

**REPORT TO:** Executive Board

**DATE:** 11 September 2025

**REPORTING OFFICER:** Director of Finance

**PORTFOLIO:** Corporate Services

**SUBJECT:** Medium-Term Financial Strategy 2026/27 – 2030/31

**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

- 1.1 To establish the Council's Medium-Term Financial Strategy for the period 2026/27 to 2030/31.

## **2.0 RECOMMENDATION: That;**

- (i) the Medium Term Financial Strategy presented in Appendix 1, be approved;**
- (ii) the 2026/27 base budget be prepared on the basis of the underlying assumptions set out in the Strategy;**
- (iii) the Reserves and Balances Strategy presented in Appendix 2 be approved;**
- (iv) the award of Council Tax Support for 2025/26 remains at the 2025/26 level of 21.55%.**

## **3.0 SUPPORTING INFORMATION**

### Medium-Term Financial Strategy

- 3.1 The Medium-Term Financial Strategy (MTFS) sets out a five-year projection of the Council's resources and spending. It has been based on the most recent information that is currently available.
- 3.2 Government have confirmed that there will be significant and wide-ranging changes introduced to the local government finance system in 2026/27, known as the Fair Funding Review. The aim of the review is to target funding where it is most needed most by using updated funding formulae to determine the different needs and costs faced by individual authorities, as well as their ability to raise revenue locally through Council Tax. A Fair Funding Review consultation was issue in June, with a closing date of 15<sup>th</sup> August 2025.

Although the consultation provided some details of the formulae and methodologies that will be used to determine individual local authorities' allocations under the new system, no funding exemplifications were provided, and uncertainty remains around some crucial elements of the system, most notably the future of the 100% business rates retention pilot schemes and transitional arrangements. The potential impact of the Fair Funding Review for Halton has been modelled, and is set out in Appendix 1, Section 2.0, however, it is important to note that this figure is an estimate only, and is subject to a high degree of uncertainty given that Government have not published the data underlying the proposed funding formulae, and the scope for additional changes to be made to proposals ahead of the Local Government Finance Settlement later in the year.

- 3.3 Council net spending at 31<sup>st</sup> March 2025 was £16.073m over budget, which was funded by a transfer of £6.073m from earmarked reserves, and £10m of Exceptional Financial Support (EFS), formally approved by the Ministry of Housing, Communities and Local Government (MHCLG) on 21 August 2025. Growth of £33.556m was applied to the Council's budget in 2025/26 using £29.385m of EFS. EFS permits councils in financial difficulty to capitalise annual revenue costs and funding them with long-term borrowing over 20 years from the Public Works Loans Board (PWLb). EFS does not provide grant funding, and the cost of any borrowing taken will need to be borne by the Council's revenue budget over the next 20 years. EFS approval for 2025/26 is pending the Council undergoing an external assurance review which will include, but will not be limited to, an assessment of the council's financial position and governance arrangements. No date has yet been fixed for the assessment
- 3.4 Review of the Council's in-year spend position is reviewed and reported to Executive Board on a bi-monthly basis. As at 31 July 2025 the net Council spending position is £1.629m over budget. The outturn forecast for the year estimates that net spending will be over budget by £5.572m if no corrective action is taken. The Council is taking steps to bring in-year spend within budget not doing so will increase the level of EFS and will result in higher financing costs over the next 20 years. Spend is increasing against the key pressure areas, notably children social care, adult social care and home to school transport. The Council spend against social care areas is significantly higher on a per head basis than comparator authorities and urgent action is required over the MTFS period to bring this down.
- 3.5 Given the scale of the request for EFS, it is imperative that work is undertaken at pace and scale to reduce the Council's overall cost base. Work is currently being undertaken by the Transformation Team to scope the potential for future savings to contribute towards a sustainable budget within the medium-term.
- 3.6 The information presented within the MTFS is based on the best current estimates of inflation and demand, and any other known increases to spending. It does not include any estimates for savings achieved as part of the refocused Transformation Programme. The Financial Recovery Plan, presented as the

next item on the agenda, demonstrates the scale of the savings required to return the Council to a sustainable budget position over the medium-term.

- 3.7 Appendix 1 details the Medium-Term Financial Strategy from 2026/27 – 2030/31 which has been produced using a prudent estimate of the financial conditions over the course of the next five years.
- 3.8 Adopting a prudent view, the Strategy identifies that the gap between the Council's expenditure and the resources available is estimated to be £118.613m by 2030/31 if current levels of spending are maintained. This represents 54% of the Council's estimated resources in 2030/31.
- 3.9 The forecast shows that it is vital that a significant level of budget savings are achieved over the next five years, the scale of which will be extremely difficult to implement.
- 3.10 The Council has a legal duty to set a balanced budget each year, meaning that anticipated expenditure cannot exceed the income which the Council expects to receive in any particular year.

#### Exceptional Financial Support

- 3.11 If a local authority does not expect to be able to set a balanced budget, they can apply to MHCLG for Exceptional Financial Support (EFS). This will normally take the form of a capitalisation direction, permitting the authority to meet revenue costs through capital resources. It is important to note that EFS is not a long-term solution to solving financial difficulties. The additional capital resources required will take the form of borrowing from the Public Works Loan Board.
- 3.12 Government will only grant EFS where they are satisfied that authorities will continue to mitigate and manage their cost pressures, in order to ensure they return to a sustainable budget position in the short to medium-term. Any authority receiving EFS will be subject to an external assurance review and will be required to regularly report to Government on their financial position.
- 3.14 The cost of this borrowing, which can be significant, must be met from future revenue budgets, putting additional pressure on the funding available for core services. These costs will vary according to interest rates, but currently, each £10m of borrowing taken will increase revenue costs by approximately £1m.
- 3.15 £10m of EFS was used to finance spending in the 2024/25 financial year, and £29.385m was used in setting the 2025/26 budget. If this structural budget deficit is not addressed during 2025/26, a further application for EFS will be required for future years.

#### Section 114 of the Local Government Finance Act 1988

- 3.16 If MHCLG do not approve an application for EFS, the Section 151 Officer of any council which cannot set a balanced budget, will be required to issue a Section

114 Notice under the Local Government Finance Act 1988. Once the Notice is issued, no new spending can be undertaken without authorisation of the Section 151 Officer, and the council must meet within 21 days to discuss how to reduce expenditure to match the funding available. Government may also elect to intervene in the management of the council, either through direct instructions to make certain changes or the appointment of commissioners to take over operations.

- 3.17 The Council must urgently take steps to agree, implement and adhere to a recovery plan to bring spend to a sustainable position during the course of the this MTFS period. Not doing so will heighten the risk of Government not providing EFS support to the Council and leaving no further option other than Section 114 notice. The Council must adopt a Section 114 attitude to all future spending plans, with spend only being committed where it is absolutely required.

#### **4.0 POLICY IMPLICATIONS**

- 4.1 The MTFS represents the “finance guidelines” which form part of the Council’s medium-term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key priorities and objectives, and are an important influence on the development of the Corporate Plan, Service Plans and Strategies.

#### **5.0 FINANCIAL IMPLICATIONS**

- 5.1 The MTFS provides a guide to projected funding resources and spending requirements over the four year term. The grant amounts included in the MTFS are based on the latest information provided by Government. As new information comes to light the forecast of future income streams will be updated. Decreases to funding resources will create further budget pressures for the Council in delivering its key priorities and objectives.

#### **6.0 IMPLICATIONS FOR THE COUNCIL’S PRIORITIES**

- 6.1 **Improving Health, Promoting Wellbeing and Supporting Greater Independence**
- 6.2 **Building a Strong, Sustainable Local Economy**
- 6.3 **Supporting Children, Young People and Families**
- 6.4 **Tackling Inequality and Helping Those Who Are Most In Need**
- 6.5 **Working Towards a Greener Future**

## **6.6 Valuing and Appreciating Halton and Our Community**

There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

## **7.0 RISK ANALYSIS**

7.1 The MTFS is a key part of the Council's financial planning process, and as such it aims to minimise the risk that the Council fails to achieve a balanced budget.

7.2 The financial forecast is presented on a prudent basis but there is continued uncertainty around Government support, funding levels and the high cost of inflation. This will be reviewed on a constant basis to help mitigate the increased level of risk.

7.3 The failure to set a balanced revenue budget may lead to the requirement for the Council's Section 151 Officer to issue a Section 114 Notice.

## **8.0 EQUALITY AND DIVERSITY ISSUES**

8.1 There are no direct equality and diversity issues.

## **9.0 CLIMATE CHANGE IMPLICATIONS**

9.1 There are no direct climate change issues.

## **10.0 REASON FOR THE DECISION**

10.1 To seek approval for the Council's Medium Term Financial Strategy for 2026/27 to 2030/31.

## **11.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

11.1 The alternative option of not maintaining a Medium-Term Financial Strategy has been considered. However, this would not follow good financial management practice, as the Medium Term Financial Strategy is a key element in informing the Council's financial planning and budget setting processes.

## **12.0 IMPLEMENTATION DATE**

12.1 The Medium Term Financial Strategy 2026/27 to 2030/31 will be implemented from 1st April 2026.

### **13.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

<b>Document</b>	<b>Place of Inspection</b>	<b>Contact Officer</b>
Local Government Grant Settlement 2025/26	Revenues and Financial Management Division, Halton Stadium, Widnes	Steve Baker

# **Appendix 1**

## **Medium Term Financial Strategy 2026/27 – 2030/31**

### **1.0 Introduction**

- 1.1 The Medium Term Financial Strategy (MTFS) sets out a five-year projection of the Council's resources and spending covering the period 2026/27 to 2030/31. The projections made within the MTFS must be treated with caution and require continuous updating as the underlying assumptions behind them become clearer.
- 1.2 The MTFS represents the "finance guidelines" that form part of the medium-term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and other strategies.
- 1.3 The financial forecast presented within the MTFS is based on current levels of spend and demand continuing into future years and does not include an estimate of any savings except those where work is already progressing and cost reductions are beginning to be realised. The Financial Recovery Plan, presented as the next item on the agenda, includes further scenarios which consider the level of savings which will be required over the next five years in order to return to a sustainable budget position.

### **2.0 Fair Funding Review**

- 2.1 The Fair Funding Review is the first fundamental update to the local government finance system since 2013/14. It will involve rebuilding the existing system from the ground up, with new Relative Needs Formulae (RNF) developed to determine each council's share of assessed needs, a reset of the business rates system, and a resource adjustment to reflect the varying ability of local authorities to generate income through Council Tax.

#### **Business Rates**

- 2.2 Halton currently participates in the 100% business rates retention pilot scheme operating within Liverpool City Region. This arrangement has increased the funding available to Halton by allowing all growth above the business rates baseline to be retained rather than shared with Government.
- 2.3 Government have confirmed that there will be a reset of the business rates system in 2026/27, coinciding with a revaluation of non-domestic properties by

the Valuation Office Agency, and the introduction of new multiplier rates for retail, hospitality and leisure properties, and for larger properties with a rateable value of over £0.5m.

- 2.4 The main aim of the reset is to remove the growth that authorities are collecting above their existing Business Rates Baseline and redistribute this according to an assessment of need. The current system has not been reset since 2013/14, and it is estimated that £1.5bn in growth above the baseline is being retained by authorities in 2025/26, which will be available for distribution according to relative needs in 2026/27.
- 2.5 Government have stated their intention to reset the business rates system more regularly in order to prevent excessive growth being retained by authorities. It is likely that future resets will correspond with Government Spending Reviews, although it is currently unclear whether this will happen every three years, or every six years.
- 2.6 There has been no information published by Government on whether the 100% business rates pilots will continue to operate beyond 2025/26, and if so, whether any of the growth accumulated within the schemes can be retained. The Liverpool City Region constituent authorities have written to MHCLG seeking clarity over the future of the schemes. For the purposes of this forecast, it has been assumed that the pilot scheme will cease to operate in 2026/27, and that all growth will be returned to Government for redistribution within the Settlement.

### **Council Tax**

- 2.7 Government has confirmed that the current 3% core council tax referendum principle will remain in place until at least 2029/30, with a further 2% increase allowed for the adult social care precept. This forecast assumes that the referendum principles will remain unchanged beyond 2029/30.
- 2.8 Within the Fair Funding Review, Government have stated that any councils seeking to increase their level of Council Tax above these thresholds will have their request considered on a case-by-case basis, but that no request would be granted where Council Tax was already set above the national average level.

### **Relative Needs Assessments**

- 2.9 The Fair Funding Review seeks to update the formulae and methodologies that are currently used to assess the relative needs of authorities across a range of council services. The current formulas were last updated in 2013/14 and were based on older datasets, some of which date back to 2001.
- 2.10 Government are proposing bespoke formulae for the following service areas:
  - Adult Social Care
  - Children's Social Care



- Fire and Rescue
- Highways Maintenance
- Home-to-School Transport
- Temporary Accommodation
- Foundation Formula (covering all other council services)

2.11 These formulae seek to determine relative need, i.e. the percentage of the total funding available on a national basis for these services that is required by each individual council, representing a measure of the demand that each local authority faces in the delivery of these services compared to other local authorities.

2.12 Government have stated their intention to roll-in several existing grants into Settlement, which will then be distributed via the new formulae. The full list of grants to be rolled in has not yet been confirmed. For the purposes of this forecast, it is assumed that the following grants will be affected:

- Revenue Support Grant
- Local Authority Better Care Fund
- New Homes Bonus
- Social Care Grant
- Market Sustainability and Improvement Fund
- Recovery Grant
- National Insurance Compensation Funding
- Homelessness Prevention Grant

Where applicable, it has been assumed that these grants will no longer be received, but that additional core funding will be received by the Council, distributed by the relevant new formulae.

2.13 The rolling-in of existing grant funding is a major area of uncertainty within the forecast as the distributions of the existing grants are largely very different from the proposed distributions under the new formulae. If any of the above grants remain as separate funding streams, or if any additional grants not listed were rolled into Settlement, the amount received from Fair Funding could increase or decrease significantly.

## **Resources Adjustment**

2.14 The resources allocated to each authority according to its assessed needs, will be adjusted to take account of its ability to raise revenue locally through Council Tax. The Government are proposing full equalisation of Council Tax, which will redistribute funding from high-taxbase areas, to those with a smaller Council Tax base, such as Halton. This is intended to compensate for the fact that a 1% increase in Council Tax raises far less revenue in low-taxbase areas than high-taxbase areas.

- 2.15 Government are proposing to take account of all mandatory discounts, and the Pension Age Local Council Tax Support Scheme within the resources adjustment, but are proposing to exclude the impact of mandatory discounts and premiums. It is proposed that a statistical proxy will be used in place of actual figures for the Working Age Local Council Tax Support Scheme, as many councils have reviewed these schemes and changed the value of the reductions awarded since the scheme was localised in 2013/14.

### **Transitional Arrangements**

- 2.16 It is highly likely that transitional arrangements will be put in place to protect councils that are set to lose funding as a result of the Fair Funding Review by phasing in a move to new allocations over a three-year period, and the introduction of a funding floor to protect the authorities who will see the largest funding reductions by a specified cash amount. It is highly unlikely that funding will be made available by Government outside of Settlement to cover these costs, so these protections are effectively paid for by the authorities whose funding assessment has increased from the Review.
- 2.17 The current proposal is for any gains and losses to be phased-in over three years, with a one third change in each year. This means that any funding increase for Halton as a result of the Fair Funding Review will not be fully realised until 2028/29.

### **Impact of Fair Funding**

- 2.18 Modelling has been undertaken to estimate the impact of these funding reforms from 2026/27 to 2028/29, which corresponds to the period covered by the latest Spending Review.
- 2.19 It is anticipated that Halton's Core Spending Power will increase as a result of the Fair Funding Review. The current best estimate of the impact of the Fair Funding Review is that Core Spending Power is expected to increase by approximately £10.45m, assuming that all Business Rates growth is lost, with this increase phased-in over three years from 2026/27 to 2028/29. It is important to note, however, that this estimate is based on some significant assumptions, including which grants will be rolled into Settlement and distributed according to the new needs formulae, the total value of Business Rates growth to be redistributed within the system, the future of the Business Rates pilot schemes, and the differences between reported Council Tax bases and those that will be modelled by MHCLG as part of the resources adjustment. It is also important to note that all areas of the Fair Funding Review are subject to change until the Local Government Finance Settlement is published. Any changes to the assumptions used, or any decision by Government to make changes to the funding distribution, could potentially lead to very large changes in the funding received.

### **3.0 Council Tax Support**

- 3.1 Funding to support council tax discounts is received from Government through a grant included in the Settlement Funding Assessment. Every council is responsible for implementing a local scheme to offer council tax discounts to those residents who may have been eligible to this previously through Council Tax Benefit.
- 3.2 The Halton scheme uses as a basis the previous regulations relating to Council Tax Benefit, which ensures that support for claimants with disabilities, claimants with children, and claimants who are working is maintained. Residents who qualify for the scheme will have their liability reduced to 21.55% of the maximum amount paid.
- 3.3 Council Tax Support Grant is not separately identifiable within Settlement Funding Assessment. It is assumed the level of funding will move in line with the Council's overall Settlement Funding Assessment.
- 3.4 The MTFS assumes that the level of Council Tax Support given to existing claimants will remain at the rate of 21.55% for the period of the MTFS. It also assumes that Council Tax Support funding will not be shared with Parish Councils.

### **4.0 Council Tax Forecast**

- 4.1 For 2025/26 the council tax for a Band D property in Halton is £1,846.66 (excluding Police, Fire, LCR and Parish precepts), which is expected to generate income of £68.208m.
- 4.2 When setting council tax levels, higher increases reduce the requirement to make budget savings. However, there are other factors that need to be considered when determining the appropriate increase in council tax. These factors include:
  - Halton has the fourth lowest council tax levels in the North West for 2025/26.
  - Halton's 2025/26 council tax is £58.85 (3.1%) below the average council tax set by unitary councils in England.
  - Inflation - the Consumer Price Index (CPI) as at July 2025 (latest available) is currently at 3.8% and the Retail Price Index (RPI) is at 4.8%.

- 4.3 The 2026/27 council tax base will be approved by Council in December 2025. Using figures from August 2025, it is estimated that there will be an increase of 40 Band D equivalent properties to a total of 36,796, assuming a collection rate of 97%. This increase is lower than in recent years due to the number of properties subject to the empty property and second home premiums reducing significantly. The increase in the tax base will result in an increase of £0.074m of council tax income.
- 4.4 It is anticipated that there will be a £0.996m Council Tax surplus at the end of the 2025/26 financial year which will be included within the 2026/27 budget. It is forecast that there will be a further £0.400m surplus available for inclusion within the 2027/28 budget.
- 4.5 For the purposes of this strategy it is assumed that a Council Tax increase of 2.99% will be applied throughout the period covered by the forecast. It is further assumed there will be a 2% increase for the adult social care precept in all years.
- 4.6 Table 1 estimates the net amount of Council Tax income that will be generated by various percentage increases in Halton's Band D council tax for the next five years, assuming no change in Council Tax base beyond 2026/27. The Council Tax referendum limits have been confirmed for 2026/27 – 2028/29. The MTFS assumes that these limits will remain at 3% for Council Tax, plus an additional 2% for the adult social care precept until at least 2030/31.

**Table 1 – Additional Council Tax Income 2026/27 to 2030/31**

<b>Projected Increases in Council Tax Income</b>	<b>2026/27 £'000</b>	<b>2027/28 £'000</b>	<b>2028/29 £'000</b>	<b>2029/30 £'000</b>	<b>2030/31 £'000</b>
0%	-	-	-	-	-
1%	683	690	697	704	711
2%	1,366	1,393	1,421	1,449	1,478
3%	2,048	2,110	2,173	2,238	2,306
4%	2,731	2,841	2,954	3,073	3,195
5%	3,414	3,585	3,764	3,952	4,150

## **5.0 Dedicated Schools Grant Deficit**

- 5.1 The Dedicated Schools Grant (DSG) is a ring-fenced grant allocation which is used to fund a variety of education services, with the majority forming the Individual Schools Budget.
- 5.2 The conditions of the grant make clear that it can only be spent on the Schools Budget, so that any underspend must be carried forward to future years.

- 5.3 In recent years, significant pressures on high needs budgets have led to many local authorities recording deficits against the DSG. Proper accounting practice requires these deficits to be offset against the council's General Fund, reducing the funding available for other local services.
- 5.4 In 2019/20 the Government issued a statutory override, to be applied from the 2020/21 financial year, which requires DSG deficits to be carried forward to the Schools Budget in future years, and prevents this being funded from General Fund resources.
- 5.5 The statutory override was due to expire on 31<sup>st</sup> March 2026, but has now been extended by a further two years to 31<sup>st</sup> March 2028. Without further government intervention, DSG deficits will need to be funded from General Fund resources from 1<sup>st</sup> April 2028. Given the level of deficits nationally, with some authorities recording a DSG deficit greater than the balance on their general fund, it is highly likely that the expiry of the statutory override would trigger a number of Section 114 notices and applications for EFS.
- 5.6 Halton is currently participating in the Delivering Better Value in SEND Programme, which supports local authorities to improve services to children and young people with SEND and aims to deliver effective and financial sustainable SEND services.
- 5.7 Table 2 shows a forecast of Halton's DSG deficit over the medium-term. The forecast deficit in future years does not yet take into account the mitigation on costs which the Delivering Better Value programme will bring. Work is underway to provide analysis on the mitigating factors but for the purpose of the forecast current known trends have been used in estimating future deficits.

**Table 2 – Forecast DSG Deficit**

<b>Year</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>
Cumulative Deficit	£14.5m	£23.5m	£33.8m	£45.8m	£60.2m	£77.6m

- 5.8 Due to the high impact that the ending of the statutory override will have on a large number of authorities, the forecast assumes that this will be extended until at least 2030/31, or that alternative means of funding this deficit will be set out in the Government's SEND White Paper, due to be published in the autumn.
- 5.9 It is not permitted to charge the cost of financing of DSG deficits to the grant itself. These costs arise from a reduction in investment returns and a greater borrowing requirement due to lower cash balances. An estimate of these costs is included within the forecast.

## **6.0 Five-Year Financial Forecast**

- 6.1 The Medium-Term Financial Strategy (MTFS) provides a forecast of the increase in revenue expenditure that will be required over the next five years in order to maintain existing policies and programmes.
- 6.2 The Council's financial position over the course of 2026/27 – 2030/31 is extremely uncertain due to the uncertainty surrounding the outcome of the Fair Funding Review, the continuing increase in demand for key Council services, costs within Adults and Children's social care increasing above the rate of general inflation, and limited progress made to-date towards achieving proposed savings. This forecast uses prudent estimates based on the information that is currently available. Although individual figures should be treated with caution and will need to be continually updated as new information becomes available, the forecast is clear about the scale of the financial challenges over the next five years.
- 6.3 For the purposes of this forecast it has been assumed that the Fair Funding Review will be implemented as per the published consultation in the 2026/27 financial year, and that the 100% business rates pilot scheme will cease on 31<sup>st</sup> March 2026. Detailed information about the Fair Funding Review can be found in Section 2 of this report.
- 6.4 In each year of the forecast, it has been assumed that general Council Tax will rise by 2.99%, and that the adult social care precept of 2% will be levied. Any Council Tax rise below these thresholds will increase the forecast budget gap.
- 6.5 £0.996m of Council Tax surplus, and £1m of Business Rates surplus has been included within the 2026/27 budget forecast. It is anticipated that there will be a further £0.400m of Council Tax surplus available for distribution in 2027/28.
- 6.6 At July 2025, Retail Price Index (RPI) inflation stood at 4.8%, with Consumer Prices Index (CPI) inflation at 3.8%. 2% has been built into the MTFS for general contract inflation, with 4% inflation built into the forecast for social care contracts which are sensitive to increases in the National Living Wage.
- 6.7 The Association of Directors of Adult Social Services (ADASS) estimates that 70% of the inflationary increases to care packages are attributable to rises in the National Living Wage (NLW) and 30% are attributable to increase in CPI. The Low Pay Commission are currently forecasting the NLW to increase by 4.1% in 2026/27, with a range of between 2.8% - 5.3%. The table below shows the range of potential increases to the cost of care packages as a result of inflation.

**Table 3 – Care Contract Inflation Estimate 2026/27**

	<b>Lower NLW, Lower CPI</b>	<b>Central NLW, Central CPI</b>	<b>Higher NLW, Higher CPI</b>
<b>NLW Forecast</b>	2.8%	4.1%	5.3%
<b>CPI Forecast</b>	3.0%	3.5%	4.0%

<b>Overall</b>	<b>2.86%</b>	<b>3.92%</b>	<b>4.91%</b>
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- 6.8 For 2025/26, a pay rise of 3.2% was agreed for spinal column points 1 – 43, with agreement on a 3.2% proposed pay rise for senior officers still pending. A 3% increase in pay budgets has been allowed for in each year of the forecast. If pay awards exceed or fall short of this level, the impact on the forecast will be as follows:

**Table 4 – Pay Forecast**

<b>Increase in Pay</b>	<b>2026/27 £000</b>	<b>2027/28 £000</b>	<b>2028/29 £000</b>	<b>2029/30 £000</b>	<b>2030/31 £000</b>	<b>Total £000</b>	<b>Difference to MTFS £000</b>
1%	269	264	259	1,023	1,034	2,849	(10,754)
2%	1,278	1,287	1,297	2,108	2,150	8,120	(5,483)
3%	2,286	2,331	2,376	3,256	3,354	13,603	0
4%	3,294	3,394	3,497	4,469	4,648	19,302	5,699
5%	4,302	4,477	4,659	5,749	6,036	25,223	11,620

- 6.9 Proposed pension contribution rates for 2026/27 to 2028/29 have been received from Cheshire Pension Fund and included within the forecast, although these will not be formally approved until later in the 2025/26 financial year. The following contribution rates have been proposed:

- 2026/27 – 19%
- 2027/28 – 18%
- 2028/29 – 17%

This represents a reduction in the employer's pension contribution rate of 20% in 2025/26. For the 2029/30 financial year onwards, it has been assumed that the pension contribution rate will remain at 17%. The reduction in pension contributions means that the growth in pay budget is forecast to be lower in the first three years of the forecast than in 2029/30 and 2030/31, where it is assumed that the pension contribution rate will remain constant.

- 6.10 The net revenue costs associated with the capital programme are included in the forecast. It is estimated that there will be an increase in costs of £0.465m, £0.794m, £0.221m, and £0.042m over the next four years. Costs are then anticipated to reduce by £0.210m in 2030/31. The forecast assumes that any new capital projects which are approved over the medium-term will be self-funded through capital grants, capital receipts, or will generate revenue savings to fund the cost of borrowing.
- 6.11 The additional costs associated with the Children's Service Improvement Programme Funding, presented to Executive Board on 24<sup>th</sup> October 2024 have been included in the forecast. The programme aims to stabilise the service and is anticipated to lead to decreases in the costs of placements and agency staff.

Additional budget of £4.310m was provided for during 2025/26 to reflect the costs of the additional established posts. The funding requirement is forecast to decrease by £0.232m in 2026/27, due to a re-profiling of the spend. The Programme is expected to produce cost mitigation of £2.091m during 2025/26, with further cost reductions of £3.336m and £1.215m anticipated in 2026/27 and 2027/28 respectively. The progress of the Programme will be regularly evaluated and these figures will be updated in future forecasts.

- 6.12 Funding has been included within the forecast to account for an increase in demand for Adult Social Care packages based on historical data. £5.595m has been included for 2026/27, with an additional £6.217m, £6.908m, £7.677m, and £8.531m provided in the following four financial years. Rising demand for Adult Social Care services is major risk to the Council's budget. The figures included in the forecast are based on the increase in costs due to demand between 2024/25, and the forecast position at July 2025. The following table shows the impact on the budget if demand is lower or higher than forecast:

**Table 5 – Adult Social Care Demand**

Percentage Demand Increase	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	Total	Difference to MTFS
8%	4,024	4,346	4,693	5,069	5,474	23,606	(11,322)
10%	5,030	5,533	6,086	6,694	7,364	30,707	(4,221)
11.1% (included in forecast)	5,595	6,217	6,908	7,677	8,531	34,928	0
12%	6,035	6,760	7,571	8,479	9,497	38,342	3,414
14%	7,041	8,027	9,151	10,432	11,893	46,544	11,616

- 6.13 There has been a significant rise in demand for placements within Children's Services over recent years, although current forecasts show that this increase in demand is now slowing down. Funding has been included within the forecast for these demand pressures, based on the growth in placement costs between the 2024/25 financial year, and the July 2025 forecast. The anticipated savings in placement costs as a result of the Children's Improvement Programme are included separately within the forecast. The following table shows the impact on the budget if demand is lower or higher than forecast:

**Table 6 – Children's Social Care Demand**

Percentage Demand Increase	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	Total	Difference to MTFS
1%	327	330	333	337	340	1,667	(6,395)
3%	980	1,010	1,040	1,071	1,103	5,204	(2,858)



4.5% (included in forecast)	1,473	1,540	1,609	1,682	1,758	8,062	0
6%	1,960	2,078	2,203	2,335	2,475	11,051	2,988
8%	2,614	2,823	3,049	3,293	3,556	15,335	7,271

- 6.14 Growth of £1.546m has been included in the MTFS for 2026/27 to reverse the 10% cuts made to supplies and services, property maintenance, and highways maintenance budgets in 2024/25.
- 6.15 £0.523m of budget growth has been included within the forecast for 2026/27 for the Domestic Abuse Prevention Service. These services have been fully-funded by an external grant, but will need core budget in future years.
- 6.16 There have been an increase in housing benefit claims in relation to residents in supported accommodation in recent years. The Council awards full housing benefit for these residents, but is only reimbursed by the Department for Work and Pensions for the value of the rent in a standard property. This leaves the Council to pick up the additional costs associated with maintaining and managing these homes. An additional £0.100m is included in each year of the forecast for these costs.
- 6.17 An additional £1m of waste management costs arising from the introduction of statutory food waste collections and changes to recycling services have been included within the forecast for 2026/27. Government have committed to providing new funding to councils as a result of the changes to recycling services, but there is currently no indication of the value of this funding, or when it will be received. It has therefore been excluded from this forecast.
- 6.18 £1.5m of contingency has been provided in 2026/27 to deal with any unexpected costs. In subsequent years, a contingency figure of £2m has been used to reflect the additional uncertainty of estimates made within the forecast over a longer timescale.
- 6.19 £2.5m of funding for the Transformation Programme has been included from 2026/27 to 2028/29. Although the structure of the Programme has not been agreed for April 2026 onwards, it has been considered prudent to include this in the forecast as the scale of the financial challenges facing the Council mean that there is little alternative but to invest in the transformation of services. This will be updated as the future Programme structure is developed.
- 6.20 Additional costs associated with financing the DSG deficit have been included within the forecast. Although the deficit is currently covered by the statutory override, the costs of financing the deficit position that arise from increased borrowing or decreased investment returns due to lower cash balances, are not permitted to be charged to the DSG. These are required to be funded by the Council, and will impact on the general fund position.

- 6.21 An estimate for the revenue costs of EFS in each year is included within the forecast, based on the anticipated funding gap in each year.

**Table 7 – Medium Term Spending Forecast 2026/27 – 2030/31**

Increase in Spending Required	Year on Year Change £'000				
	2026/27	2027/28	2028/29	2029/30	2030/31
Pay Inflation	2,286	2,331	2,376	3,256	3,354
Pay Increments	500	500	500	500	500
Price Inflation	4,935	5,147	5,332	5,524	5,723
Sales, Fees and Charges Income Inflation	(648)	(661)	(675)	(688)	(702)
Capital Programme	464	794	221	42	(210)
Contingency	1,500	2,000	2,000	2,000	2,000
Increased Demand Pressures – Children's Social Care	1,473	1,540	1,609	1,682	1,758
Re-Profiling of Children's Investment Funding	(232)	0	0	0	
Cost Mitigation from Children's Investment	(3,336)	(1,215)	0	0	0
Increased Demand Pressures – Adult Social Care	5,595	6,217	6,908	7,677	8,531
Housing Benefit Subsidy	100	100	100	100	100
Reversal of 10% Supplies and Services Savings	840	0	0	0	0
Reversal of 10% Property Maintenance Savings	247	0	0	0	0
Reversal of 10% Highways Maintenance Savings	459	0	0	0	0
Additional Waste Disposal Costs	1,000	0	0	0	0
Transformation Programme	2,500	0	0	(2500)	0
Other Expenditure	622	18	19	0	(300)
Cost of Financing DSG Deficit	430	515	600	720	870
Additional Annual Revenue Costs of Exceptional Financial Support	3,327	4,845	6,288	7,952	10,023
<b>Total Increase</b>	<b>22,062</b>	<b>22,131</b>	<b>25,278</b>	<b>26,265</b>	<b>31,647</b>

## 7.0 The Funding Gap

- 7.1 At this level of spending there is a significant funding gap with the forecast level of resources, both on an in-year and cumulative basis. Table 8 demonstrates the forecast gap between spending and forecast resources from 2026/27 – 2030/31.

**Table 8: Funding Gap 2026/27 – 2030/31**

	<b>2026/27 £'000</b>	<b>2027/28 £'000</b>	<b>2028/29 £'000</b>	<b>2029/30 £'000</b>	<b>2030/31 £'000</b>
Increase in Net Spend Forecast (Table 7)	22,062	22,131	25,278	26,265	31,647
Increase in Estimated Funding from Central Government	(2,032)	(2,103)	(4,263)	(1,946)	(1,978)
Increase in Funding from Increase in Council Tax Base (Para 4.3)	(74)	(683)	(689)	(696)	(704)
Decrease / (Increase) in Council Tax Surplus (Para 4.4)	(996)	596	400	0	0
<b>In-Year Funding Gap Before Council Tax</b>	<b>18,960</b>	<b>19,941</b>	<b>20,726</b>	<b>23,623</b>	<b>28,965</b>
<b>In-Year Funding Gap After Estimated Council Tax Increase</b>	<b>15,552</b>	<b>14,027</b>	<b>15,693</b>	<b>19,450</b>	<b>24,506</b>
<b>Cumulative Funding Gap After Estimated Council Tax Increase<sup>1</sup></b>	<b>44,937</b>	<b>58,964</b>	<b>74,656</b>	<b>94,107</b>	<b>118,613</b>

Note<sup>1</sup> – The 2026/27 cumulative funding gap includes the 2025/26 budget deficit of £29.385m funded through Exceptional Financial Support.

## 8.0 Capital Programme

- 8.1 The Council's capital programme is updated regularly throughout the year. Table 8 summarises the fully funded capital programme for the next two years.

**Table 9 – Capital Programme**

	<b>2026/27 (£'000)</b>	<b>2027/28 (£'000)</b>
<b>Spending</b>	<b>29,418</b>	<b>7,976</b>
Funding:		
Prudential Borrowing	19,131	6,236
Grants	9,407	1,140
External Contributions	880	600
Capital Receipts	0	0

<b>Total Funding</b>	<b>29,418</b>	<b>7,976</b>
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- 8.2 The current system of capital controls allows councils to support and fund the capital programme by way of prudential borrowing. Such borrowing is required to be:
- prudent
  - affordable, and
  - sustainable
- 8.3 The capital programme is underpinned by the Capital Strategy agreed by Council in March 2025.
- 8.4 The Council has used prudential borrowing provided that the cost of borrowing has been covered by revenue budget savings and the spending forecast continues this assumption.
- 8.5 In previous years the Council has been extremely successful in attracting capital grants and contributions. In this way, the Council has been able to undertake significant capital expenditure without financing costs falling on the revenue budget and this approach will continue.

## **9.0 Reserves and Balances**

- 9.1 The Council's Reserves and Balances Strategy is attached in Appendix 2. It sets out the Council's strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.
- 9.2 The level of balances and reserves will be reviewed as part of the budget monitoring and final accounts processes.

## **10.0 Conclusions**

- 10.1 The forecast funding gap of £118.613m over the next five years is clearly unsustainable, and will require the Council to make significant savings if the Section 151 Officer is to avoid issuing a Section 114 notice. It is clear that, to achieve the level of savings required, it will no longer be possible for the Council to maintain the range and level of service provision that it currently offers.
- 10.2 If the level of Council spending continues as set out in this forecast, the revenue costs associated with Exceptional Financial Support will reach an estimated £32.935m in 2030/31, representing approximately 15% of the anticipated total resources. It is therefore essential that the Council's costs are reduced

significantly, and at pace, to ensure that these costs are affordable in future years.

- 10.3 The Financial Recovery Plan, which follows this item on the agenda, sets out additional forecasts with the aim of demonstrating how the Council can return to a sustainable budget position by 2030/31.
- 10.4 The Medium-Term Financial Strategy provides a framework and underlying assumptions which will be used in the preparation of the 2026/27 annual budget. It has been based upon information that is currently available, however, revisions to the Strategy will need to be made as new developments take place and new information becomes available.
- 10.5 Appendix 2 sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

### RESERVES AND BALANCES STRATEGY

#### 1.0 INTRODUCTION

- 1.1 The following sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.
- 1.2 The overall strategy is to provide the Council with an appropriate level of reserves and balances in relation to its day to day activities and to ensure the Council's financial standing is sound and supports the achievement of its long term objectives and corporate priorities.
- 1.3 The Director, Finance will undertake bi-monthly reviews of the level of reserves and balances and take appropriate action in order to ensure the overall Strategy is achieved. The outcome of the reviews will be reported to the Executive Board and will be used to inform the Medium Term Financial Strategy (MTFS), the annual budget setting process and the final accounts process.
- 1.4 The Strategy concentrates upon the Council's key reserves and balances, being those which may potentially have a significant affect upon the Council's financial standing and its day-to-day operations.

#### 2.0 RESERVE BALANCES

- 2.1 As at 31 July 2025 the balance of the Council's general reserve was £5.149m. The general reserve balance represents 2.81% of the Council's 2025/26 net budget. This level of General Reserve is considered to be insufficient and provides little to cover unforeseen costs. It is important once the Council gets to a sustainable budget position that priority is given to increasing the level of reserves.
- 2.2 The Council has used reserves in helping to provide balanced budget positions, but the level of reserves is now such that using reserves in this way is no longer possible. There is an urgent need to start the process of replenishing reserves, although in the current climate and against the need to take on Exceptional Financial Support this makes replenishment difficult.
- 2.3 In addition to the general reserve the Council holds earmarked reserves set aside for specific purposes. As at 31 July 2025 the balance of earmarked reserves was £50.005m, a breakdown of which is presented below.
- 2.4 The reserve table shows the diminishing level of reserves available to assist with funding any future budget overspends and balancing future budgets. Only the £5.149m of the General Fund could now be used for these purposes, as all remaining reserves are committed for specific purposes.

<b>Summary of General and Earmarked Reserves</b>	
<b>Reserve</b>	<b>Reserve Value £m</b>
<b>Corporate:</b>	
General Fund	5.149
Capital Reserve	0.398
Insurance Reserve	0.849
<b>Specific Projects:</b>	
Adult Social Care	0.710
Fleet Replacement	0.454
Highways Feasibility Costs	0.102
Local Development Framework	0.538
Community & Environment	0.542
Mersey Valley Golf Club	0.480
Mersey Gateway	33.542
CCLA Property Fund	0.263
Various Other	0.153
<b>Grants:</b>	
Building Schools for the Future	6.529
Public Health	1.468
Supporting Families Performance Payments	0.204
Children's & Education	1.188
Domestic Abuse	0.915
Enterprise & Employment	0.782
Food Waste Collection	0.237
Mersey Gateway Environmental Trust	0.492
Various Other	0.156
<b>Total Earmarked Reserves</b>	<b>55.151</b>

### 3.0 PROVISIONS

#### Sundry Debtors

- 3.1 The Council makes provision for bad and doubtful debts based upon an annual review of outstanding debts profiled by age and the associated risks of non-payment, depending upon the types of debt.
- 3.2 Past experience has shown that after 43 days (the period covering the initial stages of recovery action) the likelihood of sundry debts being paid reduces significantly and therefore the risk of them not being recovered increases greatly. Increased provision will therefore be made for all sundry debts outstanding for more than 43 days.
- 3.3 The bad debt provisions in respect of sundry debtors at 31 March 2025 totals £6.147m.



### **Council Tax / Business Rates (NNDR)**

- 3.4 Bad debt provisions are made in respect of Council Tax and National Non Domestic Rate (NNDR) debts. The bad debt provisions (Council Share) in respect of Council Tax and NNDR debtors at 31 March 2025 totals £17.274m.
- 3.5 The levels of bad debt provisions held are considered prudent in relation to the current level and age profile of outstanding debts. But they will be reviewed annually, particularly in the light of the prevailing economic climate. Therefore appropriate provisions will be made to minimise the risk of financial loss to the Council.
- 3.6 The Council is also required to hold a provision for NNDR valuation appeal claims. The provision as at 31 March 2025 totals £2.386m.