

## **Cabinet**

**13 January 2026**

### **Provisional Local Government Finance Settlement**

**2026 to 2029**

Portfolio Holder: Councillor Vince Maple, Leader of the Council

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

Author: Dave Reynolds, Head of Revenue Accounts

#### **Summary**

This report provides the Cabinet with details of the Provisional Local Government Finance Settlement 2026 to 2029 announced by the Government on 17 December 2025.

#### **1. Recommendation**

1.1. The Cabinet is asked to note the implications of the Provisional Local Government Finance Settlement in formulating its 2026/27 budget proposals.

#### **2. Suggested reasons for decision**

2.1. The provisional levels of funding announced are a fundamental component of the 2026/27 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 2026/27 budget proposals is a matter for Cabinet, however it will be for Council to agree the final budget at its meeting on 25 February 2026.

#### **4. Background**

4.1. The Ministry of Housing, Communities and Local Government published the Local government finance policy statement 2026/27 to 2028/29 on 20 November 2025. The policy statement set out government's proposals for the 2026/27 to 2028/29 multi-year Local Government Finance Settlement, including details on the government's response to the Fair Funding Review 2.0 and other measures which will be delivered through the 2026/27 provisional Local Government Finance Settlement. Alongside this, they also

published the government's response to the Fair Funding Review 2.0 consultation and a policy statement on resetting the business rates retention system from 2026 to 2027.

4.2. 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 2026/27. The government has opened a consultation on the Provisional Settlement, closing on 14 January 2026, 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. 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.

5.2. The settlement compares Core Spending Power back to 2024/25, this is different to previous years which have compared back to the previous financial year. Medway Council's CSP is summarised in Table 1 below.

**Table 1: Core Spending Power (CSP) 2024/25 to 2028/29**

	2024/25 £m	2025/26 £m		2026/27 £m	2027/28 £m	2028/29 £m
Legacy Grant Funding	35.294	37.660	Revenue Support Grant*	56.108	73.207	81.710
			LA Better Care Grant*	9.015	0.000	0.000
Legacy Business Rates	71.415	73.887	Business Rates Baseline Funding Level	69.344	70.935	72.366
<b>Settlement Funding Assessment</b>	<b>106.709</b>	<b>111.547</b>	<b>Fair Funding Allocation</b>	<b>134.467</b>	<b>144.142</b>	<b>154.075</b>
Council Tax excluding Parishes	159.523	168.937	Council Tax excluding Parishes	179.887	191.546	203.962
LA Better Care Grant	7.308	9.015				
Recovery Grant	0.000	2.675	Recovery Grant	2.675	2.675	2.675
Families First Partnership (Within Children, Families and Youth Grant)	1.290	3.083	Families First Partnership (Within Children, Families and Youth Grant)	4.678	4.678	3.995
Homelessness, Rough Sleeping and Domestic Abuse	2.591	3.780	Homelessness, Rough Sleeping and Domestic Abuse	3.703	3.821	3.923
Adjustment for rolled in grants	2.126	2.661				
<b>CSP</b>	<b>279.546</b>	<b>301.698</b>	<b>CSP</b>	<b>325.410</b>	<b>346.861</b>	<b>368.631</b>

\*LA Better Care Grant rolls into Revenue Support Grant from 2027/28

6. Summary of the potential impact of the Provisional Settlement on the 2026/27 revenue budget
  - 6.1. The Provisional Settlement indicates that the total CSP of local authorities in England will rise by 13.5% from 2024/25 to 2026/27 and by 23.6% from 2024/25 to 2028/29.
  - 6.2. The Provisional Settlement is built on the Fair Funding Review 2.0 and includes a reset of the business rates retention system from 2026/27 accompanied by the phased introduction of new Revenue Support Grant (RSG) allocations over each year of the multi-year settlement and the gradual phasing out of legacy grant funding allocations. Overall, these changes benefit Medway and our CSP will increase above the average rate, by 16.2% from 2024/25 to 2026/27 and by 31.9% from 2024/25 to 2028/29.
  - 6.3. This is a 3-year settlement, which gives certainty for the second and third year of the settlement. Each of these latter two years will still be subject to an annual settlement process, but any changes will be upwards, with the 3-year settlement representing a minimum level of funding.
  - 6.4. It is also worth noting that whilst the business rates retention system will be reset in full in 2026/27, RSG will be used to smooth the impact of this and move local authorities towards their new allocations of fair funding in increments of one third over the multi-year Settlement.
  - 6.5. Although the settlement headlines are positive for Medway, we had already assumed a significant increase in funding as part of the draft budget. The announcements and their impact on Medway's 2026/27 budget are summarised in Table 2 overleaf and detailed in section 7 below and amount to a potential decrease in funding for the Council of £7.920million compared to the assumptions in the Draft Budget presented to the Cabinet on 18 November 2025.
  - 6.6. 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 2026/27, without further support from the government through the Exceptional Financial Support (EFS) scheme as set out in Section 8.1 of this report.

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

	2025/26 Funding Stream £000	Draft Budget 2026/27 £000	Provisional Settlement 2026/27 £000	Movement from Draft Budget £000
Revenue Support Grant	(8,051)	(29,658)		
Employer National Insurance Contributions Grant	(2,063)	(2,063)		
Levy Account Surplus distribution	(404)	0		
New Homes Bonus	(1,311)	0		
Social Care Grant	(21,870)	(43,944)		
Market Sustainability & Improvement Fund	(4,366)	0	(56,108)	21,295
Local Reform and Community Voices: Deprivation of Liberty Safeguards Funding, War Pensions Disregard grant, Social Care in Prisons grant	(250)	(250)		
Temporary Accommodation element of the former Homelessness Prevention Grant	(1,489)	(1,489)		
<b>Revenue Support Grant</b>	<b>(39,803)</b>	<b>(77,403)</b>	<b>(56,108)</b>	<b>21,295</b>
<b>Local Authority Better Care Grant</b>	<b>(9,015)</b>	<b>0</b>	<b>(9,015)</b>	<b>(9,015)</b>
<b>Recovery Grant</b>	<b>(2,675)</b>	<b>0</b>	<b>(2,675)</b>	<b>(2,675)</b>
Children Families & Youth Grant: Families First Partnership Programme	0	0		
Children & Families Grant Allocation	(1,838)	(2,035)		
Children's Social Care Prevention Grant	(1,990)	(1,826)		
Virtual School Heads for children with a social worker and children in kinship care	(120)	(120)		
Post-16 Pupil Premium Plus Programme	(60)	(60)		
Holiday Activity Fund	(1,161)	(1,161)		
<b>Children Families &amp; Youth Grant</b>	<b>(5,168)</b>	<b>(5,202)</b>	<b>(6,016)</b>	<b>(814)</b>
Household Support Fund	(3,988)	(3,988)		
Discretionary Housing Payments	(563)	(563)		
Crisis and Resilience Fund	0	0		
<b>Crisis and Resilience Fund</b>	<b>(4,550)</b>	<b>(4,550)</b>	<b>(4,590)</b>	<b>(40)</b>
Homelessness, Rough Sleeping & Domestic Abuse Grant	0	0		
Rough Sleepers Initiative	(926)	(926)		
Domestic Abuse Safe Accommodation Grant	(769)	(769)		
Prevention and Relief element of the former Homelessness Prevention Grant	(1,679)	(1,679)		
<b>Homelessness, Rough Sleeping &amp; Domestic Abuse Grant</b>	<b>(3,374)</b>	<b>(3,374)</b>	<b>(3,703)</b>	<b>(329)</b>
Drug and Alcohol Treatment and Recovery Improvement Grant	(1,357)	(1,357)		
Local Stop Smoking Services and Support Grant	(327)	(327)		
Individual Placement and Support Grant	(153)	(153)		
Public Health Grant	(20,347)	(20,347)		
<b>Public Health Grant</b>	<b>(22,185)</b>	<b>(22,185)</b>	<b>(22,686)</b>	<b>(502)</b>
<b>Total</b>	<b>(86,770)</b>	<b>(112,713)</b>	<b>(104,794)</b>	<b>7,920</b>

## 7. The Provisional Local Government Settlement

### 7.1. Council Tax

7.1.1. The Provisional Settlement sets out the referendum principles for 2026/27, 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 it will consider local requests for council tax flexibility where a local authority is facing significant local financial difficulty and views additional council tax increases as critical to managing financial risk, 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 8.1, 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 2026/27, should it be necessary.

### 7.2. Business Rates

7.2.1. Alongside the Business Rates reset, there were also announcements in the Autumn Budget around multipliers for 2026/27. The current retail, hospitality and leisure (RHL) relief which is awarded using the council's discretionary powers and reimbursed through section 31 payments is being replaced by two lower RHL multipliers. The multipliers have also been adjusted due to the revaluation to take account of the increase in rateable values as well as making an adjustment for the increase in CPI, and a new multiplier has been added for large properties. Table 3 below shows the new multipliers applicable from 2026/27:

*Table 3: Business Rates multipliers 2026/27*

Rateable value	RHL multiplier	Non-RHL multiplier
<£51,000	38.2p	43.2p
£51,000 - £499,999	43.0p	48.0p
£500,000+	50.8p	

7.2.2. The Draft Budget projected the Council would receive a total income of £71.641million through business rates and related grants in 2026/27. 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 2026/27, due to be submitted to the government by the end of January 2026, it is not possible to confirm the total amount of Business Rates and related grants the Council can budget for in 2026/27.

### 7.3. **Non-ringfenced Government Grant**

7.3.1. **Recovery Grant** – The draft budget assumed that the recovery grant was one off funding and therefore assumed we would not receive any funding in 2026/27. However, it has been confirmed that the government will maintain 2025/26 Recovery Grant allocations in each year of the multi-year settlement. As a result, Medway's allocation remains at £2.675million.

7.3.2. **Revenue Support Grant (RSG)** – The Provisional Settlement reflects Government intention to consolidate 18 funding streams into RSG. The consolidation of funding streams will be delivered in the following 3 ways.

7.3.3. Consolidating 2 funding streams new to the Settlement keeping the existing distributions.

- Social Care in Prisons.
- War Pensions Disregard.

7.3.4. Consolidating 9 funding streams that are new to the Settlement into the 2025/26 legacy funding shares, which will gradually be phased into the 2028/29 fair funding shares.

- Temporary accommodation funding, previously part of the Homelessness Prevention Grant.
- Virtual School Head for Children with a Social Worker and Children in Kinship Care.
- Biodiversity Net Gain Planning Requirement.
- Deprivation of Liberty Safeguards Funding.
- Local Government Finance Data Review.
- Enforcement of Location Restriction and Volume New Burdens grant.
- Enforcement of Calorie Labelling Regulations New Burdens grant.
- Awaab's Law New Burdens.
- Social Housing New Burden grant.

7.3.5. Consolidating 7 funding streams that are already within the Settlement into the 2025/26 legacy funding shares, which will also be gradually phased in to the 2028/29 fair funding shares.

- Social Care Grant.
- Local Authority Better Care Grant (see 7.3.7).
- Historic business rates grant compensation for under-indexation of tax rates; Green Plant and Machinery exemptions; and Small Business Rates Relief lost supplementary income.

- Market Sustainability and Improvement Fund.
- Employer National Insurance Contributions.
- New Homes Bonus.
- 2025/26 Funding Floor.
- Funding from the following grants (treated as one funding stream) brought together into the Children and Families Grant in 2025/26:
  - Supported Accommodation Reforms.
  - Staying Put.
  - Virtual School Heads Extension for previously looked after children.
  - Leaving Care Allowance uplift.
  - Personal Advisors Extended Duty.

7.3.6. Medway's RSG allocation is £56.108million for 2026/27.

7.3.7. **Local Authority Better Care Grant (LA BCG)** – LA BCG will be paid as a separate s31 grant (so that it can continue to be pooled with the NHS) in 2026/27 but will be included within RSG from 2027/28. The LA BCG allocations will use the current 2025/26 allocations; Medway's allocation remains at £9.015million. There will be no change in the amounts that have to be pooled with the NHS.

7.3.8. The combined total of these non-ringfenced government grants is £67.798million, a decrease of £9.605million compared to the projections in the Draft Budget.

7.3.9. There have been a significant amount of changes as part of the settlement from the time of our original estimates contained within the draft budget and we continue to work with our funding advisers to understand these changes.

#### 7.4. **Consolidated Grants**

7.4.1. **Children, Families and Youth Grant** – This grant will bring together

- The Children's Social Care Prevention Grant
- Families First Partnership programme funding (previously Supporting Families) within the Children and Families Grant
- New funding from the Transformation Fund announced at the 2025 Spending Review
- Further new investment now confirmed
- The Holiday, Activities and Food Grant (HAF)

Medway's allocation is £6.016million, an increase of £814,000 compared to the projections in the Draft Budget. However, we will need to consider hypothecating the element of this increase that relates to the Holiday Activities and food grant (HAF) to the directorate expenditure budget which will be addressed in the proposed budget report.

7.4.2. **Crisis and Resilience Fund** - This will make it easier for local authorities to provide preventative support to communities and assist people when faced with a financial crisis, by bringing together the Household Support Fund and

Discretionary Housing Payments funding, into one new, streamlined fund. Medway's allocation is £4.590million, an increase of £40,000 compared to the projections in the Draft Budget.

- 7.4.3. **Homelessness, Rough Sleeping and Domestic Abuse Grant** – This grant brings together the prevention, relief and staffing element of Homelessness Prevention Grant along with the Rough Sleeping and recovery Grant and the Domestic Abuse Safe Accommodation Grant. Medway's allocation is £3.703million, an increase of £329,000 compared to the projections in the Draft Budget.
- 7.4.4. **Public Health Grant** – This will bring together funding from the existing Public Health Grant using the same distribution approach as in previous years, with the following funding streams:
  - Drug and Alcohol Treatment and Recovery Improvement Grant (DATRIG).
  - Local Stop Smoking Services and Support Grant.
  - Individual Placement and Support Grant.

Medway's allocation is £22.686million, an increase of £502,000 compared to the projections in the Draft Budget. However, we will need to consider hypothecating this increase into the directorate expenditure budget which will be addressed in the proposed budget report.

## 7.5. **Education Related Grants**

- 7.5.1. On 17 December 2025 the DfE published the provisional Dedicated Schools Grant (DSG) funding allocations for Schools, High Needs and Central School Services national funding formulae. 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.
- 7.5.2. On 23 June, as part of the Fair Funding Review 2.0 the government has confirmed that the statutory override on accounting for Dedicated Schools Grants (DSG) deficits would be extended to 31 March 2028. As set out in the Autumn Budget, once the Statutory Override ends at the end of 2027/28 SEND would be taken on by central government from 2028/29. The government has also confirmed that it will bring forward a full Schools White Paper early in the new year. This will set out substantial plans for reform of special educational needs provision to deliver a sustainable system which – first and foremost – supports children and families effectively, and which is also financially sustainable.

## 8. **Other announcements**

- 8.1. **Exceptional Financial Support Scheme** – The local government finance policy statement 2026/27 to 2028/29 confirmed that there will be a framework in place to support councils in the most difficult positions, although it also

makes it clear that any support provided should be a time-limited and temporary measure, and local authorities should have clear plans to deliver the improvements and service transformation required to help them to return to financial stability over the multi-year Settlement. The Provisional Settlement consultation sets out the 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 2026/27, should it be necessary.

- 8.2. Our initial request for Exceptional Financial Support for 2024/25 was based on the likelihood of a three year programme. So far we have required Exceptional Financial Support in 2024/25 and 2025/26, 2026/27 would be the third year.
- 8.3. **Government consultations** – Alongside the Settlement on the 17 December the government opened a four-week consultation on the Provisional Local Government Finance Settlement, with the deadline for submissions of 14 January 2026. The Chief Operating Officer will submit a response to this consultation 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 2025/26 and 2026/27 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

Risk	Description	Action to avoid or mitigate risk	Risk rating
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		I Catastrophic	
B Likely		II Major	
C Unlikely		III Moderate	
D Rare		IV Minor	

## 10. Consultation

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

Initial budget proposals to Cabinet	18 November 2025
Reports to Overview and Scrutiny	December 2025 / January 2026
Budget proposals to Cabinet	10 February 2026
Budget proposals to Council	25 February 2026

## 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 25 February 2026. 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 2025-2030 report to Cabinet 26 August 2025:](#)

[Capital Strategy 2026/27 report to Cabinet 23 September 2025](#)

[Draft Capital and Revenue Budget 2026/27 report to Cabinet 18 November 2025](#)