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[Ministry of Housing,
 Communities &
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Guidance

Explanatory note on the government's approach to Dedicated Schools Grant deficits

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Applies to England

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The government's announcement on the approach to support local authorities with Dedicated Schools Grant (DSG) deficits is set out in section 2 of the [government's](#)

[response to the Provisional Local Government Finance Settlement](#). This note provides further detail, such as the calculation of the High Needs Stability Grant allocations, arrangements for local authorities that participated in the Safety Valve programme, and grant conditions.

Calculation of total Dedicated Schools Grant Deficit eligible for grant payment

To determine the allocation of the High Needs Stability Grant 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.

This will include comparing Section 251 data, 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. Only local authorities holding a deficit in their DSG unusable reserve at the end of 2025-26 will be eligible for an allocation of the High Needs Stability Grant.

Ineligible spend

The total eligible DSG deficit will not include overspends charged to DSG for matters other than High Needs including, but not limited to, charges relating to Equal Pay claims or overspends on other blocks within the DSG, e.g. early years. DfE will continue to scrutinise local authority DSG accounts on an ongoing basis to identify discrepancies and significant fluctuations, as well as potential ineligible spend. Such spending will be deducted from the total DSG balance before calculating the 90% grant.

Local authorities who have been part of

the DfE's Safety Valve programme

Given this new approach to DSG deficits, which is more generous than the support most local authorities would have received through Safety Valve agreements, the programme will end. No local authority will be disadvantaged by its participation: every Safety Valve local authority will receive at least the same amount of grant through this arrangement as they would have through Safety Valve, and any local contributions already made will count as part of the 10% remaining deficit that will fall to local authorities to cover, meaning no Safety Valve local authority will be expected to contribute more. To ensure this, we will apply a specific calculation for local authorities who participated:

Where:

25-26 Deficit Is the total DSG deficit recognised in the unusable reserve that is eligible for relief, i.e. excluding any ineligible spend or charges, net of Safety Valve Payments, Local Contributions and any other surplus DSG balance recognised as at 31 March 2026.

Safety Valve Payments Is the total of all Safety Valve payments that have been made to the local authority since the start of their agreement until the end of 2025-26, as per published agreements: [Dedicated schools grant: very high deficit intervention](#)

Local Contributions Is the total of Local Contributions made by the local authority as agreed within the Safety Valve Programme as at 31 March 2026

Local Government Reorganisation

The High Needs Stability Grant allocations will be set out based on existing structures, and will be paid out ahead of reorganisation taking place. For residual DSG deficits, as with other liabilities, predecessor local authorities in areas undergoing reorganisation will then need to consult and cooperate with one another

to secure the economic, effective, efficient and timely transfer of assets and liabilities to successor local authorities, in line with:

- Section 16 of the Local Government and Public Involvement in Health Act 2007 between affected councils;
- the Local Government (Structural Changes) (Transfer of Functions, Property, Rights and Liabilities) Regulations 2008; or
- a Statutory Instrument for the specific reorganisation.

Following reorganisation, successor local authorities will need to plan to be able to meet the cost of the residual deficit from their own resources in 2028-29, including setting aside appropriate reserves in the preceding years, in line with the approach for all other councils.

Timing and delivery

Grant allocations will be paid by DfE as a Section 31 grant from the autumn. 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.

Grant conditions

Allocations of the High Needs Stability Grant must be used exclusively to extinguish an amount of the local authority's Dedicated Schools Grant deficit that is recognised in the unusable reserve as at 31 March 2026.

Allocations of the High Needs Stability Grant will only be paid once a local authority has developed and submitted to the Department for Education a Local SEND reform plan which is then approved as meeting the required criteria. We expect local SEND reform plans to be developed collaboratively by local area partnerships - including schools, health, early years settings and post-16 providers – to ensure the plan reflects the shared responsibility of the whole local system in supporting children and young people.

Where the Statutory Override prevents immediate application of the grant to the

DSG deficit, the authority must:

1. hold the grant in an appropriate reserve; and
2. apply the grant only to reduce the DSG deficit recognised as at 31 March 2026 when the Statutory Override ceases to have effect.

Where the calculated High Needs Stability Grant exceeds the local authority's Dedicated Schools Grant deficit that is recognised in the unusable reserve as at 31 March 2026, including where this arises because the authority's agreed local contributions have exceeded the minimum contribution of 10%, any such excess is not subject to restrictions set out in these grant conditions.

Breach of conditions and withholding future funding

If the recipient authority fails to comply with any of the grant conditions, or if any overpayment is made under this grant, or any amount is paid in error, or any unspent funding is not returned, the Secretary of State may reduce, suspend or withhold grant payments or require the repayment of the whole or any part of the grant monies paid, as may be determined by the Secretary of State and notified in writing to the recipient authority. Such sum, as has been notified, will immediately become repayable to the Secretary of State who may offset the sum against any future amount due to the recipient authority from central government.

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