

APPENDIX B

The Provisional Local Government Finance Settlement

National Context

The Provisional Local Government Finance Settlement contains the long awaited outcome of the Fair Funding Review and is the first multi year settlement for nearly a decade. Funding distribution was last updated in 2013-14 (with damping frozen within funding allocations), and since then there has been an updated 4-year settlement (from 2016-17) and a series of one-year settlements.

The announcement is a 3-year settlement, providing Havering with Grant figures upto and including 2028/29. 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. The settlement has used the 2022-based population projections and the 2025 Index of Multiple Deprivation (IMD)

The settlement contains large funding floor payments and the continuation of the Recovery Grant which combined has left a large number of authorities substantially above their funding target in 2028-29. This creates ongoing uncertainty, and unfairness, and also means that ministers have not delivered on their objective of getting every authority to their funding target over 3 years. This position has significantly penalised Havering as the money used to finance the funding floor should have been added to the overall distribution pot. This has cost Havering a further £5m in lost funding based on the new relative needs formula applied in the settlement

The key elements within the overall funding settlement are:

- **Council tax.** The settlement assumes that council tax will rise with the maximum uplift in Band D, and that taxbase will grow in line with the 4-year increase in taxbase. Maximum increases are 4.99% for upper-tier authorities. Taxbase growth is based on the change between the 2021-22 and 2025-26 CTR1s.
- **Settlement Funding Assessment (SFA).** SFA increases from £16.8bn in 2025-26, to £34.8bn in 2026-27 and then £35.3bn in 2028-29. SFA now includes £13.2bn in rolled-in grants from within the current Core Spending Power (CSP) settlement, plus other rolled in grants, and the rolled-in amounts from the Business Rates Reset. In addition, there is growth in SFA from the Spending Review last summer.
- **Rolled-in grants.** Grants worth £13.2bn from the current CSP will roll into SFA. In addition there are further grants from outside the current settlement that are rolling into SFA. These include the Temporary Accommodation element of Homelessness Prevention Grant (HPG), and various other smaller grants
- **Business Rates Retention System (BRRS).** Business rates income worth £18.770bn is rolled into SFA in 2026-27.
- **Recovery Grant.** 2025-26 allocations will continue unchanged over the next 3 years.

- **Consolidated Grants.** Four new consolidated grant streams have been created to simplify funding from a range of different sources. These grants are:
 1. The Public Health Grant
 2. The Crisis Resilience Grant
 3. The Homelessness Rough Sleeping and Domestic Abuse Grant
 4. The Children and Families Grant

Change in Grant for Havering

The settlement and fair funding review has been long awaited by Havering and provides an additional £39m of new grant by 2028/29. The grant is phased in with increases of £15.4m in 2026/27 and just over £12m for 2027/28 and 2028/29. Whilst this is welcomed it will fall far short of the resources the Council needs to match its structural deficit

The table below sets out the change in Core Spending Power for Havering for the next three years

Core Spending Power	2025/26 (£M)	2026/27 (£M)	2027/28 (£M)	2028/29 (£M)
Retained Business Rates	37.9	58.2	59.6	60.8
Revenue Support Grant	2.1	38.3	57.5	68.7
Compensation for under-indexing the business rates multiplier	11.1	0.0	0.0	0.0
Council tax requirement	164.4	173.5	183.2	193.3
Local Authority Better Care Grant	8.4	8.4	0.0	0.0
New Homes Bonus	0.6	0.0	0.0	0.0
Social Care Grant	22.0	0.0	0.0	0.0
Market Sustainability and Improvement Fund	4.4	0.0	0.0	0.0
Employer National Insurance Contributions Grant	1.9	0.0	0.0	0.0
Rolled in Grants	3.3	0.0	0.0	0.0
New Childrens Grant	2.0	3.6	3.6	3.1
New Homeless Prevention Grant	2.8	3.3	3.5	3.6
TOTAL CORE SPENDING POWER	260.8	285.4	307.3	329.6
External Grant Increase		15.4	12.3	12.1
Assumed Council Tax increase		9.1	9.7	10.2

TOTAL INCREASE IN CORE SPENDING POWER		24.6	21.9	22.3
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Transitional Support (Damping)

When the Fair Funding review was launched in June 2025 the Governments stated aim was to devise a new formula to apportion funds between authorities and completely move to the new formula within the 3 year spending review timeline. Subsequent ministerial decisions have resulted in a significant level of damping remaining in the system after three years

Damping floors have been confirmed for those authorities losing from the funding reforms as set out in the table below.

New damping floors	Criteria	Protection
Recovery Grant	Authorities receiving	Real-terms protection
Guarantee	Recovery Grant in 25-26	(105% in 26-27, 106% in 27-28 and 107% in 28-29)
Upper tier authorities	<15% above funding target	Cash-terms protection
Upper tier authorities	>15% above funding target, low Band D	95% protection (i.e. -5% floor in 2026-27, 0% in following two years)

The cost of the funding floors will be £295m in 2026-27, £390m in 2027-28, and £550m in 2028-29. This funding is top-sliced from within the Core Spending Power quantum. This has cost Havering around £5m in lost grant based on the new relative needs formula

Consolidated Grants

There are the four consolidated grants that will bring together a range of different grants. Most of the grant streams within these consolidated grants will remain unchanged, but there is extra funding within the Children Families and Youth grant and an inflationary increase to the Public Health Grant:

Consolidated Grants Havering	2026/27	2027/28	2028/29
	£m	£m	£m
Homelessness, Rough Sleeping & Domestic Abuse Grant	3.3	3.5	3.6
Public Health Grant	14.6	15.0	15.4
Crisis and Resilience Fund	3.1	3.1	3.3
Children, Families and Youth Grant	4.5	4.5	4.0
Total	25.7	26.2	26.3

Footnotes

Allocations for 2027/28 and 2028/29 are indicative.

Funding for the Homelessness, Rough Sleeping and Domestic Abuse Grant and the Families First Partnership programme is already included in Core Spending Power. As such, the figures here are also represented in the Core Spending Power table and they do not represent additional funding.

SEND Funding future outlook

An announcement on schools and SEND funding was made by the Government on the day of the Provisional Settlement it stated:

“No further funding has been announced (beyond the £1bn additional funding announced for 2025-26). Funding will continue at this level into 2026-27. Arrangements for central government to take on responsibility for SEND expenditure will not begin until 2028-29.

The government recognises that in the period prior to 2028-29 authorities are accruing deficits that “may not be manageable with local resources alone, and will bring forward arrangements to assist with them”.

This has followed the announcement earlier in the year that the statutory override would be continued to March 2028 enabling authorities to roll forward DSG deficits at year end.

The Schools Funding Settlement

The Dedicated Schools Grant is ringfenced funding from the DFE that is allocated to Councils to fund education in their local area. It is divided into four blocks all of which are intended for specific purposes which are explained below.

Compared to other London Boroughs Havering in general receives less funding. This is partly because the formulae for distribution include indicators of additional need such as deprivation which are lower in Havering than some other boroughs but also some historic distribution patterns have still not been entirely unwound.

Furthermore there is a nationally recognised shortfall in funding for the High Needs block which has caused most authorities to hold a deficit balance for their DSG. This is subject to a "statutory override" which keeps it separate from the Council's main reserves position. This is a necessary preventative measure without which many authorities would not have adequate reserves.

The Government has announced its intention to introduce a range of reforms to the provision of Special Educational Needs funding including the changes to funding and the removal of budgetary responsibility from Councils to Central Government. However the details of these changes have not yet been published.

The table below shows the 2026-27 DSG Allocations for Havering. Although the overall figures appear to have gone up it is important to understand that this in large part reflects the rolling in of additional in year grant funding.

Dedicated schools grant: 2026 to 2027 allocations local authority summary	2026 to 2027 DSG allocations, before recoupment and deductions for national non-domestic rates, and for direct funding of high needs places by Department for Education (DfE)				
	Schools block (£s)	Central school services block (£s)	High needs block (£s)	Early years block (£s)	Total DSG allocation (£s)
	£m	£m	£m	£m	£m
	26-27 Havering	269.89	2.26	49.30	55.69
25-26 Havering	258.18	1.91	47.36	47.71	355.16

Schools Block

The Schools Block funding is passported through to maintained schools (both Local Authority schools and Academies/Free Schools) by means of a formula. The funding allocated to each area is calculated based on pupil characteristics for individual schools, aggregated and used to calculate an average "primary/secondary unit of funding." In addition funding is provided for premises costs and an authority level allocation of funding for pupil growth.

The Units of Funding for Havering have increased by 5.22% in primary and 4.96% in Secondary. The total number of pupils at the Autumn Census date shows a small drop

in pupil numbers of 152 in Primary and an increase of 9 at Secondary compared to October 24. Overall this amounts to an increase of £12.1m across the Schools Block as shown in the table below.

		2025-26	2026-27	Change	%
Primary	Unit of Funding	5,580	5,871	291	5.22%
	Pupil Numbers	23,938	23,786	-152	-0.63%
	Total Funding	133,571,407	139,655,931	6,084,524	4.56%
Secondary	Unit of Funding	7,564	7,939	375	4.95%
	Pupil Numbers	15,945	15,954	9	0.06%
	Total Funding	120,604,472	126,650,989	6,046,516	5.01%
TOTAL PUPIL LED FORMULA FUNDING		254,175,879	266,306,920	12,131,041	4.77%
Growth and Falling Rolls		1,293,804	876,134	-417,670	-32.28%
Premises Including NNDR		2,710,054	2,710,054	-	0.00%
TOTAL	Total Funding	258,179,737	269,893,108	11,713,371	4.54%

However the increase in funding includes £6.539m of in year grants provided to fund additional costs for pay and national insurance. The real increase in funding after these grants is therefore less than this - £5.592m pupil led formula funding increase or 2.5% per pupil.

With the agreement of the Schools Forum Havering will topslice the schools block by the following amounts:

- £1.349m (0.5%) transferred to High Needs Block
- £1.020m Falling Rolls funding for Schools with changing pupil numbers
- £0.11m to provide a 0% Minimum Funding Guarantee which ensures that no school will receive a cut in their funding per pupil. (This affects only 3 schools.)

As in previous years Havering has used the formula rates used in the National Funding Formula with an area cost adjustment.

In order to remain affordable after the transfers listed above the growth per pupil allocated to each school is capped **at 2%** in order to remain within the funding envelope. All schools in Havering will therefore receive an increase in funding per pupil of between 0% and 2%.

However a large number of primary schools (29) have seen an overall reduction in numbers and for about half (15) this is significant enough that their overall funding will reduce. This will be partly compensated for by using the Falling Rolls scheme

mentioned above. However this will could create financial pressures for those schools and is an emerging challenge for the borough.

High Needs Block

The High Needs Block is used to fund additional support for pupils with Special Educational Needs in a variety of settings including Special Schools (both State and Independent), Special units attached to mainstream schools and “top up” for individual additional support to pupils with EHCPs. It also funds Alternative provision for children who are unable to attend mainstream school for medical or other reasons.

Havering has a highly inclusive model of Special Education and the majority of its spending goes to support pupils in mainstream schools. Although this is a cost effective model the funding available is not sufficient for the level of demand being experienced. The table below shows the pattern of expenditure in 2025-26. There is an in year deficit of £31.4m which when added to the previous years will result in an overall deficit balance of £67.7m on the DSG ringfenced reserve.

	Forecast as @P9
Haivering Special Schools	18,219
Out of Borough Maintained Schools	3,898
Primary Top-Up	20,742
Secondary Top-Up	9,320
ARPS and Special Units	4,945
Post 16	3,544
Early Years	663
Independent and Non Maintained	7,526
Alternative Provision	4,202
Inclusion and Central Support	3,113
TOTAL EXPENDITURE	76,173
Funding available	-44,769
In-Year Deficit	31,404

For 26-27 the DfE have not used their own funding formula and have only rolled forward last year's funding updated for in year grants as shown in the table below. There is effectively no additional funding for increased demand. This is a holding position before the DfE announce their reform plans. It means that the deficit can only continue to grow at least at the same rate as this year and more likely more.

High Needs Block	£m
2025-26 Allocation pre recoupment and deductions	49.45
Grant Allocations for Independent Special Schools	0.22

Special and AP Academies Grant

1.64