

# **CABINET**

## **Budget & Policy Framework Update**

**2026/27 – 2030/31**

**13 January 2026**

### **Report of Chief Finance Officer**

#### **PURPOSE OF REPORT**

To provide an update on the Council's budget strategy for 2026/27 and financial outlook up to 2030/31. Specifically, the report considers the budget and Council Tax proposals for 2026/27.

**This report is public.**

#### **RECOMMENDATION OF COUNCILLOR HAMILTON-COX**

- 1. That Cabinet make recommendations to Council regarding the Lancaster City Council element of the Council Tax as set out in paragraph 3.3 (option one) of this report which is a 2.99% increase to the Band D Council Tax (from £264.30 to £272.20).**
- 2. That the recommendations and proposals in this report be referred to Council on 28 January for initial consideration prior to public consultation/stakeholder meeting on 3 February by Budget and Performance Panel, in order that any feedback can be provided to Cabinet at its 10 February meeting.**

#### **1.0 INTRODUCTION**

- 1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning proposals and a balanced budget for Council's consideration.
- 1.2 At its meeting on 2 December 2025 Cabinet noted assumptions included in respect of various sources of income and expenditure and the corresponding impact this would have on the 2026/27 revenue budget gap and beyond. Members will, therefore, be aware of the financial challenges faced by the Council.
- 1.3 Since that writing of that report, the Government announced its Autumn Statement on 26 November 2025 and has released the Provisional Local Government Finance Settlement (17 December 2025). Several workshops have been held between Cabinet and Senior Leadership Team to explore initial proposals in order to be able to produce a balanced budget for 2026/27.

## **2.0 LOCAL GOVERNMENT FUNDING UPDATE (INCLUDING BUSINESS RATES)**

- 2.1 Details of the provisional multi-year Local Government Finance Settlement for 2026/27 were announced on 17 December 2025. The Provisional Settlement is subject to consultation, with the Final Settlement announced towards the end of January/early February. Values may, therefore, be subject to change. Any changes will be reflected in the final budget and policy framework reports presented to Cabinet, and ultimately Council 25 February 2026.
- 2.2 The settlement sets out simplified allocations for local authorities across England for the next three years, and incorporates an updated distribution of resources following the conclusion of the Fair Funding Review. It represents a major change in local government financing and the settlement will now go out to consultation ahead of it being finalised in early 2026.
- 2.3 This current financial year has already seen multiple changes with the Business Rates scheme. At the previous Autumn Budget on 30<sup>th</sup> October 2024 the Chancellor announced that for 2025/26:
- 2025/26 Multipliers – It was confirmed that the small business rates multiplier would be frozen at 49.9p with the standard multiplier uprated from 54.6p to 55.5p
  - Retail, Hospitality and Leisure Relief – This relief has been decreased from 75% to 40% and the cap has remained the same i.e., £110,000.
  - Removing Charitable Rate Relief from Private Schools – The existing mandatory business rates relief of 80% for private schools with charitable status will end from 1<sup>st</sup> April 2025.

These changes were implemented on 1<sup>st</sup> April 2025.

- 2.4 With regard to 2026/27, the details surrounding the proposed business rates reset have also been released and this will affect the collection fund in a number of ways :-
- A revised business rates baseline which is the amount that we are expected to collect as an Authority
  - A revised baseline funding level which is the funding need as determined by the government
  - A revised 'safety net' scheme which offers Council's more certainty in the business rates due to base their future years projections on
  - Expected changes to the tariff payable by the Authority and S31 grants due to the Authority

The overall effect of the above is expected to provide more certainty in business rates due to the Council for the forthcoming three years with the added security of the safety net position. Given that the overall position is positive but the figures are still provisional, no detrimental financial impact is expected.

- 2.5 The Council receives rating income from renewable energy schemes within the district, largely in relation to Walney Sub-Station. The value of this income is included as £3.998M in 2026/27 (£4.004M for 2025/26). A majority of the income currently falls outside of the main rate retention scheme, and so the Council retains the full benefit from it.
- 2.6 Work is continuing to determine the forecast surplus or deficit for prior years and the latest projection is a £0.788M deficit relating to prior years. Members will recall that the Business Rates Retention Reserve (BRRR) is used to manage the impact of surpluses and deficits and also to manage fluctuations in income levels in order to provide budgetary stability and smooth out year on year peaks and troughs. As part of the 2024/25 budget setting process, a contribution of £0.500M from the BRRR was included within 2026/27. This contribution

remains in place alongside plus a further £0.788M to address the prior years deficit explained above. Both adjustments are included within the general fund net financial position.

- 2.7 Given all the changes, the effect of the local government settlement and the changes to the business rates system cannot be considered in isolation and the following table illustrates the overall financial impact.

**Table 2 – Provisional Settlement allocations for Lancaster City Council**

	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000
<i>Items included in MTFS presented to Cabinet 2/12/25 :</i>					
Reversal of Grants budgeted for :					
- RSG	460	460	460	460	460
- Recovery	603	603	603	603	603
- Domestic Abuse	34	34	34	34	34
- NIC Rebate	211	217	222	227	227
Reversal of Business Rates Income Included in MTFS	13,641	13,832	12,145	12,411	12,659
	<b>14,949</b>	<b>15,146</b>	<b>13,464</b>	<b>13,735</b>	<b>13,983</b>
<i>Replaced With :</i>					
FFA Baseline Funding Level	5,165	5,283	5,390	5,498	5,608
FFA Revenue Support Grant	6,031	5,986	5,910	5,794	5,680
Recovery Grant	603	603	603	603	603
Green Energy Disregard	3,998	3,998	3,998	3,998	3,998
	<b>15,797</b>	<b>15,870</b>	<b>15,901</b>	<b>15,893</b>	<b>15,889</b>
<b>Estimated Favourable Settlement Position</b>	<b>848</b>	<b>724</b>	<b>2,437</b>	<b>2,158</b>	<b>1,906</b>

As table 2 shows, the provisional settlement allocates £0.848M more resources from Central Government than anticipated and this decreases the budget gap for the 2026/27 revenue budget.

### 3.0 COUNCIL TAX

- 3.1 As part of the provisional finance settlement, the Government published its referendum criteria for Council Tax. District councils will be permitted to raise their Council Tax by a maximum of 3% or £5, whichever is higher, without reference to a referendum. Table two below considers the following options for Council Tax:

- Option 1: An annual increase of 2.99%
- Option 2: £5 increase in Council Tax
- Option 3: No increase in Council Tax

For Lancaster City Council, option 1 is the highest of the options

**Table 5 – Impact of Council Tax Options: 2026/27 to 2030/31**

Year	Taxbase (% Annual Increase)	Estimated Annual Movement %	Option 1 Annual increase of 2.99% in Council Tax		Option 2 Annual increase of £5 in Council Tax		Option 3 No annual increase in Council Tax		Previous MTFS Approved Feb-2025	Additional / (Reduced) Income from 2.99% Increase & 1% Annual Growth	Additional / (Reduced) Income from £5 Increase & 1% Annual Growth	Additional / (Reduced) Income from Increase in Tax Base Only 1%
			Band D	Income (£'M)	Band D	Income (£'M)	Band D	Income (£'M)				
2025/26	43,702		264.30	11.550	264.30	11.550	264.30	11.550				
2026/27	43,833		272.20	11.931	269.30	11.804	264.30	11.585	12.015	(0.084)	(0.211)	(0.430)
2027/28	44,271	1.00%	280.34	12.411	274.30	12.144	264.30	11.701	12.498	(0.087)	(0.354)	(0.797)
2028/29	44,714	1.00%	288.72	12.910	279.30	12.489	264.30	11.818	13.000	(0.090)	(0.511)	(1.182)
2029/30	45,161	1.00%	297.35	13.429	284.30	12.839	264.30	11.936	13.522	(0.093)	(0.683)	(1.586)
2030/31	45,613	1.00%	306.24	13.969	289.30	13.196	264.30	12.056	14.066	(0.097)	(0.870)	(2.010)
										(0.451)	(2.629)	(6.005)

3.2 When compared against the MTFS which was approved by Council in February 2025 the following information can be drawn from the table above:-

- Option 1 provides reduced income of (-£0.084M) in 2026/27 and is cumulatively short by (-£0.451M) over the five year period;
- Option 2 provides reduced income of (-£0.211M) in 2026/27 and is cumulatively short by (-£2.629M) over the five year period
- Option 3 provides reduced income of (-£0.152M) in 2026/27 and is cumulatively short by (-£6.005M) over the five year period

3.3 **The recommendation arising from this report is that the Council on 28 January 2026 agree a 2.99% increase (option one) to the level of the previously set prior year (2025/26) Band D Council Tax for the Lancaster City Council element.** It is also recommended that option one is selected for the purposes of completing estimates in the Medium-Term Financial Strategy.

For information, the Band D Council Tax for 2026/27 will be £272.20 (previously £264.30 in 2025/26).

3.4 The Council is expected to benefit from prior year surpluses to the collection fund account in respect of council tax. This amount is currently valued at £0.185M and is included within the general fund net financial position.

## 4.0 MEDIUM TERM FINANCIAL STRATEGY

4.1 An update to the Council's Medium Term Financial Strategy (MTFS) was presented to Council on 17 December 2025. The MTFS presented at that meeting was a baselined position, in that it did not include any of the interventions now considered within this report.

4.2 Members will appreciate that there are a significant number of factors to be considered as part of the medium-term financial planning exercise. The revision of the MTFS is progressing well and will be considered at Budget Setting Council on 25 February 2026. The revision of the MTFS will be key in providing sound financial planning processes to underpin the Council's ambitions. Key considerations of the MTFS include taking account of the impact of decisions made to balance the 2026/27 budget alongside forecasts for future funding.

4.3 A forecast budget gap still exists and it continues to be structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive. Officers are continuously working with Cabinet to address this issue and will continue to do so following on from the conclusion of the current budget process. This will ensure that the problem is addressed in a timely manner so that it remains manageable. Proposed actions currently include:

- review of revenue growth proposed
- identification of any revenue savings from within services or arising from the 'Fit For The Future' process that have not already been included in the draft revenue budget as operational
- reconsideration of the approved capital programme and reprofiling any schemes where possible
- review of capital growth proposed prior to consideration by CAG
- the potential use of capital receipts to finance existing projects
- capitalisation of transformation costs where appropriate

These actions are ongoing and will be included in the report to Cabinet on 10 February 2026 together with in-year changes and ongoing changes to accounting, forecasting and grant activity which have also led to a change in the budgetary position from that previously reported.

- 4.4 Many of the financial pressures identified within the Councils General Fund are also present within the Housing Revenue Account (HRA). A full update on the HRA budget and financial outlook will be considered alongside the General Fund revenue budget including options to maintain a viable 30-year business plan and that its ongoing budget is balanced, whilst delivering value for money to tenants.

## **5.0 LOCAL GOVERNMENT REORGANISATION (LGR)**

- 5.1 To reiterate the information reported to Cabinet on 2 December 2025, the financial impact of LGR expected to be complex with very little information currently available. The financial information which underpins the ongoing budget process has currently been prepared on a 'business as usual' basis.
- 5.2 The Government is expected to lead a public consultation on the proposals early this year, with a preferred option selected in summer 2026.
- 5.3 If approved, elections for shadow authorities could take place in May 2027, with the new councils taking over all services from 1 April 2028 (vesting day).
- 5.4 Inevitably, this will have financial consequences for the Council however it is expected that partners will enter into the new authority in the best financial health that is possible, in order to maintain both financial and organisational stability.
- 5.5 During the time from now until vesting day, transitional costs falling upon the council will occur and these will need to be managed from within either the existing budget framework, the use of non-ringfenced reserves or by utilising capital receipts under the 'flexible use of capital receipts' policy where transformation can be demonstrated.

## **6.0 DETAILS OF CONSULTATION**

- 6.1 Given the size of the challenges faced by the Council, enhanced consultation with relevant internal and external stakeholders on the budget has been undertaken as part of the development of this budget with several briefings taking place. Further engagement will be undertaken prior to Budget Council in February. More specific consultation will continue as work continues to address the issues identified in the next few years.

## **7.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)**

- 7.1 It is essential that the Council Tax rate is set in line with the Council Tax billing timetable. Any delay would put the Council at risk of not being able to collect the tax which would have

serious cash flow implications.

- 7.2 In terms of the actual budget position, work is ongoing to provide a balanced budget. Public consultation/stakeholder meetings will be held over the coming weeks (including Budget and Performance Panel). The feedback from these meetings will be considered by Cabinet and incorporated into a final budget proposal which will be presented at the Cabinet meeting on 10 February 2026 and recommended to Council on 25 February 2026.

## **8.0 CONCLUSION**

- 8.1 The latest budget position does not produce a balanced budget for 2025/26 and further intervention is necessary before Cabinet can be presented with a balanced budget.
- 8.2 Whilst the longer-term financial forecasts contain numerous estimates and assumptions, which will change over time, the forecasts clearly highlight potential annual and cumulative budget deficits over the next 5 years and the position the Council faces. Although this position is not unique to this Council, it is reflected nationally across many public sector bodies. The gaps identified for 2026/27, although are lower than previously forecasted, are still present. Members and Officers recognise the size of the challenge ahead including that of LGR and will look to manage the transitional change to ensure the Council delivers both its statutory and non-statutory services across the district.

### **RELATIONSHIP TO POLICY FRAMEWORK**

The budget framework in general sets out a financial plan for achieving the Council's corporate priorities and outcomes which incorporate the above cross cutting themes. Equalities impact assessments are undertaken for the relevant activities which are reflected in the budget.

### **CONCLUSION OF IMPACT ASSESSMENT**

(including Diversity, Human Rights, Community Safety, Sustainability etc)

The proposed budget incorporates measures to address the climate emergency and digital improvements as well as activities to address wellbeing, health and community safety.

### **FINANCIAL IMPLICATIONS**

As set out in the report.

### **SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has authored the report and comments are reflected within.

### **LEGAL IMPLICATIONS**

No legal implications directly arising from this report.

### **MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no comments

### **BACKGROUND PAPERS**

None

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