



Title of report: 2026/27 Draft Budget - Revenue

Meeting: Scrutiny Management Board

Meeting date: Friday 23 January 2026

Cabinet Member: Peter Stoddart, Finance and corporate services

Report by: Leader of the Council (Section 9E)

Report author: Director of Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

All Wards

Purpose

To seek the views of the Scrutiny Management Board on the draft revenue budget proposals for 2026/27. This draft budget was proposed at Cabinet at its meeting on 20 January 2026.

Recommendation

That:

- a) having regard to the proposals the committee determines any recommendations it wishes to make to Cabinet in relation to the 2026/27 Revenue Budget.

Alternative options

1. There are no alternatives to the recommendation; Cabinet is responsible for developing budget proposals for Council consideration and it is a function of this committee to make reports or recommendations to the executive with respect to the discharge of any functions which are the responsibility of the executive. The council's budget and policy framework rules require Cabinet to consult with scrutiny committees on budget proposals in order that the scrutiny committee members may inform and support the process for making Cabinet proposals to Council.

2. It is open to the committee to recommend alternative spending proposals or strategic priorities; however given the legal requirement to set a balanced budget should additional expenditure be proposed, compensatory savings proposals must also be identified.

Key considerations

3. A balanced draft revenue budget which totals £234.1 million is proposed for 2026/27. The proposal includes a 4.99% increase in council tax and estimates of central funding to be confirmed following the publication of the final Local Government Financial Settlement in February 2026.
4. The draft 2026/27 revenue budget assumes a total council tax increase of 4.99%: 2.99% increase in core council tax and a 2% adult social care precept. This increases the band D equivalent charge to £2,067.63, representing an increase of £8.19 per month (£1.89 per week). This is the maximum increase permitted; a higher increase would require the support of a referendum.
5. The 2% adult social care precept will generate approximately £3.0 million of additional income to contribute to continuing adult social care pressures: reflecting increases in demand, complexity of need and cost for services to support the county's residents.
6. To manage rising costs and demand for services alongside reductions in the council's allocation of funding from Central Government via the Fair Funding Review, the draft revenue budget includes savings proposals of £20.0 million, measures to manage Directorate inflationary pressures via a centrally held Contract Inflation Fund, and £3.2 million proposed use of the Business Rates Risk Reserve to mitigate the reduction in the council's funding allocation in 2026/27.
7. Nationally, local authorities continue to face significant financial pressures whilst demand and cost of statutory services continue to rise; increasing the challenge of delivering transformation and improvements in the delivery of services for residents and businesses in Herefordshire. The proposed budget and strategy for 2026/27 builds on the prudent approach and robust financial management now embedded across the council: to preserve and protect the council's future financial resilience and sustainability through robust and reliable management of the revenue budget and capital programme and delivery of realistic, achievable and recurrent savings on time and in full.
8. A sustainable financial strategy has been developed for 2026/27 and onwards, to ensure the council can achieve an ambitious programme of investment, service improvements and transformation to deliver the best for Herefordshire.

Fair Funding Assessment and Estimated Core Spending Power

9. On 20 November 2025, the Minister of State for Local Government and Homelessness at the Ministry for Housing, Communities and Local Government (MHCLG) Alison McGovern MP, announced the publication of the Government's 2026-27 to 2028-29 Local Government Finance Policy Statement in a Written Ministerial Statement, marking the start of the Settlement process.
10. Alongside the November Policy Statement, the Government published its response to the Fair Funding Review 2.0 consultation and the Business Rates Reset Delivery document.
11. On 17 December 2025, the Minister delivered a Written Ministerial Statement to Parliament on the provisional local government finance settlement 2026/27. The provisional settlement, for the first time in a decade, is a multi-year settlement outlining multiple years' allocations of funding covering the three-year period from 2026/27 to 2028/29.

12. On this date, the MHCLG also published a Business Rate Information Letter outlining the arrangements and impact of business rates reset, revaluation and multiplier reform, including 2026 Transitional Relief (TR) regulations, 2026 Supporting Small Business (SSB) scheme guidance and further information on Retail Hospitality and Leisure multipliers.

13. Government calculations of the increase in Core Spending Power (CSP) for Herefordshire highlight an increase of £13.4 million in CSP over the settlement period. This increase assumes the council will increase council tax in line with the maximum permitted increase of 5% in each of the three years of the multi-year settlement.

14. **With a total £17.3 million reduction in Herefordshire's allocation of Central Government funding following redistribution through the Fair Funding Review** compared with 2025/26 baseline levels, this means that the estimated increase in CSP, as calculated by Government, is expected be funded entirely by local taxpayers via maximum annual increases in council tax.

| Funding source | 2025/26 £m | 2026/27 £m | 2027/28 £m | 2028/29 £m |
|--|---------------|---------------|---------------|---------------|
| Government Estimated Core Spending Power | 231.8 | 237.1 | 240.9 | 245.2 |
| Council Tax Requirement | 143.4 | 153.0 | 163.2 | 174.1 |
| Non-Council Tax (Settlement Funding Assessment) | 88.4 | 84.1 | 77.7 | 71.1 |
| | | | | |
| Movement in Non-Council Tax CSP | | -4.3 | -6.4 | -6.6 |
| Total reduction in Non-Council Tax CSP to 2028/29 | | | | -17.3 |
| Movement in Council Tax CSP | | +9.6 | +10.2 | +10.9 |
| Total increase in Council Tax CSP to 2028/29 | | | | +30.7 |
| Net increase in Core Spending Power to 2028/29 | | | | 13.4 |

15. This latest reduction in funding compounds the financial pressures already faced by the council, following the abolition of the Rural Services Delivery Grant and Services Delivery Grant representing a total loss of funding of £7.1m in 2025/26.

16. The further reduction to the council's allocation in 2026/27, following redistribution of funding through the Fair Funding Review, exacerbates the challenge of maintaining delivery of services to residents in a rural county.

17. The Medium Term Financial Strategy (MTFS) for 2025/26 to 2028/29 published as part of the 2025/26 revenue budget assumed a rate of increase in council tax at a reduced level of 3.99%. As a result of the outcome of the impact of the Fair Funding Review and reduction in the council's allocation of funding from Central Government, the council is forced to make the maximum permitted increase in each of the MTFS period to ensure delivery of services can be sustained.

Redistribution of Funding through the Fair Funding Review

18. The MHCLG Consultation on local authority funding reform through the Local Government Finance Settlement from 2026/27 ran from 20 June to 15 August 2025. The Fair Funding Review 2.0 attempts to refresh the methodology for distributing a fixed pot of funding between local authorities covered by the Local Government Finance Settlement.

19. The last time the underlying distribution methodology was refreshed through changes to formulae and data was in 2013, at the time the business rates retention system was set up. This means that the last full assessment of relative needs and resources is 12 years old and

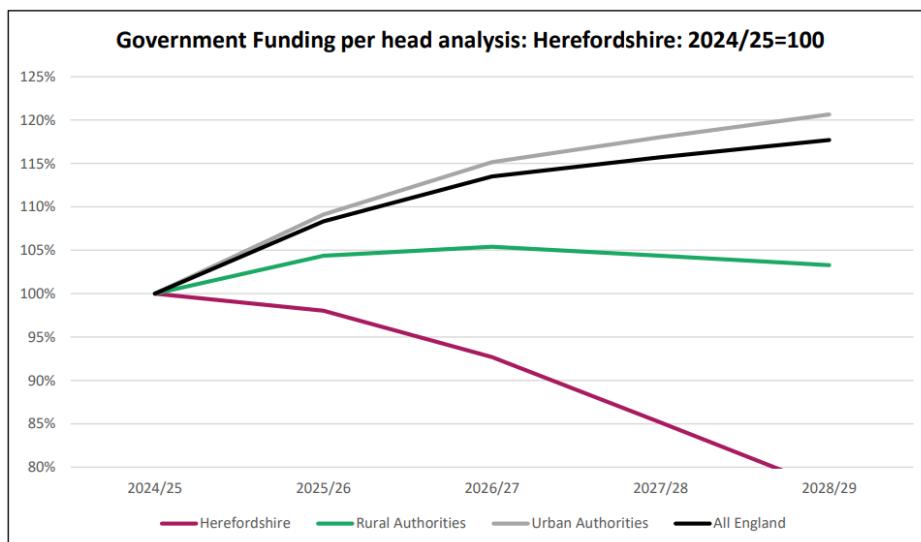
the relationship between the assessment and actual allocations through the Settlement Funding Assessment (SFA) has weakened over this period.

20. The allocation of the new Settlement Funding Assessment is made up of an assessment of relative need and an assessment of the relative resources; these are the two key determinants of the outcome of FFR 2.0 for each authority.
21. The Relative Needs Assessment determines the share of 'total need' attributable to each authority as a proportion of the fixed pot available. This is driven by the results of a series of relative needs formulae which calculate the extent to which a local authority's characteristics are likely to drive demand for a particular service, relative to other authorities providing the same service. The most consequential factors include population cohort size, deprivation-linked metrics and specific metrics for highways maintenance.
22. The Relative Resources Adjustment is an assessment by Central Government of each authority's ability to raise income locally from council tax, informed by the attributable taxbase multiplied by an amount per unit of taxbase.
23. An authority's share of the fixed pot, allocated based on its relative need, is adjusted by the Relative Resources Adjustment to determine the Settlement Funding Assessment allocation.
24. The November Policy Statement and Written Ministerial Statement published alongside the Provisional Settlement are clear that the purpose of the funding review is to reconnect local authority funding with deprivation to target resources in a more effective way, such that "local authorities in the most deprived placed will now see significant funding increases".
25. Despite robust evidence, and multiple case studies, submitted in response to the Consultation by the council and professional bodies advocating for fairer funding, including the Council Councils Network (CCN), Rural Services Network (RSN) and Society of County Treasurers (SCT), highlighting the impact of remoteness, the revised funding formulae places greater weighting on factors reflecting urban pressures, ignoring the additional costs of delivering services across sparsely populated rural communities.
26. The November Policy Statement confirmed that a remoteness factor will only be applied to the Adult Social Care Relative Needs Formula, but not to formulae more broadly, despite previously being considered for all Area Cost Adjustment (ACA) measures.
27. In its Consultation response, Government stated that the "best evidence indicates remoteness may have a particular impact on adult social care services" and that it has made "a judgement that remoteness should be accounted for when assessing the cost of delivering adult social care services". This judgement ignores the additional costs incurred in rural areas that are more distant from larger markets, typically in urban areas.
28. Herefordshire has the fourth lowest population density in England (approximately 189,000 residents across 842 square miles) and, as such, the council faces specific challenges and additional costs in the delivery of services to sparsely populated communities: provider market insufficiency, a higher proportion of older residents with increased demand for services, limited access to health and support services, difficulties in the recruitment of health care and social workers and greater distances to access residents increasing costs in the provision of waste services, transport and social care.
29. Further emphasis on deprivation targeted was announced in the Policy Statement through the continuation of 2025/26 Recovery Grant allocations, directing £600 million of funding to areas of high deprivation to provide "un-ringfenced funding to areas with greater need and demand for services" using the ratio of council taxbase as a proxy. This had previously been identified as a one-off grant prior to the Fair Funding Review and proposed continuation of this, with an

unchanged distribution, was not included in the Consultation for consideration and response prior to the Provisional Settlement.

30. In its response to the Policy Statement the Institute of Fiscal Studies (IFS), who peer-reviewed the work which informed the Fair Funding Review, highlighted the lack of transparency in the decision to retain the Recovery Grant stating: "it is difficult to see a principled basis for these decisions other than to achieve an overall allocation in line with the government's subjective judgement. Government should avoid such formula bypasses becoming a habit". The impact of this decision redirects £600 million of funding which would otherwise be available for distribution via the revised funding formulae and reduces the overall pot of funding and allocation for Herefordshire.
31. The reduction in Central Government grant funding over the multi-year settlement period places increased pressure on the council to manage the impact of continuing growth in demand and cost for services. It limits the council's ability to build upon its strong financial position and maximise opportunities to deliver ambitious improvements for residents.
32. The analysis below, prepared by the Rural Services Network, highlights how the council's funding per head will be impacted by the Provisional Settlement. This analysis highlights that Government funding per head of population (indexed to 2024/25 levels) will change over the multi-year Settlement period for all English local authorities, urban authorities, rural authorities and the individual change for Herefordshire Council.

Figure 1: RSN Analysis of Government Funding per head



33. Whilst urban authorities can expect a significant increase in Government funding per head compared with indexed 2024/25 funding (121% by 2028/29) and English local authorities (118% by 2028/29), the analysis shows the position for rural authorities with a minimal increase funding per head (103% by 2028/29) and Herefordshire's position as drastically disadvantaged by the outcome of the Fair Funding Review (77% by 2028/29).
34. Initial assessments by the RSN, comparing the most rural with the most urban councils indicates that:
 - a. the most urban councils are expected to receive around 41% more per head in Government-funded spending power than the most rural councils in 2026/27;
 - b. in 2026/27, residents in the most rural areas are projected to pay around 20% more in council tax on average than most urban residents;

- c. by 2028/29, the most urban authorities' spending power is expected to allow them to spend around £100 more per resident on services than the most rural councils;
- d. between 2024/25 and 2028/29, Government-funded spending power for the most urban authorities is estimated to rise by around 21%, compared with around 1% for the most rural councils; and
- e. by 2028/29, these changes would result in the most urban councils having around 8% more overall spending power than the most rural councils.

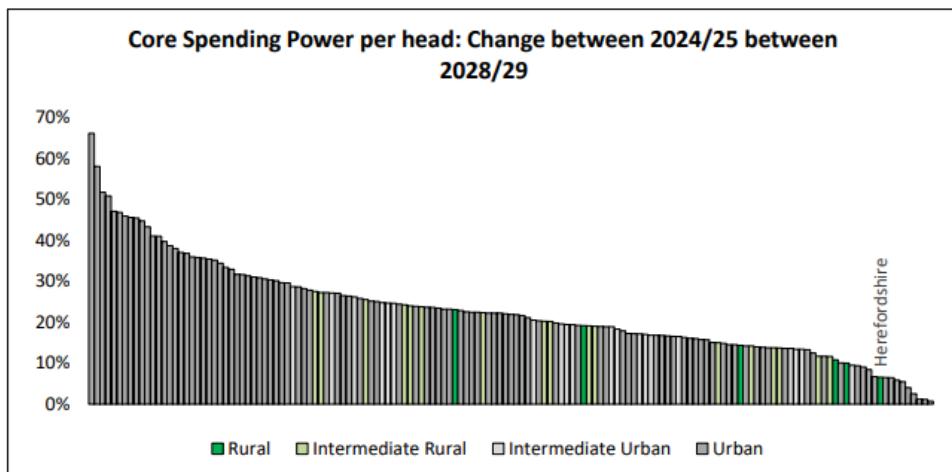
35. The outcome of the Fair Funding Review has serious implications for the council's funding position and delivery of services and improvements to residents over the medium-term period.

Figure 2: RSN Analysis of Core Spending Power (CSP) per head

Core Spending Power per head analysis: Herefordshire

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|-------------------------|---------|---------|---------|---------|---------|
| Core Spending Power | 224.697 | 231.819 | 237.077 | 240.901 | 245.205 |
| Projected Population | 200,768 | 202,013 | 203,232 | 204,416 | 205,583 |
| Per head | 1119.19 | 1147.54 | 1166.54 | 1178.48 | 1192.73 |
| <i>Indexed: 2024/25</i> | | | | | |
| Herefordshire | 100% | 103% | 104% | 105% | 107% |
| Rural Authorities | 100% | 106% | 111% | 115% | 120% |
| Urban Authorities | 100% | 108% | 114% | 120% | 125% |
| All England | 100% | 108% | 114% | 119% | 124% |

Figure 3: RSN Analysis of Change in Core Spending Power per head



Funding Sources

36. The Provisional Settlement confirmed that the council tax referendum limits would remain unchanged. The table below outlines the sources of funding included in the council's draft revenue budget for 2026/27 with explanation of changes detailed in subsequent paragraphs.

| Funding Source | 2025/26 £'000 | 2026/27 £'000 |
|----------------|------------------|------------------|
| Council tax | 146,451 | 153,657 |

| | | |
|---|----------------|----------------|
| Fair Funding Allocation (FFA) | | |
| of which: Baseline Funding Level | | 30,149 |
| of which: Revenue Support Grant | | 41,867 |
| of which: LA Better Care Fund Grant* | | - |
| Legacy Funding Allocation (LFA) | | |
| of which: Legacy Business Rates | 47,567 | |
| of which: Legacy Grant Funding | 29,085 | |
| of which: LA Better Care Fund Grant | 1,585 | |
| Business rates surplus income 2025/26 | - | 1,400 |
| Enterprise zone business rates income | 1,282 | 1,750 |
| Extended producer responsibility grant* | 3,538 | - |
| Collection fund surplus | 2,000 | 2,000 |
| Business rates risk reserve | - | 3,233 |
| TOTAL | 231,508 | 234,056 |

*accounted for within Directorate net budgets in 2026/27

Council Tax Income

37. The Provisional Settlement confirmed that the council tax referendum limits would remain unchanged for 2026/27: councils with social care responsibilities are permitted to increase council tax by up to 3% with an additional 2% to meet adult social care pressures, without a local referendum.
38. Each 1% increase in council tax generates approximately £1.5 million of recurrent funding to meet demand pressures and deliver the council's services. The proposed draft revenue budget for 2026/27 assumes the maximum increase of 4.99% in 2026/27.
39. In February 2024, Council unanimously approved the implementation of council tax premiums for empty properties and second homes in line with regulation and guidance issued by the Secretary of State. Total council tax income of £153.7 million in the 2026/27 draft revenue budget includes estimated income of £3.1 million in premiums applied to second homes and empty properties.
40. This estimate is informed by the number of dwellings confirmed as second homes or empty dwellings and the duration of the property's status, as per billing data as at November 2025. A series of verification checks to confirm occupancy and ownership status has been undertaken during 2025/26 to provide assurance in respect of the value of this budgeted income. A range of compliance measures are in place and will be strengthened during 2026/27 to ensure that council tax premiums are charged on all relevant dwellings.

Fair Funding Assessment (FFA) & Business Rates Retention

41. The Fair Funding Assessment (FFA), previously known as the Settlement Funding Assessment (SFA), is the sum of the Revenue Support Grant (RSG) and Baseline Funding Level, including previously separate grants now proposed to be consolidated or 'rolled in' to the FFA.
42. In addition to business rates income, the council also receives a number of other grants which Central Government include within the determination of local authority Core Spending Power. As a result of the fundamental review of funding allocations and method of distribution through FFR, the council's breakdown of CSP has changed substantially in 2026/27 and many grants have been rolled into the council's Settlement Funding Assessment. This restricts comparison of funding sources with previous years' allocations.
43. Grants previously distributed and accounted for as funding separate from CSP are now part of the Revenue Support Grant and these include: Section 31 Business Rates grants, New Homes Bonus, Social Care Grant, Market Sustainability and Improvement Fund, Domestic Abuse Safe

Accommodation Grant, Employer National Insurance Contributions Grant, War Pensions Disregard Grant, Deprivation of Liberty Safeguards Grant and Virtual Schools Head Grant.

44. The Public Health Ringfenced Grant remains a separate funding source and the value of grant in 2026/27 of £12.2 million (£10.8 million received in 2025/26) consolidates four separate grants into the total allocation, with additional ringfenced expenditure requirements in respect of smoking cessation (£0.4 million) and drugs and alcohol treatment and recovery services (£2.8 million).
45. The Children, Families and Youth grant consolidates five funding streams into a single consolidated grant including: Children's Social Care Prevention Grant, Families First Partnership programme funding, Holidays, Activities and Food (HAF) Grant, the Pupil Premium Plus Post-16 Grant and new funding for children's social care reform per the Spending Review announcement and Policy Statement.
46. Of these grants, the Holidays, Activities and Food (HAF) Grant, the Pupil Premium Plus Post-16 Grant are outside of Core Spending Power.

Business Rates Income

47. The total value of business rates due is collected by the council, paid to Government and redistributed back to the council via a formula grant mechanism under the Business Rate Retention Scheme (BRRS). Business rates income collected by the council is accounted for separately from the council's revenue budget in the Collection Fund.
48. The Business Rates Retention Scheme has been reset as part of the Fair Funding Review. The resetting of Business Rates Baselines from 1 April 2026 aims to ensure funding is targeted where it is needed most; the balance between aligning funding with need and rewarding business rates growth.
49. The 2026 reset will be delivered alongside significant changes to the business rates tax system. New business rate multipliers will be introduced into the business rates system, with the introduction of additional business rates multipliers, and a revaluation of business rates will also be delivered.
50. The business rates reset has resulted in a reduced budget for business rates income of £31.5 million for 2026/27, comprising £30.1 million baseline funding level (assessed need) and £1.4 million surplus from 2025/26. This budget is significantly lower than the £47.6 million budgeted income in 2025/26 as a result of the system reforms as part of which £11.5 million has been rolled into the Revenue Support Grant for 2026/27, representing the above baseline growth in 2025/26 plus the compensation for under-indexing the multiplier in previous years.

Business Rates Pooling

51. In 2023/24 the council joined the Herefordshire and Worcestershire Business Rates Pool; a voluntary arrangement between a group of local authorities whereby their combined business rates income and any growth is collected as one common fund or 'pool'. This pool generates a saving in the levy returned to Central Government which can be distributed amongst members as determined by a Pooling Agreement; spreading the risk across a wider geographic and economic area to enable more business rate growth to be retained locally and shared by authorities within the pool.
52. In the financial years 2023/24 to 2025/26, the council received additional benefit totalling £2.1 million from the Business Rates Pool (£0.7 million in each of the three years 2023/24 to 2025/26).

53. Due to the full reset of the BRRS and changes to levy and safety net calculations, the Herefordshire & Worcestershire Business Rates Pool will not continue in 2026/27 and the council will no longer benefit from pooling gains. The council will continue to review pooling arrangements for 2027/28 to consider future options.

Enterprise Zone Business Rates Income

54. The council retains additional business rates income from the Hereford Enterprise Zone (HEZ). The HEZ was designated by Government as one of the 48 Enterprise Zones in 2012, designed to boost local growth and create jobs in specialist sectors including advance manufacturing and engineering, agri-food, business services, construction including built environment and security.

55. Within these zones, businesses are able to benefit from incentives including: a business rate discount of up to 100% over 5 years, enhanced Capital Allowances (corporation tax relief) for machinery and equipment purchases and simplified planning regulations through Local Development Orders.

56. Any growth in business rates above an agreed baseline (after reliefs and discounts) within the enterprise zone over a 25-year period, from April 2013, is retained by the council to be reinvested locally. The 2026/27 revenue budget includes additional business rate income retained from the HEZ of £1.8 million.

57. In 2025/26, a programme of initiatives and activity to support growth in skills, business and tourism was agreed by Cabinet, funded by additional rates collected and retained from HEZ businesses in the council's Earmarked Reserves. This separate allocation of £1.4 million will support economic growth and development locally with expenditure planned in 2025/26 and 2026/27.

Other Funding Sources: Extended Producer Responsibility Grant

58. The council will receive an allocation of £4.2 million in 2026/27 from the extended producer responsibility for packaging (pEPR) scheme, first allocated to local authorities in 2025/26. The extended producer responsibility for packaging (pEPR) regulation is part of the Environment Act 2021 and requires businesses to take responsibility for the packaging they sell in the UK, from the time it is placed on the market until it is disposed of.

59. This funding is un-ringfenced compensation to cover local authority existing costs of recycling and disposal of packaging. The council's allocation has been included in the Economy & Environment net directorate budget in 2026/27 to support relevant costs for waste and recycling services.

60. The November Policy Statement confirmed Government's commitment to supporting local authorities to deliver weekly food waste collections with ongoing funding to be allocated through the Spending Review and provided in the Settlement rather than as a separate new burdens grant.

61. This funding was not separately identifiable within the Settlement and, instead, is included in the overall Settlement Funding Assessment allocated to the council through the Fair Funding Review and the new funding formulae.

62. A review of the requirements and contract arrangements is currently underway and activity and associated expenditure will be monitored during 2026/27 with costs above budget to be funded from the waste reserve in the first year of delivery.

Exceptional Financial Support (EFS)

63. In the financial year 2025/26, Government agreed to provide Exceptional Financial Support (EFS) to 30 councils to manage their financial pressures and budget gaps (19 in 2024/25, 8 in 2023/24 and 5 in 2022/23). Of these 30, 6 had previously issued a Section 114 Notice (often referred to as a bankruptcy notice).

64. Continuing pressures in costs and demand for services alongside changes in funding allocations mean that the sector is expecting a further increase in requests for support to manage financial pressures, with between 50 and 100 councils expected to apply for EFS to balance revenue budgets in 2026/27.

65. EFS is a form of temporary financial assistance to support a council to meet its financial obligations and continue to deliver essential services. The EFS framework allows councils to cover day-to-day running costs by borrowing or through the use of capital receipts generated from the sale of assets. Councils granted EFS may also be given dispensation to increase council tax rates above the referendum threshold without a local referendum.

66. The typical process for Government to assess requests for EFS is set out below:

- Formal request:** A local authority approaches MHCLG (the Department) seeking EFS, typically via a capitalisation direction. The local authority provides the amount of capitalisation sought and the rationale behind why this is required.
- Assessment:** The request is considered by the Department and includes an assessment of whether the authority has taken **every possible step** at local level to minimise the need for support to be funded by national taxpayers.
- Agreement of 'in principle' support:** Subject to Ministerial decision, Ministers will write to the authority setting out that they are ' minded to' issue a capitalisation direction subject to certain conditions. These conditions typically include the authority being required to undergo an external assurance review.
- Confirmation and legal direction:** Confirmation of legal directions is required to enable an authority and the external auditor to close its financial accounts for that year. There is not a set time of year when directions must be formalised. Previously, subject to demonstration that the authority has progressed against the conditions set out in the 'in-principle' offer of support, directions have been formalised at the end, or just after the end of the financial year to which the capitalisation applies. When formal directions are issued, conditions are attached.

Revenue Budget Proposals 2026/27

67. The base budget proposed for 2026/27 is summarised below. Directorate Savings Proposals are detailed at Appendix B and key revenue budget pressures, challenges and risks outlined in the individual Directorate Budget Position Statements at Appendix C.

| Detail | 2025/26 Base Budget | Unfunded Pressures | Mitigations | Savings | 2026/27 Proposed Budget |
|---------------------------|---------------------------|-----------------------|-------------|---------|-------------------------------|
| | £'000 | £'000 | | | £'000 |
| Community and Wellbeing | 90,366 | 9,396 | (2,720) | (7,375) | 89,667 |
| Children and Young People | 58,873 | 3,545 | (657) | (3,348) | 58,413 |

| | | | | | |
|--|----------------|---------------|----------------|-----------------|----------------|
| Economy and Environment | 40,992 | 7,303 | (2,800) | (7,204) | 38,291 |
| Corporate Services | 22,222 | 1,856 | (53) | (1,529) | 22,496 |
| Sub Total | 212,453 | 22,100 | (6,230) | (19,456) | 208,867 |
| Central | 19,055 | 7,196 | (500) | (498) | 25,253 |
| TOTALS | 231,508 | 29,296 | (6,730) | (19,954) | 234,120 |
| Funded by: | | | | | |
| Council tax | 146,451 | | | | 153,657 |
| Legacy Funding Assessment (LFA) | 78,237 | | | | - |
| Settlement Funding Assessment (SFA) | | | | | |
| of which: Baseline Funding Level | | | | | 30,149 |
| of which: Revenue Support Grant | | | | | 41,867 |
| Business rates surplus income | - | | | | 1,400 |
| Enterprise zone business rates income | 1,282 | | | | 1,750 |
| Extended producer responsibility grant | 3,538 | | | | - |
| Collection fund surplus | 2,000 | | | | 2,000 |
| Business rates risk reserve funding | - | | | | 3,297 |
| TOTALS | 231,508 | | | | 234,120 |

Directorate Key Budget Pressures 2026/27

68. A summary of pressures of £29.3 million included in the draft revenue budget for 2026/27, by Directorate, is noted in the table below.

Pay Award: This pressure represents an impact of the estimated pay award for 2026/27 on staffing expenditure across each Directorate.

Inflation: This pressure represents the impact of inflation across contractual and non-contractual commitments in 2026/27. Inflation is estimated based on a variety of relevant inflation and price indices as well as contract specific rates.

Demand: Demand pressures reflect additional demand for services based on most recent activity data and costs and adjustments to reflect trend analysis in each service area.

| Directorate | Pay Inflation £'000 | Net growth in demand/activity £'000 | TOTAL £'000 |
|-------------------------|------------------------|---|----------------|
| Community Wellbeing | 447 | 8,949 | 9,396 |
| Children & Young People | 520 | 3,025 | 3,545 |
| Economy & Environment | 319 | 6,984 | 7,303 |
| Corporate Services | 216 | 1,640 | 1,856 |
| Central Budgets | - | 7,196 | 7,196 |
| TOTAL | 1,502 | 27,794 | 29,296 |

Contract Inflation Fund

69. Inflation estimated at £7.1 million in contracts for expenditure on supplies, services and third-party payments will not be allocated directly to services as an increase in Directorate base budgets in 2026/27.

70. Each Directorate has been set a target to manage inflationary pressures within Directorate budgets. A centrally managed Contract Inflation Fund will be established in 2026/27 to manage inflationary increases which cannot be managed within Directorate budgets, with amounts transferred to Directorates through existing expenditure control processes when evidence of need has been demonstrated.

71. The centrally managed fund will be established from Directorate Earmarked Reserve balances and balance sheet provision amounts which have been assessed as not committed for use or required to manage future expenditure.

| Reserve/provision | TOTAL £'000 |
|--|----------------|
| Budget resilience reserve | 4,200 |
| Additional pension costs reserve | 547 |
| Uncommitted Economy & Environment directorate reserves | 506 |
| Uncommitted Children & Young People directorate reserves | 255 |
| Uncommitted Balance Sheet provisions/sums | 1,564 |
| TOTAL | 7,072 |

72. This measure recognises the inflationary pressures in 2026/27 and makes adequate provision to meet the expenditure requirements of each Directorate whilst strengthening financial controls to ensure increased challenge and transparency over contract expenditure. Inflation will only be awarded up to a maximum level, as previously estimated, and any efficiencies or reductions in inflation estimates realised will be retained in the Contract Inflation Fund to be carried forward for use in future years.

Business Rates Risk Reserve Funding

73. The draft revenue budget assumes funding of £3.2 million from the Business Rates Risk Reserve. As reported in the council's Earmarked Reserves and General Balances Policy Statement 2025/26, this reserve is held to manage risks in the business rate regime including the impact of changes in the level of business rates income and uncertainty over appeals.

74. The audited reserve balance at 1 April 2025 was £13.3 million. It is proposed that this reserve is used in 2026/27 to mitigate the loss of funding to the council through the Fair Funding Review; this being the risk that the reserve was established to mitigate. Allocation of funding in 2026/27 will reduce the reserve balance by £3.2 million.

75. It is expected that further use of this reserve may be required over the multi-year Settlement period to manage continuing, further reductions in the council's allocation of funding from Central Government. The balance remaining in the reserve is considered appropriate to manage and mitigate future funding risks.

Community Wellbeing

76. The Directorate faces continued challenge in 2026/27 as a result of increasing complexity of need and intensity of care support for the county's ageing population, increased demand for temporary accommodation, the impact of hospital high occupancy rates and an increase in the number of individuals unable to fund their own care linked to the impact of increases in the cost of living and inflation.

77. The budget requirement for 2026/27 reflects future cost pressures including increasing demand, acuity and complexity of care and price inflation including general inflation and the impact of wage increases on health and social care provider contracts.

78. The Directorate will continue to respond to these challenges in 2026/27 through control of costs to secure reductions across care contracts, managing demand through increased community engagement and review of care packages and increasing income, ensuring fair and

timely charges and contributions for services. Savings proposals are detailed in the Community Wellbeing 2026/27 Directorate Budget Position Statement at Appendix C.

79. As part of the council's Future Financial Strategy, the council will work with external specialist partners in 2026/27 to identify, design and implement transformation activity that delivers sustainable, recurrent savings over the MTFS period.
80. This will be undertaken through diagnostic work in early 2026/27 moving to an implementation phase to support the delivery of identified opportunities. Diagnostic work will be informed by collection of detailed evidence and data to form the basis of an opportunities and transformation plan, including the complexities in addressing the key levers to effective change, and the gaps in data, technology, people and leadership to deliver required digital transformation.

Children & Young People

81. The 2024/25 revenue budget included additional investment of £10.8 million for Children & Young People services to provide sufficient funding to meet the costs of service delivery. The increase in revenue budget was supported by a 3 Year Financial Plan which placed workforce stability and a reduction in high-cost placements as key priorities for the Directorate. This plan identified proposed savings of £10.2 million over the three years from 2024/25 to 2026/27.

Children & Young People 3 Year Financial Plan (as at 2024/25 Budget Setting)

| Planned activity/ transformation | Year 1 2024/25 £'000 | Year 2 2025/26 £'000 | Year 3 2026/27 £'000 | Total £'000 |
|---|-------------------------------------|-------------------------------------|-------------------------------------|------------------------|
| Workforce savings | (1,344) | (1,477) | (933) | (3,754) |
| Reduction in high-cost placements | (959) | (3,894) | (1,359) | (6,212) |
| SEN Transport efficiencies | (200) | - | - | (200) |
| TOTAL | (2,503) | (5,371) | (2,292) | (10,166) |

82. In 2025/26 the original savings plans were refreshed to ensure that planned activity was aligned to future improvements and service priorities, recognising progress to date and extending the plan to a 4-year plan covering 2024/25 to 2027/28. The review identified realistic and achievable savings proposals of £3.9 million for 2025/26 resulting in total savings in Years 1 and 2 of £6.4 million (63% of the required savings per the original Financial Plan).
83. Savings proposed for 2026/27 of £3.9 million represent continued reductions in the number of agency social workers and agency hourly pay rates, management of high-cost placements and delivery of efficiencies through reshaping of services. These proposals are detailed in the Children & Young People 2026/27 Directorate Budget Position Statement at Appendix C.
84. The total of savings delivered and proposed for the Directorate over the original three-year plan period is £9.8 million. In addition to the delivery of savings, the Revenue Outturn Report presented to Cabinet in June 2025 confirms the Children & Young People Directorate delivered an underspend of £2.7 million against approved budget in 2024/25. This identifies that the Directorate has delivered on its commitment to reduce the base budget requirement and return the investment originally approved by full Council in the 2024/25 Revenue Budget.
85. Savings requirements in future years in the Children & Young People Directorate will form part of the wider council savings proposals for 2027/28 and onwards, as the savings targets per the original 3 Year Financial Plan have been met.

Summary of savings delivered and proposed 2024/25 to 206/27

| | Total £'000 | Total £'000 |
|--|----------------|----------------|
| Total 3 Year Financial Plan savings (approved 2024/25) | | 10,166 |
| 2024/25 Year 1 savings (delivered) | 2,503 | |
| 2025/26 Year 2 savings (forecast) | 3,929 | |
| 2026/27 Year 3 savings (proposed) | 3,348 | |
| Total revised savings | 9,780 | |
| 2024/25 Revenue Outturn underspend | 2,721 | |
| TOTAL return by Directorate | 12,501 | |

Dedicated Schools Grant (DSG)

86. 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.
87. The Provisional Settlement published in December 2025 advised that, beyond the period of the statutory override, funding for Special Educational Needs and Disabilities (SEND) will be managed within the overall Central Government departmental expenditure limits (DEL) envelope such that local authorities would not be expected to fund future special educational needs costs from general funds.
88. In respect of DSG deficits which will continue to increase during the override period, the Settlement highlighted government's expectation that councils will continue to work to keep deficits as low as possible. Whilst it is not expected that the council will be required to meet the cumulative deficit at 31 March 2028, in full, from its own resources, confirmation of specific arrangements and conditions attached to future support have not yet been provided.
89. Government has confirmed that it will bring forward a full Schools White Paper early in the new year to set out financially sustainable plans for reform of SEND provision. The council awaits confirmation of adequate funding for SEND services in Herefordshire and a real solution to address the cumulative DSG deficit at the end of the statutory override period in March 2028 to minimise the impact on the council's financial position.
90. It should be noted that this issue is a major concern amongst local authorities nationally. A survey by the Association of Local Authority Treasurers (ALATS) reveals the nationwide deficit currently exceeds £6.0 billion across English councils, projected to rise to £10.0 billion by 2026/27 and £14.0 billion by the end of the statutory override period.
91. Whilst future deficits would not accrue beyond the end of the statutory override period, the requirement to recognise historic, cumulative deficits of £14.0 billion across the sector is likely to result in many local authorities issuing Section 114 notices being unable to set a balanced revenue budget.
92. At 1 April 2025, the cumulative deficit brought forward was £20.0 million. The Q2 (September) 2025/26 forecast reports an overspend of £17.5 million within the High Needs block of the DSG; increasing the cumulative deficit to £37.5 million by 31 March 2026. A focused review to quantify the impact of emerging demand in 2026/27 and future years is currently underway to

inform the council's DSG Deficit Management Plan. It is expected that this will increase the forecast deficit by 31 March 2027.

93. This cumulative deficit has a further impact on the council's treasury position as general cash balances are used to meet the in-year costs of SEND provision not funded by Central Government. The depletion of cash balances forces the council to undertake increased external borrowing, incurring increased interest costs which create pressure in the annual revenue budget.
94. 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.
95. Any deficit not funded through planned SEND reform and support from Central Government will have a significant impact on the council's overall financial position once the override period ends on 31 March 2028. This risk is being managed alongside the assessment of the adequacy of the council's reserves, as part of the council's medium term financial strategy.

Economy & Environment

96. The Directorate will be sufficiently resourced to support growth in the economy in 2026/27 and delivery of major and capital projects. The Directorate will embed the new operating model for public realm services and continue to manage pressures in the operation of waste collection and disposal contracts arising due to growth in the volume of domestic waste and inflationary increases in the Unitary Payments.
97. Savings proposed for 2026/27 of £7.2 million will be achieved by maximising commercial activity and returns from traded services to increase income, managing demand by increased engagement with communities and partners and delivering efficiencies by maximising the application of grant funding. These proposals are detailed in the Economy & Environment 2026/27 Directorate Budget Position Statement at Appendix C.

Home to School and SEND Transport

98. There are significant pressures in the provision of mainstream home to school transport and SEND transport services nationally, being experienced in Herefordshire. Growth in Education, Health and Care Plans (EHCPs) for SEND students and increases in more costly travel such as individual taxis and passenger assistants, intensify the challenge of delivering services within approved budgets.
99. The Provisional Settlement notes that Government intends to set out plans to reform the SEND system in further detail early this year. Ahead of any substantive reform, the council must continue to manage increasing demand and cost pressures in transport services by identifying innovative strategies to:
 - influence demand using data to understand user requirements;
 - maximise independence and reduce reliance on council transport services; and
 - employ digital technologies to maximise opportunities to consolidate routes and deliver efficient journeys.
100. An external review was commissioned by the Chief Executive in 2025/26 to identify efficiencies across the council's transport routes, reduce costs and introduce a new operating model for transport services. The outcome of this review is expected to deliver savings of £0.5 million in 2025/26 and, as work continues, an additional savings target of £2.0 million is proposed in the 2026/27 draft revenue budget.

Corporate Services

101. The budget requirement for 2026/27 reflects investment in the Corporate Services Directorate to support continued delivery of service improvements and transformation across the council; enabling the delivery of major and capital projects and providing high quality corporate services to support delivery of Council Plan priorities across Finance, Legal & Governance, HR & Organisational Development and Transformation teams.
102. The Corporate Services budget includes an allocation of £1,000 per Ward Member to allocate to community groups and projects within their Ward area in 2026/27 to align to the priorities of the Council Plan.
103. Transformation expenditure in the Corporate Services Directorate will be mitigated in 2026/27 through the application of £0.6 million of capital receipts. This application is permitted by statutory Direction and the council is required to evidence compliance with qualifying conditions to its external auditors. The qualifying expenditure will generate efficiencies, ongoing savings and reductions in the cost of service delivery. The proposed application in 2026/27 represents modest use of this flexibility by the council.

Central

104. The Central budget comprises financing transactions, 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 and income from the council's business rate pooling arrangement. This budget is informed by planned delivery of the council's Capital Programme, the council's Treasury Management Strategy, routine cashflow monitoring and the external borrowing requirement.

Delivery of approved and brought forward savings in 2025/26

105. Council approved a total of £19.5 million of savings in the 2024/25 revenue budget, comprising Directorate savings of £11.6 million and £7.9 million of Council-wide savings. In the year ended 31 March 2025, £10.9 million (56%) of the approved savings were delivered.
106. Savings not delivered recurrently in previous years have been carried forward into 2025/26 for continued monitoring of delivery. As set out in the 2024/25 Quarter 4 Outturn Report to Cabinet in June 2025, a focused review of the original proposals and planned activity has been undertaken during Quarter 1 and revised savings plans have been developed, where appropriate, to confirm activity to deliver savings in 2025/26.
107. The council has made significant progress in the delivery of approved savings for 2025/26 and savings brought forward from previous financial years as reported in the Quarter 2 Budget Report presented to Cabinet at the meeting held 20 November 2025. At Quarter 2 (September) 2025/26, 51% of total savings have been delivered, with a further 40% assessed as on target for delivery and the balance of 9% assessed to be at risk.

Proposed Directorate Savings 2026/27

108. Total savings of £20.0 million are proposed in the 2026/27 budget. These savings include a range of proposals to:
 - a. Control costs of service delivery
 - b. Increase income from fees and charges
 - c. Manage demand for council services in high-cost, demand-led budgets

d. Deliver efficiencies through review and transformation of services

| Directorate | Control of costs £'000 | Managing Demand £'000 | Increasing Income £'000 | Delivering Efficiencies £'000 | TOTAL £'000 |
|-------------------------|------------------------|-----------------------|-------------------------|-------------------------------|---------------|
| Community Wellbeing | 4,100 | 455 | 1,620 | 1,200 | 7,375 |
| Children & Young People | 1,310 | 1,966 | - | 72 | 3,348 |
| Economy & Environment | 2,875 | 500 | 1,200 | 2,629 | 7,204 |
| Corporate Services* | 1,449 | - | - | 578 | 2,027 |
| TOTAL | 9,734 | 2,921 | 2,820 | 4,479 | 19,954 |

*includes Central Budgets

109. Details of individual proposals and a description of planned activity for Directorate savings are included at Appendix B and in individual Directorate Budget Position Statements at Appendix C.

110. The process to identify savings for 2026/27 included a review of discretionary, preventative, enabling and mandatory services and the levels of service provision by reference to legislative and regulatory requirements. This review considered options to stop, reduce or identify alternative funding sources for non-mandatory services, opportunities for savings and efficiencies in services with cost pressures, and options to increase income generated from services where permitted.

111. Delivery of savings at a time of increasing demand and budget pressures remains a significant challenge for the council. The challenging savings target set, and the difficult decisions taken to deliver efficiencies in both services and the size and shape of the council, form the basis of council's Future Financial Strategy, to ensure a financial stable and resilient council. This strategy is underpinned by robust financial management and continued expenditure controls, accuracy in forecasting and effective collaboration between service and finance teams.

Community impact

112. The draft budget demonstrates how the council plans to use its financial resources to deliver its statutory responsibilities and strategic priorities. The budget and savings proposals support the overall delivery plan and service delivery strategies in place.

113. In accordance with the adopted code of corporate governance, the council achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions. Determining the right mix of these is an important strategic choice to make to ensure intended outcomes are achieved. The council needs robust decision-making mechanisms to ensure our outcomes can be achieved in a way that provides the best use of resources while still enabling efficient and effective operations.

Environmental Impact

114. 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.

115. Whilst this overarching budget setting document will not detail specific environmental impacts, consideration is always made to minimising waste and resource use in line with the council's Environmental Policy. A specific environmental impact assessment for the service specific budget proposals will be considered as appropriate to seek to minimise any adverse

environmental impact and actively seek opportunities to improve and enhance environmental performance.

Equality duty

- 116. Equality Impact Assessments for the savings options and budget proposals will be made available as part of the 2026/27 Draft Revenue Budget Report appendices ahead of the meeting of Cabinet on 20 January 2026.

Resource implications

- 117. The financial implications are as set out in the report. The ongoing operational costs including, human resources, information technology and property resource requirements are included in the draft budget and will be detailed in separate governance decision reports as appropriate.
- 118. 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.
- 119. Under the Local Audit and Accountability Act 2014, the council's external auditors are required to assess whether the council has made proper arrangements under three areas, as defined by the National Audit Office: Financial Sustainability, Governance and Improving economy, efficiency and effectiveness.
- 120. For the 2024/25 financial year, the council was the first council in the country to receive an audit opinion on the financial statements and its value for money arrangements by 30 September 2025.
- 121. The Auditor's Annual Report for 2024/25 notes that there are no significant weaknesses in respect of arrangements for financial planning, alignment of financial plans to other operational planning and in identifying and managing risks to financial resilience. These arrangements, assessed by external audit, underpin the 2026/27 budget setting process to support the preparation of a realistic balanced budget.
- 122. The audit report highlights an improvement recommendation in respect of the achievement of savings in 2024/25. The council has made significant progress in the delivery of approved savings for 2025/26 and savings brought forward from previous financial years and this is noted in the Quarter 2 Budget Report presented to Cabinet 20 November 2025 and highlighted above in this report.
- 123. The audit report, and the timely unqualified opinion on the 2024/25 financial statements, provide valuable, independent assurance that the council has robust financial planning arrangements in place to identify all significant financial pressures and risks to financial resilience and to support the sustainable delivery of services in accordance with strategic and statutory priorities.

Legal implications

- 124. When setting the budget it is important that councillors are aware of the legal requirements and obligations. Councillors are required to act prudently when setting the budget and council tax so that they act in a way that considers local taxpayers. This also covers the impact on future taxpayers.

- 125. In acting prudently, the council has an obligation to determine whether any planned council increase is excessive (based on a set of principles defined by the Secretary of State and approved by the House of Commons).
- 126. The level of council tax rise does not meet the definition of an excessive increase so can be approved without the need for a referendum.
- 127. The Local Government Finance Act 1992 requires a council to set a balanced budget. To do this the council must prepare a budget that covers not only the expenditure but also the funding to meet the proposed budget. The budget has to be fully funded and the income from all sources must meet the expenditure.
- 128. Best estimates must be employed so that all anticipated expenditure and resources are identified. If the budget includes unallocated savings or unidentified income then these have to be carefully handled to demonstrate that these do not create a deficit budget. An intention to set a deficit budget is not permitted under local government legislation.
- 129. The council must decide every year how much they are going to raise from council tax. The decision is based on a budget that sets out estimates of what is planned to be spent on services. Because the level of council tax is set before the year begins and cannot be increased during the year, risks and uncertainties have to be considered, that might force higher spending more on the services than planned. Allowance is made for these risks by: making prudent allowance in the estimates for services and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
- 130. Local government legislation requires the council's S151 officer to make a report to the full Council meeting when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals (the statement is contained within the risk management section of this report). This is done so that members will have authoritative advice available to them when they make their decisions. As part of the Local Government Act 2003 members have a duty to determine whether they agree with the S151 statutory report.
- 131. The council's budget and policy framework rules require that the chairpersons of a scrutiny committee shall take steps to ensure that the relevant committee work programmes include any budget and policy framework plan or strategy, to enable scrutiny members to inform and support the process for making Cabinet proposals to Council.
- 132. Section 106 of the Local Government Finance Act 1992 precludes a councillor from voting on the Council's budget if he or she has an outstanding council tax debt of over two months. If a councillor who is precluded from voting is present at any meeting at which relevant matters are discussed, he or she must disclose that section 106 applies and may not vote. Failure to comply is a criminal offence.

Risk management

- 133. Section 25 of the Local Government Act 2003 requires the S151 officer to report to Council when it is setting the budget and precept (council tax). Council is required to take this report into account when making its budget and precept decision. The report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.
- 134. The budget has been informed by the best available information; current spending, anticipated pressures and estimates in respect of the provisional 2026/27 funding settlement.

135. The known most substantial risks have been assessed as part of the budget process and reasonable mitigation has been made where possible. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process.

136. The council maintains a general fund reserve balance above the minimum requirement, earmarked reserves and an annual contingency budget to manage these risks.

137. Key financial risks and mitigating actions are noted in the table below. The impact measure refers to the potential financial severity of each identified risk.

| Key Financial Risk | Likelihood | Impact (Potential Severity) | Mitigating Action |
|--|------------|-----------------------------|--|
| Unexpected events and emergencies By its nature, the financial risk is uncertain | Low | High | The Council maintains a strategic reserve at a level of between 3 and 5% of its revenue budget for emergency purposes. The level of this reserve at 1 April 2025 was £10.1 million (4.4% of 2025/26 revenue budget). Additionally, national resources have historically been provided to support national issues. |
| Not delivering required improvements The council must address the statutory direction and improvements across Children's Services | Low | Medium | Improvements in Children's Services have been recognised with an overall 'Good' rating by Ofsted following the Inspection of Local Authority Children's Services (ILACS) that took place from 10 to 21 November 2021. Phase 3 of the Herefordshire Children's Services and Partnership Improvement Plan was endorsed by Cabinet in July 2025. Performance against the Improvement Plan is monitored and reported on a quarterly basis. |
| Increasing demand for Adult and Children's Social Care Demand for Children's services continue and demand for adult services increases as the population ages. | High | Medium | Demand led pressures are reflected within our spending plans; additional funding to support increased demand has been applied to Community Wellbeing and Children & Young People Directorate base budgets for 2026/27. In year monitoring of performance enables Directorates to forecast trends and identify changes in demand. Increasing demand for social care represents a key financial pressure for all councils. Robust and regular budget monitoring identifies emerging pressures and the financial impact on in-year budgets across the council. Financial monitoring is informed by activity data and trend analysis from the relevant service to ensure that forecasting is reliable and timely. |
| Potential overspend and non-delivery of savings required to balance the budget | Medium | Medium | High risk budget areas have been identified and financial support is targeted in these areas. Robust and regular financial monitoring which is reported to Directorate and Corporate Leadership Teams and Cabinet enables the timely identification of actions to mitigate the risk of overspends. |

| | | | |
|---|--------|--------|--|
| Volatility in Government funding streams The government settlement for 2026/27 is a multi-year settlement; the assumed funding for the MTFS period is at levels per the Provisional Settlement. | High | Medium | <p>The MTFS reflects prudent estimates and assumptions in the financial planning over the medium-term period where it is acknowledged that uncertainty over future funding exists.</p> <p>The MTFS will be updated to reflect the impact for the council of the multi-year Settlement and in-year funding allocations as further information is released.</p> |
| Interest and Inflation There is uncertainty over interest and inflation rates. | Medium | Medium | <p>The Treasury Management Strategy is informed by latest forecast, as provided by our Treasury Management Advisors. Increases in borrowing rates will be managed by reference to in-year approved budgets in line with the Treasury Management Strategy.</p> |
| Dedicated Schools Grant The future cumulative deficit requires direct financial support from council core budgets if the period of statutory override is not extended beyond 31 March 2028. | High | Medium | <p>The high needs budgets are funded by the dedicated schools grant, but any overspend becomes a council liability.</p> <p>This risk cannot currently be mitigated; expenditure will be monitored as part of routine budget monitoring arrangements and the council will continue to work with the Department for Education and monitor progress against the DSG Deficit Management Plan.</p> <p>This represents a significant local and national pressure and urgent reform is required. Plans to reform funding arrangements and a future decision on the statutory override to manage the national deficit and minimise the impact on local authority financial positions are expected in early 2026.</p> |

Budget Timetable

138. The high-level timetable to approval of the 2026/27 revenue budget by Council is set out below:

| Date | Activity |
|------------------|---|
| 20 January 2026 | Draft 2026/27 revenue budget to Cabinet |
| 23 January 2026 | Meeting of Scrutiny Management Board to consider revenue budget for 2026/27 |
| 5 February 2026 | Meeting of Cabinet to recommend 2026/27 revenue budget to Council |
| Early Feb | Final Local Government Finance Settlement |
| 13 February 2026 | Meeting of Council to approve 2026/27 revenue budget |

Consultees

139. The council's constitution states that budget consultees should include parish councils, health partners, the schools' forum, business ratepayers, council taxpayers, the trade unions, political groups on the council, the scrutiny committees and such other organisations and persons as the Leader shall determine.
140. Regular briefings to share information on the potential outcome of the fair funding review and its impact on the council's revenue budget and capital programme, have been delivered to Group Leaders, and their political groups, Scrutiny Committee Members and council employees throughout the 2026/27 budget development process.
141. In 2026/27, the council invited residents and stakeholders to consider funding choices and the impact of changes in income and expenditure on the delivery of services through an online budget consultation. Engagement also asked for feedback on priorities for the 2026/27 budget and council tax increase options. The consultation ran from 9 December 2025 to 4 January 2026.
142. The results of consultation activities will be included in the updated 2026/27 Budget Report for the meeting of Cabinet on 5 February 2026.
143. Scrutiny Management Board will be consulted with on 23 January 2026; any resulting recommendations will be considered by Cabinet ahead of its scheduled meeting on 5 February 2026.

Appendices

- Appendix A: Medium Term Financial Strategy
- Appendix B: Total Directorate Savings Proposals 2026/27
- Appendix C: Directorate Budget Position Statements
- Appendix D: Treasury Management Strategy

Background papers

None identified.