Report to the

Overview and Scrutiny Management – 13 February 2026
Cabinet – 23 February 2026
Council – 26 February 2026

Wards: All

Final Local Government Finance Settlement 2026/27 – Update to Budget

Report of the Executive Director of Corporate Resources (s151 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
Forward Plan Ref: 0001/26

1. Purpose of the Report and Summary

1.1. To provide Scrutiny and Cabinet with an update to the Budget Report previously circulated, following the publication of the Final Local Government Finance Settlement published on 9th February 2026.

1.2. To provide Cabinet with a on overview of the proposed amendments to the budget report due to be presented to Full Council on 26th February 2026.

2. Executive Summary

2.1 The Budget Report included on the agenda was produced reflecting the Provisional Local Government Finance settlement published on the 19th December 2025. Subsequently, the Ministry for Housing, Communities and Local Government (MHCLG) published the Financial Local Government Finance Settlement on 9th February 2026 with amendments to allocations for Hull City Council.

2.2 This update report outlines the funding changes identified between the Provisional and Final Local Government Settlements. The changes relate to an increase in Core Spending Power (CSP) through a 'Additional Recovery Grant' and further funding through the Homeless, Rough Sleeping and Domestic Abuse Grant. In

addition, the settlement also outlined further details in relation to SEND which highlights the need for the Council to set aside funds to meet a now confirmed proportion of the Council's significant DSG deficit.

2.3 The additional funding provided at Final Settlement will allow the Council to protect and maintain more services over the next 3 years and reduce the savings required across this period.

3. Recommendations

3.1 Cabinet is recommended to:

i) Note the report, alongside the 2026/27 Budget Report included elsewhere on the agenda, and specifically the impact on the Medium-Term Financial Plan.

ii) Note the comments of the Executive Director of Corporate Resources (Section 151 Officer) and the impact of the proposed changes to the Council's Reserves.

4. Reasons for Recommendations

4.1 The Council is required to set a balanced budget which is sufficient to meet estimated expenditure.

5. Final Local Government Finance Settlement

5.1. Following consultation, MHCLG issued the Final Local Government Finance Settlement on 9th February 2026; 4 days after the papers were published for Scrutiny meeting scheduled for 13 February. The General Fund budget and MTFP papers were produced on the basis of the outline funding allocations included within the Provisional Local Government Finance Settlement.

5.2. Government have confirmed an additional £740m of funding within the final settlement over and above the provisional settlement. More specifically, within the final settlement, MHCLG announced additional funding for both 'additional recovery grant' and 'homeless, rough sleeping and domestic abuse grant', changes to Business Rates Pooling, which does not affect Hull, and also further details on the Government's plans to address SEND deficits within local government.

5.3. <u>Additional Recovery Grant</u>

5.3.1 The Government have allocated an additional £440M nationally to assist more deprived Council's, such as Hull, within the final settlement as an increase within CSP. The additional increase for individual authorities will be capped at either £10M over the 3 year multi-year settlement period or by restricting the total increase in CSP funding over the next 3 years to a maximum to 17%.

5.3.2 For Hull, we will receive additional funding to a total of £10m over the 3 year period (£3.3m 2026/27, £4.4m 2027/28 and £2.3m 2028/29), in line with the cap. Overall HCC CSP funding increase will be just under the 17% cap at 16.9%, this is an increase from 16.19% identified within the provisional settlement CSP over the multi-year period.

5.4. Homeless, Rough Sleeping and Domestic Abuse Grant

5.4.1 The Government have allocated an additional £272M nationally to the Homeless, Rough Sleeping and Domestic Abuse grant. For Hull this equates to £0.6m (£0.3m 2026/27, £0.2m 2027/28 and £0.1m 2028/29) over the multi-year period, increasing the total grant allocation to £4.5m in 2026/27.

5.5. SEND Deficits

5.5.1 The Government have confirmed that Council's will be required to fund 10% of deficits as at 31/3/2026 (with Government meeting 90% by way of a grant payable in autumn 2026). In line with our budget report section 8.26, the latest estimates suggest the Council's DSG deficit will be c£20M at 31/3/2026 and therefore the Council's share will equate to £2m.

5.5.2 The Government have also confirmed that Council's will also need to share the burden of deficits arising between 1/4/2026 and 31/3/2028, the period of which the accounting statutory override continues. The details of the share and mechanism for reporting are still to be confirmed but it will require the Council to submit a reform plan for SEND to the DfE for approval prior to confirmation being provided of any funding to authorities.

5.5.3 In line with the current trajectory, the Council's deficit over the 2 year period (2026/27 and 2027/28) period is projected to be c£35M, but this is very uncertain and continues to be impacted by increasing levels of demand. The proposed MTFP within the budget report for 2026/27 currently assumes HCC will take a share of the DSG deficit of £5M as at 31/3/2028 with the funding identified in 2028/29. The Government have also confirmed that beyond 2028 the costs associated with SEND will move away from Councils.

5.6. Overall, the Final Local Government Finance Settlement has identified further funding for Hull, and this is welcomed. However, as outlined within section 6 below, the capping of the additional recovery grant and overall funding settlement does not fully resolve the financial challenges faced by the Council, which continues to face budget gaps in future years. Whilst this additional funding will enable the council to protect more services in the coming years, by providing for smaller budget gaps, focus will need to be maintained on managing cost pressures, service budgets and demand as part of the budget strategy alongside the planned efficiencies, as outlined at section 6 within the General Fund Budget Report.

6. Budget 2026/27 and MTFP

6.1. As outlined above, the funding changes following the Final Local Government Finance Settlement have identified additional CSP allocation which will support the Council's MTFP. Table 1 below outlines the MTFP changes following the Final Settlement which are proposed for inclusion within the final budget report to Full Council on 26th February 2026.

Table 1 – Updated 2026/27 budget and MTFP

	26/27	27/28	28/29	Total
	£m	£m	£m	£m
Budget Gap – as per provisional settlement	0	5.3	9.3	14.6
Additional Recovery Grant	-3.3	-5.4	-2.3	-10
Additional HRSDA Grant	-0.3	-0.2	-0.1	-0.5
HRSDA cost	0.3	0.2	0.1	0.5
DSG contribution	1.3	3.7	-2.5	2.5
Contribution to reserves	2	-2	0	0
Total Deficit	**0**	**2.6**	**4.5**	**7.1**

6.2. The £10m additional recovery grant funding allocation within the final settlement will support the Council both in the short and also medium term to ensure sustainable delivery of services and reduce the projected funding deficits within MTFP. More specifically, over the multi year period, the overall project deficit of £14.6m will reduce by £7.5m to £7.1M.

6.3. In addition, the Council will be required to ensure it allocates £2m of funding to the 2025/26 DSG deficit prior to 31/03/2028, in line with the SEND policy announcement outlined within the final settlement. The funding of the SEND deficit will therefore be in advance of the previously assumed £5M included within the MTFP for 2028/29.

6.4. Furthermore, whilst the MHCLG are yet to confirm details for managing SEND deficits in 2026/27 and 2027/28, prior to Government picking up SEND costs nationally post March 2028, additional SEND deficit costs of £2.5M have been assumed within the updated MTFP providing £7.5m in total within MTFP period. This change is necessary to reflect both the uncertainty of projections around SEND costs and the continued delay to the policy announcements to be included

in the long awaited SEND White Paper which aims to outline a plan for managing SEND costs and demand in the medium term.

7. Reserves

7.1. As outlined above in Table 1. the reserves position amendments following the updated MTFP will be as follows

Table 2 – (Use) / Contribution to Reserves

	25/26	26/27	27/28	28/29
	£000	£000	£000	£000
Planned Use of Existing Reserves to meet overspend	(4,000)			
Replenishment of Existing Reserves		4,000		
New DSG Deficit Reserve		1,300	3,700	2,500
DSG Deficit funding			(2,000)	(5,500)

7.2. It is anticipated that the Council will need to utilise reserves at 2025/26 financial outturn with a likely call of c£4m. Prior to Final Settlement it was planned these reserves would be replenished during 2026/27 (£2m) and 2027/28 (£2m). However, the updated funding profile supports the Council in replacing the use of reserves all within 2026/27. The phasing of the DSG deficit payments will be subject to confirmation following policy announcements anticipated later this year.

8. Key Organisational Impacts

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

- There are no specifically identified impacts within this report. The Budget and MTFP will cover all areas of the Council, however, individual reports and decisions across executive committees will be presented in line with the proposed budget allocations.

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

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

8.3. Impact on other key strategies/business plans:

- The overall sustainable financial position of the Council is integral to the delivery of all key strategies across the organisation and associated partners.

8.4. Equalities Impact Information

- The equalities impact asset is outlined at appendix L of the main budget report. There are no further equality impacts identified within this update, however, individual reports and decisions will be presented in line with the proposed budget allocations for individual equality impacts.

9. Consultation

3. This update report is aligned to the wider budget report and Medium Term Financial Plan process, which are produced through an extensive 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.

David Bell

Executive Director of Corporate Resources (S151 Officer)

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Officer Interests: None

Background Documents: -

Implications Matrix

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
I have considered the impact on Children Looked After and Care Leavers and any resulting actions/implications have been included within the report.	Yes