

Cabinet

Report Title	Medium Term Financial Strategy – Autumn 2025 Update
Date of Meeting	Wednesday, 15 October 2025
Report Author	Claire Spencer, Service Director - Finance
Lead Officer	Alex Thompton, Executive Director - Finance & Transformation
Lead Cabinet Member(s)	Cabinet Member for Finance & Resources and Deputy Leader
Why is this a key decision?	Expenditure decision over £1m
Wards Affected	(All Wards);
Identify exempt information and exemption category	Open
Is the report urgent?	No
Reasons for urgency (only where applicable)	N/A
Appendices (if any)	Appendix 1 - Medium Term Financial Strategy

1. Executive Summary

- 1.1 This report presents the current position of the Medium-Term Financial Strategy. It also seeks approval to commence consultation on a range of proposed efficiency and income generation options sufficient to offset forecast increases in expenditure in 2026/27, and therefore sufficient to support the council in setting a balanced budget in February 2026.
- 1.2 The report also recommends seeking approval from Council of a three-year contract sum to be paid to Sandwell Children's Trust for the period 1st April 2025 to 31st March 2028. The approval of Council is required due to the material impact that the proposed contract sum would have on the council's Medium-Term Financial Strategy, and in particular on the level of earmarked

reserves that the council holds. It is important to note, however, that, despite the corresponding proposed draw on reserves, reserve balances remain adequate to mitigate assessed risks. Resolving the deficits of Sandwell Children's Trust (both historic and forecast) would be a significant development in ensuring the viability and sustainability of the Trust in support of continuing its role in fulfilling statutory social care responsibilities on behalf of the council. The proposal also significantly assists the robustness of financial planning for the council.

Recommendations

The Cabinet is recommended to:-

- 2.1 Endorse the Draft Medium-Term Financial Strategy at Appendix 1 that includes financial estimates and proposals that could achieve the legal requirement to balance the council's budget for 2026/27.
- 2.2 Note that the figures in the attached Financial Strategy are accurate as at October 2025 and will be subject to ongoing analysis and review.
- 2.3 Authorise the Executive Director for Finance and Transformation to commence a period of appropriate consultation on the proposals detailed at Annex 3 of Appendix 1.
- 2.4 Endorse the budget timetable as set out in Annex 1 of Appendix 1.
- 2.5 Recommend to Council the approval of a three-year contract sum, with a total value of £309.072m, to be paid to Sandwell Children's Trust for the contract period 1 April 2025 to 31 March 2028.

3. Proposals – Reasons for the Recommendations

Introduction

- 3.1 The Medium-Term Financial Strategy (MTFS) shows how the council can deploy resources to achieve its strategic objectives, as set out in the Council Plan. It shows how expenditure and income budgets must change to ensure services are adequate to address local need and meet financial pressures from inflation and increasing demand.
- 3.2 The immediate objective of the updated MTFS is focused on achieving a balanced budget for 2026/27 whilst protecting services provided to vulnerable children and adults.

General Fund Budget Shortfall

- 3.3 The February 2025 MTFS estimated that it may be possible to balance the budget for 2026/27 by implementing several efficiency proposals that were identified at the time. Indicative efficiency proposals and financial estimates were included in the report, but since that time, the MTFS has been regularly reviewed during the 2025/26 financial year and the deficit figure has changed. This reflects ongoing refinement and testing of initial planning assumptions.

The figures have changed based on the financial position of the local government sector in general and to take into account the latest economic and local circumstances.

- 3.4 The revised budget shortfall in 2026/27 is £8.4m. The reasons for the movement in the forecast budget shortfall are summarised in Table 1 below.

Table 1 – Movement in Forecast Budget Shortfall for 2026/27

Description of Shortfall/Movement	2026/27 £m
Forecast budget shortfall as at February 2025	-
Efficiency proposals identified within forecast shortfall as at February 2025 (to be reconsidered through consultation for 2026/27)	2.318
New and revised budget pressures identified since February: Pay inflation, price inflation, increased demand for social care, and new/additional services provided to support council priorities	9.061
Increase in council tax income	(3.437)
Net reduction to business rates income, as a result of forecast government 'business rates reset'	3.052
Use of one-off dividend income, to be transferred to earmarked reserves at the end of 2025/26 and used within 2026/27	(2.640)
Additional amount to be paid to Sandwell Children's Trust to offset part of the cumulative deficit incurred by the Trust to the end of 2024/25 – This forms part of the proposed three-year contract sum	6.597
Use of contract risk reserves set aside for the purposes of mitigating the Children's Trust's deficit, as required	(6.597)
Revised Forecast Budget Shortfall as at October 2025 (Before Efficiency and Income Generation Proposals)	8.354

- 3.5 The revised MTFS incorporates sufficient budget growth in future years to address known and emerging budget pressures. The 2026/27 draft budget incorporates significant growth to ensure that the council can meet increasing demand, particularly for social care services, by proposing £10.7m ongoing budget growth for adult social care and £7.4m ongoing budget growth for children's social care (via the contract with the Sandwell Children's Trust).

Sandwell Children's Trust Contract

- 3.6 The council commissions children's social care services from its wholly-owned company, Sandwell Children's Trust. Historically the council and the Trust have agreed a one-year contract sum to be paid for services in advance of the beginning of each financial year.
- 3.7 In recent years, the Trust has been operating at a deficit, as a result of increased costs of residential care placements and increased demand for services, particularly for complex services. This is a position being reported by councils

across the country. At the end of 2024/25, the deficit built up by the Trust had grown to £19.792m.

- 3.8 Within the Section 25 Report of the Chief Finance Officer within the February 2025 MTFS, it was acknowledged that the Trust does not hold its own reserves and that the deficit would have to be addressed within the group financial strategy.
- 3.9 In 2024, the council and the Trust commissioned an external review to analyse current spending patterns and forecast future requirements. Following the end of the 2024/25 financial year, forecasts were updated to reflect increased numbers of children under the care of the Trust and a revised placement mix. The council has subsequently been working with the Trust to develop a financially stable medium-term plan.
- 3.10 Within the council's MTFS, it is proposed to provide the Trust with a three-year contract sum for the financial years 2025/26 to 2027/28, to improve financial planning for both the council and the Trust; providing certainty of expenditure for the council and certainty of income for the Trust. The proposed three-year contract sum intends not only to provide a viable and sustainable level of income for the Trust over the three years, but it will also provide sufficient funding to offset the cumulative deficit built up to the end of the 2024/25 financial year. The proposed contract sum, with a total value of £309.072m, is set out in Table 2 below.

Table 2 - Proposed Three-Year Contract Sum Payable to Sandwell Children's Trust

Financial Year	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Contract sum to fund costs incurred over three-year period (2025/26-2027/28)	94.477	96.352	98.452	289.281
Additional amount to be paid to offset the cumulative deficit incurred by the Trust to 31/03/2025	6.597	6.597	6.597	19.792
Total Contract Sum Payments Proposed	101.074	102.950	105.049	309.072

- 3.11 The impact on the council's MTFS of the proposed three-year contract sum is set out in Table 3 below. The full impact on the budget gap for 2026/27 is included within Table 1 above.

Table 3 – Impact on MTFS of Increased Sandwell Children’s Trust Contract Sum

	2025/26 £m (Certain)	2026/27 £m (Certain)	2027/28 £m (Certain)	2028/29 £m (Forecast)	2029/30 £m (Forecast)	2030/31 £m (Forecast)
Additional budget pressure, compared with February 2025 MTFS	5.528	3.930	3.732	3.168	2.570	1.934
Draw from reserves to fund the Trust’s cumulative deficit	6.597	6.597	6.597	-	-	-
Total Impact	12.125	10.527	10.329	3.168	2.570	1.934

- 3.12 The council’s intention is to resolve the deficit built up by the Trust to the end of 2024/25, and the council proposes to fund this deficit by drawing £19.792m from earmarked reserves. In previous financial years, reserves have been specifically set aside for this purpose, should it become apparent that the only viable course of action is for the council to do so. The impact of this on reserve levels is described in paragraph 3.21 of this report.
- 3.13 Management action will be taken as required within the current financial year to try to ensure that the in-year budget pressure of £5.528m, as shown in Table 3 above, as a result of the proposed contract sum for the current year, will be fully offset by underspends elsewhere across the council, aiming to avoid any further use of earmarked reserves to fund contract costs.
- 3.14 The proposed action to resolve the deficits of Sandwell Children’s Trust (both historic and forecast) would be a significant development in ensuring the viability and sustainability of the Trust, and would also significantly help with improving robustness of financial planning for the council.

General Fund Budget Shortfall Over 5 Years

- 3.15 Table 4 below summarises the council’s revised forecast budget shortfall over the five-year MTFS period, before efficiency and income generation proposals are considered.

Table 4 – Forecast Budget Shortfall Over MTFS Period

Financial Year	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m
Estimated Budget Shortfall Before Efficiency Proposals	8.4	26.1	37.7	43.3	48.1

- 3.16 This analysis shows that the council must locally identify and implement net budget reductions to balance the 2026/27 budget that are sustainable over the MTFS period. Budget reductions could be made from cost reductions or increases in income, but the overwhelming proportion of these must be made on a recurring basis.

Efficiency and Income Generation Options

- 3.7 Over the summer of 2025, Cabinet and the Strategic Leadership Team undertook a ‘Star Chamber’ exercise to challenge existing budgets and identify mitigations towards the projected budget deficit.
- 3.17 This exercise resulted in new options being presented to Cabinet members and sought informal approval for those proposals to be put forward formally for public consultation. The efficiency and income generation proposals that are now proposed to be consulted upon total the required £8.354m to balance the 2026/27 budget shortfall and are included at Annex 3 of the MTFS (Appendix 1).

Government Funding

- 3.18 The provisional Local Government Finance Settlement is not expected to be received until late December 2025. In a change to the recent one-year government settlements, the council expects to receive a three-year settlement from the government, however, at this stage the value is unknown. Therefore, at the current time, no new government grant funding is assumed within the MTFS. A three-year settlement should help the council to plan effectively, taking into account any additional funding to be received well in advance of the 2027/28 and 2028/29 financial years, but, at present, government grant funding for 2026/27 remains uncertain.

General Fund Reserves

- 3.19 A Reserves Strategy was introduced within the 2025/26 MTFS which seeks to ensure that the council holds adequate reserves to protect against risk but also to support investment and transformation.
- 3.20 The council does not generally rely on the use of reserves to support ongoing service delivery. However, the MTFS has allowed for a single year contribution from reserves of £2.640m in order to reduce the budget gap within 2026/27. This is affordable, as dividend receipts, which have purposefully not been budgeted for in the current year, will be added to reserves at the end of 2025/26, for use within 2026/27.

- 3.21 This MTFS also supports the use of reserves over three years to fund the deficit of the Children's Trust to ensure that the Trust's financial position and ongoing viability is robust and supported through an adequate contract sum to allow efficient and effective delivery of the Trust's duties. Subject to audit of the council's 2024/25 accounts, at the beginning of the 2025/26 financial year the council is holding General Fund earmarked reserves of £159.558m. Excluding other transfers to and from reserves, the draw of £19.792m over three years would reduce earmarked reserve balances to £139.766m. The Section 151 Officer is confident that, taking into account the proposed draw of £19.792m, reserve levels remain adequate to mitigate assessed risks.
- 3.22 A summary of earmarked reserve balances and the proposed draws from reserves included within the MTFS is included within section 7 of the MTFS (Appendix 1).

General Fund Capital Programme

- 3.23 As part of the 'Star Chamber' process carried out over summer, new 'pipeline' project proposals were presented to Cabinet members for consideration. The new project proposals mainly focus on maintaining the council's property and highway assets. A complete list of 'pipeline' schemes is included within Annex 9 of the MTFS (Appendix 1).
- 3.24 The proposed capital programme for 2026/27, and over the next five years, including the 'pipeline' projects, has been verified as affordable. 'Pipeline' projects will be brought forward for appraisal at the appropriate time and added into the capital programme following completion of a successful appraisal and the appropriate approval process.
- 3.25 The strategy within the MTFS is to ensure that capital investment, where there is a need to fund through prudential borrowing, is affordable. A limit of 6% of net revenue budget has been set to ensure that borrowing costs do not place unnecessary pressure on essential services.

Objectives of the 2026/27 Budget Setting Process

- 3.26 The work carried out to date in relation to draft budget for 2026/27 has been sufficient to:
- Identify efficiency and income generation proposals that would be sufficient to close the budget gap
 - Ensure that efficiency and income generation proposals are robust
 - Be able to resolve the financial deficits of Sandwell Children's Trust (historic and forecast)
 - Be able to protect services provided to vulnerable people
 - Be able to maintain the council's existing assets
 - Maintain adequate reserve levels

Next Steps

- 3.27 A budget timetable for the 2026/27 budget process is included at Annex 1 of the MTFS (Appendix 1).
- 3.28 The assumptions and estimates being used in the draft budget will be continually monitored and revised, as new information becomes available. A

revised MTFS will be presented to the executive and to Budget and Corporate Scrutiny Management Board in January 2026, and to Cabinet and Full Council in February 2026, following receipt of the provisional and then final Finance Settlement from the government.

Housing Revenue Account Revenue Budget

- 3.29 The Housing Revenue Account (HRA) is primarily funded from housing rents from tenants. The government guidance on rent setting states that rent increases can be set based on Consumer Price Inflation (CPI) + 1%. The September CPI announcement, which is the period specified for the rent increase calculation for the following year, is not due until mid-October.
- 3.30 The government confirmed within its Spending Review that it will implement a convergence mechanism as part of the new rent settlement. Convergence would allow rents for social rent properties that are currently below 'formula rent' to increase by an additional amount each year, over and above the CPI+1% limit, until they 'converge' with formula rent. Formula rent refers to the formula that is used to calculate the rent that may be charged for a given property when it is let to a new tenant. It is assumed that the details of proposed convergence mechanism will be confirmed by the government as part of the Autumn Budget later this year.
- 3.31 Work is currently being undertaken to update the 30-year HRA Business Plan using specialist external consultants working closely with officers of the council. Early work indicates that the HRA is sustainable over the 30-year timeframe.

Dedicated Schools Grant

- 3.32 Dedicated Schools Grant (DSG) is provided to councils in four distinct blocks, one of which is the High Needs Block. Like many other councils across the country, the cost of the High Needs Block is exceeding the grant provision in the current year, and is forecast to do so in future years.
- 3.33 It is expected that the position for 2025/26 will see the council's High Needs Block reserve position becoming a deficit reserve. There are currently accounting regulations in place that prevent the deficit becoming a charge on the General Fund, and therefore the deficit will instead be held as a negative balance on overall council resources. DSG allocations for 2026/27 are not yet available, but the MTFS continues with the assumption that spending in this area will not directly affect the General Fund.

4. Alternative Options Considered

- 4.1 The council is legally required to set a balanced budget by March each year. There are no legal alternative options other than to consult on a range of expenditure reductions and/or income generation measures that achieve a balanced budget for the General Fund.
- 4.2 In relation to the proposed contract sum to be paid to Sandwell Children's Trust, the Trust has no reserves and is unable to take sufficient action to offset its financial deficit built up to the end of the 2024/25 financial year.

5. Consultation

Public Consultation

- 5.1 The council has a duty to consult with those who are liable to pay council tax or non-domestic rates, as well as those who use or are likely to use services provided by the council, and those who have an interest in the area where the council performs its functions. A public engagement exercise on the council's budget for 2025/26 was conducted during Autumn 2024, seeking residents' views on how the council should reduce expenditure and/or generate additional income to deliver a balanced budget. To enable a balanced budget to be set for 2026/27, the council has developed a list of efficiency and income generation options which, if adopted, could impact residents and businesses in the borough, and therefore a similar consultation exercise needs to be carried out in relation to the 2026/27 budget.
- 5.2 The views of Sandwell's residents, businesses and communities are integral to the development of a MTFS that reflects the priorities of the borough. The council's proposed approach to consultation is set out in section 13 of the MTFS (Appendix 1).

Scrutiny

- 5.3 Effective scrutiny of the council's financial position and MTFS is integral to the council's ability to achieve a sustainable budget that is aligned to its strategic priorities. Accordingly, the Budget and Corporate Scrutiny Management Board will be convening a series of meetings during October and November 2025 to look in detail at the proposed efficiency and income generation proposals that have been put forward in order to close the budget gap for 2026/27. Senior officers and portfolio holders will be in attendance to respond to questions from scrutiny board members.

Consultation with Tenants

- 5.4 The council will consult on housing rental increases and on any significant changes to HRA expenditure budgets with the Tenants' and Leaseholders' Scrutiny Group, which meets a minimum of four times per year. The purpose of this group is to work in partnership with the council's Housing team to ensure that policies, procedures, and services meet all regulatory requirements and are outcome focused, improving, quality of service, value for money and transparency. Additionally, the council publishes HRA income and expenditure information within the Tenants Annual Report, which is available to all tenants and which feedback is encouraged upon.

6. Financial Implications

- 6.1 The council's MTFS, set out in Appendix 1, provides forecasts of net expenditure and funding for future years. It also presents a list of efficiency and income generation proposals that could be adopted in order to reduce net expenditure to match the forecast level of funding available.

- 6.2 Section 25(1) of the Local Government Act 2003 requires that members give due regard to the report of the Chief Finance Officer when making decisions about the calculations and decisions within the budget.
- 6.3 The S.25 report will be included in the final MTFS report to be presented in February 2026. The report will reflect on the robustness of the estimates that are contained within the financial plans and the adequacy of the financial reserves. The comprehensive process to set the council's budget, including the associated engagement with stakeholders, assists in providing the assurance that the financial estimates are robust.
- 6.4 The financial implications of the proposed three-year contract sum to be paid to Sandwell Children's Trust are set out in section 3 of this report.

7. Legal and Governance Implications

- 7.1 The Local Government Finance Act 1992 requires the council to set a balanced, risk assessed budget each year and approve a council tax precept by 11 March. This report forms a preparatory part of the process under the council's legal obligation to set a balanced budget for 2026/27.
- 7.2 A number of efficiency proposals outlined within the MTFS require consultation with the public and/or recognised trade unions and authority is sought through this report to commence relevant consultation exercises. Such consultation must take place in the formative stages of decision making, as is proposed in this report.
- 7.3 In turn, and under the provisions of the Local Government Finance Act 1992, the council must consult with persons or persons representative of bodies subject to non-domestic rates each financial year and before the rates become due for payment. Any consultation activity must engage those directly affected by any proposed decision by providing sufficient information to allow for intelligent response and with adequate time to do so.
- 7.4 The consultation outcomes must then be conscientiously considered by decision-makers.
- 7.5 The process set out in this report provides clear and structured arrangements for consultation to take place in advance of 2026/27 and will allow for decisions to be made before the budget is set, taking account of individual consultation outcomes. It must in turn be open to Cabinet not to proceed with an individual efficiency or income generation option as proposed in the MTFS following consultation but, if so, compensatory efficiencies will need to be made to balance the council's budget.

8. Risks

- 8.1 The MTFS and financial sustainability of the council is identified as a risk within the council's Strategic Risk Register, in that if the council is unable to identify sufficient efficiencies and put in place necessary policies, processes and actions to manage pressures, inflation and manage its plans, then this will

impact on the council's financial resilience and its ability to effectively discharge its statutory responsibilities, including the setting of a balanced budget for future years.

- 8.2 Section 12 of the MTFS (Appendix 1) summarises the key risks to the delivery of the MTFS and the actions in place to mitigate those risks.

9. Equality and Diversity Implications (including the public sector equality duty)

- 9.1 The Equality Act 2010 obliges the council to have due regard to its equality duties in the budget setting process. To achieve this, Equality Impact Assessments (EIAs) will be conducted on all efficiency and income generation options where required, ahead of the final options being put forward to Cabinet and Council for approval.

10. Other Relevant Implications

- 10.1 There are no other direct implications arising from the recommendations of the report.

11. Background Documents

Medium-Term Financial Strategy and Budget 2025/26 and Council Tax Resolution 2025/26 – Council, February 2025

12. How does this deliver the objectives of the Strategic Themes?

- 12.1 The financial position of the authority determines the affordability of all the authority's activities. This underpins the resources available to achieve the Council Plan.
- 12.2 The proposals within this report support the objectives of the Council Plan by ensuring that the council aligns available resources most efficiently to meet its strategic policy and performance commitments. This ensures that the council's best value obligations are met. Consultation and stakeholder engagement proposals within the report ensure that any subsequent decisions are fully informed and reasoned.