

Cabinet

14 January 2025

Provisional Local Government Finance Settlement 2025 to 2026

Portfolio Holder: Councillor Vince Maple, Leader of the Council

Report from: Phil Watts, Chief Operating Officer (Section 151 Officer)

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Summary

This report provides the Cabinet with details of the Provisional Local Government Finance Settlement 2025 to 2026 announced by the Government on 18 December 2024.

1. Recommendation

- 1.1. The Cabinet is asked to note the implications of the Provisional Local Government Finance Settlement in formulating its 2025/26 budget proposals.

2. Suggested reasons for decision

- 2.1. The provisional levels of funding announced are a fundamental component of the 2025/26 budget, and their announcement is a further stage in the process to prepare a balanced budget for the coming financial year.

3. Budget and policy framework

- 3.1. Formulation of the 2025/26 budget proposals is a matter for Cabinet, however it will be for Council to agree the final budget at its meeting on 27 February 2025.

4. Background

- 4.1. The Government published its Autumn Budget on 30 October 2024 outlining significant additional funding for local authorities among announcements relating to the wider public sector finances and the economy. On 28 November the Ministry of Housing, Communities and Local Government published the Local government finance policy statement 2025 to 2026 setting out the principles that would drive the distribution of new funding between local authorities. The Provisional Local Government Finance Settlement sets out the allocation of national grants to individual local authorities and sets the

Council Tax referendum principles, providing a firmer base to the resource assumptions underpinning the Council's budget for 2025/26. The Government has opened a consultation on the Provisional Settlement, closing on 15 January 2025, and will then publish a Final Settlement shortly afterwards.

5. Core Spending Power

- 5.1. The Local Government Finance Settlement is underpinned by the Core Spending Power (CSP) calculation. This calculation makes certain assumptions about the local tax that Medway is able to generate and then aggregates this with the core grant funding available to Medway. Medway Council's CSP is summarised in Table 1 below. The CSP calculation is not in itself a statement of the actual resources available to the Council. It is simply a mechanism used by Government to illustrate the potential funds available to local authorities. In practice, the budget will be based upon the Council's own estimate of local tax yields.

Table 1: Core Spending Power 2025/26

	2024/25 £m	2025/26 £m
Revenue Support Grant	7.792	8.051
Business Rates Baseline Funding Level	52.414	53.048
Settlement Funding Assessment	60.207	61.099
Council Tax excluding Parishes	159.523	169.450
Section 31 Compensation for under-indexing the Business Rates Multiplier	9.876	10.297
Improved Better Care Fund	7.308	9.015
New Homes Bonus	1.573	1.311
Social Care Grant	18.770	21.870
Adult Social Care Market Sustainability	4.366	4.366
Adult Social Care Discharge Fund	1.708	0.000
Children's Social Care Prevention Grant	0.000	1.662
Recovery Grant	0.000	2.675
Services Grant	0.337	0.000
Domestic Abuse Safe Accommodation Grant	0.617	0.769
Adjustment for rolled in grants*	0.131	0.000
Core Spending Power	264.415	282.514

*Grants rolled into the CSP calculation in 2025/26: Electoral Integrity Programme New Burdens grant, Tenant Satisfaction Measures New Burdens grant, Transparency Code New Burdens grant, Extended Rights to Home to School Transport grant (£54million).

6. Summary of the potential impact of the Provisional Settlement on the 2025/26 revenue budget
 - 6.1. The Provisional Settlement indicates that the total CSP of local authorities in England will rise by 6% in 2025/26. While no local authority will see a reduction in CSP, the Provisional Settlement represents a significant shift towards grant funding being directed towards local authorities with higher levels of deprivation and lesser ability to generate Council Tax. As indicated in the Draft Budget reported to Cabinet and Overview and Scrutiny Committees in November and December, this shift will benefit Medway and our CSP will increase above the average rate, by 6.8%.
 - 6.2. The announcements and their impact on Medway's 2025/26 budget are summarised in Table 2 overleaf and detailed in section 7 below and amount to a potential increase in funding for the Council of £10.833million compared to the assumptions in the Draft Budget presented to the Cabinet on 19 November 2024. While additional funding is welcomed, it is clear that the Provisional Settlement alone will not be sufficient to meet the pressures on statutory services and close the Council's projected budget gap for 2025/26, without further support from the Government through the Exceptional Financial Support (EFS) scheme as set out in Section 8.3 of this report.
 - 6.3. In addition, a number of grant allocations have yet to be announced including compensation for the impact of the changes to National Insurance Contributions for directly employed staff. The Government have confirmed £515million national funding for this, which is not included within the Core Spending Power Calculation at this stage. As such there remains a risk that the Council will face additional pressures that will negate the impact of the funding increase as set out in Section 7.8.
 - 6.4. Alongside the Provisional Settlement, the Government has confirmed local authority allocations for a series of grants that have previously not been confirmed until much closer to the beginning of the new financial year. The Government has also held back some funding as a contingency and will determine how this sum will be allocated in the Final Local Government Finance Settlement, expected in late January or early February 2025.

Table 2: Impact of the announcements on income in Draft Budget

	Budget 2024/25 £000	Draft Budget 2025/26 £000	Provisional Settlement 2025/26 £000	Movement £000
Non-ringfenced Government Grant:				
Recovery Grant	0	0	(2,675)	(2,675)
Revenue Support Grant	(7,891)	(8,021)	(8,051)	(30) ^a
Services Grant	(337)	(337)	0	337
New Homes Bonus	(1,573)	(1,641)	(1,311)	330
Social Care Related Grant:				
Social Care Grant	(18,770)	(20,732)	(21,870)	(1,138)
Children's Social Care Prevention Grant	0	0	(1,662)	(1,662)
Children and Families Grant	(2,096)	(2,096)	(2,035)	60 ^b
Housing Related Grant:				
Domestic Abuse Safe Accommodation Grant	(617)	(617)	(769)	(152)
Homelessness Prevention Grant	(2,138)	(2,138)	(3,167)	(1,029) ^c
Extended Producer Responsibility				
	0	0	(4,873)	(4,873)
Total movement	(33,421)	(35,581)	(46,413)	(10,833)

a. After grants rolled into RSG have been removed from services so as not to overstate the impact of this increase

b & c. Outside CSP

7. The Provisional Local Government Settlement

7.1. Council Tax

7.1.1. The Provisional Settlement sets out the referendum principles for 2025/26, which for Medway Council represents a core referendum threshold of 3% per year and as a local authority with social care responsibilities, the ability to set an Adult Social Care Precept of up to 2% per year without a referendum. Medway's Draft Budget assumed a 4.994% uplift, in line with the principles confirmed. The final tax base (the number of band D equivalent properties in the area) which determines the amount of Council Tax which can be budgeted for, will be agreed this month using the delegation of the Chief Operating Officer, in consultation with the Portfolio Holder for Finance, the Leader.

7.1.2. The Government has confirmed that where a council in need of exceptional financial support views additional council tax increases as critical to maintaining their financial sustainability, the Government will continue to consider requests for bespoke referendum principles. Local proposals will be considered on a case-by-case basis. The Government expects that additional increases would only be agreed in exceptional circumstances, and following

careful consideration of a councils' specific circumstances, such as their existing levels of council tax relative to the average, the potential impact on local taxpayers, and the strength of plans to protect vulnerable people. As set out in Section 8.3, alongside agreeing the Draft Budget in November the Cabinet instructed officers to continue to liaise with MHCLG to secure support through the Exceptional Financial Support scheme for 2025/26.

7.2. **Business Rates**

7.2.1. As announced in the Autumn Budget, the small business rates multiplier will be frozen for 2025/26 at 49.9p while the standard business multiplier will rise by CPI to 55.5p. Local authorities will be compensated for the loss of income arising from the decision to freeze the multiplier. Local authority baseline funding levels will rise by the increase on the standard business multiplier, weighted to the proportion of each local authority's multiplier split.

7.2.2. The Draft Budget projected the Council would receive a total income of £76.168million through business rates and related grants in 2025/26. The amount of income the Council can budget for through Retained Business Rates is calculated through a statutory return to the government called the NNDR1. Until the return is completed for 2025/26, due to be submitted to the Government by the end of January 2025, it is not possible to confirm the total amount of Business Rates and related grants the Council can budget for in 2025/26.

7.3. **Non-ringfenced Government Grant**

7.3.1. **Recovery Grant** – a total of £600million is being distributed through this new grant for 2025/26, with allocations determined through a formula that focusses resources on authorities that have high levels of deprivation and relatively low ability to generate council tax income. There are three key elements to the formula; a needs assessment based on each local authority's 2019 Index of Multiple Deprivation score multiplied by the authority's 2023 mid-year population, a resources assessment based on each authority's share of the national council taxbase, with a weighting to allocate between those in two-tier local authority areas. Allocations are capped at 3% of an authority's CSP with those whose share of resources exceeds their needs receiving no allocation from this grant; roughly half of English local authorities are receiving an allocation in 2025/26 and Medway's allocation is £2.675million.

7.3.2. **Revenue Support Grant (RSG)** – The Provisional Settlement reflects that local authorities will receive the 2024/25 allocations of the RSG increased in line with the Consumer Price Index (CPI) of inflation as at September 2024, 1.7%. A series of grants are being rolled into the RSG in 2025/26 with no change to distribution at this stage:

- Electoral Integrity Programme New Burdens grant (£4.6million)
- Tenant Satisfaction Measures New Burdens grant (£3.9million)
- Transparency Code New Burdens grant (£3.6million)
- Extended Rights to Home to School Transport grant (£54million).

Medway's RSG allocation is £8.051million, an increase of £30,000 compared

to the projection in the Draft Budget.

7.3.3. **Services Grant** – The Services Grant was introduced as a one-off grant in 2022/23 but continued into 2024/25. This grant has been abolished in the Provisional Settlement, a reduction of £337,000 compared to the Draft Budget projection.

7.3.4. **New Homes Bonus (NHB)** – The New Homes Bonus was introduced in 2011 to provide an incentive to encourage housing growth by rewarding local authorities for net additional homes added to the Council Tax base. It is paid annually from a top slice of Revenue Support Grant. It has been expected that the scheme would end since 2020 but has been extended through six one-off allocations so the Draft Budget assumed Medway would receive the same level of income in 2025/26 as in 2024/25. The Provisional Settlement confirms that the NHB will continue for one year in 2025/26 with a total of £290million, with no change to the calculation process. Medway's allocation is £1.311million, a reduction of £330,000 compared to the Draft Budget projection.

7.4. **Social Care Related Grants**

7.4.1. **Social Care Grant** – In addition to the flexibility to levy a 2% Adult Social Care precept on Council Tax, the Provisional Settlement sets out that the Social Care Grant will increase nationally by £882million. There is no change to the distribution methodology through the Adult Relative Needs Formula which is based on data on care needs, income and wealth and unpaid care, adjusted for the ability of each local authority to raise local taxes. Medway's allocation is £21.870million, an increase of £1.138million compared to the projection in the Draft Budget.

7.4.2. **Local Authority Better Care Grant** – The Provisional Settlement renames the Improved Better Care Fund (£2.140billion) and incorporates the Discharge Fund (£500million) however there are no changes to local authority allocations, so Medway's total through this grant of £9.015million does not represent a change to the projections in the Draft Budget.

7.4.3. **Market Sustainability and Improvement Fund** – There is no change to the national or local allocations of this grant, with Medway's share of £4.366million as per the projection in the Draft Budget.

7.4.4. **Children's Social Care Prevention Grant** – This is a new grant introduced in the Provisional Settlement for 2025/26, with allocations of £250million set out, with confirmation that the national sum will be increased to £263million in the final settlement to rollout mandatory Family Group Decision Making with further details set out in the Final Settlement. Allocations have been distributed using an interim Children's Relative Needs Formula based on the research commissioned by the government and led by LG Futures and academic partners, which will allocate funding according to estimated need for children's social care services. The Provisional Settlement sets out that "alongside the interim formula, the variation in the cost of delivering services

and the ability of local authorities to raise resources locally has also been taken into account to determine the grant allocations”, however very limited information on the basis of the formulae has been published at this stage. Medway’s allocation is £1.662million.

7.4.5. **Children and Families Grant** – Funding for several existing DfE children’s social care programmes, including the Supporting Families programme (£253.5million), Supported Accommodation Reforms (£94.5million), Staying Put (£33.3million), Virtual School Heads Extension for Previously Looked After Children (£7.6million), the Leaving Care Allowance uplift (£13.4million) and Personal Advisor Support for Care Leavers (£12.1million) will be consolidated into a single Children and Families Grant worth £414million. There will be no change to the 2024/25 allocations through this grant and it is not included in the CSP calculation for 2025/26. Medway’s allocation is £2.035million. The Government will publish the grant conditions for the Children and Families Grant alongside the final settlement.

7.5. **Housing Related Grants**

7.5.1. **The Domestic Abuse Safe Accommodation Grant** – worth £160.0million in 2025/26, this grant has been rolled into the Settlement and included in the CSP calculation. Medway’s allocation is £769,000, an increase of £152,000 compared to the projection in the Draft Budget.

7.5.2. **Homelessness Prevention Grant** – Alongside the Settlement on the 18 December, the government announced almost £1billion additional funding for local authorities to tackle and prevent homelessness, including £192million increase to the Homelessness Prevention Grant taking it to £633million nationally. Medway’s allocation is £3.167million, an increase of £1.029million compared to the projections in the Draft Budget.

7.6. **Education Related Grants**

7.6.1. On 28 November the DfE published the provisional Dedicated Schools Grant (DSG) funding allocations for Schools, High Needs and Central School Services national funding formulae, with the core schools budget increasing by £2.3billion. The Government also set out a £1billion increase to Special Educational Needs and Disabilities and Alternative Provision funding. Medway’s DSG allocations and distribution are the subject of a separate report elsewhere on this Cabinet agenda, and as additional expenditure is hypothecated in line with any increase in grant, these allocations do not impact the general fund budget gap projected.

7.6.2. The Government has announced that the DfE’s Extended Rights to Home to School Transport grant (£54million) will be rolled into the Revenue Support Grant, as reflected in Section 7.3.2 of this report.

7.6.3. Finally, the Government has confirmed that the statutory override on accounting for Dedicated Schools Grants (DSG) deficits is due to end on 31 March 2026 and at that stage local authorities would have to fund any

remaining DSG deficits from general reserves. Medway continues to progress the Deficit Recovery Plan agreed with the DfE to secure the Safety Valve Intervention Programme (SVIP) funding, and the latest DSG monitoring reported to the Cabinet in November projected that the deficit would be reduced to £1.300million at the point the override ends, however this would not impact the revenue budget as £3million was transferred to an earmarked reserve to mitigate against any under-delivery of the plan at that stage. The consultation on the Provisional Settlement says that the Government intends to set out plans for reforming the SEND system in further detail next year and that this will inform any decision to remove the statutory override.

- 7.7. **Extended Producer Responsibility for Packaging (EPR) Scheme** – on 28 November the Department for Environment, Food and Rural Affairs (DEFRA) wrote to local authorities notifying them of their estimate payments in respect of this new scheme for 2025/26, with amounts subject to further review and adjustment. The grant payment is intended to enable local authorities to maximise the collection and recycling of packaging materials in order to support the transition to a circular economy and to meet their obligations in relation to the collection of packaging materials as part of Simpler Recycling and the Separation of Waste responsibilities. Funding allocations for specific councils aim to reflect the costs of waste collection and disposal, with higher existing waste volumes, deprivation and rurality leading to higher payments. The Government is guaranteeing the level of funding for 2025/26, however the amount authorities will receive in subsequent years will fall if the levy leads to a reduction in the amount of packaging used, and as such the Government has not included this revenue in the CSP calculation. Local authorities will be notified of any revisions in early 2025 with final allocations confirmed in Autumn 2025. Medway’s indicative allocation is £4.873million.
- 7.8. **Employers National Insurance Contributions (NICs)** – The Provisional Settlement sets out that £515million will be made available to compensate local authorities for the changes to employers NICs announced in the Autumn Budget, however allocations will not be confirmed until the Final Settlement is published. The total compensation being provided is based on local government’s share of the “directly employed staff across the public sector” excluding fire authorities and combined authorities with police authorities funded separately. The Government will distribute the national sum based on each authority’s share of Net Current Expenditure for 2023-24 however it is not clear whether the Government has calculated the total direct staffing cost and is compensating in totality or whether a sum has been identified as available and is to be distributed proportionately. Sectoral advisors are projecting costs in excess of this total sum to fund the impact on directly employed staff. No compensation is available to fund the impact on indirectly employed staff, for Medway this includes the increased costs of the Medway Norse workforce and social care staffing impacts on placement costs. Initial estimates suggest Medway could receive in the region of £2million through this funding, compared to initial estimates of direct costs in the region of £3million, while work is ongoing to project the further impact on expenditure through Medway Norse and with social care providers.

8. Other announcements

- 8.1. **Levy Account Surplus** – The government has confirmed there will be a distribution of £100million from the surplus on the national Business Rates Levy Account in the final settlement. This is the same sum as was distributed in the 2024/25 Settlement and will be allocated on the same basis. While individual local authority allocations have yet to be confirmed, the Draft Budget projects that Medway will receive £404,000 in 2025/26 as it has in 2024/25.
- 8.2. **Flexible Use of Capital Receipts** – The MHCLG Policy Statement published on 30 November 2024 confirmed that these flexibilities, expected to end in March 2025, would be extended to March 2030.
- 8.3. **Exceptional Financial Support Scheme** – The Government's Autumn Budget confirmed that there will be a framework in place to support councils in the most financial difficulty. This follows confirmation from the Minister of State for Local Government that authorities in the EFS scheme will not be required to pay the punitive interest rate on borrowing taken out for capitalization directions. The Provisional Settlement consultation sets out that the Government will consider requests for bespoke referendum principles for Council Tax increases and as set out in Section 7.1.2 of this report, alongside agreeing the Draft Budget in November the Cabinet instructed officers to continue to liaise with MHCLG to secure support through the Exceptional Financial Support scheme for 2025/26.
- 8.4. **Household Support Fund** – The Local Government Finance policy statement in November confirmed that the Household Support Fund would continue in 2025/26 with £742million national funding. No further announcements have been made as part of the provisional settlement. The Draft Budget assumed no funding for the Household support Fund, therefore once our allocation is known it will be built into the budget for 2025/26. We will also assume it will be fully spent delivering support to residents and will not therefore reduce the Council's budget gap.
- 8.5. **Public Health Grant** – Public Health Grant allocations are made outside of the Settlement, often very late with the 2024/25 allocation only being announced on 5 February 2024. We await confirmation of Medway's allocation for 2025/26, however the Draft Budget assumed this will be £19.228million.
- 8.6. **Government consultations** – Alongside the Settlement on the 18 December the Government opened two consultations that may impact the Council's revenue budgets:
- A four-week consultation on the Provisional Local Government Finance Settlement, with the deadline for submissions of 15 January 2025.
 - An eight-week consultation on Local Authority Funding Reforms from 2026/27, with the deadline for submissions of 12 February 2025.

The Chief Operating Officer will submit a response to these consultations as

appropriate in consultation with the Leader of the Council as Portfolio Holder for Finance in due course.

9. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Final settlement may be worse for Medway than the Provisional settlement	There remains a slight possibility that following consultation, changes could be made to the settlement that adversely affect the overall position for the Council in terms of Government support. This is considered a low risk but in the event that it proves to materialise there may be a need to table revised proposals for consideration by Council.	Close monitoring of Government communications.	DIII
Exceptional Financial Support not agreed	If the Council's request for Exceptional Financial Support for 2024/25 and 2025/26 is not granted it will not be possible to balance the budget within the Council's resources, and it would be therefore necessary for the Chief Operating Officer to issue a Section 114 report.	Close working with officials from MHCLG.	CI
Assumptions around the cost of service delivery underpinning the Draft Budget may be understated	The growth in the cost of delivering the Council's services may be higher than anticipated in the Draft Budget, or income may be lower than anticipated, and as a result the benefit of additional funding through the Settlement could be overstated.	Projections in the Draft Budget reviewed and any further cost pressures identified in advance of the Proposed Budget.	BII
Likelihood	Impact:		
A Very likely B Likely C Unlikely D Rare	I Catastrophic II Major III Moderate IV Minor		

10. Consultation

10.1. Members are consulted on the development of the budget as follows:

Initial budget proposals to Cabinet	19 November 2024
Reports to Overview and Scrutiny	December 2024 / January 2025
Budget proposals to Cabinet	11 February 2025
Budget proposals to Council	27 February 2025

11. Financial implications

11.1. The financial implications of the Provisional Local Government Finance Settlement are set out throughout this report.

12. Legal implications

12.1. There are no direct legal implications to this report.

12.2. The Council's Constitution contains the budget and policy framework rules. The relevant extracts from the Constitution are summarised as follows:

- The budget and policy framework rules contained in the constitution specify that the Cabinet should produce the draft revenue and capital budget. This initial budget which does not have to give full detail, nor be a finalised set of proposals, should be submitted to the overview and scrutiny committees to consider the initial budget and if appropriate offer alternative proposals. Any such proposals will be referred back to the Cabinet for consideration.
- Under the constitution the Cabinet has complete discretion to either accept or reject the proposals emanating from the overview and scrutiny committees. Ultimately it is the Cabinet's responsibility to present a budget to the Council, with a special Council meeting arranged for this purpose on 27 February 2025. The adoption of the budget and the setting of Council Tax are matters reserved for the Council.

Lead officer contact

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Appendices

None

Background papers

[Medium Term Financial Outlook 2024-2029 report to Cabinet 27 August 2024](#)
[Capital Strategy 2025/26 report to Cabinet 19 November 2024](#)
[Draft Capital and Revenue Budget 2025/26 report to Cabinet 19 November 2024](#)