



**REPORT of
DIRECTOR OF FINANCE**

**to
STRATEGY AND RESOURCES COMMITTEE
20 NOVEMBER 2025**

**FINANCIAL YEAR 2026/27: BUDGET PROPOSALS AND MEDIUM-TERM FINANCIAL
STRATEGY UPDATE**

1. PURPOSE OF THE REPORT

- 1.1 To provide Members of the Committee with an initial draft of budget proposals for 2026/27 and to provide an updated Medium Term Financial Strategy (MTFS) for 2026/27 and 2027/28.

2. RECOMMENDATIONS

That the Committee

- (i) reviews the underlying assumptions for the 2026/ 27 Budget;
- (ii) notes the update to the Medium-Term Financial Strategy 2026/27 and 2027/28.

3. SUMMARY OF KEY ISSUES

- 3.1 The Quarter 2 Budget Monitoring report (also on this agenda) provides a financial forecast for the Council for the year ending 31 March 2026 including revenue and capital forecasts and the impact of those on retained reserves (general and earmarked).
- 3.2 The current position shows performance closely aligned to budget which demonstrates good financial management in operational areas. The outlook for this year remains favourable. This provides a good foundation for the budget for the coming year.
- 3.3 The 2023 Finance Peer Challenge included a recommendation that the MTFS should be reviewed and that alignment with other strategies should be strengthened. This update meets that recommendation.

4. MEDIUM TERM FINANCIAL STRATEGY (MTFS)

- 4.1 This report sets out the emerging strategic priorities for the financial management of the Council in the coming years. These include the points set out below.

4.2 Sufficient preparation for Local Government Reorganisation (LGR)

- 4.2.1 LGR is assumed to take place from April 2028, known as Vesting Day. The inclusion of 2028/29 financial year means that there will be a clear view established of the position being passed to the successor authority, or alternatively of the position to be maintained for a further year by the council if there are any delays to LGR.
- 4.2.2 Budgets are therefore being prepared on the basis that services to residents will be maintained without significant change in day-to-day services in the period before LGR, further to discussion with Finance Working Group (FWG). Some longer-term investments will be made, however, to ensure that the assets of the Council are handed on in good operational order. For example, spending money on play sites, car parks, or public toilets – Council assets which support the local quality of life and the local tourist offer. Where this happens appropriate governance and approvals will be sought, however additionally we will keep other relevant LGR authorities informed to ensure that future planning and finances are not fettered. Preparation for reorganisation is assumed to focus on ensuring that the Council is in good order, with robust governance (including records and processes) in place. With what is currently known this can be achieved through current resources rather than requiring additional staffing or investment in systems.

4.3 Ensuring delivery and efficiency

- 4.3.1 As part of the good governance of the Council in the coming years, priority will be given to delivery of key member and organisational priorities, in line with the corporate plan and related strategies. This delivery will be managed in a cost-effective way, managing resource inputs, increasing process efficiency, and ensuring that outputs and outcomes are achieved effectively. This financial strategy is aligned to those priorities.
- 4.3.2 It is recognised that the overall position for local government finances is challenging, with the referendum threshold on council tax increases meaning that resources increase more slowly than costs. In this situation, it is vital to ensure that all available resources are deployed as efficiently as possible in order to secure the Council's policy objectives.
- 4.3.3 The ongoing restructure of officer functions will support this by reducing expenditure in more senior officer roles and increasing investment in more operational officers. This re-profiling of the investment in officers will be linked to wider changes set out in the Transforming Together programme. This will support the effective delegation of responsibilities (including budgetary responsibilities) towards more operational officers, streamlining overall officer activity and focusing on key deliverables for residents. Collaboration within and between teams will be encouraged. Appropriate business process reviews will ensure that the advantage of the line management changes are secured in day-to-day operations. Directors will be responsible for ensuring that budget delegations are effective and that service delivery objectives are achieved.

4.4 Funding

- 4.4.1 It is expected that District Councils will see an adverse result arising from the November UK Budget announcements and the December (Provisional) Local Government Financial Settlement. Early warning has been given that resources for districts may fall by up to 10% in some areas, with a 'flat cash' (zero inflation) position in the following two years. The strategic options available to the Council include the

maintenance of a balanced 'base budget' or the acceptance of a base budget 'gap', which is funded through use of reserves.

- 4.4.2 Balancing the base budget would lead to not insignificant savings being required, most likely to the detriment of services and thus negatively impacting on residents. Discussion with FWG has highlighted a preference to retain services at their current level rather than reducing spending. This means using reserves in a targeted way to reduce the adverse effect of funding reductions on services. Managed use of reserves in the short term is an accepted budget management strategy, a position which is more feasible given the LGR proposals.

4.5 **Use of Reserves**

- 4.5.1 The Council has a strong balance sheet position, including substantial cash reserves. Based on the considerations above and the discussions with FWG, it is intended that these reserves are deployed in a managed way to ensure local services are maintained at their current level as far as possible. Significant investments or new departures are not proposed – rather, deepening of investment in key operational areas will take place to maintain services and assets.
- 4.5.2 Use of reserves will be modelled through to 2028/29 to ensure that, should it be required, a clear account of the decisions can be given and that sufficient remains on hand to mitigate the impact of unforeseen events.

4.6 **Budgetary transparency**

- 4.6.1 As part of LGR, the records and performance of the Council will be scrutinised by a range of stakeholders, including those representing the shadow authority once that begins to be established from April 2027. It will be essential to ensure that financial decisions and performance are transparently recorded. As a step towards ensuring that, the MTFS and budget will clearly reflect the financial plans of the Council, transparently aligning resources and service delivery objectives.
- 4.6.2 A range of operational measures are being implemented to achieve this all of which are in line the Chartered Institute of Public Finance and Accountancy (CIPFA) 'code of practice on local authority accounting'. These include:
 - 4.6.2.1 Budgetary clarity - Setting out all budgets as 'gross' and not 'netting down' specific expenditure lines to reflect offsetting income (good practice is to clearly show income and expenditure separately). Similarly, there are some areas where budgets have become complex due to changes in operating practice, funding, and other issues. The opportunity will be taken to simplify budgets wherever possible.
 - 4.6.2.2 'Best estimates' used throughout (that is, neither a 'best' nor a 'worst' case estimate, but rather the most likely position based on available data);
 - 4.6.2.3 Broad engagement - Working with the full budget from the outset with lead officers (Senior Leadership Team (SLT) and their reports) and Members (FWG, the Strategy and Resources Committee) to invite comment and scrutiny (to avoid any errors in understanding and presentation); preparing briefings for officers and members on the emerging position;
 - 4.6.2.4 Complete and valid - This means including all known resources in the budget process from the outset and not holding any resources 'below the line' or excluding them as potential 'windfalls'.

- 4.6.2.5 Supporting efficiency - Seeking to avoid unnecessary administrative activities by minimising requests to Members for additional funding or virements. This is to be achieved by ensuring all that estimates accommodate potential changes in a reasonable and transparent way and that budget holders understand the need to work across budget areas as much as within specific lines.
- 4.6.2.6 Prioritised - Focusing on material budget issues and the key elements of the overall budgetary framework and deprioritising (but not ignoring) lower value changes.
- 4.6.2.7 Value For Money (VFM) - Retaining a clear focus on VFM throughout and using available data to benchmark service delivery costs.

5. MEDIUM TERM FINANCIAL PLAN (MTFP)

- 5.1 Based on the strategic approach set out above, the medium-term plan has been developed.
- 5.2 Resources are summarised below. These have been prepared based on current understanding of the funding position. This will be updated once the provisional settlement is published.

Council tax charge growth @ 2.99%
Council tax base growth @ 1%
Reduction in overall government grant (Core Spending Power) of c £1m, with flat cash in later years
Extended Producer Responsibility (EPR) assumed to continue as annual grant (may be rolled into Revenue Support Grant (RSG))
New Homes Bonus (NHB) discontinued
Tariff and retained rates adjusted by govt to secure flat cash Core Spending Power (CSP)
Reserves use under review pending further clarification on growth bids and capital programme requirements

Figure 1 – funding assumptions

Resources	25/26	26/27	27/28	28/29
	£m	£m	£m	£m
CSP grants	6.014	5.554	5.776	5.820
Council tax	6.230	6.505	6.791	7.090
CSP resources	12.244	12.059	12.566	12.910
collection fund	0.100			
investment income	0.664	0.587	0.547	0.472
Use of earmarked reserves	0.072	0.250	0.250	0.250
Use of general reserves	-	-	-	-
All resources	13.080	12.896	13.363	13.632

Figure 1 - estimated resources

- 5.3 Base budget changes arising from pay, price, and income inflation are summarised below (% change is budget-to-budget, not the inflation factor applied).

	Staffing	Transport	Goods and Services	Capital Charges	Offices and Depots	Fees and Charges	Other Income	Government Grant	Net Budget
base	11.892	0.119	18.392	0.801	(0.148)	(3.290)	(5.380)	(9.303)	13.082
Net growth	0.527	(0.019)	0.517	0.103	(0.010)	(0.242)	(0.057)	(0.153)	0.666
revised	12.419	0.100	18.908	0.904	(0.157)	(3.532)	(5.437)	(9.456)	13.748
	4.4%	-16.2%	2.8%	12.9%	6.4%	7.4%	1.1%	1.6%	5.1%

Figure 2 - estimated inflationary pressures on base budgets

- 5.4 Savings have been identified based on some changes since the previous MTFS was set out, with some corrections to the base in addition.

Ongoing savings	26/27
Council Tax - Essex-wide pool; staffing	(0.204)
Council Tax - Essex-wide pool; gainshare	(0.270)
Extended Producer Responsibility	(0.300)
Remove Pension provision (deficit removed)	(0.120)
Revenue cost of capital	(0.100)
Total	(0.994)

Figure 3 - proposed savings

- 5.5 Pay and non-pay pressures and growth bids have been submitted. These are under review by SLT and will be reported to the next Committee meeting. The current position shows a gap before growth bids of £0.694m, rising to £1.290m by 2028/29. In common with previous financial plans, this will need to be funded from reserves unless other funding sources were available. The current gap position is slightly larger overall than the position set out in February 2025, due to the predicted reduction in government funding.

ref	MTFP (£m)	26/27	27/28	28/29
1	Resources	12.896	13.363	13.632
2	Base budget b/f	13.082	13.590	14.256
3	pay and price inflation (assumed consistent)	0.666	0.666	0.666
4	Base uprated for inflation	13.748	14.256	14.922
5	Savings	(0.994)	0.000	0.000
6	Uprated base after savings	12.754	14.256	14.922
7	Unavoidable pressures	0.836	0.000	0.000
8	Uprated base after savings and pressures	13.590	14.256	14.922
9	Gap	0.694	0.893	1.290

Figure 4 - proposed budget position before growth bids

- 5.6 Requests for repairs and renewals relating to Council assets (property and equipment) have been submitted to the value of £550k. These will be reviewed to ensure alignment with the Corporate Plan, and Member policy objectives. Consistent with previous years, it is expected that the approved repairs and renewals investments will be funded from reserves.

6. AREAS OF UNCERTAINTY

6.1 Staff recruitment and retention

- 6.1.1 An on-going challenging recruitment environment in some services, this is likely to continue to be uncertain as LGR approaches and staff consider the future interests. To mitigate this, the employment offer will need to remain competitive, with clear opportunities for advancement and or development.

6.2 Government funding

- 6.2.1 The implications of the Fair Funding 2.0 consultation was that districts would see a real terms reduction in resources and would be expected to maximise council tax increases and, if needed, apply reserves. Since that consultation, the economic outlook has remained challenging if not worsened. This may lead to future resource reductions that exceed current expectations.

6.3 Adoption of the local plan

- 6.3.1 This remains a challenging operational objective. The financial plan includes provision to resource this based on current information. As resource requirements are more clearly established, this will be updated.

7. RESERVES PROJECTION

- 7.1 The assumption is to end this current financial year with a total of £15.1m usable reserves. This includes Earmarked Reserves and the General Fund Balance (unearmarked reserve), as set out in the table below.

reserves	b/f 31/03/2026	in	Explanation	out	Explanation	c/f 31/03/2027	Explanation	c/f 31/03/2028
Earmarked reserves	6.6	0.3	Additional uncommitted EPR in 2026/27	2.6	£2.6m revenue 'gap' (slide 9)	4.3	assume repeat of £2.6m revenue 'gap' funding for 27/28	2.0
General Fund Balance	8.5	-		3.0	£0.5m Repairs and renewals (slide 17). £2.5m capital bids (worst case – 100% reserve-funded; slide 18-19)	5.5	£0.25m repairs and renewals (assumed reduced). £1m capital bids (worst case – 100% reserve-funded)	4.3
Total	15.1	0.3		5.6		9.8		6.3

Figure 5 - projected use of reserves (adverse scenario)

- 7.2 Currently it is anticipated that there will be a significant drawdown of Earmarked Reserves to balance the revenue budget gap, consistent with previous years' MTFS.

8. CONCLUSION

- 8.1 Medium-Term financial planning is an important component of the Council's strategy planning framework, particularly in the uncertain economic climate and with

unprecedented financial pressure in the public sector. Key financial decisions need to be set in the context of a plan that looks beyond the next financial year. Forward planning offers the opportunity to link service and financial planning, as decisions taken on an annual basis are limited in what they can achieve.

9. IMPACT ON PRIORITIES AS SET OUT IN THE CORPORATE PLAN 2025 - 2028

9.1 Delivering good quality services.

9.2 Regular reporting and monitoring of the Council's financial position is a key control in ensuring the Council makes the best use of its resources and is able to make informed decisions to support our residents.

10. IMPLICATIONS

- (i) **Impact on Customers** – None directly.
- (ii) **Impact on Equalities** – None directly.
- (iii) **Impact on Risk (including Fraud implications)** – None directly.
- (iv) **Impact on Resources (financial)** – The subject of the report.
- (v) **Impact on Resources (human)** – None directly.
- (vi) **Impact on Devolution / Local Government Reorganisation** – The financial position of the council will be scrutinised in advance of reorganisation as part of planning for LGR delivery. This report is written with that scrutiny in mind.

Background Papers: None.

Enquiries to: Ben Jay, Chief Finance Officer.