

## Appendix 1

### The Medium-Term Financial Plan (MTFP) Update Quarter 1

#### Introduction

1. The Medium-Term Financial Plan (MTFP) was agreed by Council on 24 February 2026 and set out in the table 1 below. It is worth noting that the 2026/27 budget and MTFP had the following key features:
  - a) A 6.74% council tax increase for 2026/27 reflecting the additional flexibility given by government. The planning assumption being 4.99% is built into each of the following years consistent with the projections from the Office Budget Responsibility.
  - b) Assumed delivery of £14m in annual savings, efficiencies, and additional resources to balance the 2026/27 budget including £4.4m which has been established as transformation and invest to save related. Future year savings for the next two years amounting to £15m.
  - c) £22m planned increase in council spending across all service areas excluding pay related costs, this includes including £11.5m (6.5% increase) to cover demand and inflationary cost pressures in wellbeing services including adult social care and homelessness services. With a further £9.2m (8.2% increase) to cover demand and inflationary cost pressures in children's services.
  - d) First multi-year Local Government Finance Settlement (2026/27–2028/29) in a decade backed by new fair funding formula. The impact of which is a reduction in funding across that term for the council by approx. £15m.
2. The MTFP has been updated since then to reflect the latest financial outturn for 2025/26, a review of existing assumptions and future forecasts around demand and inflation.
3. The document also rolls forward the MTFP by 1 year (to 2029/30) to maintain a rolling 3-year medium term planning horizon.
4. The next MTFP update will be reported to Cabinet in October. This report will propose further changes to the MTFP, including further refinement of demand modelling and any additional savings targets that may be required in future years to maintain a balanced position.

#### The MTFP 2026/27 to 2029/30

5. The MTFP was agreed in February 2026 and is set out in Table 1 overleaf. It is worth noting this was updated by way of an addendum to full council following the government's late announcement to allow the council to have additional council tax flexibility of 1.75%, allowing an increase of 6.74%.

**Table 1 – MTFP Position of the Council February 2026**

	Updated Budget 2025/26 £m	February 2026 MTFP Position			
		26/27 £m	27/28 £m	28/29 £m	Total £m
Wellbeing Directorate	194.6	11.5	7.9	8.2	27.6
Children's Directorate	111.8	9.2	8.2	8.2	25.5
Operations Directorate	60.3	1.3	4.1	5.6	11.0
Resources Directorate	50.2	(0.0)	0.3	1.6	1.9
<b>Service Pressures (net of any specific grant changes)</b>	<b>416.8</b>	<b>22.0</b>	<b>20.5</b>	<b>23.5</b>	<b>66.0</b>
<b>Savings, Efficiencies, Fees &amp; Charges</b>					
Wellbeing Directorate		(3.1)	(1.1)	(0.9)	(5.1)
Children's Directorate		(1.4)	0.0	0.0	(1.4)
Operations Directorate		(4.0)	(2.2)	(1.3)	(7.5)
Resources Directorate		(1.0)	(0.5)	(0.1)	(1.6)
Transformation		(4.4)	(7.5)	(1.2)	(13.1)
<b>Savings, Efficiencies, Fees and Charges</b>		<b>(13.9)</b>	<b>(11.1)</b>	<b>(3.6)</b>	<b>(28.6)</b>
<b>Corporate Items - Cost Pressures</b>	<b>10.6</b>	<b>10.2</b>	<b>4.6</b>	<b>6.6</b>	<b>21.4</b>
<b>Funding - Changes</b>					
<b>Funding - Changes</b>	<b>(432.8)</b>	<b>(16.6)</b>	<b>(9.7)</b>	<b>(17.0)</b>	<b>(43.3)</b>
<b>Debt interest due to accumulated SEND deficit</b>	<b>8.1</b>	<b>2.4</b>	<b>(4.2)</b>	<b>1.7</b>	<b>(0.1)</b>
<b>Annual – Net Funding Gap</b>	<b>2.8</b>	<b>4.0</b>	<b>0.1</b>	<b>11.2</b>	<b>15.3</b>
<b>Application of one-off business rates resources to MTFP</b>	<b>(2.8)</b>	<b>(4.0)</b>	<b>6.8</b>	<b>0.0</b>	<b>2.8</b>
<b>Annual – Net Funding Gap</b>	<b>0.0</b>	<b>(0.0)</b>	<b>6.9</b>	<b>11.2</b>	<b>18.1</b>
<b>Cumulative MTFP – Net Funding Gap</b>		<b>(0.0)</b>	<b>6.9</b>	<b>18.1</b>	

6. Since the MTFP was agreed in February, future year assumptions have updated to reflect latest forecasts for demand and funding as well as taking account and recognising the following items which have materialised since the MTFP was agreed earlier this year.

### Spring Statement (3 March 2026)

7. The Spring Statement was a deliberately low-key update focused on reaffirming fiscal stability rather than introducing new policy, with no significant tax or spending announcements. There were updates from the Office Budget Responsibility (OBR) forecasts showing weaker short-term growth (-1.1% in 2026), falling inflation towards target, and a material improvement in borrowing (c.£18bn lower than previously forecast) alongside modestly increased fiscal headroom. Most of the OBR forecasts were calculated prior to the Iran conflict being considered. The OBR included an eleventh-hour caveat that the conflict could have a very significant impact on the global and UK economies. They noted it could push up oil and gas prices, increase government borrowing costs, and halt recent momentum towards lower mortgage rates.
8. The Government signalled continued spending restraint and welfare tightening, with investment prioritised in areas such as defence, but provided no new funding for local government.

### Macro-Economic Climate - Iran Conflict

9. Since 28 February 2026, the escalation of conflict in the Middle East, including direct military action involving Iran, has introduced a significant macroeconomic shock primarily through energy markets. Disruption to oil and gas supply has driven sharp increases in global energy prices, reversing the expected lower

inflation trend and contributing to renewed upward pressure on UK inflation, with forecasts indicating higher price levels later in 2026.

10. For the council the combined effect is likely increased inflationary pressure for services, particularly within demand-led services such as social care and homelessness. Higher inflation also creates a “higher for longer” interest rate environment, increasing the cost of the councils’ borrowing costs.

### National Pay Award

11. The 2026/27 Local Government Pay Award remains unresolved at the time of writing. National Employers have issued a full and final offer of a 3.3% consolidated increase on NJC pay points and allowances, effective from 1 April 2026. The Council for 2026/27 had assumed a 2.8% increase. A 0.5% increase equates to an additional £1m per annum. This additional cost has been added into future year and increased the pay award assumption across the plan.
12. This offer has been rejected by the majority of trade unions, with consultation ballots completed or underway and the potential for industrial action during summer 2026. As such, there remains material uncertainty over the final pay settlement, with risk of upward pressure on the current offer. The Medium Term Financial Plan therefore assumes a base provision aligned to the current offer, alongside sensitivity modelling to reflect the potential for a higher award and backdated cost pressures.

### SEND Reform Plan and High Needs Deficit

13. In March 2026 the Government has set out a programme of reform to the Special Educational Needs and Disabilities (SEND) system aimed at improving outcomes for children and young people while restoring financial sustainability across the high needs system.
14. This includes a combination of national policy changes and local delivery expectations, alongside specific financial interventions within the 2026/27 Local Government Finance Settlement.
15. Central to the reform agenda is a move towards a more consistent, inclusive and financially sustainable system, with increased emphasis on early intervention, mainstream inclusion and strengthened accountability for local partnerships.
16. The Councils accumulated deficit of £180m for the dedicated schools grant at 31 March 2026 (see table 2) remains a significant threat to the council’s financial stability. In total the council is servicing debt in relation to the deficit of £10.5m per annum in 2026/27.

**Table 2: Summary position for dedicated schools grant**

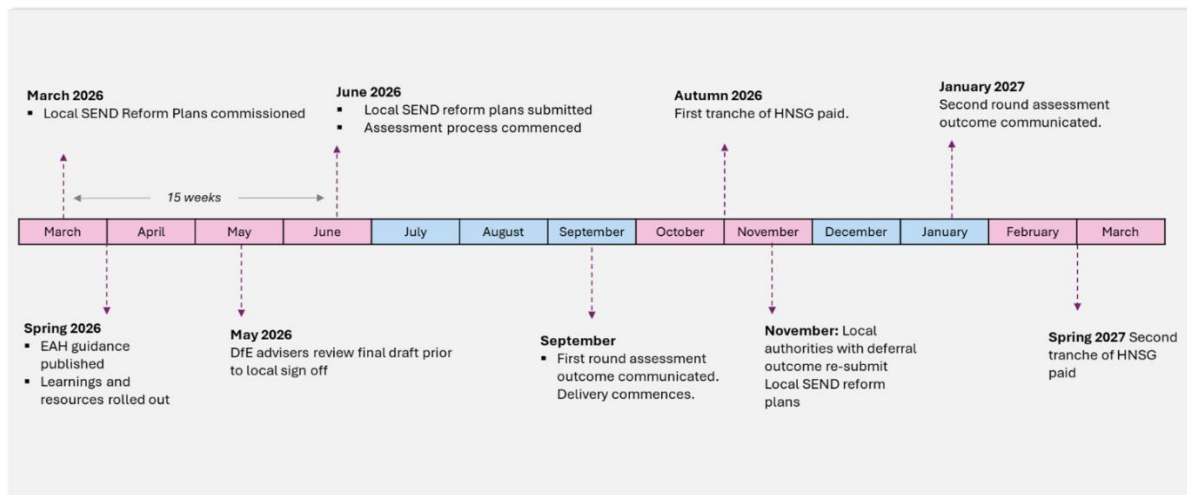
Dedicated Schools Grant	£m
<b>Accumulated deficit 1 April 2025</b>	<b>113.3</b>
Prior year additional funding – early years	(1.9)
Budgeted high needs funding shortfall 2025-26	57.5
High needs funding reduction 2025-26	0.5
High needs overspend 2025-26	13.5
Other block underspends	(3.1)
<b>Accumulated deficit 31 March 2026</b>	<b>179.8</b>

17. Expenditure will continue to outstrip funding by an estimated further £200m over the next two-year financial years. The required SEND reform plan has been developed and if approved, central government could provide an estimated 90%

contribution toward this deficit. This would still leave the council with a residual debt to fund of £38m.

18. The timetable below set out from government send reform plans and the dates when a first or second tranche of the grant could be paid.

**Figure 1 – SEND Reform Plan Timetable**



19. While the reform programme provides a clear direction of travel and offers some mitigation of historic financial pressures, there remains significant uncertainty regarding the pace of implementation, the extent to which demand can be moderated, and the adequacy of future funding arrangements, all of which will continue to influence the council's medium-term financial position.
20. The 2026/27 budget assumed a prudent assumption that funding would not be received until February 2027 which had little impact in terms of the assumed £10.5m interest cost accruing. The impact in the medium term is a reduction in interest cost for 2027/28 for £4.2m with smaller increases in the medium term recognising the continued spend of over £100m per annum over the funding allocation.
21. The current financial strategy for the 10% remaining balance is to be funded via capital receipts. It is clear without current pipeline of asset disposals and balance of capital receipts that this will be a challenge to meet. Disposing of assets can be a long process and the current market for disposals is tough. The fall-back assumption, although not confirmed via government to date, is that if capital receipts are not forthcoming then the council would capitalise (borrow) the remaining high needs balance and pay back over an agreed timeframe. This has not been factored into the MTFP yet until which time we feel asset disposal is not the option.
22. Continued lobbying to government is crucial for support for the remaining 10% to ensure long term sustainability for the local government.

### **Government Borrowing Costs**

23. Government borrowing costs for the past few months have been historically high. UK Gilts yields have reached highs not seen since the 2008 financial crisis. Gilt yields directly determine the cost at which the Government can finance its deficit; higher yields increase debt interest costs, reduce fiscal headroom, and can necessitate tighter spending controls or higher taxation to remain within its own fiscal rules.

24. Given the UK's high debt stock and increased sensitivity to interest rate changes, even relatively small movements in yields can materially affect the public finances, reinforcing the risk that adverse market conditions could translate into tighter funding settlements for local government.
25. The impact to the council is more immediate as we finance a lot of our borrowing on a short-term basis which mostly mirrors the gilt prices. It means that the council continue to carry a large element of interest rate risk as part of its cash management.

### **Outturn 2025/26**

26. The outturn 2025/26 elsewhere on the agenda shows a overspend of £4.6m. This is the first time an overspend has been reported at the Council principally driven by demand led pressure in Children and Adults Social Care and shows the stark reality of how exposed the council is financially. The 2026/27 budget does plan for increase investment and mitigation into these two service areas which is critical to improving resilience and bringing these pressures under control.
27. As part of the section 151 officers' assessment to the financial position, it is worth noting the council is still operating spend controls reducing non-essential expenditure until which time assurance is given that the Council is in a safer operating environment. The spend control has recently been adjusted to allow repairs and maintenance of council assets recognising the following risk.

### **Condition of the Councils Assets**

28. Prolonged reduction in expenditure related to repairs and maintenance of the council general fund assets is now a significant risk the council is carrying with real consequences to the council deliverability of services. Be it community assets or income generating assets the state of disrepair across the General Fund is of concern.
29. By not maintaining assets regularly there are real cost consequences further down the line ultimately requiring significant repairs cost which could have been avoided.
30. As illustrated in this report the Council finances remain tight but as part of the outturn 2025/26 monies have been set aside to deal with more immediate issue relating to a number of assets which pose a significant risk.
31. Going forward the section 151 officer in conjunction with the Chief Operating Officer will work to fulfil the following:
  - a) Prioritise expenditure on assets which carry the most immediate impact to the council via Capital Briefing Board and subsequent approval via Cabinet/Full Council
  - b) Carry out a full condition survey of the councils General Fund assets
  - c) Consider and approve a cyclical capital investment for larger repairs and maintenance of the council
  - d) Strengthen and improve our Strategic Asset Management Plan to ensure we make the most of our assets and investment is considered and targeted
  - e) Creation of a capital strategy to allow a more robust planning of capital expenditure and how it can unlock deliverability of the corporate strategy
  - f) Establish a costed and detailed maintenance programme for general fund assets

- g) establish appropriate inspection regimes for each asset class in the general fund aligned to the asset condition survey and expected state of good repair

### MTFP 2027-2030 Update

32. The position as set out above in Table 1 has now been updated for several potential adjustments to previously identified cost pressures as well as the inclusion of a starting position 2029/30. These matters, as underpinned, by several key assumptions as set out below in Table 3, are being kept under continual review and constantly refined based on the latest trend analysis, economic forecasts, government announcements, and professional judgements.

**Table 3 Medium Term Financial Plan – Key Assumptions**

	2026/27	2027/28	2028/29	2029/30
Pay Inflation	2.80%	3.00%	2.50%	2.50%
Pension Contribution Rates	16.30%	16.30%	16.30%	16.30%
Council Tax	6.74%	4.99%	4.99%	4.99%
Council Tax Base	0.60%	0.50%	0.50%	0.50%
Minimum Increase in Fees & Charges	2.00%	2.00%	2.00%	2.00%
National Living Wage (NLW)	2.00%	2.00%	2.00%	2.00%
Borrowing Rates	5%	5.50%	4.50%	4.00%

### Inflationary Costs

33. Inflation is only provided for in service directorate budgets where it can be demonstrated that it will be needed due to either market or contract conditions. Inflation as of September 2025, which is applied or factored into several 2026/27 contractual uplifts, was 3.3% as measured by the (CPI) Consumer Price Index. For comparison purposes the annual rate of CPI inflation was 3.8% in September 2025 but as the Iran conflict impact start to feed through, we can expect inflation to be higher come September 2026.

**Table 4: Updated and rolled MTFP**

	Original Budget 2026/27 £m	Updated April 2026 MTFP Position			
		27/28 £m	28/29 £m	29/30 £m	Total £m
Wellbeing Directorate	200.1	7.9	8.2	8.4	24.5
Children's Directorate	117.6	6.2	8.2	8.2	22.5
Operations Directorate	56.9	4.3	5.7	5.1	15.1
Resources Directorate	49.5	0.3	1.6	1.6	3.5
<b>Service Pressures (net of any specific grant changes)</b>	<b>424.2</b>	<b>18.7</b>	<b>23.6</b>	<b>23.3</b>	<b>65.7</b>
<b>Savings, Efficiencies, Fees &amp; Charges</b>					
Wellbeing Directorate		(1.1)	(1.0)	(1.0)	(3.0)
Children's Directorate		0.0	0.0	0.0	0.0
Operations Directorate		(2.2)	(1.3)	(1.1)	(4.6)
Resources Directorate		(0.5)	(0.1)	(0.1)	(0.6)
Transformation		(7.5)	(1.2)	(0.4)	(9.1)
<b>Savings, Efficiencies, Fees and Charges</b>		<b>(11.2)</b>	<b>(3.6)</b>	<b>(2.6)</b>	<b>(17.3)</b>
<b>Corporate Items - Cost Pressures</b>	<b>21.5</b>	<b>7.8</b>	<b>8.7</b>	<b>6.3</b>	<b>22.8</b>
<b>Funding - Changes</b>					
<b>Funding - Changes</b>	<b>(449.4)</b>	<b>(9.7)</b>	<b>(17.0)</b>	<b>(18.5)</b>	<b>(45.3)</b>
<b>Debt interest due to accumulated SEND deficit</b>	<b>10.5</b>	<b>(4.2)</b>	<b>1.7</b>	<b>1.7</b>	<b>(0.8)</b>
<b>Annual – Net Funding Gap</b>	<b>6.8</b>	<b>1.4</b>	<b>13.4</b>	<b>10.3</b>	<b>25.1</b>
<b>Application of one-off business rates resources to MTFP</b>	<b>(6.8)</b>	<b>6.8</b>	<b>0.0</b>	<b>0.0</b>	<b>6.8</b>
<b>Annual – Net Funding Gap</b>	<b>0.0</b>	<b>8.3</b>	<b>13.4</b>	<b>10.3</b>	<b>31.9</b>
<b>Cumulative MTFP – Net Funding Gap</b>		<b>8.3</b>	<b>21.6</b>	<b>31.9</b>	

**Potential Medium Term Financial Forecast Scenarios**

34. In support of the financial planning approach to enable delivery of a balanced budget for 2027/28 the council has considered the level of uncertainty and therefore risk that will apply to the current assumptions. In line with good practice these assumptions have been tested via a process of sensitivity analysis and several different models developed that highlight their impact. At the extremes they indicate there could be an improvement in the position or alternatively a deterioration which would lead to significant widening of the funding gap for 2027/28. These models consider the impact of various changes such as.

- Lower threshold increases in council tax levels.
- Lower or higher levels of change to the council's tax base.
- Lower or higher levels of base government grant funding including the impact of the government funding reforms.
- Lower or higher annual pay awards.
- Lower or higher borrowing costs.
- Alternative approaches that could be taken by government to address the accumulated DSG deficit.
- Changes to service demands including those impacted by the national living wage.

35. It should be highlighted that no tolerance has been made as part of this modelling in respect of the 2026/27 budgeted savings or those included in the MTFP for 2027/28 and 2028/29 on the basis that services are expected to ensure their delivery.

**Table 4: Sensitivity Analysis 2027/28 Budget Models**

	Original Budget 2026/27 £m	Base Case 2027/28 £m	Better Case 2027/28 £m	Middle Case 2027/28 £m	Worse Case 2027/28 £m
Wellbeing Directorate	200.1	7.9	6.6	7.9	9.9
Children's Directorate	117.6	6.2	4.7	8.0	12.0
Operations Directorate	56.9	4.3	2.3	4.5	6.0
Resources Directorate	49.5	0.3	0.0	0.3	1.0
<b>Service Pressures (net of any specific grant changes)</b>	<b>424.2</b>	<b>18.7</b>	<b>13.6</b>	<b>20.8</b>	<b>28.9</b>
<b>Savings, Efficiencies, Fees &amp; Charges</b>		<b>(11.2)</b>	<b>(11.2)</b>	<b>(11.2)</b>	<b>(11.2)</b>
<b>Corporate Items - Cost Pressures</b>	<b>21.5</b>	<b>7.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Funding - Changes</b>	<b>(449.4)</b>	<b>(9.7)</b>	<b>(3.0)</b>	<b>0.0</b>	<b>3.2</b>
<b>Debt interest due to accumulated SEND deficit</b>	<b>10.5</b>	<b>(4.2)</b>	<b>(4.2)</b>	<b>(4.2)</b>	<b>(4.2)</b>
<b>Annual – Net Funding Gap</b>	<b>6.8</b>	<b>1.4</b>	<b>(4.7)</b>	<b>5.4</b>	<b>16.8</b>
<b>Application of one-off business rates resources to MTFP</b>	<b>(6.8)</b>	<b>6.8</b>	<b>6.8</b>	<b>6.8</b>	<b>6.8</b>
<b>Annual – Net Funding Gap</b>	<b>0.0</b>	<b>8.3</b>	<b>2.1</b>	<b>12.2</b>	<b>23.6</b>
<b>Cumulative MTFP – Net Funding Gap</b>		<b>8.3</b>	<b>2.1</b>	<b>12.2</b>	<b>23.6</b>

## 2027/28 Budget Planning Process

36. The budget for 2027/28 and the MTFP should be seen in the context of a rolling, evolving process structured to enable the ongoing proactive management and prioritisation of the council's resources. As a sector local authorities have been grappling with sustained financial pressures since 2010. Recently councils have had to become more efficient in navigating the uncertainty and volatility caused by global macro-economic factors, the legacy and long-term consequences of the Covid-19 pandemic, alongside those caused by the recent cost-of-living crisis, and changes in public policy. Stability in financial planning has improved compared to previous year with a three-year finance settlement even when the impact is a detriment to the council.
37. Full details of the budget planning process and timetable to support the 2027/28 budget are set out in Appendix 2. Key features include.
- Consideration of the vision, ambitions and aspirations of the council to ensure the organisation commits its limited resources in accordance with its stated priorities and Corporate Strategy.
  - A scenario planning and financial forecasting led approach.
  - Constant refinement of assumptions based on government announcements, economic forecasts, trend analysis, and professional judgement.
  - Commitment of holding STAR chamber with service directors and portfolio holders to review the most material areas of expenditure and income of the Council.
  - Public participation in the budget via an engagement process in October / November 2026.
  - Two budget workshops, one in November 2026 and then one in January 2027 setting out the final budget proposals.

- Cabinet members working with Corporate Management Board colleagues to shape the proposals via bi-weekly Strategy Planning sessions throughout 2026/27.
- Further to last years enhanced process, it should be highlighted that the process for scrutiny committees' input into the budget remains under consideration.

### **Future MTFP Updates**

38. As part of the need to understand all elements of the council finances the section 151 officer is committed to increase the visibility and knowledge of the council services, Capital Programme, Housing Revenue Account, Collection Fund. Future iterations of the MTFP updates will start to include these critical elements so a full and wide understanding of the Councils financial landscape is known.