person (£)



Data source: ONS; and unaudited financial statements 2024/ 25.



Insights

Using data from the DFE, the NAO estimated that in 43% of cases, councils' DSG deficits will exceed or come close to exceeding the total value of reserves by 31 March 2026.

Cashflow issues are becoming common as a result of growing deficits. At one of the unitary councils we audited for 2024/25, the size of the deficit had created a cashflow shortfall that was costing the General Fund an estimated £4 million in foregone interest each year.



What the 2024/25 Auditors' Annual Reports tell us

Where we concluded that significant weakness was present in the arrangements (and not just a risk), it was because of underlying serious issues in the council's approach to the deficit, rather than just because of the size of the deficit itself.

Common reasons in 2024/25 for our concluding that there were significant weaknesses in arrangements for SEND and DSG deficits tended to surround:

- Poor progress with and oversight over management plans;
- Impact of the deficit on cashflow, liquidity, and borrowings;
- Slow progress with capital programmes that were intended to support more cost-effective SEND provision; and
- Weakness in control over the EHCP award process.

We analysed AARs from 2024/25 to identify the best steps that councils can take to make the savings they still need on SEND, while continuing to secure a good service for children and young people. From our analysis, the key areas that councils need to focus on are:

The effectiveness of management planning;

Influencing demand and waiting lists; and

Securing quality.

Our report considers each area in turn.

A checklist for assurance on DSG deficits is shown in Appendix 1 of this report. A detailed explanation on the nature of AAR recommendations is shown in Appendix 2.



03

The effectiveness of management planning

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Effective management planning for deficit reduction is going to be essential between now and March 2028. If councils are going to secure a financially sustainable position after statutory override ends, they need to:

- Agree local SEND reform plans with the DFE to secure High Needs Stability Grant in relation to 2025/26;
- Minimise future deficit increases in 2026/27 and 2027/28; and
- Plan and deliver actions to reduce the deficits they are still left with after that.

Most councils should already be used to preparing plans for SEND. Participation in the Safety Valve Programme and Delivering Better Value Programme required plans to be prepared. Furthermore, the DFE asked councils to start work on their new SEND reform plans just before Christmas 2025.

For 2024/25, in only one case did we find that a council had been asked to prepare a plan but had not done so. In this case, there had been no progress for two years in introducing a management plan. Our report highlighted that the **“consequential lack of grip”** resulted in the DSG deficit doubling in value in the time span of just one year.

However, evidence suggests that the planning carried out by other councils to date has not always been robust. Our work found that having Safety Valve Programme and Delivering Better Value Programme arrangements in place in 2024/25 did not automatically stop DSG deficits increasing, although (as Figure 3 shows), it did slow the pace at which DSG deficits increased for many councils. Overall (as Figure 4 shows), 41% of all DSG related significant weaknesses we identified in 2024/25 were in relation to weak management planning; with a further 9% relating to the capital programme being delayed. In effect, half of the weaknesses had their foundations in planning of one type or another.

Some of the reasons that deficits increased in 2024/25 despite plans being in place surrounded the long-term nature of transformation needed to effect real change in the SEND system. Moving children from one educational setting to another to save money, for example, is something that takes time.

However, even after the long-term nature of plans has been discounted, we did see weaknesses in the planning itself and the way that plans are implemented. Weaknesses in management planning, including poor recovery target setting and poor cashflow and capital planning, accounted for 78% of all significant weaknesses raised in 2024/25.

Figure 3: % increase in DSG deficit during 2024/25 by type of scheme

Data source: Unaudited financial statements 2024/25.

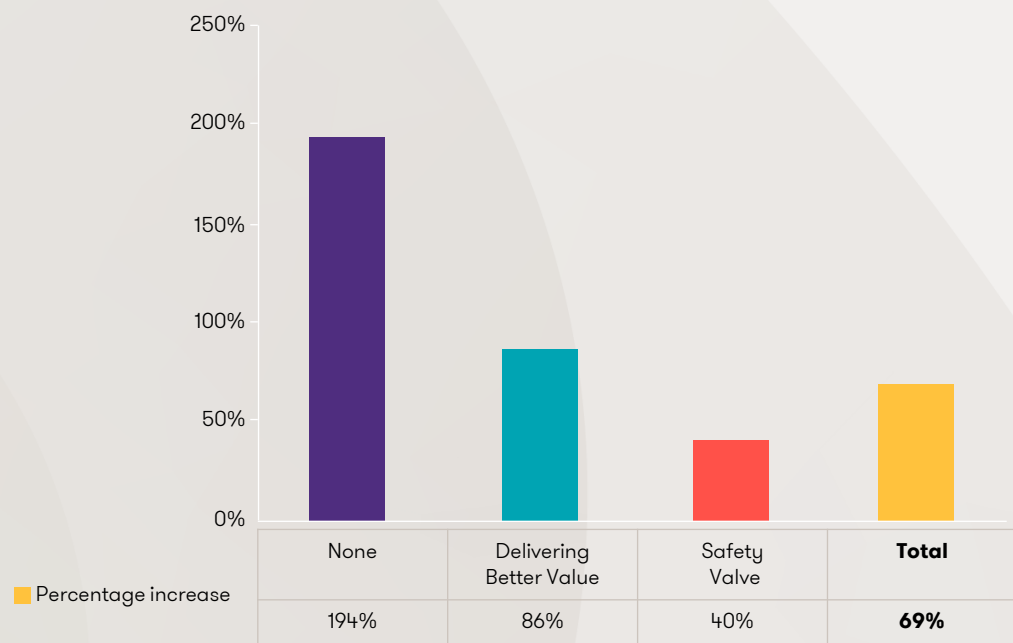
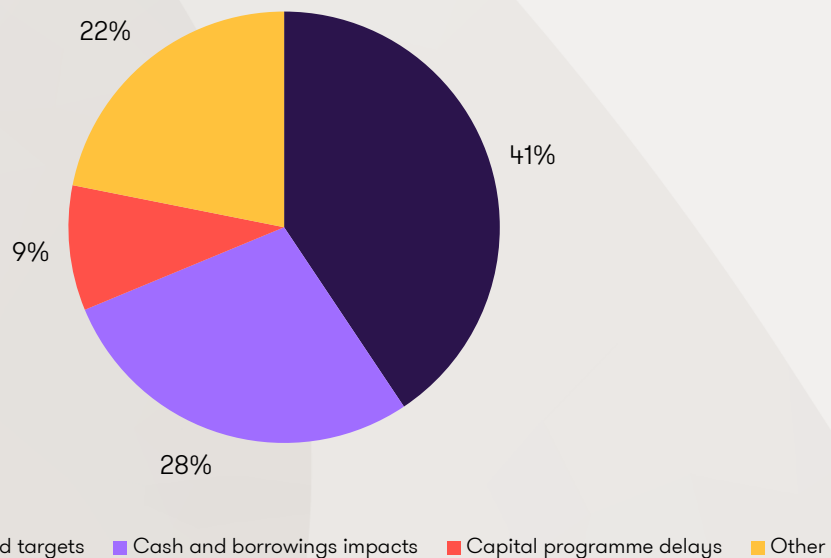




Figure 4: Significant weaknesses, 2024/25

Reasons for DSG deficit related significant weakness in 2024/25

Source: AARs 2024/25



To be effective, management plans need to be based on realistic targets (whether set with DFE or set locally); and underpinned by realistic assumptions.

At one council where Internal Audit were asked to review the management plan in 2024/25, they provided **“No Assurance”** over the plan, on the grounds that it was **“unrealistic and not deliverable”**.

Management plans for the deficit need to be consistent with the council’s medium-term financial planning and Treasury and Capital Programme; and supported by robust governance structures that provide oversight at Cabinet and/ or Scrutiny Committee level. Where there are capital programme plans to build new facilities for SEND, slippage in the programme needs to be monitored just as closely as the council expects to monitor revenue account and treasury indicators for DSG.

Effective planning to reduce the deficit also requires clear communication and co-operation both between the finance team and the education team within the Council and, on a wider level, between the Council itself and the Schools Forum. Our AAR for one London Borough indicated that the DSG deficit rose by 30% in 2024/25 in one year alone. The finance team were short of staff with DSG deficit accounting experience at the time. In addition, the local Schools Forum needed training on DSG deficit accounting. The AAR recommended that the Council provide resources **“to confirm what can and cannot be charged to the DSG deficit, and audit the charges made so far”** [i.e. to clarify what the correct charges were].

“
The Council is currently working on developing a DSG Deficit Management Plan and is updating forecasts of the DSG deficit over the next 10 years. These forecasts still require validation.
[A unitary council in the South-West of England]

“
The correct approach for charging to the budget should be identified and agreed between the finance and education teams; (and) should be made transparent to all.
[A London Borough]



04

Influencing EHCPs - demand and waiting times

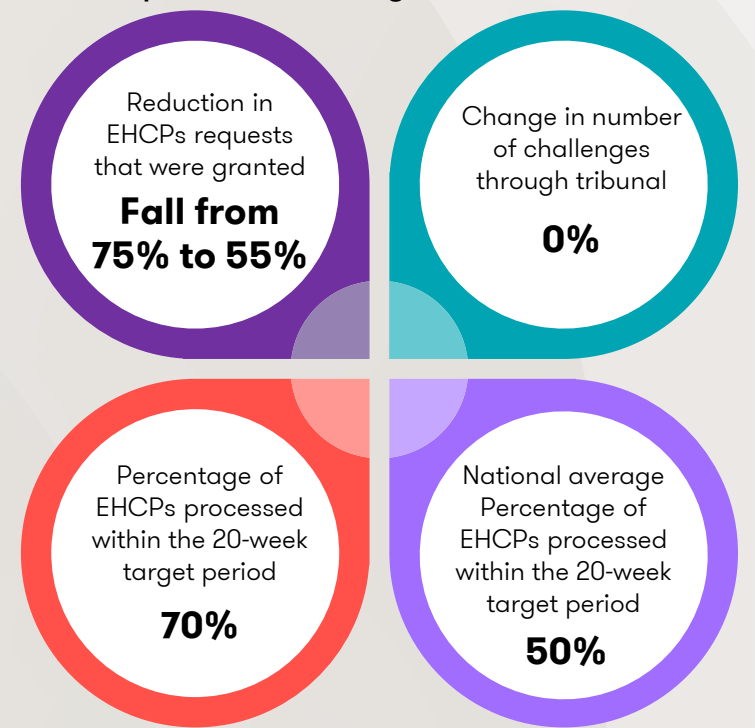
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One in five of the key recommendations we raised in respect of DSG financial sustainability in 2024/25 related either to lost opportunities to reduce EHCP demand or lost opportunities to reduce the time spent waiting for outcome decisions on EHCP applications by children and young people. High demand and long waiting lists are national issues. As parents and carers currently have the right to appeal local authority decisions on EHCPs to an independent tribunal, it will take a long-term shift in cultural expectations and attitudes towards SEND itself and a reduction in the number of initial requests for SEND before any real reduction can be made by most councils to the number of EHCPs requested and issued.

The [Institute for Fiscal Studies](#) reported in January 2026 that **“Historically, the share of pupils with EHCPs or their earlier equivalent hovered just below 3%; today this share is 5.3%”**. Most councils with deficits have been experiencing so many more requests for EHCPs that even where they do work proactively with parents and schools, the overall number of EHCPs goes on rising. At the same time, because the number of requests keeps rising, so too does the backlog in time taken to deal with the requests for many councils.

Notwithstanding that all councils face difficulties in stemming EHCP demand that is to some extent beyond their control, we did still see and report on variations in success rates. We identified one council, for example, that had successfully reduced the percentage of EHCPs it agreed to process from 75% to 55% by using educational psychologists more effectively and by engaging with schools and parents through a large and strong specialist teaching service. The same council had no backlog in EHCPs and was processing around 70% of applications within the 20-week target period (whereas the national average is 50%). This was achieved without an increase in tribunals.

Figure 5: A case study for successful working with Educational Psychologists and Specialist Teaching Services in the Midlands



“The council recognises that it can do more to encourage and support parents that an EHCP is not really required.”
(A county council in the Midlands)

“The council has..... “one of the highest rates of SEND in the country, with 24.5% of pupils with SEND compared to the 19.6% national average”
(A Metropolitan Borough Council in the North-West of England)

“The EHCP performance for approvals reduced to 35% completed on time in March 2025 compared to 38% in March 2024 and compared to 58% nationally, which means families wait longer for certainty”
(A unitary council in the North of England)



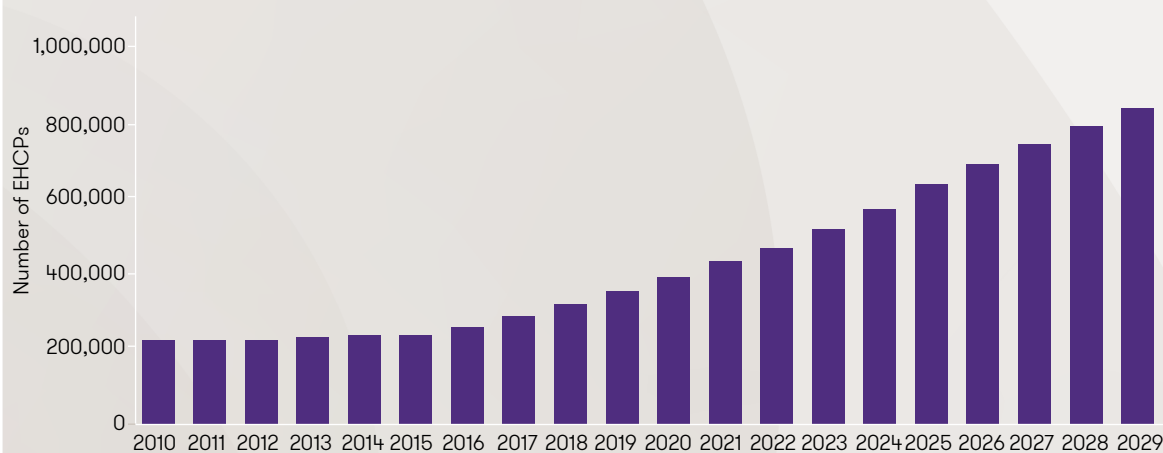
For one city council in the South-West, our AAR reported that between January and November 2024, the council received 32% more initial requests for Education Health and Care (EHC) needs assessments than during the same period in 2023. As a result, the number of children waiting for an assessment rose to 1,183 in November 2024, compared to 624 children in November 2023 – almost double the previous year’s figure.

In May 2026, the King’s Speech outlined that new arrangements for SEND will be introduced by the government under a planned Education for All Bill. However, transitional arrangements will ensure that all children who are receiving specialist provision in September 2029 will go on being entitled to specialist provision until their education ends. With uncertainty about what will be available for children registering new needs after September 2029, demand is very unlikely to fall before that date.

Before the King’s Speech, the County Councils Network had already highlighted that the number of young people in receipt of EHCPs was on course to reach almost 840,000 by the end of this Parliament – up by 32% in just four years. This was already a level of demand the present SEND system was never designed for. In the run-up to September 2029, pressure may get worse before it gets better. Anything that councils can do to influence reductions in demand will be helpful.

Figure 6: The County Council’s Network highlighted that growth in demand for EHCPs is expected to continue until 2029

Number of children and young people with EHCPs (Actual to 2025 and projected to 2029).



EHCPs explained

An Education, Health and Care Plan (EHCP) is a legally binding document in England that sets out the education, health, and social care needs of children and young people aged 0–25 with special educational needs (SEN) that require support. It is multi-agency, coordinated by the local authority, and reviewed annually.

Under current arrangements, councils assess requested EHCPs after reviewing supporting evidence provided by families and schools. Where they are satisfied that the evidence provided meets the bar set, councils are responsible for issuing children and young people with EHCPs that stipulate the special educational provision required for them (the child or young person). Councils then have a legal responsibility to provide that special education.



05

Securing quality

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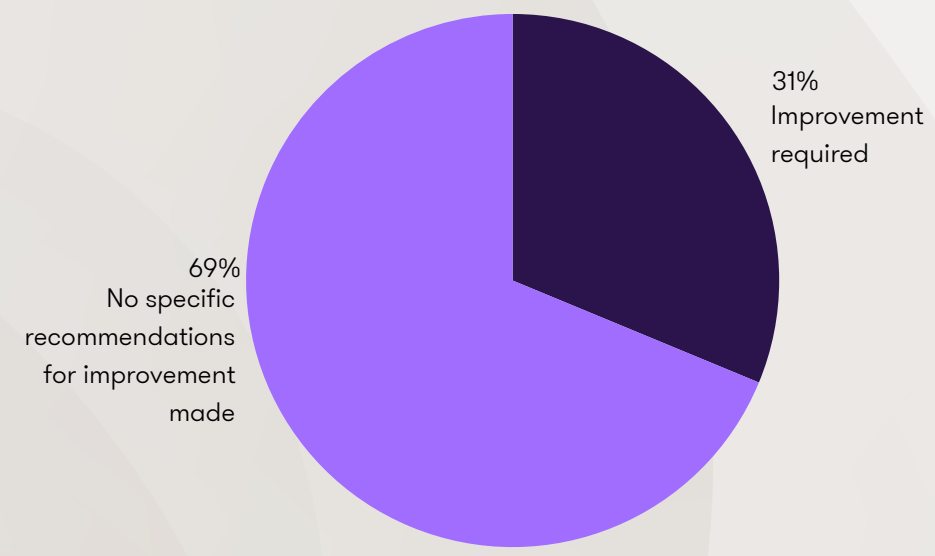
The NAO highlighted in 2024 that outcomes for children with SEND have not improved despite the sustained high levels of spend (and overspend) on SEND over the last ten years. This indicates that there may be weaknesses in the quality of SEND services provided to children and young people, which puts councils at risk of not fulfilling their legal obligations towards them.

Under current arrangements, councils work with Integrated Care Boards to plan and commission special educational provision once EHCPs have been issued. It is striking to note that in approximately one third of cases where we reported a significant weakness in 2024/25 arrangements for managing the financial sustainability of SEND services, we also made key or improvement recommendations about the need to improve the economy, efficiency and effectiveness of the underlying provision of special education itself.



Figure 7: % of councils with significant weakness in financial sustainability of SEND, who also need to improve the SEND service itself

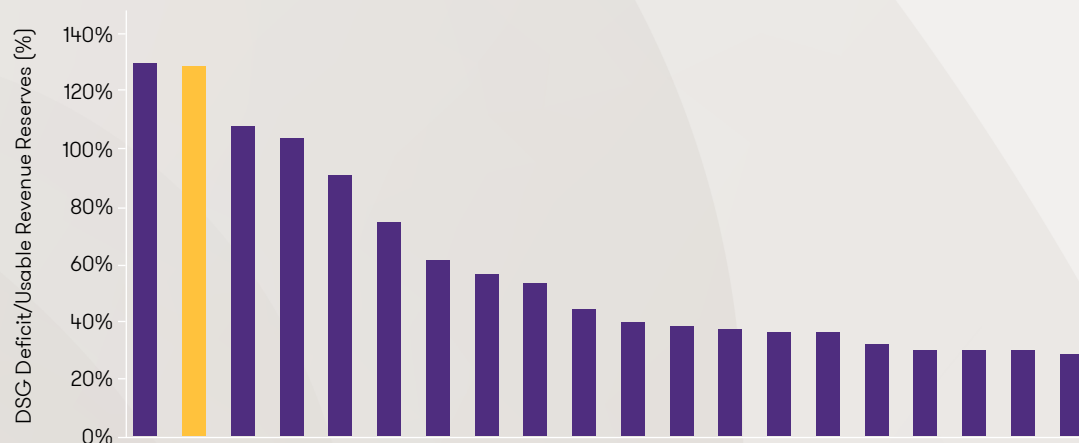
(Source: Auditors' annual reports 2024/25).



At one unitary council in the south west of England, we reported in the 2024/25 AAR that in-year overspends on SEND were so high that they were having a **“detrimental effect on cashflow”**; that the cumulative DSG deficit as a percentage of useable reserves was the second highest we had audited all year; and yet that a Statutory Direction was in place because of failure over time to improve SEND services. This followed a lack of improvement in the services dating back to 2021.



Figure 8: DGS cumulative deficit as a percentage of usable revenue reserves based on 2024/25 unaudited financial statements.



The council with the second highest cumulative DGS deficit we audited in 2024 has been required by Statutory Direction to **“take steps to improve its SEND services”**.

Similarly, at a Metropolitan District Council in the north of England, where our AAR highlighted that Ofsted and CQC had **“concerns about the experiences and outcomes of children and young people with SEND”**, we identified that the council was **“managing additional borrowing costs”** in 2024/25 because the DGS deficit was so high.

Improving the underlying quality of services may involve increased expenditure and, in turn, yet more pressure on the DGS deficit. At another unitary council, also in the South-West of England, our AAR noted that a joint Ofsted/ CQC inspection of SEND services had identified **“systemic failings”** and that the council had had to create **“a detailed priority impact plan ... to support improvement”**. We commented that the council had failed to meet the financial restrictions set out in its safety valve agreement.

Quality issues are particularly disappointing when we consider that significant elements of SEND provision are currently sourced through special schools and private schools, which are not only more expensive than mainstream schools, but also often involve sending children and young people away from their immediate geographic area. [The Institute for Fiscal Studies](#) estimated in January 2026 that SEND transport and assessment spending has more than doubled in real terms since 2019/20, with much of that increase being accounted for by out-of-area transport.

Although the government’s new Policy Paper signals that this is going to change going forward, the government estimated [in February 2026](#) that it will take £3.7 billion of investment and until 2030 for mainstream schools to have the resources to be able to absorb capacity currently provided by special and private schools.

Some councils are already trying to progress capital programmes that build capacity into their mainstream schools so that they can reduce dependency on special and private schools in the near term. This is by nature a relatively slow way to tackle the deficit (major building works take time) and we are aware of one unitary council in the South of England that has been directly asked by DFE not to over-rely on the capital programme as the means of addressing all its DGS deficit issues.

Between now and 31 March 2028, as councils focus on containing the residual deficits they will be left with when statutory override ends, they are going to have to balance financial sustainability with a continued focus on quality. In the long run, the quality of services provided to children and young people with SEND may directly affect the level of support those children and young people need when they grow up to be adults.



The Council is redesigning some systems and processes and piloting supporting pupils to remain in mainstream schools, where appropriate, reducing the need for more expensive specialist places. The Council recognises that these type of transformational projects take time to implement.

(Extract from 2024/25 AAR for a unitary council in the Midlands)





06 Appendices

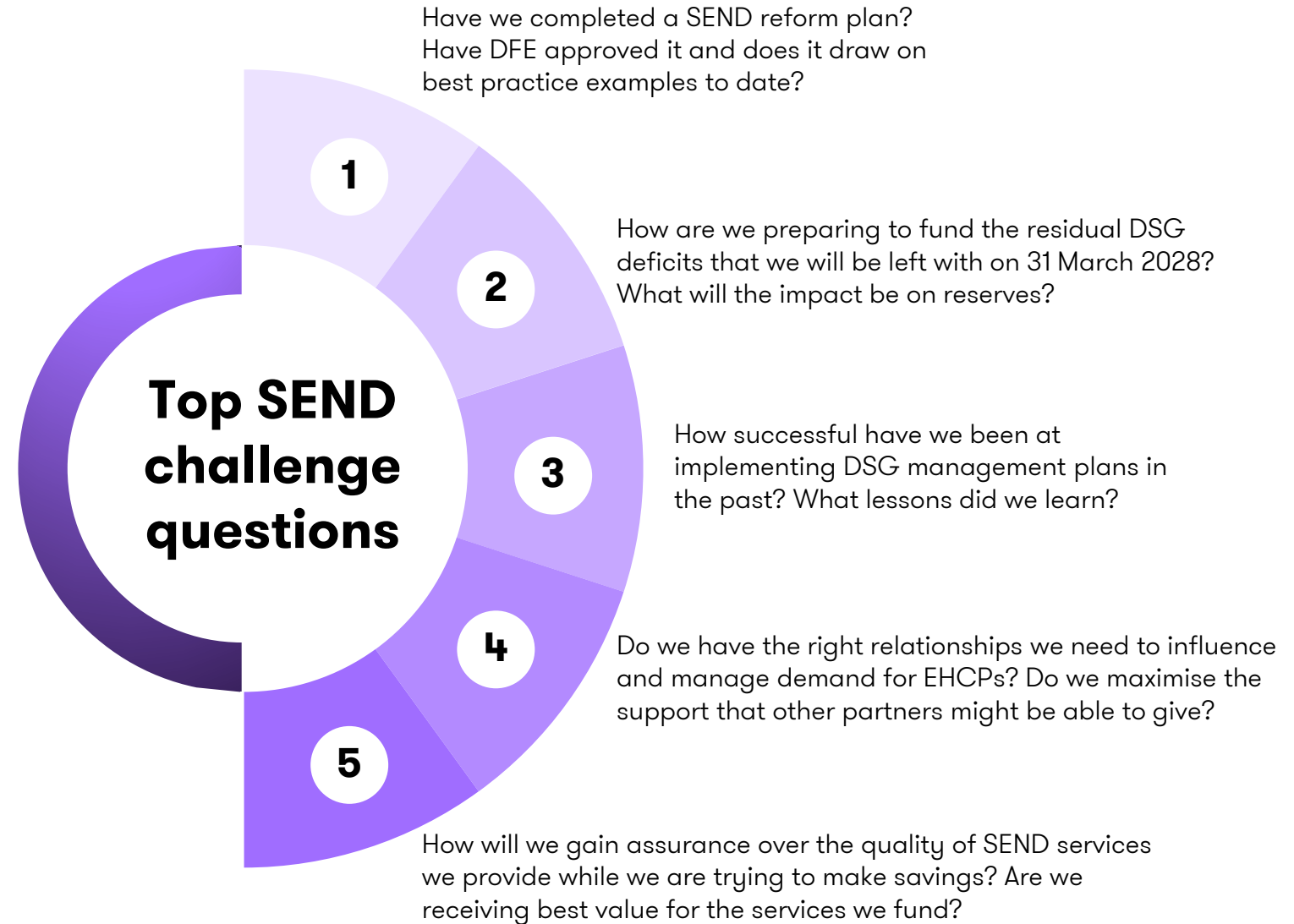
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Appendix 1: Checklist for Assurance on Dedicated Schools Grant Deficit

Audit Committees can help by holding officers to account on their progress with managing SEND.

Five top questions will help gain assurance that your council is doing everything it realistically can while we wait for national changes.





Appendix 2:

Explanation of Recommendations

For the 62 councils Grant Thornton audited with SEND responsibility in 2024/25, the number of recommendations raised in relation to DSG deficits was significantly higher in 2024/25 than 2023/24, indicating a sharp increase in the number of councils with significant weaknesses in their arrangements. Furthermore, 2024/25 was the first year ever that a statutory recommendation was raised in relation to DSG by any external auditor in England. This indicates that for some councils issues were critical by 9 February 2026, when the government announced the High Needs Stability grant and future central Treasury responsibility.

Increase in the number of audited bodies with key and statutory recommendations relating to the Financial Sustainability of DSG Deficits

	2023/24	2024/25	Change
Number of audited bodies with statutory recommendations	0	1	↑
Number of audited bodies with key recommendations	16	32	↑

A range of different recommendations can be raised by the council's auditors. This report focuses on statutory and key recommendations.

Statutory recommendations

Recommendations to the council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.

Key recommendations

The actions which should be taken by the council where significant weaknesses are identified within arrangements.



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