



# Title of report: Medium Term Financial Strategy - Update to Cabinet

**Meeting:** Cabinet

**Meeting date:** Thursday 25 September 2025

**Cabinet Member:** Cabinet member finance and corporate services

**Report by:** Director of Finance

**Report author:** Director of Finance

**Classification**

Open

**Decision type**

Non-key

**Wards affected**

All Wards

**Purpose**

To provide an update on the key headlines from the Spending Review June 2025 and potential impact of local authority funding reform on the council's future financial position.

**Recommendation(s)**

**That Cabinet:**

- a) **Notes the key estimates assumptions which inform the financial forecast and the updated projected funding gap over the medium-term period 2026/27 to 2028/29; and**
- b) **Agrees the proposed approach and timetable for revenue and capital budget setting for 2026/27.**

**Alternative options**

- 1. Cabinet may choose to review financial position and performance more or less frequently; or request alternative actions to deliver financial planning arrangements, including referral to the relevant scrutiny committee.

## Key considerations

2. Council approved the 2025/26 Revenue Budget and Medium Term Financial Strategy (MTFS) for the 4-year period to 2028/29 on 7 February 2025. The approved MTFS highlighted significant uncertainty in terms of future funding arrangements and allocations across local authorities over the medium-term period as a result of planned funding reform and reset of Business Rates during 2025.
3. Informed by assumptions and estimates of funding available at the time of preparation, the MTFS identified an estimated potential funding gap for the medium-term period 2025/26 to 2028/29 of £4.2 million and recognised the need to revise the MTFS to reflect updated levels of funding as information is received from Government.
4. This report provides Cabinet with an update on changes to the financial and economic context in which the council is required to operate, including key headlines from the Spending Review June 2025 and the potential impacts of local authority funding reform on the council's future financial position.
5. This report also sets out the approach and timetable for development of the 2026/27 budget and MTFS for the 4-year period 2026/27 to 2029/30, to be recommended for approval by full Council in February 2026.
6. Key priorities for the council in the current financial year (2025/26) are summarised below:
  - The delivery of services within the approved revenue budget;
  - Robust monitoring of in-year performance against the approved revenue budget to ensure timely identification of appropriate management recovery actions;
  - Delivery of savings comprising £3.9 million of savings in the approved 2025/26 Revenue Budget and £11.9 million of savings not delivered recurrently in prior years which have been carried forward for delivery in 2025/26; and
  - Development of the 2025/26 Revenue and Capital Investment Budgets, review and update of the MTFS.
7. The updated estimate of funding represents a potential loss to the 2025/26 baseline position of £12.0 million over the three-year period to 2028/29. Before work to challenge and review the current previous estimate of net expenditure requirement has been undertaken, the impact of this reduction in funding through the Fair Funding Review is a revised estimated funding gap of £27.3 million in 2026/27 rising to £54.4 million in 2028/29.
8. It is expected that this estimate will be subject to change over the months leading up to the publication of the Provisional Local Government Finance Settlement, in December 2025, as a result of further expected updates to data and formulae which determine funding allocations.
9. The MTFS, and underlying income and expenditure estimates and assumptions, will be further reviewed, modelled and tested over the budget development period through to February 2026 as new information becomes available from the anticipated Fair Funding Review 2.0 and the Business Rates Reset. This work will also model and incorporate the impact of transformation and planned savings and efficiencies on the estimated funding gap in 2026/27 and future years.

## Financial and Economic Outlook: Spending Review June 2025

10. The Chancellor of the Exchequer announced the outcome of the Spending Review 2025 (SR25) on 11 June 2025. The Spending Review sets out revenue funding allocations for each Government department over the next three years (2026/27 to 2028/29) with an additional fourth year for capital allocations. This is the first multi-year Spending Review since 2021.

11. The key announcements relevant to local authorities are summarised below:

- Local Government Funding:** The Spending Review announced an additional £3.2bn of grant funding by 2028/29 compared with 2024/25. The document notes that this is worth an average annual yearly increase of 3.1% in Core Spending Power (i.e. including council tax increases) across the Spending Review Period.
- Settlement Indications:** Core Spending Power (CSP) plans show a larger real terms increase than most Departmental Expenditure Limits (DELs). This is because it includes council tax and business rates. The Review assumes that councils will increase council tax in each year by 3% core referendum principle and 2% for the adult social care precept (the maximum increased permitted for authorities with responsibility for adult social care services without holding a referendum). Once council tax is excluded from the CSP figure the remaining grants are expected to increase by just 3.3% over the Spending Review Period in real terms. It should be noted that the MTFs approved by Council in February 2025, assumed an increase of 3.99% in each of the years 2026/27 to 2028/29 and not the maximum 5% permitted.
- Transformation Fund Allocations for Local Government:** The £3.25bn Transformation Fund includes £557m of funding for the reform of children's social care over the Spending Review Period (£79m, £271m, £207m in each year respectively). An allocation of £760m over 2026/27 and 2027/28 is included for the reform of SEND to "make the system more inclusive and improve outcomes for all children and young people". Additionally, homelessness funding of c.£87m is earmarked for 2026/27 and 2027/28. It is unclear, as yet, if any of this funding is included in Core Spending Power (CSP) figures.
- Adult Social Care:** The Spending Review suggests an increase of over £4bn of funding available for adult social care in 2028/29 compared with 2025/26. This includes an increase to the NHS' minimum contribution to Adult Social Care (ASC) via the Better Care Fund, in line with the Department of Health and Social Care's Spending Review settlement and ASC precept increases. Further details are expected in due course.
- Children's Social Care:** In addition to the £557m of funding for the reform of Children's Social Care set out in the Transformation Fund, the government has announced £560m capital between 2026/27 and 2029/30, to refurbish and expand children's homes and foster care placements.
- Pothole Funding:** The only announcement in respect of potholes and local roads refers to "£24 billion of capital funding between 2026/27 and 2029/30 to maintain and improve motorways and local roads across the country. This funding increase will allow National Highways and local authorities to invest in significantly improving the long-term condition of England's road network, delivering faster, safer and more reliable journeys".
- Council tax reform:** Despite previous suggestion that options to reform council tax would be considered, it is not mentioned in the review.
- Education:** Free school meals extended to all children with a parent receiving Universal Credit. Excluding funding for the expansion of Free School Meals, the core schools' budget will grow by an average of 0.9% per pupil in real terms each year. The government will increase the core schools' budget by £2bn in real terms over this Spending Review, a £4.7bn cash increase per year by 2028/29, compared with 2025/26.

- **Dedicated Schools Grant (DSG) and Special Educational Needs and Disabilities (SEND) deficits:** The SR25 announced that details of the Government's intended approach to SEND reform will be set out in a Schools White Paper in the autumn and that details in respect of support for local authorities will be set out in the upcoming Fair Funding Review (FFR) consultation. Following SR25, the Fair Funding Review 2.0 (FFR2.0) Consultation, published 20 June 2025, confirmed an extension of the DSG Statutory Override for a further two years to 31 March 2028.

## **Financial and Economic Outlook: Fair Funding Review 2.0 (FFR 2.0)**

12. The Ministry of Housing, Communities and Local Government (MHCLG) Consultation on local authority funding reform through the Local Government Finance Settlement from 2026 to 2027 ran from 20 June to 15 August 2025. The Fair Funding Review 2.0 attempts to refresh the methodology for distributing a fixed pot of funding between local authorities covered by the Local Government Finance Settlement.
13. The last time the underlying distribution methodology was refreshed through changes to formulae and data was in 2013, at the time the business rates retention system was set up. This means that the last full assessment of relative needs and resources is 12 years old and the relationship between the assessment and actual allocations through the Settlement Funding Assessment (SFA) has weakened over this period.
14. In addition, Government is considering rolling in further grants, including nearly £10 billion of social care funding, into the SFA, thus subjecting these grants to the FFR 2.0 process. This means that FFR 2.0 will have a significant impact on local authority funding which will be difficult to predict until final decisions on the funding distribution model are confirmed.
15. The full outcome of the consultation, and impact in funding for Herefordshire, will not be confirmed until the announcement of the Provisional Local Government Finance Settlement which is expected in December 2025.
16. The allocation of the new Settlement Funding Assessment is made up of an assessment of relative need and an assessment of the relative resources; these are the two key determinants of the outcome of FFR 2.0 for each authority.
17. The Relative Needs Assessment determines the share of 'total need' attributable to each authority as a proportion of the fixed pot available. This is driven by the results of a series of relative needs formulae which calculate the extent to which a local authority's characteristics are likely to drive demand for a particular service, relative to other authorities providing the same service. The most consequential factors include population cohort size, deprivation-linked metrics and specific metrics for highways maintenance.
18. The Relative Resources Adjustment is an assessment by central government of each authority's ability to raise income locally from council tax, informed by the attributable taxbase multiplied by an amount per unit of taxbase.
19. An authority's share of the fixed pot, allocated based on its relative need, is adjusted by the Relative Resources Adjustment to determine the Settlement Funding Assessment allocation.

## **Financial Context and Potential Impact of FFR 2.0 for Herefordshire**

### **Impact of changes in funding through FFR 2.0**

20. Funding received and retained by the council in 2025/26 which is subject to redistribution through the Fair Funding Review totals £79.0 million (the baseline for FFR). This represents funding excluding council tax.

21. Initial, high-level modelling of the implications for the council has been carried out in collaboration with our professional advisors. This work has identified that the 'pure' impact of the review for Herefordshire is an estimated loss of £12.0 million to the total assumed new SFA compared with the 2025/26 baseline position over the three-year period to 2028/29. This is detailed in table 1 below.
22. The Consultation proposes that allocations of the new SFA will be introduced over a three-year period with a 33% weighting of the updated SFA in 2026/27, 67% weighting in 2027/28 and 100% weighting in 2028/29. For the council, this means a reduction in the new SFA funding of approx. £3.3 million, £7.3 million and £12.0 million respectively in the financial years 2026/27 to 2028/29.

**Table 1: Updating funding forecast**

Updated Funding Forecast September 2025 (FFR 2.0 estimated impact)				
Detail	Budget 2025/26 £m	Estimate 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000
<b>Funding:</b>				
Council tax (3.99% increase assumed)	146.5	154.2	162.3	170.9
<b>SFA baseline used in FFR 2.0</b>	<b>78.2</b>	<b>79.0</b>	<b>79.0</b>	<b>79.0</b>
<b>Estimated impact of FFR 2.0</b>		<b>(3.3)</b>	<b>(3.3)</b> <b>(4.0)</b>	<b>(3.3)</b> <b>(4.0)</b> <b>(4.7)</b>
<b>Local adjustments/outside of SFA:</b>				
HEZ Rates	1.3			
Collection Fund	2.0			
Extended Producer Responsibility Grant	3.5			
<b>Total estimated funding</b>	<b>231.5</b>	<b>229.9</b>	<b>234.0</b>	<b>237.9</b>

**Impact of FFR 2.0 changes on estimated funding gap over medium-term period**

23. The approved MTFS includes an estimate of the council's net expenditure requirement for future years which represents estimated costs to support growth in demand for services, inflation and the impact of the pay award.
24. The previously estimated net expenditure requirement totals £257.2 million for 2026/27 increasing to £274.6 million in 2027/28 and £292.3 million in 2028/29. These estimates have not been updated but will be subject to review and challenge, to reflect current economic conditions, service activity levels and the impact of proposed transformation, as part of the detailed budget setting process for 2026/27 which is currently underway.
25. Reviewing this expenditure requirement in the context of the total assumed new SFA highlights an increased funding gap over the medium-term period as detailed in table 2 below.

**Table 2: Updating funding gap estimate**

Updated Funding Gap September 2025 (FFR 2.0 estimated impact)				
	Budget 2025/26 £m	Estimate 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000
Total estimated funding	231.5	229.9	234.0	237.9
Net expenditure requirement (no update)	231.5	257.2	274.6	292.3
<b>Updated estimated gap to be funded</b>	<b>-</b>	<b>(27.3)</b>	<b>(40.6)</b>	<b>(54.4)</b>

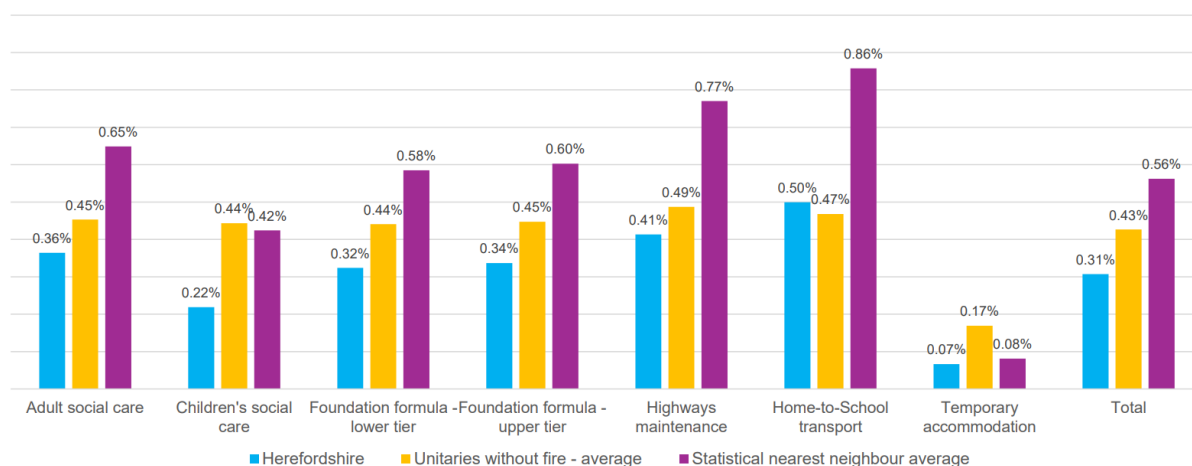
26. The estimated revised gap to be funded over the medium-term period is the result of growth in demand and costs for services increasing at a higher rate than the increase in council tax and central government funding through the new SFA as outlined in table 3 below.
27. There is an 11.1% increase in the estimated expenditure requirement in 2026/27 alongside a 0.7% decrease in estimated funding. In 2027/28 and 2028/29, the estimated increase in net expenditure requirement to deliver services is 6.8% and 6.4% respectively whilst increases in income and funding represent marginal increases of 1.8% and 1.7% respectively.

**Table 3: Movement in funding and expenditure**

	2026/27	2027/28	2028/29
Movement in expenditure requirement	+£25.7m	+£17.4m	+£17.7m
<b>% increase in expenditure</b>	<b>+11.1%</b>	<b>+6.8%</b>	<b>+6.4%</b>
Movement in funding (including council tax)	-£1.6m	+£4.1m	+£3.9m
<b>% change in funding</b>	<b>-0.7%</b>	<b>+1.8%</b>	<b>+1.7%</b>

28. As outlined in paragraph 16 above, the council's share of the fixed national pot of funding is determined by Herefordshire's share of relative need. Our review of how Herefordshire's share of relative needs assessed through each formula in 2025 compared with the national average share of our statistical nearest neighbours and the average unitary authority share, suggests that the council does not fare favourably from the assessment of relative needs and therefore the allocation of funding.

**Chart 1: Herefordshire Council share of relative needs assessed through each formula in 2025 compared with national averages**



29. The second key determinant of the SFA is the Relative Resources Adjustment. This assessment of each authority's ability to raise income from council tax, informed by the attributable taxbase multiplied by an amount per unit of taxbase, assumes a notional council tax level of £2,199 per taxbase unit.
30. With a band D charge of £1,969.36 in 2025/26, the council's council tax level is less than that assumed in the formula which determines the Relative Resources Adjustment. The adjustment therefore assumes that the council raises more income from council tax than it is able to from current levels. This puts the council at a further disadvantage in the allocation of funding through FFR 2.0.



## Approach to Closing the Estimated Funding Gap

31. Responding to the impact of the Fair Funding Review 2.0 represents a significant challenge for the council; managing a significant reduction in funding at a time of increasing costs and demand for services, alongside the additional costs of delivering services to our rural communities, places the council's financial position and resilience under pressure.
32. The council will need to prioritise resources and continue to identify efficiencies and savings to bridge this gap through transformation of service delivery, increasing opportunities to recover costs of service delivery, expenditure reviews and reviewing the size and shape of the workforce to ensure a lean and resilient council for the future.
33. The council is in strong position to respond to this challenge. In-year monitoring of performance against the approved revenue budget for 2025/26 identifies a small forecast net overspend of £1.0 million (0.4% of net budget) after recovery action, and significant progress in the delivery of approved savings, and savings brought forward from previous years, has already been made in the first quarter of the financial year.
34. There are robust, proven expenditure controls in place across the council and effective demand management has had a positive impact on the cost of service delivery. Close monitoring and financial discipline, to ensure the delivery of services within budget, is exercised through monthly Directorate Budget Boards and Directorate expenditure control panels with oversight of monthly financial position and performance by Corporate Leadership Team and Cabinet.
35. As part of the budget development process, leading to the approval of the Revenue Budget and Capital Programme by full Council in February 2026, a comprehensive review of options to address the funding gap is already underway. This work will include exploration of options to maximise income from the council tax base and commercial activities, continued development of transformation opportunities, review of mandatory and discretionary service levels, review of the existing capital programme and proposed additions for 2026/27 and the identification of Directorate savings and efficiencies.

## Outline Budget Setting Timetable for 2026/27

36. The table below identifies the planned activity and key dates and milestones leading to the approval by full Council in February 2026. The government has announced that the next Budget will take place on 26 November 2025.

Month	Planned Activity/Milestone
September	Review of activity data and demand/growth impact on Directorate expenditure requirements for 2026/27 and MTFS Review of Capital Programme and bids for 2026/27 Identification of savings and efficiencies Review of mandatory and discretionary services
October	Development of options to balance the budget and agree proposed Capital Programme
November	Finalisation of options to balance the Revenue Budget and Capital Programme Public and Business Consultation Engagement with Political Groups and Scrutiny Management Board
December	Provisional Local Government Finance Settlement
January	Presentation of draft Revenue Budget and Capital Programme by Cabinet Scrutiny of draft Revenue Budget and Capital Programme by Scrutiny Management Board

February

Council meeting to approve 2026/27 Revenue Budget, MTFS for 2026/27 to 2029/20 and 2026/27 Capital Programme

**Community impact**

37. In accordance with the accepted code of corporate governance, the council must ensure that it has an effective financial control framework to support delivery of services within the agreed budget. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition, the council has an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies.

**Environmental Impact**

38. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
39. This report is to provide an update on the council's financial planning arrangements so will have minimal environmental impacts, however consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

**Equality duty**

40. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
41. The mandatory equality impact screening checklist has been completed for this activity, and it has been found to have no impact for equality. This report provides an update on estimated funding for future years with no recommendations for changes to service delivery at this time.

**Resource implications**

42. The financial implications of changes to the council's funding arrangements and budget requirement for 2026/27 and the medium-term period will be detailed in the draft budget report and separate governance decision reports as appropriate.
43. The council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from its resources. This includes taking properly informed decisions and managing key operational and financial risks in order to deliver objectives and safeguard public money.

**Legal implications**

44. The Local Government Finance Act 1992 requires a council to set a balanced budget. To do this the council must prepare a budget that covers not only the expenditure but also the funding to meet the proposed budget. The budget has to be fully funded and the income from all sources must meet the expenditure.
45. Best estimates have to be employed so that all anticipated expenditure and resources are identified. If the budget includes unallocated savings or unidentified income then these have to



be carefully handled to demonstrate that these do not create a deficit budget. An intention to set a deficit budget is not permitted under local government legislation.

46. Local government legislation requires the council's S151 officer to make a report to the full Council meeting when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals (the statement is contained within the risk management section of this report). This is done so that members will have authoritative advice available to them when they make their decisions. As part of the Local Government Act 2003 members have a duty to determine whether they agree with the S151 statutory report.
47. The council's budget and policy framework rules require that the chairpersons of a scrutiny committee shall take steps to ensure that the relevant committee work programmes include any budget and policy framework plan or strategy, to enable scrutiny members to inform and support the process for making Cabinet proposals to Council.
48. Part 4 Section 3 of the Constitution provides the mechanism used by the Council in adopting a budget and any policy framework. Cabinet must recommend a balanced budget for adoption by the Council. Any amendments to the Cabinet recommendation requires the proposer to have discussed with the relevant service director and the chief finance officer that it is achievable before submitting an amendment (para 4.3.12).

## **Risk management**

49. The known most substantial risks have been assessed as part of the budget process and reasonable mitigation has been made where possible. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process.
50. The council's Corporate Risk Register identifies the failure to deliver a sustainable strategy that supports delivery of the Council Plan priorities as a key financial risk (Risk Ref. R5). The assigned level of risk appetite in respect of this risk is 'cautious' and control measures and mitigating actions reflect this assessment and outline the activity and arrangements in place as part of the risk management framework.

## **Consultees**

51. None in relation to this report.
52. The council's constitution states that budget consultees should include parish councils, health partners, the schools forum, business ratepayers, council taxpayers, the trade unions, political groups on the council, the scrutiny committees and such other organisations and persons as the Leader shall determine. This consultation will be undertaken as part of the development of the 2026/27 Budget as outlined in the Budget Setting Timetable above.

## **Appendices**

Appendix A Approved Medium Term Financial Strategy 2025/26 to 2028/29

## **Background papers**

None identified.