

From: Mr Brian Collins, Deputy Leader of the Council
Mr Dave Shipton, Acting S151 Officer

To: Cabinet – 26th March 2026

Subject: **Late changes to the 2026-27 Revenue Budget and
2026-29 Medium Term Financial Plan (MTFP)**

Classification: Unrestricted

Summary:

This paper provides details of the proposed necessary changes to the approved 2026-27 revenue budget following receipt of final funding announcements.

Overall, the net budget for 2026-27 will increase from £1,648.1m to £1,654.5m, an increase of £6.4m. The net increase is a result of the following changes:

- a) Final Local Government Finance Settlement + £6,685k
- b) Retained Business Rates – a small reduction of £41k, offset by the 100% safety net, so net nil impact.
- c) Retained Business Rates – a reduction in the amount for renewable energy of -£170k.
- d) Business Rate collection fund deficit balance -£152k.

In accordance with the recommendations agreed at County Council on 12th February 2026, this paper sets out the details of these late changes, their impact on the overall funding of the council and asks Cabinet to approve the proposed treatment in the 2026-27 approved budget. This paper provides details of any impact in 2027-28 and 2028-29 of the Medium-Term Financial Plan.

This paper also updates Cabinet on some other late changes since County Council on the 12th February 2026 which do not impact on the overall net revenue budget amount. The most material of these is in relation to the government's announcement to cease the Safety Valve Programme on 1st April 2026 and replace it with a High Needs Stability Grant which will cover 90% of the accumulated High Needs deficit on 31st March 2026.

The report includes a summary of how the changes to be incorporated into the final budget impact on the Section 151 officer's Section 25 assurance.

Recommendations:

Cabinet is asked to:

- 1) **APPROVE** the revised net revenue budget for 2026-27 of £1,654.5m [one thousand, six hundred and fifty-four million, five hundred thousand pounds], arising from the final funding announcements.
- 2) **APPROVE** that the increase in the net budget is reflected in increased spending where funding is from a consolidated grant (£115k [one hundred and fifteen thousand pounds] for Domestic Abuse and £300 [three hundred pounds] for Crisis and Resilience),

with the transitional changes to the Revenue Support Grant of £6,570k [six thousand, five hundred and seventy thousand pounds] transferred to reserves.

3) **APPROVE** the reduction in retained business rates income from renewable energy £169.6k [one hundred and sixty-nine thousand, six hundred pounds] and collection fund deficit of £151.7k [one hundred and fifty-one thousand, seven hundred pounds] are balanced with a drawdown of £321.3k [three hundred and twenty-one thousand, three hundred pounds] from the local taxation reserve.

4) **APPROVE** the technical changes to transfer the residual balance of the £61.1m [sixty-one million, one hundred thousand pounds] previous years' contributions and £20.2m [twenty million two hundred thousand pounds] of future years' KCC Safety Valve contributions to a new earmarked SEND reserve. This follows the government's announcement that the Safety Valve Programme will cease on 1st April 2026 as a result of the introduction of the new High Needs Sustainability Grant.

5) **APPROVE** the one-off increase in member community grants for 2026-27 to £4,600 [four thousand six hundred pounds] per member.

6) **NOTE** the other late changes to the specific grants and minor technical changes as reflected in the updated High level 2026-27 Budget & 2026-29 Medium Term Financial Plan at appendix A and Key Service analysis at appendix B.

7) **NOTE** the impact of these late changes on the S25 assurance as shown in section 6 of this report

1. Introduction

1.1 The 2026-27 revenue budget for the Council was agreed by County Council on 12th February 2026. In accordance with the budget decision taken at that meeting, this report provides information on the final funding announcements and their proposed impact on the 2026-27 approved revenue budget, along with other minor technical changes.

2. Final Local Government Finance Settlement

2.1 The final local government finance settlement was published on the 9th February 2026, which provides both an update and replaces the provisional settlement. The final settlement included the following additional national funding for local government:

- £440m over the multi-year period via additional uplifts for councils in receipt of recovery grant that would otherwise have less than 17% increase in core spending power. KCC receives none of this recovery grant.
- £272m over the multi-year period via Homelessness, Rough Sleeping and Domestic Abuse Grant including elements for supported housing, Renters Rights Act, and homelessness prevention. KCC receives a small additional allocation for Domestic Abuse.
- £40m over the multi-year period for Mayoral Strategic Authorities.
- £15m for standalone Fire Authorities with less than 3.8% increase in core spending power.

2.2 The final settlement also included a correction in legacy funding from business rate pooling in two tier areas with proceeds shared across both upper and lower tier authorities. This results in increased legacy Revenue Support Grant (RSG) for upper tier authorities and reduced RSG for lower tier authorities (with compensation in 2026-27 only). The

legacy element of RSG is transitional and thus additional funding represents a one-off amount in 2026-27 (reducing by half in 2027-28 and to nil in 2028-29).

2.3 The most significant announcement in the final settlement is that a new High Needs Stability Grant will be made available during 2026-27 to cover 90% of eligible historic Dedicated Schools Grant deficits. This announcement is covered in more depth in section 4 of this report. The new grant reduces but does not fully eliminate the risks arising from the SEND deficits.

2.4 The final settlement, when compared to the provisional settlement, results in an increase in 2026-27 Grants for KCC within Core Spending Power of £6.685m (as shown in table 1a below). This increase in funding is made up of an increase in the Fair Funding allocation (RSG) of £6.570m and an increase in the Homelessness, Rough Sleeping & Domestic Abuse (consolidated) grant of £0.115m. Table 1b shows the changes in funding in 2027-28 and Table 1c shows the changes in funding in 2028-29.

Table 1a – Summary of changes in 2026-27 core funding announced as part of the Final Settlement

	Provisional Settlement £'m	Final Settlement £'m	Change £'m
<u>Fair Funding Allocation</u>			
Baseline Funding Level	294.565	294.565	-
Revenue Support Grant (inc. rolled in grants)	213.394	219.964	+6.570
Local Authority Better Care Fund	61.701	61.701	-
<i>Sub Total – Fair Funding</i>	569.660	576.230	+6.570
Homelessness, Rough Sleeping and Domestic Abuse	4.031	4.146	+0.115
Total Changes in Core Funding			+6.685

Table 1b – Summary of changes to 2027-28 core funding announced as part of the Final Settlement

	Provisional Settlement £'m	Final Settlement £'m	Change £'m
<u>Fair Funding Allocation</u>			
Baseline Funding Level	301.322	301.322	-
Revenue Support Grant (inc. Local Authority Better Care Fund)	311.812	315.132	+3.320
<i>Sub Total – Fair Funding</i>	613.134	616.454	+3.320
Homelessness, Rough Sleeping and Domestic Abuse	4.031	4.259	+0.228
Total Changes in Core Funding			+3.548

Table 1c – Summary of changes to 2028-29 core funding announced as part of the Final Settlement

	Provisional Settlement £'m	Final Settlement £'m	Change £'m
<u>Fair Funding Allocation</u>			
Baseline Funding Level	307.401	307.401	-
Revenue Support Grant (inc. Local Authority Better Care Fund)	351.702	351.702	-
<i>Sub Total – Fair Funding</i>	<i>659.103</i>	<i>659.103</i>	<i>-</i>
Homelessness, Rough Sleeping and Domestic Abuse	4.031	4.364	+0.333
Total Changes in Core Funding			+0.333

2.5 It is proposed that increase in grant funding from the final local government finance settlement of £6.685m is treated as follows:

- The increase in the RSG allocation of £6.570m is held in reserves for the final budget publication pending further consideration of need for increased financial resilience in-year.
- The expenditure budget for Domestic Abuse is increased by £0.115m, to £4.146m, in line with the increase in the Homelessness, Rough Sleeping & Domestic Abuse grant.

2.6 The only other change announced as part of the consolidated grants within the final settlement outside of core spending power relates to the Crisis and Resilience Fund consolidated grant which has increased from £19,171.5k to £19,171.8k, an increase of £0.3k. As this is a ring-fenced grant, it is proposed that the associated expenditure budget also increases by £0.3k.

3. Retained Business Rates

3.1 The retained business rates precept in our final 2026-27 budget must be based on the estimates from collection authorities' statutory government return (NNDR1s), along with estimates for any over/under collection of business rates from previous years notified to us through their collection fund balances. The NNDR1 sets out the business rate tax base including rateable values for new businesses, impact of any changes in rateable values due to change of use or following check/challenge/appeal process, and impact of discount/exemptions/collection rates. The final value of the County Council's share of retained business rates was not available in time to include in the final draft budget report for County Council published on 4th February 2026.

3.2 Consistent with previous years and pending the final figures from the districts' NNDR1 returns, the funding estimate in the final draft budget approved by County Council on 12th February 2026 included an assumed baseline (based on government's estimate included in their provisional local government finance settlement) and no change in assumed additional retention from Renewable Energy and Enterprise Zone planning approvals.

3.3 The table below sets out the County Council's updated net share of business rates for 2026-27 compared to the estimates included in the County Council papers of 12th February 2026. These changes could not have previously been planned as we do not

have access to detailed business rate tax base. The combination of the increase in the NNDR1 retained business rates results in an insignificant net reduction in the available base funding for 2026-27 of £169.6k.

Table 2 – Retained Business Rates (Local Share and Renewable Energy)	Estimate included in County Council papers £'000	Updated figures for Cabinet £'000	Change £'000
Retained Business Rates – Local Share	79,729.9	79,689.0	-40.9
100% Safety Net at Business Rates baseline	0	40.9	+40.9
Retained Business Rates - Renewable Energy	4,250.5	4,080.9	-169.6
Total	83,980.4	83,971.9	-169.6

3.4 Any impact of additional government discounts will be reflected in final Business Rate Compensation S31 grant announcements, which will be received during the 2026-27 financial year. These will be reported to Cabinet via the in-year budget monitoring process.

3.5 Collection fund estimated amounts are determined by collection authorities for over/under collection of the estimated business rates in previous NNDR1 returns. The County Council's share of the 2025-26 business rate collection fund surpluses and deficits notified to us by district councils is a net deficit of £151.7k. No surplus or deficit was assumed in the final draft papers presented to County Council on 12th February 2026, and therefore this represents a one-off reduction in the available funding for 2026-27, as set out in the table below.

Table 3 – Business Rates collection fund balance	Estimate included in County Council papers £'000	Updated figures for Cabinet £'000	Decrease £'000
Business rate collection fund	0.0	-151.7	-151.7

3.6 It is proposed that the small net reduction arising from the business rates changes notified to us via the NNDR1 returns of £169.9k and the collection fund deficit balance of £151.7k are offset by a total drawdown of £321.3k from the Local Taxation equalisation smoothing reserve.

4. Cessation of the Safety Valve Programme, replaced with the High Needs Stability Grant

4.1 Increasing demands from across the sector have resulted in the Council overspending on Special Educational Needs & Disability (SEND) services funded from the High Needs Block of the Dedicated Schools Grant (DSG) since 2018. The Council has been part of the Safety Valve programme run by the Department of Education (DfE) since 2023, to support Local Authorities (LAs) to eliminate this accruing deficit. This included the Council and the DfE making additional contributions to the outstanding debt. On 9th February 2026, the DfE announced that the current Safety Valve programme would close on the 1st April 2026 and, as part of the first phase of the SEND funding reforms, will be replaced with a new High Needs Stability Grant. This new grant will cover 90% of the accumulated deficit on the DSG High Needs block as at 31st March 2026, subject to approval of a local SEND reform plan. Local authorities are expected to plan to fund the remaining 10%.

4.2 The DfE have confirmed that when calculating the new grant, local authorities, like Kent, with a Safety Valve agreement will not be disadvantaged by their participation in the programme. This means that the contributions that we have previously made will not reduce the DSG deficit in the High Needs Stability grant calculation. This effectively means we have been compensated for previous Safety Valve contributions. We are assuming that as the statutory override is still in place we will need to show accumulated DSG deficit (less DfE Safety Valve contribution) separately from the unapplied grant. We are proposing that the previous local authority Safety Valve contributions are similarly held in a Local SEND reserve rather than reducing the DSG deficit.

4.3 Table 4 below sets out a summary of the position which shows that an estimated High Needs Stability Grant of £167.887m is expected from the DfE in the Autumn of 2026 (subject to an approved local SEND reform plan). Previous local authority Safety Valve contributions of £61.1m are expected to meet the Council's 10% contribution leaving a residual surplus of £31.4m.

Table 4 – Summary table showing impact of cessation of Safety Valve programme and new High Needs Stability Grant

		£'000s
A	Latest accumulated DSG deficit forecast as at 31 st March 2026	136,485.5
B	Add back DfE Safety Valve payments already received	99,400.0
C	Add back KCC Safety Valve payments already paid	61,100.0
D	Forecast accumulated DSG deficit 1 st April 2026 (without Safety Valve payments) (Sum of row A, B and C)	296,985.5
E	Estimated High Needs Stability Grant @ 90% of accumulated deficit	267,287.0
F	Less: DfE payments already received (row B above)	-99,400.0
G	Balance of High Needs Stability Grant to be received from DfE in 2026-27 (Sum of rows E and F)	167,887.0
H	Latest accumulated DSG deficit forecast as at 31 st March 2026 (A)	136,485.5
I	High Needs Stability Grant (G), of which: - Unapplied High Needs Stability Grant reserve @ £136,485.5k - Residual surplus balance available for future year deficits @ £31,401.5k held in Local SEND reserve	-167,887.0

4.4 The changes necessary to the budget following this decision are to remove the DfE contributions to Safety Valve in 2026-27 to 2028-29. At this stage it is proposed KCC contributions for the next two financial years continue to be made but are held in a new earmarked SEND reserve (with the residual surplus balance) along with a new High Needs Stability Grant reserve until further information is available on responsibility for funding of future deficits.

5. Other technical changes

5.1 The budget that was approved at County Council on 12th February 2026 included provisional allocations of both the demand and cost driver amounts for Adult Social Care, pending final decisions. The additional work to enable final decisions to be taken has been completed. Whilst this results in some changes to individual service lines within the Adult Social Care directorate, it does not change the overall directorate budget total for 2026-27.

5.2 A review of the funding for the capital programme has been completed and highlighted the need to make some minor changes to both the revenue and capital budgets to ensure alignment of revenue contributions. These have a net nil impact on the total revenue and capital budgets for 2026-27.

5.3 There are a number of other minor technical changes to the revenue budget, which do not affect the total revenue budget requirement for 2026-27. All these changes have been approved by the S151 officer.

5.4 There is one further technical change following the County Council decision on 19th March 2026 to increase member allowances for 2026-27 by 3.8% over the revised allowances approved for 2025-26. This enables scope for another one-off increase in member community grants of £1,000 within the overall approved budget for governance and democracy. This takes the individual grant for 2026-27 to £4,600 per member.

5.5 Attached at Appendix A is an updated high-level budget for 2026-27, reflecting all the late changes within this paper. Any impact on the high-level plans for the later years (2027-28 and 2028-29) have also been reflected. Also attached at Appendix B is a revised Key Service analysis reflecting all proposed changes within this paper.

6. Impact on Section 25 Assurance

6.1 The Section 25 assurance report presented to County Council on 12th February 2026 identified the significant medium-term risk from the substantial and growing deficit on High Needs spending from the Dedicated Schools Grant. The announcement of High Needs Stability Grant equivalent to 90% of the accumulated deficit, alongside the statutory override precluding councils from using General Fund to reduce deficits, are both now mitigating factors. However, there is still uncertainty over the treatment of the remaining 10% historic deficit or deficits accrued in subsequent years. These deficits are likely to still be significant with a net risk (DSG deficit less unapplied Stability Grant and new local SEND reserve) of £183.5m over the medium term. This compares to the previously identified risk of £238.5m in the risk register. The £183.5m would still be the most significant item in the risk register and still means SEND deficit is on par with the Adult Social Care risks as the most material risks to the Council's continued financial sustainability.

6.2 The additional transitional Revenue Support Grant announced in the final local government finance settlement provides some additional resilience against the short-term risks identified in the Section 25 Assurance. This additional RSG compensates for the loss of the Council's share of the proceeds from the Business Rate Pool and this loss was already factored into the budget approved at the County Council meeting.

7. Legal Implications

7.1 There are no specific legal implications to add, save for noting that Members at Full Council on 12th February 2026 agreed the proposed budget. In accordance with the recommendations from Cabinet pursuant to paragraph 8.14 of the current KCC Constitution.

Background Documents

- 1 [KCC's Budget webpage](#)
- 2 [2026-27 Budget approved by County Council on 12th February 2026](#)
- 3 [2026-27 Final Local Government Finance Settlement](#)

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