

Cabinet

Report Title	Medium-Term Financial Strategy and Draft Budget 2026/27
Date of Meeting	Wednesday, 4 February 2026
Report Author	Claire Spencer, Service Director - Finance
Lead Officer	Alex Thompson, Executive Director - Finance & Transformation
Lead Cabinet Member(s)	Cabinet Member for Finance & Resources and Deputy Leader
Why is this a key decision?	Decisions over £1m
Wards Affected	(All Wards);
Identify exempt information and exemption category	Open
Is the report urgent?	No
Reasons for urgency (only where applicable)	N/A
Appendices (if any)	1. Medium Term Financial Strategy 2026/27 to 2030/31

1. Executive Summary

- 1.1 This report presents the council's Medium-Term Financial Strategy for the financial years 2026/27 to 2030/31. The Medium-Term Financial Strategy includes a series of financial sub-strategies for approval, as well as details of all proposed General Fund and HRA revenue and capital budgets for 2026/27 and focuses on setting a balanced budget in 2026/27. For the General Fund, it is recommended that a suite of efficiency and income generation proposals are adopted to close the budget shortfall in 2026/27. For the Housing Revenue Account (HRA), a contribution from the HRA's general reserve is required.

2. Recommendations

That Cabinet:

- 2.1 **Endorses** the Medium-Term Financial Strategy and Draft Budget Report 2026/27, including the appendix and annexes,
- 2.2 **Recommends that Full Council**, having due regard to the report of the Section 151 Officer, included at section 1 of Appendix 1 to this report, and as required under Section 25 of the Local Government Act 2003 to report on the robustness of the estimates made for the purposes of the budget calculations and adequacy of proposed financial reserves:-
 - 2.2.1 **Notes** the results of the consultation exercise at **Annex 1**.
 - 2.2.2 **Approves** the budget growth proposals detailed in **Annex 2** for inclusion in the General Fund base budget for 2026/27 and the Medium-Term Financial Plan (MTFP) for the financial years 2026/27 to 2030/31.
 - 2.2.3 **Approves** the budget efficiency and income generation proposals, detailed in **Annex 3** for inclusion in the General Fund base budget for 2026/27 and the Medium-Term Financial Plan (MTFP) for the financial years 2026/27 to 2030/31.
 - 2.2.4 **Notes** the change log of financial movements in the MTFP at **Annex 4**.
 - 2.2.5 **Approves** the Fees and Charges Schedule for 2026/27, as set out within **Annex 5**
 - 2.2.6 **Approves** the General Fund net budget of £457.802m for 2026/27, as detailed at **Annex 6**, including the financial implications of:
 1. The directorate budget summaries at **Annex 7**.
 2. A proposed Council Tax increase of 4.99% for the Sandwell MBC element resulting in a Band D charge of £1,914.77, as set out in **Annex 8**.
 3. the Local Council Tax Reduction Scheme Policy as approved by Full Council on 9th December 2025; and
 4. an increased Council Taxbase of 81,818.4 as approved by the Cabinet on 10th December 2025.
 - 2.2.7 **Approves** the General Fund Capital Programme budget allocation of £70.848m for 2026/27, and of £254.721m for the programme to 2030/31, as set out at **Annex 9**.
 - 2.2.8 **Notes** an assumption that the value of the 'pipeline' projects, as detailed in **Annex 9B**, is affordable, and that these projects will be included within the programme subject to successful completion of an appraisal and associated due process as prescribed by the Council's Financial Regulations.

2.2.9 **Approves** the Housing Revenue Account (HRA) revenue budget for 2026/27 as set out in Table 2 of **Annex 10** including the draw of £8.857m from HRA reserves in 2026/27 and including the implications of the 'Review of Council Housing Rents and Housing Related Property Charges Report' approved by Full Council on 9th December 2025.

2.2.10 **Approves** the HRA Capital Programme as set out at **Annex 11**, including the budget of £88.774m for 2026/27 as set out in Table 2 of the report.

2.2.11 **Endorses** the HRA 30 Year Business Plan, as set out at **Annex 13**.

2.2.12 In respect of the 2026/27 schools funding formula for Sandwell schools, **Approves** adoption of the Dedicated Schools Grant allocation by block, as per Table 1 of **Annex 12 and agrees** the amount of funding available for distribution from the Schools Block at £387.046m, as set out at Table 2 of **Annex 12** including:

- Set aside of £0.450m as Pupil Growth contingency;
- Set aside of £1.511m as Falling Rolls Funding contingency: and
- Transfer of £0.522m to Central Schools Services Block to fund the attendance service.

2.2.13 **Approves** the Capital Strategy at **Annex 14**

2.2.14 **Approves** the Capital Financing Strategy at **Annex 15**

2.2.15 **Approves** the Flexible Use of Capital Receipts Strategy at **Annex 16**, and delegated authority given to the Section 151 Officer to make any submissions to the Ministry of Housing, Communities and Local Government (MHCLG) for application.

2.2.16 **Approves** the Investment Strategy at **Annex 17**.

2.2.17 **Approves** the Treasury Management Strategy at **Annex 18**, including:

- The Borrowing and Investment Strategies (para 67 and 97)
- The Minimum Revenue Provision Policy Statement (para 43)
- The Treasury and Prudential Indicators as set out within the report and summarised at **Annex 18F**; and
- The forecast new borrowing requirement of £100m.

2.2.18 **Approves** the Reserves Strategy at **Annex 19**, including:

1. The reallocation of earmarked reserves within 2025/26, as set out in **Annex 19B**
2. The transfers to/from earmarked reserves, with a total net value of £1.527m transfer from reserves, as set out in **Annex 19B**, be included within the General Fund revenue budget for 2026/27.
3. A contribution of £0.750m to the General Fund balance be included within the General Fund revenue budget for 2026/27.

2.2.19 **Notes** the financial approval limits at **Annex 20** that form part of the Section 151 Officer's scheme of financial delegation,

2.2.20 **Endorses** the Revenues and Benefits Policy Framework at **Annex 21**; and

2.2.21 **Delegates** authority to the Section 151 Officer in conjunction with the appropriate Cabinet Member to:

1. Amend any of the fees and charges included within the schedule within the 2026/27 financial year.
2. Make any financial corrections or amendments to the MTFS and annexes as may be required in the final preparation of papers for Full Council on 24 February 2026.
3. Make any in-year financial corrections, technical adjustments or movements in the event of variations in indicated funding allocation made by Government and existing funding partners, subject to these being allocated in accordance with the principles set out in this report.
4. Adjust the funding sources applied to the Capital Programmes during the year to maximise flexibility in use of capital resources and minimise borrowing costs where possible.

2.3 Delegates authority to the Section 151 Officer in conjunction with the relevant Cabinet Member and Monitoring Officer to make any necessary financial corrections or amendments to the MTFS and annexes as may be required in the final preparation of papers for Full Council on 24 February 2026.

3. Proposals – Reasons for the Recommendations

Introduction

3.1 The Medium-Term Financial Strategy (MTFS) shows how the council can deploy resources to achieve its strategic objectives, as set out in the Council Plan. It shows how expenditure and income budgets must change to ensure services are adequate to address local need and meet financial pressures from inflation and increasing demand.

3.2 The immediate objective of the updated MTFS is focused on achieving a balanced budget for 2026/27, but principal aim is to provide a comprehensive, forward-looking framework over the MTFS period that ensures long-term financial sustainability, allowing the council to deliver its key strategic priorities and statutory services within a balanced budget in future years.

General Fund Budget Revenue Budget

3.3 In October 2025, the Council endorsed its MTFS for 2026/27 to 2030/31 and authorised the commencement of a period of consultation on the efficiency and income generation proposals contained within it. The draft MTFS included indicative financial estimates and a forecast balanced budget for the 2026/27 financial year, subject to consultation on, and implementation of, the efficiency and income generation measures for 2026/27 that were proposed.

3.4 The forecast budget gap for the 2026/27 financial year, prior to efficiency and income generation proposals, was £8.354m, and proposals totalling £8.354m were presented for consultation to close the budget gap.

3.5 Since October 2025, the MTFS has been regularly reviewed and updated, and the deficit figure has changed. This reflects ongoing refinement and testing of planning assumptions.

3.6 Principally, since October 2025, the council has:

- Completed a comprehensive consultation exercise on the efficiency and income generation proposals presented to balance the budget position
- Refined income estimates for council tax and business rates
- Reviewed expenditure pressures relating to staff pay and contract costs, as a result of updated forecast inflation rates, the Chancellor's Budget announcement and information on future pension contributions received from West Midlands Pension Fund
- Reviewed expenditure pressures that have emerged within the council's Quarter 2 budget monitoring position
- Received notification of core grant income to be received for the 2025/26 financial year, as set out in the Provisional Local Government Finance Settlement

3.7 The revised budget shortfall in 2026/27 is £7.785m. The reasons for the movement in the forecast budget shortfall are summarised in Table 1 below.

Table 1 – Movement in Forecast Budget Shortfall for 2026/27

Description of Shortfall/Movement	2026/27 £m
Forecast Budget Shortfall as at October 2025	8.354
Increase to pay award cost assumption	0.922
Reduction in pension contributions, following fund revaluation	(5.861)
New budget pressures identified within Quarter 2 budget monitoring position	2.361
New budget pressures identified from 2026/27, including additional services to be delivered	1.463
Impact of Chancellor's Budget, principally in relation to increase to National Living Wage	0.698
Review of pay award and contract related contingency budgets	3.835
Inflationary increase to recharges to the Housing Revenue Account	(1.019)
Increase to council tax base	(0.014)
Forecast increase to business rates income	(2.457)
Review of Collection Fund surplus/deficit adjustment	3.945
Impact of Provisional Local Government Settlement (in comparison with October 2025 estimates)	(14.081)
Removal of use of one-off dividend income that was proposed to be transferred from reserves to balance the budget in 2026/27 – No longer required	2.640
Increase to budget for borrowing costs, following significant increase to Council's net budget	1.000

Description of Shortfall/Movement	2026/27 £m
Contribution to transformation reserves	4.000
Creation of new 'Severe Weather' reserve	1.250
Contribution to General Fund balance in accordance with Reserves Strategy	0.750
Revised Forecast Budget Shortfall as at February 2026 (Before Efficiency and Income Generation Proposals)	7.785

3.8 The revised suite of efficiency and income generation proposals, as set out in Annex 3 of the MTFS, totals £7.785m, and therefore, if fully adopted, is sufficient to balance the budget for 2026/27. However, across the life of the Medium-Term Financial Plan there is a need for further efficiency and income generation proposals to be identified in order to maintain a balanced position from 2027/28, as illustrated in Table 2 below.

3.8 Table 2 summarises the council's revised forecast budget shortfall over the five-year MTFS period, before and after efficiency and income generation proposals are taken into account.

Table 2 – Forecast Budget Shortfall Over MTFS Period

Financial Year	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m
Forecast Net Expenditure Requirement (Before Efficiency Proposals)	465.587	485.683	508.650	531.777	556.062
Forecast Funding Available	(457.802)	(472.256)	(488.336)	(506.600)	(525.831)
Estimated Budget Shortfall Before Efficiency Proposals	7.785	13.427	20.314	25.177	30.231
Efficiency and Income Generation Proposals for Approval	(7.785)	(8.205)	(8.685)	(8.161)	(8.641)
Revised Forecast Budget Shortfall	-	5.222	11.629	17.016	21.590

3.9 In December 2025, the council received notification of its provisional three-year funding settlement from the government. The settlement covers the period 2026/27 to 2028/29. Government funding, in accordance with the provisional three-year settlement, has been included within 'forecast funding available' in Table 2 above. The council must assume that no further government funding will be received during this three-year period, over and above the funding already announced.

3.10 The analysis within Table 2 above, therefore, shows that the council must locally identify and implement new net budget reductions to balance its budget from 2027/28. These net budget reductions must be sustainable over the MTFS period. Budget reductions could be made from cost reductions or increases in

income, but the overwhelming proportion of these must be made on a recurring basis.

- 3.11 The council is developing 10 transformation projects, aiming to support the effective delivery of the aims of the Council Plan, improve efficiency and reduce costs. Effective transformation will be key to ensuring that the council is able to balance its budget in future years.
- 3.12 In relation to the revenue budget for 2026/27, taking account of all updated forecasts of income and expenditure, the Council's draft General Fund net revenue budget in 2026/27 is £457.802m, as shown in Annex 6 to the MTFS.
- 3.13 At the time of writing this report, the Final Local Government Finance Settlement for 2026/27 to 2028/29 has not been announced. It is not expected that there will be material differences to the values as reported in the MTFS. However, Cabinet is requested to approve a delegation to the Section 151 Officer and Monitoring Officer to make any final amendments to the MTFS and annexes in preparation for the Full Council meeting on 24th February 2026.

General Fund Reserves

- 3.14 A Reserves Strategy was introduced within the 2025/26 MTFS which seeks to ensure that the council holds adequate reserves to protect against risk but also to support investment and transformation. The Reserves Strategy has been updated, although it maintains the same aims. The updated strategy is included at Annex 19 to the MTFS.
- 3.15 The council does not generally rely on the use of reserves to support ongoing service delivery, and no use of reserves to support ongoing service delivery is included within the draft budget for 2026/27.
- 3.16 This MTFS does, however, support the use of earmarked reserves over three years (2025/26 to 2027/28) to fund the deficit of the Sandwell Children's Trust to ensure that the Trust's financial position and ongoing viability is robust and supported through an adequate contract sum to allow efficient and effective delivery of the Trust's duties.
- 3.17 Subject to audit of the council's 2024/25 accounts, at the beginning of the 2025/26 financial year the council is holding General Fund earmarked reserves of £159.558m. Net contributions from earmarked reserves of £1.527m are proposed in 2026/27, taking into account the draw from reserves to fund increased contract payments to the Sandwell Children's Trust, and also taking into account proposed contributions to transformation reserves and the creation of a new reserve to mitigate against the impacts of adverse weather events.
- 3.18 A summary of earmarked reserve balances and the proposed contributions to and from earmarked reserves in 2026/27 is included within Annex 19 to the MTFS. Earmarked reserve balances remain adequate to fund transformation and investment activities and to mitigate all identified risks.
- 3.19 The 2026/27 budget also proposes the addition of £0.750m to 'top-up' the General Fund balance, which is the council's general reserve. This contribution to reserves is proposed to ensure that the General Fund balance remains above 5% of net expenditure, in accordance with best practice.

General Fund Capital Programme

3.20 As part of the 'Star Chamber' process carried out over summer 2025, new 'pipeline' project proposals were presented to Cabinet members for consideration. The new project proposals mainly focus on maintaining the council's property and highway assets. A complete list of 'pipeline' schemes is included within Annex 9 of the MTFS.

3.21 The proposed capital programme for 2026/27, and over the next five years, including the 'pipeline' projects, has been verified as affordable. 'Pipeline' projects will be brought forward for appraisal at the appropriate time and added into the capital programme following completion of a successful appraisal and the appropriate approval process.

3.22 The strategy within the MTFS is to ensure that capital investment, where there is a need to fund through prudential borrowing, is affordable. A limit of 6% of net revenue budget has been set to ensure that borrowing costs do not place unnecessary pressure on essential services.

3.23 The capital programme budget for 2026/27 totals £70.848m, prior to approval of any 'pipeline' project requests. Including proposed 'pipeline' project expenditure of £37.300m, which is subject to due diligence and approvals, the total capital budget in 2026/27 could be up to £108.148m. The annual cost of servicing new and existing debt to fund the programme is estimated to be £19.1m in 2026/27, which equates to approximately 4% of the council's net budget, which is well within the policy cap of 6%. Therefore, the capital programme is affordable and revenue borrowing costs have been set at a prudent level.

Objectives of the 2026/27 Budget Setting Process

3.24 The work carried in relation to setting the draft budget for 2026/27 has been sufficient to:

- Be able to protect services provided to vulnerable people and ensure that those services are adequately funded
- Identify efficiency and income generation proposals sufficient to close the budget gap
- Ensure that efficiency and income generation proposals are robust and sustainable, contributing to reducing the budget shortfall throughout the MTFS period
- Be able to maintain the council's existing assets
- Maintain adequate reserve levels

3.25 The draft budget for 2026/27 includes over £19m of ongoing budget growth for adult and children's social care, reflecting the council's commitment to ensuring that services for its most vulnerable residents are prioritised and invested in.

Housing Revenue Account Revenue Budget

3.26 The Housing Revenue Account (HRA) is the budget operated by the council which contains the income and expenditure connected with the council's Housing Landlord role. The main source of income into the HRA is the rental income from the properties let by the council. The HRA budget is ring-fenced and must be sustainable without any cross subsidy from/to the council's General Fund budget.

3.27 Principally due to addressing a backlog of repairs and one-off expenditure to mitigate asset management pressures relating to stock condition, damp and mould, housing disrepair claims and a backlog of voids works, it is currently forecast that a transfer from the HRA's general reserve of £6.493m will be required within the current year in order to balance the budget at year-end.

3.28 Annex 10 to the MTFS sets out the forecast revenue budget requirement for the HRA for 2026/27 and for all years included within the MTFS. The draft budget for 2026/27 proposes a contribution from HRA general reserves of £8.857m to balance the budget in that year. Asset management costs and other expenditure costs are increasing at a faster rate than the income generated by tenants' rent, and this situation is exacerbated by a significant increase in 'right to buy' sales. The government's 'Rent Convergence' policy is expected to increase rental income for the HRA in the future, but as yet no announcement has been made on when or if this can be implemented.

3.29 The estimated HRA general reserve balance at 1st April 2026 is £44.690m, and a draw from reserves of £8.857m in 2026/27 would reduce the balance to £35.833m. The council's Reserves Strategy, included at Annex 19 to the MTFS, stipulates that the balance of the HRA general reserve must be kept above 10% of the HRA's net budget, which in 2026/27 is proposed to be £157.037m. Therefore, the reserve balance must be maintained at at least £15.704m in 2026/27. Currently the HRA reserve balance is therefore adequate to mitigate against the financial risks to the HRA, however, based on current expenditure and income trends, the reserve balance is forecast to reduce below 10% of net budget by 2030/31, as shown within Annex 10 to the MTFS. Mitigations to reduce expenditure must therefore be put in place to ensure that the reserve balance is adequate in the medium-term.

3.30 The draft HRA capital programme is included at Annex 11 to the MTFS, including a proposed budget of £88.774m in 2026/27. The draft capital programme and revenue income and expenditure assumptions have been reflected in the HRA's 30-Year Business Plan, which is included at Annex 13 to the MTFS.

3.31 Over the medium-term, the HRA capital programme assumes that all new build schemes and acquisitions will be funded from capital receipts; principally 'right to buy' sales. Prudential borrowing will be undertaken purely for investment in existing housing stock.

Dedicated Schools Grant

3.32 Dedicated Schools Grant (DSG) is provided to councils by the Department for Education (DfE) in four distinct blocks. The provisional allocations to be provided by the DfE in 2026/27 for each of the four blocks are included at Annex 12 to the MTFS.

3.33 Like many other councils across the country, the cost of the High Needs Block is exceeding the grant provision available in the current year and is forecast to do so again in future years. In 2025/26, expenditure within the High Needs Block is forecast to be overspent by £6.863m. Following the use of the High Needs Block surplus brought forward from previous years of £2.696m, the net overspend is forecast to be £4.167m at the end of the year.

3.34 It is therefore expected that the position for 2025/26 will see the council's High Needs Block reserve becoming a deficit reserve. There are currently accounting regulations in place until March 2028 that prevent the deficit becoming a charge on the General Fund, and therefore the deficit will instead be held as a negative balance on overall council resources.

3.35 The provisional High Needs Block allocation for 2026/27 after adjustments is £81.779m, which is an increase of £4.172m in comparison with the 2025/26 allocation after adjustments of £77.607m. This provisional allocation of £81.779m for 2026/27 is unlikely to be sufficient to cover all relevant costs.

3.36 The Council is therefore working on a mitigation strategy to address the significant demand on the High Needs Block. Work is underway with a strategic partner to enhance and progress the SEND transformation programme over a 12-month period. A series of anticipated areas of work have been identified that will look at:

- SEND strategy and forward planning
- Locality model
- Implementation of a SEND service restructure
- The design of a 'front door model' for Inclusive Learning Services
- Supporting the development of a 'whole school' SEND and inclusion offer for schools
- Home to school transport.

4. Alternative Options Considered

4.1 The council is legally required to set a balanced budget by March each year. As such, there is no alternative other than to set a balanced budget.

5. Consultation

5.1 Between 16th October 2025 and 28th November 2025, the council undertook a comprehensive consultation on the efficiency and income generation proposals included within the draft MTFS, to ensure that any subsequent decisions on those proposals are fully informed and reasoned. Further information in relation to the consultation is contained within Annex 1 to the MTFS.

6. Financial Implications

6.1 The council's MTFS, set out in Appendix 1, provides forecasts of net expenditure and funding for future years. It also presents a list of efficiency and income generation measures proposed be adopted in order to reduce net expenditure to match the level of funding available in 2026/27.

6.2 Section 25(1) of the Local Government Act 2003 requires that members give due regard to the report of the Chief Finance Officer when making decisions about the calculations and decisions within the budget.

The S.25 Report is included within section 1 of the MTFS. The report reflects on the robustness of the estimates that are contained within the financial plans and the adequacy of the financial reserves. The comprehensive process to set the council's budget, including the associated engagement with stakeholders

that has taken place, assists in providing the assurance that the financial estimates are robust.

7. Legal and Governance Implications

- 7.1 The Local Government Finance Act 1992 requires the council to set a balanced, risk assessed budget each year and approve a council tax precept by 11 March. This report forms a part of the process under the council's legal obligation to set a balanced budget for 2026/27.
- 7.2 The council is required under Part 1, Chapter III of the Local Government and Finance Act 1992 (the 1992 Act) to set a council tax for the forthcoming year and its budget estimates. The decision must be made before 11 March of the preceding year (i.e. by midnight on 10 March). Ss.31A and 31B of the 1992 Act require the council to calculate its "council tax requirement". This is reflected and set out in the recommendations and this report. The report sets out the duty to have regard to the assessments of the S.151 Chief Finance Officer under s.25 of the Local Government Act 2003.
- 7.3 The council is under a duty to agree a lawfully balanced budget. The council's prospective expenditure must not be likely to exceed its resources available to meet that expenditure. The proposals set out in this report meet this obligation. Any amending or substituted proposals must also achieve a balanced budget. The proposed council tax is under the statutory threshold which would require the council to hold a referendum of local electors to approve the increase.
- 7.4 Under s.114 of the Local Government Finance Act 1988, the council's S.151 Chief Finance Officer is required to report to all the authority's elected members (Councillors) if there is, or is likely to be, unlawful expenditure or an unbalanced budget (i.e. the council is unable to set or maintain a balanced budget). Failure to set a legal budget by 11 March would activate this duty. It may also lead to further intervention from the Secretary of State under s.15 of the Local Government Act 1999.
- 7.5 Members are subject to the council's duty to set a balanced budget, and at common law owe a fiduciary duty to taxpayers to do so. Members must receive and take into account the advice of officers, particularly the S.151 officer, when considering and deciding the council's budget. As the decision makers, members must have due regard to the council's equalities duties when setting the budget.

8. Risks

- 8.1 The MTFS and financial sustainability of the council is identified as a risk within the council's Strategic Risk Register, in that if the council is unable to identify sufficient efficiencies and put in place necessary policies, processes and actions to manage pressures, inflation and manage its plans, then this will impact on the council's financial resilience and its ability to effectively discharge its statutory responsibilities, including the setting of a balanced budget for future years.
- 8.2 Section 14 of the MTFS summarises the key risks to the delivery of the MTFS and the actions in place to mitigate those risks.

9. Equality and Diversity Implications (including the public sector equality duty)

9.1 The Equality Act 2010 obliges the council to have due regard to its equality duties in the budget setting process. To achieve this, Equality Impact Assessments (EIAs) have been conducted on all efficiency and income generation options where required, ahead of the final options being put forward to Cabinet and Council for approval. Copies of these EIAs have been made available for members reference and conscientious consideration prior to making decisions on the budget proposals.

10. Other Relevant Implications

10.1 There are no other direct implications arising from the recommendations of the report.

11. Background Documents

11.1 Medium-Term Financial Strategy – Autumn Update – Cabinet, October 2025

12. How does this deliver the objectives of the Strategic Themes?

12.1 The financial position of the authority determines the affordability of all the authority's activities. This underpins the resources available to achieve the Council Plan.

12.2 The proposals within this report support the objectives of the Council Plan by ensuring that the council aligns available resources most efficiently to meet its strategic policy and performance commitments. This ensures that the council's best value obligations are met. Consultation and stakeholder engagement described within the report ensures that any subsequent decisions are fully informed and reasoned.