Brighton & Hove City Council

Cabinet

Agenda Item 27

Subject: **General Fund Budget Planning & Resource Update - 2026-27 to 2029-30**

Date of meeting: **Thursday, 17 July 2025**

Report of: **Cabinet Member for Finance and City Regeneration**

Lead Officer: **Name: Chief Finance Officer**

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Ward(s) affected: All Wards

Key Decision: No

For general release

1. Purpose of the report and policy context

1.1 This report provides a budget planning and resource update as a key part of the preparation for the 2026/27 annual budget and Council Tax setting process together with Medium Term Financial Plan projections over the next 4-year period.

1.2 The council aims to align all spending, ringfenced and un-ringfenced, to support the achievement of Council Plan outcomes and priorities. The General Fund budget in particular is an expression of the Council Plan in financial terms and aims to ensure that revenue and capital budgets and investment plans are aligned to achieving the outcomes of the Council Plan for a ‘better Brighton and Hove for all’.

2. Recommendations

That Cabinet:

2.1 Note the planning assumption of a Council Tax increase of 2.99% over the 4-year Medium-Term Financial Plan period and an Adult Social Care Precept of 2.00% or the equivalent in grant funding in 2026/27.

2.2 Note the funding assumptions and net expenditure projections for 2026/27 including a projected budget shortfall of £39.765 million.

2.3 Note the Medium Term financial projections for 2026/27 to 2029/30 and the predicted budget gaps totalling over £95 million over the period.

2.4 Agree the proposed budget development approach and that members will use this to develop 4-year medium-term service and financial plans and proposals for Budget Council consideration, including savings targets, to enable a legally balanced budget in 2026/27 and enable the Council Tax for the year to be set.

2.5 Note that projections for next year and the Medium Term Financial Plan (MTFP) will be updated following government funding announcements expected in Autumn 2025.

3. Context and Background Information

BUDGET SETTING AND MEDIUM TERM FINANCIAL PLANNING

Overview

3.1 The council's budget includes areas where funding is 'ring-fenced' and must be spent according to relevant government grant funding conditions and/or other statutory regulations. These include the funding of schools and special educational needs services through the Dedicated Schools Grant (DSG), Housing Benefits, Public Health services, and council housing (Housing Revenue Account) funded primarily by tenants' rents. All other un-ringfenced funding is used to provide the majority of council services for the city and is provided for in the 'General Fund' Revenue Budget.

3.2 The context for budget setting is very challenging. There are significant budget pressures arising from increases in demand from statutory services, particularly temporary accommodation, adults and children's placements, and home to school transport. Compounding this, a reduction in resources is anticipated as a result of the government's fair funding review, particularly as a result of the re-baselining of business rates, and changes to the indices used for local government funding that may not be beneficial to the council. These pressures and possible reductions in funding lead to a budget gap of nearly £40 million in 2026/27 and more than £95m over the 4 year MTFS period.

3.3 As well as ensuring the delivery of the Council Plan, the budget process has the overarching objective of ensuring financial sustainability over the short, medium and long term for Brighton and Hove City Council, within an exceptionally financially challenging environment. Through this budget process the budget gap for 2026/27 will need to be addressed in addition to the development of a longer term savings and transformation plan that spans the period from 2026 to 2030. To underpin the delivery of savings, and to enable the council to continue to deliver capital investment plans for the city, an asset disposals and capital receipts plan will also need to be developed. Financial sustainability is covered in more detail below.

Local Financial Planning Context

3.4 As legally required, the budget setting process will include the development of proposals to achieve a balanced budget in 2026/27 and will set out high-level plans to achieve financial sustainability over the 4-year Medium Term Financial Plan period. This will be important for a number of reasons including:

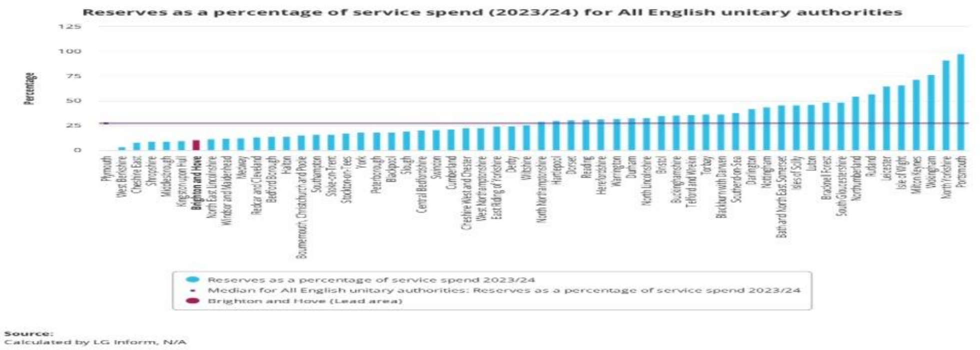
- Addressing the External Auditor's concerns, having assessed the council's financial sustainability as a 'significant weakness', by demonstrating that the council is setting its annual budget and

Council Tax in the context of understanding its longer term financial sustainability;

- Demonstrating that any use of reserves or balances in the short-term to support the budget is financially sustainable (i.e. repayable) in the medium term;
- Ensuring that the delivery of Council Plan priorities and associated service planning is aligned with and reflected in medium-term financial planning, and;
- Ensuring that any budget shortfalls (gaps) in future years are identified early to enable longer term programmes of change and transformation to be instigated as soon as possible to generate the necessary savings, efficiencies or income.

Financial Sustainability

3.5 The council has a significant financial sustainability challenge. As shown by the below graph, the council's reserves are at one of the lowest levels in the country, at a time when the financial risks for councils are perhaps greater than they have ever been. The council's lack of resilience in terms of reserves, its inability to withstand significant financial shocks, is a position that is unsustainable.



3.6 Many risks exist for councils across the country at the moment which are applicable to Brighton and Hove. These include the delivery of challenging savings targets, pressures on statutory services (particularly adults and children's social care and temporary accommodation) and inflationary pressures on the costs of services. What sets Brighton and Hove apart is not that these pressures exist here more than other places, but that the authority's low level of reserves means any of these risks individually or collectively could wipe out reserves. This is compounded by the expected reduction in government resources as a result if the fair funding review described in section 4,

3.7 Financial management across the organisation is generally fairly strong. The Council has achieved financial balance over the last two years (2023/24 and 2024/25), and there are robust processes in place to monitor and report the financial position throughout the year. However, there are some parts of the organisation where finances are less transparent and the management of the capital programme is not as robust as the processes in place for the general fund, HRA and schools budgets.

3.8 Looking at the overall picture, while there are strengths in terms of financial management, the low level of reserves is perhaps the greatest risk that exists for Brighton and Hove Council. This position has been highlighted by the Local Government Association in their Corporate Peer Challenge ("The council has very little, to no, tolerance in its financial resilience… it needs to prioritise a plan to increase the overall level of reserves at pace"), by the External Auditors in their annual opinion ("a significant weakness in arrangements for financial sustainability remains"), and by MHCLG, who continue to indicate their concern around the council's financial position. It is therefore imperative that a framework for financial sustainability is developed, agreed, and implemented, as a priority.

Framework for financial sustainability

3.9 There are many aspects to financial management that will lead to improved financial sustainability, for simplicity it is helpful to focus on some key elements:

- Strong in year financial management to ensure that no draw down on reserves or contingency is necessary (including management of service pressures through recovery actions or mitigating savings);
- A robust transformation plan for the delivery of savings across the MTFS period;
- Delivery of a stretch target for capital receipts of £40-50 million over the period, alongside use of flexible capital receipts to fund savings and transformation plans (as well as some existing capital programme commitments);
- Rationalisation of the capital programme to de-risk the delivery of the capital receipts programme;
- Setting a principle that no additional revenue spend or initiatives are agreed without compensatory savings being found (unless externally funded); and
- Setting a principle that no additional capital projects are agreed without a compensatory decrease in other capital projects (unless externally funded).

3.10 If all of these elements are met, the resulting impact will be a build-up of the council's reserves and balances, improving resilience and the ability to deal with future financial challenges or unexpected events/shocks.

3.11 The level of reserves that a council holds is ultimately a matter of judgement, however there are some comparisons and ratios that can be used as a guide. Often councils look at a ratio of 5% of the revenue budget for the general fund balance. This would equate to £12 million for Brighton and Hove City Council. Given the level of financial uncertainty and service pressures that exist in Brighton and across the country, it is recommended that this is increased to £15 million. Given other potential risks that exist for the council, the risk reserve target is set at £10 million to provide an additional buffer for unexpected financial shocks.

3.12 In summary, the target for general fund reserves is £15 million, and the target for the risk reserve is £10 million. The aspiration is to achieve this over a 3 year timeframe (by March 2029). However, the challenging budget gap over the MTFS will need to be addressed as a priority, and therefore plans will be developed to meet the recommended increases along with addressing the budget shortfalls over the medium term.

Addressing Projected Budget Shortfalls

3.13 The TBM Month 2 (May) position for 2025/26, also being presented at this meeting, is a forecast overspend of £15.468m. This follows a challenging year for 2024/25 which required strong management action including strict spending and recruitment controls to achieve an underspend of £1.091m by the end of the year. The significant drivers of the 2025/26 forecast overspend is pressures on demand led services, but the forecast also includes savings agreed that are at risk of not being delivered. It's vital that sustainable methods of addressing the budget shortfalls to reduce the reliance on strict controls. This will help sustainably manage the financial position in future years to achieve financial sustainability.

3.14 The approach to tackling the budget shortfalls will be as follows:

- Urgently working to address in year budget pressures, particularly through focusing on areas of the most significant demand – temporary accommodation, adults and children's social care placements and home to school transport.
- Developing transformation plans over the whole MTFS period that address budget shortfalls, also with a particular focus on tackling areas of the most significant demand. For example, the most significant budget pressure for the council is temporary accommodation. If homelessness prevention activity can be increased as well as increase the supply of more affordable accommodation, the council's budget gap could be significantly reduced. Work is also being undertaken to identify digital transformation projects that will improve services and contribute to meeting the budget gap.
- Generating capital receipts of £40-50 million over the MTFS period to relieve pressures on general fund services, fund savings plans and transformation activity, and provide funding for new capital investment in priorities such as leisure centres, parks and improving the look and feel of the city.

3.15 This work will be overseen by an officer-led Savings Delivery Board with representation from services across the council.

4. RESOURCES UPDATES AND ASSUMPTIONS

Spending review

4.1 The Chancellor's Spending Review (SR) announced on 11 June 2025 provided the following significant announcements for local government:

- A confirmation of multi-year settlements of 3 years from 2026/27. This provides some much welcomed certainty for the sector over the medium term after a series of one year settlements;
- Confirmation on continuation of the ability for authorities with Adult Social Care responsibilities to increase council tax by 4.99% (2.99% core council tax and 2% ASC precept);

- Significant investment in social housing across the country, with £39 billion being allocated over the spending review period;
- Creation of the Crisis & Resilience Fund to replace the current Household Support Fund and Discretionary Housing Payments. A confirmation of this fund over the SR period comes after 3 years of short term allocations, allowing councils to better plan their use of the fund;
- Additional £4 billion of funding for Adult Social Care over the SR – this is partly to be funded by an increase in the NHS contribution to the Better Care Fund;
- An allocation of £550 million from the government's Transformation Fund to reform children's social care, and an additional allocation of £560 million to refurbish and transform children's homes and foster care placements; and
- Provision of a further £950 million to the Local Authority Housing Fund to increase the supply of Temporary Accommodation.

Local Government Financial Settlement (LGFS)

Fair Funding Review

4.2 On 20 June 2025, the government launched a consultation on its proposed approach to local authority funding for England through the Local Government Finance Settlement from 2026/27. The consultation (called Fair Funding Review 2.0) builds on the previous government's proposals to reform local government funding, which was never implemented.

4.3 The proposals seek to simplify the funding model for local authorities, whilst reviewing the allocation methodology of resources. This is an effort to direct funding towards authorities with communities with the highest need and deprivation whilst recognising that some authorities have larger tax bases and therefore a greater ability to raise council tax.

4.4 The key considerations within the consultation include:

- **Updated Relative Needs Formulas (RNFs);** These formulas estimate the demand for services and are the primary driver of grant proportion allocations across local authorities. The government have published indicative RNFs for all local authorities as part of the consultation. Under the proposals, BHCC would see its RNFs reduce on average by approximately 11%. Work is currently being undertaken to analyse the main drivers of the changes.
- **Consolidation of grants;** in order to simplify local government funding, the government are proposing to roll a number of grants into the revenue support grant to reduce the number of grants and therefore the burden of administration. This is welcomed, but it will be evaluated as part of the consultation response, as to whether this simplification results in loss of sufficient complexity to assess need.
- **Council Tax Equalisation;** the proposals includes a resource adjustment, using each local authority's council tax base as a measure of its council tax raising ability to overlay the needs assessment. This will redistribute resources towards those authorities that have a reduced ability to raise council tax.

- **Transitional Arrangements;** the expectation is that changes in funding will be gradually introduced over the period of the spending review – i.e. a three year period.

4.5 The changes outlined above will create a new Settlement Funding Assessment for all Local Authorities in England. This is an assessment of each authority's overall need for resources. This will result in redistribution of funding between authorities from 2026/27 onwards.

4.6 Alongside the Fair Funding Review, a full Business Rates Reset is planned for 2026/27. A reset represents a full redistribution of the business rate growth that local authorities have built up since the implementation of the Business Rates Retention Scheme in 2013/14. There is a is a close relationship between the Business Rates Reset and the Fair Funding Review, as the latter assesses the total level of resources needed for each authority which informs the level of business rates an authority should retain locally.

4.7 The government have indicated that no local authority will lose funding on a cash basis comparing Core Spending Power (CSP) in 2026/27 to 2025/26. However, a key part of the change in CSP is council tax increases. An assumption of a council tax increase of 4.99% is already assumed as additional resources in the council's 2026/27 and future years budget setting assumptions, which creates additional resources of £9.866m in 2026/27.

4.8 As a result of the breadth of changes in the Fair Funding Review and the Business Rates Reset, it is currently estimated that the council could lose revenue resources of between £7 million to £24 million over the medium term. The consultation is complex and technical, and therefore it's difficult to accurately model the impact at this stage. The MTFS therefore includes existing assumptions for grants, business rates and council tax. In addition, a pressure has been included which reflects a £14.500m loss of total revenue resources over a three-year transition period, the first £6.000m of which falls in 2026/27.

4.9 There is still uncertainty surrounding the final impact of both the Fair Funding Review and Business Rates Reset, including the method of calculation and timing of any transitional arrangements. Work is being undertaken at pace to analyse the proposed changes and update the medium term financial strategy as the implications become clearer. This will be reflected in an updated report in December 2025.

4.10 MHCLG have indicated that a Policy Statement will be released in Autumn (expected late September or early October), confirming their policy position and response to the consultation. This should provide enough detail for Local Authorities to be able to estimate the impact on their resources. This is expected to be followed by the publication of the Provisional LGFS before the end of the year (as early as late November).

Government Grants and Precepts

Revenue Support Grant (RSG)

4.11 It's difficult to accurately assess the overall RSG at this stage. The council received £8.789m RSG in 2025/26. The base assumption is that RSG will be uplifted for 2026/27 by 1.63% (£0.143m). However, due to uncertainty of the impact from the Fair Funding Review, any reduction of RSG is included in the £6.000m pressure in 2026/27 for total loss of resources in relation to the Fair Funding Review and Business Rates Reset.

4.12 The government is proposing to roll in a number of grants to the RSG, including a change in the needs assessment formula which will impact the distribution between authorities. The current expectation is that the following grants will be rolled into RSG:

- Social Care Grant (including new allocation of ASC grant announced)
- ASC Market Sustainability & Improvement Fund
- Domestic Abuse Safe Accommodation Grant
- Employer National Insurance Contribution (NIC) Grant
- New Homes Bonus
- An element of the Homelessness Prevention Grant for temporary accommodation

Adult Social Care precepts and Better Care Funding (BCF)

4.13 In recent years the government has provided additional resources to support Adult Social Care (ASC) through a combination of increased grant and ASC precepts. The Spending Review confirmed the continuation of the ASC precept of 2.0%. This is equivalent to £3.987m, and had already been included in the MTFS assumptions.

4.14 The Better Care Fund is a legal requirement for Local Authorities to pool funds with the NHS and it is proposed within the Fair Funding Review that the LA element of the BCF will remain as a stand alone Section 31 grant. The current budget assumptions include the BCF grant to be maintained at the same level as 2025/26 (£11.669m).

Children's Families & Youth Grant

4.15 The consultation proposes to consolidate the Children's Social Care Prevention Grant and the Children & Families Grant. The council currently receives a total of £2.858m across these two grants. The current budget assumption is that the grants will be maintained at the same level.

Homelessness and Rough Sleeping

4.16 The government intends to bring together all revenue funding for homelessness and rough sleeping, including the prevention and relief element of the Homelessness Prevention Grant (HPG). The remainder of the HPG (relating to temporary accommodation) will be rolled into RSG.

4.17 The government have consulted separately on funding arrangements for the HPG from 2026/27 onwards. This consultation indicated that the council would see a reduction of approximately 45% (£4.883m) of this grant. This reduction has been included as a service pressure.

4.18 There are still uncertainties remaining over the overall quantum of funding available, the transitional protections, and how the HPG will be split between the temporary accommodation element and the prevention and relief element. There should be further clarity provided within the Local Government Finance Policy Statement in autumn.

Public Health Grant

4.19 The Public Health (PH) grant is expected to be consolidated with other service specific grants to deliver a wider PH grant. Details will be announced as part of the provisional LGFS. The PH grant is currently ringfenced, and the consultation is not clear on whether this will change. It is assumed that the grant will continue to be ringfenced and maintained at the current level (£24.298m).

Crisis & Resilience Fund

4.20 It has been announced that a new Crisis and Resilience Fund will be formed to include the current Household Support Fund (HSF) and Discretionary Housing Payments (DHP). It is assumed that the funding for 2026/27 will be maintained at the current level for the council (£4.418m across both HSF & DHP).

Business Rates

4.21 The government is introducing significant changes to the business rates system in 2026/27. This includes:

- The introduction of three new multipliers which will provide a more complex system for assessing the business rates liability of different types of businesses;
- A full Business Rate Reset, designed to redistribute growth accumulated by authorities since 2013/14;
- A new rating valuation list. This will update the rateable values for all properties, adding further uncertainty in the level of business rates income.

4.22 The business rates forecast is difficult to assess at this stage. The forecast for 2026/27 has been based on the existing assumptions. This includes a growth assumption of 0.50% (equivalent to £0.303m), and an inflationary increase of 1.63% (equivalent to £1.020m).

4.23 The Business Rate Reset is expected to result in a loss of locally retained business rates; the business rate income from 2026/27 will be based on the revised settlement funding assessment which will be derived from the changes implemented by the Fair Funding Review. The reduction of business rates income is included in the £6.000m pressure in 2026/27 for loss of resources in relation to the Fair Funding Review and Business Rates Reset.

4.24 Business Rates forecasts continue to be an area of financial risk that is heightened by the unknown impacts of global financial events and the impact of current economic conditions on businesses. In addition, appeals continue to have a significant impact on forecasting business rates and the new valuation list will have its own level of appeal activity to forecast. Therefore, business rates estimates could change significantly ahead of setting the budget.

Council Tax

Council Tax Reduction Scheme

4.25 The current Council Tax Reduction Scheme (CTR) was approved by full Council in February 2022. No changes have been made to the scheme, but the Council has approved the uplifting of earnings band thresholds in line with the changes to the National Living Wage announced by government.

4.26 The number of working age claimants increased by 2.3% in the year to 31 May 2025. The assumption in the projections is that the number of claimants and average awards will remain constant throughout 2025/26 and 2026/27 at the current overall levels. This assumption will be closely monitored throughout the year and will be updated with any changes to the scheme agreed by Council.

Council Tax Estimate 2026/27

4.27 The council tax increase for 2026/27 and future years of the MTFS is currently assumed at 4.99%, which includes the continuation a 2.0% increase for an Adult Social Care Precept. This follows the confirmation of the Chancellor of the continuation of the ASC precept over the period of the Spending Review.

4.28 The impact of the current financial climate on council tax income continues to be difficult to predict. New housing developments have been assumed for 2026/27, with a council tax base increase assumed of 0.87%. Over the last few years, the cost-of-living crisis has impacted on the council tax collection rate. It is therefore assumed to remain at the 2025/26 level of 98.75% rather than reverting to the pre-pandemic level of 99%.

Corporate Inflation Provisions & Assumptions

Pay

4.29 At present there is no agreed pay offer for 2025/26 for the majority of staff. The employers' offer for 2025/26 for all NJC salaries is an increase of 3.2%. The 2025/26 budget included a 2.75% increase and, if this offer is agreed it therefore creates a pressure of £0.827m when rolled forward into 2026/27.

4.30 The current pay award assumption for 2026/27 is 2.75% on the basis that aside from a short term increase in early 2025, it is expected to reduce back to target levels in the later part of 2025 and early 2026. Pay has been a significant financial risk over the past 3 years during a period of very high inflation. Each 1% increase equates to an approximate pressure of £1.800m for the General Fund budget. This is also a significant risk area for the separate Schools and Housing Revenue Account budgets.

Pensions

4.31 The most recent triennial review of the East Sussex Pension Scheme covered the period 2023/24 to 2025/26 and confirmed the employer contribution rate of 19.80% across the 3 years. The East Sussex Pension Fund, in common with many funds across the country, is currently performing very well in terms of investment performance. If this is sustained, this should be reflected in reduced employer contribution rates in the next triennial review, subject to other factors such as pay awards. The indicative outcome of the next triennial review should be available in November 2025.

Prices

4.32 The provision for general price inflation ranges between 1.00% and 3.00% as a base position depending on the type of expenditure. The largest type of expenditure is Third Party Payments which covers the majority of non-staffing expenditure within adults and children's social care which has an assumed base position increase of 2.50%. The impact of inflation above these assumed base rates is separately identified as a 'Service Pressure' rather than applying generic increases to all service areas.

Fees and Charges

4.33 Fees and charges budgets for 2026/27 are assumed to increase by a standard inflation rate of 3.00%. Penalty Charge Notices (parking fines) are excluded from this increase as the levels of fines are set by government and cannot be changed independently. Temporary accommodation income is assumed to increase by 2.00% but this will ultimately be determined by government changes to the Local Housing Allowance rates.

Commitments

4.34 The budget projections for 2026/27 include commitments of £1.579m relating to the costs of previously approved capital investments funded by borrowing. During 2024/25 a review and rationalisation of the capital programme was undertaken to ensure approved projects are deliverable and affordable and this process will continue to inform the MTFS. The financing costs budget is net of investment income from cashflow surpluses which can fluctuate significantly through changes to the Bank of England base rate. A further Capital Programme review in 2025/26 will be undertaken. The results of this review, as well as revised investment income projections will be reflected in an updated financing costs budget for 2026/27.

4.35 Other substantial commitments include the reversal of one-off commitments and resources within the 2025/26 budget of £1.184m (including reversing the one off risk provision included in 2025/26 of £1.747m) and £0.550m recurrent IT&D resources to support the digital infrastructure. The pay award for 2024/25 is estimated to be £0.827m above the allowance in the budget and therefore this also becomes a commitment in 2026/27.

4.36 There is no recurrent funding for risk provisions included within the financial projections. For planning purposes, any risk provision would need to be managed by redirecting reserves in the short term.

5. ANNUAL BUDGET AND MEDIUM TERM FINANCIAL PLAN ESTIMATES

5.1 The table below sets out the projected inflationary cost increases, demographic (demand) pressures and commitments for 2026/27. It's necessary for information for 2026/27 to be more detailed than future years as the council is required to set a legally balanced budget and set the Council Tax level for the following financial year.

Projected Cost and Demographic Pressures 2026/27:	**Estimate**
	£m
General Inflation assumptions including 2026/27 Pay Award	9.514
Budget Commitments (including capital financing)	3.839

Mainstream Digital funding	0.550
Change in contribution to reserves	3.015
2025/26 Pay Award above modelled allowance	0.827
Temporary Accommodation - demand & cost pressures	12.058
Adult Social Care - demand & cost pressures	9.003
Childrens Social Care - demand & cost pressures	4.680
Home to School Transport - demand & cost pressures	1.285
Estimated loss of funding from Fair Funding reform	6.000
Income pressure - New England House	1.200
Housing Benefit Subsidy Shortfall	0.400
All other pressures across Council Services	4.314
Total Projected Cost and Demographic Pressures	**56.685**
Projected Funding and Taxation Resources:	
Remove one-off Collection Fund deficits	-3.779
Confirmation of 2.00% ASC Precept	-3.987
Council Tax increase of 2.99%	-5.964
Council Tax estimated tax base growth (+0.87%)	-1.725
Business rates growth and appeals change (+0.50%)	-0.303
Business rates inflation	-1.020
Revenue Support Grant increase	-0.143
Total Assumed/Projected Increase in Funding	**-16.920**
Projected Budget Gap (Savings Requirement) 2026/27	**39.765**

5.2 The estimates and assumptions above, based on the best information available, indicate that a substantial budget gap of £39.765m would need to be addressed in order to balance the budget. However, it must be remembered that all estimates at this stage of the process are subject to change and will be reviewed and updated throughout the budget process.

5.3 For planning purposes, and recognising that it will take some months to develop robust saving and transformation proposals, the Corporate Leadership Team (CLT) and Directorate Leadership Teams (DLTs) will work on the basis of addressing the £39.765m shortfall identified above. This will also include focusing on managing costs and demands in the current year which can contribute to improving trends together with working up savings, cost reduction and demand management proposals for next year and the following 3 years.

Medium Term Financial Projections 2026/27 to 2029/30

5.4 The table below summarises the medium term estimates and predicted budget gaps for the next 4 years based on the following key assumptions:

- Demographic pressures are based on current trends for 2026/27 and then moderated estimates for 2027/28 onward;
- A total £14.500m loss of funding from the Fair Funding Reform and Business Rates Reset over a 3 year period (£6.000m in 2026/27, £2.500m in 2027/28 and a further £6.000m in 2028/29);

- 2.99% Council Tax increases over the 4-year period;
- 2.00% Adult Social Care precept over the 4-year period;
- Average Pay award of 2.75% in 2026/27 and then 2.50% thereafter;
- 3.00% annual income target/generation uplifts in 2026/27 and 2027/28, and 2.50% thereafter;
- Average 2.50% social care third party provider payment increases over the 3 year ;
- Variable 1.00% to 3.00% cash limits on non-pay budgets over the 4-year period;
- Council Tax taxbase growth of 0.87% in 2026/27, 0.86% in 2027/28, and 0.61% in 2028/29 and 2029/30.
- Business Rates growth of 0.50% each year, and existing CPI assumptions of 1.63% in 2026/27, 1.64% in 2027/28 and 1.98% thereafter. This will be updated following the implementation of changes to the Business Rates Reset. Expected changes are currently built into the loss of funding at the second bullet point.

Summary Projections and Budget Gaps	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£m	£m	£m	£m
Commitments (incl. previous decisions)	8.231	1.478	(0.448)	0.383
Net Inflation (on Pay, Prices, Income, Pensions)	9.514	9.132	9.842	10.219
Subtotal	**17.745**	**10.610**	**9.394**	**10.602**
Net Investment in priority/demand-led services	32.940	21.388	18.332	19.690
Net estimated loss of funding	6.000	2.500	6.000	0.000
Projected Net Tax Base changes	(16.920)	(13.846)	(14.258)	(15.019)
Predicted Budget Gaps	**39.765**	**20.652**	**19.468**	**15.273**

5.5 The medium term projections could be affected by a wide range of factors as follows:

- Higher or lower changes in resources from the Fair Funding Review than assumed;
- Higher or lower demands and cost pressures than projected;
- Higher or lower tax base movements;
- Further movements in locally or nationally negotiated pay;
- Higher or lower inflation than assumed;
- Changes in other grants received;
- Changes in interest rates (impacting on capital financing budgets); and
- Actuarial changes to employers’ LG pension scheme contributions.

Many of these can have significant impacts on medium term projections in either direction. However, it is important to attempt to estimate future costs and resources as this gives early indications of potential future financial challenges and can inform decision-making now, particularly with regard to setting in train longer term innovation programmes to address financial sustainability.

5.6 Based on the analysis above, options to address budget gaps totalling £95.158m over the medium term period 2026/27 to 2029/30 will need to be developed. The indicative savings targets for each council directorate over the MTFS is outlined in the below table:

Savings Targets	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£m	£m	£m	£m
Families, Children & Wellbeing	9.355	4.859	4.580	3.593
Homes & Adult Social Care	17.381	9.027	8.509	6.676
City Operations	8.972	4.659	4.393	3.446
Central Hub	4.057	2.107	1.986	1.558
Total	**39.765**	**20.652**	**19.468**	**15.273**

One-off Resource Requirements 2026/27

5.7 One-off resources may be needed in 2026/27 for a wide range of reasons which could present additional financial challenges as these would require identification of resources to meet any commitments. One-off resources may be required to cover the following:

- Any Collection Fund deficits (TBM Month 2 monitoring indicates a £1.959m net deficit) *;
- Any General Fund outturn overspend (i.e. TBM overspend) *;
- Any increase to provisions or reserves required *;
- Any unavoidable/unexpected one-off expenditure or commitments;
- Any one-off allocations for priorities (subject to availability of resources).

* *The reverse is also true whereby surpluses or underspends could increase the availability of one-off resources or, at least, reduce the call on one-off resources.*

6. CAPITAL STRATEGY AND CAPITAL INVESTMENT PROGRAMME

5 Year Capital Investment Programme

6.1 The current Capital Strategy was approved by Budget Council in February 2025 along with scheme-by-scheme capital programme estimates that were incorporated into the council’s Budget Book. The aim of the Capital Strategy is to ensure that all members can understand and determine the overall long-term policy objectives for the use and deployment of capital resources including borrowing. The capital expenditure estimates incorporate planned rolling investment programmes alongside major infrastructure, housing and sustainability schemes.

6.2 The majority of the council's capital investment is within longer-term programmes that support Council Plan priorities alongside significant capital projects. The key programmes and projects, aligned to the council's priorities, are as follows:

Homes for Everyone:

- New Homes for Neighbourhoods and Home Purchase Scheme;
- Investment in new build housing through the Housing Revenue Account and Housing Joint Venture (with Hyde Housing);
- Investment in maintaining and improving the Council Housing Stock and building safety through the Housing Revenue Account;
- The Strategic Investment Fund (SIF) to provide project support for major regeneration programmes that draw in substantial private sector investment.

A Healthy City where People Thrive:

- Investment in a new leisure centre at the King Alfred site;
- Investment in other leisure facilities such as the Withdean Sports Complex swimming pool and 3G pitches at Moulsecoomb and Hove Park;
- The Education Capital programme, which provides investment from central government including New Pupil Places, Education Capital Maintenance and Devolved Formula Capital for schools;
- Disabled Facilities Grant funded adaptations to support independence at home.

A City to be Proud of:

- Renovation and restoration of the Madeira Terraces;
- Development of the Black Rock site and Valley Gardens Phase III;
- Investment in the Royal Pavilion Estate supported by the Heritage Lottery;
- The Local Transport Plan (LTP) covering a wide range of transport-related schemes;
- Significant investment in coast protection programmes such as the Brighton marina to River Adur scheme;
- The Carbon Neutral investment programme.

A Learning Council with Well-run Services:

- The Information Technology & Digital Investment Fund to maintain and upgrade the council's infrastructure and IT architecture;
- The Corporate Systems Improvement (CSI) Programme to improve the council's core HR, Payroll, Finance & Purchasing systems and associated applications;

- The Asset Management Fund (AMF) to maintain operational buildings, improve sustainability and reduce long-term maintenance costs;
- Corporate Planned Maintenance (PMB) to undertake planned building works and upgrades;
- Vehicle and plant annual replacement programmes.

Capital Receipts

6.3 Capital receipts from the sale of surplus land and buildings support the capital programme and the innovation fund to support council-wide transformation as outlined in section 7. A revised Capital Asset Strategy was approved by Cabinet in April 2025, which outlined five key principles to guide the strategic management of the council's extensive portfolio. In addition, the report identified a pipeline of property disposals which met the principles for disposal which supports the delivery of the Innovation Fund and Capital Programme.

6.4 Capital receipts are under severe pressure due to competing demands for the resources and the certainty and speed with which capital receipts can be realised. Additional staff resources have been deployed in Property and Legal services to support the delivery of these capital receipts. In addition to the Innovation fund, capital receipts are committed to annual investment funds including the Asset Management fund, Strategic Investment Fund and the Commercial Asset Investment fund as well as commitments within already approved capital schemes.

6.5 The table below reflects agreed capital disposals and commitments against the receipts. Capital Receipt commitments include existing and approved capital schemes together with an assumed minimum investment in the Innovation Fund of £24 million (see Section 7). The table shows a shortfall in capital receipts over the MTFS of £21.4 million. Further options to meet this resource requirement through either additional capital receipts or reduced commitments will be presented to Cabinet in due course.

Capital Strategy & Capital Receipts	Year 1	Year 2	Year 3	Year 4	Year 5
	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000
Brought forward balance	189	(1,890)	(6,827)	(12,328)	(18,897)
Expected Capital Receipts	**17,808**	**3,863**	**1,049**	**0**	**0**
Capital Receipt commitments	(19,887)	(8,800)	(6,550)	(6,569)	(2,500)
Carry forward balance (deficit)	**(1,890)**	**(6,827)**	**(12,328)**	**(18,897)**	**(21,397)**

Review of the Existing Capital Programme and Future Requirements

6.6 The Capital programme, agreed at Budget Council in February 2025 included £246.946m investment plans for 2025/26. This included a large number of schemes reprofiled from 2024/25 and in some cases previous years. Further reprofiling is expected throughout 2025/26 as part of the council's budget monitoring process and as the capital programme review is undertaken during the year.

6.7 As noted in paragraph 3.9, a key part of the budget process and in-year budget management will be a review of the capital programme and its affordability and deliverability. This will include further recommendations for rationalising and prioritising schemes, including de-commitment, to ensure approved projects are deliverable and affordable and to continue to strengthen alignment of capital investment to Council Plan priorities. The review will be performed alongside identifying and developing any new investment proposals to support Council Plan priorities or contribute to the council's medium and longer-term financial sustainability.

7. THE INNOVATION FUND (INVEST-TO-SAVE)

7.1 Achieving transformation and change often involves significant one-off costs that cannot be afforded from revenue and cannot normally be funded by capital receipts or borrowing, for example, redundancy costs or project and programme management staffing. The government has extended the ability of all Local Authorities to use capital receipts to support the transformation of services to deliver savings and efficiencies (known as the Flexible Use of Capital Receipts) to March 2030.

7.2 The 2025/26 Budget approved in February 2025 included a four year Innovation Fund to 2028/29 with a total investment need of £20 million to support the transformation and change of services and invest-to-save proposals over the period of the MTFS. This report assumes that the council will further need to take advantage of the ability to fund transformation through the Flexible Use of Capital Receipts to support the MTFS over the four year period to 2029/30. Therefore the Innovation Fund is expected to be extended into 2029/30 on the same basis as 2028/29, increasing the overall investment need of the fund to £24 million.

7.3 The investment need over the period may need to be reviewed and updated in light of the significant budget gap over the MTFS and therefore the significant level of transformation that may be required to bridge the gap. However, any expansion of the Innovation Fund will create further pressure to increase the pipeline of capital receipts.

Indicative Innovation Fund					
Category of Investment	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£m	**£m**	**£m**	**£m**	**£m**
Invest-to-Save business cases	2.600	2.600	1.500	1.500	1.500
Digital and AI Development	1.000	1.000	1.000	1.000	1.000
Managing Staffing Changes (exit packages)	1.250	1.250	0.500	0.500	0.500
Enabling Resources (e.g Project Officers, Workstyles Team, HR etc)	1.000	1.000	1.000	1.000	1.000
Resources to generate Capital Receipts	0.150	0.150	0.000	0.000	0.000
Total	**6.000**	**6.000**	**4.000**	**4.000**	**4.000**

7.4 The investments are described in outline below:

- **Invest-to-Save Business Cases:** The medium term planning process encourages innovation and invest-to-save business cases aimed at supporting the achievement of Council Plan priorities and, importantly, contributing to the future financial sustainability of the council. Business cases will need to demonstrate a return on investment within a reasonable time period (max 5 years) but ideally within the 4-year medium term financial plan period. A minimum investment of £9.7 million is anticipated but the profile of this is likely to be uneven and is most likely to need to be front-loaded.
- **Digital and AI Development & Skills:** Digital and AI is a specific form of invest-to-save. The council has already invested heavily in staff, systems and technologies to provide improved digital and on-line services. However, this process does not stop and as technologies, including AI and robotics, improve and develop, the council will need to move with the technology and ensure appropriate skills are developed to make the most of any investment. Provision of at least £1 million each year is included but some of this cost could potentially be transferred to revenue in later years if this is affordable within the overall budget envelope.
- **Managing Staffing Changes:** Transformation and change inevitably results in significant changes to services which will entail changes to the mix or level of staffing in services. This can lead to potential redundancies which the council attempts to manage through holding vacancies or redeployment as far as possible, but otherwise through voluntary severance where this meets the council's business case criteria. This can involve significant redundancy and/or pension strain costs. At least £4.0 million is expected to be required over the period.
- **Resources to generate Capital Receipts:** Generating sufficient capital receipts in good time to support both the Transformation Fund and Capital Investment Programme will require additional conveyancing and surveyor resources. Disposals are often complex and time-consuming, involving many parties, tenancies or other complications such as lease re-gearing or land and property transfer negotiations. Without additional resources, disposals will not succeed at pace and are unlikely to provide the necessary financial resources. An estimated investment of £0.150 million for the first two years is included above.
- **Transformation Enabling Resources:** Ensuring that transformation and change can be delivered requires resources that can be flexibly deployed across different programmes or to ongoing long-term change programmes. Informed by previous experience, the Innovation Fund provides resources of £1 million per annum to support a wide variety of transformation, change and savings programmes and projects. This will need to be reviewed as future budgets are developed and the level of support for each change proposal is fully understood. The costs are broadly expected to cover the following:

Transformation Enabling – Recurrent Annual Costs	
Category of Investment	**Annual Cost**
	£m
Project & Programme Management Resources	0.640
Workstyles Resources (to rationalise operational buildings)	0.180
HR Management of Change Support	0.128
Leadership Development	0.052
Total	**1.000**

8. HOUSING REVENUE ACCOUNT (HRA) BUDGET & CAPITAL PROGRAMME

8.1 This report is primarily concerned with the development of the General Fund revenue and capital budget. However, there are links to the Housing Revenue Account (Council Housing) revenue budget and capital programme which follow a separate budget setting process. Summary information is provided below.

8.2 The Housing Revenue Account (HRA) is a ring-fenced account which covers the management and maintenance of council owned housing stock. This must be in balance, meaning that the authority must show in its financial planning that HRA income meets expenditure and that the HRA is consequently viable.

8.3 The current economic and operating environment continues impact on the resources available to the HRA during 2025/26 and like many other HRA's, the authority is under increasing financial pressure with the latest Medium Term Financial Strategy showing a deficit over the next 5 years. This includes the rising cost and volume of disrepair claims, significant investment needs in relation to compliance with the Building Safety Act, Fire Safety Regulations and Social Housing Regulation Bill, as well as the impact of inflation on services and financing costs.

8.4 A continuing issue for the council is investment requirement in 8 Large Panel System (LPS) blocks across the city. Whilst investment was anticipated over a longer period of time for these blocks, there is a need to ensure the blocks remain safe in the short to medium term with measures being introduced which require a significant revenue investment for the HRA over the short term. An emerging issue for 2025/26 has been the introduction of temporary measures in relation to fire safety procedures at a few of the high-rise blocks, referred to as 'waking watch'. Longer term plans are under consideration for the LPS blocks (as outlined in the options paper being presented on this agenda), the with required capital investment forming part of future budget papers where reasonable estimates can be made.

8.5 The recent Government spending review announced a long-term rent policy whereby social rented landlords will be able to increase by CPI+1% for the next ten years and consultation to commence on rent convergence. The 2025/26 Medium Term Financial Strategy assumed an increase of CPI+1% for the next 5 years only, therefore the move to a CPI+1% model will have a positive impact on HRA finances over the longer term.

8.6 The capital plan for the HRA is split into two main areas in investment, this being improving the quality, safety, and energy efficiency of council homes and in new housing supply. Investment in existing stock is funded from direct revenue funding from tenants' rents (including associated rent rebates) and HRA borrowing that is supported by tenants' rents over a longer period. Whilst investment in new supply is mainly funded from retained capital receipts (including Right to Buy sales and commuted sums), grant funding and HRA borrowing.

8.7 The HRA capital investment programme for 2025/26 to 2029/30 will be informed by the most recent stock condition review and survey as well as the existing and emerging priorities of the HRA Asset Management Strategy. Key considerations will include improving the safety and quality of homes and ensuring regulatory compliance is met. This includes working in consultation with external bodies such as the Regulator of Social Housing and East Sussex Fire and Rescue Authority, as well as tenants and leaseholders to inform the planned and major works strategy. Investment will also continue in carbon reduction initiatives to support the city's commitment of becoming carbon neutral by 2030.

8.8 The HRA continues to look at the range of initiatives it has to deliver additional housing and meet the commitment to deliver new affordable council homes. These initiatives include the New Homes for Neighbourhoods Programme, Home Purchase Scheme, Converting Spaces programmes and the Homes for the City of Brighton & Hove Joint Venture.

8.9 Work will continue through 2025/26 to deliver housing supply pipeline schemes. The Home Purchase Scheme will continue to explore opportunities to buy back ex-right-to-buy properties, whilst the extended Home Purchase Scheme will look at off the shelf purchase opportunities to increase the supply of affordable housing within the HRA.

9. SCHOOLS BUDGETS AND FUNDING

9.1 The Dedicated Schools Grant (DSG) is a ring-fenced grant that provides funding for Schools, Academies, Early Years, Special Educational Needs and a small number of allowable Central items. The DSG is allocated to schools and academies on the basis of a National Funding Formula (NFF) primarily driven by pupil numbers.

9.2 Similarly to the HRA, the development and setting of schools' budgets follows a separate process involving statutory consultation and oversight of the Schools Forum. However, there are links with the General Fund budget setting process as General Fund budget proposals and savings can potentially impact schools and vice versa.

9.3 Announcements regarding the 2026/27 Dedicated School Grant (DSG) allocation are expected in July 2025. No detailed information is available regarding this, other than the high level government announcements in the June 2025 Spending Review that the core schools budget would go up by 0.4% in real terms on average over the next three years and that a transformation fund will deliver £760m nationally to reform the SEND system (a new white paper is due to be published in autumn 2025). Therefore, an overview and update of the 2025/26 budget position is provided below.

9.4 The Dedicated Schools Grant (DSG) is divided into four blocks – the Schools Block, the High Needs Block (HNB), the Central School Services Block (which allocates funding to local authorities for their ongoing responsibilities towards both maintained schools and academies), and the Early Years Block. Each of the four blocks of the DSG are determined by separate national funding formulae (NFF).

9.5 In March 2025, the Department for Education (DfE) announced the updated DSG funding settlement for the 2025/26 financial year. This is set out in the table below, together with a comparison to 2024/25.

Financial Year	Schools Block £'000	Central School Services Block £'000	High Needs Block £'000	Early Years Block £'000	Total DSG £'000
2025/26	176,362	2,316	41,979	41,079	261,736
2024/25	165,039	2,091	39,332	27,351	233,813
Increase	**11,323**	**225**	**2,647**	**13,728**	**27,923**

9.6 Whilst funding allocations across all blocks have increased in 2025/26 it is difficult to draw direct comparisons with the prior year due to changes in accounting arrangements, particularly within the Schools Block. For 2025/26, a number of former specific grants are being rolled into core Schools block funding (these equated to approximately £9.4m in 2024/25) meaning the true increase in Schools block funding is significantly lower than the £11.323m shown in the table above.

Schools Block – Base 2025/26 Allocations

9.7 As set out above, there are significant presentational changes to the way mainstream schools are being allocated funding in 2025/26. Once these changes are allowed for, the level of increase in funding to schools is estimated to only be between 0.5% and 1% for 2025/26. As funding to schools is pupil-led, schools with falling rolls are in a very challenging financial position in for 2025/26, in the context of unavoidable cost pressures such as pay award increases that are not fully funded. The government has recently announced additional in-year grant funding to schools to support with the pay award costs however schools will be expected to find approximately 1% through improved productivity and smarter spending.

9.8 Furthermore, the core 2025/26 DSG settlement included no funding for the increase in Employers' National Insurance contributions from April 2025. For schools and other areas within the DSG, additional in-year grant funding has been announced by government to compensate for the increase in costs, but it is estimated that this grant will only cover 80% of the cost increase.

9.9 It should be noted that the Schools Block pupil numbers have decreased from 28,972 in October 2023 to 28,545 in October 2024. This is a reduction of 427 pupils and equates to an overall loss of DSG Schools Block funding to the local authority of c. £2.03m.

Updated School Balances Position

9.10 School balances at the end of 2024/25 are a net deficit of £2.623m, a reduction of £2.904m from the £0.281m net surplus balance at the end of 2023/24. This is a key indicator of the financial challenges being experienced.

Schools Balances	Nursery £'000	Primary £'000	Secondary £'000	Special £'000	Total £'000
Final 2023/24 balances	24	-1,143	2,048	-648	281
Final 2024/25 balances	163	-2,665	-395	274	-2,623
Movement	**139**	**-1,522**	**-2,443**	**922**	**-2,904**

Final School Budget Plans and Licensed Deficits 2025/26

9.11 Final school budget plans for 2025/26 are submitted during summer term 2025 and these will incorporate final balances from 2024/25. It is likely that due to the worsening financial position in schools the level of required licensed deficits will increase for 2025/26.

9.12 At the time of compiling this report, based on final budget plans and allowing for the impact of the higher than anticipated pay awards and additional government grant funding (referred to in paragraph 9.7) the school balances position at the end of 2025/26 is estimated to be a net deficit of £6 million. Detailed work is ongoing with schools to ensure appropriate measures and steps are being implemented to bring school budgets back to a balanced position in future years.

Dedicated Schools Grant (DSG)

9.13 The Central DSG is comprised of the High Needs Block, the Central School Services Block and the Early Years Block. The outturn position of the 2024/25 central Dedicated Schools Grant was an overspend of £0.680m.

9.14 Currently, the government is providing legislation known as the Statutory Override facility that means any deficit associated with the Central DSG is excluded from the council's general fund financial position at the end of a financial year. The regulations require the negative balance (central DSG deficit of £0.680m) is held in an unusable reserve which remains there for the lifetime of the regulations. The override facility that was due to expire in March 2026 has now been extended until the end of the 2027/28 financial year.

9.15 The DSG conditions of grant set out that any local authority with an overall deficit on its central DSG account at the end of the financial year must be able to present a plan to the DfE and cooperate in handling that situation by:

- providing information, as and when requested by the DfE about its plans for managing its DSG account in the 2025/26 financial year and subsequently
- providing information, as and when requested by the DfE about pressures and potential mitigations on its high needs budget
- meeting with DfE officials, as and when they request to discuss the local authority's plans and financial situation
- account and plans for handling it, including high needs pressures and potential mitigations

9.16 An initial plan showing the projected position for 2025/26 and 2026/27 has been compiled. This shows a potential cumulative overspend on the Central DSG of approximately £4.9m by the end of 2026/27.

High Needs Block

9.17 The headline allocation of High Needs Block funding for 2025/26 is shown in the table in paragraph 9.5 above. The government increase in funding of c. £2.6m (6%) is below the demand and cost pressures the council is experiencing. Despite the increase in funding in 2025/26 it is projected that there will be an in year deficit in the high needs block of approximately £1.4m.

9.17 The council continues to seek to provide additional local specialist provision linked to the SEN Sufficiency Strategy. Furthermore, there has been additional investment in the council's schools through increases in the direct SEN support funding including to secondary schools for tier 1 and tier 2 alternative provision and more funding to primary schools for Inclusion Intervention spaces however, costs associated with the establishment of these provisions are high.

Early Years Block

9.18 There are further extensions to free entitlement in 2025/26 resulting in a large increase to Early Years Block funding. For 2025/26 the main early years entitlements are:

- the 15 hours entitlement for eligible working parents of children from nine months;
- the 15 hours entitlement for disadvantaged two-year-olds;
- the universal 15 hours entitlement for all three and four-year-olds;
- the additional 15 hours entitlement for eligible working parents of three and four-year-olds.
- the additional (expanded) 15 hours entitlement for eligible working parents of children from the age of nine months from September 2025

9.19 Government funding rates increased for 2025/26 and there is a requirement for the local authority to pass on a minimum of 95% Early Years Block funding to providers. It is anticipated that the Early Years Block will be in breakeven position in the 2025/26 financial year.

10. BUDGET DEVELOPMENT TIMETABLE

10.1 The indicative timetable for developing and approving the 2026/27 budget and MTFS is given below. The timetable is in outline only and does not include all aspects of member involvement or wider consultation that will normally need to be undertaken with staff, unions, partners, service users and residents.

General Fund Budget Planning Timetable		
Date	**Who**	**What**
17 July 2025	Cabinet	General Fund Budget Planning & Resources Update 2026/27 to 2029/30
July – Oct	CLT	Develops Medium Term service and financial plans including the workstreams set out in this report

General Fund Budget Planning Timetable		
Date	**Who**	**What**
		(paras **Error! Reference source not found.** and 3.10) and budget proposals to address budget gaps for 2026/27 to 2029/30 alongside developing Equalities Impact Assessments
Late Sept/early Oct	Government	Local Government Finance Policy Statement expected
16 Oct 2025	Cabinet	TBM month 5 (August)
Late Oct	Government	Autumn Budget announcement
Nov/Dec	CLT	Consultation process begins on draft 2026/27 proposals including staff, Trade Unions, partners & residents
Late Nov/early Dec	Government	Provisional Local Government Finance Settlement 2026/27
11 Dec 2025	Cabinet	(1) General Fund Budget Planning & Resources Update 2026/27 to 2029/30 (2nd update to include 1st draft of savings proposals) (2) TBM Month 7 (October)
22 Jan 2026	Cabinet	Council Tax and Business Rates Tax Base report [Legal requirement]
February 2026	Government	Final Local Government Financial Settlement 2026/27
12 Feb 2026	Cabinet	(1) 2026/27 General Fund and HRA Revenue & Capital Budget reports including the Capital and Treasury Management strategies. (2) TBM month 9 (December).
26 Feb 2026	Budget Council	Approval of the 2026/27 General Fund and HRA Revenue & Capital Budget including the Capital and Treasury Management strategies.

11. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

11.1. The setting of the General Fund budget in February allows all parties to engage in the examination of budget proposals and put forward viable alternative budget and council tax proposals, including amendments, to Budget Council on 26 February 2026. Budget Council has the opportunity to debate the proposals put forward by the Cabinet at the same time as any viable alternative proposals.

12. COMMUNITY ENGAGEMENT AND CONSULTATION

12.1. This report will be shared widely with key stakeholders and partners as it signals to all parties the anticipated financial challenge facing the council for next year and beyond, notwithstanding the imperfect funding information available at this stage.

12.2. Whilst no specific consultation has been undertaken in relation to this report, the development of the council's budget and future plans is a major undertaking and proposals can affect a wide range of services and therefore have impacts on residents, businesses, visitors and staff. Appropriate and necessary statutory consultation and engagement will need to be undertaken with residents, service users, staff, unions, partners, business representatives and the community and voluntary sector.

12.3. Detailed consultation and engagement plans will be put in place over coming weeks and months. In advance of any proposals coming forward for Cabinet in December 2025 as well as February 2025 for full Council approval. However, consultation and engagement is expected to include the following:

General Information

12.4. General information and advice about the council's budget will continue to be provided through the council's website which provides information and infographics on how money is spent on services, where the money comes from, the council's capital and transformation investment plans, and a summary of the financial challenges ahead. These materials will continue to be promoted through various media and communications throughout the budget setting period.

12.5. **Community and Resident Engagement**

12.6. Engagement with residents and the community is an important part of understanding residents' priorities for spending the council's budget within the challenging resource limitations experienced by local government for many years. In previous years, including during the lead up to the 2025/26 budget process, the council has undertaken a range of methods of consultation. This has included utilising a budget simulator model and undertaking public budget engagement events. This has helped to capture residents views on priorities of spending to help inform members' decision-making.

12.7. A plan for consulting with the community and residents will be developed and included in the budget setting timeline. Any events or consultation platforms will be advertised on the council's website.

City Partners

12.8. Information will also be shared with City Partners through the City Management Board and other channels. In particular, the council continues to engage fully with the NHS Sussex Integrated Care System to ensure that the budget processes of the two organisations are aligned and communicated as far as practicably possible although this presents challenges as NHS funding announcements are normally announced much later than Local Government, often close to or even after the start of the next financial year.

Business Engagement

12.9. There is ongoing liaison and discussion with the Economic Partnership that covers potential funding sources and bids, city regeneration, economic growth, employment and apprenticeship strategies. Officers of the council and members of the Administration meet periodically with representatives of the Chamber of Commerce and B&H Economic Partnership to discuss the council's high-level plans and over-arching budget situation.

Schools Community

12.10. The Schools Forum, a consultative body attended by representatives of all school phases, will primarily focus on the allocation of the ring-fenced Dedicated Schools Grant (DSG) funding across the relevant budget 'blocks' but will also be periodically informed about the General Fund budget position and proposed changes to council services where these may have implications for schools.

Third Sector Engagement

12.11. A key stakeholder is the Community & Voluntary Sector, and communications and meetings with representatives of the sector will therefore be planned to provide them with an opportunity to feedback their views to the council and members as budget proposals develop.

Staff and Union Engagement

12.12. Consultation and engagement with staff and unions is also very important. The scale of financial challenge indicates further significant impacts on the configuration and/or provision of services which will inevitably entail staffing changes. Meetings with the council's recognised unions, including appropriate officers and members of the Administration, will be scheduled regularly to keep unions abreast of developing proposals and to ensure they have sight of where support to their memberships may be required. The council's Joint Staff Consultation Forum will continue to provide a formal setting for sharing and raising matters relating to the overall budget process and development.

12.13. Later in the process, detailed proposals will be shared with affected staff ahead of formal publication of budget proposals through Departmental Consultative Groups (DCGs) and through line management. Formal consultation and engagement with directly affected staff will be undertaken as normal, including relevant union representation, under the council's Organisation Change Management Framework.

12.14. Wider staff engagement will be provided through 'In conversation' sessions with the Chief Executive and through directorate consultation and engagement event. Further updates and communications for staff will be provided via the council's intranet, corporate email broadcasts and the Chief Executive's communications.

Specific Consultation

12.15. As budget proposals are explored and developed over the coming weeks and months, it is recognised that specific consultation may be required for individual proposals as they emerge. CLT and DLTs will consider the impact and timing of any specific consultation requirements as proposals are developed.

13. Financial Implications:

13.1. The financial implications are contained in the body and appendices of this report.

Finance Officer consulted: Haley Woollard Date:30/06/25

14. Legal Implications:

14.1. The process of formulating a plan or strategy for the council's revenue and capital budgets falls within the Allocation of Responsibilities for Functions for the Cabinet under Part 2E of the constitution.

14.2. This report complies with the Council's process for developing the budget framework, in accordance with the Council's Budget and Policy Framework Procedure Rules as set out in Part 3D of the Constitution.

Lawyer consulted: Elizabeth Culbert Date: 02/07/25

15. Equalities Implications:

15.1. For any significant budget changes proposed in 2026/27, it is proposed to use the council's well-established screening process to develop Equality Impact Assessments (EIAs). Key stakeholders and groups will be engaged in developing EIAs but it will also be important to consider how members, partners, staff and unions can be kept informed of EIA development and the screening process. In addition, where possible and proportionate to the decision being taken, there may be a need to assess the cumulative impact of the council's decision-making on individuals and groups affected in the light of funding pressures across the public and/or third sectors. The process will ensure that consideration is given to the economic impact of proposals.

16. Sustainability Implications

16.1. The council's revenue and capital budgets will be developed with sustainability as an important consideration to ensure that, wherever possible, proposals can contribute to reducing environmental impacts and support progress toward a carbon-neutral city.

17. Health and Well-being Implications

17.1. The council's budget includes very substantial provision for expenditure on Adult and Children's Social Care, Public Health, Housing and Homelessness, Welfare Assistance (for example the Council Tax Reduction Scheme), Education and Skills, and many other essential services that support vulnerable people and children, and households on low incomes or experiencing homelessness. These services contribute significantly to the health and well-being of thousands of residents and the wider population, upholding the council's priority to support 'A healthy city where people thrive' and engender 'A fair and inclusive city'.

18. Other Implications

Risk and Opportunity Management Implications:

18.1. There are a range of risks relating to the council's short and medium term budget strategy including the ongoing economic impact of the higher inflationary environment, the impact of the cost-of-living crisis, further potential reductions in grant funding, the impact of legislative changes, and/or other changes in demands. The budget process will normally include recognition of these risks and identify potential options for their mitigation. In the current financial climate, the level of risk that the council may be prepared to carry is likely to be higher than in normal circumstances. An indication of potential risks and sensitivities will be presented in the December 2025 report.

19. Conclusion

19.1. The council is under a statutory duty to set its budget and council tax before 11 March each year. This report sets out information on projected costs, investments and resources for 2026/27 to 2029/30. It also provides an outline timetable for considering options to develop the 2026/27 annual budget and address future budget shortfalls identified in the current MTFS.

Supporting Documentation

Appendices

1. Updated Medium Term Financial Assumptions and Projections