

CABINET

19 August 2025

Title: Budget Strategy and MTFS Update 2026/27 - 2028/29	
Report of the Leader of the Council	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Summary <p>This report represents the first stage in the Council's annual budget planning process for 2026/27, following the agreement of the Council's Medium Term Financial Strategy (MTFS) for 2026/27 to 2028/29 by Assembly in February 2025. It reflects the latest financial factors and incorporates any known changes to assumptions and forecasts since that date.</p> <p>The updated MTFS forecasts a 2026/27 budget gap of £12.6m, up from the previously reported budget gap of £12.2m, rising to £16.8m in 2028/29. The drivers of this increase are analysed further in Section 4.</p> <p>The funding outlook beyond 2026/27 remains uncertain following the Government's planned local government funding reform. While the 2025 Spending Review confirmed additional grant funding and multi-year settlements, details are limited. Barking and Dagenham may benefit from a more needs-based model due to high levels of deprivation. However, rising demand and costs in services like adult and children's social care, and children's with special educational needs and disabilities (SEND) continue to pose financial risks. Due to this uncertainty, the Council will maintain a cautious and flexible approach to financial planning and have made no assumptions in the current MTFS.</p> <p>Wider economic factors such as inflation, interest rates and national fiscal policy will also continue to influence the Council's financial position. While inflation has eased and interest rates have stabilised, the cost of delivering services remains high. Sensitivity analysis will be undertaken to assess a range of scenarios as part of the 2026/27 budget development process.</p> <p>In line with the Council's Constitution, Strategic Directors are required to deliver services within their approved and agreed budget envelope. This principle ensures financial discipline and accountability across all service areas. The MTFS does not include any assumptions about recurring pressures from 2025/26. However, the Council is aware of potential risks in demand-led services, as highlighted in the latest Section 25 Budget</p>	

Statement by the S151 Officer. These risks will be monitored closely and addressed through the in-year monitoring process and future budget updates, once their scale and persistence are more clearly understood.

The level of usable General Fund reserves remains a key factor in assessing the Council's financial resilience. These have reduced significantly in recent years, and careful consideration will be needed to determine whether current levels are sufficient given the risks ahead.

Given the forecast financial position and the reduced level of usable reserves, it is important that a Budget Strategy is agreed to provide a clear framework and set out guiding principles for setting the 2026/27 budget and planning for the medium term. This report sets out those principles.

The report also sets out the Budget Strategy for the Capital Programme (section 7), Dedicated Schools Grant (section 5) and for the Housing Revenue Account (section 5).

Recommendation(s)

The Cabinet is recommended to:

- (i) Note the updated local government financial context and wider developments as set out in section 2 of the report;
- (ii) Consider and approve the Budget Strategy and approach to setting the 2026/27 budget as set out in section 3 of the report;
- (iii) Note the latest MTFS projections and forecast budget gap for 2026/27 of £12.6m as set out in section 4 of the report;
- (iv) Note the assumptions underlying the MTFS projections as well as the financial risks and uncertainties as set out in sections 4 and 11 of the report;
- (v) Note the Housing Revenue Account, Schools and Capital budget strategy and approach as set out in sections 5, 6 and 7 of the report; and
- (vi) Note the outline budget setting timetable for 2026/27 as set out in section 8 of the report.

Reason(s)

The setting of a robust and balanced Medium Term Financial Strategy will enable the Council to provide and deliver services within its overall corporate and financial planning framework. The Medium Term Financial Strategy underpins the delivery of the Council's vision of One borough; one community; no one left behind and delivery of the priorities within available resources.

1. Introduction and Background

- 1.1 In considering the Council's medium-term financial position and future financial sustainability, as well as the ability to set a balanced budget as required by law, it is essential that financial resources are allocated in a way that underpins the delivery of the corporate strategy.
- 1.2 The Council's vision is "to make Barking & Dagenham the place where people are proud of and want to live, work, study and stay". This is underpinned by the seven Corporate Plan priorities that aim to ensure residents:
- Are supported during the current cost-of-living crisis;
 - Are safe, protected and supported at their most vulnerable;
 - Live happier, healthier, independent lives for longer;
 - Prosper from good education, skills development and secure employment
 - Benefit from inclusive growth and regeneration;
 - Live in, and play a greater part in creating, safer, cleaner and greener neighbourhoods;
 - Live in good housing and avoid becoming homeless.
- 1.3 To deliver these outcomes, the Council must maintain robust financial discipline. This includes clear identification of financial risks, strong scenario planning, and a strategic budget framework that drives value for money and long-term sustainability.
- 1.4 The budget report approved in February 2025 included the Section 151 Officer's assurance statement, which set out key financial risks facing the Council over the medium term; such as affordability within the Investment & Acquisition Strategy, development viability, and exposure to interest rate fluctuations and funding uncertainties. While these risks remain largely unchanged, ongoing work through the in-year financial monitoring process is focused on refining assumptions, improving risk quantification, and ensuring the MTFS remains responsive to any material changes in financial outlook.
- 1.5 The Council's ability to sustain financial resilience over the medium term is being tested by rising structural pressures and tighter fiscal constraints. While reserves have historically supported the mitigation of short-term risks, their use has increasingly shifted toward managing ongoing demand-led pressures. A full review of reserve adequacy will be undertaken as part of the 2026/27 budget setting process, ensuring compliance with statutory responsibilities and alignment with the latest forecast assumptions.

2. Financial Context and Overview

2.1 National and Global Context

- 2.1.1 As of mid-2025, the UK economy is showing signs of recovery, with modest growth and falling interest rates offering some relief. But for local government, the picture remains challenging. Inflation is still pushing up the cost of delivering services, and rising wages are adding pressure to already stretched budgets, especially across social care and education. At the same time, demand for services continues to grow, driven by population needs, the ongoing cost-of-living crisis, and housing

pressures. These pressures are making it increasingly difficult to plan and deliver services and projects within budget.

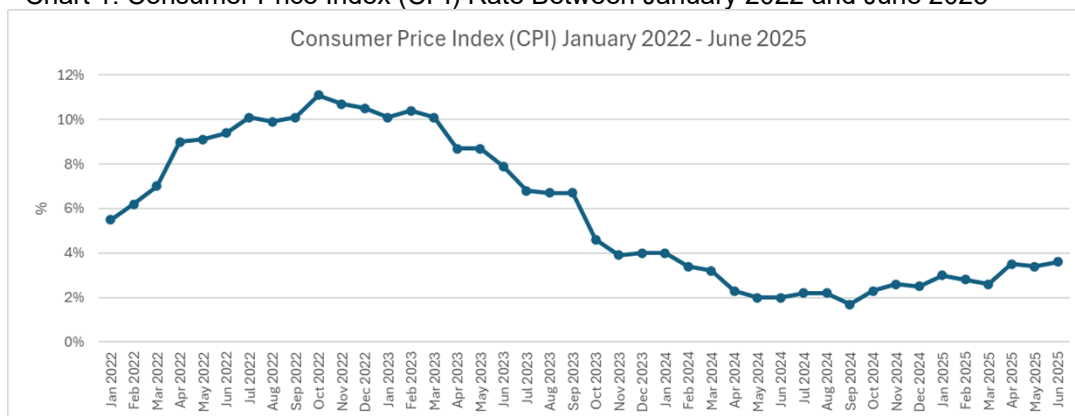
- 2.1.2 In this context, local authorities are having to make tough choices. Balancing short-term pressures with long-term priorities means focusing on what matters most to communities, finding new ways to deliver services more efficiently, and building financial resilience in the face of continued uncertainty.

2.2 Economic Context – Inflation and Interest Rates

Inflation

- 2.2.1 The June 2025 Spending Review reaffirmed that inflation remains a significant source of financial uncertainty for both national and local government. CPI¹ inflation as reported by the ONS², stood at 3.6% in the year to June 2025, only slightly up from 3.4% in May 2025 which is above the Bank of England inflation target rate of 2%. The OBR³ forecasts inflation will average 3.2% over the year, peaking at 3.8% in July, before gradually falling in 2026. The chart below shows the movement in inflation over the period January 2022 to June 2025.

Chart 1: Consumer Price Index (CPI) Rate Between January 2022 and June 2025



Source: ONS CPI Inflation June 2025

- 2.2.2 Rising costs are being felt most acutely in commissioned services, particularly adult and children's care packages, private rented sector, construction inflation, and public sector pay settlements. While the Spending Review outlines long-term investment ambitions, short-term pressures, driven by rising prices, public sector pay, and borrowing levels are expected to persist. The Council will need to consider these conditions in its forward planning and risk management approach.

Local Government Pay Award

- 2.2.3 Since the February 2025 budget report, the National Joint Council (NJC) for Local Government Services have proposed a 3.2% pay offer, which exceeds previous inflation assumptions used in the Council's Medium-Term Financial Strategy (MTFS). This updated pay award has now been reflected in the revised MTFS to ensure a more accurate forecast of staffing costs.
- 2.2.4 While the final agreement remains subject to national negotiation, the updated assumption ensures the Council remains prudent in its planning and responsive to

¹ CPI – Consumer Price Index

² ONS – Office for National Statistics

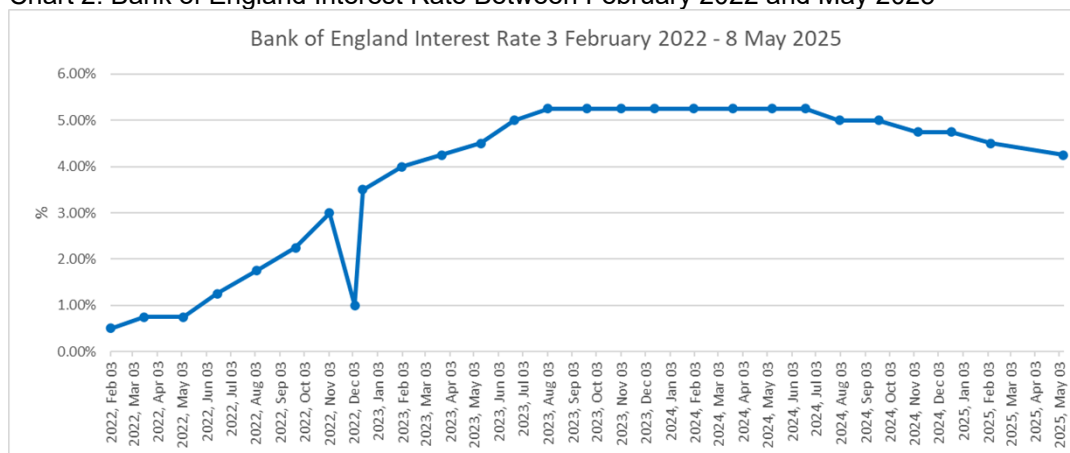
³ OBR – Office of Budget Responsibility

emerging cost pressures. Any deviation from this position will be closely monitored and adjustments will be made as required through in-year budget reviews.

Interest Rates

- 2.2.5 Interest rates remain a central consideration in the Council's financial planning. Between 15 December 2022 and 8 May 2025, the Bank of England increased the Bank Rate from 3.5% to 5.25%. The Monetary Policy Committee is scheduled to review the rate again on 7 August 2025. The chart below shows the movement in interest rate over the period February 2022 to May 2025

Chart 2: Bank of England Interest Rate Between February 2022 and May 2025



Source: Bank of England Interest Rate

- 2.2.6 As set out in paragraph 2.2.1, while inflation is projected to ease over the medium term, its uncertain trajectory has contributed to ongoing volatility in interest rate expectations. Rate movements are likely to remain closely tied to inflation data and wider economic indicators
- 2.2.7 The Council's Treasury Management Strategy, approved by Assembly in February 2025, outlines a prudent and risk-aware approach to borrowing in this environment. It supports affordability and seeks to manage exposure to further interest rate fluctuations.
- 2.2.8 Advice from the Council's treasury advisers indicates that PWLB rates are expected to remain elevated in the short to medium term, reflecting persistent inflationary pressures and increased levels of government borrowing. The yield curve is forecast to stay steep, shaped by continued tight monetary policy and broader global fiscal risks. Officers will keep these factors under review and continue to assess borrowing options as part of ongoing cash flow management, the 2026/27 budget and MTFS process, and future updates to the Treasury Management Strategy.

2.3 Spring Budget Statement 2025

- 2.3.1 The Chancellor announced her Spring Budget Statement on 26 March 2025 which introduced £2bn for affordable housing, a new Building Safety Levy, and significant investment in public services, employment support, and sector skills. Alongside an expected consultation on business rates reform, the Chancellor also signalled interest in enabling councils to retain recovered COVID fraud funds, with further detail to follow.

2.4 2025 Spending Review

2.4.1 On 11 June 2025, the Chancellor presented the 2025 Spending Review, setting departmental budgets for 2026/27 to 2028/29. While detailed allocations will follow in the provisional local government finance settlement, the review included several announcements with significant implications for local government, particularly in London. Summarised below are the key announcements relevant to local government:

- Reconfirmed commitment for multi-year settlements.
- Core Spending Power: 2.6% average real-terms increase (2026/27–2028/29), front-loaded with 3.8% (£3.4bn grant uplift) increase in 2026/27.
- Affordable Housing: £39bn additional UK-wide funding over 10 years includes £950m for temporary accommodation and £2.5bn in low-interest loans.
- Children & Families: £555m for family support, £560m for care placements, £760m for SEND reform (White Paper pending).
- Education & Skills: £2bn real-terms uplift, £2.4bn a year for school rebuilding, £625m for 60,000 construction trainees. Expanded free meals and childcare.
- Transport: £2.2bn for TfL renewals; DLR Thamesmead extension under review.
- GLA Integrated Settlement: From 2026/27, covering housing, skills, health, and infrastructure which is subject to readiness and outcome agreement.
- Local Growth Fund: New 10-year capital fund for mayoral regions (focus on North/Midlands) for regeneration and infrastructure.
- Transformation Fund: £3.25bn previously announced is now fully allocated and includes £100m for early homelessness prevention.
- Adult Social Care: No new direct funding; up to £4bn expected by 2028/29 via NHS, council tax, and grants (now confirmed).

2.5 Local Government Funding Reforms

2.5.1 In 2025, the government launched three major consultations shaping the future of local government finance:

- 1) Business Rates Reform: A technical consultation issued on 8 April 2025 (closed 2 June 2025) proposed resetting the business rates retention system from April 2026. Key aims include updating baselines to better reflect local economic conditions and fiscal capacity.
- 2) Fair Funding Review 2.0: Published on 20 June 2025 (closing on 15 August 2025), this consultation outlines proposals to modernise the Local Government Finance Settlement from 2026/27. It includes plans to revise needs-based formulas, consolidate grants, and reduce reliance on competitive bidding processes.
- 3) Modernising and Improving the Administration of Council Tax: Published on 20 June 2025 (closing on 12 September 2025), this consultation seeks views on how to make council tax billing, collection, and enforcement fairer, more transparent, and more efficient.

2.5.2 Given the potential magnitude of financial change, the government has indicated that any reforms will be phased over several years. While this phased approach may mitigate immediate impacts, the total funding quantum available, particularly for urban areas such as London, is expected to decline due to a shift in distribution

priorities towards other parts of the country. Although the Council may benefit from the updated deprivation indices, which better reflects its high levels of need, the overall outcome remains uncertain. As such, no assumptions regarding formula funding changes have been incorporated into the current MTFS; this will be reviewed once full details are confirmed.

2.6 Wide Policy and Legislative Developments

Children's Social Care Reform (December 2024)

- 2.6.1 The Children's Wellbeing and Schools Bill was introduced to Parliament in December 2024, setting out a wide-ranging programme of reform for children's social care and education. The Bill is expected to receive Royal Assent in Autumn 2025, with phased implementation from April 2026 through to 2028, subject to secondary legislation and guidance. The reform aims to shift the system towards early intervention, kinship support, and multi-agency collaboration. As part of this programme, the Council has been allocated ring-fenced funding of £3.96m in 2025/26 to support the development and implementation of new Family Help arrangements, including early intervention models and Family Group Decision Making responsibilities.

English Devolution White Paper (December 2024)

- 2.6.2 Published in December 2024, the White Paper sets out a long-term vision for devolving power and funding to local areas, with a focus on integrated settlements, place-based budgeting, and stronger local accountability. It underpins the government's wider agenda for governance simplification and deeper devolution, particularly in urban areas.

Local Government Reorganisation (2025)

- 2.6.3 In early 2025, statutory invitations were issued to councils in 21 two-tier areas to develop proposals for unitary governance, as part of the government's reorganisation programme. While the Council is not directly affected, the shift toward larger, simplified structures may have longer-term implications for London boroughs, particularly in the context of future devolution and sub-regional collaboration. No financial impact has been assumed in the Council's budget at this stage.

Planning Reform Working Papers (2025)

- 2.6.4 The Planning and Infrastructure Bill, introduced to Parliament on 11 March 2025, aims to accelerate housing delivery and modernise the planning system. Key measures include:
- A national scheme of delegation to clarify decision-making responsibilities.
 - Enhanced compulsory purchase powers, removing "hope value" to reduce land costs.
 - Streamlined statutory consultee processes.
 - A reformed regime for nationally significant infrastructure projects.
 - Introduction of environmental delivery plans to simplify mitigation requirements.

Local Government Pension Scheme Access and Fairness Consultation (May 2025)

- 2.6.5 This proposes regulatory changes to improve equity in survivor benefits, address the gender pensions gap, and reduce opt-out rates. The consultation closes on 7

August 2025 and may have implications for employer contributions and scheme administration.

NHS Governance Reform (2025)

- 2.6.6 In March 2025, the government confirmed that NHS England will be abolished, with its functions transferred to the Department of Health and Social Care (DHSC) by 2027. The reform aims to reduce bureaucracy, improve accountability, and decentralise decision-making. As part of the transition, Integrated Care Boards (ICBs) have been instructed to reduce running costs by 50% by Q3 2025/26, with further reductions expected across provider trusts.
- 2.6.7 These changes have significant implications for councils. Local authorities are expected to take on greater responsibility for shaping and delivering health outcomes through Integrated Care Systems (ICSs), with increased emphasis on population health management, health inequalities, and joint commissioning. Functions such as infection prevention and control, emergency preparedness, and workforce development are also expected to shift toward local systems over time. While this presents opportunities for more integrated service delivery, it also introduces financial and operational risks during the transition. No additional funding has been confirmed for councils to support these changes. The updated MTFS does not currently incorporate any assumptions or implications relating to these reforms but will continue to assess their impact as detail emerges.

3. Budget Strategy

- 3.1 The Council's budget strategy underpins organisational health by guiding how operations are financed and strategic priorities delivered for General Fund and the HRA (revenue and capital). It sets out the key areas for development and the actions required to maintain a balanced budget in the short to medium term.
- 3.2 In line with good practice, the strategy considers whether the Council can balance its budget without exposing taxpayers to significant risk. Where this is not achievable, it must reflect a level of service that is both affordable and sustainable. This principle shapes the Council's overall approach.
- 3.3 There is strong interplay between the Corporate Plan, corporate/service strategies (such as housing, economic and regeneration, asset management, procurement and AI and Digital) and the budget strategy, as these set out Council's direction of travel and how it plans to align its resources – 'live within its means'. Given the scale of the budget gap for 2026/27 and beyond it is imperative that the Council adopts a strategic approach in setting its budgets. This will enable the Council to, not only set a balanced budget, but also to ensure that financial resources are allocated to underpin the achievement of the Corporate Plan objectives.
- 3.4 It is also important that the Council seeks continual improvement in the use of public funds and the delivery of value-for-money.

3.5 Budget Strategy Objectives and Principles

- 3.5.1 The budget strategy has been formulated to reflect the financial management cycle and support outcomes of council's plan. All of which have been encompassed into

the following seven objectives for the medium-term financial plan and budget strategy:

1. Deliver a balanced budget that ensures value for money.
2. Establish financial resilience to ensure councils long term financial health and viability is sound.
3. Develop and implement credible delivery plans, including clearly defined savings programmes, to support strategic objectives and maintain financial sustainability.
4. Embed early intervention and prevention across all service areas to manage demand and improve outcomes.
5. Align the service offer and resource allocation to the available financial envelope and corporate priorities, ensuring services remain affordable and focused.
6. Drive transformation and adopt modern, innovative working practices to continuously improve efficiency, service quality, and delivery within the Council's financial means.
7. Maintain rigorous in-year financial monitoring and accountability to enable timely and informed decision-making.

3.5.2 The budget strategy objectives are underpinned by the following principles

1. Strategic Long-Term Planning: Take a long-term view of financial and service planning to support sustainable decision-making and the delivery of corporate priorities.
2. Evidence-Led Resource Allocation: Prioritise and allocate resources based on evidenced need, strategic impact, and cost-effectiveness.
3. Financial Sustainability and Culture: Embed a sustainability mindset into the Council's planning, operations, and organisational culture to safeguard long-term viability.
4. Outcome-Focused Investment: Maximise external funding and return on investment by directing capital and revenue spending toward initiatives with measurable community benefits.
5. Transformation and Innovation: Invest in transformation, including digital, AI, and modern operating models, to enhance outcomes, reduce waste, and improve service quality.
6. Smart Workforce Planning: Maintain lean, skilled, and adaptable staffing structures that are aligned to service needs and transformation goals.
7. Commercial and Procurement Discipline: Strengthen financial controls by delivering procurement savings, managing contracts strategically, and applying zero-based budgeting where appropriate.
8. Asset Optimisation: Maximise the value and impact of Council-owned assets in support of financial and service objectives.
9. Preventative and Community-Based Approaches: Reduce long-term service demand through prevention, early intervention, and strategic partnerships, particularly with the voluntary and community sector.
10. Growth and Change Business Case: Ensure any service growth or change is driven by evidenced need and a robust, strategically aligned business case.
11. Performance and Insight-Driven Improvement: Use benchmarking, data, and performance analysis to assess value for money and inform continuous improvement.

4. Medium Term Financial Plan 2026/27 to 2028/29

4.1 Overview

- 4.1.1 The Council's MTFS was last presented to Assembly in February 2025 and included projections for the 2026/27 and 2027/28 financial years based on assumptions at that time and financial risks associated with those forecasts.
- 4.1.2 By necessity, the MTFS is updated to reflect changing circumstances, updated priorities and ambitions, the latest financial situation and external factors such as Government funding settlements. Uncertainty regarding the impact of upcoming local government funding reforms (business rates baseline funding reset and the Funding Reform 2.0) and wider global and national economic climate present significant risks. This in turn creates a high degree of uncertainty both within and beyond 2026/27. As such the MTFS and budget strategy is being compiled in a period of unprecedented financial uncertainty and any estimate beyond one-year is very much speculative

4.2 Revised MTFS position at June 2025

- 4.2.1 As detailed earlier, the updated gap for 2026/27 of £12.6m incorporates pay award estimate (£1.4m) and core funding inflationary update (£1m), as summarised in the table below.

Table 1: 2026/27 Budget Gap Change since February 2025

	£m
Cumulative Gap Reported Feb Assembly	12.176
Pay Award increase estimate (3%)	1.35
Change in Core Funding (inflation)	(0.958)
Revised Gap	12.568

- 4.2.2 The estimated budget gap for the MTFP period 2026/27 to 2028/29 is c£16.7m, detail of which are set out in the table below.

Table 2: 2026/27 – 2028/29 Medium Term Financial Plan

Medium Term Financial Plan (MTFP) Summary 2026-29		2026/27 Forecast £'m	2027/28 Forecast £'m	2028/29 Forecast £'m
Net Cost of Services		238.703	251.566	264.813
Changes to Prior Year Budget				
Savings - Existing (May 2025)		(4.512)		
Pre-agreed Growth (May 2025)		5.020	0.617	
Savings- New		0.000	0.000	
Growth - New		0.000	0.000	
Inflation		12.355	12.630	13.030
Net Budget Requirement		251.566	264.813	277.843
Core Funding				
Revenue Support Grant		(23.897)	(24.351)	(24.351)
NDR		(23.612)	(24.014)	(24.790)
NDR Top Up		(57.837)	(61.029)	(64.167)
Council Tax		(99.900)	(106.700)	(114.000)
Market Sustainability & Fair Cost of Care Grant		(3.995)	(3.995)	(3.995)
Social Care Support Grant		(25.731)	(25.731)	(25.731)
Children's Social Care Prevention Grant		(2.022)	(2.022)	(2.022)
Employers National Insurance Contribution		(2.005)	(2.005)	(2.005)
Total Core Funding		(238.998)	(249.846)	(261.061)
Cumulative Budget Deficit/(Surplus) Before Reserve		12.568	14.967	16.783
Contribution To Reserve / (Drawdown From Reserve)				
Cumulative Budget Deficit/(Surplus) After Use of Reserve		12.568	14.967	16.783

4.3 MTFS Assumptions

- 4.3.1 Assumptions have broadly remained consistent with the assumptions in the Budget Strategy report approved by Assembly in February 2025. However, the pay award has been increased to 3% in 2026/27 and 2027/28 (previously forecast at 2%) as this felt like a more prudent estimate to reflect the actual award given in 2024/25.
- 4.3.2 Budget assumptions will be subject to continued stress testing and regular review to ensure they remain robust, realistic, and responsive to changing financial and operational circumstances.

4.4 Savings and Growth

- 4.4.1 The current MTFS position for 2026/27 includes £4.5m of pre-agreed savings and £17.375m of identified growth, resulting in a projected budget gap of £12.6m. However, given the likelihood of additional growth bids, the actual savings requirement is expected to exceed this figure. To deliver a balanced budget for 2026/27 and secure long-term sustainability, the Council must proactively identify further savings and efficiencies across all services.
- 4.4.2 Officers will continue to monitor the scale and recurring nature of in-year service pressures. Where pressures persist, permanent mitigation will be necessary. Any decision to address these pressures through growth provisions must be fully justified and will require a corresponding uplift in savings targets to accommodate revised assumptions. These positions will be reviewed and updated regularly through the year.

- 4.4.3 Without adequate mitigation, sustained service pressures and adverse funding outcomes present a significant risk to the Council's financial stability. Additional savings would be required to address any shortfall and ensure a balanced budget can be set.
- 4.4.4 Any proposed new growth will only be considered where supported by a robust business case and where it aligns with the agreed budget strategy objectives and principles.

5. Housing Revenue Account Budget Strategy

- 5.1 The Housing Revenue Account (HRA) budget strategy will be presented to Cabinet for review in December 2025 and will look to reflect some of the following national policy changes:

5.2 Social Housing Rent Policy

- 5.2.1 The Government recently consulted on the future framework for social housing rent policy. The consultation ran from 30 October to 23 December 2024 and proposed implementing a minimum ten-year rent settlement of CPI+1%, alongside the reintroduction of rent convergence. The outcome of the consultation is pending, with implementation expected from 1 April 2026, covering an initial five-year period to 31 March 2031. To support this, a further consultation was launched on 2 July 2025, closing on 27 August 2025, seeking views on how to implement social rent convergence, including the pace and scale of uplifts for properties currently below formula rent.
- 5.2.2 The Council will need to incorporate an assessment of the proposed rent policy's potential impact into its HRA business plan and MTFS. This will include updated financial forecasts and consideration of mitigations to safeguard the sustainability of the HRA and the delivery of core housing objectives.

5.3 Phase 2/3 Awaab's Law - Damp, Mould and Hazard Response Requirements

- 5.3.1 Phase 2 and 3 (2026–2027) will expand requirements to additional hazards (e.g. fire, excess cold, structural collapse), requiring further investment in inspection and remediation capacity.

6. Schools Budget Strategy

- 6.1 The Dedicated Schools Grant Budget will be presented to Schools Forum in December 2025 and January 2026, respectively.

6.2 Dedicated Schools Grant (DSG) Funding Risk

- 6.2.1 Currently local authorities do not have to cover any DSG deficit from their general fund resources, known as the "statutory override". However, this is due to expire in March 2026. If this does expire then the budget gap in 2026/27 would increase by any carry forward deficit at the time.

- 6.2.2 However, as the Government has strongly suggested that if the override does end in March 2026 a correction to schools funding will be made. No allowance for this is currently assumed in the 2026/27 budget position.
- 6.2.3 The provisional Dedicated Schools Grant (DSG) outturn is an £5.183m overspend. DSG is a ringfenced grant and overspends have no impact on the council's general fund. Any overspend will be funded from DSG Reserve. Where there is no DSG Reserve, the deficit must be carried forward to the new financial year and netted off against DSG budget in the new year. The opening balance as at 1 April 2024 on DSG reserve was £7.955m, it is assumed the underspend of £1.5m on Early Years will be clawed back by the DfE and therefore the provisional closing balance as at 31 March 2025 will be £1.263m.

7. Capital

- 7.1 Given the current pressures on the General Fund revenue budget and the lack of previously accumulated General Fund capital receipts, the main resource available to meet future capital demands is external funding or prudential borrowing.
- 7.2 The planning assumption for the capital programme in 2026/27 onwards is for a net neutral impact on the General Fund in relation to new capital schemes to be adopted in the approved programme. Further work will be undertaken as part of the budget process to assess each business case against set of agreed criteria which will look to ensure that any investment requiring financing is affordable.
- 7.3 Any new investment will prioritise any capital spending required to meet council priorities set out in the updated Council Plan and unavoidable Health and Safety and any funds remaining will be allocated against other priorities agreed as part of the budget setting process.

7.4 Investment and Acquisition Strategy

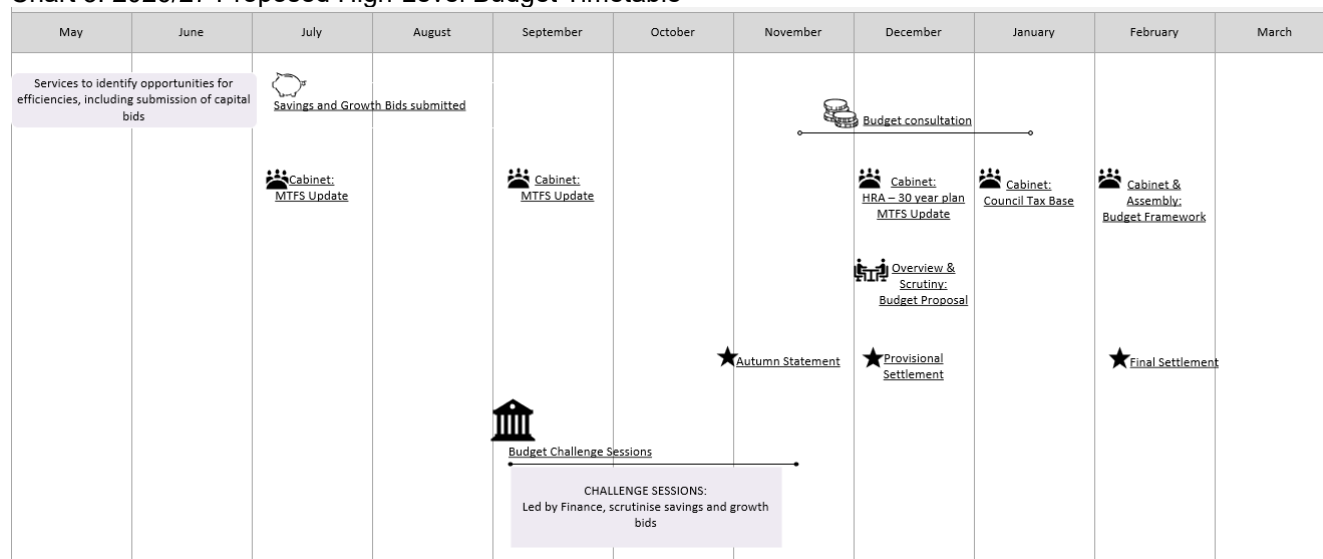
- 7.4.1 The Council's long-term Investment Acquisition Strategy (IAS) is aimed at regenerating the Borough and significantly increasing housing supply, with approximately 3,000 residential units either built or in development. This is underpinned by a substantial borrowing programme supporting around £2bn of capital investment across 60 schemes. Schemes are developed by Be First, with ongoing management responsibilities transferring to Reside.
- 7.4.2 The financial viability of Investment and Acquisition Strategy (IAS) schemes is increasingly influenced by the interest rate environment. Schemes developed by Be First and transferred to Reside typically require long-term borrowing over 50 years. Given the significant rise in borrowing costs relative to the Council's historic PWLB average, new schemes may no longer generate sufficient returns to offset financing costs without revised assumptions. While no changes are proposed to the current business case assumptions approved by Cabinet in February, officers will continue to monitor interest rate movements, delivery timelines, and affordability metrics closely. Updates will be incorporated into future MTFS and Treasury Management Strategy revisions where necessary.
- 7.4.3 There is currently no change to the assumptions approved by Cabinet in February; however, interest rate volatility and programme delivery timelines will continue to be

monitored closely. Any required updates to reflect changes in borrowing costs or scheme slippage will be incorporated into the MTFS at the appropriate point to address impacts on both revenue and capital budget.

8. Budget Timetable

8.1 The proposed high-level budget setting timetable for 2026/27 is set out below.

Chart 3: 2026/27 Proposed High-Level Budget Timetable



9. Financial Implications

Implications completed by: Shabana Kausar, Director of Financial Services.

9.1 The financial implications are as set out in the main body of the report.

10. Legal Implications

Implications completed by: Dr Paul Feild, Principal Standards & Governance Solicitor

- 10.1 A local authority is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. It must look and plan further and during any financial year, there is an ongoing responsibility to monitor spending and ensure the finances continue to be sound. This does mean as a legal requirement there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met. Furthermore, the Council is subject to the Best Value duty under the Local Government Act 1999 to secure continuous improvement in an efficient, economic and effective way.
- 10.2 Section 25(1)(a) and (b) of the Local Government Act 2003 requires its Chief Finance Officer (Section 151 Officer) to report on the robustness of the estimates made for the purpose of calculating Council Tax, but more particular to the purposes of this report the adequacy of reserves hence the need for a Reserves Policy. When considering what level of general reserve to hold applicable legislation includes s.31A, 42 and 43 of the Local Government and Finance Act 1992.

- 10.3 If during the Strategy period there are reductions or changes in service provision as a result of changes in the financial position, the local authority is free to vary its policy and consequent service provision but at the same time must have regard to public law considerations in making any decision lawfully as any decision eventually taken is also subject to judicial review. Members would also wish in any event to ensure adherence as part of good governance. Specific legal advice may be required on the detailed implementation of any agreed savings options. Relevant legal considerations are identified below.
- 10.4 Whenever there are proposals for changes particularly that involve curtailment or discontinuance of a service or services, there will be a need for appropriate consultation. In some cases, this will be prescribed by statute, or by common / case law. For example, if savings proposals will affect staffing then it will require consultation with unions and staff. In addition to that Members will need to be satisfied that Equality Impact Assessments have been carried out before the proposals are decided by Cabinet and proper consideration of human rights. If at any point resort to constricting expenditure is required, it is important that due regard is given to statutory duties and responsibilities. The Council must have regard to:
- any existing contractual obligations covering current service provision. Such contractual obligations where they exist must be fulfilled or varied with agreement of current providers;
 - any legitimate expectations that persons already receiving a service (due to be cut) may have to either continue to receive the service or to be consulted directly before the service is withdrawn;
 - any rights which statute may have conferred on individuals and as a result of which the Council may be bound to continue its provision. This could be where an assessment has been carried out for example for special educational needs statement of special educational needs in the education context);
 - the impact on different groups affected by any changes to service provision as informed by relevant equality impact assessments;
 - to any responses from stakeholders to consultation undertaken.
- 10.5 Finally, if the Councils commercial operating activities, face financial pressures, care must be taken to ensure that no unlawful aid is provided contrary to the Subsidy Control Act 2022. Legal and financial advice should be sought as this is a developing area.

11. Other Implications

11.1 Risk Management

- 11.1.1 Under Section 25 of the Local Government Act 2003, the S151 Officer is required to provide his statutory advice to Council, in the annual budget report and their view of the robustness of the budget estimates. Budget estimates are exactly that, estimates of spending and income at a point in time. At the time of setting the 2025/26 budget the S151 officer provided Full Council with reasonable assurance that the budget has been based on the best available information and assumptions at the point in time.

11.1.2 Council is faced with an uncertain financial climate over the short to long term which presents a high risk to the authority and there remains potential for further, as yet unrecognised, risks such as impact of rising inflation and energy prices, social care demand. It is important that the Council continues to maintain its spending within budget, puts in place corrective action or spend measures to contain spend within the resources available. Taking into account the budget risks and uncertainties, and assuming that the recommendations set out above are agreed, the Council's contingency and balances are still considered prudent. However, Cabinet's attention is drawn to the need for close monitoring of the budget and, in particular, the achievement of savings. It will be essential for the Executive Team continue to exercise a firm financial management throughout the year to ensure that expenditure is contained within budget and targets for service improvements and savings delivery are met.

11.1.3 Given the uncertainties of the economic environment and the anticipated scale of the expenditure reductions required in the short to long term, there are inevitably significant risks involved in delivering balanced budgets over the short to medium term. Key strategic risks will be:

- included in the Corporate Risk Register;
- reviewed through quarterly budget updates reports to Cabinet; and
- reviewed through updated Budget and MTFS Strategy reports to Cabinet.

11.1.4 A number of interconnected risks remain that could affect the Council's ability to deliver a balanced and sustainable MTFS. Many are already reflected in this report and the S151 Officer's most recent Budget Assurance Statement, but others will require further consideration in future updates.

1. Organisational Delivery Capacity - The Council faces challenges in delivering:
 - a balanced General Fund budget in 2025/26; and
 - the level of change required to implement savings proposals included in this report. Successful delivery will depend on effective programme governance and continued transformation efforts across services
2. Savings Delivery - Strengthened governance and more frequent monitoring will be essential to support delivery of 2025/26 savings to remain on track and of the new proposals for 2026/27 (c£12m).
3. In-Year Volatility - There continues to be financial pressure within social care and SEND budgets. These are currently being mitigated with one-off funding and controls, but persistent demand risks overspends in high-cost areas.
4. External Shocks - Unexpected events such as cyber incidents, severe weather or contractor failure could trigger unplanned expenditure. While not reflected in current forecasts, future iterations of the MTFS should consider the case for a corporate contingency or emergency reserve.
5. Subsidiary Company Risk – Council owned companies carry financial risks, including loan repayment capacity, dividend dependency, and contingent liabilities. Volatility or underperformance in these entities could have an adverse impact on General Fund sustainability.

6. Technical and Accounting Uncertainty – Outstanding audited accounts relating to prior-year may result in technical adjustments to reserves or impact financial resilience assessments. Timely completion of audit sign-off and clear external auditor conclusions will be critical to assurance and are expected to be managed in the longer term through the statutory backstop dates.
 7. Collection Fund and Income Volatility - While the MTFS assumes stable Council Tax and Business Rates performance, changes in benefit policy, economic hardship or revaluations could reduce yield. Bad debt provision assumptions will need regular review.
 8. DSG Statutory Override Expiry - The DSG statutory override is due to end in March 2026. If this is not extended or replaced by central funding, any residual High Needs Block deficit may fall on the General Fund. This represents a significant financial risk not yet reflected in the current budget.
 9. HRA Sustainability - The HRA budget in the short term remains viable under current assumptions but is sensitive to inflation, void levels, and future borrowing costs. Long-term sustainability could be compromised without flexibility on rents or reprioritisation of investment needs.
 10. IAS Viability and Exposure – Delivery risks in the Investment and Acquisition Strategy are increasing due to interest rate volatility and market uncertainty. Loss of anticipated Be First income has already widened the funding gap. There is a risk that returns from IAS schemes may not fully materialise, requiring updates to future financing plans.
 11. Capital Delivery and Receipts Risk - Planned schemes depend on successful land disposals and delivery of capital receipts. Delays or market shifts could impact the Council's ability to self-finance and add pressure to the borrowing requirement.
 12. Structural Income Risks - Some income streams such as traded services, fees and charges remain below pre-pandemic levels. Although partially recovering, structural shortfalls could remain into the medium term and require budget adjustments if not offset by growth elsewhere.
- 11.1.5 The Council's MTFS is continually under review and builds in projections for the MTFS period and beyond as further details and analysis become available. These updates will be regularly reviewed by Executive Team and the portfolio holder and updates on the financial environment the Council is operating in are provided in Budget Strategy reports to Cabinet. Any sustainability impacts will be considered before final decisions are taken on whether or not to implement each proposal

Public Background Papers Used in the Preparation of the Report:

- 25/02/2025 Cabinet:
[Budget Framework 2025/26 and Medium-Term Financial Strategy 2025/26-2027/28](#)
[Treasury Management Strategy Statement 2025/26 and Capital Strategy 2025/26 to 2027/28](#)

List of appendices: None