

REPORT TO EXECUTIVE

Date of Meeting: 16 December 2025

REPORT TO COUNCIL

Date of Meeting: 13 January 2026

Report of: Strategic Director for Corporate Resources

Title: 2026/27 Budget Strategy and Medium-Term Financial Plan

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To provide a strategic overview of the budgetary position for the 2026/27 financial year and beyond including an indication of the likely level of available resources and the known demand for resources and the proposals to ensure that a balanced budget is achieved.

2. Recommendations:

2.1 It is recommended that the contents of the report are noted and that the proposals to establish a balanced revenue budget and capital programme are approved

3. Reasons for the recommendation:

3.1 The Council is required to set a balanced budget and Council Tax prior to the start of the financial year.

4. What are the resource implications including non-financial resources:

4.1 The Council has a medium-term financial plan that contains proposals to ensure it can set a balanced budget next year. In line with the planned use of reserves, proposals for reductions / additional income total £1.616 million to balance the budget.

4.2 Across the remaining two years of the medium-term financial plan (2027/28 – 2028/29), further proposals for reductions / additional income have been identified totalling £0.465 million.

4.3 Unlike recent years, we are in a position to put forward a balanced budget for next year without having to identify further budget reductions / additional income. This is due to an expected increase in the grants we receive from central government for 2026/27 due to the new national Fair Funding Formula.

For enquiries please contact: democratic.services@exeter.gov.uk

5. Section 151 Officer comments:

5.1 There has been significant reform of Local Government finance delivered in time for the 2026-27 settlement. As widely expected, the business rates have been reset and therefore Exeter has lost all the Business Rates growth and pooling gains that it currently receives. The system was meant to reset in 2018, so the Council has enjoyed seven years of growth funding that were not anticipated when the system was first implemented.

5.2 Alongside this, the Government have also introduced a new funding formula (FF 2.0) which determines how funding is allocated across Councils. Importantly for Exeter, this has introduced a Council Tax equalisation element to reflect the fact that some Councils are constrained in the amount of Council Tax they can collect. Although the settlement has not yet been announced, it looks like this element alone has added an additional £3m back to the funding received. This has therefore substantially reduced the level of reductions required over the next few years, although some reductions are still required.

5.3 The purpose of this report is to seek approval to the assumptions used in setting the budget for next year and the medium-term financial plan.

6. What are the legal aspects?

6.1 As part of the budget and the Council Tax setting process, the Council is required by the Local Government Finance Act 1992 to make various specific calculations and decisions:

- (a) it must calculate its budget requirement in accordance with Section 31A of the Act;
- (b) it must calculate the City Council element of the Council Tax - first for Band D and then for all bands - in accordance with Sections 31B and 34 to 36 of the Act;
- (c) it must set the overall Council Tax for each band in accordance with Section 30.

7. Monitoring Officer's comments:

7.1 Section 25 of the Local Government Act 2003 requires the section 151 officer to report on the adequacy of the Council's financial resource.

The Monitoring Officer's comments are intended to assist all members of the Council in consideration of the complex legal background to their budgetary and Council Tax decisions and to set out the legal factors which members of the City Council need to consider in reaching decisions on the budget and Council Tax.

In coming to a decision in relation to the revenue budget and the council tax, the City Council and Councillors have the following legal duties:

- a) To act in accordance with their statutory duties and responsibilities;
- b) To act reasonably; and
- c) To have careful regard to their fiduciary duty to its rate payers and Council taxpayers.

The City Council has a clear legal duty to set a balanced budget. A resolution not to set a Council tax would be unlawful so would a resolution to set a Council tax which deliberately did not balance the budget.

For enquiries please contact: democratic.services@exeter.gov.uk

When deciding, councillors are reminded of their obligation to act reasonably and in accordance with the principles set down in the Wednesbury case (*Associated Provincial Picture Houses Ltd v Wednesbury Corporation* [1948]). This means that councillors are required to consider and take into account all relevant considerations and ignore any irrelevant considerations. Put simply, it would be unlawful for the Council to come to a view which is unreasonable in the sense that it is so irrational that no reasonable authority could have reached it.

The meaning of fiduciary duty is more difficult to define but can be summarised as a duty to conduct administration in a business-like manner with reasonable care, skill and caution and with due regard to the council's rate payers. When discharging their fiduciary duty, councillors will need to consider the following:

- a) Prudent use of the council's resources, including the raising of income and the control of expenditure;
- b) Financial prudence both long and short term;
- c) Striking a fair balance between the interest of the council taxpayers on the one hand and the community interest and adequate and efficient services on the other hand; and
- d) Acting in good faith with a view to complying with statutory duties and exercising its statutory powers for the benefit of the community.

Restriction on voting

Members' attention is drawn to the provisions of S.106 of the Local Government Finance Act 1992 which applies to members where:

- a) they are present at a meeting of full Council, the Executive or Committee and at the time of the meeting an amount of Council tax has remained unpaid for at least 2 months and
- b) Any budget or Council tax calculation, recommendation, or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.

In these circumstances, any such members shall at the meeting and as soon as practicable after its commencement disclose the fact that S.106 applies to them and shall not vote on any question concerning budget setting.

Failure to comply with these requirements is a criminal offence unless such member can prove that they did not know S.106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at that meeting.

8. Equality Act 2010 (The Act)

8.1 In recommending this proposal potential impact has been identified on people with protected characteristics as determined by the Act and an Equality Impact Assessment has been included in the background papers for Member's attention.

For enquiries please contact: democratic.services@exeter.gov.uk

An EQIA assessment has been undertaken for each of the 2026/27 budget proposals, as set out in Appendix 2. Three proposals were identified as requiring an EQIA, which accompany this report.

9. Carbon Footprint (Environmental) Implications:

9.1 No direct carbon/environmental impacts arising from the recommendations.

10. Report details:

10.1 Local Government Funding: Fair Funding Review 2.0

The Government has consulted on significant reforms to how funding from central government is allocated between English councils. From 2026-27, there will be a new system for allocating funding. The new funding distribution will be subject to transitional arrangements and introduced gradually over the period of the three-year settlement, from 2026/27 to 2028/29. Once finalised, this will be the first multi-year settlement in a decade.

The latest funding changes were announced on Thursday 20 November in a ministerial statement.

Officers have worked with external consultants to model the expected outcomes of the Fair Funding Review, which include the following:

- **Business Rates**

Re-set the Baseline Funding Level for retained business rates in full in 2026-27.

The Business Rates Retention System (BRRS) was introduced in 2023-14. Under the BRRS, each authority was assigned a Baseline Funding Level which determined how much of its relative funding need was to be met through retained business rates income. This was then compared to a measure of their individual ability to raise business rates. Where a local authority raised more in business rates than their assessed level of need – they were required to pay a tariff. Conversely, if an authority's business rates income was below their assessed level of need – they received a top-up.

The BRRS was designed to be periodically re-set, to ensure that the distribution of resource is realigned with need. It has been over a decade since the BRRS was introduced without a re-set. This has meant that many local authorities, including Exeter, have grown their business rates income in excess of their Business Rates Baseline and have benefited from retaining business rate growth. For Exeter, this equates to a loss of circa £4m.

- **Council Tax**

The new funding allocation system is expected to include an assessment of how much councils can raise via council tax, based on modelled revenues if their tax rates was equal to the average rate across all councils.

The review is intended to achieve 'full equalisation' of revenue-raising capacity, to ensure councils receive the same share of overall funding that they are assessed to need, if they

For enquiries please contact: democratic.services@exeter.gov.uk

were to set their council tax level to the national average. For Exeter, this equates to gain of circa £3m, due to its low council tax levels.

In terms of Council Tax increases, the Government will maintain core referendum principles as they were in 2025-26 over the multi-year Settlement, with a council tax referendum principle of up to 3% or £5 increase for District Councils. This is in line with the medium-term financial plan. As a result, Exeter's budget strategy for next year assumes that council tax will increase by 2.99%, which, along with the estimated surplus on the collection fund of £82,783 and increase in the taxbase will raise an extra £264,260.

The Government have also consulted on modernising and improving the administration of council tax, this includes proposals to spread council tax payments over 12 monthly instalments by default, rather than the current default 10 monthly instalments.

- **The end of the New Homes Bonus**

The funding currently allocated to the New Homes Bonus (circa £290 million in 2025-26 across the country) will be returned to the core funding settlement.

- **Grants simplification**

The Government have consulted on consolidating several smaller grants into the main funding formula, so that they form part of the multi-year settlement and into the non-ringfenced Revenue Support Grant, including Temporary accommodation funding, Biodiversity Net Gain Planning Requirement, Local Government Finance Data Review, among others.

Alongside this, the Government are setting up four consolidated grants, as part of the multi-year Settlement package, which will be ring-fenced. Details on their distribution and conditions will be announced as part of the provisional settlement;

- Homelessness, Rough Sleeping and Domestic Abuse Grant
- Children, Families and Youth Grant
- Public Health Grant
- Crisis and Resilience Fund.

At the time of writing this report, the Government announced their intention to maintain the Recovery Grant allocations, at 2025-26 levels across the multi-year Settlement. The Recovery grant targeted funding towards areas with greater need and demand for services and equates to £271k p.a. for Exeter. The MTFP does not currently reflect this recent announcement.

- **Transitional Arrangements**

Transitional funding, including a minimum funding floor, to protect councils from the full impact of the funding changes. There will be a 3-year transition to new funding allocations.

8.2 Other Budgetary Assumptions

For enquiries please contact: democratic.services@exeter.gov.uk

8.2.1 An overall allowance of £0.971m has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	2.5%
Pay – Increments	0.5%
Electricity	4.0%
Gas	0.0%
Water	3.50%
Insurance	5.0% - 18.0%
Rates	3.6%
Motor Fuel	0.0%
General Inflation	3.6%
Income (excluding Car Parks)	3.0%

8.2.2 A thorough review of all budgeted costs and income has been performed to help ensure adequate provision is made for inflation and where allowance has been made for a general inflationary increase, it has been provided for at 3.6% in-line with August 2025 CPI. Pay has been increased by 2.5% although there is a risk that this again may be lower than the actual amount agreed.

8.2.3 Interest is based on the existing loans that have been taken out and the amounts available for investment. Future borrowing requirements are based on rates of around 3.5% and the Council will seek to internally finance borrowing until rates stabilise from the present highs of around 5.8%.

8.3 Likely Revenue Resources 2026/27 to 2028/29

8.3.1 The main resources are set out below. As already highlighted, the Government is implementing significant reforms, under the Fair Funding Review, to how funding from central government is allocated between English councils. From 2026/27 there will be a new system for allocating funding between councils, which will take account of new official assessments of councils' spending needs and their relative abilities to raise revenues themselves via council tax. Every council's new funding allocation will be phased in over three years in equal steps.

The Council has worked with external consultants to forecast the outcomes of the Fair Funding Review and this is reflected in the forecast sources of funding below:

Source	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Revenue Support Grant	1,384	0	0	0
Business Rates Income	9,929	0	0	0
Settlement Funding Assessment (SFA)	0	10,940	11,710	12,570
CIL income	798	793	793	793
New Homes Bonus	872	0	0	0
Extended Producer Responsibility Fund (EPR)	1,410	1,500	1,500	1,500
Council Tax	7,507	7,771	8,006	8,338
Resources	21,900	21,004	22,009	23,201
Increase/(decrease)		(896)	1,005	1,192
Annual % change		-(4.0%)	4.8%	5.4%

8.4 Additional Spending Pressures

8.4.1 Additional Spending Pressures over the period are set out in Appendix 1 and total:

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Additional Pressures	910	1,162	85	85

8.5 Revenue Savings and Other Budgetary Reductions

8.5.1 The MTFP has a funding gap of £2.1 million (26/27 – 28/29) of which proposals of £2.1 million have been identified. The proposals identified for 2026-27 will ensure a balanced budget can be presented.

The reductions / additional income proposals identified are summarised below. Please refer to Appendix 2 for details of the 26/27 budget proposals.

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Saving proposals identified - prior years	(2,400)	(590)	(400)	0
Saving proposals identified - 26/27 budget cycle	0	(1,026)	(65)	0
Further savings required	0	0	0	0
Total	(2,400)	(1,616)	(465)	0

8.5.2 The updated Medium Term Financial Plan (MTFP) is set out in Appendix 3.

8.6 General Fund Capital Programme

8.6.1 At this stage there are no additional requests for Capital Expenditure. As Members are aware, the higher interest rates mean that any further borrowing would require additional reductions, which on top of those set out above, risks the Council having insufficient funds to run its Services.

For enquiries please contact: democratic.services@exeter.gov.uk

8.7 Risk Assessment

8.7.1 It has already been mentioned above in this report that our financial forecasts are based on a number of assumptions including the level of inflation, interest rates, income levels, support from the government and general prevailing economic conditions. The main risks to the Council's financial position are as follows:

- The outcome of the Fair Funding Review in relation to the funding from central government over the medium term;
- The Council is reliant on a strong economy for much of its funding. Car Park income and Commercial Property income provide support, not just for our discretionary services, but increasingly support our statutory services and corporate costs. Changes in work patterns are already impacting car park income and contributing to the financial challenges.

Although the Council faces risks from the assumptions and uncertainties outlined above these have been mitigated by the following:

- Adopting a prudent approach to financial forecasting which involves obtaining information from external professional sources;
- Continuous monitoring and review of the key factors together with regular reports to Members on any key issues;
- Regular budget monitoring meetings with budget managers to ensure that budget pressures are identified at the earliest opportunity;
- The adoption of robust financial management arrangements including option appraisal, risk assessment and financial monitoring; and
- Retaining a prudent level of reserves and balances.

11. How does the decision contribute to the Council's Corporate Plan?

11.1 This is the strategic overview of the financial position of the Council.

12. What risks are there and how can they be reduced?

12.1 The risks relate to failing to set a balanced Council budget and are mitigated by regular reporting to the Strategic Management Board and Members.

13. Are there any other options?

13.1 Not applicable.

Strategic Director for Corporate Resources, Dave Hodgson

Author: Michelle White

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

For enquiries please contact: democratic.services@exeter.gov.uk

None

List of Appendices:

- Appendix 1 – Budget Pressures
- Appendix 2 – Budget Proposals
- Appendix 3 – MTFP
- EQIA Home call Proposal
- EQIA RAMM Charging for Exhibitions Proposal