

Policy and Resources Committee	
Meeting date	26 November 2025
Report Title	Budget 2026/27 and Medium Term Financial Strategy (MTFS) Forecasts
EMT Lead	Lisa Fillery, Director of Resources
Head of Service	Claire Stanbury, Head of Finance and Procurement
Lead Officer	Claire Stanbury, Head of Finance and Procurement
Classification	Open
Recommendations	The Policy and Resources Committee is asked to; 1. Note the draft 2026/27 revenue and capital budget forecasts; 2. Note the Medium Term Financial Strategy (MTFS) projections; 3. Note the proposals for the fees and charges increases; 4. Approve the proposed budget consultation; 5. Note the cessation of the Kent Business Rates Pool for 2026/27.

1. Purpose of Report and Executive Summary

- 1.1 This report sets out the draft 2026/27 revenue and capital budgets and the draft Medium Term Financial Strategy (MTFS). The MTFS is a strategic document, supporting delivery of the Corporate Plan outcomes and helping to ensure a focus on the Council's medium term budget position. It establishes how the Council's priorities will be achieved by setting out the framework within which resources are available over the medium term and the financial challenges facing the Council in terms of funding gaps. The context within which these budget forecasts remains complex with the ongoing service pressures, continuing cost-of-living crisis, and an uncertain future for local government funding, all of which make forecasting challenging.
- 1.2 The results of the long awaited Fair Funding Review and Business Rate Reset are due to be published before Christmas and so are not reflected in this report. The variations on the assumed outcomes of the review range from
 - a neutral position where changes to grants and business rate income are balanced
 - a position where grants are lost, but business rate position is neutral
 - a model reducing both grants and business rates significantly
 - a model reducing business rates but compensating with additional grant
- 1.3 This report currently assumes the risk of grant losses in 2026/27 but a neutral business rate position. This will be updated for the final budget proposal when the Fair Funding 2.0 details will have been published.
- 1.4 This report details the position for Swale Borough Council and makes no assumption of the financial implications of the outcome of Local Government Reorganisation (LGR) proposals to be implemented from 1 April 2028. As such the future year assumptions estimate the position for Swale Borough Council and the costs to deliver the services that are currently within our budget framework. As the LGR work progresses and decisions are made on the future, the assumptions and financial planning reports will be amended accordingly.
- 1.5 The updated high level funding forecasts in this strategy build on previous figures from the 2025/26 budget setting exercise, which were forecasting future year deficits in the region of £2.1m in 2026/27 (excluding the uncertainty around government grant funding of £1.9m). The updated budget gap now differs from this peaking at £5.1m

(again excluding government grants) in 2028/29, in the main this is due to economic inflationary pressures, delays to funding reviews and some key service pressures, all of which are impacting on the medium term projections (Appendix I).

Updated funding forecasts	2025/26	2026/27	2027/28	2028/29	2029/30
	£'000	£'000	£'000	£'000	£'000
Internal Drainage Board Levy	1,037	1,089	1,089	1,089	1,089
Base budget & reserve contributions	26,475	27,111	28,187	29,587	29,587
Revenue Support Grant (RSG)	(362)	(369)	(376)	(376)	(376)
Extended Producer Responsibility Grant	(1,349)	0	0	0	0
Business Rates	(12,104)	(12,379)	(12,379)	(12,379)	(12,379)
New Homes Bonus	(988)	0	0	0	0
National Insurance Contribution Grant	(200)	(200)	(200)	(200)	(200)
Recovery Grant	(539)	0	0	0	0
Uncertain Government Grants		(2,876)	(2,876)	(2,876)	(2,876)
Kent Pool Growth Fund (Business Rates)	(855)	(855)	(855)	(855)	(855)
Council Tax	(10,439)	(10,856)	(11,289)	(11,740)	(12,208)
(Surplus)/deficit	677	665	1,301	2,250	1,782

1.6 A detailed budget review has taken place over previous months to identify efficiencies and additional income to help support frontline services and to balance the Council's financial position. For next year this totals around £1.2m (Appendix II) and is supported by various increases to fees and charges (Appendix V), service reviews, and savings agreed in previous years' Medium Term Financial Plans. There is also a plan to continue to use Business Rate income within the Kent Pool Growth Fund, to recharge costs that meet the criteria of the pooled fund. Based on current forecasts this still leaves a deficit of £665k which will need to be supported from reserves if further savings cannot be identified. Based on the projections above and the spending estimates and use of reserves in the current year the earmarked reserves are forecast to be insufficient to address any budget gap after 2029/30.

1.7 The capital spending projections for future years (Appendix IV) are included and assume borrowing of £24.3m between 2025/26 and 2028/29. The main borrowing will be in relation to Rainbow homes. However, with the recent instability of the financial markets and increases to borrowing costs it will continue to be necessary to fundamentally review schemes with borrowing requirements to ensure they remain affordable and still deliver the anticipated benefits. In summary the key messages are as follows;

- Estimated budget gap of £665k for 2026/27 even with current savings and fee increases
- We can deliver our statutory services with current income levels but nothing more
- To fund non-statutory services we need to find more income/savings/reserves
- Our reserves will help set a balanced budget for the next 3 years but not after 2029/30
- Funding from reserves is not a sustainable way to manage our budget
- We need to identify more efficiencies and income to make the budget sustainable
- The current projections are based on a number of assumptions which can and do change.

Kent Business Rate Pool

1.8 MHCLG have confirmed that business rates pools will continue in 2026/27. Authorities wishing to have a business rates pool in 2026/27 will need to register their interest by

- 1.9 The reset of the Business Rate system will remove all the growth accumulated since 2013/14. Swale has benefited significantly from business rate growth with our current budget assuming income in excess of £12m from retained business rates. The creation of the Kent Business Rate Pool meant that we maximized the retention of business rates raised within the county. The proposed changes to the system mean that the options for growth will be limited, at least in the first year following the reset and the unknown position of our reset baseline funding positions means that there is a much higher chance of one or more of the pool members finishing the financial year below their baseline funding – meaning that the pool would have to cover this “loss” position.
- 1.10 In 2025/26, pool members want a top-up pool (i.e. one with no levy) combined with the highest amount of business rates growth. The selection of pool members is based on each authority's tariff (or top-up) and their likely business rates growth. This calculation changes for 2026/27 with the new levy arrangements. Levy payments are based on the relationship between Baseline Funding Level (BFL) and growth (rather than top-up/ tariff and growth). Furthermore, all authorities will pay some levy on their growth outside the pool.
- 1.11 Given the uncertainty around BFLs and the growth assumption for Kent districts, it is proposed that the pool is closed in its current form and that no expressions of interest are registered with MHCLG. Although we are able to withdraw an expression of interest once funding details are confirmed, we are unable to change the membership and so the risk of the unknown is considered too high as at this stage we do not know enough about the pattern of growth to identify the optimum membership of the pool.
- 1.12 Kent Finance Officers propose that the pool arrangement is reviewed once the new system has been in place for a year or two and the impact on growth, tariffs and levies is clearer.
- 1.13 Accounting for business rates for 2026/27 will be for Swale Borough Council only with any growth or reductions in the collection fund position being attributable to Swale only.
- 1.14 Delegation to decide on continuing to be a member of the pool has been given to the Director of Resources in consultation with the Chair of P&R if there are no significant changes to the arrangement. The situation that we find ourselves in for the coming year, is the disbandment of the pool given the change in system and so there is not technically a decision to be taken, however this committee needs to be made aware of the position.

2. Proposals

- 2.1 Given the timing of this report this is an interim step in the development of fully balanced budget proposals. The updated Medium Term Financial Strategy (MTFS) is attached at Appendix I. It currently shows a gap of £665k which needs to be addressed to balance the 2026/27 budget. To reduce the gap to this level, it is currently proposed to use £855k from Business Rates Growth Fund reserve as was agreed as part of the 2024/25 MTFS.
- 2.2 The savings, efficiencies and increases to income totalling £1.2m that the Council has identified to help support the 2026/27 budget can be found within Appendix II, (£218k of these savings were agreed as part of the budget process for 2025/26). The draft capital budget is included within Appendix IV while the fees and charges proposals for next year are covered by Appendix V. Appendix VI includes a risk assessment for next year's budget.

- 2.3 The MTFS and budget forecasts include the latest information available. It should however be noted that some of the assumptions that have currently been made will not be confirmed until the outcomes of the Fair Funding Review 2.0 and Business Rate reset are announced, the date of which is currently anticipated to be during the week commencing 15 December 2025. This includes whether there will be any changes to the level of increase in Council Tax is allowed for district councils.
- 2.4 The 2025/26 budget includes an allocation for the roll out of the Extended Producer Responsibility initiative that aims to transfer the cost of collecting and disposing of recycling waste to the organisations that are responsible for producing it. Local authority payments were due to start in 2024/25 but this had been delayed until 2025/26. The funding is to support the delivery of our waste collection service which has required significant growth to the base budget, this funding will help cover those costs.

Kent Business Rate Pool

- 2.5 To acknowledge the disbandment of the Kent Business Rate Pool given the changes to the retained business rates system and the uncertainty around how pooling arrangements can be set up, which councils should be included and the impact of changes to the levy payments due on any future growth.

3. Alternative Options

- 3.1 Budget Build - Do nothing – This is not recommended as the Council is legally required to set a balanced budget. A further budget report will be submitted to Policy & Resources and Council in February 2026.
- 3.2 Kent Business Rate Pool - Given the position of the other Kent Business Rate Pool members on the need to disband for 2026/27 there is not another option for pooling at this time.

4. Consultation undertaken or proposed

- 4.1 Formal consultation of the proposed budget will be undertaken. The Budget proposals contained in this report will be made available for comment on the Council's website from 27 November to 8 January.

6. Implications

Issue	Implications
Corporate Plan	The budget proposals support the achievement of the Council's corporate priorities, and contribute directly to the running of the Council.
Financial, Resource and Property	The report sets out the Council's resourcing position.
Legal, Statutory and Procurement	The Council is required to set a Council tax and a balanced budget.
Crime and Disorder	Any potential implications will be addressed by service managers in their budget proposals.

Issue	Implications
Environment and Climate/Ecological Emergency	The proposals support the Climate Change and Ecological motion previously agreed.
Health and Wellbeing	Any potential implications will be addressed by service managers in their budget proposals.
Safeguarding of Children, Young People and Vulnerable Adults	Any potential implications will be addressed by service managers in their budget proposals.
Risk Management and Health and Safety	Any potential implications will be addressed by service managers in their budget proposals.
Equality and Diversity	Any potential implications will be addressed by service managers in their budget proposals.
Privacy and Data Protection	Any potential implications will be addressed by service managers in their budget proposals.

7. Appendices

The following documents are to be published with this report and form part of the report:

- Appendix I: Medium Term Financial Strategy (MTFS) – General Fund Summary Forecasts 2026/27
- Appendix II: Detailed Budget Position 2026/27
- Appendix III: Budget Change Summary 2026/27
- Appendix IV: Capital Programme 2026/27
- Appendix V: Fees and Charges 2026/27
- Appendix VI: Risk Assessment 2026/27

8. Background papers

7.1 None.