

2026/27 STRATEGIC FINANCIAL PLANNING

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| Head of Service: | Cagdas Canbolat, Director of Corporate Services and Section 151 Officer (Chief Finance Officer) |
| Report Author | Cagdas Canbolat |
| Wards affected: | (All Wards); |
| Urgent Decision? | No |
| Appendices (attached): | Appendix 1 – Reporting Timetable |

Summary

This report provides guidance on setting the Council's budget for 2026/27 and the following two years.

Recommendation(s)

The Group is asked to recommend to Strategy & Resources Committee:

- (1) The amendment to the Medium Term Financial Strategy position and note the budget gap for the relevant years as set out in table 4.2**
- (2) The proposed Medium Term Financial Strategy is in line with council priorities, prudent and sets a framework for a strong financial control.**

The Group is further asked to note:

- (3) The latest 2024/25 outturn position.**
- (4) The latest reserves balance.**
- (5) The budget reporting timetable in Appendix 2.**

1 Reason for Recommendation

- 1.1 Strategy and Resources Committee has agreed one of its key priorities is to achieve financial stability for the Council. Approving the recommendations will provide a clear framework for the Council to set its budget for 2026/27.

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2 Background

- 2.1 This report updates the council's Medium Term Financial Strategy approved by members in February 2025 and outlines the main changes since that date.
- 2.2 The council's financial position for 2024/25 has resulted in several identified pressures. There are structural deficits in some key areas within the council which cannot always be covered through favourable variances in other parts of the council or reserves.
- 2.3 Other changes include Consumer Price Index (CPI) increasing from 2.8% in February 2025 to 3.5% in May 2025. RPI (Retail Price Index) was 3.4% in February 2025, 3.2% in March 2025, and now 4.5% in April 2025. Bank of England rate was 4.75% in February 2025 and fell to 4.25% in May 2025.
- 2.4 We have worked to update our funding assumptions, as well as addressing historical and embedded pressures which could crystallise over the MTFS period. Based on the latest assumptions, the council is reporting a likely budget gap of £1.928 million in 2026/27 and an accumulated gap of £5.063 million by the end of 2028/29.
- 2.5 The MTFS aims to maintain the financial health of the Council whilst delivering Council priorities. This report proposes the approach needed to achieve a balanced budget for 2026/27 and future years during the term of the financial strategy.
- 2.6 The report also proposes the revenue and capital budget reporting timetables for preparing the 2026/27 budget (detailed in Appendix 1).
- 2.7 It is important to note that these forecasts are made at a time of uncertainty in local government finance, particularly in Surrey as it responds to the Local Government Reorganisation. Following the December 2024 English Devolution White Paper, Surrey Councils received a statutory invitation to submit a unitary proposal by 9 May 2025. The council has submitted its proposal and awaits the outcome of its proposal. In the meantime, it would be expected that those councils which are due to become part of any future East Surrey authority should set budgets that are sustainable and prudent.

3 Financial Position 2024/25

- 3.1 The Council has audited accounts up to 31 March 2024 (2023/24) and is finalising unaudited accounts for 2024/25 which will be subject to audit in early autumn.
- 3.2 The draft revenue outturn for 2024/25 shows that expenditure exceeded budget by £0.242 million driven largely by increased demand for temporary accommodation and reduced service income. The overspend on this occasion has been covered, one off, by general fund reserves.

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- 3.3 The Council had an approved capital programme of £7.4 million for 2024/25 (excluding the sum earmarked for the Town Hall relocation) and spent £5.2 million, with the majority of the unspent capital programme expected to be carried forward into 2025/26. The level of uncommitted capital receipts reserves stood at £1.88 million at the end of 2024/25 (including the commitment required to fund the 2025/26 programme).
- 3.4 More detail on the Council's financial performance for 2024/25 will be provided in the Provisional Financial Outturn report to Strategy & Resources Committee at the end of July.

4 Budgeted Forecast 2026/27 and Beyond

- 4.1 The Council in February 2025 approved a balanced budget for 2025/26 but highlighted challenges for future years.
- 4.2 The table below highlights the changes identified since and the latest gap in council budget which needs to be addressed as part of in year planning to set a balance budget for 2026/27.

| | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|--------------|--------------|--------------|--------------|
| Approved Budget - February 2025 | 0 | 1,078 | 1,517 | 2,045 |
| Budget Changes since February 2025 | | | | |
| Temporary Accommodation (TA) | - | 500 | 0 | 0 |
| TA Savings Unachievable | - | 300 | 0 | 0 |
| Fair Funding Review (FFR) | - | 250 | 0 | 0 |
| Fleet Contract Renewal | - | 0 | 300 | 0 |
| Pay Award - Additional 1% | - | 120 | 0 | 0 |
| Total Expenditure | 0 | 1,170 | 300 | 0 |
| Contractual Fee Increase | - | (70) | (374) | (353) |
| Unused Contingency | - | (250) | 0 | 0 |
| Total Income | 0 | (320) | (374) | (353) |
| Budget Gap | (0) | 1,928 | 1,443 | 1,692 |
| Budget Gap - Cumulative | (0) | 1,928 | 3,371 | 5,063 |
| Working Balance Reserve BF | 1,555 | | | |

- 4.3 Major savings/additional income of at least £1.928m in 2026/27 will be required to achieve a balanced budget at the end of this period. Further additional savings will be required in future years.

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4.4 Key assumptions within the latest forecast are as follows:

- 4.4.1 Temporary Accommodation Budget has been consistently overspending the allocated budget. In 2024/25 there was an adverse outturn variance of £0.580 million. We expect a similar position in 2025/26 based on increasing TA demand and supplier cost. Therefore based on latest modelling the council plans to add a growth base budget of £0.5 million in 2026/27.
- 4.4.2 Last year the council was working on the basis that TA numbers would reduce through “move on” and prevention work. Even though this work will help to suppress the rising numbers in TA external factors nationwide are causing demand to continue to rise. Therefore, the savings target of £0.3 million agreed previously is no longer achievable, and must be addressed as part of this MTFS.
- 4.4.3 In relation to general council funding, the council has been working closely with finance officers across Surrey and is expecting to lose out more than previously assumed as part of Fair Funding Review, as a result of business rates and baseline funding reset. A budget pressure of £0.5 million was included in the MTFS presented to Council in February 2025 but an additional £0.25 million pressure has been added to the revised figures to reflect the expected loss in government funding.
- 4.4.4 Furthermore, Council fleet contract will need to be reviewed and is expected to cost the council at least an additional base budget increase of £0.3 million by the time it renews in 2027/28. Finance is currently reviewing the cost of the new arrangement with the service and any changes will be reflected in the updated MTFS position.
- 4.4.5 Annual staff pay inflation and prices inflation was forecast at 2% per annum. However current RPI and CPI are 4.5% and 3.5% respectively. Therefore, it is prudent that we review our pay award assumption, and an additional £0.12 million has been included within the revised plan.

- 4.5 It should be noted that only new changes have been identified above as previous pressures / savings was confirmed and addressed within past reports.

5 Revenue Reserves

- 5.1 The current level of revenue reserves is reported to FSAG as a separate agenda item.
- 5.2 The Council uses its reserves proactively to manage risks, to invest in service transformation for the future, or to respond to unexpected events or emerging needs. Generally, reserves should not be used to fund day-to-day services on an ongoing basis, as reserves would eventually become depleted without a plan for replenishing them.

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- 5.3 During the MTFP period there will be some reliance on reserves which is considered a reasonable approach in the short term, as use of reserves gives the Council time to consider a scheduled review of services to address structural deficits. However, in recent years the council has relied on reserves to balance its budget, and must ensure that going forward it places less reliance on reserves and address structural deficits.

6 Approach to Achieving a Sustainable Balanced Budget

- 6.1 Officers must draft a work programme with members to address the budget gap of £1.928m in 2026/27 and future years.
- 6.2 The key features of the programme comprise:
 - 6.2.1 Re-review opportunities considered in the past.
 - 6.2.2 Ongoing review of existing asset utilisation to realise cost reductions in Council operational buildings and increased income from investment properties.
 - 6.2.3 Ensure any new powers are considered to generate additional income for the Council.
 - 6.2.4 Undertake a review of reserves to be reported to Financial Strategy Advisory Group to seek support for recommended minimum reserve balances and support the MTFS process (see separate agenda item).
 - 6.2.5 A comprehensive review of fees and charges. Heads of Service review fees and charges annually to ensure any increases are achievable and report to policy committees for approval.
 - 6.2.6 To maximise external funding and partnership opportunities, for example submitting grant applications as opportunities arise.
 - 6.2.7 Monitor the assumptions throughout the year and assess the impact on the council's medium term financial strategy.

7 Timetable for Delivery of 2026/27 Budget

- 7.1 A proposed formal committee timetable for the revenue and capital programme is presented at Appendix 1.
- 7.2 In addition to the formal committee meetings, officers will maintain engagement with Policy Chairs throughout the budgeting process.
- 7.3 The Council needs to make significant progress in achieving a balanced budget while recognising that there can be no permanent reliance on revenue reserves to fund the delivery of services.

8 Risk Assessment

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Legal or other duties

8.1 Risk Assessment

- 8.1.1 The Council has a statutory duty to set a balanced budget each year, demonstrating how planned expenditure on services will be fully funded.
- 8.1.2 Should the Council not progress the proposed budget strategy and fail to achieve a significant net reduction in its cost of services, there is a clear risk that reserves will continue to diminish with the Council eventually becoming unable to set a balanced budget.
- 8.1.3 A full budget risk assessment will be presented to Full Council alongside the final 2026/27 budget proposals in February 2026.
- 8.1.4 There is particularly heightened risk around commercial property in the current environment. Should a tenant leave or rent reductions have to be agreed to retain them, the Council's budget deficit could increase significantly (this applies both for property owned by the Council and its subsidiary, EEPIC), and in the event of tenant departure, the Council would become liable for running and maintenance costs while a new tenant is found. To mitigate this risk, officers proactively engage with tenants and the Council holds the Property Income Equalisation Reserve as a buffer to mitigate the risk of income loss in the short term.
- 8.1.5 In addition, the risk of increasing homelessness expenditure remains significant, with the Council pursuing its Homelessness Reduction Action Plan to mitigate this pressure.

8.2 Crime & Disorder

- 8.2.1 None arising from the contents of this report.

8.3 Safeguarding

- 8.3.1 None arising from the contents of this report.

8.4 Dependencies

- 8.4.1 None arising from the contents of this report.

8.5 Other

- 8.5.1 None arising from the contents of this report.

9 Financial Implications

- 9.1 The provisional financial outlook for 2026/27 and future years is covered in this report.

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- 9.2 In preparing the Council's 2026/27 budget, the Council will also need to approve a new pay policy, enabling details from the new approved policies to be incorporated into the budget.
- 9.3 The Council has adequate resources to carry out a budget review supporting the delivery of the efficiency plan. Should the Council require a more comprehensive review of services, additional resources and expertise may be required.
- 9.4 **Section 151 Officer's comments:** The 2026/27 budget must ensure that the Council's finances are sustainable whilst delivering the priorities of the Council.

10 Legal Implications

- 10.1 The Council has a statutory responsibility to set a balanced budget each year.
- 10.2 The provisions of section 25 of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (s.151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The report will be formally made to the Council's budget setting meeting in February.
- 10.3 **Monitoring Officer's Comments:** None arising from the contents of this report.

11 Policies, Plans & Partnerships

- 11.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.
- 11.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 11.3 **Climate & Environmental Impact of recommendations:** Funding of the Climate Change Action Plan is determined on a business case basis, as funding opportunities arise.
- 11.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.
- 11.5 **Partnerships:** None arising from the contents of this report.
- 11.6 **Local Government Reorganisation Implications:** see paragraph 2.7

12 Background papers

- 12.1 The documents referred to in compiling this report are as follows:

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Previous reports:

- [2025/26 Budget Report to Full Council, February 2025](#)

Other papers:

- [Medium Term Financial Plan 2024-2028](#)