

Report for: Cabinet

Date of Meeting: 2 December 2025

Subject: 2026/27 Draft Budget Update

Cabinet Member: Cllr John Downes – Cabinet Member for Governance, Finance and Risk

Responsible Officer: Andrew Jarrett – Deputy Chief Executive (S151)

Exempt: N/a

Wards Affected: All

Enclosures: N/a

Section 1 – Summary and Recommendation(s)

To update members on the latest information from Government in respect of changes to local government funding from 2026/27 onwards.

Recommendation(s):

That Cabinet Members note the update included within the report.

Section 2 – Report

1. Introduction

- 1.1. In previous reports the ambiguity surrounding the changes to local government funding have been trailed. A commitment was given to provide further updates as necessary and available in the run in to setting the 2026/27 budget in February 2026.
- 1.2. On 20 November, the Ministry of Housing, Communities and Local Government (MHCLG) published their response to the Fair Funding 2.0 consultation held over the summer. In addition, a Finance Policy Statement has been published outlining some key elements for next year's funding changes. This included a policy paper regarding Resetting the Business Rates Retention System. Although these documents provide some information and a degree of clarity, they do not enable a local authority to accurately project its funding for 2026/27 to 2028/29. This will only become available

upon the publication of the Local Government Finance Settlement to be published week commencing 15 December 2025.

- 1.3. The Autumn Budget was announced on 26 November which set out some national headlines which will ultimately impact on the council and affect the levels of funding. Once again, little of this can be clearly applied at a local level, but the main points are included within this report.
- 1.4. The main points from these papers are included within this report.

2. Government Response to the Fair Funding 2.0 Consultation

- 2.1. The Fair Funding 2.0 reforms introduce significant changes to how local government funding is allocated. The main objectives of the proposed changes are:
 - **Fairness and Transparency:** Funding is directed to areas of greatest need, with a transparent approach to allocations.
 - **Financial Sustainability:** Measures are included to support councils' financial resilience and ability to deliver essential services.
 - **Ongoing Review:** The commitment to ongoing review of fees, charges, and funding arrangements.
- 2.2. In summary the consultation outlined proposals to make council funding fairer, clearer, and more focused on areas with the greatest need using new funding formulas applying up-to-date data on deprivation, population, costs, and local resources. Several adjustments that previously benefited rural and district councils including sparsity have been removed.
- 2.3. While some transitional protections are in place including phased implementation and minimum funding floors, the overall impact is expected to be negative for many district councils, especially those in rural or less deprived areas. Further calls have taken place with MHCLG which have continued to indicate that MDLC along with several neighbouring councils have been targeted for a lower level of protection, albeit that this reduction has been confirmed as up to 5% across 2026/27 to 2028/29, down from the 7% previously indicated.
- 2.4. The Government have reviewed the 440 responses to the Fair Funding 2.0 consultation held over the summer and have released their response outlining the merging and simplifying of over 30 funding streams, confirming the redirection of funding to the most deprived areas and those with high social care needs. The growth in the number of specific grants will reduce, with more funding being rolled into the main formula, or larger specific grants covering several related themes, i.e. a new combined Homelessness, Rough Sleeping and Domestic Abuse Grant. These changes to the system will be phased in over three years to avoid sudden changes.
- 2.5. Another significant area of change is the Resetting of the Business Rates Retention Scheme. This includes fully resetting the baseline for the first time since the retention

system was implemented in 2013/14, reallocating growth in the taxbase from authorities that have growth to those that haven't. Five new multipliers will be introduced, designed to support local businesses and ensure fairer contributions from larger operations. Businesses affected by these changes will require transitional support. These changes coincide with the regular 3-year revaluation of all properties and create a significant burden on the council to administer.

2.6. Other points included within the response is the confirmation that New Homes Bonus funding will end; that money will go into the main funding pot. This arguably removes an incentive for house building. Also, that local authorities may get more control over some fees and charges, but only after a review.

3. **Local Government Finance Policy Paper** As speculated within the previous update, the Government have now published a Policy Paper setting out the approach to local government funding for the financial years 2026-27 to 2028-29. It outlines the proposed changes at a headline level; it is not possible to apply these to give an improved forecast for our specific funding.

3.2. The policy confirms several elements that were widely expected:

- **Multi-Year Settlement:** Councils will receive a multi-year finance settlement, supporting longer-term planning and financial stability.
- **Funding Formula Changes:** The revised formula will focus more on deprivation and population, removing certain bespoke adjustments (such as those for flood defence and sparsity).
- **Grant Consolidation:** Several grants will be merged into broader funding streams, simplifying the funding landscape and reducing administrative burden.
- **Business Rates Reset:** The baseline for retained business rates will be reset in full for 2026-27, which will affect councils' that have seen strong business rates growth.
- **New Homes Bonus:** Confirmation that this funding stream will end; with the funding going into the main funding pot. This arguably removes an incentive for house building.
- **Transitional Protection:** A minimum funding floor will be in place to protect councils from significant funding reductions, with special arrangements for those most affected.
- **Extended Producer Responsibility:** this grant will continue to be additional to core funding for waste collection authorities.
- **Support for Specific Pressures:** Targeted grants will continue for areas such as homelessness, public health, and councils affected by Internal Drainage Board levies.

3.3. There were some changes to the proposals outlined within the summer consultation. These are:

- **Use of 2025 IMD Data:** Now factors in housing costs more heavily, benefiting urban authorities, particularly Inner London Boroughs.

- **Reduced Weight for Visitor/Commuter Population:** Disadvantages areas with high tourist/commuter numbers.
- **Remoteness Adjustment Removed:** Except for adult social care, which negatively impacts rural/remote councils.
- **Preservation of Recovery Grant:** Maintained at 2025-26 levels for the spending review period, benefiting deprived areas.
- **New Funding Floor for Social Care Councils:** Real-terms protection for those currently receiving the Recovery Grant (not applicable to district councils).

- 3.4. The Minimum Funding Floor has been set at 0% (cash frozen). However, some authorities where existing funding is more than 15% higher than the new funding calculated, indicatively including MDDC, will receive a 95% floor. Anecdotally, reference was also made to those authorities having higher levels of reserves.
- 3.5. At this time, certainty cannot be given over what that 95% floor will be applied to. However, a significant point of clarity has been the inclusion of business rates growth within the funding baseline on which the 95% floor will be applied. This should mean that the worst-case scenario included within the Medium-Term Financial Plan included within the September Cabinet report, is now unlikely and should leave the position closer to the lower officer estimates.
- 3.6. The options for authorities to use MHCLG flexibilities have been withdrawn, but they can still request a Council Tax increase above the referendum threshold. It should be noted that the expectation is that councils will increase council tax to the maximum within the threshold, for MDDC this is the higher of 3% or £5.

4. Resetting Business Rates Retention Scheme

- 4.1. As part of the wider reforms to local government funding, this document outlines the Government's plan to reset the business rates retention system for local authorities, effective from the 2026/27 financial year.
- 4.2. It aims to address the imbalance of business rate growth across the country by redirected funds to areas that have seen the least growth. By doing so, similarly to the cessation of New Homes Bonus, this arguably removes the incentive for councils to drive economic growth, although new growth from that point will be retained, until the next reset in three years' time. Renewable Energy, which the council retains 100%, is not subject to the reset.
- 4.3. At the reset, all local authorities will be assigned a new Business Rates Baseline (BRB) and Baseline Funding Level (BFL) based upon the updated assessments of need. Top-ups or Tariffs will be recalculated to reflect relative resources, and a new tiered levy on growth has been designed. The new BFL will feed into the new need assessment as part of the Fair Funding 2.0 changes. This enables the transitional support through phasing and minimum funding floors, as outlined above, to cushion councils from the cliff edge drop in income. Further transition protection is given by

setting the safety net threshold at 100% for 2026/27, falling back to 92.5% by 2028/29.

4.4. In addition to the reset, there are other significant changes to the overall business rates scheme. These are:

4.4.1. On 1 April 2026, all commercial properties across the UK will be reassessed for business rates based on rental values as at 1 April 2024. To support ratepayers facing large bill increases at the revaluation the government is introducing a package worth £4.3 billion over the next three years. This includes a Transitional Relief scheme worth £3.2 billion over the next three years, decreases to small business and standard multipliers, and expansion of the Supporting Small Business scheme who are eligible for Retail, Hospitality and Leisure relief, providing more generous support for those paying higher tax rates. In addition, there will be a 1p Business Rates Transitional Relief Supplement on the relevant tax rate for ratepayers who do not receive Transitional Relief or the Supporting Small Business scheme. This will apply for one year from 1 April 2026. The transitional relief scheme will be administered by the Council.

4.4.2. Five new multipliers will be introduced

- 1) **Small business RHL** multiplier: Retail, Hospitality and Leisure (RHL) businesses with RV below £51,000, set at 38.2p
- 2) **Small business non-RHL** multiplier: Non-RHL businesses with RV below £51,000, set at 43.2p
- 3) **Standard RHL multiplier**: RHL businesses with RV between £51,000 and £499,999, set at 43p
- 4) **Standard non-RHL** multiplier: Non-RHL businesses with RV between £51,000 and £499,999, set at 48p
- 5) **Large property multiplier**: For all properties with RV of £500,000 and above, set at 50.8p

These require manual evaluation to classify which multiplier should be applied to each business.

4.4.3. Reliefs will continue, and indeed increase, meaning that councils will continue to receive offsetting funding through Section 31 grant. This should improve stability.

4.4.4. Pooling of business rates will continue, although at present it is questionable whether there are sufficient gains to be made from doing so. The Devon Pool is currently assessing this.

5. Autumn Budget

5.1. Chancellor Rachel Reeves delivered the long-awaited Autumn Budget for 2025 on 26 November. Although this announces a raft of policy changes around government spending and taxation, few directly relate to Local Government, so it is difficult to

assess the impact on the Council's finances. The following are some initial reflections on the areas that may impact our Authority.

- 5.2. Although not directly related to the Council's finances, employee's will pay more in tax due to the freezing of thresholds – which was previously announced. Similarly, National Insurance will be charged on salary sacrifice schemes where annual contributions exceed £2,000 from April 2029.
- 5.3. The Minimum Wage will rise by 4.1% for over 21s, which will have a knock-on impact for the grades above this, to ensure equitable differentiation in grades. This has not been costed as new pay scales from April 2026 are yet to be agreed.
- 5.4. From April 2028, a new “mansion tax” surcharge of £2,500 will be introduced on Council Tax for residential properties valued above £2m, rising to £7,500 on homes above £5m in value. Billing authorities will collect this additional charge on behalf of Government, and the funding will be used to support funding for local services. However, currently it is not clear whether this income is additional for the council, or passported back to Government.
- 5.5. The current 5p cut in vehicle fuel duty has been extended until September 2026, when it will be uplifted by inflation. In addition, a new Electric Vehicle (EV) tax will be introduced from April 2028 at 3p per mile. This will cost the council as we continue to move more of the fleet to electric.
- 5.6. £100m additional funding for local authorities to accelerate installation of EV charging stations, and an extra £100m investment in EV charging infrastructure. EV charging points will benefit from 100% relief from business rates.
- 5.7. Following consultation, a visitor levy on overnight visitor accommodation could be introduced for mayoral strategic authorities and potentially other local leaders.
- 5.8. Changes to energy bills were announced which would give an average household savings of £150 per year. At this time, it is not clear if or how this might affect the council's energy cost.
- 5.9. Additional funding of £48m will be available over the next three years to boost capacity and capability in the planning system, through the recruitment of an extra 350 planners by expanding the Pathways to Planning Graduate Scheme and creating a new Planning Careers Hub to retain and retrain mid-career professionals. Although welcomed, this small increase will only make a small difference.
- 5.10. The Government announced changes to cut the cost of politics, through the abolishment of Police and Crime Commissioners, and reaffirmed savings are expected from local government reorganisation, particularly through reducing the number of councillors.
- 5.11. Finally, there are a couple of announcements relating to those on benefits:

- 5.11.1. Help to Save scheme, which offers people on universal credit a bonus on savings, extended and expanded beyond 2027.
- 5.11.2. Introduce new earned income disregards in Housing Benefit for claimants in supported housing and temporary accommodation.
- 5.11.3. Disappointedly, the outcome of the consultation on Social Rent Convergence is delayed until January. This leaves the timeframe extremely tight if this is to be implemented within the 2026/27 Budget.

6. Conclusion

- 6.1. As previously stated, although welcomed and to a degree helpful, these announcements do not enable the Council to forecast its financial position for 2026/27 with any greater certainty. Over the coming weeks, further work will be undertaken to refine our understanding, however full clarity will only become available within the Local Government Finance Settlement which is scheduled to be released week commencing 15 December 2025.
- 6.2. As such, this may require additional information being presented to members either late or outside of the standard committee papers process. It is highly likely that some level of draw from reserves may be required, and a full review of Earmarked Reserves will be necessary to see what can be realigned, and whether a minimum balance of £2m in General Reserves can be maintained.
- 6.3. To conclude the statutory budget setting process, updates to the draft budget position will be brought as and when greater clarity emerges in the run up to the budget being agreed at Full Council on the 18 February 2026. During this period Officers will continue to identify and examine further savings possibilities that can reduce the longer-term budget gap.

Financial Implications

By undertaking regular reviews of the MTFP the Council can ensure that its Corporate Plan priorities are affordable. The implications of the budget gap are set out within the paper. Many areas require greater clarity, particularly around national funding and possible changes to Government Policy. Therefore, several key assumptions underpin the reported position, which will be refined as greater clarity is received through the budget setting process.

Legal Implications

None directly arising from this report, although there is a legal obligation to balance the budget. There are legal implications arising from any future consequential decisions to change service provision, but these would be assessed at the time.

Risk Assessment

The MTFP makes several key financial assumptions based on a sensible/prudent approach, taking account of the most up to date professional advice that is available. These continue to be kept under review and updated where necessary.

Impact on Climate Change

The allocation of resources will impact upon the Council's ability to implement/fund new activities linked to climate change, as the MTFP sets the broad budgetary framework for the Council over the coming years. However, some provision has already been included in the base budget and further evaluation/consideration will be made as the draft budget passes through the PDGs over the next few months. Significant investment is currently forecast within the Capital Programme; however, this will be dependent upon full options appraisals and levels of Grant funding available.

Equalities Impact Assessment

No implications arising from this report.

Relationship to Corporate Plan

The Medium-Term Financial Plan (MTFP) sets out the financial resources available to deliver the Council's ongoing Corporate Plan priorities.

Section 3 – Statutory Officer sign-off/mandatory checks

Statutory Officer: Andrew Jarrett

Agreed by or on behalf of the Section 151

Date: 1 December 2025

Statutory Officer: Maria De Leburne

Agreed on behalf of the Monitoring Officer

Date: 1 December 2025

Chief Officer: Stephen Walford

Agreed by or on behalf of the Chief Executive/Corporate Director

Date: 1 December 2025

Performance and risk: Dr Stephen Carr

Agreed on behalf of the Corporate Performance & Improvement Manager

Date: 1 December 2025

Cabinet member notified: Yes

Section 4 - Contact Details and Background Papers

Contact: Andrew Jarrett – Deputy Chief Executive (S151)

Email: ajarrett@middevon.gov.uk

Telephone: 01884 234242

Background papers:

- 2025/26 Budget
- 2025/26 Qtr. 1 Budget Monitor
- 2025/26 Qtr. 2 Budget Monitor
- 2 September Cabinet report – 2026/27 – 2028/29 MTFP
- 7 October Cabinet report – 2026/27 Budget Update
- 4 November Cabinet Report – 2026/27 Budget Update