

## **Appendix 1 - The Medium Term Financial Strategy 2026/27 – 2028/29**

### **1. Background**

- 1.1. This Medium Term Financial Strategy (MTFS) pulls together in one place all known factors affecting the financial position and financial sustainability of Reading Borough Council over the medium term. The MTFS reflects and balances the financial implications of objectives and policies with the resource constraints on the Council and provides the basis for decision making.
- 1.2. The MTFS is central to the delivery of the Council's priorities in an affordable and sustainable way over the 3-year period. It aids robust and methodical planning as it forecasts the Council's financial position, taking into account known pressures and major issues affecting the Council's finances. The MTFS recognises the key role that financial resources play in the future delivery of outcomes and in enabling the effective planning, management and delivery of services.
- 1.3. The key overriding aim of the MTFS is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's key strategic priorities.
- 1.4. This updated MTFS has been developed to reflect the changing landscape in which Councils are now operating. The UK economy, as with many others around the world, is now heavily impacted by the cost of living crisis. This has had a knock-on impact on Council budgets, due to increased unit costs, service demand increasing and reduced levels of income.

### **2. The Current Economic and Financial Environment**

- 2.1 The Council's future financial position, the demand for services and ability to recover previous and/or generate new income streams is significantly affected by the wider economic, political and financial environment. The following paragraphs set out some of the more significant factors:

#### **Cost of Living Crisis**

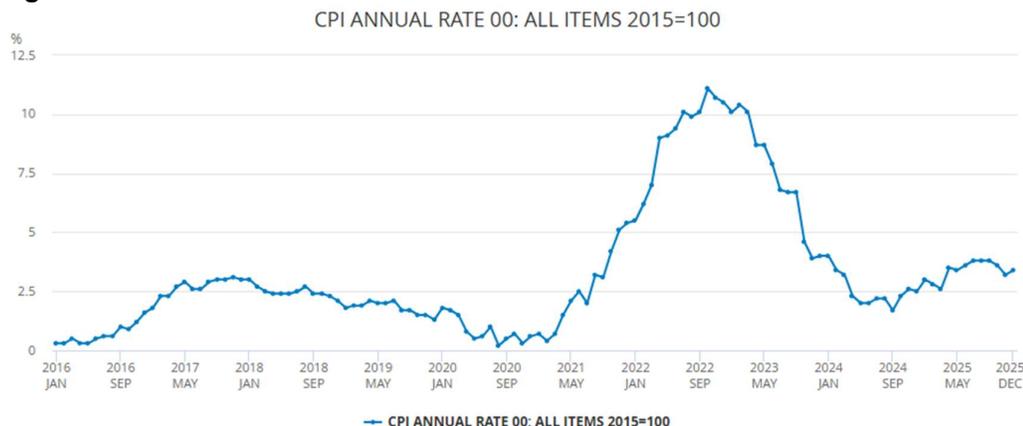
- 2.2 Since late 2021, the UK has been experiencing what is referred to as a "cost of living crisis", whereby the cost of everyday essentials like energy and food are rising much faster than average household incomes.
- 2.3 The increase in inflation underpinning the crisis was caused by the combined impact of multiple national and global events:
  - Brexit - Slowed economic growth and caused delays at the borders for traded goods due to new import and export rules;
  - The Covid-19 Pandemic - Led to disruption of working practices and global supply chains, whilst surging demands for goods were experienced post-lockdown which also contributed to rising prices;
  - The Russia-Ukraine Conflict - Led to energy price rises and global food shortages.
- 2.4 In addition, in an attempt to control inflation, the Bank of England gradually increased bank rate up to 5.25%, albeit this reduced to 3.75% as of December 2025.
- 2.5 The resulting pressures are impacting on the Council directly through increased costs but also through increased service demand. For example, pressures on the rental and

private housing markets are putting more individuals at risk of homelessness, with the number of households living in temporary accommodation in England at an all-time high.

## Inflation Expectations

- 2.6 Inflationary pressures on the Council's employee and contractor costs represent a significant annual pressure that needs to be funded. Equally, inflation rates impact on fees and charges, Council Tax capping levels and business rates income through the nationally set Non-Domestic Rates Multiplier.
- 2.7 The annual inflation rate in the United Kingdom as measured by the Consumer Price Index (CPI) stands at 3.4% as at December 2025, up from 2.5% in December 2024. The Consumer Price Index including owner occupiers' housing cost (CPIH) stands at 3.6% as at December 2025, and was 3.5% in December 2024.
- 2.8 Inflation climbed steadily from February 2021 until its peak of 11.1% in October 2022, due to increased demand and limited supply on various products, including gas, oil, and food supplies, following the pandemic restrictions easing and the Ukrainian invasion. The Bank of England gradually increased interest rates to help achieve its target rate of inflation of 2.0%, and so inflation has fallen significantly since then. The increase seen in 2025 owed mostly to increases in food prices and administered prices (prices that are directly set or influenced by decisions from government or regulators). The Bank of England expects inflation to ease to 3% in early 2026 and fall to 2% over the subsequent year.

**Figure 1. CPI Annual Rate**



## Environmental Challenges

- 2.9 The summer of 2025 has been confirmed by climate scientists at the Met Office as the hottest on record for the UK since records began in 1884. Exceptional temperatures were felt across much of the world, exacerbating extreme weather events such as heatwaves, droughts, floods and wildfires.
- 2.10 The Council declared a Climate Emergency in February 2019, with the intention of achieving a carbon neutral Reading by 2030, which is a challenging target, especially considering the Government is aiming for the UK to reach net zero by 2050. On the 6<sup>th</sup> November 2025, the Government published its revised plans and progress to achieve this target, including the implementation of targets and carbon budgets, aimed at helping the country to meet these goals by a 2050 deadline.

- 2.11 Reading has cut its carbon emissions by 57% since 2005 and the Council has cut its own carbon footprint by 73.4% since 2008.
- 2.12 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.

### **Fair Funding Review 2.0**

- 2.13 Consultations about changes to how funding is distributed between Local Authorities have been ongoing since 2018. On 20<sup>th</sup> November 2025 the Ministry of Housing, Communities and Local Government (MHCLG) published its formal response to the Summer 2025 Fair Funding Review (FFR) 2.0.
- 2.14 The Fair Funding consultation set out proposals to: a) Simplify Council funding by reducing the number of grant funding streams and including them in the ‘Settlement Funding Assessment’ b) Calculate the share of the national funding that will be allocated to each council c) The transitional arrangements to move to the new funding levels.

### **Simplification**

- 2.15 The government is simplifying more than 30 funding streams, worth nearly £47 billion across the next 3-years. In the updated system, £21.5 billion of this funding will be delivered through four new ‘consolidated grants’ as part of the multi-year Settlement package, and £25.3 billion will be rolled into the Revenue Support Grant, which is unfenced funding within the core Settlement.
- 2.16 The previous consultation indicated that the £600m Recovery Grant funding provided to the most deprived authorities in 2025/26 would be rolled into Revenue Support Grant in 2026/27, but has now confirmed that it will continue as a separate grant funding stream, in addition to a further increase of £150m of ‘Recovery Grant Guarantee’ and £115m of ‘Recovery Grant Uplift’.
- 2.17 The consolidated grants for 2026/27 to 2028/29 are set out as follows:
- **Homelessness, Rough Sleeping and Domestic Abuse Grant** (£2.7 billion, or approx. £900m per annum) will be in core spending power and will bring together:
    - £1.1 billion of Homelessness Prevention Grant (HPG), distributed using the HPG formula previously consulted on in 2025;
    - Rough Sleeping Funding worth £879 million and distributed using a rough sleeping and single homelessness formula;
    - Renters’ Rights Act new burdens worth £49.7 million;
    - DA Safe Accommodation Grant already in spending power worth £499 million over the three years;
    - Targeted funding for supported housing support services, worth £159 million.
  - **Children, Families and Youth Grant** (£3.1 billion, or approx. £1 billion per annum) will be partly within core spending power and includes:

- The current children's social care prevention grant (£809 million);
  - Supporting Families funding within the Children and Families Grant (£760 million);
  - New funding from the transformation fund announced at the 2025 Spending Review (£319 million);
  - Further new investment of £547 million;
  - Holiday, Activities and Food Grant of £623 million;
  - Pupil Premium Plus Post-16 grants, worth £41.5 million.
- **Public Health Grant** (£13.45 billion, or approx. £4.5 billion per year) will consolidate:
    - The main Public Health Grant, with existing distribution (around £12.1 billion, or £4bn pa);
    - Drug and Alcohol Treatment and Recovery Improvement Grant (£1 billion, or £330m pa);
    - Local Stop Smoking Services and Support Grant (£210 million, or £70m pa);
    - Swap to Stop scheme funding (£50 million, or £17m pa).
  - **Crisis and Resilience Fund** (£2.5 billion, or approx. £800 million pa), combining:
    - Household Support Fund;
    - Discretionary Housing Payments.

2.18 The total grant allocations for these grants before and after consolidation, over the three year period of the MTFS, is shown below:

**Table 1. Consolidated Grants 2025/26 to 2028/29**

Grant (£ million)	2025/26	2026/27	2027/28	2028/29	Total Change
<b>Homelessness, Rough Sleeping and Domestic Abuse Grant</b>	5.094	5.388	5.523	5.810	0.715
<b>Children, Families and Youth Grant</b>	1.878	2.925	2.901	2.558	0.680
<b>Crisis and Resilience Fund</b>	2.360	2.335	2.334	2.316	(0.044)
<b>Consolidated Public Health Grant</b>	13.532	13.693	13.922	14.184	0.651
<b>Total</b>	<b>22.864</b>	<b>24.342</b>	<b>24.681</b>	<b>24.867</b>	<b>2.003</b>
<b>Change from Prior Year</b>	-	1.477	0.339	0.186	2.003

2.19 The full list of grants being rolled into Revenue Support Grant is:

- Current Revenue Support Grant
- Business rates income, reflecting pilot and pooling arrangements and excluding Designated Areas/renewables
- Grants currently in spending power: Social Care Grant, Adult Social Care Market Sustainability and Improvement Fund (MSIF), Employer NI Contributions, New Homes Bonus, 2025/26 Funding Floor
- The remaining balance of the Children and Families Grant, once Supporting Families funding is excluded
- Other grants currently outside of spending power: temporary accommodation funding within the Homelessness Prevention Grant, Virtual School Head for Children with a Social Worker and Children in Kinship Care Grant, Biodiversity

Net Gain Planning Requirement, Deprivation of Liberty Safeguards Funding, Local Government Finance Data Review Funding, Enforcement of Local Restriction and Volume New Burdens Grant, Enforcement of Calorie Labelling Regulations New Burdens Grant, Awaab's Law New Burdens Grant and the Social Housing New Burdens Grant

### **National Funding Formula**

2.20 The stated aim of the Fair Funding Review 2.0 is to better align funding with need across the country, updating for the first time in decades the formulas used to calculate local authorities' need for services relative to one another.

2.21 The 9 new formulas are:

Social care formulas:

- Adult social care - older component
- Adult social care - younger component
- Children and Young People's Services

Non-social care formulas:

- Foundation Formula - upper tier
- Foundation Formula - lower tier
- Fire and Rescue
- Highways Maintenance
- Home to School Transport
- Temporary Accommodation

2.22 These 9 formulas will be used to assess the differences in demand between councils, known as 'Relative Needs Formula' (RNF).

2.23 An 'Area Cost Adjustment' will then be applied to each RNF to account for the different costs of delivering services in different places. This will give each council a relative 'Needs Share' by weighting each RNF according to the level of national expenditure on that service.

2.24 To account for different Council Tax raising ability, the Government will then multiply each council's tax base by a notional level of Council Tax set at £2,060 for a Band D property in 2026/27. The total notional Council Tax for all council's will then be added to the grant and retained business rates available nationally to give the total notional funding available to Local Government and the funding will then be allocated according to each Council's 'Needs Share'.

2.25 Finally, the Government will subtract each council's notional Council Tax contribution to give it's 'Settlement Funding Assessment'.

### **Transitional Protection**

2.26 The Government view is that the current funding system is unfair and there is a balance to be struck between providing transitional arrangements and moving decisively towards improved and updated allocations which are fairer for everyone. Local authorities whose existing income is furthest above their Fair Funding Assessment will need to accept some losses in income over the multi-year Settlement as this is necessary to ensure funding can be redirected to where it is assessed as needed most.

- 2.27 The transitional arrangements are that:
- The government will move local authorities to their Fair Funding Assessment allocations in increments of one third over the multi-year Settlement.
  - However, authorities which would see their income fall as a result of changes, will be further protected through a range of funding floor levels appropriate to specific groups of authorities' circumstances.

### **Local Government Finance Policy Statement 2026/27 to 2028/29**

- 2.28 On 20<sup>th</sup> November 2025 MHCLG published a Local Government finance policy statement. Alongside the matters set out in Fair Funding 2.0 this included proposals to:

- **Incentivise house building and local economic growth:** Local authorities will benefit from the additional council tax raised for each new house built in their area, over the course of the multi-year period, and will keep the longstanding incentives in the business rates system so that authorities continue to be rewarded for local growth.
- **Give authorities greater certainty:** By providing the first multi-year Settlement in a decade, so that local authorities can plan for the next 3 years.
- **Provide support for local authorities that need it:** The government recognises that there will continue to be some authorities that request additional support. There will continue to be a framework in place for supporting those in the most difficult positions.
- **Focus on prevention:** With the aim of improving outcomes for the most vulnerable residents who rely on the services where demand and costs continue to grow, including social care, by focusing on prevention and early intervention. This includes £2.4 billion invested into children's social care prevention and de-escalation.
- **Drive public service reform:** Work across government to drive a programme of radical public service reform, centred on pooling budgets around service users and breaking through central government siloes, as well as looking for ways to reduce demands on local government to empower them to deliver for communities, including through reviewing the approach to sales, fees and charges, and statutory duties.

### **Autumn Budget 2025**

- 2.29 The Autumn Budget 2025 was delivered by the Chancellor on 26<sup>th</sup> November 2025. The announcements included the following matters that are pertinent to the Council's finances and the wider environment in which it operates:

- Revaluations on non-domestic properties will take effect from 1 April 2026.
- For 2026/27, the current two-tier multiplier system will be replaced with five different multipliers. As a result of the 2026 revaluation, the national small business and standard multipliers have fallen by 6.7p and 7.5p respectively. Therefore, in 2026/27, all properties will pay a lower tax rate than they do now, including those on the higher multiplier.

<b>Multiplier</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Scope</b>
Small business Retail Hospitality and Leisure (RHL) multiplier	—	38.2p	RHL hereditaments with RVs under £51,000
Standard RHL multiplier	—	43.0p	RHL hereditaments with RVs between £51,000 and £499,999
National small business multiplier	49.9p	43.2p	Non-RHL hereditaments with RVs under £51,000
National standard multiplier	55.5p	48.0p	Non-RHL hereditaments with RVs between £51,000 and £499,999
High-value multiplier	—	50.8p	All hereditaments with RVs of £500,000 or above

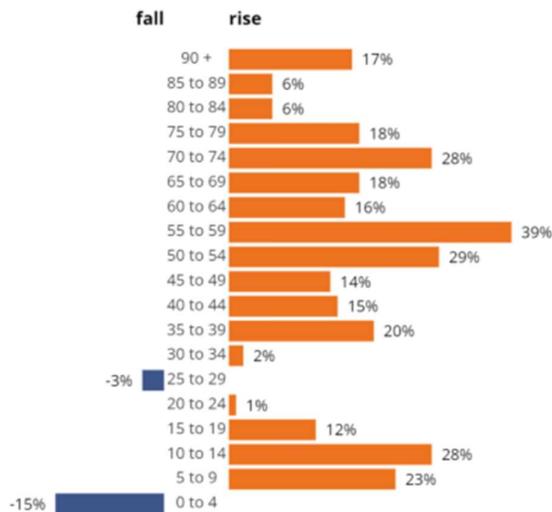
- A 0.5% cut to Department Expenditure Limits will be applied across government budgets in 2028/29, 2029/30 and 2030/31, aimed at generating £2.8 billion in savings in 2028-29, rising to £4.9 billion by 2030-31. For Local Government, this applies to local government grant funding only and excludes council tax and business rates. This is therefore equivalent to around 0.1% of Core Spending Power in 2028/29.
- A High Value Council Tax Surcharge in England will be introduced for residential properties worth £2m or more, from April 2028. Local authorities will collect this revenue on behalf of central government and will be fully compensated for the additional costs of administering this new tax. A public consultation on details relating to the surcharge is expected in early 2026.
- Pension contributions above £2,000 made through salary sacrifice will face National Insurance from April 2029, meaning they will be “treated as ordinary employee pension contributions in the tax system”.
- Income tax thresholds and the equivalent National Insurance Contribution thresholds for employees and self-employed individuals will be maintained at their current levels for a further three years from April 2028 to April 2031.
- From 1 April 2026, the National Living Wage will increase by 4.1% to £12.71 per hour. The National Minimum Wage for 18-20 year olds will also increase by 8.5% to £10.85 per hour and for 16-17 year olds and apprentices by 6.0% to £8.00 per hour.
- The Government indicated that it would not expect local authorities to need to fund future special educational needs costs from general funds, once the Statutory Override ends at the end of 2027/28. It will set out further details on its plans to support local authorities with historic and accruing deficits and conditions for accessing such support through the upcoming Local Government Finance Settlement.
- An additional £1.5 billion capital investment will be provided to tackle fuel poverty through the Warm Homes Plan, in addition to the £13.2 billion of funding allocated at Spending Review 2025.
- By 2029/30, over £2 billion annually will be committed for local authorities to repair, renew and fix potholes on their roads.

- £100 million will be allocated to local authorities and public bodies to accelerate installation of charge points where people live and work.

### Demographic Forecasts

- 2.30 Demographic growth is one of the key drivers of demand for Council services and, consequently, cost pressures. Whilst general central government funding has seen real terms decreases over the last decade, service demand and demographic pressures have risen.
- 2.31 According to the Office of National Statistics' latest census in 2021, since 2011 Reading's total population has risen by 11.9% to 174,200, one of the highest percentage increases in the South East. In their revised mid-year population estimates for 2024, Reading's population had grown to 182,907, approximately a 5% increase from the census in 2021. Its demographic composition has also been changing, with both older and younger age groups increasing. Residents aged 65+ increased by 17.2%, while those aged under 15 have increased by 8.6%, although this figure has been impacted by a large reduction in children aged 0-4. These changes in demographics are reflected in the increase in demand for Adult and Children's Social Care services set out above.

**Figure 2. Population Change % by Age Group in Reading, 2011 to 2021**



### Unemployment

- 2.32 Around 5,535 people aged 16 and over in Reading were unemployed in the year ending September 2025. This is a rate of 4.5%. This was a slight increase compared to the year ending September 2024 when the unemployment rate was 4.4%. Across the South East, from the year ending September 2025 to the year ending September 2024, there was also a slight increase in the unemployment rate from 5.5% to 5.7%.

### Deprivation

- 2.33 One of the key outcomes for the Council is to improve the well-being of its residents and to address the needs of those most in need. From 2025/26 the Government has started to directly factor in deprivation scores into how councils' core funding is allocated. The degree to which assessed need and inequality might be measured is by reference to the national Indices of Deprivation (IoD).

2.34 IoD scores and weightings are based on seven domains of deprivation and are weighted individually to provide an overall Index of Multiple Deprivation (IMD) score. There are also two additional indices as set out below:

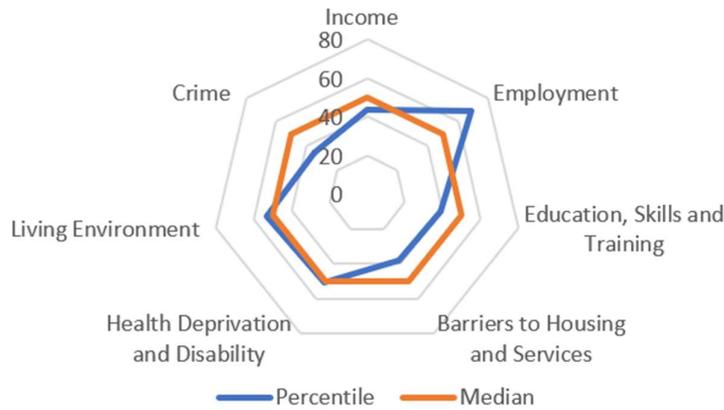
1. Income Deprivation (22.5% of the overall index)
2. Employment Deprivation (22.5%)
3. Education, Skills, and Training Deprivation (13.5%)
4. Health Deprivation and Disability (13.5%)
5. Crime (9.3%)
6. Barriers to Housing and Services (9.3%)
7. Living Environment Deprivation (9.3%)
8. Index of income deprivation affecting children
9. Index of income deprivation affecting older people

2.35 Key Headlines, based on the latest 2025 data, are:

- According to the overall IMD, Reading as a whole is ranked the 147<sup>th</sup> most deprived out of 296 local authorities in the country, which puts Reading on the 49.7<sup>th</sup> percentile, i.e. very slightly less deprived than the average (50%).
- Deprivation is higher than average for the following domains: Income, Education, Skills and Training, Barriers to Housing and Services, Crime and in particular Income Deprivation Affecting Older People.
- There are now no Lower Super Output Areas (LSOAs) within the most deprived 10% nationally (compared to 5 in 2019). 11 LSOAs are within the 20% most deprived.
- There are LSOAs in the most deprived 5% nationally in terms of the following domains: Education, Skills & Training (including both sub-domains), Crime (none in 2019) and Income Deprivation Affecting Older People. There are also LSOAs in the 5% most deprived in terms of the 'wider barriers' and 'outdoor' sub-domains.
- One LSOA in Church is within the most deprived 1% nationally on the Education, Skills & Training domain.

2.36 The chart below illustrates the 2025 IoD rankings for each of the above seven domains relative to the (median) average across all 296 local authority areas, showing that Reading has a higher deprivation score than the median or is very similar to the median on 6 of the 7 indicators, but is less deprived in terms of employment than the median:

**Figure 3. Indices of Deprivation (2025) - domains**



### Interest Rates

- 2.37 When the 2025/26 Budget and 2025/26-2027/28 MTFS was approved in February 2025, the Bank of England Bank Rate stood at 4.50%. It has subsequently decreased over the year to 3.75%. Forecasts suggest interest rates will continue to gradually decrease over the next 12-24 months.
- 2.38 Interest rates impact on both the amount of interest that the Council forecasts it will need to pay in respect of current and forecast future borrowing, as well as the amount of interest income receivable in respect of the levels of forecast investments. As set out in the Council's Borrowing Strategy, the Council is currently attempting to avoid taking any long-term borrowing whilst interest rate forecasts indicate further decreases. As a consequence, the Council is currently utilising existing cash balances to cashflow Capital Programme expenditure and therefore has less cash available to invest in longer term investments that generate higher levels of interest receivable income. The costs avoided by deferring longer term borrowing whilst borrowing rates remain high are greater than the lost investment opportunities. The Borrowing Strategy will be reviewed as part of the 2026/27 Treasury Management Strategy Statement that will be brought forward for consideration and approval in February 2026.
- 2.39 For planning purposes, the Council has assumed that the Bank of England will gradually decrease interest rates from 3.75% to 3.25% by March 2028. The MTFS assumes an average borrowing rate of 3.84% for 2026/27, decreasing to 3.67% and 3.63% in 2027/28 and 2028/29 respectively.
- 2.40 Current UK interest rate forecasts (including the 20-basis point certainty rate reduction) are outlined in the following table:

**Table 2. Interest Rate Forecasts**

	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
	%	%	%	%	%	%	%	%	%	%	%	%
<b>Bank Rate</b>	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
<b>5-year PWLB</b>	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
<b>10-year PWLB</b>	5.20	5.00	4.90	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.60
<b>25-year PWLB</b>	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.20	5.20	5.20	5.20

### **3. Expenditure Assumptions**

#### **Pay Award**

- 3.1 2.4% has been allowed for pay inflation in 2026/27 with 1.9% for 2026/27 and 2027/28.

#### **National Living Wage**

- 3.2 In the Autumn Statement the Chancellor announced that from 1 April 2026, the National Living Wage will increase by 4.1% to £12.71 per hour. The National Minimum Wage for 18-20 year olds will also increase by 8.5% to £10.85 per hour and for 16-17 year olds and apprentices by 6.0% to £8.00 per hour.

#### **General Inflation**

- 3.3 Where services are experiencing specific inflationary pressures, these are included as proposed budgetary changes supported by a corresponding business case.

#### **Pension Fund**

- 3.4 The triennial valuation of the Pension Fund took place on 31st March 2025. The primary rate is set as 14.8% for the three years of the MTFS period.

#### **Capital Financing**

- 3.5 Capital Financing costs include Minimum Revenue Provision (MRP), notionally the repayment of debt, as set out in the Council's MRP Policy within the Treasury Management Strategy included elsewhere on this agenda. Additionally, these costs include any interest on external borrowing.

### **4. Significant Impacts on the Council's 2026/27 Budget**

#### **Adult Social Care**

- 4.1 Across the country, the adult social care sector is facing serious challenges in relation to ever increasing demand, rising costs, a shift in the demographic profile to younger people and workforce challenges. The Health Foundation has forecast that to meet growing demand for social care and cover rising costs to employers, an extra £3.4bn of funding will be needed in 2028/29, with an extra £9.1bn being needed by 2034/35, requiring a 3.1% annual real-terms increase in overall funding.
- 4.2 In Reading, the Council has seen an increase in the numbers of people presenting to the service and those people have increased complexity, and acuity of need. The service users in place on 1st April 2025 was 1,755 and by 31st December 2025 this had increased to 2,066. This is an increase of 311 service users, which is nearly three times the service user increase in the whole of 2024/25.
- 4.3 In 2025/26 the Council has seen a shift in the percentage of new Adult Social Care service users from the working age adult cohort, comprising of around 30% of new service users each period, whereas historically demand for this demographic remained steady. While the support provisions for these service users are lower cost on a unit level, the increase in volume and duration of support provided places additional financial pressure on the budget.
- 4.4 As a result, the services delivered are more costly and a net increase of £4.700m for Adult Social Care services is proposed for 2026/27 to address these pressures, in

addition to the capital investment in facilities.

### **Children Social Care**

- 4.5 Nationally, the number of Children Looked After (CLA) reported by local authorities on 31<sup>st</sup> March 2025 was 81,770, a decrease of 2% (down 1,760 children) compared to 31<sup>st</sup> March 2024. This decrease was due to a fall of 1% in the number of non-Unaccompanied Asylum-Seeking Children (UASC) CLA (down 860 children) and a fall of 12% in the number of CLA who were UASC (down 900).
- 4.6 The rate of all CLA per 10,000 children aged under 18 years has decreased to 67 - down from 69 last year and down from a peak of 70 in both 2022 and 2023.
- 4.7 The number of children starting to be looked after during the year has fallen and the number of CLA ceasing during the year has risen. CLA ceasing due to being the subject of a special guardianship order (SGO) increased by 6% (up 220 children) and CLA adopted increased by 1% (up 20 children).
- 4.8 CLA placed in children's homes including secure children's homes increased by 9% (770 children) to 9,480, which is 12% of all CLA.
- 4.9 This 2% reduction in the number of CLA nationally as at March 2025 was not replicated in Reading where CLA numbers rose by 1.8% from 267 to 272. This equates to 70 CLA per 10,000 population.
- 4.10 As at 31<sup>st</sup> December 2025 the number of CLA in Reading stood at 297, a further 9.2% increase since 31<sup>st</sup> March.
- 4.11 This budget invests significant additional funds in Children's Social Care placements and in the provision of new residential homes, but the upward trend is unsustainable.

### **Dedicated Schools Grant - High Needs Block**

- 4.12 The Office for Budget Responsibility's November 2025 Economic and Fiscal Outlook report stated that a key risk to the medium-term fiscal forecast is that local authority borrowing has increased by around £7 billion a year in this forecast compared to March, reflecting recent upward revisions to outturn and financial pressures including from the costs of Special Education Needs and Disabilities (SEND).
- 4.13 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.
- 4.14 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.

- 4.15 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.
- 4.16 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.
- 4.17 In the November 2025 Budget the government announced that responsibility for funding SEND services would transfer from local government to central government from 2028.
- 4.18 In addition to this, the Local Government Finance Settlement announced in February 2026 confirmed the Government will fund 90% of the accumulated High Needs Block (SEND) deficit balance as at 31st March 2026. The Council's forecast deficit at the end of this financial year is £48.627m which means this new funding announcement, which is subject to the Council submitting and securing the Department for Education's approval of a local SEND reform plan, will reduce the cumulative deficit to £4.863m.
- 4.19 The Council will need to set aside funding for the remaining 10% of the forecast deficit, together with a contribution to any further deficits that might arise over 2026/27 and 2027/28 after which this expenditure will be fully funded by the Government.
- 4.20 The Council will continue to play its part in managing SEND expenditure and will review its funding options over 2026/27 as it prepares the following year's budget and Medium Term Financial Strategy.

#### **2025/26 Financial Position**

- 4.21 The Quarter 2 Performance and Monitoring Report, presented to Policy Committee in December 2025, is forecasting a net adverse variance of £3.968m. This is despite additional in year savings of £5.574m having been identified in response to pressures identified earlier in the year. The most significant pressure in the Quarter 2 report relates to Children's Services, which is forecasting a variance of £5.424m, which is partially offset by £1.456m of positive net variances across other services.
- 4.22 Should an adverse variance crystallise then the balance of the variance will need to be funded by a draw from earmarked reserves as part of 2025/26 outturn processes and the 2025/26 Performance Report to Policy Committee in July 2026.

#### **5. Final Local Government Finance Settlement 2026/27 & Other Changes from the December 2025 MTFS Update**

- 5.1 A three-year Final Local Government Finance Settlement was published on 9<sup>th</sup> February 2026. The settlement provides more detail for 2026/27, which for Reading is as follows:

## **Business Rates Local Share**

- 5.2 As part of the Government's Fair Funding Review, legacy business rates and grant funding have been rolled in and redistributed to provide each local authority with a new Baseline Funding Level (BFL), accompanied by the introduction of new Revenue Support Grant (RSG) allocations. For 2026/27, the Council's BFL has been set £9.884m lower than the level assumed in the December 2025 MTFS Update, reducing by a further £0.051m in 2027/28 and £0.143m in 2028/29. This majority of this decrease has been offset by an increase in RSG.

## **Revenue Support Grant**

- 5.3 Revenue Support Grant has been the core general purpose grant from central government for many years. The government intend that RSG will play a key role in phasing the 2028/29 fair funding shares over the course of the multi-year settlement, with only 2028/29's allocations intended to fully reflect the distribution of the Fair Funding Assessment. For 2026/27, following from the reduction in the baseline funding level, the Council is due to receive £5.819m more RSG than assumed in the December 2025 MTFS Update, with a further £2.823m expected in 2027/28 and a reduction of £0.081m in 2028/29.
- 5.4 In addition, changes to which grants are being rolled into RSG and in what year, have resulted in the Council's grant income within the services being £2.909m higher than previously assumed in 2026/27, but decreasing by £3.322m in 2027/28 when the Local Authority Better Care Grant is incorporated into RSG.

## **Public Health Grant**

- 5.5 Allocations in respect of the Public Health Grant for 2026/27 were announced on 18<sup>th</sup> December 2025. In 2026/27 the Council's allocation is £13.693m, which includes amounts previously relating to smoking, drug and alcohol support grants. This is an increase of £0.161m from the total of the three grants in 2025/26, but a decrease of £0.126m from what was assumed in the December 2025 MTFS Update. The 2027/28 allocation is £0.020m lower than previously anticipated and the 2028/29 allocation is an increase of £0.262m. As the grant is ringfenced any increase/decrease to the Council's grant allocation is offset by a corresponding increase/decrease in expenditure. Therefore, the MTFS assumes a nil impact on the bottom line.

## **Homelessness, Rough Sleeping and Domestic Abuse Grant**

- 5.6 An increase in the allocations for the Homelessness, Rough Sleeping and Domestic Abuse Grant was announced in the Final Local Government Finance Settlement on the 9<sup>th</sup> February 2026. For 2026/27 this means an increase of £1.347m, with a further increase of £0.315m and £0.463m due in 2027/28 and 2028/29 respectively.
- 5.7 This has enabled the removal of two proposed savings, previously proposed within the Homelessness service, totalling £0.069m in 2026/27, £0.054m in 2027/28 and £0.039m in 2028/29. The remaining balance of the grant has been added to the expenditure budget for the Homelessness service.

## **Other Changes from the December 2025 MTFS Update**

### **Additional/Revised Service/Corporate Budgets**

- 5.8 Since December, a number of new and revised business cases and technical budget adjustments have been submitted, reviewed and amended. This has resulted in a

£4.001m net reduction to the 2026/27 budget, a £1.981m net reduction for 2027/28 but an added net pressure of £0.093m in 2028/29.

### **Council Tax**

- 5.9 At its meeting on 27<sup>th</sup> January 2026, Council approved a revised Council Tax Base of 60,353.38 (band D equivalent) properties for 2025/26 – an increase of 1.32% on the 2025/26 Tax Base of 59,566.99.
- 5.10 The Tax Base of 60,353.38 band D equivalents has been updated from the Tax Base of 60,354.06 used in the December 2025 MTFS Update to accurately reflect the number of chargeable dwellings, discounts, exemptions, eligible Local Council Tax Reduction Scheme claimants and revised estimates of new build and collection performance. The effect of this is a reduction in Council Tax income of £0.002m for 2026/27.
- 5.11 The Council Tax Base report declared the estimated balance on the Council Tax Collection Fund as at 31<sup>st</sup> March 2026. The Council's share of the estimated deficit balance is £1.781m, which is an increase in deficit of £0.971m in 2026/27.

### **Business Rates**

- 5.12 The NNDR1 return to central government in January 2025 projected an estimated deficit balance on the Business Rates Collection Fund as at 31<sup>st</sup> March 2025. The Council's share of this deficit is £4.281m, which is an increase in deficit of £1.826m in 2026.27.

### **Capital Financing**

- 5.13 The revenue impact of the proposed Capital Programme has been updated to reflect changes to existing schemes (including re-profiling) and the addition of new schemes. The cumulative effect of these changes on capital financing costs is a decrease in costs of £0.565m in 2026/27 but an increase of £1.377m in total, across the MTFS period.

### **Contingency**

- 5.14 A reduction to the Contingency provision of £0.202m for 2026/27 and £0.501m for 2027/28 has been made due to the specific pressures these funds were intended to mitigate against no longer being anticipated to materialise.

### **Contribution to/(from) Reserves**

- 5.15 Following the December 2025 MTFS Update, an additional £3.636m draw on (contribution from) earmarked reserves has been required, consisting of:
- £0.503m to fund additional service specific expenditure from specific earmarked reserves;
  - £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.

### **Summary of Changes**

- 5.16 The changes outlined in paragraphs 5.2-5.15 are summarised below:

**Table 3. Summary of Changes from December 2025**

	2026/27 £000	2027/28 £000	2028/29 £000
<b>Net Budget (Surplus)/Deficit as at December 2025 Policy Committee</b>	<b>4,449</b>	<b>6,814</b>	<b>3,490</b>
<b>Changes Arising from the Final Local Government Finance Settlement:</b>			
Business Rates Local Share	9,884	51	143
Revenue Support Grant	(5,819)	(2,823)	81
Grants Rolled in to Revenue Support Grant	(2,909)	3,322	0
Public Health Grant Expenditure	(126)	(20)	262
Public Health Grant Income	126	20	(262)
Homelessness Prevention Services Expenditure Growth	1,278	261	424
Removal of Proposed Homelessness Savings	69	54	39
Additional Homelessness, Rough Sleeping and Domestic Abuse Grant	(1,347)	(315)	(463)
<b>Other Changes since the December 2025 MTFS Update:</b>			
Additional/Revised Service/Corporate Budgets	(4,001)	(1,981)	93
Changes to Council Tax Base	2	(1)	1
Council Tax Collection Fund (Surplus)/Deficit	971	(971)	0
Business Rates Collection Fund (Surplus)/Deficit	1,826	(1,826)	0
Adjustment to Capital Financing Costs	(565)	725	1,217
Increase/(Decrease) to Corporate Contingency	(202)	(501)	0
Additional Contribution to/(from) Reserves	(3,636)	3,636	0
<b>Sum of Changes</b>	<b>(4,449)</b>	<b>(369)</b>	<b>1,535</b>
<b>Cumulative Impact of Changes</b>	<b>(4,449)</b>	<b>(4,818)</b>	<b>(3,283)</b>
<b>Net Budget (Surplus)/Deficit after Changes</b>	<b>0</b>	<b>1,996</b>	<b>207</b>

## 6. Risks

6.1 The main risks to delivering the proposals set out within this MTFS include:

- The ability to contain demand pressures;
- Adverse interest rate movements;
- Increased inflationary pressures, including pay award;
- Delivery of capital receipts to fund the flexible use for transformation purposes and avoid prudential borrowing charges;
- National SEND reforms;
- The capacity to deliver the savings and income projections in line with assumptions.

6.2 Additionally, the Council's 2024/25 accounts are still subject to audit which may mean there could be some movement in the assumed baseline level of reserves.

## 7. Reserve Levels

7.1 CIPFA have stated that there should be no imposed limit on the level or nature of balances required to be held by an individual Council. Many authorities are currently struggling to manage their pressures with an increasing number of local authorities issuing s114 notices or requesting exceptional financial support over recent years. In

light of previous high-profile failures and funding concerns raised by authorities, CIPFA launched a financial resilience index which uses a basket of indicators to measure individual Local Authorities' financial resilience compared to their comparators.

7.2 This index, which is based on the latest published data from Central Government (2024/25), shows that the level of reserves held by Reading Borough Council equated to 25.71% of net revenue expenditure.

7.3 The Council has shifted towards the "higher risk" end of the scale in terms of the "Change to Reserves" measure as a result of decreasing levels of reserves over the last three years. However, as set out in the main body of the report, this MTFS is forecasting a combined cumulative budget gap of £2.203m over the next three years. This compares to the forecast level of the combined General Fund balance and Financial Resilience earmarked reserves of £12.028m as of 31<sup>st</sup> March 2026. Other earmarked reserves are set aside to fund specific risks, should they materialise, and expenditure funded by ringfenced grants.

## 8. Savings

8.1 Savings required to balance the 2026/27 budget and assumed within the MTFS include efficiency savings and invest-to-save initiatives. They are summarised below. Further detail is provided in Appendices 3 and 4:

**Table 4. General Fund Savings Summary 2026/27 to 2028/29 by Directorate**

	2026/27 (£000)	2027/28 (£000)	2028/29 (£000)	Total (£000)
Communities and Adult Social Care	(4,373)	(2,373)	(881)	(7,627)
Children's Services	(2,094)	(670)	(547)	(3,311)
Economic Growth & Neighbourhood Services	(1,603)	(361)	(207)	(2,171)
Resources	(1,517)	(2)	(52)	(1,571)
Chief Executive Services	(70)	(15)	(16)	(101)
<b>Total</b>	<b>(9,657)</b>	<b>(3,421)</b>	<b>(1,703)</b>	<b>(14,781)</b>

**Table 5. General Fund Savings Summary 2026/27 to 2028/29 by Type**

	Efficiency Savings (£000)	Invest to Save Schemes (£000)	Total (£000)
Communities and Adult Social Care	(7,627)	0	(7,627)
Children's Services	(1,970)	(1,341)	(3,311)
Economic Growth & Neighbourhood Services	(2,011)	(160)	(2,171)
Resources	(1,344)	(227)	(1,571)
Chief Executive Services	(101)	0	(101)
<b>Total</b>	<b>(13,053)</b>	<b>(1,728)</b>	<b>(14,781)</b>

8.2 In order to balance the MTFS in future years on a sustainable basis, further savings need to be found for 2027/28 and 2028/29.