



Committee and Date

Transformation &
Improvement Scrutiny
9th February 2026

Cabinet
11th February 2026

Item

Public



Draft 2026/27 General Fund budgets and Medium Term Financial Plan 2026/27 - 2030/31

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Cabinet Member (Portfolio Holder):

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1. Synopsis

The purpose of this report is to provide an updated position on the draft 2026/27 General Fund budgets and Medium-Term Financial Plan 2026/27 – 2030/31 since the meeting of Cabinet on 21st January 2026.

At the time of writing this report the Final Local Government Settlement announcement had not been confirmed and is anticipated on Monday 9th February, therefore should any changes to the budgeted amounts arise, an update will be provided at the meeting.

The draft budgets have however been updated for any further service budget amendments and these changes are reflected within the relevant appendices. Overall, there is no change to the estimated budget gap for 2026/27 or across the medium term.

2. Executive Summary

- 2.1. Since the previous update, work has continued in line with the Improvement Plan approved by Council in December, to create financial stability and move towards a financially sustainable position cross the medium to longer term. As reported in January, the use of exceptional financial support (EFS) is critical to enabling financial stability, but this support must be reduced in order to gain financial sustainability.
- 2.2. Development of a Financial Sustainability Strategy including a refreshed transformation and change programme is underway and a progress update will be presented to Cabinet and Council during the first quarter of 2026/27. This Strategy and programme will be driven by the 'Future Council' principles set out in the Improvement Plan and include a focus on the key approaches necessary to reduce the duration of time EFS for the Council is required and which are anticipated to include the following;
 - 2.2.1 Reduce the cost of services through cashable savings. At times this will involve difficult decisions and inevitably impact on Shropshire's residents and businesses. This will include fundamentally reviewing the role and purpose of the Council and exploring the potential of greater partnership working as a way of ensuring residents receive the support and services they need but not necessarily through direct service provision by the Council.
 - 2.2.2 Generate additional income from a variety of sources, whilst balancing risk exposure to the Council and accessibility of services for our residents. Including accelerating the Council's asset disposal review to identify opportunities for both capital and revenue income generation. Potential future capitalisation direction requests to convert capital resources to revenue resources can facilitate a reduction in annual contributions to General Fund Balances and thus reduce overall expenditure. The Council's forthcoming Capital Strategy and future capital investment is a key enabler for income generation alongside the Council's fees and charges policy.
 - 2.2.3 Mitigate future demand growth with a focus on early help and prevention, particularly as a continuing increase of social care budgets is not financially sustainable. Current budgets must focus on preparing for the future, to reduce reactive and at times acute crisis support which has a disproportionate impact on expenditure. This is the most expensive form of support and nor is it conducive to positive outcomes and wellbeing. Greater work at community level, in partnership with residents, the voluntary & community sector, other public and private organisations is necessary to ensure the right support is available at the right time for our residents. This also requires a holistic council wide focus on embedding a prevention approach into all services, ensuring all touchpoints with our residents enable identification of the support residents may require. Across the MTFs by 2030/31 there is, without action of the kind suggested in this paragraph, cumulative demand growth of approximately £56m which is not affordable. It will be necessary to minimise this level of future budget pressure.
 - 2.2.4 Enhancing the use of technology, including digital technology to improve and enable service delivery. This includes technology in the home that supports independent living; technology that supports efficient maintenance of council

assets; and technology that enables the council overall to operate more efficiently, whilst ensuring our services are accessible by all residents.

2.2.5 Align our new Corporate Plan and other council strategies, including other financial strategies such as the Capital Strategy and Treasury Management Strategy and non-financial strategies such as the Asset Management Strategy, Leisure Strategy, Economic Development Strategy, Transport/Sustainable Movement Strategy, Climate Change Strategy, Public Health Strategy, Housing and Homelessness Strategy to a common focus of ensuring Shropshire's residents and businesses receive appropriate services that are affordable within the Council's financial resources. This may mean lowering our aspirations and ambitions.

2.3. Officers met with MHCLG representatives on 27th January to provide an update on Shropshire's financial position since the submission of the application for Exceptional Financial Support of £130m for 2026/27 on 12th December. Key discussion points were as follows;

- An update on the decisions Cabinet had taken in January in relation to the General Fund Revenue and Capital budgets, including the proposed pausing of various capital projects since the submission of the EFS application.
- The timetable for Council Tax setting was re-iterated and whilst confirmation of the Council's request may not be available at the time of publishing the papers for the meeting of Council on 26th February, a decision is anticipated in time for the meeting.
- The impact on Shropshire Council of the provisional financial settlement was further pressed, with an emphasis on the disproportionate impact of reduced funding for a sparse rural authority resulting in higher service delivery costs and with a higher than national average older population resulting in continued social care pressures.
- The total loss of funding of £13.3m, inclusive of the loss of Rural Services Delivery Grant in 2025/26 was reiterated. In addition to seeking a remedy to the shortfall in ongoing government grant funding, a request for short term support with the cost of EFS was also made, particularly explaining the imbalance of this cost when compared to the additional Council Tax income anticipated for next year, based on a 4.99% increase i.e. that the increase in Council Tax income projected for next year does not cover the increased cost in borrowing resulting from EFS.

2.4. In the coming weeks work will commence, via a joint councillor and officer working group to develop and progress an approach to business and budget planning. It is intended that this approach will respond to elements of the statutory recommendation by the Council's External Auditors and will utilise the principles of zero-based budgeting for the development of 2027/28 budgets and onwards. This work will also be informed by the results of the budget consultation which closed on 16th January 2026.

3. Recommendations

That Cabinet:

- 3.1. Note the updated position for draft revenue budgets for 2026/27.
- 3.2. Continue to work with Officers during the current financial year and into 2026/27 to develop a Financial Sustainability Strategy and transformation and change programme that will provide a basis for how the Council will deliver savings and generate income, in order to reduce the duration of time for which EFS (exceptional financial support) is required across the medium-term financial period.
- 3.3. Continue to work with Officers during the current financial year and into 2026/27 through the establishment of a joint working group to develop and progress an approach to business and budget planning for 2027/28.
- 3.4. Ask Officers to continue to work with MHCLG in support of its application for exceptional financial support and actions required to return to financial stability.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. The Chief Finance Officer's Section 25 report will be presented to Council in February which will advise on the robustness of budget estimates and the adequacy of proposed financial reserves, ensuring prudent budget-setting. This will take account of the in-year deficit in General Fund balances and the demand pressures the Council is facing. However as detailed within this report, the proposed budget is a reset budget, to provide financial stability in the short term and enable the Council to develop a robust and realistic strategy to manage demand pressures and reduce the need for Exceptional Financial Support across the medium term. Ongoing investment in transformation and change is predicated on enabling a return to financial sustainability and overall the forthcoming Financial Sustainability Strategy will set out the plans the Council must execute.
- 4.2. As per the Quarter 3 Finance Monitoring report, also on this agenda, the Dedicated Schools Grants deficit as at the end of 2024/25 was £17.566m and is projected to increase to £42.089m by the end of the current year. At present all councils are protected by the statutory override which is in place until March 2028 which allows exclusion of this deficit from the Council's balance sheet. However, there is uncertainty on what will happen after this date and therefore the Section 25 report will reflect this risk to the Council.
- 4.3. Continuing to highlight the persistent structural deficit in the Council's funding is a key priority for Members and Officers, alongside the local actions that will be taken. The findings from the budget consultation will shape these local actions and prioritise future investment of the Council.
- 4.4. The Council's Improvement Plan presented in December set out 3 key programmes, of which as mentioned above, progressing the Financial Sustainability Strategy (programme 2) is key. This proposed draft budget for 2026/27 has been driven and informed by the activity in Programme 1 and alongside the Capital Strategy report also on this agenda, reflects key actions being taken immediately to bring about financial stability.

5. Financial Implications

- 5.1. As set out within this report, the Council's financial position has necessitated the request for exception financial support from the government for both 2025/26 and 2026/27, without which the Council cannot meet its financial obligations and set a lawful budget. The draft MTFP at Appendix 7 shows the Council is projecting a deteriorating position across the next 5 years. Limiting the use of exceptional financial support to the short term only, in the current circumstances is the preferred outcome. However, without urgent action to; 1) reduce the Council's expenditure, alongside 2) increase income from a variety of sources, it will become necessary to require exceptional financial support into the medium-term. This support would be in the form of borrowing and will therefore create additional cost pressures in the form of interest and debt repayment charges.
- 5.2. Although the financial challenges remain serious, the council has already taken significant steps to strengthen its position. Spending controls introduced in September 2025 have started to slow the rate of financial pressure, and teams across the organisation are working hard to reduce costs where possible. The Council's Improvement Plan sets out further actions, and a Financial Sustainability Strategy is being developed.

6. Climate Change Appraisal

- 6.1. The Council's Financial Strategy supports its strategies for Climate Change and Carbon Reduction in several ways. A specific climate change revenue budget is held. The climate change schemes involving the Council's assets or infrastructure are included within the capital programme. These two areas of expenditure are anticipated to have a positive contribution towards climate change outcomes.
- 6.2. Securing a robust and sustainable financial base will help the Council meet the challenges of climate change – this is not separate to our budget management, but integral to it.

7. Background

- 7.1. On 12th December the Council submitted its application for EFS for 2025/26 for £71.4m and also for 2026/27 for £130m and as can be seen from the Quarter 3 Financial Monitoring report, also on this agenda, the current year financial position is a projected pressure of £53.261m. On 27th January Officers met with MHCLG representatives to discuss the actions taken since the application submission and a decision is anticipated in time for the Council meeting on 26th February.

Budget build

- 7.2. The draft 2026/27 budgets are based on a reset position in relation to the financial pressures seen during 2025/26 and previous years. As reported in January, various budget adjustments have been made to the 2025/26 budget and these are detailed within the accompanying appendices. The following provides an updated position for each of these appendices since the previous update.

7.3. Appendix 1 provides an updated summary of the reset changes proposed to the 2025/26 budgets. The main changes to this include;

- Adjustments to reflect the balance of 2025/26 third-party savings not achieved as per the Quarter 3 Financial Monitoring report also on this agenda.
- Changes to specific grants which have continued to be announced in recent weeks. Appendices 1a-1b provide additional details on these core and non-core government grants. This includes an updating for anticipated S31 funding relating to Business Rates, resulting from the changes to the Business Rates Retention System following Fair Funding Review 2.0. The Council submitted its NNDR1 (National Non-Domestic Rates /Business rates) form on 30th January and this S31 funding will support the provision for managing risk and pressures including the introduction of food waste collection and increasing pressures the Council is seeing regarding debt collection.
- Reserves adjustments to take account of the above pressures.

7.4. Appendix 2 details the total amount of savings and capitalised staff time reversed from 2025/26 and has been updated as mentioned in paragraph 7.3.

7.5. Appendix 3 details the total budget adjustment for demand and demography growth and reflects a £0.4m adjustment since reported in January.

7.6. Appendix 4 details the service growth required for next year comprising of additional staffing capacity required to address service delivery and resourcing pressures, plus non-staffing related growth. A change to purchasing instead of leasing some IT hardware, offset by a change in staffing growth has resulted in a small net change overall.

7.7. Appendix 5 details inflationary growth and reflects a minor amendment.

7.8. Appendix 6 details draft income/resources budgets and will be updated as necessary following confirmation of the Local Government Finance Settlement, expected on 9th February. Since January it has been updated in line with the submission of the Council's NNDR 1 form at the end of January which reflect changes to business rate income following the reset of the Business Rates Retention System and changes to the rateable values for businesses in Shropshire as advised by the Valuation Office Agency. In addition, it has been updated for the changes in the movement on the Collection Fund Account as detailed within the Estimated Collection Fund Outturn for 2025/2026 report also on this agenda.

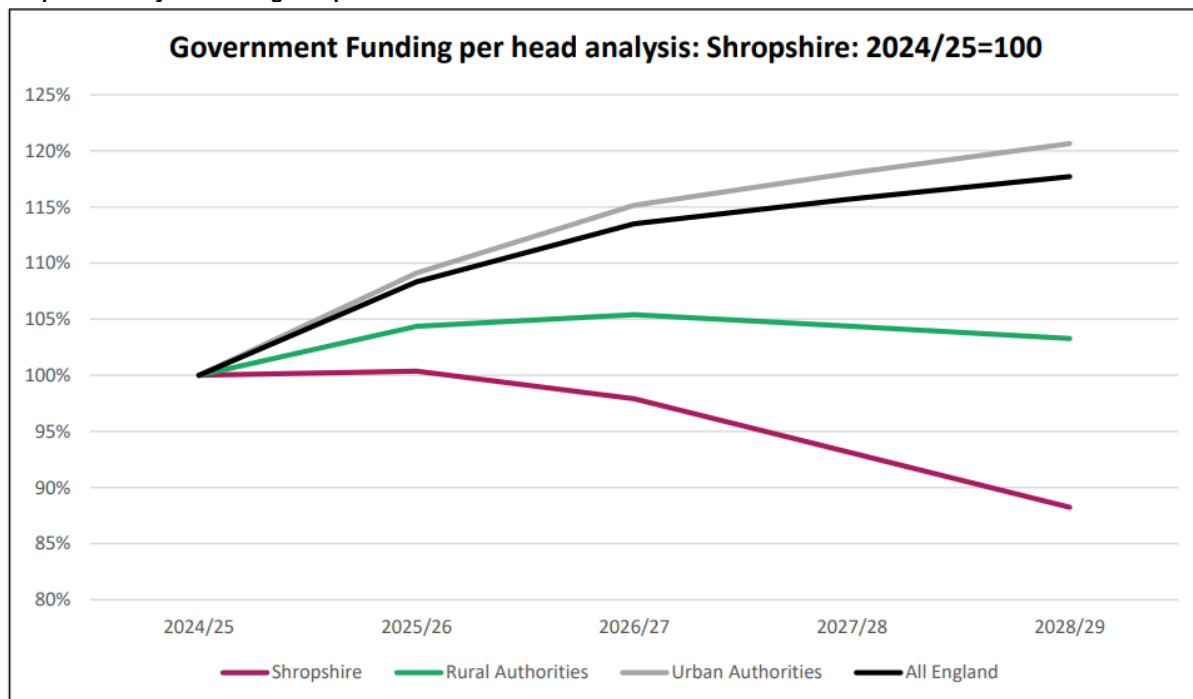
7.9. Appendix 7 provides a draft medium-term position across the next 5 years which is based on the same assumptions underpinning the draft 2026/27 budgets.

Multi Year Settlement

7.10. As reported in January the draft budgets and MTFP are now based on a multi-year settlement covering the next 3 years. At the time of writing this report the final settlement had not been announced and therefore the draft budgets in this report are based on the provisional announcement. As reported in January, the Council is anticipating a £4.4m reduction in government funding for next year and as illustrated in Graph 1 below, is facing a disproportionate reduction in funding compared to other rural authorities and significantly when compared to the national average and other urban authorities.

- 7.11. The reduction in government funding is a major factor in the Council's structural funding deficit. Increases in council tax are capped at 4.99%, so the Council is limited in terms of how much additional funding it can generate. Meanwhile cost pressures increase each year with inflationary increases, alongside demographic growth, particularly for social care. Council tax increases alone are not sufficient to meet these cost pressures, and further reductions in government funding, increase this structural funding deficit each year.

Graph 1: Multi-year funding comparison between rural and urban authorities



Budget Consultation

- 7.12. Consultation to inform the forthcoming transformation and savings programme was launched on 12 December 2025 and closed on 16 January 2026, aimed at identifying areas for improvement and service reductions for the 2026/27 budgets and medium-term period. At the time of writing this report analysis of the feedback was being undertaken and will be presented to Council in February.
- 7.13. This feedback will inform the 2026/27 budget setting process and the forthcoming Financial Sustainability Strategy. As mentioned above and reported in January, the joint councillor and officer working group will progress a budget and business planning process
- 7.14. £15m has been included within the draft budgets for next year to enable financing of the transformation and change programme. Utilisation of this investment will be subject to a robust business case process and overall strengthened governance process in line with the Council's Improvement Plan.

General Fund Balance, Reserves and Section 25 report

- 7.15. During 2025/26 the deteriorating financial position of the council has reduced the General Fund Balance to an unsustainable level and has left the Council with no substantial reserves on which to fall back on should any emergency occur. As per the Q3 Financial Monitoring report on this agenda, the projected position is as follows:

General Fund	£'000
Balance as at 1 st April 2025	4,825
Budgeted Contribution 2025/26	29,455
Budgeted General Fund Balance as at 31st March	34,280
Projected overspend (central projection as at Quarter 3)	(50,745)
Estimated Balance as at 31 March 2026	(16,465)
Requested Revenue Overspend Exceptional Financial Support	21,466
Potential Balance as at 31 March 2026	5,001

- 7.16. It has been necessary therefore to build these reserves back up in line with the risk assessment-based methodology, as reported to Council in February 2025. Further details on this will be presented to Council in February along with the Chief Finance Officer's Section 25 report, which will advise on the robustness of budget estimates and the adequacy of proposed financial reserves, ensuring prudent budget-setting.
- 7.17. Appendix 8 provides the latest calculation of risk. The proposed build-up of General Fund Balances within the draft budgets is to bring the Council in line with this assessment of £45m and is reflective of the pressures identified in paragraph 7.3.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Medium Term Financial Strategy – Council 27 February 2025
 Fees and Charges Pricing Policy - Cabinet 3 December 2025
 Financial Monitoring Report Quarter 3 – Cabinet 11 February 2026
 Estimated Collection Fund Outturn for 2025/26 – Cabinet 11 February 2026

Local Member: *All*

Appendices

Appendix 1 – Revenue Budget Summary
 Appendix 1a – Specific Grant Changes
 Appendix 1b – Core & Non-Core Government Grants
 Appendix 2 – Growth to offset Unachievable Savings
 Appendix 3 – Demography & Demand Growth
 Appendix 4 – Service Specific Growth
 Appendix 5 – Inflationary Growth
 Appendix 6 – Resources/Income Budget Summary
 Appendix 7 – MTFS Summary
 Appendix 8 - Calculation of Risk Assessed General Fund Balance

