

Policy Committee

16 February 2026



Title	2026/27 Budget & Medium Term Financial Strategy 2026/27 - 2028/29
Purpose of the report	To make a recommendation to Council
Report status	Public report
Report author	Darren Carter, Director of Finance
Lead Councillor	Councillor Terry, Leader of the Council
Corporate priority	Our Foundations
Recommendations	<p>That Policy Committee having due regard of the results of the budget engagement exercise and Resident's Survey (as outlined in Appendices 11 and 12), recommends that Council approve the 2026/27 General Fund and Housing Revenue Account budgets, Capital Programme and Medium Term Financial Strategy as set out in Appendices 1-10, noting the following:</p> <ol style="list-style-type: none">1. The Council's General Fund Budget Requirement of £199.664m for 2026/27 and an increase in the band D Council Tax for the Council of 2.99% plus an additional 2.00% Adult Social Care Precept, representing a band D Council Tax of £2,223.18 per annum, an increase of £105.66 per annum excluding precepts from Police and Fire, as set out in paragraph 2.4 below;2. The proposed savings, efficiencies, increased income and fees and charges for 2026/27 of £10.745m required to achieve a balanced budget for that year as set out in Appendices 2 and 3;3. The overall savings, efficiencies and increased income, fees and charges currently proposed within the MTFS of £15.972m and gross three-year growth changes to service budgets of £66.941m as set out in Appendices 3 and 4;4. The budgeted net drawdown from earmarked reserves in 2026/27 totalling £7.302m, as set out in paragraph 10.2;5. The Housing Revenue Account budget for 2026/27 of £58.925m as set out in Appendix 5 and the average increase of 4.8% in social dwelling rents from April 2026, and the move to full cost recovery for landlord cleaning and lighting service;6. The allocation of £124.259m Dedicated Schools Grant (DSG) as set out in Appendix 6;7. The General Fund and Housing Revenue Account Capital Programmes totalling £140.858m and £232.141m respectively over the next five years, as set out in Appendices 7a and 7b;8. The Strategy for the use of flexible capital receipts to deliver future transformation and ongoing savings as set out in Appendix 8;9. The Fees and Charges set out in Appendix 9 of the report;10. The Equalities Impact Assessment as set out in Appendix 10; and

	11. To delegate to the Director of Finance, authority to amend the contents of this report to reflect the Final Local Government Finance Settlement, prior to presentation to Council.
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1. Executive Summary

- 1.1. Policy Committee at its meeting on 17th December 2025 reviewed the Medium-Term Financial Strategy (MTFS) Update for the three years 2026/27 – 2028/29. This report updates Members on the results of the subsequent budget engagement exercise, changes arising from the publication of the Provisional Local Government Finance Settlement 2026/27 as well as other changes that have arisen since the report to Policy Committee.
- 1.2. It is anticipated that the Ministry of Housing, Communities and Local Government (MHCLG) will publish the Final Local Government Financial Settlement 2026/27 w/c 9th February 2026. Policy Committee will be updated verbally on any changes arising from the final settlement.
- 1.3. The underpinning rationale of the Medium-Term Financial Strategy is to deliver a balanced and affordable 2026/27 budget, to ensure that the Council's finances are robust and sustainable over the medium term and that, in the longer term, the Council's finances are not reliant on the unsustainable use of one-off reserves or funding. The Strategy is informed by the Council's Vision: "to help Reading realise its potential and to ensure that everyone who lives and works here can share the benefits of its success", as well as its Council Plan priorities.
- 1.4. The 2026/27 Budget and MTFS 2026/27-2028/29 reflects the changing landscape in which Councils are now operating, including the impact of funding reform and the announcement of a three-year Local Government funding settlement from Central Government. The most significant impacts on the Budget and the MTFS include demand pressures and placement costs in adult and children's social care and Special Education Needs arising from increased demand, complexity and market challenges. It is anticipated that the Government will announce plans for the funding of cumulative High Needs Block deficits on 9th February 2026.
- 1.5. The budget and MTFS assumptions include:
 - a) Council Tax increases of 2.99% plus an Adult Social Care precept of 2.0% for each year 2026/27-2028/29;
 - b) Delivery of £15.972m of efficiencies and increased income across 2026/27-2028/29;
 - c) A net draw from earmarked reserves totalling £7.302m in 2026/27, as set out in paragraph 10.2;
 - d) A housing rent increase for 2026/27 of 4.8% in line with approved government policy of CPI + 1% and rent convergence starting at £1 per week in 2028/29 increasing to £2 per week in 2029/30;
 - e) General Fund capital investment of £140.858m and Housing Revenue Account (HRA) capital investment of £232.141m over the 5 year period 2026/27 to 2030/31;
 - f) An initial allocation of £1.500m of transformation funding for each year from 2026/27 to 2029/30 to support delivery of efficiency savings assumed within the MTFS, taking the total transformation funding to £29.229m across the whole life of the Delivery Fund.
- 1.6. The Dedicated Schools Grant High Needs Block is anticipated to be £48.627m in deficit by 31st March 2026. Further details are set out in paragraphs 2.8 to 2.15 below and in Appendix 6.

1.7. This report has been prepared with reference to the following documents:

- Medium Term Financial Strategy 2026/27-2028/29 Update Report agreed by Policy Committee (17th December 2025)
- Autumn Budget 2025 – HM Treasury (26th November 2025)
- Provisional Local Government Finance Settlement 2026/27 – MHCLG (17th December 2025)

2. Policy Context

2.1. The Council's Medium Term Financial Strategy provides the financial framework to support the delivery of the Council's vision and Council Plan priorities.

Overview

2.2. Attached to this summary report are a series of appendices which together provide a comprehensive overview of the Council's financial position in the short to medium term given the constraints within which we are operating. The rest of this report summarises the contents of those appendices.

General Fund

2.3. Appendix 1 sets out the Council's Medium Term Financial Strategy and is supported in respect of the General Fund (GF) by Appendices 2, 3 and 4 which set out the financial figures for the 2026/27 Budget and the indicative budgets for 2027/28 and 2028/29. As illustrated in Appendix 2, this provides for a balanced budget in 2026/27 and a Net Budget Requirement of £199.664m, which after allowing for other funding streams leaves a Council Tax Requirement of £134.178m. The indicative budgets for 2027/28 and 2028/29 are not currently balanced with a budget gap of £1.995m currently forecast for 2027/28, reducing to a gap of £0.206m for 2028/29.

2.4. The 2026/27 budget proposals assume a Council Tax increase of 2.99% and an Adult Social Care Precept of 2.00%. This results in a Band D Council Tax of £2,223.18 for 2026/27, an increase of £105.66 per annum or £2.03 per week excluding precepts from Police and Fire. The same percentage uplift is assumed for both 2027/28 and 2028/29.

Housing Revenue Account

2.5. Appendix 5 sets out the Housing Revenue Account budget proposals. The proposed expenditure budget for 2026/27 is £58.925m. A balanced budget is delivered across all three years with a drawdown from reserves of £3.108m in 2026/27, £2.849m in 2027/28 and £3.708m in 2028/29.

2.6. The budget assumes that rents and service charges will increase by 4.8% for 2026/27 in line with the maximum rent increase of CPI (as of September 2025) + 1%. The average weekly rent increase is between £5.45 and £7.86 depending upon the type of property. The budget also assumes that rent convergence of £1 per week will be applied from 2027/28, increasing to £2 per week from 2028/29. This plan also includes an increase to existing service charges to tenants to recover the full cost of Landlord cleaning and lighting services beginning 2026/27. These are required to ensure the 30-year plan doesn't breach minimum reserve levels.

2.7. Appendix 5 also sets out the full 30 Year Business Plan, which includes details of planned investments, how these are funded and the impact on the HRA balance. Within the 30 year HRA Business Plan the housing service is investing an additional £48.748m between 2026/27 and 2028/29 in the maintenance of the existing housing stock and £155.882m in new build and acquisitions. The Business Plan currently assumes that rent convergence will commence from April 2027, in line with national guidance.

Dedicated Schools Budget

- 2.8. Appendix 6 sets out the Dedicated Schools Grant Budget proposals for 2026/27. Dedicated Schools Grant (DSG) is split into four blocks, for which the allocations for 2026/27 were published by the Government on 17th December 2025. Overall, the gross DSG for schools will increase by £9.915m (5.0%) from £199.357m to £209.272m. Details of the allocations are provided at Appendix 6.
- 2.9. High needs funding supports provision for pupils and students with Special Educational Needs and Disabilities (SEND) who require additional resources to participate in education and learning, from their early years to age 25 in schools and colleges (excluding students aged 19 to 25 who do not have an Education, Health and Care Plan (EHCP)) and pre-16 pupils in Alternative Provision (AP) who, because of exclusion, illness, or other reasons, cannot receive their education in mainstream schools. High needs funding is provided to local authorities through the high needs block of the DSG. While High Needs Block funding has been increasing, it has not kept pace with the growth in the number of EHCP's or the cost of meeting the increasingly complex needs of the pupils.
- 2.10. The Ministry of Housing, Communities and Local Government (MHCLG) amended the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to introduce a statutory override where a DSG deficit at the end of a financial year must not be charged to a revenue account and instead must be charged to an account established solely for the purpose of recognising deficits in the schools budget. This accounting practice has the effect of separating schools budget deficits from the local authority General Fund and means that these deficits are not charged to the General Fund, but the General Fund is still required to pick up the cost of interest payments on the cumulative debt.
- 2.11. The intention of the statutory override was to give local authorities flexibility in reducing their DSG deficits. However, the scale of the challenge in the SEND system has made this impossible, and deficits have continued to rise nationally despite the best efforts of the sector, including in Reading the use of Additionally Resourced Provision and the plans for a new Special School.
- 2.12. As a consequence, many authorities including Reading Borough Council have SEND deficits on their balance sheets, which, if the statutory override were to be removed, would result in the authority being unable to produce a balanced budget or maintain adequate levels of general fund reserves.
- 2.13. In the November 2025 Budget the government announced that responsibility for funding SEND services would transfer from local government to central government from 2028. This is a significant change that has the potential to radically alter the financial pressures that councils are facing.
- 2.14. Uncertainty remains about what will happen to the deficits accumulated by 31st March 2028, with further detail anticipated in the Final Local Government Funding Settlement.
- 2.15. In Reading, the Council is forecasting a cumulative deficit of £48.627m on the high needs block by 31st March 2026.

Capital

- 2.16. The Council's overarching Capital Strategy is set out in a separate report elsewhere on this agenda and has been extended to provide a five year projection in accordance with best practice. The specific projects laid out in the Capital Programme, attached at Appendix 7a for the General Fund and Appendix 7b for the HRA are also set out over a five year period to align with the Capital Strategy. The General Fund Capital Programme totals £140.858m and the HRA Capital Programme totals £232.141m; which will require the support of £74.340m and £184.963m respectively of Council resources including

capital receipts and external borrowing over the five year period. The major General Fund schemes include 3 new Children's homes, the completion of the Levelling Up Fund projects at the Hexagon Theatre and central library, the corporate solar programme, additional burial space, new and refurbished schools, and the continued investment in the highways infrastructure programme.

- 2.17. A scheme included in the approved Capital Programme shall remain subject to:
- (i) Spending approval in detail by the responsible committee or officer, as outlined in the Scheme of Delegation; and
 - (ii) The Director of Finance confirming the availability of funds.
- 2.18. The Council's transformation programme supported by the extension to the flexible use of capital receipts permitted by regulation is set out in Appendix 8.

Fees & Charges

- 2.19. The 2026/27 schedule of Fees and Charges assumed within the budget proposals and effective from 1st April 2026 is set out in Appendix 9.

Engagement

- 2.20. The Council is required by legislation to consider the impact of its budget proposals upon all groups within the local community. This is demonstrated by the Equalities Impact Assessment of the Budget Proposals set out in Appendix 10.
- 2.21. A summary of the results of the budget engagement held from 19th December 2025 to 17th January 2026 is provided within Appendix 11. The results of the Residents Survey carried out in the summer of 2025 was published online and can be viewed [here](#).
- 2.22. The engagement analysis highlights that residents were most comfortable with reducing spending on Central Services (Customer Services, Human Resources, Finance, Legal, Digital and Technology) and Executive Management Team and Communications. Around two-thirds of residents placed these areas in their top 3 areas for reducing spending. Residents were much more divided in their opinions about where they would be least comfortable reducing spend. Adult Social Care split opinions most: 34% of residents put this in their top 3 areas for reducing spend; while 40% put this in their top 3 areas for not reducing spend.
- 2.23. The Council consulted with local business rates payers on 9th February 2026 as part of its statutory requirements.

3. Key Considerations

Exceptional Financial Support

- 3.1. On 17th December 2025 MHCLG announced that the government had agreed to provide 30 councils with support to manage financial pressures via the Exceptional Financial Support (EFS) process, including 3 of the 6 Berkshire councils, and set aside Council Tax referendum principles for 6 authorities. The Local Government Chronicle also reported that MHCLG is planning for up to 74 councils to apply for EFS next year.
- 3.2. The financial crisis that local authorities are encountering comes after significant reductions in local authorities' spending power since 2010 which has itself coincided with increasing demand for services and inflationary pressures driving up costs. Ultimately, the levels of funding available to local authorities, through council tax, retained business rates, and government grants have not kept pace with these pressures. In addition, many Councils are dealing with the long-term impact of not increasing Council Tax by the maximum amount available and poor investment decisions. In combination, these factors are leading to a funding gap that is being addressed through the EFS process.

- 3.3. The proposed 2026/27 budget has been based on current information available, but it is important that the Council is aware of the significant risks it faces in a number of key areas:

Fair Funding 2.0

- 3.4. The 2026-27 Settlement is the first multi-year Settlement in a decade, running from 2026-27 to 2028-29. This provides the Local Government sector with a welcome degree of predictability of funding that will encourage longer-term planning.
- 3.5. A significant proportion of the funding announced in the settlement will be allocated using the principles detailed in Fair Funding 2.0 which seeks to target funding based on a clear assessment of need. However, currently approximately £600 million of funding is allocated outside of the Fair Funding principles, using the method introduced last year through the 'Recovery Grant' and a further £148.8 million through the 'Recovery Grant Guarantee'. Reading Borough Council will receive none of this £748.8 million.
- 3.6. The total additional funding allocated to Reading Borough Council through those funding streams that are included in Core Spending Power, including Business Rates, is £4.139m over the next three years (£2.215m in 2026/27, £1.075m in 2027/28 and £0.849m in 2028/29). For comparison, the 2025/26 increase for Reading was £4.277m.

Adult Social Care

- 3.7. There are significant pressures in the social care system. These pressures include an increase in the number of service users, in addition to the number of complex care packages, a shift in the demographic profile to younger people and increasing contract inflation. This updated MTFs includes a net increase of £4.700m for Adult Social Care services in 2026/27 to address these pressures, in addition to the capital investment in facilities.

Children's Social Care

- 3.8. There is widespread recognition of the need to reform Children's Social Care, with increasing demand on services, increasing complexity of need, reducing numbers of foster carers, an insufficient supply of adequate residential placements, and an over-reliance on private sector providers driving up costs. This updated MTFs invests significant additional funds in Children's Social Care placements, with a net increase of £3.843m budgeted in 2026/27, and in the provision of new residential homes, but the upward trend is unsustainable.

Special Education Needs and Disabilities

- 3.9. The Council is forecasting a cumulative deficit of £48.627m on the high needs block by 31st March 2026. The deficit is forecast to reach £94.303m by the time the statutory override is currently due to end in March 2028. This forecast takes account of the significant investment in both Additionally Resourced Provision and a new SEND school. Council reserves will not be sufficient to fund this deficit, potentially triggering the need to issue a s114 notice. It is therefore critical that action is taken to address the deficit.

Inflation and Demand Risk

- 3.10. Whilst the budget proposals include consideration for risk, primarily in relation to the non-achievement of income targets and efficiency savings, risk remains that demographic, inflationary or other demand pressures may exceed budget and place pressures on available provisions. In addition, the budget includes a corporate contingency of £1.769m.

Savings

- 3.11. The MTFS assumes £15.972m of additional savings and income over 3 years. If these are not delivered or there is any delay to their delivery, it would pose a potential threat to the sustainability of the Council's budget. Based on the 2025/26 Quarter 2 Performance and Monitoring Report that was presented to Policy Committee in December 2025, £3.878m of savings are currently at risk of non-delivery, with £0.998m likely to be carried forward into 2026/27 following a review undertaken as part of the 2026/27 budget setting process into all existing savings proposals and where appropriate, non-deliverable savings were reprofiled, reduced or removed.
- 3.12. There are also the following considerations in respect of the Council's wholly owned companies:
- Reading Transport Limited (RTL) – The company is experiencing a difficult year financially due to a decline in fare-paying passengers and increasing costs but is expected to return to profitability in 2026/27.
 - Homes for Reading (HfR) – the housing stock is in the process of being transferred to the HRA following the decision in 2024/25 to close the company.
- 3.13. The current global and national economic position has the potential to impact the Council in a variety of ways, particularly in the current cost of living environment, these include increases in demand for social care and the levels of income and funding available to be distributed through central government. As upper tier authorities across the country are finding, changes in social care demand creates significant cost pressures within adults and children's social care budgets.
- 3.14. The Council's Chief Finance (Section 151) Officer is required under Section 25 of the Local Government Act to report to Council on the robustness of the estimates made for the purposes of the calculations of the budget and the adequacy of the proposed level of financial reserves. This report will be presented to Council on 24th February 2026.

4. Contribution to Strategic Aims

- 4.1. Full details of the Council Plan and the projects which will deliver these priorities are published on the Council's website. These priorities and the Council Plan demonstrate how the Council meets its legal obligation to be efficient, effective, and economical.
- 4.2. Delivery of the Council's budget is essential to ensuring the Council meets its strategic aims and remains financially sustainable going forward.

5. Environmental and Climate Implications

- 5.1. The Council declared a Climate Emergency in February 2019, with the intention of achieving a carbon neutral Reading by 2030, which will require further financial commitment to achieve. Reading has cut its carbon emissions by 54% since 2005 and the Council has cut its own carbon footprint by 73% in since 2008. The Council Plan monitors progress in reducing the carbon footprint of both the Borough and the Council.
- 5.2. The Council's 2030 climate target was already very challenging, even before taking account of the more recent financial pressures facing the Council, and local authorities in general, in addition to the government's recent scaling back of its net zero strategy commitments. Whilst the long term benefits of taking action will likely exceed the cost of inaction on climate change, this does not ease the challenge of finding resources for climate action in the immediate future.
- 5.3. Reading is one of only 112 towns and cities in the world to make the most recently published CDP A List – recognised as the gold standard of environmental reporting. It is

the fourth successive year Reading has achieved the status which is currently shared with only 23 other UK local authorities. The Council has worked with local partners to make the A List and is calling on all Reading residents, businesses and organisations to work together to help us reach its ambitious target of a net zero Reading by 2030.

- 5.4. The Council's proposed Capital Programme for the next five years includes investment of £1.557m in 2026/27 for solar installations under the Corporate Solar Programme scheme. Additionally, the New Performance space at the Hexagon Theatre Levelling Up scheme includes further investment in energy saving and decarbonisation infrastructure.
- 5.5. Other capital investments, in offices, housing, transport and waste, will also contribute to the Council's carbon reduction ambitions by improving the efficiency of our buildings and operations as well as in the wider community.
- 5.6. As part of the budget setting process, 'Environment' is one of the weighting criteria applied to bids for capital funding. Going forward, major capital projects which will contribute directly to greenhouse gas emissions reduction include:
 - £1.557m for the Corporate Solar Programme (2026/27);
 - £0.575m for tree planting programmes (2026/27-2030/31);
 - £8.919m for Replacement Vehicles (2026/27-2030/31) – where part of the budget is allocated to the purchase of electric vehicle
 - £9.851m for Levelling Up Delivery Plan – New Performance Space at the Hexagon Theatre – where part of the budget is allocated to energy saving and decarbonisation measures;
 - £0.190m for Streetlighting investment to reduce energy consumption
 - The proposed budget for the Corporate and Community Buildings scheme includes a new allocation of £4.800m for works to the Town Hall. The proposed work will enhance the building's insulation and reduce heat loss.

6. Community Engagement

- 6.1. The public was consulted as part of the 'Budget Engagement', which ran from 19th December 2025 until 17th January 2026. The feedback from this engagement is set out in Appendix 11. The results of the Residents Survey carried out in the summer of 2025 was published online and can be viewed [here](#).
- 6.2. The Council consulted with local business rates payers on 9th February 2026 as part of its statutory requirements.

7. Equality Implications

- 7.1. Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to:
 - Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 7.2. An initial assessment of the proposals as set out in the MTFS has been undertaken and Appendix 10 sets out a summary of the initial assessment of equality implications of individual budget proposals where there is an impact.
- 7.3. Additionally, when considering changes to service provision, local authorities are under a duty to consult representatives of a wide range of local stakeholders. Authorities must

consult representatives of council tax payers, those who use or are likely to use services provided by the authority and those appearing to the authority to have an interest in any area within which the authority carries out functions. The budget engagement exercise on the budget proposals assists with this requirement.

- 7.4. As well as the Council's current Council Tax Reduction Scheme there are statutory discounts and exemptions available to residents who may otherwise struggle to pay their Council Tax, details are available on the Council's website.

8. Other Relevant Considerations

- 8.1. There are none.

9. Legal Implications

- 9.1. The Council must set its budget in accordance with the provisions of the Local Government Finance Act 1992. Approval of a balanced budget each year is a statutory responsibility of the Council.
- 9.2. 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 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 Full Council at its budget setting meeting in February.

10. Financial Implications

- 10.1. The financial implications are set out in the body of this report and associated appendices.
- 10.2. The 2026/27 Budget is balanced by an overall £7.302m assumed draw on (contribution from) earmarked reserves, consisting of:
- £3.666m to fund service specific expenditure from specific earmarked reserves. This was already assumed in the December 2025 MTFS Update;
 - £0.503m to fund additional service specific expenditure from specific earmarked reserves following the December 2025 MTFS Update;
 - £2.797m from the Collection Fund Smoothing Reserve to fund the one-off deficit in 2026/27;
 - £0.336m from the Financial Resilience Reserve to balance the 2026/27 budget.
- 10.3. Further savings to close the budget gap in 2027/28 and beyond will need to be identified as part of the future budget setting process.
- 10.4. The Council's General Fund and HRA balances are set at 5% of the net budget requirement for 2026/27.

11. Timetable for Implementation

- 11.1. Not applicable.

12. Background Papers

- 12.1. There are none.

Appendices

1. **The Medium Term Financial Strategy 2026/27 - 2028/29**
2. **Summary of the Proposed General Fund Budget 2026/27 - 2028/29**

3. **General Fund Revenue Budget by Service 2026/27 - 2028/29**
4. **Detailed General Fund Budget Changes 2026/27 - 2028/29**
5. **The Housing Revenue Account Proposed Budget 2026/27 - 2028/29**
6. **The Dedicated Schools Grant Budget Proposals 2026/27**
7. **The General Fund and HRA Capital Programmes 2026/27 - 2028/29**
8. **The Flexible Use of Capital Receipts Strategy 2026/27**
9. **Fees and Charges Proposals from April 2026**
10. **Equality Impact Assessment of the Budget Proposals**
11. **Summary of the Response to the Budget Engagement**