

Report title: Council Budget Strategy Update: 2026/27 and future years

Meeting:	Cabinet / Council
Date:	9th / 17th September 2025
Cabinet Member (if applicable)	Cllr Graham Turner
Key Decision Eligible for Call In	Yes
<p>Purpose of Report To determine the Cabinet’s approach to the annual update of the Council’s Medium Term Financial Strategy (MTFS). This is reported to Full Council each year and sets a framework for the development of draft spending plans for future budgets.</p>	
<p>Recommendations Cabinet are asked to recommend the following :</p> <ul style="list-style-type: none"> • note the key risks to the delivery of the budget in 2025/26 outlined in the Quarter 1 Financial Monitoring report and that these will be subject to consideration as part of the Budget Monitoring reports submitted to the Cabinet on a quarterly basis; • note the uncertainty as to the precise level of future funding for the Council & the assumptions around the potential impact of Fair Funding Review 2.0; • note the update and the revised budget gap to the MTFS for the period 2026/27 to 2030/31 as shown at Appendix A and that in view of the uncertainty with some of the assumptions upon which the Strategy is based, that it will remain under review as the Council’s budget process progresses; • note that there is a significant gap of c£18m in 2026/27 which requires either reduction in budget pressures and/or new savings proposals to be brought forward. • note the scenario analysis shown at Appendix C which models ‘worst’/‘best’ case scenarios around the baseline MTFS as part of the assessment of potential risks facing the Council; • note the current Capital Plan shown at Appendix D, reflecting updated General Fund funding assumptions prior to the completion of the Capital plan review and a revised HRA Capital Plan with updated funding; • agree the MTFS as set out in the report; and that this report will be presented at Council on Sept 17th for noting and debate. There are no budget decisions associated with this report at this time. • in consultation with relevant Cabinet Members, request Officers to identify and bring forward budget savings proposals as part of the provisional budget report 	

which will be initially considered by Cabinet in December 2025 and then a final budget report will be presented for approval by Cabinet (and then Council) as part of the development of the final budget for 2026/27 in February 2026; (subject to consultation as set out below)

- note that funding assumptions made in this report may be subject to change when the provisional local government finance settlement is published by Government (expected late November)
- note the timetable set out in **Appendix E** of the report for the development of the Council's Budget for 2026/27;
- note that it is proposed to undertake consultation on the budget proposals in late 2025 with a view to informing decisions on the Council's budget for 2026/27.
- subject to the continuation of the Business Rates Pooling arrangements, give delegated authority to the Chief Executive and the Service Director Finance, in consultation with the Leader and the Finance and Regeneration Portfolio Holder, to determine whether the Council should continue as a member of the Leeds City Region Business Rates Pool in 2026/27.

Reasons for Recommendations

- To ensure that the Council has a sustainable budget over the medium term to deliver the Council's priorities.

Resource Implications:

This report develops the financial planning framework for the 2026/27 budget and beyond. All relevant financial implications are contained in the report and appendices.

Date signed off by Strategic Director & name

Rachel Spencer-Henshall – 1st September 2025

Is it also signed off by the Service Director for Finance?

Kevin Mulvaney – 29TH August 2025

Is it also signed off by the Service Director for Legal Governance and Commissioning?

Sam Lawton – 29th August 2025

Electoral wards affected: All

Ward Councillors consulted: All

Public or private: Public

Have you considered GDPR: Yes – there is no personal data within the budget details and calculations set out in this report and accompanying Appendices

1. Summary

- 1.1 Under the Council's Constitution, the Cabinet is required to submit a Budget Strategy Update to the Council no later than October in each year. Commonly known as the Medium-Term Financial Strategy (MTFS), this report sets out a framework for the subsequent budget setting process and future financial planning.
- 1.2 At the meeting of the Council on 5th March 2025, the Council approved its Budget for 2025/26. As part of this, approval was also given to the MTFS for the period to 2026/27. The MTFS sets out the Council's financial plans detailing income and expenditure over the medium term. Acknowledging that the Council is operating in a dynamic environment and that the assumptions underpinning the MTFS is subject to change, it is good practice to review and update the Strategy on a regular basis to ensure that the Council has a good understanding of its forward financial forecasts and to support planning for the development of the budget in 2026/27 and subsequent years.
- 1.3 In common with local authorities across the country, the council has faced challenging financial circumstances in recent years. Increasing demand for services and a cost-of-living crisis, alongside limited government funding, have necessitated difficult decisions to be made on services and investment in Kirklees. The updated MTFS illustrates the extent to which the council has now stabilised its financial position to support the Council's priorities
- 1.4 The period of the commencement of this financial strategy coincides with significant changes expected to Government funding to all Councils through Fair Funding 2.0 and the planned implementation of multi-year settlements. Fair Funding 2.0 was released as a consultation document in June 2025 and the Government response is expected in October 2025. Councils are expected to receive the provisional local government finance settlements in late November. This report makes a number of prudent assumptions with regard to the impact of Fair Funding 2.0 for Kirklees.
- 1.5 The update to the MTFS is also necessary in the context of the Council's outturn for 2024/25, and the Quarter 1 Budget Monitoring position for 2025/26 reported to Cabinet on 9th September 2025 and a reassessment of likely pressures over the next five years from services. The 2024/25 outturn position on the Council's General Fund Revenue Budget was an overspend of £5.6m and the latest monitoring position at Quarter 1, indicates the Council is forecast to overspend by £5.9m in 2025/26.
- 1.6 The General Fund projection for 2025/26 is the lowest Q1 forecast overspend since COVID. The projected overspends in each of the last few years at the equivalent period and outturn are shown below

	Q1 Projection (£m)	Outturn (£m)
2022/23	24.6	27.0
2023/24	20.3	7.3
2024/25	12.9	5.6
2025/26	5.9	-

- 1.7 Despite the Council's improved position, local authorities will continue to face challenges to maintain financial sustainability and stability in the coming years. These challenges are driven by increasing demand for services in social care services for adults and children as well as increasing costs for temporary accommodation for residents who need that support.
- 1.8 It is evident that the additional resources that were included in Directorate base budgets as part of the 2025/26 budget are having the desired effect. The size of the projected overspend is lower and the number of variations fewer.
- 1.9 There is an cumulative estimated budget gap over the five year of the MTFS to 2030/31 of £56.3m with the most immediate issue being a forecast gap in 2026/27 of £17.9m. This is partly caused by the ongoing nature of demand and cost pressures, particularly in social care, which need to be provided for in the financial strategy. Table 4 outlines the range of the total in year pressures from c£18m to c£4m in the later years of the plan.
- 1.10 A series of additional mitigating measures will be considered to reduce the Council's net expenditure and assure a continuing balanced budget position. At the same time, a review of the Council's Capital Programme is underway. These actions will both support the overall budget position and build the Council's reserves so that they remain above the minimum requirement. They also align with the Council's principle to live within its means.
- 1.11 Given the significant reduction in reserves over recent years, there is also a need for the Council to ensure it can maintain an adequate Minimum Working Balance and start to build back reserves to provide the Council with financial resilience and capacity. This strategy does that by providing for increases in the General Reserve and the Voluntary Revenue Provision Reserve.
- 1.12 The MTFS is prudent and realistic about the financial challenges Kirklees Council will in the coming years. Nevertheless, the Council's position is favourable in relative terms to similar local authorities in England and the Council can also reasonably expect central government funding to improve. This will allow the MTFS to support the Council to deliver the aims set out in the Council Plan and gives it choices in the way it is able to distribute funding for services and investment in Kirklees.
- 1.13 The four key Council priorities are:-
- 1.14 **Getting the basics right - a balanced budget and a modern organisation.** The Council must live within its means and not spend more money than it has available. It is essential that services fully understand their budgets and can deliver outcomes within their budget envelope by spending money wisely, being as efficient as possible and to deliver value for money for residents. The MTFS commits to providing resources each year to fund transformational activity to help support the journey to being a modern organisation.
- 1.15 **Protecting the vulnerable and achieving inclusion.** The MTFS recognises significant demand pressures in those Directorates that help support its most vulnerable residents. In social care functions alone, there is an estimated £90m worth of rising demand and cost pressures meaning more of the Council's budget will be redirected to support those in receipt of these services.

1.16 **Thriving people and communities - now and over the longer-term.** The MTFs gives the Council the financial platform it needs to build safer, greener and healthier communities whether that is through its own services or in partnership with community organisations.

1.17 **Local economic growth, working with regional and national partners.** The financial strategy, particularly in relation to the capital plan evidences the ongoing nature of the Council's work with regional and national partners to help grow the local economy across Kirklees. Over £400m of the General Fund capital plan is funded by grants awarded by Government and the West Yorkshire Combined Authority.

2. Information required to make a decision

Budget Strategy for 2025/26

2.1 In setting the General Fund Revenue Budget for 2025/26, the Council agreed the following key matters are part of the budget strategy:-

- net budget growth of £50.7m to reflect increases in demand for services, structural deficiencies in some income budgets and inflationary pressures;
- savings totalling £26.8m to be implemented so that the full effect of the saving impacted in 2025/26;
- net transfer of £8.3m into Earmarked Reserves to support specific spend requirements and the replenishment of service transformation reserves and general reserves.

Quarter 1 Budget Monitoring

2.2 The Council's Quarter 1 General Fund Revenue Budget monitoring position, reported to Cabinet on 9th September estimated that the Council is forecast to overspend by £5.9m in the current financial year as summarised in the Table below:-

Table 1: Quarter 1 Budget Monitoring 2025/26

2025/26 Forecast – Quarter 1

	Revised Budget £000	Forecast Q1 £000	Variance Q1 £000
Children and Families	86,594	90,521	3,927
Adults and Health	110,586	112,271	1,685
Place	54,741	57,693	2,952
Public Health & Corporate Resources	61,468	61,191	(277)
Central Budgets	73,901	73,551	(350)
General Fund	387,290	395,227	7,937
Use of Budget Contingency Reserve	-	(1,993)	(1,993)
Adjusted General Fund Total	387,290	393,234	5,944

- 2.3 Whilst the position of a projected overspend of £5.9m needs to be addressed, Cabinet are reminded that the equivalent Q1 report in 2024/25 indicated an overspend of £12.9m and at outturn the overspend had reduced to £5.6m. It is evident that the additional resources that were included in Directorate base budgets as part of the 2025/26 budget are having the desired effect. The size of the projected overspend is lower and whilst there are still some variations, as described below, these are fewer in number.
- 2.4 One of the key tenets of the refreshed Council plan is that the Council lives within its means. Where Directorates are projecting an overspend, it is expected that proposals will be brought forward to bring their budgets into balance. It is recognised that some areas of the budget can be subject to extreme volatility and the budget contingency reserve will be used to help in certain circumstances. The remaining balance on this reserve is £1.5m.
- 2.5 On a day to day level, it is expected that budget holders take all appropriate actions to manage budgets and to live within their means.
- Budget holders ensuring that they spend what is required for the delivery of the outcomes for their services by prioritising expenditure accordingly.
 - Continuing to explore all external funding opportunities to bring additional income into the Council.
 - Recruitment to vacant budgets remains subject to approval by Executive Directors and the Head of People Services and the S151 officer.
 - Until the review of the capital plan is complete, no additional schemes requiring Corporate borrowing will be added; although invest to save cases will be considered subject to the submission of evidence based business cases.

- Continuation of the asset disposals programme to be bring in funding to support the capital plan and to reduce the need for borrowing.

Overarching Principles of the Financial Strategy

- 2.6 A sustainable financial plan is required to help ensure the Council is well placed to achieve its ambitions as set out in the Council plan.
- 2.7 The Council will become more sustainable by reducing the reliance of one off funding sources, such as reserves, to fund recurring expenditure and it must continue to make an appropriate provision to top up its unallocated (general) reserve to ensure that on a risk based approach this reserve is always above a minimum level and seeks to reach a desirable level over the medium term. This strategy provides the removal of use of reserves supporting base expenditure by 2028.
- 2.8 The strategy will also provide specific funding for the creation of certain earmarked reserves to continue to fund transformation costs that will be required to deliver service change across the Council. This change can help deliver its ambition of being modern efficient Council.
- 2.9 The strategy also recognises the need to provide the Council's agreed contribution to the SEND Safety Valve plan at c£10.6m, the first contribution is being made as budgeted in 2025/26.
- 2.10 This financial plan aims to provide funding to address known pressures in the base budget and will make appropriate provision for inflation (pay and prices) and a reasonable assessment of demand pressures based upon the latest available information. In the main these are the demand pressures being reported in Q1 financial monitoring.
- 2.11 In general, fees and charges to the public are assumed to be increased annually by 3%; however, where costs rise beyond this, services will continue to seek to recover full costs in line with the Council policy on fees and charges - so as to not to create additional burdens on the general fund. Charges for users of Adult Social Care services will continue to be based on assessment of a clients' ability to pay.
- 2.12 The Capital plan will continue to be subject to review and presently no new schemes have been added to those already in the plan. It is likely that as part of the ongoing review, some schemes will need to be slipped or removed from the capital plan.
- 2.13 In this review new capital schemes will be considered for inclusion in the Capital plan as part of the Council's investment and modernisation programme if they deliver ongoing revenue savings against the base budget; or are required to meet health and safety priorities or on the basis that new bids are assessed as a greater priority than existing Council funded schemes which would subsequently be removed.
- 2.14 Collectively, these principles are designed to continue the work from last year to ensure the base revenue budget is robust and affordable and one from which Members can make decisions on savings proposals that will be required to delivered a balanced

budget and set the framework for the setting of the 2026/27 budget to be considered at Cabinet in December 2025 and subsequently to be approved at Budget Council in early 2026.

- 2.15 By recognising the ongoing pressures within the base budget the S151 Officer is content that this continues to ensure the Council has a robust budget going forward, but recognising the need for savings across services to be able to set a balanced budget for 2026/27.

Risk and Uncertainty within the Financial Strategy

Fair Funding Review

- 2.16 As part of the 2024/25 Local Government Finance Settlement consultation, Government sought views on the approach to determine new funding allocations for local authorities. This encompassed numerous aspects, including the overall guiding objectives and principles, measuring differences in deprivations demand and costs, along with differences in locally available resources.
- 2.17 In June 2025 Government published the Fair Funding Review 2.0 (FF 2.0) and consultation, which ran until 15 August 2025. This seeks views on the approach proposed to determine new funding allocations for local authorities. The overall intention is to target money where it is most needed, with an updated evidence-based approach to take into account different needs and costs faced by local authorities, as well as their ability to raise council tax (the taxbase).
- 2.18 Fair Funding Review 2.0 represents a comprehensive reform of the local government finance system, aiming to better allocate funding based on councils' relative needs and resources. The review introduces various new relative needs formulae, a resource adjustment, and a business rates reset and with a three-year transition, so as to dampen any financial impacts across individual authorities.

Relative Needs

- 2.19 The Government propose to reduce the number of formulae used in the assessment of Councils' relative needs from 15 down to 9. Two new formulae are in the 9, being Temporary Accommodation and Home to School Transport, although their relative weightings are small. The table below shows the proposed relative weightings within the overall Relative Needs Formulae (RNF).

	Selected RNF Weightings
Adults' Social Care RNF	37.54%
Foundation Formula	27.12%
Children and Young People's Services RNF	23.18%
Fire & Rescue RNF	4.30%
Highway Maintenance RNF	3.20%
Home to school transport	3.24%
Temporary Accommodation RNF	1.42%

- 2.20 The Foundation Formula element essentially provides an assessment of need for all Council services that aren't covered specifically in the other formulae. One of the key elements of that formulae is population change and in relative terms Kirklees low population increase over the past decade in comparison to other Councils is part of the reason why the Council is likely to see a reduction in its total relative needs assessment.
- 2.21 Cabinet is reminded that the FF 2.0 remains a consultation and the Government's response is awaited. The consultation included questions on the proposed formulae supporting each element. It is evident that there will be differing views on the underlying formulae and weightings of those formulae across the sector.
- 2.22 In the models Kirklees has used for this MTFs, the working assumption is that there will be a reduction in its Relative Needs Assessment of around 2.5% (from a national share of 0.78 to 0.70 of the total local government needs assessment). This is not confirmed as changes to RNF may be made following consultation and also from an update of 2024/25 data when this is available.
- 2.23 Any changes to relative weightings of the RNF, the formulae and data used behind each individual needs areas will change the relative needs assessments of each Council. Clearly changes to Adults, Children's and Foundation formula assumptions will have the biggest impact as they are by far the most significant weightings when assessing relative needs.

Council Tax Equalisation

- 2.24 A key element of FF 2.0 is the proposal to redistribute resources through 100% Council Tax equalisation. Kirklees has a relatively low tax base with around 80% of its Council tax base in Bands A-C and therefore the ability to raise resources locally is limited in comparison to many Councils across England, but particularly in comparison to those in London and the South East.
- 2.25 Full Council tax equalisation is essential to delivering FF2.0 and this is a point the Council has stressed in its response to the consultation. As with relative needs assessments, there will undoubtedly be differing views from Councils on this, with some likely to push strongly for a reduced level of equalisation. Whilst Kirklees RNF is expected to fall, it will gain more through additional funding from equalisation.

- 2.26 Government within FF 2.0 consultation documents has assumed that all Council's with social care responsibilities will increase Council Tax by 4.99% in each year.
- 2.27 It should be noted however, that as part of the Fair Funding Review, there will also be a full business rates reset, reflecting an updated assessment of local needs and resources. The impact of this is not yet known and could have either a detrimental or positive impact on the level of income we receive from the business rates system, again this will not be understood until late 2025. However, this along with RNF and resource equalisation needs to be considered in the round.
- 2.28 There is still some uncertainty on what impact this updated approach will have on the Council's total funding levels. However, with the new approach recognising need, deprivation and low taxbases collectively, it is anticipated that there will be a potential increase in the total funding made available to Kirklees compared to previous funding assumptions. The precise extent of which will not be known until late 2025 when the provisional local government finance settlement is announced. Any gains (or losses for Councils) are expected to be spread over 3 years as part of transitional arrangements. However, it is expected those who 'lose out' will push for a longer transition period. Kirklees has responded to the consultation, agreeing in principle for a transitional period, but this needs to be kept in line with the multi-year settlement.
- 2.29 In briefings with MHCLG, Civil Servants have advised Councils that the figures used in the consultation and models that Councils use are not confirmed and may be subject to change, either as a result of changes arising out of consultation responses, updates of relative needs by using the most up to date data in formulae and also the fact the final policy decisions have not yet been made by Government. The expectation is that the models will be refined over the next few months as more information is made available.
- 2.30 Until recently, these models had not been seen by MHCLG and so projected changes for individual authorities are uncertain. There have been many different iterations in the past 8 weeks as the models as more information is available and MHCLG provide clarifications to specific questions from Councils / representative bodies. This has made it difficult to analyse the proposals with certainty. The models have also highlighted various disparities both between different types of authority (e.g. Metropolitan or District Councils) and also within each type of authority. Whilst these inconsistencies persist, there remains uncertainty around the absolute accuracy of the models on an individual authority basis (any adjustments to resolve individual inconsistencies, will likely affect all authorities).
- 2.31 However, MHCLG have made available significant amounts of data to enable the models to be updated earlier than in previous years and has allowed Councils to make assumptions around the future funding position. Whilst Kirklees can reasonably expect funding gains in each of the next 3 years, until these are confirmed a prudent approach to modelling these gains in the MTFS is required.
- 2.32 Having considered the pressures the Council will continue to face, particularly in the social care sector, the MTFS assumes that Council Tax will rise annually by 4.99% (in line with Government assumptions) and a prudent assumption of 60% of the current modelled funding gain is assumed. In 2026/27 this is worth c£6.7m, but around £1m p.a.

lower in future years as Government has front loaded funding to some extent.

2.33 Government has committed to announcing a multi-year local government finance settlement in late 2025, which is expected to cover a period of three financial years from 2026-2027 to 2028-2029.

Risk

2.34 Pay and inflationary pressures remain a risk over the longer term. Whilst inflation at 3.8% (July 2025) is now currently above the Bank of England target level of 2%, the longer term forecasts suggest inflation reducing towards the target. However, whilst ever inflation remains above targets, there remains a risk that pay awards and the cost element of demand budgets may be higher than currently provided for which would increase the gap.

2.35 There are a number of significant budgets particularly in social care and certain income budgets which are subject to demand and demography changes. Whilst this plan tries to adequately reflect those pressures based on the latest information, there is a risk that these pressures are under or overstated.

2.36 There is a risk that interest rates remain at the current level which could add additional pressures to the revenue budgets. The MTFS currently assumes all new borrowing, including refinancing of existing loans is at 4.69%. Presently longer term rates remain above this level, although it is now possible to borrow short term at around or below this level. All borrowing undertaken will be made within the approved limits of the Treasury Management strategy. There is capacity within the existing Treasury Management strategy to take relatively more short term borrowing at this time.

Update of Medium Term Financial Strategy (Revenue) 2026-2031

2.37 Since the meeting of Council on 5th March 2025 work has continued to update the Council's MTFS for the period to 2030/31. A summary of the updated MTFS is provided in the Table 2 below with an analysis by Directorate shown at **Appendix A:-**

Table 2: Medium Term Financial Strategy 2026/31

	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m
Opening Balance	-	17.9	35.5	45.0	52.5
Funding & Reserves Changes	(18.2)	(19.9)	(24.7)	(22.8)	(26.1)
Add back savings fall out	0.1	-	0.3	0.3	-
Demand pressure	13.7	11.3	11.4	10.1	10.1
Inflation/pay pressure	18.2	15.8	15.3	16.8	17.0
Treasury management pressure	4.5	6.4	2.5	0.5	0.2
Other pressure - expenditure	1.4	4.5	12.0	2.8	2.8
Other pressure - income	1.7	1.1	0.9	-	-
Funding Fall-Out	0.8	0.4	2.1	-	-
Funding increase	-	(1.4)	(10.0)	-	-

Existing Approved Savings	(4.3)	(0.5)	(0.3)	(0.2)	(0.2)
Total Spend Changes	36.1	37.5	34.2	30.3	29.9
Funding 'Gap'	17.9	35.5	45.0	52.5	56.3
In Year Funding Gap	17.9	17.6	9.5	7.5	3.8

See Appendix A

2.38 As the table indicates, the forecast funding gap for the period to 2030/31 is now estimated to be £56.3m with the most immediate issue being a funding shortfall in 2026/27 of £17.9m. From a spend perspective, it is demand and inflation pressures that dominate, especially in the social care services. **Appendix A** provides a summary by Directorate.

2.39 To put these variations into context, for 2026/27 specifically, total available budget is forecast at £461.8m with an initial assessment of spending need identified by Directorates at £479.7m which creates 'the gap' of £17.9m. Further details of the assumptions and main pressures are outlined below.

Specific Funding Assumptions (£18.2m)

2.40 The Council's net revenue budget is primarily determined from the amount of Council tax collected and funding provided from the Government Settlement Funding Assessment (SFA) with adjustments made with either contributions to or from reserves to support the overall total base budget for service provision.

2.41 In respect of Council Tax and the Adult Social Care precept, this plan assumes an annual increase equivalent to 4.99%. This is based on the increases of core council tax (2.99%) and the social care precept of 2%. These assumptions are consistent with Government assumptions with regard to Core Spending Power increases in the FF2.0 consultation. A reduction of 1% would result in a reduction in council tax funding of c£2.5m per annum and would have a compounding effect if this was applied in the early years of the plan.

2.42 From 2027/28 onwards there is an assumed increase in the Council tax base of 0.7%, equivalent to circa 800 Band D homes per annum. This will be reviewed in discussion with Planning/Housing growth teams with regard to the expected growth over the MTFS. No growth is assumed in budget terms for 2026/27 as any growth realised in that year is assumed to be required to help fund the Collection Fund deficit rather than be used to provide for additional budget for services.

2.43 Business Rates income is inflated by approximately 1% per annum over the duration of the plan.

2.44 Updated plans for 2026/27 also include repayments to the collection fund of £3.2m and the contribution of £10.9m into earmarked reserves. (see para 2.69)

2.45 Increases in Government Funding are estimated to be in the region of £6.7m in 2026/27, and £5m per annum in 2027/28 and 2028/29. These uplifts include prudent estimates of additional funding due to Kirklees as a result of the funding reforms noted earlier in this

report. Increases after this point are linked solely to inflation, with updated plans reflecting uplifts of c.2% (£4m) per annum.

- 2.46 Given that the outcomes of Fair Funding 2.0 Review and Business Rates Reset are not fully known, there is an element of risk surrounding any government funding assumptions made at this time. The specific funding increases noted above in para 2.31 recognise this and reflect what is considered to be a reasonable estimate of the impact of the funding reforms on Kirklees - based on the information and modelling available to date. It should be noted that the figures illustrate just one of many possible outcomes, and more certainty will only be provided when the Local Government Provisional Finance settlement is published (expected to be late November 2025). The sensitivity analysis included later in this report (and at Appendix C) includes an indication of the range of likely outcomes in relation to any gains from the funding reforms.
- 2.47 The funding reforms also include the proposed realignment of various grants into SFA for 2026/27. This means that some grants previously recognised within services, will be rolled in and paid through RSG going forwards. The result of these changes means that approximately £56m of grant budgets currently held in services will be removed for 2026/27, with this income being recognised within government funding figures instead. The impact of this is cost neutral to the council, however the adjustments will artificially inflate the changes from 2025/26 to 2026/27 of both net directorate budgets and funding levels. It is important to understand these are technical adjustments and do not provide for additional spending power.
- 2.48 The table below summarises the total and assumed variations in funding available to support the budget next year.

2026/27 Funding Build Up	Council Tax Income	Business Rates Retained Income	Government Funding	Collection Fund Re- payment	Use of Reserves	Total Funding
	£m	£m	£m	£m	£m	£m
2025-26 Funding	(252.9)	(64.1)	(82.4)	3.8	8.3	(387.3)
Grant Realignment - Directorates to SFA	-	-	(56.3)	-	-	(56.3)
Updated Baseline	(252.9)	(64.1)	(138.7)	3.8	8.3	(443.6)
Funding Increase	(12.6)	(0.8)	(6.7)	-	-	(20.2)
Other Changes	-	-	-	(0.6)	2.6	2.0
2026-27 Funding	(265.5)	(64.9)	(145.4)	3.2	10.9	(461.8)

Executive Director Portfolio Assumptions:

Children & Families

- 2.49 This Council has invested in early intervention in Children's Social Care which has meant the numbers of Looked After Children (LAC) are low in relative terms when compared to other 'like' Councils. However, recently Kirklees has seen an increase in numbers of LAC. This combined with the mix of placements and associated costs are creating pressures on the budget, as reported in the Q1 Financial monitoring report.

- 2.50 As part of the MTFs approximately £5m of additional funding is proposed to be invested into Children's Services for 2026/27 (prior to savings targets). A large part of this (£3.5m) is to support demand led sufficiency pressures relating to increasing numbers of LAC. In the first 4 months of 2025/26 there has been an increase in LAC from 635 to 645 and a subsequent increase in External Residential Placements numbers from 34 to 44 and based on these trends, the additional investment has been proposed. There is also an assumed uplift in fees of around 4% which adds £1.6m of costs to the LAC budget.
- 2.51 In future years, 2027/28 – 2030/31, investment of £2.4m p.a. is proposed. This is to reflect an assumed, but smaller, increase in demand and cost in relation to demand led Children's budgets.

Adults & Health

- 2.52 As part of the MTFs approximately £16m is added in relation to Adults demand led pressures for 2026/27. Of this, £8.4m is related to demand (volume increases) and c£7.6m is inflationary for uplifts in care fees (using CPI assumptions and the estimated impact of the National Living Wage (NLW)). For 2026/27, the MTFs assumes a median point of the Low Pay Commission estimate of NLW at £12.71/hr, currently £12.21 p/hr).
- 2.53 A further £1.8m (£600k per annum) over the next 3 years of the MTFs is recognised as a pressure relating to client contributions. A target of £2.5m had been proposed in previous budgets, but having reviewed this is, it is now considered unlikely to be achievable as client contributions are based on an assessed ability to pay. This figure will be kept under detailed review as part of the Adult Social Care transformation project and later years will be reduced if income levels achieved are beyond these figures.
- 2.54 As part of last year's agreed budget, the Directorate had savings targets of c£2.4m to deliver in 2026/27, as well as c£14.4m to deliver in 2025/26, with the latter being tracked and reviewed to ensure they will be achieved, or whether alternative proposals are required. The MTFs makes no changes to this £2.4m assumption.

Place

- 2.55 Significant pressures have been identified in the Place Directorate which require additional budget provision to reflect ongoing demand pressures.
- 2.56 A total of £2m is proposed to be added to the Home to School Transport budget. £1.5m to correct the base budget and a further £0.5m for projected increases in demand for provision and cost increases in 2026/27. Future estimates of demand are difficult to predict and may be affected by forthcoming proposals from Government on SEND provision. Beyond 2026/7 a sum of £600k per annum is provisionally included in the financial strategy. The current year projected overspend is being funded by the use of the Budget Contingency reserve, but this is a one off source of funding and adjustments to the base budget are required.

- 2.57 The adverse weather base budget is currently c£1.5m. There have been a number of agreed budget savings including the Council acquiring its own fleet and a review of primary gritting routes. Despite these savings, the cost of responding to adverse weather events (ice, snow, storms etc) has typically outturned nearer than £2m mark. The financial strategy therefore recognises this and provides for a further £250k per annum for the next 2 years to reach a budget of £2m. It is also proposed, subject to the wider budget position of the Council at outturn, to transfer any adverse weather budget savings into an earmarked reserve. This ought to provide budget stability for the service to deal with a bad winter in any given year.
- 2.58 Parking services income has historically not achieved the base budget levels. Additional provision was made in the 2025/26 budget to reduce the income budget to recognise this and the financial strategy provides for a further £557k to bring the budget into line with actual income levels. Parking charges, as with other fees and charges, will remain subject to an annual review.
- 2.59 Within Parks and Greenspaces the budget for sometime now has been partially funded by the use of S106 receipts and other short term funding. These balances are reducing and therefore a sum of £250k is added over 2 years to the base budget to remove the reliance on this funding.
- 2.60 Similarly, within the Climate Change team, some posts have been funded via WYCA grant. This funding was always short term in nature and the financial makes provision within the Council base budget of £167k for this team.
- 2.61 In Waste Management, the financial strategy reflects the estimated requirements of Simpler Recycling. The strategy assumes that Food Waste collections and associated capital costs will be funded by New Burdens and capital grants. DEFRA have previously announced capital funding grants, but no announcement has been forthcoming on revenue funding regarding food waste. Due to the current Waste contract, the Council has an extension to 2028 to implement Food Waste collections.
- 2.62 Any legislative changes that are enacted with regard to Emissions Trading beyond 2028 are expected to be net neutral to the Council.

Public Health and Corporate Resources

- 2.63 A total of around £700k over 3 years is proposed to be added to the Council's central software licensing budget to reflect increased costs and the movement for a Microsoft Enterprise (E3) license to an E5 license. The council has delayed this move in recent years in order to keep costs down, but the move is now required in order to ensure technology supports improvements in services to the public, productivity and efficiency in back office services. The E5 license will enable significant improvements in digital service provision, the storage and sharing of files across teams, the management and presentation of data, and further benefits to the management of cyber security measures, complementing the council's existing strengths. The final cost of the license upgrade, which will ensure Kirklees remains in line with the rest of the local government sector, will be finalised during negotiations with Microsoft at our annual contract renewal point in December.

2.64 Demand pressures within Legal Services are estimated at £300k mainly due to the need to provide additional support to Children's services.

Other Cost Pressures

Pay Awards

2.65 As the Cabinet may be aware, the pay award for 2025/26 was settled in July 2025 at a rate of 3.2%. This was slightly above the amount 3% provided for in the base budget and the additional ongoing impact of the 0.2% has been provided for in future budgets. Looking ahead, the MTFs assumes pay awards of 3.5% for each year of the plan. Each 1% costs broadly £2.5m per annum on the Council's existing payroll costs.

2.66 Budgets for pay awards and inflation continue to be held centrally until they are agreed nationally or are contractually committed within service. Where there are no known contractual commitments, all other budgets are assumed to be cash limited to the current level of provision with no inflationary uplifts.

2.67 The financial strategy also provides for a 3% uplift in the 2026/27 levy payable to West Yorkshire Combined Authority (WYCA) to help support bus franchising across the region. Future increases are expected to be 2% p.a.

Treasury Management

2.68 Updated Treasury management budgets assume that the Bank of England base rate of 4.00% (as at 1st September 2025) is estimated to fall to 3.75% by the end of 2025 and remain at that level through to mid 2028. The updated MTFs reflects an assumed an average consolidated borrowing rate of 4.69% in the plan. This is based on the continuation of current borrowing strategy, which combines the use of both short and long term borrowing as set out in the 2025/26 Treasury Management Strategy report so as not to expose the Council to significant changes in interest rates in any given year. Long term borrowing remains relatively expensive at 6.01% (August 28th) for a 25 year loan and therefore the Council will seek to use relatively more short term borrowing within the allowable limits of the approved Treasury Management strategy. Up to 20% of total borrowing can be short term, and at the end of 2024/25 around 14% of borrowing was classed as short term.

2.69 Treasury management budgets also take account of updated capital plan borrowing requirements and associated annual revenue resources to be set aside to service Council debt. Within the MTFs, an additional £4.5m in 2026/7 and £14m over 5 years is currently added. These assumptions can change from changes to interest rates, reprofiling and reductions in the elements of the plan that is funded from Council borrowing.

Balances and Reserves

2.70 Any consideration of the Council's MTFs needs also to consider what reserves and balances are available and whether they are adequate. The Council holds both "earmarked" and "general/unallocated" reserves. The strategy for the use of these is outlined below; with forecast reserves balances illustrated in Appendix B.

2.71 **Earmarked Reserves** (for discretionary use) will only be used for the purposes for which they have been set aside and will be subject to annual review. The updated MTFs assumes a net transfer of £10.9m into Earmarked Reserves in 2026/27, including a £10.7m contribution to Voluntary Revenue Provision (VRP) reserves. This reflects the policy for provision of repayment of debt (MRP) approved as part of the 2024/25 Annual Budget report to Council in March 2024. By the end of the updated plan, the balance on the VRP reserve is in the region of £50m. This balance will be required in future years to pay for increased MRP costs and remains a key element of the strategy to provide financial sustainability over the medium to long term.

2.72 **General Reserves** are balances held as contingencies against risks such as emergency events. A risk assessment of the Council's level of reserves is carried out each financial year, when setting the budget and updating the financial plan. It is updated regularly during the financial year as part of the formal financial management reporting process. The risk assessment is based on the following key factors and an underlying presumption that significant risks need an appropriate level of cover: -

- a) a review of known provisions and contingent liabilities;
- b) the likelihood of overspend for either revenue or capital;
- c) the likelihood of any additional income that would be credited to reserves;
- d) the robustness of the Council's revenue budget proposals;
- e) the adequacy of funding for the Capital Programme; and
- f) any potential significant expenditure items for which explicit funding has not yet been identified.

2.73 Appendix F provides the risk assessment of the Council's level of general reserves, which estimates the value of the risks at £22.0m. Therefore, a current **Minimum Working Balance** of at least £22.0m needs to be maintained throughout the life of the current MTFP. The **Desirable Balance** calculation is £31m. As part of the budget setting process the risk assessment on the level of reserves will be refreshed.

2.74 The below table shows the projected level of General/Unallocated Reserve over the duration of the MTFP and reflects an assumption of annual contribution of £1.0m to the reserve. These figures include the Minimum Working Balance as outlined above.

31 st March 2025 £m	31 st March 2026 £m	31 st March 2027 £m	31 st March 2028 £m	31 st March 2029 £m	31 st March 2030 £m	31 st March 2031 £m
(25.0)	(26.0)	(27.0)	(28.0)	(29.0)	(30.0)	(31.0)

2.75 The Council will ensure the reserves remain at an adequate level to manage effectively all future risks and liabilities, in particular whilst operating in the current volatile and uncertain environment.

2.76 The assessment of general and usable reserves is used by MHCLG, CIPFA and the Council's external auditors as a key measure of the Council's ability to deal with

pressures that could not be reasonably anticipated when setting the budget. Whilst there is no prescribed £m / % of budget to be held as a General reserve, however it must be of a sufficient size for the S151 officer to be able to issue a S25 report as part of the final budget report for 2026/27.

2.77 It is worthwhile reiterating that the reserves are a finite source of funding and should not be relied upon to support the Council’s budget other than as part of the clear strategy to achieve a sustainable budget in the medium term. Acknowledging this, the Cabinet should note that any use of reserves will only be permissible with the agreement of the Service Director Finance.

General Fund Revenue Budget - Scenario Planning (Sensitivity Analysis)

2.78 As mentioned above, the MTFs is based on a range of assumptions which impact on both income and expenditure. Changes in these assumptions can have a fundamental effect on the Council’s budget gap and the level of savings the Council will be required to make.

2.79 The Cabinet will appreciate that it is good practice to model scenarios based on changes to some of the key assumptions in the MTFs. The purpose of this sensitivity analysis is not to predict or forecast the future, but rather test and understand the Council’s sustainability into an uncertain future given alternative plausible scenarios for the key drivers of costs, service demands, funding and key risks to which the Council is exposed. Such ‘stress testing’ is considered to be good practice and acts as an indicator of the Council’s financial sustainability.

2.80 The sensitivity analysis gives some indication of the likely range of the Council’s deficit position bounded by realistic worst- and best-case scenarios. The key variables that have been modelled with the results of this analysis at are provided at **Appendix C** and summarised in Table 3 below:-

Table 3: Scenario Analysis

	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m
Best Case	12.6	26.0	31.5	38.5	41.8
Base Position (Table 2 above)	17.9	35.5	45.0	52.5	56.3
Worst Case	23.3	45.4	65.0	74.2	79.7

See Appendix C

2.81 As the table indicates, the range of potential positions is a five year deficit of c£41.8m to a deficit of £79.7m. These scenarios are provided to reflect the level of potential volatility in the assumptions and reinforces the uncertainty with future budget estimates.

Update of Medium-Term Capital Plan 2025/33 (General Fund)

2.82 At Cabinet on the 9th September 2025, Members considered an update position on the Council’s Capital Plan as part of the Q1 monitoring report. On the General Fund around £7.2m of spend had been slipped from 2025/26 into future years, alongside a net increase in the plan of £0.4m due to increased grants/S106 contributions, leading

to a budget of £246.1m.

2.83 Since then, £8m has been re-profiled from 2025/26 into 2030/31 for the Investment and Modernisation Fund, leaving £2m for drawdown in this financial year as part of the implementation of this new Fund. A further £2.2m (£1.1m 2025/26, £1.1m 2026/27) has been received from Network Rail for the Transpennine Route Upgrade Programme. This supports activities undertaken by Kirklees Council in discharging the requirements of the Transport and Works Act Order (TWAO) between Huddersfield and Westtown (Dewsbury) via the appointment of suitably qualified persons to specialist roles.

2.84 The current budget of £239.2m for 2025/26 remains under review and a revised Capital Plan will be included as part of the Proposed Budget report to Cabinet in December. The latest Medium-Term Capital Plan for 2026/27 onwards is summarised in the table below and the funding breakdown is provided in more detail at **Appendix D**. This is the 'as is' position and the plan has not had any additional items added yet as the review is not completed.

Table 4: Medium-Term Capital Plan 2025/26 (General Fund)

	2025/ 26 £m	2026/ 27 £m	2027/ 28 £m	2028/ 29 £m	2029/ 30 £m	2030/ 31+ £m	Total £m
<i>Expenditure</i>							
Children and Families	25.7	29.6	21.6	3.8	2.8	0.0	83.5
Adults & Health	4.2	8.5	3.0	0.0	0.0	0.0	15.7
Place	198.6	223.5	121.8	77.9	97.9	46.3	766.0
Public Health & Corporate Resources	10.7	11.6	11.9	11.6	10.9	8.2	64.9
Expenditure Total	239.2	273.2	158.3	93.3	111.6	54.5	930.1
<i>Funding</i>							
Capital Grants / Contributions	122.9	113.5	66.7	45.2	49.4	4.0	401.7
Earmarked Capital Receipts	8.9	11.0	0.3	3.4	3.4	0.0	27.0
Service Funded Prudential Borrowing	16.4	30.6	17.2	10.0	12.1	8.0	94.3
Non-Earmarked Capital Receipts	1.3	1.1	1.2	0.7	0.7	0.0	5.0
Corporate Prudential Borrowing	89.7	117.0	72.9	34.0	46.0	42.5	402.1
Funding Total	239.2	273.2	158.3	93.3	111.6	54.5	930.1

2.85 Notwithstanding the regeneration aspirations of the Council and the commitment under the Safety Valve agreement to fund the rebuild of 2 special schools with Council borrowing supporting that in excess of £27.8m, there is need for the Council's Capital Plan to remain prudent, affordable and sustainable. This is particularly in the context of the significant pressure on the Council's General Fund Revenue Budget as set out above and as described above. The MTFs currently provides for an increase in treasury management charges of over £14m in the MTFs arising from a combination the Corporate borrowing shown in the table above and refinancing of existing loans. In

2025/26 around 38% (£c90m) of the capital plan is funded by Corporate borrowing, and over the life of the plan c£402m this is c43%.

- 2.86 Although the General Fund Capital Plan remains broadly the same as reported previously to Cabinet and Council in July 2025, some of the funding assumptions have changed. The capital receipts assumptions have been reduced from a current figure of £6m in 2025/26 to £2m by p.a by the end of the plan. The Capital Receipts reserve c£12m remains to be used as planned over the period, primarily as the agreed match funding for the Dewsbury Town deal. The assumptions around the future realistic value of capital receipts will be reviewed as part of the Capital plan and taking into account the findings of the review of Council wide assets being undertaken as part of the Transformation programme. Should additional receipts be deliverable over the period, then these should be primarily used to reduce the reliance on borrowing.
- 2.87 Given the extent of general fund borrowing that underpins the plan (£402m), the current and forecast cost of that debt, together with the required refinancing of existing debt as part of day-to-day Treasury activities, all uncommitted lines that require corporate borrowing within the plan are currently subject to review. This is being balanced against the future investment needs of the Council, both in maintaining the delivery of essential services through baseline funding, providing match funding where it is necessary to leverage external funding and to deliver ambitions around growth and regeneration.
- 2.88 Without pre-empting the outcome of the review, it is inevitable that some projects within the Capital Plan will need to be reduced, deferred or even stopped. As part of the review, the Capital Assurance Board will consider all investment needs via a 'scoring matrix' (see **Appendix E**) to help evaluate competing projects and inform the Councils priority schemes. The scoring from the matrix is subjective in nature but is a useful guide to help inform funding decisions especially in relation to borrowing. It is recognised other factors will influence the decision and it is ultimately the decision for the Council to make.
- 2.89 The key stages in the Council's prioritisation and approval process are as follows:
- a) All uncommitted schemes funded by corporate borrowing within the existing approved Capital plan will be scored against the Matrix and ranked. Schemes will be slipped or removed from the Capital Plan based on the evaluation.
 - b) All new bids for borrowing require a detailed Business Case to be submitted to the Chief Finance Officer (Service Director – Finance) for consideration and evaluation by the Capital Assurance Board. The bids will also be subject to scoring against the Matrix and ranked.
 - c) Proposals for invest to save schemes which deliver ongoing revenue savings against the base revenue budget require a detailed Business Case submission, with funds recommended to be drawn down from the existing Investment and Modernisation Fund. As with all capital schemes, these will be scored and ranked using the Scoring Matrix.

- d) The Capital Plan will be updated to reflect Council Priorities within an affordable funding envelope, recognising that some schemes will need to be removed to facilitate the addition of any new schemes deemed a higher priority. All new schemes to be supported will be recommended to Cabinet and Council for approval, in accordance with Financial Procedure Rules.
- e) There will be a reset of baseline capital expenditure required to ensure Council services remain able to operate effectively. Typically baseline expenditure will cover investment in assets to address backlog maintenance and vehicle and equipment replacement programmes.
- f) Schemes recognised as being 'pipeline' in nature due to their limited maturity and need for further development, will be placed on the 'Pipeline'/'Reserve' list. These will be kept under review, and should the need arise, an updated more detailed Business Case submitted as and when capital resources become available.

2.90 Further details of the review incorporating both existing and new schemes for the proposed Medium Term Capital Programme for 2026-2033 will be brought forward for consideration as part of the proposed budget report in December 2025. This will also include the new year 5 Baselines for the General.

Collection Fund

Collection Fund – Council Tax

2.91 The Collection Fund – Council Tax accounts for the income and expenditure associated with the collection of Council Tax. Council Tax receipts from residents are paid into the Fund. Precept payments to the Council, Major Preceptors (Police, Fire) and Parish Councils are paid out of the fund. Any surplus or deficit on the Fund is distributed to the Council and Major Preceptors.

2.92 In relation to Council Tax, it is assumed that the Council Taxbase will grow by 0.7% (c800 Band D Properties) annually from 2027/28 through to 2030/31. This will be reviewed as more information becomes available around the impact of any changes in Government policy with regard to planning and housebuilding. The ultimate collection rate is assumed to remain constant at 98.5%.

Collection Fund – Business Rates

2.93 The Collection Fund – Business Rates accounts for the income and expenditure associated with the collection of Business Rates. Business Rates receipts from businesses are paid into the Fund. Payments to the Government (50% of net debit collected), the Council (49%) (otherwise known as locally retained rates) and Fire Authority (1%) are made from the Fund. Again, any surplus/deficit on the Fund is distributed to the aforementioned bodies in the proportions set out.

2.94 The Council's share of locally retained Business Rates is Business Rates income is inflated by approximately 1% per annum over the duration of the plan.

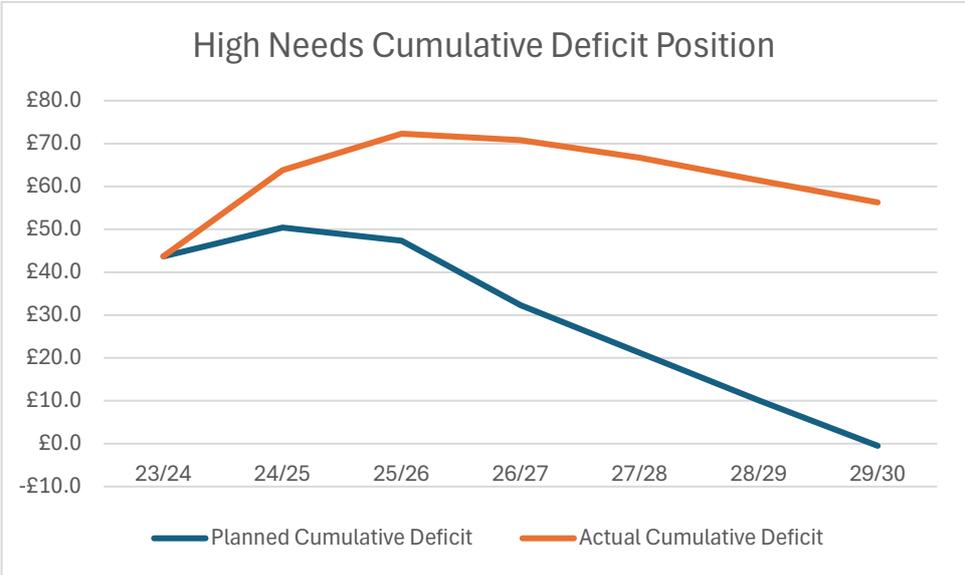
- 2.95 As at 31st March the total Collection Fund deficit was £10.2m. The 2025/26 budget repays a sum of £3.8m and a further sum of £3.2m is required in each of 2026/27 and 2027/28 to clear the deficit.
- 2.96 As Cabinet will be aware, the Council is currently part of the Leeds City Business Rates Pool in 2025/26. That arrangement applies for 1-year only given the Government's tendency to seek applications to renew such agreements as part of the annual Local Government Finance Settlement. The benefit of the Pooling arrangement to the Council is the opportunity to receive a share of the retained levy on business rates growth across all Councils in West Yorkshire (the Council's share is estimated to be £0.5m for 2025/26).
- 2.97 Whilst no such request for applications to renew the Pooling arrangement for 2026/27 has yet been published, and subject to other Councils in West Yorkshire agreeing, it is assumed for the purposes of the MTFs that the Pooling arrangement will continue in its present form. As this is the case, and to ensure the Council is in a position to respond accordingly if a request for applications is made, it is recommended that Cabinet given delegated authority to the Chief Executive and Service Director Finance, in consultation with the Leader and the Finance and Regeneration Portfolio Holder to consider options and determine whether (or not) the Council should continue as a member of the Pool in 2026/27.

Dedicated Schools Grants (DSG)

- 2.98 As Cabinet may be aware, Dedicated Schools Grant is paid to the Council in support of the Local Authority's Schools budgets. It comprises four blocks of funding – the Schools Block, the Central School Services Block, Early Years Block and High Needs Block. It is the responsibility of the Council, in conjunction with their local Schools Forum, to determine the split of funding between their own expenditure and the Individual Schools Budget.
- 2.99 A more detailed report on Schools Funding arrangements will be presented to the Cabinet once details of the DSG Settlement are known for 2026/27.
- 2.100 In the meantime, in relation to the High Needs DSG Block and the Council's accumulated funding deficit, the Cabinet is aware from previous reports on this matter that the Council is part of the national Safety Valve Programme with the Department for Education. Under the Agreement with the DfE, which aims to bring back into balance the annual budget for High Needs provision and to reduce the historic deficit to nil, the Council will receive funding of £33.5m. The Safety Valve agreement for Kirklees has been extended from 2026/27 until 2029/30 as a result of increasing pressures relating to demand and complexity. Payments in relation to the agreement have been re-profiled to equal annual payments of £2.3m across 2024/25 – 2029/30 - £22m of safety valve funding has been received by 31/03/25. The DfE has recently confirmed that the Council will receive its next instalment for 2025/26.
- 2.101 The Council's SEND Improvement Plan includes significant capital investment in District SEND placement sufficiency over the next 5 years; including the re-location and placement expansion of two existing special schools to be funded through a mix

of prudential borrowing (£27.8m) and grant funding (£23.3m) totalling approximately £51m. Alongside this, further Government capital funding of £7m will be used to support the creation of more Specialist Provision across the District’s maintained schools. The Improvement Plan also includes a Council-contribution of £10.6m and annual Council savings against High Needs spend. It was originally anticipated, as part of the Safety Valve Agreement, that by 2029/30 the budget would be in balance. As at Q1 2025/26, the projected deficit position at 2029/30 will be approximately £56.3m. The Improvement Plan resourcing assumptions described here are incorporated into the updated baseline MTFP and funding assumptions in this report as appropriate.

2.102 In 2024/25 the High Needs in-year deficit was £20.1m. This increased the cumulative deficit position to £63.8m. The graph below, indicates the trajectory of the cumulative deficit mapped against the planned deficit as detailed in the Safety Valve Agreement.



2.103 High Needs deficit positions remain a national issue and a significant number of Local Authorities are in a similar position with the cumulative deficit relating to High Needs expenditure now estimated at £5bn. This has doubled over the past 12 months (2023/24 – 2024/25) and it is clear that, based on trend information on demand and cost, the deficit figure will continue to grow in future years without Government action.

2.104 It is anticipated that the Government will publish a White Paper in Autumn 2025 and this will help to set out potential paths forward in relation to funding and reform for the SEND system. However, there will be a consultation phase and period of time to implement any changes and so it is unlikely there will be an immediate impact on the in year deficit position on the High Needs block. The Kirklees in year deficit is expected to reduce significantly from the capital investment and opening of 2 new special schools.

2.105 The DSG statutory override is a temporary accounting rule in the UK that allows local authorities to exclude Dedicated Schools Grant (DSG) deficits from their main revenue budgets. The override had been due to end in March 2026 but has recently been extended until March 2028.

- 2.106 It should be noted by Cabinet that DSG deficits at this scale have significant impacts on cash flows. Where cash is used to fund deficits, it has an impact on balances that could ordinarily have been used to fund capital in lieu of borrowing from the PWLB or other authorities. A deficit of £63m costs around £3.5m to £4m to service. Kirklees and other Councils have raised this issue directly with the DfE.
- 2.107 It is still unclear what will happen to historic deficits if the override is removed but it is considered unlikely that in year deficits will have been fully addressed immediately even if there is reform within the system. At that point, deficits could become a further pressure on the General Fund for Councils and will need addressing in the same way existing pressures are managed. It is therefore imperative that the in-year deficits are significantly reduced with a clear aim of being removed in the next few years to ensure the risk to the general fund position is mitigated and the management of budgets and savings targets should be treated in the same way as other Council services.
- 2.108 Presently there is no additional provision beyond the commitments on the Safety valve (£10.6m) for additional general fund contributions to the High Needs Block. To do so would require the Council to find significant additional savings beyond those reported in this plan.

Kirklees Housing Revenue Account (HRA)

Background

- 2.83 The Council is required to maintain a self-financing Housing Revenue Account (HRA), which is ring-fenced from the Council's other budgets and is a record of all revenue expenditure and income relating to the authority's own housing stock. It is the responsibility of all councils with an HRA to ensure it sets a balanced budget and make provision for adequate resources to invest in council properties. This is to keep tenants safe and ensure that they are living in properties that meet a decent home standard including energy efficiency which will support tenants with the cost of living.
- 2.84 The Council regularly reviews and updates the HRA business plan with the aim to produce a self-financed and balanced budget position over the 30-year plan that delivers the key objectives. Over the next five years there is a cumulative revenue surplus of £9.9m which is to be used to fund capital expenditure.

Medium Term Financial plan 2026-2031

Service Activity	25-26 BUDGET AMENDED	26-27 BUDGET	27-28 BUDGET PROPOSAL	28-29 BUDGET PROPOSAL	29-30 BUDGET PROPOSAL	30-31 BUDGET PROPOSAL
	£m	£m	£m	£m	£m	£m
Total Expenditure	109.5	115.6	119.5	123.7	128.0	132.2
Total Income	(109.5)	(115.6)	(119.5)	(123.7)	(128.0)	(132.2)
Net Operating Expenditure	-	-	-	-	-	-

Key Income Assumptions

- 2.85 Rental Income – The Government sets rent policy for social housing and since April 2020, providers have been permitted to increase rents by up to CPI + 1% per annum (with the CPI rate taken at the previous September). This policy was suspended in 2023-24 and replaced by a 7% limit on annual rent increases and in its most recent policy update the Government committed to a 10-year settlement of CPI+1% from 1st April 2026.
- 2.86 The government received clear feedback in response to the previous consultation that the level of investment in new and existing social housing that is needed to deliver the government's ambitions will not be unlocked unless social rent convergence is implemented. A convergence mechanism was originally introduced in 2002, but was scrapped in 2015. The aim was to charge comparable rents for similar sized properties in similar areas, taking into account the value of properties and local earning levels and so a 'formula rent' was introduced. Formula rent refers to the formula that is used to calculate the rent that may be charged for a given property when it is let to a new tenant. Convergence would allow rents for social rent properties that are currently below 'formula rent' to increase by an additional amount, each year, over and above the CPI+1% limit, until they 'converge' with formula rent. The HRA MTFs assumes an average increase of £5.21 per week for 2026-27 taking into account CPI +1% and an assumption of £1/week relating to convergence..
- 2.87 Right to Buy (RtB) Sales – The Government introduced changes to the discount rates applied to right to buy sales, for applications received after 20th November 2024 and for 2024-25 Kirklees received 1,027 applications (2024-25, 332 applications). To reflect this increase in applications additional RtB sales have been assumed in 2026/27 at 180 sales, and then gradually declining to reflect the new less generous scheme with 140 sales for 2027/28, reducing to 90 sales per annum from 2028/29 to 2030/31 have been assumed. Right to Buy discounts remain an incentive for many people when considering whether to purchase their Council home, however due to recent discount rate changes it is anticipated that there will be diminishing Right to Buy sales in the future.
- 2.88 Other Income - The financial plan assumes service charges will rise by CPI+1% each year or where there is a plan to move to full cost recovery. A review of service charges is being carried out where the aim is, following consultation to move to a full cost recovery position over a three-year period, as previously approved in the budget.
- 2.89 PFI Grant - This grant remains fixed at £7.9m per annum over the life of the PFI contract.

Key Expenditure Assumptions:

- 2.90 Pay Award and Price Inflation - A pay award of 3.5% for the period 2026/27 to 2030/31 has been assumed. Price inflation is generally assumed at CPI levels in the plan.
- 2.91 Management Costs – Costs will be increased by 3.5% in 2026/27 and then will be linked to an increase of CPI each year. Energy Costs for gas and electricity are forecast based on the latest assumptions from the energy team as part of the Council contract for energy.
- 2.92 Repairs – An additional £3.8m has been added to the repairs budget to carry out stock condition surveys and retrofit assessments over a three-year period. The repairs

budget is to be inflated by CPI+1% each year and adjusted to reflect the forecast changes in stock numbers.

2.93 Disrepair Provision - Resolving disrepair remains a priority for the service. The financial plan assumes an annual budget of £1.5m for all legal costs including disrepair. Any repair costs following disrepair claims will be charged to the repairs budget. A provision has been set aside on the balance sheet, which will provide for the settlement of existing cases.

2.94 Provision for Bad Debt - A bad debt provision is provided for, based on 90% of former tenant arrears which at 31st March 2025 were £1.7m and 20% of current tenant arrears which at 31st March 2025 were £3m. Any write offs are made against this provision. A revenue budget of £1m is provided to maintain the provision at this level. This level of provision will be kept under review due to the number of tenants migrating from Housing Benefit to Universal Credit.

2.95 Capital Programme – The table below outlines the draft capital plan, however, this is subject to change following a review of works required to existing properties to achieve the decency standard. Any amendments will be reassessed and reprofiled based on affordability. The proposed capital investment requirement in the HRA over the next six years (including 2025/26) is £389m. This is broken down into Strategic Priorities and New Housing Supply of £118m and works to existing properties of £271m. There will be the requirement to borrow £125m over 5 years and to utilise £33m of RTB receipts, supported by transfer from HRA reserves.

CAPITAL PLAN - HOUSING REVENUE ACCOUNT	REVISED 2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	Total £m
Strategic Priorities/increased housing supply.	7.9	14.8	26.9	32.2	17.6	18.5	117.9
Works to existing properties	36.8	46.8	46.3	47.1	46.2	48.2	271.4
Overall Total	44.7	61.6	73.2	79.3	63.8	66.7	389.3
FUNDING SUMMARY							
Borrowing	-	25.0	25.0	25.0	25.0	25.0	125.0
Grants	2.0	3.3	6.2	8.5	3.9	5.2	29.1
Capital Receipts	2.1	1.7	9.6	14.1	2.2	3.0	32.7
Receipts from RTB allowable debt	3.9	3.3	3.6	2.4	2.3	2.3	17.8
HRA Revenue contribution to capital	12.7	2.8	2.5	2.3	2.5	2.5	25.3
HRA MRR (Depreciation)	24.0	25.5	26.3	27.0	27.9	28.7	159.4
Overall Total	44.7	61.6	73.2	79.3	63.8	66.7	389.3

2.96 Additional interest on borrowing charges - The plan reflects increased costs associated with servicing the HRA's debt to fund the Council's Housing Growth Programme (CHGP). The table shows the planned spend and the need to borrow circa £125m over the next 5 years. Maximum use of Right to Buy receipts will be made to minimise the impact of borrowing and where possible grant funding will be used instead of HRA borrowing. The HRA can benefit from discounted PWLB borrowing (0.4% reduction from standard rates). Whilst long term borrowing remains high, preference will be to use other funding sources funding first, however all new builds / buy backs remain subject to a business case to demonstrate they are viable over the life of the asset. Prolonged higher interest rates provide a risk that payback could be beyond the normal life but this is considered relatively low.

2.97 Recharges to the HRA - Recharges to the HRA relate to services provided from other parts of the Council on behalf of the HRA. These include, for example, back-office services such as HR, Finance, and IT as well as front facing services such as the

contact centre, hubs, community safety and environmental services. All these costs are subject to an annual review.

2.98 HRA General Reserve -The level of the HRA general reserve is forecast to be £10.9m on 31st March 2026, which is approximately 9.5% of total expenditure and averages circa £500 per property (Based on 21,599 properties on 31st March 2025). Discussion with a HRA Finance peer group indicates this figure is in line with other Councils. However, a review of the risk-based approach to the calculation of the required level of general reserve will be undertaken ahead of the more detailed budget proposals in December 2025. A separate repairs reserve of £1m has been set aside to address the ongoing pressures with demand.

HRA RESERVES	Balance at 31 March 2025	Contribution to reserves	Contribution from reserves	Balance at 31 March 2026
	£'000	£'000	£'000	£'000
Set aside for business risks	(10.9)	-	-	(10.9)
Repairs reserve	(1.0)	-	-	(1.0)
Set aside to meet investment needs	(18.8)	-	13.8	(5.0)
Total	(30.6)	-	13.8	(16.9)

2.98.Major Repairs Reserve – Capital works and component replacements to existing properties are forecast to increase over the next five years, as following the review of the capital plan, which aims to improve the decency of properties managed and owned by the Council a backlog of works has been identified, which will be completed on a worst first basis. To maintain this level of annual investment will require borrowing and budgets have been provided for increased financing costs.

2.99 Any surplus revenue income will be used to support the investment into capital expenditure. The strategy to mitigate any identified deficits on the Housing Revenue Account is to identify savings that can be generated from business-as-usual proposals in line with the rest of the Council. Those savings that require more specific service reviews to deliver savings will be considered through appropriate governance processes. All areas of HRA expenditure and income will be considered when finalising the detail of the 2026/27 budget with appropriate consultation:

- Proposed rent increases will be adjusted to reflect any changes in CPI and following the outcome of government consultation for rent convergence and following consultation with Elected Members.
- Service charges will be reviewed with an option to increase these above the CPI+1% to get closer to full cost recovery. This relates to tenants that benefit from communal services.
- The annual investment programme as part of the overall capital plan has been reviewed and is being finalised with options to be presented to invest further in stock condition and realign the programme. Should additional funding become available, following the outcome of the rent convergence consultation, then this could be used to reduce the HRA revenue contributions or reduce the borrowing requirement.
- A review of staffing levels and approved structures will be considered.
- All expenditure lines, including repairs, will be reviewed to ensure resources are directed into priority areas of the budget, especially considering the requirements of Awaab's Law and the regulators consumer standards.

- A review of HRA earmarked reserves will be completed as a mechanism to help smooth out specific one-off pressures to be managed later.

3. Implications for the Council

3.1 Council Plan N/A.

3.2 Financial Implications The financial implications for the Council are as set out in the report.

The report identifies a significant funding gap in 2026/27 (and over the medium term) that the Council must address. Given it is not prudent to use reserves to help meet the funding gap, the Council must identify ways of reducing its net expenditure either through less spending, more income or a combination of the two to comply with its statutory obligation of setting a robust balanced budget

3.3 Legal Implications

The Council is under a statutory obligation (s31A of the Local Government Finance Act 1992) to set a balanced budget on an annual basis. Considering the financial challenge described in this report, a proposed MTFS is set out which, if implemented, provides a framework for the Council to comply with its statutory obligation in this respect.

The Service Director Finance is required under s25 of the Local Government Act 2003 to provide the Council with a report on the robustness of estimates and adequacy of reserves when considering the Council's budget for the forthcoming financial year. As is normally the case, that report will be provided alongside the main report on the Budget for 2026/27 as part of the Budget/Council Tax setting for 2026/27.

Once the budget is agreed, s28 of the Local Government Act 2003 requires the Council to monitor its income and expenditure against the agreed budget. This legislation supports the requirement for the Council to monitor performance against budget during the year.

Section 65 Local Government Finance Act 1992 and regulations thereunder require the council to consult non-domestic ratepayers; and the Council's Budget and Policy Framework set out in part 4.3 of the Constitution further requirements about consultation with service users, residents and stakeholders on the budget proposals.

3.4 Climate Change & Air Quality N/A

3.5 Other (eg Risk, Integrated Impact Assessment or Human Resources)

The development of the MTFS is set against a backcloth of a range of strategic, tactical and operational risks faced by the Council. The Council has in place good arrangements for both identifying and mitigating those risks. Details of the Council's Strategic Risk Register are reported to Cabinet on an ongoing quarterly basis.

Further work is required to develop and implement proposals that will allow the Council to bring its net expenditure in line with its income. There may be legal and staffing implications arising out of these proposals that will, as required, be

considered as part of the development and implementation of those proposals.

Where it is considered necessary to do within the bounds of the Council's Constitution, details of these legal implications will be shared with Cabinet as required. In particular, the Council has an obligation under s149 of the Equalities Act 2010 to comply with the Public Sector Equality Duty when developing budget proposals. To this end, Integrated Impact Assessments will be produced as required to ensure decision makers have due regard to the Council's equality duty.

4. Consultation

This report has been prepared by the Service Director - Finance, in consultation with the Executive Leadership Team.

5. Engagement

The Council's overall financial planning framework includes consideration of wider engagement, consultation and timetabling on residents and other stakeholder views on high level priorities in resource allocation, including consultation with representatives of non-domestic ratepayers.

In addition, there may be a requirement for more detailed service consultations, led by the relevant services, on specific service budget proposals. These will engage service users as early as possible and target the groups most likely to be affected

It is good practice for Councils to consult on proposals that may affect the delivery of services including those related to budget savings and/or income generation. Indeed, the Value for Money Assessment undertaken by the External Auditors specifically questions whether the Council has asked '*Are stakeholders consulted during the development of savings plans? Depending on the nature of the savings plans, stakeholders could include staff, local residents, service users, the voluntary sector and local businesses*'.

Further to that, the Budget and Policy Framework at Section 3 of the Council's Constitution does provide for the Cabinet to set out its arrangements for consultation of budget proposals and that at the end of any such consultation, the Cabinet will draw up proposals having regard to consultation responses.

In compliance with this requirement, and subject to budget proposals coming forward, it is proposed that, as in previous years, some form of public consultation on the budget proposals should take place later in 2025 with a view to informing decisions on the Council's budget for 2026/27. The form and content of such a consultation will be determined in due course.

6. Options

6.1 Options Considered

N/A

6.2 Reasons for Recommended Option

N/A

7. Next Steps and timelines

- 7.1 Subject to the Cabinet agreeing the MTFS as set out above, work will be undertaken on the identification and development of draft budget proposals and options (with supporting documentation) within the framework set out. Budget Planning Totals for Directorates will be developed to facilitate this work.
- 7.2 Where existing delegations set out in the Council's Constitution allow, and in consultation with relevant Cabinet Members as appropriate, early action will be taken to implement proposals to reduce the funding gap identified in this report. Where this is not possible, proposals will be developed in consultation with relevant Cabinet Members and will be brought forward for consideration by Cabinet and, where it is necessary to do so, ultimately by Council as set out in the Constitution.
- 7.3 The culmination of this work on the development of proposals will be that Cabinet will bring forward its initial budget proposals in December 2025 for consideration. The final budget report for 2026/27 will be presented at Budget Council in February 2026.

8. Contact Officer and Relevant Papers

Kevin Mulvaney	Service Director – Finance
James Anderson	Head of Accountancy
Sarah Hill	Finance Manager

9. Background Papers and History of Decisions

[Annual Financial Outturn Report and Rollover Report 2024/25 \(Item 8\)](#)
[Annual Budget Report 2025/26 and future years \(Item 7\)](#)
[Quarter 1 Budget Monitoring Report 2025/26](#)

10. Appendices

Appendix A – Updated Medium Term Financial Plan 2026/31
Appendix B – Balances and Reserves 2026/31
Appendix C – Best/West Case Scenario Analysis
Appendix D – Capital Programme to 2032/33
Appendix E – Capital Scoring Matrix
Appendix F – Minimum Working Balance

11. Service Director Responsible

Kevin Mulvaney	Service Director – Finance
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