

APPENDIX B

The Local Government Financial Settlement and Schools Funding

This Appendix provides more detail on the Local Government Finance settlement the Schools funding settlement and the Public Health Grant

1. Core Spending Power

- 1.1 Core Spending Power (CSP) is the Government's measure of the change in funding an authority receives from year to year. The national average increase in CSP for 2025/26 was 5.6%.

Core Spending Power for Havering for 2025/26

CORE SPENDING POWER	2024-25 (m)	2025/26 (m)	Movement (m)
Settlement Funding Assessment	39.5	40.1	0.6
Compensation for under-indexing the business rates multiplier	7.2	7.5	0.3
Improved Better Care Fund	6.8	8.4	1.6
New Homes Bonus	0.7	0.6	(0.1)
Recovery Grant	0.0	0.0	0.0
New Childrens Grant	0.0	1.0	1.0
Social Care Grant	18.8	22.0	3.2
ASC Market Sustainability and Improvement Fund	4.4	4.4	0.0
ASC Discharge Fund	1.6	0.0	(1.6)
Employer NI Grant	0.0	1.9	1.9
Services Grant	0.3	0.0	(0.3)
Grants in core spending power	79.3	85.9	6.6
CT increase assumption**	158.0	166.9	8.9
TOTAL CORE SPENDING POWER	237.3	252.8	15.5

** Government Council Tax assumption is 4.99% + Tax base growth

- 1.2 For authorities like Havering much of Core Spending Power relates to our ability to generate income through Council Tax and as such 2/3rds of our CSP increase relates to assumed additional Council Tax yield.

2. Settlement Funding Assessment (SFA) (Retained Business Rates and Revenue Support Grant)

- 2.1 Havering's Settlement Funding Assessment has increased by £0.524m. This represents an increase of 1.3%

Settlement Funding Assessment Havering

Settlement Funding Assessment	2024/25 (£M)	2025/26 (£M)	Increase (£M)
Revenue Support Grant	2.025	2.119	0.094
Assumed Business Rates (including top up element)	37.476	37.906	0.430
TOTAL	39.501	40.025	0.524

3. Other Government Grant announcements

3.1 Adult Social Care Funding

There is an additional £880m of funding for Adult Social Care. Disappointingly this continues to be distributed based on the 2013/14 Adult Relative Needs Formula. £240m nationally of the Adult Social Care precept will be equalised as part of the grant distribution.. This is particularly disappointing for Havering who had made a strong case for using updated formulae to distribute the Social Care Grants rather than the chosen data which is now 10 years old.

Social Care Grant Funding for Havering 2025/26

Social Care Grants in Core Spending Power	24/25 Core Spending Power (£M)	25/26 Core Spending Power (£M)	Increase (£M)	Havering's Share of the National Pot
Improved Better Care Fund (£2.640bn Nationally)	6.825	8.420	1.595	0.32%
Roll over of Social Care Grant (£5.044bn)	18.772	18.772	0.000	0.37%
Additional Grant allocated through ASC Precept equalisation (£240m)		0.512	0.512	0.21%
Additional Social Care Grant (£640m Nationally)		2.682	2.682	0.42%
ASC Market Sustainability and Improvement Fund (1.050bn)	4.400	4.400	0.000	0.42%
ASC Discharge Fund (moved to IBCF)	1.595	0.000	(1.595)	N/A
Core Spending Power (Social Care element)	31.592	34.786	3.194	0.36%

3.2 The table shows that Havering has received on average 0.36% of the National Funding pot for Social Care. 2022 DHSC Government exemplifications on a potential updated formula reflecting actual need of local residents would have increased Havering's share of the national pot to 0.48% and had this been applied to Havering's Social Care allocations Havering would have been over £11m better off. We have lobbied the Government on this point in the past and have done so again in our response to the settlement. The Government have promised a full reform of the funding system in 2025 and it can only be hoped that the revised formula better represents relative need moving forward

3.3 **Childrens Preventative Grant**

A new Children's Services Prevention Grant (CSPG) has been introduced in 2025-26 (£270m). Allocations have been distributed using an interim children's relative needs-based formula. This formula is based on the research commissioned by MHCLG and DfE, undertaken by LG Futures and academic partners, to develop a new multi-level model for Children and Young People's Services. Of the total grant funding of £250m 30% (75m) has been allocated on a method factoring in Council Tax Equalisation. This reduces Havering's grant allocation as it assumes that a higher proportion of Council Funding can be found via Council Tax through the precept.

3.4 **New Recovery Grant**

The Government have introduced a new Recovery Grant which will distribute £600m using a formula that focusses resources on authorities that have high levels of deprivation and relatively low ability to generate council tax income. Over half the Recovery Grant will go to metropolitan districts. As this grant has been allocated using measures of overall deprivation it does not in anyway reflect the change in relative need since the Government funding formula was frozen in 2014 which is one of the primary reasons Havering are in financial difficulty. Of the 19 authorities who needed exceptional financial support to balance their budgets last year only 12 received recovery grant. Havering was one of the 7 authorities not to receive any grant

3.5 **Other Grant Announcements:**

There has been a further round of New Homes Bonus as had been widely expected. Havering was just above the threshold and has received £0.6m in NHB. The Business Rate Multiplier has been frozen again at 49.9p. The Government provide a compensatory grant for the loss of Business Rates which now totals £7.5m for Havering.

The Services Grant along with the rural services grant has been deleted to help fund the new Childrens preventative grant. There will be an increase in the homeless prevention grant in 2025/26. This will increase Havering's grant by £1.3m to a total of £4.5m

As expected the Government has rolled out the extended producer responsibility grants to local authorities and waste disposal authorities. The funding for this grant is collected from commercial waste producers and re-allocated to local authorities to help fund the cost of waste collection and disposal. Havering has received a direct grant of £2.2m for 2025/26 and will also benefit by £2.1m from a reduction to the ELWA levy cost from the waste disposal element of the payment.

3.6 Public Health Grant

The Public health grant is outside Core Spending Power and is announced separately from the settlement itself. The Government has recently announced the 2025/26 Public Health Grant. Havering's grant will increase by £0.677m which is an increase of 5.4%

4 Dedicated Schools Grant and Schools Funding

4.1 Dedicated Schools Grant and Schools Funding

The Dedicated Schools Grant (DSG) is a ring-fenced grant that is allocated to local authorities to meet their responsibilities Early Years' education (now 9 months to 5 years), the funding of Schools 5-16 and for provision and support for pupils requiring alternative provision or those with special educational needs and disabilities (0 to 25 years). The grant is allocated in four "blocks" and the table below shows the allocation for 25-26. The Early Years block has increased by over £13m to reflect the increased entitlements for working parents of younger children (2 and under.)

Financial year	Schools Block	High Needs Block	Central Services To Schools	Early Years Block	TOTAL
	£m	£m	£m	£m	£m
2025-26	258.180	47.602	1.912	47.819	355.513
2024-25	237.616	43.391	1.774	34.569	317.350
Difference 2024-25 to 2025-26	20.564	4.211	0.138	13.250	38.163

(Note that for comparison purposes these figures are shown pre-recoupment, i.e. they include funding for Academies and Free Schools which will be adjusted for as this is allocated directly by the ESFA.)

4.2 Schools Block

As the table shows there has been an overall increase in all blocks – however in the Schools Block, much of this comes from the rolling in of 24-25 financial year additional grants. The actual funding received through the mainstream schools National Funding Formula (NFF) for schools is increasing by 2.3% per pupil for pupil led expenditure in 2024-25, or 2.18% if premises costs and growth fund are included.

Financial year	Pupil Numbers	Schools Block allocation exc Growth Fund & premises factors	Additional Grants rolled in	Pupil Led Funding including additional grants	Allocation per pupil	Allocation through premises factors	Growth Fund`	Total allocation (excluding Growth Fund)	Allocation per pupil
		£m	£m	£m	£	£m	£m	£m	£
2025-26	39,883.00	254.2		254.2	6373	2.710	1.294	258.180	6,473
2024-25	39,655.00	233.4	13.6	247.0	6230	2.106	2.066	251.216	6,335
Difference 2024-25 to 2025-26	228	20.7	13.6	7.1	143	0.604	-0.772	6.964	138
	0.57%				2.30%			3.10%	2.18%

This provides an overall average funding rate of £5,580 for each primary pupil and £7,564 for each secondary pupil – an increase of £409 and £583 respectively. This is below the average for both London (£6,258, £8408) and Outer London (£5,790, £7,845).

The above table does not include the elements of the Schools Block for Growth and Falling Rolls. These are allocated at a Local Authority level based on detailed population data and allow LA and Schools to manage demographic fluctuations. Havering receives both Growth and Falling Rolls funding. The 25-26 allocation for Havering is £1.294m. The policy for allocating this money to schools has been reviewed and approved by Schools Forum.

The operation of the Growth and Falling rolls schemes is expected to require an additional £0.429m local contribution which will be funded by top-slicing from the Schools Block before application of the formula, in line with DfE regulations and with Schools Forum and schools agreement.

Due to pressures on the High Needs Block Havering Schools Forum have agreed to transfer 0.5% or £1.290m of the Schools Block Funding to the High Needs Block. This leaves £255.165m to be distributed to schools through the formula.

In setting its Local Formula, Havering has followed the national funding formula in full and provided a minimum funding guarantee (MFG) of 0.0% per pupil increase for all mainstream schools and academies. In order to remain within the funding available, an affordability cap of 0.85% for schools has been used.

Schools were consulted on both the transfers from the Schools Block and the proposed formula as required by the regulations. 17 responses were received, all of which were in favour of the proposals. The formula is in line with both the approach followed in previous years and has been agreed by Schools Forum.

4.3 Early Years

This section outlines the funding allocations and plans for Early Years provision for the financial year 2025-26. The indicative funding from the Dedicated Schools Grant (DSG) reflects updated rates and expanded entitlements, aiming to address rising costs and increasing participation in early education.

Total indicative Early Years Block funding for Havering is £47.819m, a 43.3% increase from the previous year. This includes funding for the expansion of childcare entitlements for under-twos and two-year-olds of working parents from the current 15 hours entitlement to 30 hours from September 2025.

The DfE settlement's hourly funding rates for Havering to fund the support for the Early Years entitlement is as follows:

- Under-2s: Increased from £12.11 to £12.45 per hour (+2.81%)
- Two-year-olds (working parents / for eligible families receiving additional support (formerly known as disadvantaged)): Increased from £8.90 to £9.17 per hour (+3.03%)
- Three- and four-year-olds: Increased from £6.16 to £6.40 per hour (+3.90%)

Within the three-and four-year-olds funding, the teachers' pay awards and pension costs legacy grants are integrated into the hourly rate.

As part of the DfE regulations, 96% of the overall rate (an increase from the present year threshold of 95%) has to be passed on to providers, with 4% (reduced from 5% presently) being retained for the LA to undertake its statutory obligations for the delivery of the Early Years entitlement. This is to ensure that the majority of funding reaches providers directly.

As part of the annual budget cycle timetable, the LA will consult the Early Years Provider Reference Group (EYPRG), which is a sub-group of the Schools Funding Forum, to discuss 2025-26 funding rates and agree on proposals for the Schools Funding Forum's approval in February 2025.

The funding formula will continue to address disparities and prioritise quality enhancements for providers.

The LA's funding approach ensures an equitable distribution of resources, enabling Havering to support its Early Years providers in delivering high-quality education and care.

It is noted that no provider across the borough has encountered any financial difficulties in delivering the Early Years entitlement and there has been growth in the sector with new provisions and expanding provisions coming into the local area to help support Havering residents with a diverse range of delivery models, from childminders to mainstream schools with nurseries.

Havering is committed in expanding access to affordable childcare and addressing cost pressures faced by schools and nurseries, and strives to provide an annual increase in the base rate funding to support the early years sector with the increase they face, i.e. NI thresholds change, which on average costs £1k per employee.

The present funding rate to providers for the delivery of Early Years entitlement is as follows:

- Under-2s: £11.05 per hour
- Two-year-olds (working parents): £8.05 per hour
- Two-year-olds (for eligible families receiving additional support): £8.59 per hour
- Three- and four-year-olds: £5.56 per hour

From preliminary modelling, subject to engagement with stakeholders and consultation, there will be an increase in the present year rates by at least 2%. Following the review on the targeted support required for the upcoming years, the rates will be confirmed prior to the start of the new financial year.

4.4 High Needs Block

The High Needs Block provides funding for students in alternative (non school based) provision and for support to children and young people up to age 25 with special educational needs and disabilities. Since 2018, the central government (DfE) funding allocation has been moving towards being formula based, but there is still a significant element (25%) that is simply based on historical spending patterns, and there are transitional restrictions on the rate of change. Havering is one of the authorities that was historically underfunded and still receives the lowest rate of funding per head in London.

In addition the system is also widely believed to be underfunded at the national level – and this view is supported by the large number of authorities that now report deficits on the High Needs Block, with nationally a cumulative deficit balance of £1.76bn as at the end of financial year 2023-24.

Expenditure on High Needs rises with several factors – the overall population for that age group, the rate of children needing additional support within that population and the complexity/severity of their needs and the cost of providing that support. Over the last four years, all of these factors have been rising very strongly in Havering and are only partly compensated for by the increase in grant funding of £4.2m which is less than the current deficit without allowing for any growth.

If this trend continues then the deficit will continue to grow year on year. Currently there is a special arrangement whereby deficits on the DSG do not form part of a Council's overall financial position. This is due to end next financial year (March 2026) – however this would very likely create a number of situations where Councils could not balance their overall budget, so it remains to be seen if this ringfence will be removed.

Havering is a member of the Delivering Better Value (DBV) programme which is a DfE sponsored initiative to help authorities to manage down their DSG deficits. This began with analysis of our spending to identify the main causes of the overspends and so what can be done to tackle the root causes.

The analysis carried out as the first stage of the DBV found that Havering was already very inclusive and effective at holding children in more local and lower cost provision. The main issues driving the increases in expenditure were the increasing numbers of EHCPs and the level of price inflation for all kinds of support – which in turn was mostly driven by increases in pay for education support staff.

The Delivering Better Value Plan for Havering builds on the current good practice and seeks to extend these principles. These are the main themes identified:

- Working with Schools and Parents to ensure that the goals and aspirations of the child can be met in mainstream schools without an EHCP where possible
- Ensuring that we have the right provision so that children's goals and aspirations can be met in mainstream schools, Special Units or Additional Resource Provisions (ARPs) rather than in special schools
- Creating the right capacity so that children's goals and aspirations can be met in Special Units or maintained special schools rather than in the Independent and Voluntary sector.

As part of the DBV, the Council has received a grant of £1m in order to make the necessary cultural and systemic changes to deliver on the identified themes. This is monitored quarterly by the programme.

4.5 Central Services Block

This block is made up of two elements. £1.837m funds the statutory education functions of local authorities such as school admissions, the funding of national copyright licences, servicing the Schools Forum and other statutory duties previously funded from an Education Services Grant. In addition, there is £0.075m funding for historic commitments previously funded within the Schools Block. This second element is being phased out over time.