

<b>Meeting:</b>	Executive
<b>Meeting date:</b>	4 November 2025
<b>Report of:</b>	Debbie Mitchell, Director of Finance
<b>Portfolio of:</b>	Councillor Katie Lomas, Executive Member for Finance, Performance, Major Projects, Human Rights, Equality and Inclusion

## Medium Term Financial Strategy Update

### Subject of Report

1. The purpose of this report is to provide an update to the Medium Term Financial Strategy along with an outline of the 2026/27 budget process. The report also informs Executive of the key risks and challenges, along with an overview of the main assumptions used.
2. The report identifies that the Council will need to deliver savings of £33.7m over the next 3 years and that these savings will be delivered from an organisational wide transformation programme coupled with a combination of service cuts, cost reductions, efficiencies and securing additional external funding.
3. The report also summarises the expected impact of the Fair Funding Review. Modelling indicates that York's funding will reduce by £15m as a result of the funding reforms, equivalent to 8% of core spending power, phased in over 3 years.

### Benefits and Challenges

4. There is a clear benefit to having a medium term financial strategy that enables the Council to manage its budget within available funds. Understanding the financial outlook and the impact of finances on the delivery of the Council Plan helps to manage risk and effectively target increasingly scarce resources to key priorities.

5. The challenges continue to be the uncertainty around funding from Government alongside managing increasing demand across all services, especially within social care, and ongoing inflationary cost pressures.
6. Over the next few years, the Council will see some of the most significant financial challenges we have ever experienced. The delivery of this strategy will be extremely challenging for residents, other partners, members, and officers. It is important that we do not underestimate the scale of the challenge ahead. The level of savings required will inevitably impact on our staff and our residents. Robust financial management, clear priorities and a focus on cost control are all essential to ensuring our continued financial sustainability and resilience.

## **Policy Basis for Decision**

7. The Medium Term Financial Strategy aims to ensure that, as far as possible, resources are aligned to the Council's priorities.

## **Financial Strategy Implications**

8. This report outlines the financial strategy, including key assumptions and identifies a budget gap of £33.7m over the next 3 years. It also outlines an approach to budget planning which should ensure savings are identified. This is essential to safeguard the Council's financial resilience and stability.

## **Recommendation and Reasons**

9. Executive is asked to:
  - Agree the Medium Term Financial Strategy as outlined in this report

Reason: to ensure the Council meets future financial challenges and produces a robust budget.

## **Background**

10. The Medium Term Financial Strategy sets out an overarching forecast of the financial position for the next three years. The focus is on the General Fund revenue budget as this involves the majority of the Council's day to day spending and income. However, the proposals outlined in the report for bridging the gap

will also include identifying savings and efficiencies within the Housing Revenue Account.

11. The report sets out the key assumptions made in respect of Council Tax, pay, other inflationary pressures and Government grants. Members are reminded that these are financial planning assumptions, and no decisions will be made on the 2026/27 budget until Executive in January and Full Council in February 2026.
12. The financial challenges facing Local Government are a national concern. They are significant and the Council will have to make many difficult decisions in the coming years. Years of uncertainty regarding the funding position and the short term nature of funding settlements has made long term planning difficult.
13. However, the Government has recently outlined its approach to the long awaited Fair Funding Review in a lengthy and detailed consultation paper. This will be followed by a policy statement in the Autumn and a schools White Paper which will set out details of the DSG and SEND funding before we receive final allocations of funding in December 2025. This will be a 3 year settlement.
14. The figures outlined in this report take account of the all the available information at the time of writing and we do not expect this will change until individual Council allocations are announced in December.
15. There are still a number of significant risks, such as removal of the DSG statutory override (this ensures that the deficit on High Needs SEND is not charged to the General Fund), continuing inflationary pressures along with the well-known challenges of delivering adult social care.
16. All Members will be aware that the Council has had to make significant budget savings over recent years as shown in the table below. Whilst this gives some comfort that the Council is effective at controlling costs and delivering budget savings, it also demonstrates the difficulty in continually identifying savings from reducing budgets.

Year	Savings £m
2025/26	6,444
2024/25	14,258

2023/24	6,633
2022/23	7,870

Table 1 – historic budget savings

## National Context

17. The financial challenges facing Local Government are significant. As outlined in previous financial reports to Executive, many Councils across the country are experiencing significant financial pressures and are struggling to balance their budgets. This is a national challenge but clearly the current economic climate, alongside inflationary cost pressures and increasing demand for our services, all continue to have a financial impact on the Council's budgets.
18. The 3 year period covered by this Financial Strategy coincides with potentially very significant changes in the allocation of local government funding as outlined in the Fair Funding Review 2.0 consultation and the re-introduction of multi-year settlements.
19. Treasury has now confirmed that the Autumn Budget will take place on 26<sup>th</sup> November, which is much later than anticipated. This will have a direct impact on the timing of the Local Government Settlement as the Budget usually confirms measures such as business rates reliefs.
20. At the time of writing, the Policy Statement (which had been anticipated in late September or early October) is expected in late October or early November. This will be accompanied by a "comprehensive response" to the consultation. We should get further information and guidance at that point about the likely outcome of the Fair Funding Review.

## Fair Funding Review

21. The Fair Funding Review was published on 20<sup>th</sup> June with an eight week consultation window. The Council responded to the consultation and published its response on the Open Data platform here <https://data.yorkopendata.org/dataset/fair-funding-review-consultation-2025>.
22. The proposals will be implemented in 2026/27 and will cover 3 years to 2028/29. Modelling indicates that York will lose £15m

from the funding reforms, equivalent to 8% of Core Spending Power and this reduction in funding will be phased in over 3 years.

23. The key issue for York is that our share of Relative Needs Formula and the overall needs assessment is reducing. This is the measure of the demand and costs each council faces in the delivery of local services compared to other local authorities. The table below shows how this has changed and that essentially we don't have as a greater need as we did in 2013/14 (which is when the relative needs were last assessed).

Relative Need Formula	2013/14 %	2026/27 %	Change %
Adult Social Care	0.305	0.300	-1.5
Children & Young People	0.223	0.202	-9.7
Foundation Formula (lower tier)	0.321	0.286	-10.9
Foundation Formula (upper tier)	0.350	0.317	-9.3
Highways Maintenance	0.343	0.308	-10.1
Overall Needs Assessment	0.288	0.262	-9.0

Table 2 – Relative need formula comparison

24. Many different factors have been used to calculate these figures, including the number of visitors. There have been significant changes to a number of the formulas most including added weightings for deprivation most of which have impacted York negatively. An area cost adjustment (ACA) has also been applied to the overall needs assessment to “account for the different costs of delivering services in different places”.
25. The Foundation formula line includes all other general fund services such as waste, culture, leisure, etc.
26. The ACA compensates authorities for different levels of unit costs. It has four elements: labour, premises, travel-times, and remoteness. Labour and premises elements have been updated for the latest data. The travel time and remoteness elements are new and will be introduced for the first time in 2026-27.
27. It is not possible to estimate the impact of each of the individual elements within the ACA, but we can compare the funding from the current ACAs to those proposed in 2026-27 and can therefore estimate that York will lose around £4m from the new ACAs.

### Council Tax Equalisation

28. The consultation is proposing to account for differing Council Tax raising ability through a “resource adjustment”. They will multiply each local authority tax base by an assumed / notional level of Council Tax on the assumption that Councils with stronger tax bases will receive lower allocations than those with weaker tax bases.
29. However, by using an average that is higher than our actual, this assumes we generate £3m more than we actually can. There doesn't appear to be any consideration of Councils with a low Band D and we are still limited to a 5% cap. For those councils that charge more than the average, no adjustment appears to have been made for the additional income they generate over and above the average assumed.
30. The assumed average Band D Council Tax for 2026/27 is £2,000 compared to a forecast 2026/27 CYC charge of £1,817 (assuming we increase by 4.99%).

	Assumed position	Actual CYC position
1. Adj Council Tax Base	68,250	69,956.1
2. Council Tax Band D	£1,908	£1,817.43
1 x 2	£130.202m	£127.140m

Table 3 – Council Tax Equalisation

Using the figures in the table above, this means that our funding settlement will be reduced by £130m despite us only being able to generate £127m.

### Grants

31. A number of specific grants will be rolled into SFA. These grants will be distributed within SFA using either the appropriate RNF, or the overall SFA distribution. Given the change in our overall needs assessment, this could mean future allocations are less than we would have received otherwise.
32. Rolled-in grants will include New Homes Bonus, Recovery Grant, Minimum Funding Guarantee (MFG), the three social care grants,

and the Children' Social Care Prevention Grant. The government will consult at the settlement on how to roll in some of these specific grants, adding another risk to the numbers we're working on.

## **Local Issues and Challenges**

33. As outlined in previous reports to Executive, the Council is continuing to see significant financial pressures because of inflation and increased demand for our services. There remain in particular underlying budget pressures within adult social care, despite the allocation of growth each year. All services across the Council are operating in an extremely challenging environment. Whilst these are statutory services that the Council will always deliver to best of our ability, by looking for efficiencies now, we are able to preserve preventative investment that can help to control demand for services in future years.
34. Demand for services continues to increase with an ageing population and with increased complex needs in respect of social care. There are also significant challenges in the health sector, including challenging financial positions for health partners, which are in turn a financial risk to the Council.
35. Nationally there is significant pressure on budgets in children's services. The Children's Wellbeing and Schools Bill currently going through the House of Lords, will introduce significant, transformational change within Children's Social Care. However, the way funding has been allocated by Government disadvantages smaller Councils such as York. This is a complex change programme that will need funding to fully realise the benefits.
36. It is vital that the financial strategy supports the Council's priorities as outlined in the Council Plan. However, delivering Council priorities at a time of significant financial challenge will require a more transformational, long term approach to continue to reduce costs overall whilst ensuring resources are prioritised to where they are needed most. The budget strategy needs to ensure we prioritise financial resilience and delivery of the right outcomes for our residents.

## Medium Term Forecast

37. The table below outlines the latest forecast and shows a cumulative budget gap of £33.7m.

	2025/26	2026/27	2027/28
Costs	£m	£m	£m
Pay (incl superann reduction)	1.1	3.0	2.6
Prices			
• Energy & fuel	0.15	0.14	0.14
• Adult Social Care	4.1	3.2	3.7
• Children's Social Care	0.9	0.9	0.9
• Other	1.3	1.1	1.1
Cost of capital	2.3	2.5	2.6
Social Care demographics	2.0	2.0	1.8
Service growth	0.9	0.5	0
<b>Total costs</b>	<b>12.75</b>	<b>13.34</b>	<b>12.84</b>
Income			
Council Tax	-6.2	-6.5	-6.9
Loss of Govt funding	3.5	5.6	5.3
<b>Total funding</b>	<b>-2.7</b>	<b>-0.9</b>	<b>-1.6</b>
<b>Budget Gap</b>	<b>10.05</b>	<b>12.44</b>	<b>11.24</b>
<b>Cumulative gap</b>	<b>10.05</b>	<b>22.49</b>	<b>33.73</b>

Table 4 – Medium Term Financial Strategy

38. The forecast above is based on several assumptions. The national economic picture continues to be unpredictable, and several factors can influence the Council's finances. Any variations from the assumptions used will have an impact on the overall resources available to the Council.
39. The 2025/26 pay award has recently been agreed at 3.2%. We have continued to use an assumption of 3% for future years. We have also assumed a permanent reduction in the employer's contribution rate to the Pension Fund based on the forecast triennial valuation due at the end of this financial year following an improvement in pension schemes performance nationally.
40. For inflation, an allowance of 3% has been made for energy, fuel and other contracts. A higher rate has been used for social care contracts in both Adults and Children's to reflect market conditions.
41. In terms of income from Council Tax and business rates, the maximum increase of 4.99% (2.99% general, 2% ASC precept)



has been assumed across all 3 years. A small increase in Council Tax Base has been included, along with the second homes premium.

42. No growth has been assumed for Business Rates, due to the Business Rates Reset included in the Fair Funding Review.

## **2026/27 Budget Strategy**

43. In terms of a strategy to close this forecast budget gap, several strands of activity are proposed. It remains important to ensure we can effectively control our costs in year and therefore the current cost control measures in place across the Council will continue. This will ensure that expenditure continues to be scrutinised and challenged, helping to deliver value for money, identify opportunities to reduce costs whilst also improving accountability and visibility of spend.
44. Officers will continue to closely monitor any Government funding announcements and incorporate the impacts into the financial strategy, as well as reviewing the growth assumptions to minimise these where possible.
45. As outlined earlier in the report, the Council has achieved savings of £35m over the last 4 years. It is difficult to keep identifying areas that can deliver ongoing savings and, in light of the continued demand pressures that are being experienced in the current financial year, we need to take a different approach to balancing the budget. We cannot continue to spend at this level and balance our budget. We need to fundamentally review the size and shape of the organisation to ensure we can remain financially sustainable in the future.
46. Therefore, the main focus for the delivery of recurring savings will be the Council wide transformation programme that is currently being developed. A Chief Officer Transformation post has been created, and a team of programme managers and business analysts will systematically review all aspects of the Council to drive out savings. This team will help to ensure that we focus our efforts on the delivery of financial sustainability and the right outcomes for our residents. It is vital that we that we can both transform **and** reduce levels of service provision, so that remaining services continue to be as high performing as possible.

47. The programme will deliver under a number of key themes, including:
- Integrated Neighbourhoods
  - Early Intervention & Prevention
  - Internal Business Transformation, including looking at our asset base to ensure we are making best use of assets and digital transformation.
48. The overall aim of this programme will be to drive change and provide the best outcomes within the overall funding available. This approach will ensure the Council can meet financial savings targets whilst also delivering improved services.
49. However, it is unlikely that we will be able to deliver all the savings needed in 2026/27 from transformation alone. This means that we will still need to consider areas for reducing or even stopping services.
50. It is also important to note that a transformational approach will still involve reductions in our workforce over the 3 year period of the programme. Investment will also be made in a comprehensive programme of support for staff.
51. Other areas that will be considered to help close the budget gap include:
- A continued focus on organisational efficiency, including restructuring and integrating services to remove duplication and overlap, exploiting the use of technology where possible and appropriate.
  - A focus on working closely with city partners to explore new and innovative operating models, such as community asset transfer or building community wealth through delivering shared social value outcomes across the council and partners.
  - A focus on securing external funding.
  - An ongoing review of the assumptions used in the MTFS to ensure they are not overly cautious but are realistic and updated regularly to reflect any changes in Government funding.
52. The overall strategy for closing the budget gap is therefore a sustained, organisational focus on a transformational approach. This will be coupled with a combination of service cuts, cost reductions, efficiencies and securing additional external funding.

## Budget Consultation Process

The Council undertook a significant budget consultation process for the 2025/26 budget setting process. A staged approach allowed the council to iteratively building an understanding of both the impact of proposals on different demographics and community groups, together with how partners, businesses and residents can work together to deliver our shared ambitions for the city.

53. Through this consultation, we now have a comprehensive report about what residents value, and their priorities, including opportunities and concerns.
54. The proposed approach for 2026/27 is to run a scaled-back consultation process, still in line with the statutory requirements, drawing on the feedback from last year to inform the transformation programme approach. The consultation will be in two parts.
55. Firstly, the statutory engagement with business groups, which will also include CVS as the community umbrella organisation. Headlines of the budget position to be presented at existing business community meetings with a call for feedback on proposed approaches.
56. Secondly, there will be an awareness campaign of what the council does, but not explicitly asking for opinions on budget. A schedule of areas to focus on will be out in place to help explain the breadth of things we deliver.

## Organisational Impact and Implications

57. **Financial**, this report itself doesn't have any direct financial implications at this stage, but the report outlines that further significant savings are required. The ability of the Council to control its spending and future Government funding announcements will influence the level of savings that are needed.
58. **Human Resources (HR)**, there are no direct implications arising from the budget planning process. Any savings proposals with staffing implications will follow appropriate consultation and HR policies and procedures.
59. **Legal**, there are no direct legal implications related to the recommendations. The Council is under a statutory obligation to set a balanced budget on an annual basis. Any budget proposals

and decisions relating to the 2026/27 budget process will be subject to future decision making processes in which legal implications will be considered.

- 60. **Procurement**, there are no direct implications arising from the budget planning process.
- 61. **Health and Wellbeing**, there are no direct implications arising from the budget planning process.
- 62. **Environment and Climate action**, there are no direct implications related to the recommendations.
- 63. **Affordability**, there are no direct implications arising from the budget planning process. Where any future budget decisions impact on residents on a low income these impacts will be recorded in the individual Equalities and Human Rights Impact Analysis referred to below.
- 64. **Equalities and Human Rights**, whilst there are no specific implications within this report, the budget itself will be accompanied by an equalities impact assessment and equality issues are considered at all stages of the budget process. Equality Impact Assessments will be completed for any individual budget proposals.
- 65. **Data Protection and Privacy**, there are no implications related to the recommendations.
- 66. **Communications**, the information set out in this report necessitates both internal and external communications. With ongoing interest in the current state of Local Government funding, we anticipate this report will attract media attention. A communications plan is being prepared to facilitate the communication with residents, staff, and others, that will be required between now and February, when the budget will be set.
- 67. **Economy**, there are no direct implications related to the recommendations.

## Risks and Mitigations

- 68. The increased demand for services and ongoing cost pressures across all services, along with the limited funding available to the Council, could mean that there are not enough resources available to support the delivery of the Council Plan. Continued overspending will weaken the Council's financial position, reducing financial stability and resilience.

## Wards Impacted

- 69. All

## Contact details

For further information please contact the authors of this report.

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## Background papers

None

## Annexes

None