Report to the Cabinet

15 December 2025

Wards: All

Medium Term Financial Plan – Update Report

Report of the Executive Director of Corporate Resources (Section 151 Officer)

Report Status:
This item is not exempt
Therefore exempt reasons are not applicable

This is a key decision. The matter is in the Forward Plan

Key Decision reference -

1. Purpose of the Report and Summary

1.1. To update Members on the latest Medium Term Financial Plan (MTFP) projections for the period 2026/27 to 2028/29 and outline a financial strategy which will inform the detailed formal budget proposals to be considered by Council and Cabinet in February 2026.

1.2. The 2025/26 budget was approved at February 2025 Council and sought to reflect the anticipated costs for the year following cost increases during 2024/25. Both demand and cost pressures continued to impact on the Council's financial projections, and the outline strategy was updated in July 2025 to reflect the additional pressures identified both within the 2024/25 outturn position and year to date for Period 2 monitoring.

1.3. Both the Policy Statement announcing a government response to the Fair Funding 2.0 consultation and Chancellors Autumn Statement of the 26th November 2025 confirmed the Government's intention to provide financial investment to public sector and a more sustainable financial footing for Local Government. As a result, whilst the specific allocations for Hull City Council are yet to be confirmed, a multi-year financial settlement proposal for 2026/27 to 2028/29 was confirmed, which initial modelling indicates will, in part, support the closing of the budget gap for the Council in the medium term.

1.4. Fair Funding 2.0 is the first fundamental update to the local government finance system since 2013/14. Over the summer into autumn 2025, Fair Funding 2.0 modelling has undertaken a number of iterations as government have worked to update various policies into the overall local government funding envelope. It is acknowledged by MHCLG there is a level of uncertainty still to be confirmed within the Provisional Local Government Settlement and therefore, uncertainty and risk to the numbers outlined within this report should be considered on this basis.

1.5. The latest MTFP projections set out in this report, subject to confirmation of funding in the Provisional Local Government Financial Settlement expected week commencing 15th December 25, include additional financial pressures since both the February 25 budget, July 25 MTFP update and following the third revenue report update for 2025/26, elsewhere on the agenda. Financial pressures associated to social care increased costs and demand within both Adult and Children's services, SEND demand and impact of homelessness within the city have all affected the financial position in both 2025/26 and beyond. In addition, sustained inflation pressures on service contracts such as waste management and the overall economic impact for interest borrowing rates continue to create a challenging financial position for the Council.

1.6. The MTFP position remains reliant on the delivery of the previously approved efficiency savings in full for 2025/26 and 2026/27, £5.6M and £2.0M respectively. Whilst the 2026/27 budget current outlines a relatively balanced financial position, this position will only continue to remain deliverable in line with the Council's established financial strategy of controlling costs and delivering service efficiencies. Whilst future years have noted an improved positioning through the policy statement modelling, it is acknowledged the wider financial climate for local government continues to provide uncertainty and the scale of the forecast pressures in future year suggest a continued need for efficiency delivery to continue in the medium term.

1.7. This report sets out a proposed approach designed to continue delivery of cost reductions in the near term through previously approved efficiency savings, whilst protecting services from significant change. The modelling assumptions align to the government policy statement that councils continue to align council tax policy to the maximum 4.99% and increase rents in line with CPI + 1% over the period of the MTFP.

2. Recommendations

That Cabinet Members:

2.1. Note the updated MTFP projections at section 7.

2.2. Note the forecast position within the report and the significant financial risks faced by the Council as at section 8.

2.3. Approve, for consultation, the strategy as set out in the report at paragraph 9.

2.4. Note that reports regarding the detail of the 2026/27 General Fund Revenue Budget, Capital Programme and Housing Revenue Account, will be presented to Cabinet, Scrutiny and Council in February 2026 for approval.

3. Reasons for Recommendations

3.1. The Council needs to ensure that it has an up to date and realistic plan for managing its finances in the medium term. That plan includes within it the resources that are available to provide or commission services and also outlines the ongoing or new actions that are needed to ensure that financial viability is maintained.

4. Key Organisational Impacts

4.1. Impact on other Executive Committees (including Area Committees) and decision makers:

4.1.1. There are no specifically identified impacts within this report.

4.2. Contribution to the delivery of the Community Plan, the Council Plan and/or Area Plans:

4.2.1. The overall sustainable financial position of the Council is integral to the key organisational strategies such as Community Plan, Council Plan and Area Plans.

4.3. Impact on other key strategies/business plans:

4.3.1. The overall sustainable financial position of the Council is integral to the delivery of all key strategies across the organisation and associated partners. However, there are no direct impacts outlined within this report.

4.4. Equalities Impact Information

4.4.1. There are no equity impacts identified as a result of this report.

5. Consultation

5.1. The Medium Term Financial Plan is produced through an extensive budget process prior to the start of the financial year which includes engagement across a wide number of stakeholders including Directors, Assistant Directors, Heads of Service and Members. This information is subsequently updated through the budget monitoring cycle across all services, in conjunction with Finance Business Partners and the Director of Corporate Resources (s151), to reflect the latest financial forecast outturn.

5.2. The latest government funding policy and legislation changes are also considered and updated within the financial plan. The updated plan is reviewed through the

Council governance process to ensure Director review is further undertaken. This report is then presented to the overview scrutiny commission.

6. Background

6.1. The 2025/26 Budget and MTFP approved by Council in February 2025 delivered a balanced financial position for one-year in 2025/26 with financial deficits forecast in 2026/27(£7.7M) and 2027/28 (£13.7M). The plan assumed the finalised delivery of the approved £28.5M four-year efficiency savings programme.

6.2. This position was updated and reported to Members in July 2025 highlighting sustained levels of inflation from 2024/25 outturn, increased costs for both demand and complexity, homeless pressures and interest rates remaining high for borrowing costs. These resulted in a projected financial deficit for 2025/26 £2.8M with a number of uncertain risks and potential future financial year impacts.

6.3. Subsequently, following the second revenue monitoring report approved in October 2025 by Cabinet, and updated third revenue monitoring report on the agenda today, additional pressures have furthered the financial gap for both in-year and future financial years. Although in-year efficiency savings were agreed at the start of the budget year, there remains significant projected deficits and risks of non-delivery of savings.

7. Issues for Consideration

7.1. The forecasts have also been updated to reflect the latest funding assumptions, including the implications of both the Policy Statement, including Fair Funding response, and the Autumn Statement; both of which will be confirmed through the Local Government Financial Settlement expected in December. Supportive narrative is shown below with a proposed strategy to address the updated budget deficits set out in Section 9.

7.2. Table 1 – MTFP Movements

	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Deficit - February 25	-	7.7	13.7	21.6
Deficit - July 25	2.8	3.5	12.3	27.4
Deficit Latest Forecast – December 25	**6.5**	**2.2**	**3.5**	**10.8**

7.3. Adverse Movements since July 2025 update

7.3.1. Demand Pressures – Continued forecast increases in pressures for ASC and CYP Social Care demand, Homelessness demand and SEND demand.

7.3.2. Contract inflation – Levels continue to remain high for operational contracts e.g. waste and social care placements.

7.3.3. The above pressures were both reported at both Period 2 and 5 within the budget monitoring received in July and October 2025. Adult Social Care are continuing to experience significant pressures of both a cost and volume nature, particularly in areas like residential care, and additional high-cost placements. Children's services are also experiencing additional pressures in children's homes pay budgets, looked after children placement numbers and increasing cost of care packages. Homelessness temporary accommodation pressures continue to be driven by a number of factors including rising rents, rising interest rates, increased population and lack of affordable accommodation.

7.3.4. Borrowing Costs – Sustained inflation levels leading to persistent interest rate highs throughout 2025/26 with limited economic growth to suggest any immediate changes in base rates in the near term.

7.3.5. Efficiency Savings – Inability to achieve in full the 25/26 planned savings delivery with some schemes rated Amber risk level as services continue to focus on delivery of savings plans as reported at Period 5.

7.3.6. Beneficial Movements since July 2025 update

7.3.7. Interest Receipts – Sustained interest rates levels have improved rates received on cash balances.

7.4. <u>Funding</u>

7.4.1. The Local Government Autumn Funding Policy Statement was published on 20th November 2025 outlining the government response to the Fair Funding 2.0 consultation, headline details were

- Updated baseline data for IMD 2025 and new IDACI for Children's RNF
- Updated population base to 2022 (not mid-2024 estimates)
- Removal of "remoteness" adjustment from all Area Cost Adjustment's except Adults
- Increased distance for Home to School Transport cap from 20 to 50 miles
- Continuation of Recover Grants for upper tier authorities but with an introduced funding £35m cap to core spending power
- Confirmation of Business Rates Reset and associated funding floors
- Grants rolling into the SFA
- Continuation of government policy for CTax at 4.99% and Rent to CPI+1% (4.8% 2026/27)

However, still to be confirmed and likely to be provided within the Local Government Provisional Settlement

- Phasing of £35m cap to core spending power
- Rolling in of grants at a detailed funding allocation level
- Business Rates Reset detailed values for each local authority

7.4.2. Additionally, the Autumn Statement announced by the Chancellor on the 26th November 2025 was also issued providing the following headlines

- No additional implications to general fund budgets
- SEND Funding – Council's will not need to fund special educational needs costs from April 2028 when the statutory over-ride which allows Council's not to reflect deficits in accounts in expires.
- HRA Rents – The limit on annual increase to continue at CPI plus 1% for another 10 years to 2036. (3.8 plus 1 for 26/27 = 4.8%). Also, delayed any announcement on "Rent Convergence" into January 26.
- Business Rates – confirmed permanently lower multiplier rates (-5p) for retail /hospitality / leisure properties, to be paid for by higher rates on other high value properties, and wider support for small business (details to follow). Government to meet all costs rather than Councils.
- Council Tax - no changes to existing bandings but varying surcharges to be introduced on properties valued at £2M+ from 2028.
- Benefits / Pay – confirmed lifting of 2 child benefit cap (c1500 cases in Hull) and increases in National Minimum Wage (4.1% increase for over 21's, 8.5% for 18-20 and 6% for 16-17). HCC pay grades are above National Minimum Wage rates and so no impact to Council pay but will lead to social care cost increases.
- Tourism levy – plan to provide discretionary powers to mayors.

8. MTFP/Budget Planning

8.1. The financial strategy of recent years has been challenging due to numerous one-year financial settlements principled on low level investment leading to real terms reductions in financial budgets for Local Government, following more than a decade of financial austerity. This has led to an efficiency savings programme centred on the controlled reductions in the cost base over a four-year period totalling £28.5M. This strategy is such that changes in services can be managed in a considered manner and financial stability maintained with the use of one-off resources for transformation, allowing for a smooth profile of cost reduction and the protection of the Council's reserves.

8.2. The in-year 2025/26 position was reported to October cabinet within the Second Formal Monitoring Report and elsewhere on the agenda is the Third Formal Monitoring Report up to Period 7 of the financial year. These reports highlight a number of variations against budgets with a challenging forecast financial deficit at outturn, 31 March 2026, due to the noted challenges within Section 7 above.

8.3. Looking forward, following the initial signals within the Autumn Budget, the financial strategy indicates the Council will still face a financial deficit for 2026/27 and beyond. However, based on current assumptions, there is a reduced scale of the deficit in future years compared to previous MTFP modelling for 2027/28 and beyond. This is a positive positioning for the Council MTFP and reflects the aims of the fair funding model; however, future years will continue to note deficits, supporting the need for focus to remain on planned cost reductions both in the short and medium term.

8.4. Latest MTFP forecasts for 2026/27 and beyond, are shown in the Table below. They demonstrate an improvement overall following the Autumn Budget initial assessments compared with the updated position reported to Members in July and reflect the following:-

- additional costs for Children's and Adult Services and Homeless compared to those included within the 2025/26 budget
- revisions to the pay forecast following sustained inflation levels and potentially higher pay award levels than budgeted in 2026/27
- reflection of updated corporate costs including continued interest rate costs for borrowing and reductions to pension costs following the triannual valuation for 26/27-28/29
- Priorities investment

8.5. Table 2 – Updated Financial Forecast and MTFP

	25/26	26/27	27/28	28/29
Deficit - Budget Feb 25		**7,722**	**13,652**	**21,591**
25/26 Identified Pressures @ P7				
Service Pressures	5,350	5,350	5,350	5,350
Non Pay Inflation	-	5,200	9,500	14,000
Pay Inflation	-	4,411	6,499	9,587
Cap Financing	1,000	1,000	1,000	1,000
HRA GF contribution	200	200	200	200
DSG Deficit				5,000
Members Pension	-	300	312	321
Priorities		400	700	1,000
	6,550	24,583	37,213	58,049
Beneficial Movements				
Pensions		- 10,000	- 10,000	- 10,000
Extra Efficiency Savings		- 1,000	- 3,000	- 5,000
	-	- 11,000	- 13,000	- 15,000
Policy Statement Model		- 11,387	- 20,761	- 32,262
Revised Deficit/Surplus	**6,550**	**2,196**	**3,452**	**10,787**

8.6. Budget strategy 2026/27

8.6.1. The 2025/26 Budget and MTFP approved by Council in February 2025 provided for a balanced position in 2025/26 with £7.7M deficit for 2026/27 and £13.7M deficit in 2027/28.

8.6.2. The updated projections shown above indicate a £2.2M deficit position in 2026/27 built on the follow underpinning assumptions:

- On-going delivery of the multi-year savings programme approved in February 2025 - £2M 2026/27
- Government Funding for 2026/27 in line with the Autumn Budget as a multi-year settlement (subject to confirmation in the Local Government Provisional Settlement December 2025)
- Increase in Council Tax in line with referendum limit of 4.99%
- Fees and Charges to be increased in line with inflation at 4%
- 2026/27 Pay Award at 4% and 3% each year thereafter
- Continuation of the Capital Programme (update included elsewhere on the agenda)

- DSG deficit assumption 2028/29 included for council share of historical deficit

9. Budget Strategy - 2026/27

9.1 As shown at Table 2 above, based on current assumptions the Council is facing a potential deficit of c£2.2M in 2026/27. Although over recent years the Council has managed to balance budgets and broadly maintain service levels, this is not without challenge and the uncertainty to local government finances is expected to continue in 2026/27 and beyond. Therefore, delivery of savings will remain a priority for services in the face of increasing demands and inflation remaining high, continued complexity and the need for services to either deliver planned savings or continually review for alternative areas of opportunity throughout the financial year remains critical.

9.2 It remains evident that a large proportion of Council expenditure is concentrated on statutory services and areas of greatest need such as social care and homelessness (c70%). To enable the Council to continue to sustain preventative services and invest in priority ambitions for the people in the city, which lead to longer term outcomes and value for money, additional Government funding will be essential.

9.3 Whilst the announcements within the Spending Review and subsequent Fair Funding Review 2.0 are welcomed as local government funding is aimed to areas of greatest need; at this stage in the modelling from the Policy Statement, it is difficult to confirm the implications for the Council and we will need to wait for additional information within the provisional local government settlement for a definitive position. However, the total medium-term funding for local government spending over the next 3 years will be insufficient to fully close our total funding gap as demand and inflation to continue to outstrip funding increases.

9.4 It is therefore also vital that the Council continues delivers a transformation mechanism to support the budget in the medium term. The 2025/26 budget included the “Best Value Service Framework” proposal; bringing together comparative cost and performance data which can then be overlayed with relative priorities. This approach in line with the overall transformational work following external review continues to be coordinated into a revised savings programme across the MTFP period.

10. Reserves

10.1 The Council has continued to focus on general fund reserves sustainability in recent years through robust financial planning and management. However, the current financial reserve position noted within Appendix A, approximately 10% of revenue budget, continues to leave the council with limited financial sustainability or flexibility to respond to the scale of the challenges within the MTFP. It is evident; however, this is not due to financial mismanagement but merely the scale of decline in government funding in a backdrop of ever-increasing demand as outlined within this letter and seen more than ever nationally.

11. HRA

11.1. As set out in suite of Budget reports presented to February 25 Council, the latest HRA projections reflect a sustainable position in the short term but highlight the need for modernisation and efficiency gains in order to secure the longer-term position.

11.2. The updated 2026/27 projections and strategic position will be included in the budget reports presented to Cabinet in January 2026, ahead of the February 2026 Council meeting.

12. DSG

12.1. As highlighted within the P7 monitoring report elsewhere on the agenda, there are on-going pressures on the High Needs Block arising from the continuing increase in the number of children with special educational needs which will likely take the DSG into a deficit position at year end. Whilst the structural and legislative issues behind the financial problem are recognised by the Government, as evidenced by the accounting "override", introduced to ensure deficits do not impact on Council balance sheets in the near term, extension to March 2028, the increasing deficit remains an issue which requires a long-term solution. This will be a key area of focus during 2026/27 and beyond and we will need to await for more details on the management of the historical deficits within the local government provisional financial settlement later this month. However, an assumption that local government will take on some costs associated to the deficit are included within the MTFP for 2028/29.

13. Capital Programme

13.1. The inflationary costs impacting the General Fund are also increasing the costs of the capital programme and associated borrowing costs. As a key area of expenditure and focus for the Council, the programme overall remains under continuous review through the updated governance boards. A future capital programme report will be presented to Cabinet later on the agenda and confirmed within the council budget process in February 2026.

14. Options and Risk Assessment

14.1. As set out in this report the Council faces significant uncertainty in both the short and medium term. The latest forecasts indicate that the Council's current cost base is greater than the assumed level of funding but improved financial deficit positions over the medium term. Although through bolstering of reserves the Council has been able to protect its position, given the on-going changes to local authority funding and overall economic uncertainty there remains significant financial risk and as such it is essential that the Council maintains a realistic strategy for aligning revenue resources and funding.

15. Comments of the Monitoring Officer (Assistant Director Legal, Capital Delivery and Governance)

15.1 The Director of Finance & Transformation has a duty to report on the Council's financial position under the Local Government Finance Act 1992. The report is for information and raises no immediate legal issues.

15.2 It is noted however that there remains a level of uncertainty still to be confirmed within the Provisional Local Government Settlement. In addition, the Council continues to face the service pressures set out above. Noting this continued uncertainty and risk to the outcomes and numbers outlined within the report, the intention to regularly review and provide detailed updates to members is endorsed.

15.3 The Council will need to continue delivery of statutory services and future MTFP reviews will need to mitigate risks to those services.

16. Comments of the Section 151 Officer (Corporate Resources)

16.1 The Section 151 Officer is the author of this report.

17. Comments of the Assistant Director OD and HR and compliance with the Equality Duty

17.1 The content of the report is noted. There are no staffing or equality issues arising for the council from this decision. KH

18. Comments of Overview and Scrutiny

18.1. This report will be considered by the Overview and Scrutiny Management Committee at its meeting on the 12th December, 2025. Comments will be tabled at the Cabinet meeting. (Sc9078).

19. Comments of the Portfolio Holder – Councillor Jackie Dad (Deputy Leader)

19.1 The updated Medium Term Financial Plan report is welcomed as this works to support the preparation for the Budget process for 2026-27, aligned with the latest financial projections. I am aware of the challenges currently facing the financial planning of the future MTFP due to the changes which have taken place to the Fair Funding 2.0 settlement over the summer and subsequent Policy Statement and Chancellor Budget Statement, both of which have been provided in recent weeks. The level of uncertainty associated to the Local Government Financial Settlement is acknowledged within the report and future changes may arise. However, I support

the overall budget strategy outlined within the paper as the council continues to focus on financial sustainability and delivery of our priorities.

Executive Director of Corporate Resources (Section 151 Officer)

Contact Officer: David Bell/Tracy Parker Telephone No.: (01482) 613084

Officer Interests: None

Background Documents: -
- Council Budget Report – February 2025
- First Monitoring Report 2025/26 – July 2025 Cabinet
- Second Monitoring Report 2025/26 – October 2025 Cabinet
- First MTFP report – July 2025 Cabinet

Implications Matrix

This section must be completed and you must ensure that you have fully considered all potential implications

This matrix provides a simple check list for the things you need to have considered within your report

If there are no implications please state

I have informed and sought advice from HR, Legal, Finance, Overview and Scrutiny and the Climate Change Advisor and any other key stakeholders i.e. Portfolio Holder, relevant Ward Members etc prior to submitting this report for official comments	Yes
I have considered whether this report requests a decision that is outside the Budget and Policy Framework approved by Council	Yes
Value for money considerations have been accounted for within the report	Yes
The report is approved by the relevant Director/Assistant Director	Yes
I have included any procurement/commercial issues/implications within the report	N/A
I have considered the potential media interest in this report and liaised with the Media Team to ensure that they are briefed to respond to media interest.	Yes
I have included any equalities and diversity implications within the report and where necessary I have completed an Equalities Impact Assessment and the outcomes are included within the report	Yes
Any Health and Safety implications are included within the report	N/A
Any human rights implications are included within the report	N/A

I have included any community safety implications and paid regard to Section 17 of the Crime and Disorder Act within the report	N/A
I have liaised with the Climate Change Advisor and any environmental and climate change issues/sustainability implications are included within the report	N/A
I have considered how the decision may contribute or impact on culture and heritage within the city.	Yes
I have included information about how this report contributes to the Community Plan/ Area priorities within the report	Yes
I have considered the impact on air quality, carried out an appropriate assessment and included any resulting actions or opportunities necessary to improve air quality in the report.	N/A

Appendix A – Reserves

Balances and Reserves								Appendix B		
	2024-25				2025-26		2026-27		2027-28	
General Fund - Earmarked reserves	Opening Balance	Use of Reserves	Contributions to Reserves	Closing Balance	(Use) / Contributions to Reserves	Closing Balance	(Use) / Contributions to Reserves	Closing Balance	(Use) / Contributions to Reserves	Closing Balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund										
General Balances - Unearmarked	20,968	-	-	20,968		20,968		20,968		20,968
Earmarked reserves										
Insurance Reserve	1,657	(1,031)	-	626		626		626		626
Legal Reserve	1,700	(150)	-	1,550	-	1,550		1,550		1,550
PFI Reserve	1,598	-	12	1,610		1,610		1,610		1,610
Seamens' Memorial	40	(40)	-	-		-		-		-
Business Rates	3,853	(2,597)	-	1,256		1,256		1,256		1,256
Flood Defense	330	(250)	250	330	(250)	80		80		80
Other Earmarked Reserves	200	-	74	274		274		274		274
Earmarked Reserves sub total	9,378	(4,068)	336	5,646	(250)	5,396	-	5,396	-	5,396
Capital Funding										
Capital Financing Reserve	5,496	-	-	5,496		5,496		5,496		5,496
GF sub total	35,841	(4,068)	336	32,110	(250)	31,860	-	31,860	-	31,860
Schools Reserves										
Schools Financial Reserves	(1,336)	(5,778)	-	(7,114)		(7,114)		(7,114)		(7,114)
General Fund Carry Forwards										
Carry Forwards						-				
- Leaders Contingency	71	(24)	6	53		53		53		53
- GF Balance	252	(185)	181	248	(248)	-		-		-
- Devolution Consultation	130	(54)	-	76	(76)	-		-		-
				-		-		-		-
Service Carry Forwards	2,686	(2,686)	1,349	1,349	(1,349)	-		-		-
Carry Forwards sub total	3,138	(2,948)	1,526	1,716	(1,663)	53	-	53	-	53
				-		-		-		-
						-		-		-
Total GF	**37,644**	**(12,794)**	**1,872**	**26,722**	**(1,923)**	**24,799**	**-**	**24,799**	**-**	**24,799**