

REPORT OF THE CABINET MEMBER FOR FINANCE AND RESOURCES

BUDGET UPDATE REPORT 2026/27

Purpose of the Report

1. The purpose of this report is to provide an update to Overview Committee on the budget development process for 2026/27 and provide the opportunity for members to raise any specific points for further consideration by Cabinet as part of the budget setting process.

Background

2. Overview Committee at its meeting on 27 November 2025 considered the Budget Update report that set out the financial context for the Council together with the implications for the Council's Medium-Term Financial Strategy (MTFS). This budget update report sets out the updated assumptions for the establishment of the budget for 2026/27.
3. In accordance with the Budget and Policy Framework Procedure Rules, Cabinet will be considering the Council's Budget for 2026/27 at its meeting on 29th January 2026 including proposals regarding Council Tax and the Adult Social Care Precept. Cabinet will also be considering the MTFS, the capital programme for 2026/27 to 2028/29, the supporting Capital Strategy and the Treasury Management Strategy for next year.

The Council Approach to Budget Challenges

4. The 2026/27 Budget is being set against a backdrop of significant financial challenges for local government and, in line with many other local authorities across the country, Nottinghamshire County Council continues to face mounting challenges due to rising demand for services and external economic and inflationary factors. In response, the Council is evolving its service delivery models to ensure that they remain cost-efficient and deliver strong value for money.
5. The financial outlook for local authorities continues to be regarded as the most difficult in decades. The most recent Local Government Information Unit survey of Council leaders, chief executives and finance leads found that 35% of councils expect to face effective bankruptcy within five years, with 6% anticipating this within the next year.
6. Nottinghamshire is in a stronger position than many councils thanks to prudent financial management and ongoing service transformation. This approach has helped maintain service delivery while limiting council tax increases. Reserves are being used strategically to protect services in the short term and allow time to continue to deliver further for transformation activity.

7. To safeguard services from financial strain and to avoid placing additional burdens on residents, the Council is increasingly fostering partnerships across the public sector. These collaborations aim to strengthen service provision and build resilience against fiscal pressures.
8. Several service transformation initiatives are currently underway, with a particular focus on enhancing preventative and community-based services, helping more children and adults to live independently supported by families and communities and with lower levels of need for expensive care interventions. This shift requires innovative approaches, a willingness to explore alternative solutions and will particularly focus on improving services in those most disadvantaged communities where demand is highest.
9. The medium-term goal is to achieve a balanced budget through a framework that adapts the organisation to its financial limits without resorting to short-term cuts. The focus will be on protecting residents, improving outcomes, and mitigating inflationary impacts, especially in disadvantaged communities.
10. This is the background to the Council's ambition to be a forward looking and resilient Council and to assure our residents that the council is equipped to deal both with likely continued increases in demand and prevailing tighter fiscal controls.
11. Long-term sustainability depends on prevention and early intervention to reduce reliance on costly acute services. This requires transforming service delivery to provide more community-based support while improving efficiency.
12. The Council must also recognise that this alone is unlikely to provide a long-term solution to a number of issues which will, in reality, need national change and reforms to 'fix' unsustainable delivery models, across adults and children's care services, and home-to-school transport for children with special educational needs.
13. The Council will continue to strengthen economic, community, family, and individual resilience, helping people remain independent in their homes and communities.
14. Service transformation programmes are underway to enhance prevention services and reduce demand for high-cost care. These initiatives are already delivering benefits for residents and improving financial sustainability.
15. Supporting independence through community networks and local services, rather than expensive residential care, benefits residents, communities, and the Council. Efforts will focus on areas with the greatest need.
16. The budget will help mobilise communities and strengthen partnerships to deliver more efficient, joined-up services. This includes supporting young people to remain with families or in community-based settings and prioritising early family support to prevent costly interventions later.
17. Compared to other councils, Nottinghamshire's position shows that this long-term plan is working. The proposed budget supports its continued delivery.

18. Despite financial pressures, the Council remains committed to investment through its capital programme, including “invest to save” projects and major infrastructure improvements that drive economic growth.

The Nottinghamshire Plan 2025-29

19. At the Full Council meeting held on 20 November 2025, the Council approved The Nottinghamshire Plan 2025-29. This new, ambitious plan outlines the Council’s ambitions and priorities, delivering effective and efficient public services to the people of Nottinghamshire.

20. The activity detailed in the Plan is built around the aim of making life better for families and communities across the county.

21. To achieve this, the Plan is structured around three key outcomes the Council wants to achieve for our residents over the next four years:

- **Stronger families, caring connections** – We believe everyone should get the best start in life, with all children able to access a good education and live in a loving family home. As we grow and live our lives, we know that family – the people we feel close connections with – help us feel cared for and supported.
- **Rooted in communities, thriving together** – We believe that having a place to call home and feeling part of your community helps people stay healthy, safe, and independent. We want to support friends, neighbours, and local groups to look out for one another, stepping in and providing help when someone needs it.
- **A connected county, creating opportunity** – We want Nottinghamshire to be a strong and successful county that attracts the investment and development it deserves. We will work to make sure that any investment benefits local people—by improving transport, digital connections, the condition of our road network and protecting our local environment.

22. A fourth area of focus – a Council that leads, a Council that listens – serves as the Council’s internally focussed theme that aims to improve our own ways of working. It focuses on efficiency, working more closely with communities, developing a skilled, committed workforce, whilst being forward-looking and collaborating with partners to maximise the opportunities of local and national policy changes.

23. To deliver on the ambitions and priorities outlined in our Plan, the Council will work together with a wide range of public, private and voluntary sector organisations, as well as communities themselves.

24. Finally, the Plan describes the Council’s approach to deliver for people and communities. The key principles are: -

- **Your voice counts** – We will involve people in decisions that affect them. We will design services with input from those who use them, listening carefully so we can better connect with communities.
- **Teamwork matters** – We will work more closely with residents and partners across Nottinghamshire to get the best results for local people and communities.

- **Prevention first** – We will focus on the building blocks that support good health and wellbeing, like education, jobs, housing, and strong communities. We will also make sure people get help early to stop problems from getting worse.
- **Being open and honest** – We will be clear about what’s going well and what needs improving. We will test new ideas, learn from them, and keep getting better.
- **Keeping it practical** – We will focus on what really makes a difference in people’s lives, with actions that lead to real, measurable improvements.
- **Making the most of resources** – We will spend money wisely, cut unnecessary red tape, and find smarter ways to work whilst still delivering good quality services.

Budget Survey 2025

25. The production of the Council’s budget is undertaken in accordance with the requirements of the Council’s Constitution.
26. A key element of the Council’s budget setting process is consultation with stakeholders.
27. The consultation went live on 25th November 2025 and closed on the 7th January 2026. The survey asks people for their views about how the Council spends its allocated budget.
28. The survey was shared with partners, including groups representing the business community and other relevant stakeholders including the trade unions at Central Joint Consultative and Negotiating Panel (JCNP).
29. The results of the survey will be reported to Cabinet in January 2026 as part of the Annual Budget Report 2026/27.

Local Government Reorganisation

30. As detailed in a report to Full Council in November 2025, the Local Government Reorganisation in Nottinghamshire is part of a national initiative to streamline council structures under the Government’s English Devolution White Paper. The proposal aims to replace the current two-tier system with new unitary authorities to improve efficiency and service delivery.
31. Final proposals were submitted to the Government in November 2025, with decisions expected in Spring/Summer 2026 and new Authorities expecting to commence operations on 1 April 2028. The November 2025 Full Council Report also set out the transition costs required to establish the new authorities and deliver the changes required to achieve the transformation benefits. It is proposed initially that the Council’s share of these costs will be funded from a combination of reserves and capital receipts. These costs are not yet reflected in the Budget.

The Medium-Term Financial Strategy (MTFS)

32. Given the implications of LGR, this MTFS is a three-year rolling strategy which sets the framework for how the council plans to use its financial resources to fund the activities required to deliver on the council's priorities. The MTFS informs the annual budget process and assists the Council in meeting the legal requirement to set a balanced budget each year.
33. The MTFS brings together the key areas which affect the Authority's Revenue and Capital budgets and plans for these over the medium-term. The key objectives of the MTFS are as follows: -
- To ensure that effective financial planning and management contributes to the Authority's achievement of its strategic ambitions,
 - To ensure that the Council is financially resilient, stable and sustainable for the future,
 - To forecast the resources available to the Council and to plan for the changes in the level of these resources over the life of the Strategy.
 - To estimate the expenditure requirements over the life of the Strategy to ensure value for money is achieved and resources are utilised where outcomes are measurable and have real impact.

Background to the Budget

34. This report sets out the detailed background to the Council's budget position over the life of the Medium-Term Financial Strategy (MTFS), which is the key financial plan for the Council.
35. The Council's financial position has been challenging now for several years. More recently, the main drivers of pressure on the Council's budget have related to inflation and rising costs (including wage rises) and to increased demand for local government services, particularly from social care areas. This is why services continue to be under pressure, despite an overall increase in spending on services. The impact upon the Council's finances, because of the increase in overall costs, is being replicated across the country.
36. The strategic and financial planning for 2026/27 continues to be undertaken within the context of continued geopolitical uncertainty owing to the on-going conflicts in Ukraine and the Middle East with a consequent impact in relation to global energy and food supplies.
37. It necessarily follows that the national economic landscape continues to impact on the Council's MTFS. CPI inflation has been higher than the Government's 2% target throughout 2025, as of November 2025 it stood at 3.2%. Volatility in the market and forecasts of Bank of England maintaining higher interest rates for longer reflects continuing risk that inflation may remain above the Government's target. In that situation and without a commensurate increase in financial resources, the spending power of the Council will become further eroded.
38. The risks arising from inflation, which is also impacting household incomes, was recognised in the Annual Budget Report to Full Council in February 2025. Additional reserves were set aside in the risk-based General Fund reserve regarding inflationary pressures, increased on-going risks in Children's and Adults Service and inherent challenges faced specifically in the social care market.

39. The Council closely monitors developments across the local government landscape and takes account of the financial issues being reported by other authorities. The Local Government Information Unit (LGiU) research undertaken in March 2025 indicated that 35% of English Local Authorities expect to issue a Section 114 notice in the next five years, which gives formal notice that a council cannot balance its budget. This serves to highlight the underlying fragility and lack of resilience within the wider local government sector with nearly all authorities citing surging service demand as a critical financial pressure. Whilst some of the issues that plague Local Authorities are specific in nature (e.g. exposure to commercial risk, excessive levels of borrowing, Equal Pay Claims) it is the Section 151 Officer's focus to ensure that the issues faced by those councils at risk are not replicated in Nottinghamshire by a failure to set a robust and sustainable budget.
40. The current projected capital programme outturn for 2026/27 is £145.3m. As part of the budget setting process a review of the capital programme has been undertaken.
41. As part of the budget setting process the Council has conducted a full review of the budget pressures and underlying assumptions held within the MTFs. The Council has also received provisional information on the level of funding it can expect in 2026/27. This report will drive the recommendations that will be submitted for approval to the Full Council meeting on 26 February 2026.
42. It is also important to note that our Budget setting process does not happen in a vacuum, and this year we will see fundamental changes to the delivery of public services in our County with the transfer of Transport from the County Council to the East Midlands County Combined Authority (EMCCA) and the subsequent introduction of a levy for fund them. In addition, Highways capital funding is now allocated through EMCCA rather than being provided directly by the Department for Transport. This change reflects the devolution arrangements that transfer certain transport and infrastructure responsibilities to EMCCA, enabling more regionally focussed decision making and investment priorities.

February 2025 Budget Position

43. When the Council's budget was approved in February 2025 the funding shortfall identified for the three years to 2027/28 totalled £18.5m. This financial position is shown in Table 1 below: -

Table 1 – Medium-Term Financial Strategy as at February 2025

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
Year on Year Savings requirement (February 2024 Report)	-	20.0	16.0	-	36.0
Additional Pressures / Inflation	34.1	7.0	7.7	33.4	82.2
Increase in Contingency for Pressures/Inflation Risk	4.7	-	-	-	4.7
Change in Pay related Inflation	4.7	0.2	0.2	4.8	9.9
Amendments to Portfolio base budgets	(1.1)	0.2	-	0.1	(0.8)
Change in Grant Funding	(34.1)	1.2	-	-	(32.9)
Increase in Council Tax	(13.9)	(16.0)	(17.5)	(29.8)	(77.2)
Change in Council Tax Base assumptions	0.3	-	-	(6.4)	(6.1)
Change in Council Tax Surplus/Deficit	1.1	(1.1)	-	-	-
Variation in use of Reserves	5.2	(5.2)	-	2.9	2.9
Other Corporate Adjustments	(1.0)	0.5	(0.1)	0.4	(0.2)
Revised Gap	-	6.8	6.3	5.4	18.5

The Council's Current Financial Position

44. As reported to the Cabinet Member for Finance and Resources at Period 7, the Council reported a forecast overspend of £5.9m in the current financial year. This out-turn is comprised of a net £11.1m portfolio overspend mainly because of forecast overspends in Adult Social Care services. This forecast overspend is offset by underspends in central items such as interest and Section 31 Business Rates relief. Any overspend at year-end will draw upon reserves.

45. There are several on-going risks that are also set out in the Period 7 Financial Monitoring Report. As such, the financial position will be kept under close review for the remainder of the financial year and reported to Cabinet or the Cabinet Member for Finance and Resources according to the budget monitoring timetable.

Main Risks

46. Within the MTFS a number of assumptions are made with regard to a wide variety of factors including future Council Tax policy, Business Rates income and Government Grant levels. Any variation from these assumptions has implications for the level of resources available to the Council.

The following key risks must also be managed in order to deliver our budget strategy: -

- **Economic Risks** – Underlying risks caused by the aftermath of global energy and fuel inflation and the associated cost of living crisis have been compounded by national economic issues. CPI inflation has been higher than the Government's 2% target throughout 2025, as of November 2025 it stood at 3.2%. Volatility in the market and forecasts of Bank of England maintaining higher interest rates for longer reflects continuing risk that inflation may remain above the Government's target. In that situation and without a commensurate increase in financial resources, the spending power of the Council will become further eroded.
- **Risks to Funding** – The spending intentions for local government could differ from assumptions contained in the current MTFS. Although the latest provisional local government finance settlement gives an indication of funding for the next 3 years there is always a risk that Government funding constraints in future may be implemented if Government's budget expectation need revising. In addition, due to several funding streams relying on the local element of business rates and council taxbase increases, this relies on continual growth in the local economy. Any differences will, in turn, impact upon the level of resources available to the Council.
- **Employee Offer Pay Award** – As raised in the Budget Update report in November the higher inflation rate will also put upward pressure on pay awards. Hence it is prudent to increase the assumption in the current model to 3.00% in 2026/27 and a further 2.00% across the MTFS to 2028/29. The Pay Award for 2026/27 is still to be discussed and the outcome of these negotiations will indicate the extent of any additional pressure in the MTFS. With inflation and specifically wage inflation remaining higher for longer there is a requirement to increase our assumed pay award.
- **Demand and Demography Risk** - This Medium-Term Financial Strategy contains risks surrounding the estimation of demand and demographic pressures within services such as Adult Social Care and Children's Services, including determination of key income budgets that rely on the number of users of a service and risk that inflation on the cost of demand and demography will be higher than assumed in the MTFS.
- **Political Landscape** - Following the General Election in 2024, the new Government's first King's Speech laid out forty proposed bills under six themes that set out the Government's main priorities in this Parliament. These were Economic Stability and Growth (in which devolution to the Mayoral Combined Authorities was a prominent proposal), Britain becoming a clean energy superpower, creating secure borders and cracking down on anti-social behaviour (with local authorities taking a prominent role), breaking down the barriers to opportunity, health, and national security. The focus on these priorities inevitably impacts on the Government's expectations of the role of local government and the areas for which funding is made available.

Revisions to the MTFS

47. The following sections of the report set out the revisions that were made to the MTFS between the 2025/26 Budget Report that was agreed at Full Council in February 2025 and the Budget Update Report presented to Cabinet in November 2025.

48. **Pressures, Inflation and Mitigations** - As part of the budget setting process, departments have been asked to justify existing pressures and inflation that are approved in the current approved MTFS. In addition, they have been asked to consider uncertainties not previously reflected in budget planning assumptions. It is important to note that, because of transformation activities that have taken place across the Council, several mitigation measures have been identified which lessen the impact of the identified pressures (see Appendix B).

49. The updated MTFS reported to Cabinet on 6 November 2025 is shown in Table 2: -

Table 2 - MTFS at November 2025

	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
Year on Year Savings requirement (February 2025 Report)	6.8	6.3	5.4	18.5
Increase in Service Pressures - Gross	24.5	6.5	6.3	37.3
Change in Inflation - Gross	4.3	0.5	1.0	5.8
Mitigations	(18.3)	(15.9)	(11.1)	(45.3)
Amendments to Portfolio base budgets	(0.6)	-	0.2	(0.4)
Revised Shortfall	16.7	(2.6)	1.8	15.9

50. **Reserves** – it should be noted that the deficit position reported to Cabinet was on the assumption of using £27.9m of earmarked reserves across the MTFS period.

Further Revisions to the MTFS Assumptions

51. The following sections of the report set out the revisions to the MTFS since the Budget Update to Cabinet in November. This follows the announcements made in the Autumn Statement that was delivered on 26th November 2025 and the Provisional Local Government Finance Settlement that was announced on 17 December 2025.

52. **Pressures and Inflation** – following the Autumn Statement, the assumptions have been revised following confirmation that the National Living Wage (NLW) will be increasing to £12.71. Work has been undertaken to improve the model for estimating the impacts of the NLW. Based on our previous assumptions and a review of external contribution estimates, this equates to a reduced pressure across the MTFS of £2.1m.

53. The increase in gross pressures and inflation bids received by Departments to 2028/29 totals £40.0m. These pressures have been mitigated by both portfolio and service level intervention by measures totalling £44.2m to give a net pressure reduction of £4.2m across the MTFS. Total pressures and inflation to 2028/29 now stands at £94.2m and a detailed breakdown is presented in Appendix A.

54. It is considered prudent to highlight the level of risk inherent in the pressures listed in Appendix A and the containment of these pressures will be heavily contingent upon achieving the significant level of mitigation totalling £44.2m across the MTFS (see Appendix B). Demand pressures have increased by a net figure of £7.3m in 2026/27 due mainly to a forecast increase of £4.5m in the Adult Social Care portfolio which reflects extensive growth in care package demand. Particular headwinds are being felt within the Adult Social Care pressure. These include but are not restricted to:

- Pressures from increased complex needs of people in receipt of care and support;
- Increasing cost pressures from providers, including National Living Wage;
- Increasing pressures from partners, including ICB for us to share in their particular fiscal challenges.

55. The Adult Social Care Department Senior Leadership Team are developing a Recovery and Redesign Plan to ensure that they can deliver an effective service despite these challenges. This includes a series of actions and mitigations in the current year to provide a sound foundation for the remaining period of the MTFS.

56. The MTFS recognises the increasing demography and consequential demand pressures for services in Adult Social Care and Children and Families; both of which are based upon various assumptions that evolve throughout the budget cycle. The key assumptions that underly the significant pressures upon our services can be summarised as follows:

Children’s & Families

Key Assumptions	2026/27 £000	2027/28 £000	2028/29 £000	TOTAL £000
Growth in External Placements for LAC	1,481	1,161	261	2,903
<p>This is primarily an activity pressure due to the continued increase the number of children in LA care that need to be placed in expensive externally commissioned provision due to an increase in the complexity in presenting needs, alongside a decrease in internal fostering placements. This is not unique to Nottinghamshire; it is a widely recognised nationwide issue.</p> <p>The forecast overspend in future years is driven by growth in the number of children looked after by the local authority with multiple and complex needs who require specialist placements at a high cost. It is not an overall growth in young people in care but based on increasing cost per child, with an overall increase in the number of children cared for in externally commissioned children’s homes as opposed to in Nottinghamshire children’s homes or fostering families.</p>				

Adult Social Care

<u>Key Assumptions</u>	2026/27	2027/28	2028/29	TOTAL
	£000	£000	£000	£000
Care Package Demand for Adults Aged 18-64 Years	14,059	3,308	7,568	24,935
<p>This budget pressure reflects rising demand and increasing complexity in care for working-age adults (under 65), including young adults transitioning from children's services. Advances in childhood healthcare mean more individuals with complex physical and learning disabilities are living into adulthood. While the number of people with profound disabilities remains relatively small, the cost per individual can be very high.</p> <p>The assumptions behind these figures are based on projected accommodation needs and evidence of growing demand and higher costs for care packages, using a "predicted needs" methodology.</p>				

<u>Key Assumptions</u>	2026/27	2027/28	2028/29	TOTAL
	£000	£000	£000	£000
National Living Wage - External	9,520	9,942	10,552	30,014
<p>The National Living wage is increased each year, the current rate is £12.21. Rates used for 26/27 £12.71 (Actual), 4.42% inflation for 26/27 = £13.27 and 4.42% inflation for 28/29 = £13.86.</p> <p>The increase in the NLW has only been applied to the employees' costs and the profit element and has not included an increase for inflation on other overheads. The pressure assumes that all employees are over 25 or paid at the over 25 rate. In addition, the pressure figures reflects a review that has been undertaken on client and health contributions.</p>				

Local Government Policy Statement

57. On 20 November 2025, Minister of State (Minister for Local Government and English Devolution) Alison McGovern announced the publication of the Government 2026/27 to 2028/29 Local Government Finance Policy Statement in a Written Ministerial Statement. This marks the start of the Settlement process which for the first time in a decade, is a multi-year settlement covering the next three financial years through to March 2029. The key announcements for the sector were as follows: -

- First Multi-Year Settlement (MYS) in a decade covering 2026/27, 2027/28 and 2028/29
- Significant emphasis on deprivation targeted funding - £600m Recovery Grant Remains throughout the MYS
- Total distributable quantum remains unknown
- Remoteness removed from all service specific relative needs assessments except for Adult Social Care
- Council Tax referendum principles remain unchanged for the MYS period.

Autumn Budget Statement 2025

58. On 26 November 2025, the Chancellor of the Exchequer the Rt Hon Rachel Reeves announced the Autumn Budget 2025 in a speech to the House of Commons which began with the Chancellor stating that the budget with 'fair and necessary choices' will deliver 'the biggest drive for growth in a generation'.

59. As part of the statement, it is expected that a three-year provision Local Government Finance Settlement for 2026/27 to 2028/29, the first multi-year settlement in a decade, will be published during the week commencing 15 December, ahead of the parliamentary recess on 18 December.

60. The main headlines that were of interest to local government are as follows: -

- A partial solution to SEND deficits where spending on SEND from 2028/29 will be absorbed within departmental revenue expenditure limits. This would mean that local authorities would not build up further DSG deficits from 2028/29, but no announcements were made regarding those deficits that will have been built up to 2028/29.
- Tax rises worth £26bn, £15bn in personal tax from 2028/29.
- Minimum wage increased by 50p an hour to £12.71 for over 21s in April 2026.

Provisional Local Government Finance Settlement 2026/27

61. On the 17th December 2025, Minister of State Alison McGovern MP announced the Provisional Local Government Finance Settlement in a written ministerial statement. This marks a significant change to the model used to distribute funding to local government since 2013 and includes several additional complications with the number of specific grants that have been rolled into core funding. The main headlines arising from the announcement are as follows: -

- First multi-year settlement in a decade covering the financial years 2026/27 to 2028/29.
- Core spending power uplift of 5.7% in 2026/27 followed by 4.3% and 4.4% in 2027/28 and 2028/29 respectively
- Councils tax thresholds set at 3% with an additional 2% specifically for adult social care
- Shift towards Fair Funding Review 2.0 with revised funding models aligning more closely with deprivation and local needs
- Consolidation and simplification of grants streamlined into fewer funding streams
- Business rates retention reforms to align local incentives with growth and ensure retention of revenues from new developments.

62. **Fair Funding Allocation** – The Provisional Local Government Finance Settlement confirmed the 2026/27 Fair Funding allocation and provided indicative allocations for the following two financial years as set out below: -

£m	2026/27	2027/28	2028/29
Baseline Funding Level	170.1	174.0	177.6
Revenue Support Grant + Better Care Fund	164.1	182.6	202.7
Fair Funding Allocation	334.2	356.6	380.3

63. The Fair Funding allocations are included in Table 3 below. The table has also been amended to reflect the residual risk that remains in the MTFs model alongside decisions that are pending in relation to Council tax. Also reflected in the table are recent changes to pressures and inflation that have emerged since the November 2025 budget update report. It is therefore prudent to acknowledge that the 2026/27 budget setting process remains fluid and consequently all base budgets will continue to be reviewed along with the financial planning assumptions that underpin the MTFs. Any changes will be detailed in the Draft Annual Budget Report to Cabinet in February 2026 and confirmed at the Full Council meeting later that month.

Table 3 - MTFs at December 2025

	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
Year on Year Savings requirement (February 2025 Report)	6.8	6.3	5.4	18.5
Change in Pressures	9.5	(9.6)	(4.1)	(4.2)
Pay Inflation	2.4	0.1	0.1	2.6
Additional Gov Grants	(10.4)	(18.5)	(20.1)	(49.0)
Business Rates Reset / Growth	(22.3)	(3.9)	(3.5)	(29.7)
Amendments to Portfolio base budgets	0.3	-	-	0.3
Remove Use of Reserves	12.0	(2.3)	(2.9)	6.8
Remove Council Tax increase assumptions	25.8	27.8	29.8	83.4
Revised Shortfall/ (Surplus)	24.1	(0.1)	4.7	28.7

Future Options and Sensitivities

64. **Reserves** – a robust reserve strategy underpins the delivery of the MTFs, however it is acknowledged that the use of reserves does not represent a sustainable solution to budget management. Reserves provide a short-term fix, but their use only delays the requirement for a permanent solution. The Council also needs to maintain an appropriate level of reserves to guard against unforeseen event.

65. It has been reported throughout the current financial year, and further down this report, that the Council is heading towards a significant deficit on the High Need Block. This is because of the support and cost required for those children and young people with special educational needs and disabilities who require additional resources to participate in education and learning. The MTFs approved in February 2025 included an embedded use of reserves totalling £27.9m

which was allocated to ensure a sustainable funding position across medium-term. However, owing to the requirement for cash funding attached to the High Need Block, consideration should be given as to whether the Council retains reserve levels to offset the funding deficit in the High Needs Block and reduce the potential need to borrow. To quantify the potential impact of this strategy, the use of reserves has been removed from the MTFS reflected in Table 3.

66. In recent years additional reserves have also been set aside in the risk-based General Fund regarding inflationary pressures, increased on-going risks in Children’s and Adults Services and challenges faced specifically in the social care market following the pandemic. The balance on the General Fund at 31st March 2025 was £35.9m and the Section 151 Officer is required to recommend a level of proposed General Fund balance in 2026/27 that is regarded as acceptable cover for any reasonable level of unforeseen events.

67. **Non-Achievement of Mitigations** – As set out in Appendix B, the net level of pressures is heavily reliant on full achievement of a £44.2m mitigation programme. It should be noted that the most prevalent reasons for in-year overspends across the local government sector are (i) increases in demand and (ii) non-achievement of savings / mitigation plans. Therefore, as part of the budget setting process, consideration should be given as to whether a contingency should be established to manage the risk.

Table 4 – Effect of Implementing a Mitigations Contingency

	2026/27	2027/28	2028/29	Total
Total Mitigations	18.0	15.6	10.6	44.2
10% Contingency	1.8	1.6	1.1	4.4
20% Contingency	3.6	3.1	2.1	8.8
30% Contingency	5.4	4.7	3.2	13.3

68. **Council Tax** – It is prudent to consider all decisions in relation to reserves in conjunction with the relative effect of decisions relating to Council Tax. The MTFS approved in February 2025 included an assumed maximum permitted 4.99% increase to Council Tax in each year to 2028/29. The Provisional Local Government Settlement confirmed that councils will be permitted to raise core Council Tax by 4.99% per referendum principles across the multi-year assessment period and Government quotes the total funding available to local government on the expectation that councils will maximise council tax. However, decisions on setting such levels are taken on an annual basis and to acknowledge this fact, the financial impact of the pending decision upon Council Tax has also been reflected in Table 3.

69. The effect of a range of potential Council Tax increases on the MTFS is reflected in the table below.

Table 5 – Effect of Council Tax uplifts on the MTFS

Effect of Council Tax Uplift 26/27	Uplift %	Yield (£m)	Incremental MTFS Yield (£m)	Band D
	0.0%	-	(25.5)	£1,894.54
	1.0%	5.2	(20.3)	£1,913.49
	2.0%	10.2	(15.3)	£1,932.43
	3.0%	15.4	(10.1)	£1,951.38
	4.0%	20.5	(5.0)	£1,970.32
Current Assumption	4.99%	25.5	-	£1,989.08

70. **Tax Base** – As new houses are built the Council Tax base increases. Over the last 5 years the growth rate has fluctuated due, in part, to the challenging economic climate. The Council taxbase is predicated on information provided by District and Borough councils which calculates the number of Council Tax band D equivalent residential properties in Nottinghamshire less any discounts and exemptions that must be applied according to statute. Taxbase information will be provided by 15 January 2026 and the MTFS will be updated accordingly to reflect the reported figures. A forecast growth assumption of 1.20% per annum has been factored into the MTFS, which translates into £6.1m of additional Council Tax yield for 2026/27 independent of any additional increase to the Council Tax rate. The sensitivity of this assumption in terms of effect on forecast council tax income is as follows:

Table 6 – MTFS Taxbase Sensitivity

2026/27	Growth	Taxbase Yield (£m)	Change (£m)
	1.00%	5.2	(0.9)
	1.10%	5.7	(0.4)
Current Assumption	1.20%	6.1	-
	1.30%	6.7	0.6
	1.40%	7.2	1.1
	1.50%	7.7	1.6

71. **Savings** – Previously approved savings totalling £7.4m are included within the MTFS.

Complementary Budget Construction Activities

72. Alongside the 2026/27 Budget Construction process, several additional reviews have or are currently taking place as follows: -

Efficiency Working Group

73. On 23 June 2025, Cabinet approved the establishment of an Efficiency Working Group to commence a review of the Council's financial management, procurement and contract management arrangements. The aims of the review are to both address financial pressures

and enhance value for money across the Council's services. This initiative is part of a broader strategic response to budgetary challenges and aims to demonstrate that the Council is run efficiently and effectively.

74. Initially it reviewed the procurement and budgetary control process across the Council. It also saw the overview of the scale and scope of the Council's Portfolio of Change which includes proposals for future savings and cost reduction through a series of transformation programmes, including use of new technologies, digital tools, improving outcomes for residents in ways that reduce cost, and by investing in prevention and early intervention. This purpose has been met through the mitigation programmes through the Council's Medium Term Financial Strategy set out in the Portfolio of Change identified in this report.

75. In addition, it also undertook a series of reviews to assure the Council it was working efficiently as well exploring new opportunities as they arose. These included reviews into:

- the use of agency staffing
- ICT costs
- approach to energy procurement
- approach to capital receipts
- Adult Social Care fees & charges
- Corporate fees and charges
- use of printing
- Arc & Via's contribution to efficiencies
- the Coroners Service

76. The Efficiency Review aims to incentivise Departments to be as efficient as possible whilst also providing assurance to Nottinghamshire residents about the extent to which the Council's financial management is robust, efficient and provides value for money for the taxpayer. Some of the outcome from the individual reviews, however small, have provided support to reducing Portfolio overspends in 2025/26 which will continue to support budget forecasting into 2026/27.

Highways Review

77. As reported to Cabinet in November 2025, the Highways Review undertaken by a Cabinet Member Working Group, sets out to improve Nottinghamshire's road network amid rising maintenance challenges and a national backlog of repairs. Key priorities coming out of the review include:-

- Maximising Funding Opportunities
- Prudent Asset and Network Management
- Effective and Efficient Delivery
- Improved Communications and Community Led Work

78. Delivery will be driven by Via East Midlands Ltd, focusing on modernisation, technology adoption and community engagement. Recommendations aim to maximise funding, improve service efficiency, and create a more resilient and sustainable network aligned with the Council's strategic objectives.

Dedicated Schools Grant - High Needs Block

79. The Department for Education's High Needs Operational Guide 2025/26 states that high needs funding should be used to support provision for children and young people with special educational needs and disabilities who require additional resources to participate in education and learning, mainly in schools and colleges, from their early years to age 25 (excluding young people aged 19 to 25 who do not have an Education, Health and Care Plan and individuals who are over the age of 25). The funding should also support children up to age 16 in alternative provision who, because of exclusion, illness, or other reasons, cannot receive their education in mainstream or special schools.
80. Local Authorities' High Needs Funding has been placed under increased scrutiny in recent years as the number of Local Authorities with Dedicated Schools Grant (DSG) deficits continues to grow. The Institute of Fiscal Studies reported in December 2024 that high needs spending has been consistently higher than funding by £200m to £800m per year between 2018 and 2022 mainly because local authorities have a statutory obligation to deliver the provisions set out in Education Healthcare Plans. As a result, local authorities have accumulated large deficits in their high needs budgets, estimated to be at least £3.3 billion by the end of the 2024/25 financial year.
81. Councils are currently permitted, via a statutory override, to keep high needs deficits (where the cost of providing support outstrips the SEND budgets available to councils) outside of their revenue accounts. As part of the Autumn Statement 2025, it was announced that the Government will fully absorb SEND provision costs from 1 April 2028 onward but the treatment of deficits incurred to that date is still unclear.
82. A recent report from the Local Government Association suggests that over half of councils that support children with special educational needs and disabilities (SEND) have warned they will become insolvent when, in March 2028, the statutory override ends and deficits are recognised on LA's balance sheets.
83. To date, unlike many Local Authorities, Nottinghamshire County Council has managed to avoid going into a DSG deficit position despite being relatively lower funded for High Needs due to the Government's funding allocation methodology. However, an overspend of £18.1m on the High Needs budget in 2024/25 reduced the Non-Individual Schools Budget (Non-ISB) reserve down to just £1.1m. As shown in the table below, the Children and Families portfolio are currently forecasting an overspend of £37.2m on the high needs block for 2025/26. Future year risks to DSG overspends are being mitigated through the Inclusion and SEND programme.

Table 7 – School’s Budget Position

Previous Month’s Variance OS/(US)	Funding Block	Budget £m	Forecast Expenditure £m	Forecast Variance OS/(US) £m
-	Schools	705.750	705.750	-
35.870	High Needs	130.233	167.481	37.248
(0.301)	Early Years	127.331	127.03	(0.301)
-	Central Services	5.919	5.919	-
35.569	Total	969.233	1,006.180	36.947

84. This forecast out-turn position will result in a forecast Non-ISB reserve deficit of around £35.3m at the end of the current financial year after taking into account brought forward balances and other adjustments. Unfortunately, this overspend requires the Council to hold positive reserve balances to offset. This requires the Council to review and increase the level of reserves consequently.

Public Service Reform & Mitigation Plan

85. The Council operates in a rapidly changing environment. As a result, we need to continue to change and innovate to deliver the Council’s priorities and ensure that we continue to deliver good value for money to the taxpayer. We approach change with optimism and creativity and are always thinking about what more we can do.

86. To effectively deliver change, we have developed a way of bringing together the programmes and projects into one place. We call this the ‘portfolio of change’ which has been developed to focus on the following aims.

Improving experience and outcomes for residents in ways that reduce the cost to the Council:-

87. Nottinghamshire is a great place to live and work, but we know that there are still inequalities in outcomes for some people and places across the County. Our change portfolio seeks to deliver benefits to the people of Nottinghamshire, improving equity and the experiences of care and support, prioritising prevention and helping people to get the right help at the right time.

88. For example, we will transform the way our family help and child protection services are delivered. We will work together with partners to improve the experiences of children with special educational needs and disabilities (SEND) and young people preparing for the transition to adulthood. We will increase the availability of supported living for adults accessing care and support, to support more people to live more independently.

Maintaining financial sustainability and managing risks to the Council

89. The Council's finances face ongoing challenges, with increases in the demand and costs of service delivery likely to exceed any growth in the resources available.
90. The portfolio contributes to our financial sustainability by delivering savings, efficiencies and reducing future budget pressures (pressure mitigations). Between 2026/27 and 2028/29 there are £44.2m of pressure mitigations built into the MTFs. Appendix B provides a summary of the activity that is helping to minimise the budget pressures that are set out in this report. The progress of the delivery of this work will be regularly reported to the Overview Committee and Cabinet.

Responding to public service reform opportunities and working collaboratively with public sector partners to deliver long-term change

91. Continuing to deliver good outcomes, with public sector finances under pressure and increases in demand for care and support, will require us to think differently about how we deliver together with our system partners, providing more joined up and seamless service. National reforms also require us to make significant changes to the ways in which we operate and deliver for the people and communities of Nottinghamshire.
92. In 2026/27, we will begin implementation of a reorganisation of local government and we will work with partners to develop new and integrated system responses, to continue to deliver positive outcomes with reduced resource.
93. The Council's activity is organised into the following programmes of work:-

- **Inclusion and Special Educational Needs and Disabilities (SEND)** – improving the experience of children, young people and families with special educational needs and disabilities, ensuring that they receive effective graduated and integrated support to meet their education, health and care needs.
- **Families First Partnership** – changing the way we help and support families so that children are safe and cared for in their families, preventing the need for children to be protected or cared for by the Council.
- **Homes for Children in Care** – ensuring that children who are cared for by the Council live in family-based homes wherever possible. When they need to live in a residential setting, it is high quality, delivers positive outcomes and represents good value for money.
- **Adult Social Care** – optimising packages of care through a greater focus on outcomes, resilience, empowerment and cost, strengthening outcome-based commissioning and contract management, reviewing our processes and approach to ensure we work in the most effective way.
- **Thriving Communities** – working with system partners to grow the assets in our communities to help people access the right help at the right time, building the

foundations for good health and wellbeing and preventing or delaying the need for people to access services.

- **Forward Looking and Resilient Council** – ensuring the Council continues to deliver value for money to the taxpayer, developing more efficient and effective ways of working for the Council, harnessing new and innovative practices (e.g. digital) to enhance productivity.

94. The above paragraphs set out the progress of the MTFs and impact on the budget gap. Assumptions will continue to be updated as we progress through the budget setting process. Final Local Government Finance Settlements and grant announcements are expected in January 2026 but the key date above all else is the Council meeting on 26 February 2026 and prior to that the Cabinet meeting on 29 February 2026. The report to Cabinet will set out the Council's final budget proposals in order to set a balanced budget for 2026/27.

Budget 2026/27 Key Milestones

95. The key milestones associated with the 2026/27 budget setting process are set out in the table below: -

Activity / Meeting	Date
Final Local Government Settlement	Late January 2026
Tax Base Information from District	15 January 2026
Overview Committee	15 January 2026
Draft Budget Report to Cabinet	29 January 2026
Full Council - Annual Budget Report 2026/27	26 February 2026

Equalities Impact Assessment

96. When setting the budget, the Council must be mindful of the potential impact on service users.

97. The Equality Act 2010 imposes an obligation on Members to have due regard to protecting and promoting the welfare and interests of persons who share a relevant protected characteristic (age; disability; gender re-assignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex and sexual orientation).

98. An initial high-level Equality Impact Assessment (EIA) in relation to the Council's proposed Revenue Budget Report 2026/27 will be undertaken at a corporate level to identify any potential areas where there is a significant risk of adverse impact. This will outline the overall likely impacts upon different groups based on those areas which may have been identified for savings plans. Where a significant risk of adverse impact is identified this would then be subject to a full Equality Impact Assessment process prior to Cabinet decisions on individual services.

99. As set out above, this is an initial high-level assessment recognising potential future impacts. In tackling a budget deficit whilst ensuring continued value for money as the Council delivers its priorities, the Council will in future need to consider budget savings. Any resulting savings may result in reductions or changes to frontline services, which directly affect the people of Nottinghamshire. Many of the Council's services are targeted at particular groups including older people, people with disabilities, children and younger people and families. These services

command the largest parts of the Council's budget. Detailed savings plans are being determined and if implemented are likely to be subject to more detailed consultation on the specific proposals.

100. The initial EIA will also reflect upon the ongoing work to develop a cumulative impact analysis and to consider the linkages between the Council's budget savings and those being made elsewhere in Government and by other public sector partners.

Statutory and Policy Implications

101. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Other Options Considered

102. This report provides an update of the Budget together with confirming the approach to reviewing the budget for 2026/27.

Reasons for Recommendations

103. To provide information to Overview Committee on the Council's approach to the budget setting process and the current assumptions behind the budget and provide the opportunity for the Committee to feedback any specific points on the Budget for 2026/27.

RECOMMENDATIONS

- 1) That Overview Committee considers: -
 - a) The assumptions that underpin the development of the 2026/27 Annual Budget Report and the Medium-Term Financial Strategy.
 - b) Any specific issues around the development of the 2026/27 Annual Budget Report and the Medium-Term Financial Strategy that it would like to refer to Cabinet for further consideration.

Councillor Stuart Matthews
Cabinet Member for Finance and Resources

Legal Implications (SSR 29/12/2025)

104. Pursuant to the Nottinghamshire County Council Constitution this Committee has the delegated authority to receive this report.

Local Government Reorganisation Implications (GB 02/01/2026)

105. There are no Local Government Reorganisation issues arising directly from this report.

Financial Comments (GB 02/01/2026)

106. The financial implications are set out within the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All