From: Peter Oakford, Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services

To: Cabinet 9th January 2025

Subject: **Provisional Local Government Finance Settlement 2025-26**

Classification: Unrestricted

**Summary**:
This report sets out the detail in the Provisional Local Government Finance Settlement (PLGFS) 2025-26 which was published on 18th December 2024. As in recent years the settlement is presented as core spending power (CSP) taking into account assumed council tax proceeds (assumed taxbase growth and council tax increases up to referendum limits) and the main grants for local government with Ministry of Housing, Communities and Local Government (MHCLG). This shows the total available funding in 2025-26, a comparison with 2024-25 and thus increase in CSP. CSP is not real spending power as it takes no account of spending requirements (these are shown in the budget plans and compared to available funding). The available funding towards net revenue budget comprises the grants in CSP, council tax precept (tax base notification from districts and KCC decision on council tax rate), retained business rate growth (including pool proceeds), and estimated collection fund balances.

**Recommendations**:
Cabinet is asked to NOTE the provisional settlement including the additional grants and grant reductions compared to assumptions in the draft budget published in October before the Autumn Budget statement.

Cabinet is asked to agree to delegate finalising any response to the settlement to the Deputy Leader and Cabinet Member for Finance.

## 1. Core Spending Power

1.1 Table 1 over the page sets out the core spending power for KCC and England as published in the settlement announcement. Where cells are shaded out this reflects either new grants (for which there is no comparison) or where grants have ceased or have been subsumed within broader grants.

| Table 1 | 2025-26 Provisional | | 2024-25 Final | |
|---|---|---|---|---|
| | Kent £'m | England £'m | Kent £'m | England £'m |
| Council Tax | 993.9 | 38,311.8 | 935.7 | 36,153.5 |
| **Grants** | | | | |
| Settlement Funding Assessment (incl. RSG) | 222.0 | 16,841.0 | 215.8 | 16,562.7 |
| Social Care Grant | 137.1 | 5,924.0 | 117.0 | 5,044.0 |
| Market Sustainability & Improvement Fund | 27.0 | 1,050.0 | 27.0 | 1,050.0 |
| Improved Better Care & Discharge Funds | 61.7 | 2,639.8 | 61.7 | 2,639.8 |
| Recovery Grant | 0.0 | 600.0 | | |
| Children's Social Care Prevention Grant | 6.2 | 250.0 | | |
| Business Rate Compensation (under-indexation only) | 40.5 | 2,698.9 | 38.8 | 2,581.3 |
| New Homes Bonus | 1.9 | 290.0 | 2.1 | 290.8 |
| Services Grant | | | 1.3 | 87.4 |
| Rural Services Delivery Grant | | | 0.0 | 110.0 |
| Funding Floor/Minimum Funding Guarantee | 0.0 | 121.5 | 0.0 | 268.6 |
| Domestic Abuse Safe Accommodation Grant | 4.0 | 160.0 | 3.2 | 129.7 |
| Rolled in Grants (inc. Extended Rights to HtST) | | | 3.6 | 64.3 |
| **Total Grants** | **500.5** | **30,453.7** | **470.5** | **28,828.6** |
| **Total Core Spending Power** | **1,494.4** | **68,765.5** | **1,406.1** | **64,982.1** |

1.2 The overall increase in KCC's core spending power over 2024-25 is 6.28%. This is less than the average of 6.54% for social care authorities which have the flexibility to increase council tax up to 5% (single and upper tiers). The larger increases for some authorities is due to the targeting of new grants (particularly Recovery Grant and Children's Social Care Prevention Grants) using deprivation and Council Tax equalisation which results in larger increases for some authorities. Listed below are those authorities with 9% or more increase in core spending power:

- Liverpool (9.5%)
- Manchester (9.5%)
- Salford (9.3%)
- Newham (9.1%)
- Knowsley (9.1%)
- Leeds (9.1%)
- Blackpool (9.1%)
- Bolton (9.0%)
- Kingston upon Hull (9.0%)
- North East Lincolnshire (9.0%)
- Birmingham (9.0%)

## 2. Comparison with Grant Assumptions in Draft 2025-26 Budget

2.1 Table 2 compares the assumptions in KCC's draft budget published on 29th October 2024 with the provisional settlement announcement.

| Table 2 | PLGFS £’m | Draft Budget £’m | Change £’m |
|---|---|---|---|
| Settlement Funding Assessment - RSG | 15.7 | 12.2 | +3.5 |
| SFA – Business Rate Baseline inc. top up | 206.3 | 210.5 | -4.2 |
| Social Care Grant | 137.1 | 117.0 | +20.1 |
| Market Sustainability & Improvement Fund | 27.0 | 21.7 | +5.3 |
| Improved Better Care & Discharge Funds | 61.7 | 61.7 | 0.0 |
| Children’s Social Care Prevention Grant | 6.2 | | +6.2 |
| New Homes Bonus | 1.9 | | +1.9 |
| Services Grant | | 1.3 | -1.3 |
| Domestic Abuse Safe Accommodation | 4.0 | * 3.2 | +0.8 |
| Grants rolled in | 0.0 | 3.7 | -3.7 |
| **Total Grants in CSP (exc Business Rate Compensation)** | **460.0** | **431.3** | **+28.7** |
| Business Rate Compensation | 40.5 | 52.7 | **tbc |
| **Total Grants in CSP** | **500.5** | **472.6** | **** tbc** |

* in 2024-25 this was a ring fenced grant outside of core spending power

** notification from government will follow after the budget has been approved so unable to confirm impact at this stage

2.2 The grants rolled into Revenue Support Grant (RSG) include the following:

- Extended Rights to Home to School Transport (KCC share in RSG £3.665m)
- Transparency Code Grant (KCC share in RSG £0.013m)
- Electoral Integrity Grant (only allocated to single/lower tier authorities)
- Tenant Satisfaction Measures Grant (only allocated to selected single/lower tier authorities)
- Islands Grant (Isle of Wight and Isles of Scilly only)

2.3 Excluding these grants in RSG the SFA is £0.2m less than assumed in the draft budget. The draft budget assumed:

- the indexation of RSG was assumed to be 3.3% (based on the Office for Budget Responsibility (OBR) forecast for Quarter 3 2024 CPI as at November 2023). The actual indexation in the settlement based on the published September CPI is 1.67%.
- the indexation of business rate baseline in Settlement Funding Assessment (SFA) was assumed to be 3.2% (based on the estimated increase in the small business rates multiplier using the OBR forecast for Quarter 3 2024 CPI as at November 2023). The actual indexation in the settlement is 1.17% but this includes the impact of freezing the small business rates multiplier for which we receive compensation grant. The actual indexation in the settlement including compensation for under-indexing the business rates multiplier based on published September CPI is 1.69%.

## 3. New and Increased Grants

3.1 Social Care Grant has increased nationally by £880m, this is £200m more than the amount in the policy statement published on 28th November 2024 (which itself was £80m more than the amount announced in Autumn Budget on 30th October 2024). The social care grant is allocated to all social care authorities (single tier and upper tier). The total increase for KCC is £20.1m on a grant of £117m for 2024-25. £640m of the increase has been allocated through the existing adult social care relative needs formula (ASC RNF) with KCC receiving £16.4m (2.56% of national share), and £240m of the increase on the element used to equalise for 2% ASC council tax precept with KCC receiving £3.7m (1.54% of national share).

3.2 The Recovery Grant is a new allocation of £600m. The grant is targeted based on assessed needs compared to ability to raise resources through council tax. The grant is only available to London boroughs, metropolitan districts, unitary authorities and upper and lower tier shire counties and districts. Those authorities where assessed needs are higher than ability to raise resources receive a share, whereas those authorities where resources exceed assessed needs receive nothing. KCC falls into this latter group and receives none of this grant. The assessed needs for Recovery Grant are based on population weighted by the average index of multiple deprivation (IMD) for the local authority area. Each authority is given a score based on their share of the national total. A similar score based on national share is calculated using each authority's band D equivalent taxbase after discounts, exemptions and council tax support. Those authorities where the needs score is higher than the resources score are allocated a pro-rata share of the grant based on the difference.

3.3 Recovery Grant allocations are capped at 3% of 2024-25 core spending power and subject to a minimum de minimis level of £10,000. The balance from applying the cap and de-minimis thresholds is redistributed to other qualifying authorities. The largest shares of the £600m are for Birmingham (£39.3m out of overall CSP of £1,457.6m), Liverpool (£20m out of overall CSP of £729.6m) and Manchester (£19.7m out of overall CSP of £718.2m). The only county council to qualify for a share is Lancashire (£5.0m out of overall CSP of £1,225.2m).

3.4 The Children's Social Care Prevention Grant is a new allocation of £250m. This will be uplifted to £263m in the final settlement. The grant is allocated to all social care authorities (single tier and upper tier). The provisional allocation for KCC in 2025-26 is £6.2m. The grant is allocated according to a new interim relative needs formula (RNF) based on research commissioned by MHCLG and DfE as outlined in more depth in the following paragraphs. As with other social care grants the formula includes an RNF element and equalisation adjustment to reflect ability to raise council tax.

3.5 The new interim multi-level Children and Young Persons RNF model includes characteristics at individual child level (age, sex, ethnicity and eligibility for free school melas) and local factors (deprivation, parents with low qualifications, children with poor health, children in overcrowded households, population density and travel time to urban centres). The C&YP RNF methodology also includes a new area cost adjustment (ACA) which as well as taking account of labour costs and business rates (as used in previous ACA) also includes a measure for accessibility to services. These new measures for RNF and ACA build on the options identified in the previous Fair Funding review.

3.6 The approach to resource equalisation for the Children's Social Care Prevention grant is a little different. £175m (70%) of the new funding is allocated solely via RNF/ACA, the remaining £75m (30%) is allocated on the similar equalisation principles as social care grant. The equalisation compares the amount a council would raise from 1% increase in council tax with £75m allocated through the RNF/ACA methodology. Those councils where the notional 1% is more than the RNF/ACA amount receive no share of the £75m. The £75m is then scaled to the remaining authorities based on the difference between their £75m share on RNF/ACA and the notional 1% council tax.

3.7 The provisional announcement does not include a demonstration of the methodology at individual authority level. Our working assumption is that KCC's allocation is based solely on a share of the £175m RNF/ACA and KCC is one of those councils that receives no share of the £75m. We anticipate there will be more clarity in the final settlement. Nonetheless, at £6.2m KCC's is the second largest allocation with only Birmingham (£11.1m) receiving more. Other examples demonstrate that relative to KCC's size there are many councils that receive proportionately more e.g. Manchester (£5.7m), Liverpool (£5.3m).

## 4. Grants Ceasing or Reducing

4.1 The Services Grant was introduced in the 2022-23 settlement in recognition of increased spending pressures on vital services at every level across local government. The grant included recognition of increases in employer's National Insurance contributions to fund social care reforms. The grant was initially £822m in 2022-23 nationally and was allocated according to each council's Settlement Funding Assessment. It was initially announced as a one-off and funding would not be included in the baseline for transitional support under potential future system changes.

4.2 The overall value of the Services Grant was reduced to £483.3m in 2023-24 (with around half of the reduction attributed to the cancellation of the increases in employer's National Insurance contributions) and further reduced to £87.4m in 20224-25 settlement. KCC's allocations were £13.0m in 2022-23, £7.6m in 2023-24 and £1.3m in 2024-25. In the Council's responses to previous provisional settlement we have noted that the Services Grant was originally intended to provide temporary assistance ahead of wider funding reforms but that in reality the grant has been used a balancing item and cut to fund other grants within the settlement. This again seems to be the case, further hindering medium-term financial planning.

4.3 The Rural Services Delivery Grant was first introduced in the 2014-15 settlement. The grant was targeted to those authorities in the quartile with the highest population sparsity. KCC has never received a share. In the Council's response to previous provisional settlements we have commented that the grant was targeted to a relatively small number of extremely rural authorities and did not adequately recognise the impact of delivering services in counties with a large geographic area and diverse communities.

4.4 The Minimum Funding Guarantee was first introduced in 2023-24 settlement. This provided additional funding to any local authority where the increase in CSP from grants and assumed council tax up to the referendum level was less than 3% to ensure a minimum increase. The minimum increase was upped to 4% in the final 2024-25 settlement. The minimum guarantee increased funding nationally by £113.3m in 2023-24 and £268.6m in 2024-25. The minimum guarantee has been replaced with a funding floor for 2025-26 which ensures the CSP for 2025-26 cannot be less than CSP for 2024-25 (the 2024-25 CSP includes any funding received through the minimum guarantee even though for 2025-26 this has been removed). This provides a degree of transitional protection for some authorities and the funding floor providing £121.5m in 2025-26 settlement. In the Council's response to previous provisional settlements we have commented that the calculation was too simplistic and was more aimed at a simple headline than to reflect genuine spending need and undermines the functioning of other elements within the settlement.

## 5. Other Announcements in Provisional Settlement

5.1 The Council Tax referendum thresholds have been confirmed in provisional settlement as follows:

- Upper and single tier authorities up to but not equal to or exceeding 5%, comprising 2% for adult social care and 3% for other services
- Lower tier councils up to but not equal to 3% or more than £5 on band D charge, whichever is greater
- Police and Crime Commissioners more than £14 on the band D charge
- Fire and Rescue authorities more than £5 on the band D charge
- Referendum principles do not apply to Mayoral Combined authorities or town and parish councils

5.2 Council tax bills will be simplified and the adult social care levy will no longer need to shown separately and bills will just show the overall charge for the Council. The Government intends to publish a consultation in 2025 to consider other options to improve transparency of council tax billing and support taxpayers to manage their household finances with a default option to pay over 12 months. The simplification of bills is a matter for billing authorities, not precepting authorities such as Kent CC. A default option to pay council tax over 12 months may have a negative impact on district council cash flows, ultimately reflected in the Collection Fund (from which the county council may then receive a lesser share). The impact of this is not likely to be known for a year.

5.3 The government has confirmed that £515m of new funding will be made available to local authorities to support with the costs of the increase in employer's National Insurance contributions. An amount will be set aside for combined authorities and county combined authorities and the balance allocated to authorities pro rata to net current expenditure from the 2023-24 revenue outturn return (RO). Provisional allocations have not yet been published pending finalisation of this data. The funding will be un-ringfenced and allocated in addition to CSP (and thus in addition to the funding floor).

5.4 The New Homes Bonus grant will continue for one more year. As in 2024-25, allocations will be based on the change in the number of homes reported on tax base returns (CTB1) between 2023-24 and 2024-25 above the baseline of 0.4%, with supplements for homes brought back into use and affordable homes. As in 2024-25 there are no legacy payments. In two tier areas the reward is split 80% to the district and 20% to the county.

5.5 The Exceptional Financial Support framework continues to be available to support councils in financial difficulty. Under this framework the government will consider requests for bespoke referendum principles from councils seeking exceptional financial support. Requests from councils will be considered on a case-by-case basis and will only be agreed only in exceptional circumstances.

5.6 The settlement confirms that every authority in England will receive a share of the accumulated £100m surplus currently held in the business rates levy account. Individual allocations of this funding will be published at the final settlement early next year.

5.7 The settlement does not provide any additional certainty over the statutory override on DSG High Needs deficits. The current override expires on 31st March 2026. The consultation sets out the government's intentions to set out plans next year for reforms to the SEND system which will include how the government will support authorities to deal with historic and accruing deficits which in turn will inform any future decision on the override. This uncertainty presents a considerable obstacle to providing a medium-term assurance on the Council's financial viability.

5.8 The settlement proposes that the current statutory override which disapplies part of International Financial Reporting Standard 9 (IFRS9) is not extended beyond March 2025. IFRS9 requires provision is made in budgets for unrealised gains and losses on pooled investment funds. The override allowed authorities to record the impacts of fair value movements of pooled investment funds in an unusable reserve. Changing the accounting mechanisms so that gains and losses are recognised in the revenue account could have large (and unpredictable) variances at year end that would not help medium term financial planning.

5.9 The provisional settlement confirms the government's commitment to Funding Reforms from 2026-27 to fundamentally improve local authority funding based on a new assessment of need and resources. These reforms will build on the framework set out in the previous Government's abandoned review of relative needs and resources (originally, the Fair Funding review). The settlement also confirms the business rates retention system will be reset and as part of the funding reforms will consider how the business rates retention system could better and more consistently support strategic authorities to drive business growth.

## 6. Consultation

6.1 The provisional settlement is open for consultation until 15th January. The consultation seeks views on the distribution and consolidation of grants, council tax referendum principles and ceasing the override on IFRS9. In the Council's response we intend to highlight that deprivation is not the only driver of this Council's' inescapable cost increases, nor necessarily the key indicator of which councils (generally) are under the most financial distress. Demand for and rising cost of council services, including costs arising from market failure across adult and children's social care and special educational needs services are key factors that are pushing councils to the financial brink. If the settlement does not address these pressures for all councils, then there will be little option but to reduce services next year, including in social care, whilst increasing council tax in order to balance the budget.

## 7. Conclusions

7.1 The provisional settlement provides some limited, positive news in that there is an overall increase in the level of funding being made available, over and above the assumptions made in the draft budget published on 29th October. However, there is an expectation about where this money will be spent (for example, the Children's Social Care Prevention Grant) and that undermines local decision making. There has also been a clear policy shift by central Government away from county areas and into urban areas (as reflected in the distribution of the Recovery Grant) and this has not benefitted the County Council. The settlement is just for one year, so it has not supported longer term planning, although the direction of travel towards multi year settlements is welcome. The proposed use of new funding will be reflected in the budget update report to Cabinet later this month.

## 8. Contact details


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## Background documents

Below are click-throughs to reports, more information, etc.
Click on the item title to be taken to the relevant webpage.

1 KCC's Budget webpage
2 Provisional Local Government Finance Settlement Announcement