

CABINET MEETING – 16 OCTOBER 2025

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Second Revenue Budget Review 2025/2026

Author(s):

Director of Finance

Purpose of Report:

The report advises Cabinet of the overall Revenue Budget position following the second revenue review for 2025/2026 including proposed contingency transfers.

Description of Decision:

Cabinet is recommended to:

- Approve the budget transfers and the proposed contingency and reserves transfers set out within section 3 of the report; and
- Note the contents of the report.

Is the decision consistent with the Budget/Policy Framework? Yes

If not, Council approval is required to change the Budget/Policy Framework

Suggested reason(s) for Decision:

To respond to variations in expenditure and income which have arisen in 2025/2026 and enable effective budgetary control to be exercised.

Alternative options to be considered and recommended to be rejected:

No alternative options are proposed.

Impacts analysed;

Equality Privacy Sustainability Crime and Disorder

Is the Decision consistent with the Council's co-operative values? Yes

Is this a "Key Decision" as defined in the Constitution? Yes

Is it included in the 28 day Notice of Decisions? Yes

SECOND REVENUE BUDGET REVIEW FOR 2025/2026

Director of Finance

1. Purpose of Report

1.1 The report advises Cabinet of the overall Revenue Budget position following the second review for 2025/2026 including proposed contingency transfers.

2. Description of Decision (Recommendations)

2.1 Cabinet is recommended to:

- Approve the budget transfers and the proposed contingency and reserves transfers set out within section 3 of the report; and
- Note the contents of the report.

3. Revenue Budget Monitoring 2025/2026

3.1 Overall Position

3.1.1 The Budget for 2025/2026 was approved by Council in February 2025. A full review has been undertaken for each Portfolio together with contingency allocations proposed for the second quarter.

3.1.2 At this stage in the financial year the forecast outturn position reflects the challenges the Council faces from known areas of pressure predominantly within Adults' and Children's social care, in delivering savings approved by full Council in order to balance the Budget, and the impact of elevated inflation levels which continues to drive the cost-of-living crisis. The financial consequences of the latter are factored into the position where known, but a degree of caution should be noted at this early stage in the financial year.

3.1.3 The overall forecast outturn position for 2025/2026 is a deficit of £1.625m which would be met from the earmarked General Risk and Inflation reserve. The position is summarised in the table below, with further detail provided within Appendix A, Appendix B, and the remainder of Section 3 below.

Area of Variance	Para reference	Variance Underspend / (Overspend) £m
Pay Award	3.1.7	(3.581)
General Provision for Contingencies	3.1.7	3.581
Potential Energy Underspend	3.1.8	2.919
Delegated Forecast Outturn	3.3	(8.061)
Capital Financing	3.5	3.517
Forecast Outturn position		(1.625)
Use of the General Risk and Inflation Reserve		1.625
Forecast Outturn position (after use of reserve)		0.000

- 3.1.4 The Council's social care services continue to experience both demand pressures, challenges around complex cases and cost increases from providers. For Children's Services, the cost of external placements is presenting a very significant challenge alongside increases in the cost and demand for Home to School transport.
- 3.1.5 Other council services continue to experience inflationary pressures through service contracts and the costs of acquired goods and materials.

Pay Pressures

- 3.1.6 The pay award for the 2025/2026 financial year has now been agreed at 3.2% for all staff.
- 3.1.7 Provision for a 3.0% pay award was factored into the 2025/2026 approved budget within contingencies. The additional cost relating to the Council and its wholly owned companies is £0.186m. As reported to Cabinet previously this additional cost will be funded from contingencies increasing the full amount to be drawn down to £3.581m.

Energy

- 3.1.8 In recent years additional resources have been allocated to energy costs to mitigate volatility around inflationary pressures. Wholesale prices fell during 2024/2025 and consequently the approved budget for 2025/2026 was reduced compared with 2024/2025. Further reductions and greater cost certainty have emerged since the time of setting the 2025/2026 budget. At this stage the forecast for energy cost indicates that the budget will be underspent by £2.919m with £1.670m within contingencies and £1.249m in non-delegated budgets within portfolios.

General Pressures

- 3.1.9 It should be noted that the financial impact of the cost of living crisis on the City's residents and businesses could result in a deficit position on the council tax and / or business rates collection funds. Any deficit will not impact on the current year's general fund position but would need to be taken into account in the budget setting process for 2026/2027.

Extended Producer Responsibility Grant

- 3.1.10 At the time of setting the budget for 2025/2026 the Extended Producer Responsibility for packaging grant allocation was £5.906m which has subsequently been reduced to £5.786m based upon the amount of funding anticipated to be collected nationally. However, as part of this new arrangement, a HM Treasury backed guarantee is in place which ensures for 2025/2026 that local authorities will receive funding equal to the original advised grant amount.

Dedicated Schools Grant

- 3.1.11 As reported to Cabinet in both the 2024/25 Revenue Outturn report and the Revenue Budget 1st Review report there continues to be significant pressures in relation to the costs associated with increased demand for services to support children with Special Education Needs and Disabilities (SEND). The majority of these costs are funded from the High Needs Block of the Dedicated Schools Grant (DSG) which is ringfenced and

does not form part of the Council's General Fund.

3.1.12 As previously reported to Cabinet, the statutory override which separates local authorities' DSG deficits from their wider financial position was extended for an additional two years up to 31st March 2028. The current projected cumulative DSG deficit position at the end of the 2025/26 financial year on the High Needs block is £25m. The DSG deficit continues to pose a significant risk to the Council's financial position. Ongoing work is currently being undertaken within Together for Children to address the cost pressure and to seek to reduce the overall cumulative position. However, Cabinet should be aware of the potential risks and the need for action to be taken pending any further announcements from the Government following the Schools White Paper which is due in the Autumn.

3.2 Budget Transfers

3.2.1 Budget transfers undertaken at the second review primarily reflect the need to realign budgets to ensure correct accountability of the approved budget. These are set out in Appendix A.

3.3 Portfolio Budgets – Overall Summary

3.3.1 Details of the forecast for major variations for each portfolio are set out at Appendix A. In overall terms there is currently a forecast delegated net service pressure of £8.061m, inclusive of the savings plan position detailed at Section 3.3.2 below.

3.3.2 Progress in the implementation of the £10.241m approved savings plans for 2025/2026, as well as the outstanding savings of £1.029m from 2024/2025, is continuing. The position is reasonably positive for this stage of the financial year, given the demands and pressures services are experiencing. Portfolio holders and Directors continue to take the necessary action to mitigate any delays in implementation and, as such, the position is expected to improve as the year progresses.

- £8.146m (72.3%) of the savings are expected to be fully realised.
- £2.983m (26.5%) of reductions are making decent progress, with a good prospect that full savings will be achieved. Where these full savings are forecast to be achieved but are seeing a delay in being achieved then these have been included in the forecast outturn position within delegated budgets.
- £0.141m (1.2%) is in respect of areas where delays and issues have been encountered, hence where corrective actions or alternative options are being considered, which require close attention to ensure a positive outcome and timely delivery of savings. For budget monitoring purposes these are included as a forecast outturn pressure within the delegated budgets as appropriate.

3.3.3 The forecast position for the Local Authority Controlled Companies is included within the delegated budget outturn within the relevant portfolio at Appendix A, and budgetary issues highlighted as required.

3.4 General Contingency Transfers

3.4.1 Transfers from the general contingency fund take place on a quarterly basis to reflect expenditure actually incurred in respect of approved provisions. Contingency transfers

in the second quarter, totalling £3.581m, relate to the 2025/2026 pay award for the Council and its wholly owned subsidiaries.

3.5 Capital Financing and Treasury Management

3.5.1 Additional Investment income of £3.517m is forecast to be achieved. The rates of return that were available in the investment market in 2024/2025 have reduced in the early stages of the 2025/2026 financial year, reflecting corresponding falls in the Bank of England Base Rate. However, reductions have been slower than anticipated, therefore investment returns are being generated above the budget and are projected to remain positive for this financial year.

3.6 Transitional Costs

3.6.1 The potential need to utilise capital receipt flexibility to fund transitional costs arising in 2025/2026 will be confirmed at outturn, in light of the overall resources position at that time. At this stage, no unbudgeted transitional costs are forecast to be incurred during 2025/2026.

4. Review of Existing Reserves

4.1 Following a full review of planned usage, the Council's reserves are forecast to decrease by £40.235m in 2025/2026 to £141.485m as reserves are utilised for their agreed purpose, including in support of the capital programme.

4.2 With the exception of the General Fund, usable reserves are earmarked for specific purposes and commitments and are subject to regular review.

5. Collection Fund

5.1 Business Rates

The budget sets out a Local Business Rate requirement of £46.463m. Collection is as expected for this stage in the financial year and a balanced position is currently forecast. The position will be kept under review, and further updates provided in future review reports.

5.2 Council Tax

The budget sets out a Council Tax requirement of £137.359m. Based on current forecasts a balanced position is anticipated.

5.3 For both Business Rates and Council Tax, should a shortfall arise, this would manifest itself as a deficit to be taken into account in setting the 2026/2027 budget. The position will be kept under review, and further updates provided in future review reports.

6. Reasons for Decision

6.1 To respond to variations in expenditure and income which have arisen in 2025/2026 and enable effective budgetary control to be exercised.

7. Alternative Options

7.1 No alternative options are proposed.

8. Impact Analysis

- 8.1 Impact assessments of Directorate actions to ensure the achievement of savings targets and a balanced budget position will be undertaken within Directorates as each action is developed.

9. Other Relevant Considerations / Consultations

- 9.1 None

10. List of Appendices

- Appendix A - Major Variations 2025/2026
- Appendix B - Overall Position 2025/2026
- Appendix C - Major Earmarked Reserves

11. Background Papers

- None

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Major Variations 2025/2026**

Portfolio	First Review Budget	Contingency Transfers	Budget Adjustments	Current Revised Budget	Forecast Outturn	Forecast Variation Under / (Over Spend) £m	Reason for Variation
	£m	£m	£m	£m	£m	£m	
Leader	(0.733)	0.050	0.460	(0.223)	(0.223)	0.000	
Deputy Leader and Health, Wellbeing and Safer Communities	156.087	0.894	1.223	158.204	162.234	(4.030)	<ul style="list-style-type: none"> • Adult Social Care (overspend £4.087m). Resulting from (£2.630m) demand pressures and (£1.715m) potential delay in achievement of efficiency savings partially mitigated by staff related underspends of £0.258m. • SCAS £0.030m forecast staff related underspend. • Other various minor projected underspends £0.027m.
Corporate Services and Equalities	29.458	1.216	0.285	30.959	31.089	(0.130)	<ul style="list-style-type: none"> • Civic Buildings projected overspend (£0.555m) – (£0.147m) predominantly due to increased service charges, reduced income due to vacant space (£0.404m). Other minor overspends (£0.004m). • Miscellaneous land, property and industrial estates projected overspend (£0.121m) due to projected additional costs and loss of income. • Building Cleaning - £0.100m underspend on salaries and supplies and services. • Financial Management – Projected net underspend £0.087m predominantly salary slippage. • Revenues and Benefits - £0.300m improvement due to salary slippage and recovery of overpayments.

Portfolio	First Review Budget	Contingency Transfers	Budget Adjustments	Current Revised Budget	Forecast Outturn	Forecast Variation Under / (Over Spend) £m	Reason for Variation
	£m	£m	£m	£m	£m	£m	
							<ul style="list-style-type: none"> Corporate and Strategic Management - £0.081m projected underspend on historic pension enhancements. Other various net overspends (£0.022m).
Children's Services, Child Poverty and Skills	96.608	0.067	0.000	96.675	101.766	(5.091)	<ul style="list-style-type: none"> TfC overspend of (£5.106m) through increased complexity and the costs of external placements (£3.606m) and increases in home to school transport costs (£1.500m). Other various minor underspends £0.015m.
Housing, Regeneration and Business	2.997	0.180	0.000	3.177	1.931	1.246	<ul style="list-style-type: none"> Port of Sunderland - £0.378m projected underspend primarily due to improved trading performance. Regeneration Properties / Development Sites – improvement of £0.830m due to net changes in rental / occupancy income and costs across a number of properties. Other various minor underspends £0.038m
Communities, Culture and Tourism	14.050	0.154	(0.745)	13.459	13.567	(0.108)	<ul style="list-style-type: none"> Leisure Management – projected overspend (£0.091m). Other various minor overspends (£0.017m).
Environment, Transport and Net Zero	76.233	1.020	(1.223)	76.030	75.978	0.052	<ul style="list-style-type: none"> Parking Services – projected improvement of £0.431m. Highways Network - projected overspend of (£0.485m) mainly due to lower income from permit volumes as activity, including through City Fibre, has reduced.

Portfolio	First Review Budget	Contingency Transfers	Budget Adjustments	Current Revised Budget	Forecast Outturn	Forecast Variation Under / (Over Spend)	Reason for Variation
	£m	£m	£m	£m	£m	£m	
							<ul style="list-style-type: none"> • Road Safety - projected underspend of £0.203m predominantly on employee costs. • Highways Design & Infrastructure - projected overspend of (£0.106m) due to a cost pressure relating to grounds maintenance to the ex T&W development corporation land. • Highways Gullies – projected overspend (£0.086m) due to additional staffing costs. • Public Protection and Regulatory Services - £0.199m net underspend predominantly on staffing costs. • Bereavement – projected overspend of (£0.050m) due to cremator servicing / monitoring. • Other various minor projected overspends (£0.054m).
Total Service Expenditure	374.700	3.581	(0.000)	378.281	386.342	(8.061)	

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Overall Position 2025/2026

	First Review Budget	Budget Adjustments	Current Budget	Forecast Outturn	Variance Under / (Over) Spend
	£m	£m	£m	£m	£m
Leader Portfolio	(0.733)	0.510	(0.223)	(0.223)	0.000
Deputy Leader and Health, Wellbeing and Safer Communities Portfolio	156.087	2.117	158.204	162.234	(4.030)
Corporate Services and Equalities Portfolio	29.458	1.501	30.959	31.089	(0.130)
Children's Services, Child Poverty and Skills Portfolio	96.608	0.067	96.675	101.766	(5.091)
Housing, Regeneration and Business Portfolio	2.997	0.180	3.177	1.931	1.246
Communities, Culture and Tourism Portfolio	14.050	(0.591)	13.459	13.567	(0.108)
Environment, Transport and Net Zero Portfolio	76.233	(0.203)	76.030	75.978	0.052
Total Service Expenditure	374.700	3.581	378.281	386.342	(8.061)
Provision for General Contingencies	15.549	(3.581)	11.968	10.298	1.670
Energy Underspend	0.000	0.000	0.000	(1.249)	1.249
Capital Financing	34.952	0.000	34.952	31.435	3.517
Transfer to / from Reserves	(9.248)	0.000	(9.248)	(9.248)	0.000
Technical Adjustments	(41.731)	0.000	(41.731)	(41.731)	0.000
Levies	18.018	0.000	18.018	18.018	0.000
Hetton Town Council	0.077	0.000	0.077	0.077	0.000
Less Grants	(122.942)	0.000	(122.942)	(122.942)	0.000
Total Net Expenditure	269.375	0.000	269.375	271.000	(1.625)
Revenue Support Grant	(35.376)	0.000	(35.376)	(35.376)	0.000
National Non-Domestic Rates / Retained Business Rates	(46.463)	0.000	(46.463)	(46.463)	0.000
Top Up Grant	(50.177)	0.000	(50.177)	(50.177)	0.000
Council Tax Requirement	(137.359)	0.000	(137.359)	(137.359)	0.000
Net Revenue Pressure	0.000	0.000	0.000	1.625	(1.625)
General Risk and Inflation Reserve	0.000	0.000	0.000	(1.625)	1.625
Forecast Outturn (after use of reserve)	0.000	0.000	0.000	0.000	0.000

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Reserves	Purpose of the Reserve	Opening Balance 01.04.2025 £m	Forecast Movement in 25/26 £m	Opening Balance 01.04.2026 £m	Forecast Movement in 26/27 £m	Opening Balance 01.04.2027 £m	Forecast Movement in 27/28 £m	Opening Balance 01.04.2028 £m	Forecast Movement in 28/29 £m	Opening Balance 01.04.2029 £m
General Fund										
General Fund Balances	General Fund of the Council	14.000	0.000	14.000	0.000	14.000	0.000	14.000	0.000	14.000
School Balances	Balances held by schools under a scheme of delegation	9.330	(0.997)	8.333	(1.500)	6.833	(1.500)	5.333	(1.000)	4.333
Earmarked General Fund Reserves – Capital										
Culture Development Reserve	To support a range of cultural developments in the city centre, utilising smart cities technology and immersive technologies.	3.000	(3.000)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
HIF HE Recycling Strategy Reserve	A reserve established to manage the recycled Homes England grant relating to Housing Infrastructure Fund investment.	4.424	(3.934)	0.490	0.000	0.490	0.000	0.490	0.000	0.490
Strategic Investment Reserve (Capital)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	4.160	(0.012)	4.148	(2.089)	2.059	(1.576)	0.483	0.000	0.483
Riverside Transfer Reserve	Reserve established to fund capital works associated with the Homes and Communities Agency land transferred to the Council.	0.484	(0.099)	0.385	0.000	0.385	(0.385)	0.000	0.000	0.000
Other Earmarked Capital Reserve	Funding set aside to fund future capital projects previously approved.	1.274	(0.216)	1.058	0.218	1.276	0.223	1.499	0.227	1.726

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Reserves	Purpose of the Reserve	Opening Balance 01.04.2025 £m	Forecast Movement in 25/26 £m	Opening Balance 01.04.2026 £m	Forecast Movement in 26/27 £m	Opening Balance 01.04.2027 £m	Forecast Movement in 27/28 £m	Opening Balance 01.04.2028 £m	Forecast Movement in 28/29 £m	Opening Balance 01.04.2029 £m
Earmarked General Fund Reserves – Revenue										
Medium-Term Planning Smoothing Reserve	This reserve has been established to address any potential impact arising from increased risk and uncertainty with the Business Rate Retention Scheme. It is being used to smooth the impact of government funding uncertainties.	24.122	(9.000)	15.122	(9.000)	6.122	(6.122)	0.000	0.000	0.000
Strategic Regeneration Reserve	A reserve to support the Council's regeneration ambitions, specifically to smooth any revenue impact of projects until they become self-sustaining.	10.774	0.000	10.774	(0.513)	10.261	(0.400)	9.861	(0.400)	9.461
Health and Social Care Reserve	Additional external income from in-year Health funding to support health and social care services in Sunderland in the short to medium term.	7.123	(5.705)	1.418	(0.537)	0.881	(0.035)	0.846	0.000	0.846
General Risk and Inflation Reserve	Reserve established in response to significant inflationary and trading pressures and risks that may impact council services in the short to medium-term.	11.012	(1.625)	9.387	(3.129)	6.258	(3.129)	3.129	(3.129)	0.000
Streetscene and Open Space Reserve	A reserve to enhance the city's recovery from the covid pandemic and ensure that the full benefit can be made of the regeneration activities across the city. This reserve will fund a range of streetscene and open space projects.	3.995	(1.857)	2.138	(1.385)	0.753	(0.035)	0.718	(0.035)	0.683
Public Health Reserve	Ringfenced Public Health grant funding, to deliver future public health initiatives.	5.321	0.000	5.321	0.000	5.321	(1.245)	4.076	0.000	4.076
Strategic Investment Reserve (Revenue)	A reserve established to address some of the Council's key developments, strategic priorities and address other major liabilities.	4.954	(1.746)	3.208	(0.103)	3.105	(0.045)	3.060	0.000	3.060
Insurance Reserve	This reserve has been established to provide for potential future claims or claim increases.	5.007	0.000	5.007	0.000	5.007	0.000	5.007	0.000	5.007
SIB Reserve	A reserve held for projects funded through the Strategic Initiatives Budget.	3.811	(1.000)	2.811	(1.000)	1.811	(1.000)	0.811	(0.811)	0.000
Street Lighting and Highway Signs PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.	3.716	(0.720)	2.996	(0.788)	2.208	(0.830)	1.378	(0.403)	0.975
Smart Cities Reserve	This reserve was established to set aside revenue funding to cover 8-10 years, to support 5G and Wireless technology within the City.	3.390	(0.650)	2.740	(0.700)	2.040	(0.750)	1.290	(0.800)	0.490

Appendix C

Reserves	Purpose of the Reserve	Opening Balance 01.04.2025 £m	Forecast Movement in 25/26 £m	Opening Balance 01.04.2026 £m	Forecast Movement in 26/27 £m	Opening Balance 01.04.2027 £m	Forecast Movement in 27/28 £m	Opening Balance 01.04.2028 £m	Forecast Movement in 28/29 £m	Opening Balance 01.04.2029 £m
Earmarked General Fund Reserves – Revenue										
HCA Stadium Park Reserve	Reserve established to fund ongoing maintenance of Homes and Communities Agency land transferred to the Council.	3.263	0.000	3.263	0.000	3.263	0.000	3.263	0.000	3.263
Low Level Family Support Reserve	Reserve to support activities with families and individuals to address the challenges of recovering from the pandemic.	2.315	(1.138)	1.177	(0.979)	0.198	(0.198)	0.000	0.000	0.000
House Sale Income Reserve	The reserve relates to the sale of client's homes that will be utilised to support future support needs of those clients.	2.135	(0.204)	1.931	(0.204)	1.727	(0.205)	1.522	0.000	1.522
Education Redundancy Reserve	The reserve was established to meet the anticipated costs of redundancies as a result of falling pupil rolls within maintained schools.	2.153	(0.100)	2.053	(0.100)	1.953	(0.100)	1.853	(0.100)	1.753
Sandhill Centre PFI Smoothing Reserve	The reserve was established to smooth the financial impact to the Council across the 25 years of the contract life.	2.151	(0.622)	1.529	(0.776)	0.753	(0.593)	0.160	0.000	0.160
Carbon Reduction Reserve	This reserve has been established to deliver of a range of activities that will support progress against carbon reduction targets	2.070	(0.690)	1.380	(0.690)	0.690	(0.690)	0.000	0.000	0.000
Housing Benefit Smoothing Reserve	This reserve has been established to smooth any potential impact of outstanding debtors as housing benefit is subsumed within universal credit.	1.060	(0.250)	0.810	(0.250)	0.560	(0.250)	0.310	(0.250)	0.060
Culture House Reserve	A reserve to support the cultural programme in the city centre.	1.084	(1.084)	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Earmarked Revenue Reserves	Numerous revenue reserves excluding those over £1m set up for specific purposes.	24.961	(5.979)	18.982	(5.024)	13.958	(2.443)	11.515	(1.199)	10.316
Total General Fund Reserves		161.089	(40.628)	120.461	(28.549)	91.912	(21.308)	70.604	(7.900)	62.704
Capital Receipts Reserve	Balance of capital receipts held, pending use to fund the capital programme.	17.766	0.393	18.159	0.000	18.159	(18.159)	0.000	0.000	0.000
Capital Grants Unapplied Reserve	Balance of capital grants held pending expenditure on capital programme.	2.865	0.000	2.865	0.000	2.865	0.000	2.865	0.000	2.865
Total Usable Reserves		181.720	(40.235)	141.485	(28.549)	112.936	(39.467)	73.469	(7.900)	65.569