

Title of report: Q4 2025/26 Budget Report

Meeting: Cabinet

Meeting date: Thursday 21 May 2026

Cabinet Member: Cabinet member finance and corporate services

Report by: S151 Officer

Report Author: Director of Finance (S151 Officer)

Classification

Open

Decision type

Non-key

Wards affected

(All Wards);

Purpose

To report the provisional financial outturn position for 2025/26 for revenue and capital budgets, subject to external audit. The results for 2025/26 report a balanced revenue outturn position after the use of reserves and implementation of recovery plan actions.

Recommendation(s)

That: Cabinet

- a) reviews the balanced revenue financial outturn for 2025/26, as set out in the appendices A-D, and identifies any additional actions to be considered to achieve future improvements; and**
- b) approves the proposed transfers to/from reserves outlined in paragraphs 11 to 13; and**
- c) notes the capital outturn position for 2025/26 of £86.0 million investment in Council priorities.**

Alternative options

1. Cabinet may choose to review financial performance more or less frequently; or request alternative actions to address any identified areas of variance from budget, including referral to the relevant scrutiny committee.

Key considerations

Revenue Outturn

2. This report sets out the Revenue and Capital provisional outturn position for the financial year ended 31 March 2026 (2025/26). The outturn is a **balanced revenue outturn position**, after the use of reserves and recovery actions implemented by management during the year. Detailed explanations for variances from budget are set out in Appendix A, by Directorate and Service area.
3. The revenue outturn position for 2025/26 by Directorate, is shown in Table 1 below.

Table 1: 2025/26 Revenue Outturn

2025/26 Revenue Outturn			
	Revenue Budget £m	Outturn £m	Variance £m
Community Wellbeing	90.4	94.1	3.7
Children & Young People	58.8	57.6	(1.2)
Economy & Environment	28.1	27.3	(0.8)
SEN/Home to School Transport	12.7	15.3	2.6
Corporate Services	23.4	24.8	1.4
Directorate Total	213.4	219.1	5.7
Central	18.1	12.4	(5.7)
Total	231.5	231.5	-

4. The council has experienced continuing cost pressures in 2025/26 as a result of increasing complexity of need and intensity of care for the county's ageing population, increased demand for temporary accommodation and increasing demand and costs in Special Educational Needs (SEN) and home to school transport budgets.
5. The Directorate total outturn position reflects these cost pressures with resulting overspends reported in Community Wellbeing and school transport budgets. Activity and cost data in these areas have been used to inform the 2026/27 revenue budget requirement and measures to manage demand and control costs in these services represent key elements of the 2026/27 approved savings and the council's future financial strategy.
6. The home to school transport review will continue in 2026/27 with focus on review of contract prices to secure reductions in taxi journey costs, increased partnership working with schools and development of an in-house delivery model to provide a council-managed service for routes transporting 1-4 passengers.

7. Proposed activity to deliver savings in the Community Wellbeing Directorate in 2026/27 include increased and robust market engagement to control costs for residential, nursing, home care and supported living contracts and further work alongside an external specialist partner to identify, design and implement transformation activity to deliver recurrent savings is planned.
8. Central budgets comprise financing transactions, interest payable and receivable, Minimum Revenue Provision (MRP) and other corporate budget items including pension costs, costs in respect of the administration of housing benefit and council tax and business rate collections, income from the council's business rate pooling arrangement and other contractual and investment income sources.
9. The Central outturn position for 2025/26 is an underspend of £5.7 million after proposed allocations of £0.7 million noted in paragraph 11. This is an improvement on the forecast position reported at Quarter 3 as a result of income and expenditure confirmed in the final quarter of the year and year end reconciliations completed as part of year-end closedown procedures. Key variances include:
 - I. £1.0 million net Treasury Management income (interest receivable above budget net of interest payable and banking charges above budget)
 - II. £0.5 million MRP underspend as a result of reduced capital outturn confirmed at 31 March 2026.
 - III. £0.2 million underspend in billing fund administration budgets and pension transactions confirmed at 31 March 2026.
 - IV. £0.3 million additional income from the council's Business Rate pooling arrangement, confirmed in Quarter 4.
 - V. £4.4 million in investment and contractual income confirmed in Quarter 4.
10. The outturn position includes the proposed recommendations.
11. It is recommended that £0.7 million of the Treasury Management income above budget in 2025/26 is allocated to increase the council's bad debt provision (£0.1 million) with the balance (£0.6 million) transferred to the Treasury Management Reserve to manage volatility in inflation and mitigate capital financing costs in 2026/27. This will increase the reserve balance to £1.1m at 31 March 2026. The remaining net underspends in Central budgets will be used to offset the net Directorate overspend in 2025/26.
12. The outturn position for the Children & Young People Directorate is an underspend of £2.6 million as a result of robust management of expenditure to deliver services and forecast delivery of savings in full. As noted in the Quarter 3 Budget Report presented to Cabinet in March, it is proposed that the reserve contribution of £1.4 million, approved in the 2025/26 Revenue Budget, is repaid in the year ended 31 March 2026, a year earlier than previously planned.
13. The forecast outturn position reported at Quarter 3 proposed a transfer of £2.8 million from the Budget Resilience Reserve to mitigate cost and demand pressures in adult social care and temporary accommodation budgets. At Quarter 4, the outturn position for Community Wellbeing of £3.7 million includes a reduced transfer of £1.8 million from the Budget Resilience Reserve.
14. This transfer reduces the Budget Resilience Reserve balance from £7.0 million to £5.2 million at 31 March 2026; of which £1.0 million will be retained in this reserve and carried forward to provide

resilience against budget pressures in future years. As per the approved 2026/27 revenue budget, £4.2 million will be transferred on 1 April 2026 to support the centrally held Contract Inflation Fund to manage inflation across Directorates in 2026/27.

Delivery of Savings

15. Council approved a total of £3.9 million of savings for 2025/26 comprising targets in the Children & Young People Directorate aligned to refresh of the 3 Year Financial Plan.
16. Savings of £11.9 million, representing savings not delivered recurrently in previous years, were carried forward into 2025/26 for continued monitoring of delivery. A focused review of the original proposals and planned activity was undertaken during Quarter 1 and revised savings plans were developed, where appropriate, to confirm activity to deliver savings in 2025/26.
17. The outturn position confirms that 2025/26 Children & Young People approved savings of £3.9 million have been delivered in full. Of the £11.9 million savings brought forward from previous financial years, £9.3 million have been delivered recurrently in 2025/26 with a balance of £2.6 million to be carried forward for delivery alongside approved savings in 2026/27.
18. The total value of savings delivered in 2025/26 is £13.2 million (84%) of the combined target for the year. The status of individual savings plans is included at Appendix D; a summary by Directorate is noted in Table 3 below.

Table 3: Delivery of Savings 2025/26

	Savings Target £m	Delivered £m	Not Delivered £m
Community & Wellbeing	3.2	2.3	0.9
Children & Young People	3.9	3.9	-
Economy & Environment	0.4	0.4	-
SEN/Home to School Transport	0.5	0.3	0.2
Corporate Services	0.5	0.4	0.1
Council-wide Savings	7.3	5.9	1.4
Total	15.8	13.2	2.6
	100%	84%	16%

Dedicated Schools Grant (DSG)

19. The cumulative DSG deficit is accounted for as an unusable reserve on the council's Balance Sheet, as permitted via statutory instrument, which will remain in place until 31 March 2028. This enables all local authorities to ring-fence the DSG deficit from the overall financial position in the statutory accounts. Beyond the period of the statutory override, the expectation is that any balance on the DSG Unusable Reserve will transfer back to the council's total Earmarked Reserves.
20. On 1 April 2025, the cumulative deficit brought forward was £20.0 million. The outturn position

for 2025/26 is an overspend of £16.3 million within the High Needs Block of the DSG, increasing the cumulative deficit to £36.3 million at 31 March 2026.

21. Measures to contain the deficit and mitigate future cost and demand pressures continue to be managed by the Service through the DSG Deficit Management Plan and the financial impact of agreed mitigations will be monitored and reported throughout the year as part of the council's routine budget monitoring processes.
22. The Final Local Government Settlement published on 9 February 2026 confirmed the proposed treatment of DSG deficits as part of wider SEND reform. The first phase of support will be to address historic deficits with a High Needs Stability Grant to cover 90% of High Needs-related DSG deficit accrued up to the end of 31 March 2026.
23. Service and Finance teams are currently developing the council's Local SEND Reform Plan for submission by 19 June 2026. Subject to Department for Education (DfE) approval, the Plan will evidence eligibility for the High Needs Stability Grant to cover approx. £32.7 million (90%), with the remaining balance of £3.6 million (10%) to be a liability of the council once the statutory override period ends in March 2028.
24. It is expected the grant will be paid to the council in Autumn 2026, subject to approval. The receipt of the grant in 2026/27 will have a positive impact on the council's borrowing requirement and reduce the level of borrowing and corresponding interest payable expenditure in 2026/27 and over the medium-term period. It is proposed that the reduction in interest payable expenditure will be transferred to a DSG repayment reserve to manage the 10% (£3.6 million) remaining deficit which will not be met by the government grant at 31 March 2028.

Capital Outturn

25. The 2025/26 approved capital budget of £155.2 million has been revised to £113.8 million. The revised capital budget includes £11.7 million of unspent project budgets brought forward from 2024/25, removal of projects £7.5 million, £14.7 million additional grants and a reduction of £60.3 million where budgets have been reprofiled to future years. A summary breakdown is shown in Table 5 below.

Table 5: Revised Capital Budget 2025/26 to 2029/30

	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	Total £m
25/26 Approved Capital Programme	155.2	87.5	38.6	0.2	-	281.5
Removal of Wye Valley Trust Project	(6.0)	-	-	-	-	(6.0)
Removal of projects at Council 2026	(1.5)	(9.7)				(11.2)
24/25 Carry Forward	11.7	6.0	-	-	-	17.7
Reprofile Budget	(60.3)	25.0	22.0	12.7	0.6	-
Additional Grant	14.7	20.7	23.5	38.6	43.7	141.2
Revised Capital Budget	113.8	129.5	84.1	51.5	44.3	423.2
Final Expenditure 25/26	86.0					
Variance from Budget	(27.8)					

26. The final spend position is £86.0 million which represents an underspend of £27.8 million against a budget of £113.8 million; an increase in underspend of £8.0 million from the position reported at Quarter 3. Full details for each project are in Appendix B, Table A. This underspend consists of £2.8 million projects that have delivered below the project budget or not being carried forward and £25.0 million in respect of project budgets to be rolled forward for delivery 2026/27 (£20.2 million) and 2027/28 (£4.8 million). The full capital programme analysed by project for current and future years can be seen in detail by Appendix B Table B.
27. In accordance with best practice, capital budgets were reprofiled at Quarter 2 to reflect the revised expected profile of project delivery. Forecast spend has been monitored by reference to the reprofiled budget from Quarter 2. The full capital programme analysed by project for current and future years can be seen in detail by Appendix B, Table B and explanations for the reprofile were reported at Quarter 2.
28. Key risks to the capital programme include delays in delivery, limitations in market capacity resulting in a reduced number of bidders, reduced competition and choice, and inflationary increases to costs. Where capital projects are funded by external grants, there is further risk that delays in delivery mean that grant conditions and time constraints cannot be met resulting in the loss or clawback of grant. All projects are monitored robustly to mitigate the risks to project budgets, delivery of benefits and potential loss of grant funding.
29. The council projects with significant grant funding are detailed below:
 - i. Highway Maintenance Block: an annual grant provided by the Department for Transport (DfT), regular monitoring of spend ensures maximum use of the grant in each financial year (£21.3 million in 2025/26). This was fully spent in year.
 - ii. Levelling Up Fund (LUF): this grant funds a number of capital projects to the north and south of the river as well as the Hereford Transport Hub. The grant allows flexibility to move the match funding between projects to ensure application of grant funding is prioritised.
 - iii. Local Transport Grant: an annual allocation to support investment in local transport maintenance and enhancements and deliver more ambitious transport projects. This grant was spent in full in 2025/26.
 - iv. Stronger Towns Fund: the Herefordshire Stronger Towns Partnership includes 3 council projects which are part-funded by the Stronger Towns Fund: Hereford Museum & Art Gallery, the Library & Learning Centre and Greening the City. For each of these projects, the application of grant funding is managed to reduce the risk of grant clawback. Following simplification of this funding source in 2025, expenditure must be committed by 31 March 2028.
 - v. Bus Service Improvement Grant: the grant allocation must be spent by the end of March for the following financial year of award. Some of the work planned for 2025/26 will now take place in 2026/27.

Community impact

30. In accordance with the accepted code of corporate governance, the council must ensure that it has an effective financial control framework to support delivery of services within the agreed budget. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition, the council has an overarching

responsibility to serve the public interest in adhering to the requirements of legislation and government policies.

Environmental Impact

31. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire’s outstanding natural environment.
32. This report is to review the financial outturn for 2025/26 so will have minimal environmental impacts; however consideration has been made to minimise waste and resource use in line with the council’s Environmental Policy.

Equality duty

33. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying ‘due regard’ in our decision making in the design of policies and in the delivery of services.
34. The mandatory equality impact screening checklist has been completed for this activity, and it has been found to have no impact for equality.

Legal implications

35. There are no direct legal implications arising from this report.

Risk implications

36. The risks associated with the council’s business are recorded on the relevant service risk register and escalated in accordance with the council’s Performance Management Framework and Risk Management Plan. The highest risks are escalated to the council’s Corporate Risk Register.
37. The outturn position and actions recommended in this report will impact and/or mitigate the council’s Corporate Risks as identified below:

Corporate Risk R2: Demand for client-based services continues to increase resulting in increased budget pressures and poor outcomes for those people in receipt of our services.	
Risk score at Q4	Impact of report recommendations and actions
Risk Rating: High Inherent Risk Score: 16 Residual Risk Score: 12	Demand-led social care budgets are identified as high risk budget areas and financial support is targeted in these areas. This report identifies the impact of actions to mitigate the risk of overspends including continued Directorate expenditure controls and planned use of the Budget Resilience Reserve.
Corporate Risk R3: Lack of local special educational needs and disabilities (SEND) placement provision to meet current and future levels of demand.	
Risk score at Q4	Impact of report recommendations and actions

<p>Risk Rating: High Inherent Risk Score: 16 Residual Risk Score: 12</p>	<p>This report identifies the impact of cost pressures in SEND transport provision and the High Needs block of the Dedicated Schools Grant on the council's financial position.</p> <p>Proposed activity through the future capital programme, DSG deficit management plan, continued Home to School transport review alongside wider SEND reform, including the High Needs Stability Grant, is expected to have a positive impact on local sufficiency and the council's future financial position.</p>
<p>Corporate Risk R4: Failure to deliver capital and major projects within identified resources and planned timeframes resulting in significant overspend and reduced project outcomes.</p>	
<p>Risk score at Q4</p>	<p>Impact of report recommendations and actions</p>
<p>Risk Rating: High Inherent Risk Score: 16 Residual Risk Score: 12</p>	<p>This report identifies key risks to the capital programme at paragraph 28 above. These include delays in delivery, market capacity, inflationary increases and clawback of grant funding.</p> <p>Activity to ensure robust management of the capital programme and monitoring of external borrowing requirements are in place to mitigate risks to the council's financial position.</p>
<p>Corporate Risk R5: Failure to deliver a sustainable financial strategy that supports delivery of the Council Plan priorities.</p>	
<p>Risk score at Q4</p>	<p>Impact of report recommendations and actions</p>
<p>Risk Rating: High Inherent Risk Score: 16 Residual Risk Score: 12</p>	<p>This report identifies the key continuing cost pressures in adult social care, temporary accommodation and SEN/Home to School transport budgets alongside planned activity to manage demand and control costs in 2026/27.</p> <p>The report highlights reduced use of reserves at Quarter than proposed during 2025/26 and notes increased contributions to reserves to manage future financial risks.</p>

Resource Implications

38. The financial implications are as set out in the report. The council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from its resources. This includes taking properly informed decisions and managing key operational and financial risks in order to deliver objectives and safeguard public money.

Consultees

39. None in relation to this report.

Appendices

Appendix A – Revenue outturn

Appendix B – Capital outturn

Appendix C – Treasury management outturn

Appendix D – Savings delivery

Appendix E – Earmarked reserve balances

Background papers

None Identified