



MEDIUM TERM FINANCIAL STRATEGY 2026/27 TO 2029/30

Introduction

- 1.1 The Medium Term Financial Strategy (MTFS) is the council's key financial planning document and sets out the council's budget for 2026/27 and the financial plan for the years to 2029/30. The strategy sets out how the council's priorities will be funded over the MTFS period and the financial risks and pressures that must be mitigated in order to successfully deliver corporate objectives.
- 1.2 This MTFS provides the strategic framework for managing the council's finances and ensures that:
 - resources are aligned to achieve corporate objectives detailed in the County Plan over the medium/longer term; and
 - the Revenue Budget, Capital Investment Budget, Treasury Management Strategy and required Prudential Indicators are appropriately aligned.
- 1.3 The council has a gross expenditure budget of around £400 million which is used to deliver services to nearly 200,000 residents across rural villages and market towns. These services include maintenance of over 2,000 miles of roads, collection of over 89,000 residential bins, safeguarding around 1,000 children (including 400 in our care) and providing care and support to approximately 2,500 vulnerable adults.
- 1.4 The council employs over 1,200 staff and supports many more local jobs through contacts with local business. The local economy combines long-standing agriculture and food production industries alongside innovative businesses in cyber and technology, construction and engineering.
- 1.5 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. Using resources wisely is a core principal of financial management and the council continues to identify efficiencies in service delivery and maximise purchasing power to ensure value for money is achieved for the residents and businesses of Herefordshire.
- 1.6 The Herefordshire Council Plan 2024-28 sets out how the council will make its contribution to achieving success across the county; delivering the best for Herefordshire in all areas of service delivery and developing a council that engages with the communities it serves.
- 1.7 The Plan sets out the vision for the future, with a focus on key priorities of People, Place, Growth and Transformation, with partnership working at the core of all activity. The themes and ambitions which underpin the Council Plan inform the financial plans including the annual budget and MTFS.
- 1.8 The MTFS proposes a balanced revenue budget which totals £234.1 million for 2026/27; achieved by a 4.99% increase in council tax and planned savings of £20.0 million. The net revenue budget for 2026/27 is detailed at Annex A.

National and Local Financial Risk

Wider Economic Context

- 2.1 The UK economy remains challenging following a prolonged period of high interest rates and relatively volatile inflation, caused by the global pandemic and the subsequent impact of increases in the cost of living. UK growth is stagnant, with Gross Domestic Product (GDP) at 0.7% for quarter 1 and 0.2% for quarter 2 in 2025.
- 2.2 Domestic inflation rates are elevated in comparison to the target rate of 2.0%. Consumer Price Index (CPI) has been between 3.2% and 3.8% since April 2025. CPI inflation is expected to decrease to 2.5% in April 2026, falling to 1.8% by the end of the financial year.
- 2.3 These economic factors, alongside increases in demand for adult and children's social care and home to school travel services, place unprecedented pressures on the council's MTFS during a period of uncertainty around future funding arrangements for local government.
- 2.4 The MTFS is informed by the estimated impact of these pressures on council budgets at the time of preparation. They remain estimates which are subject to change and will continue to be reviewed over the medium term planning period.

Core Government Funding

- 2.5 The Local Government Settlement for 2025/26 received in December 2025 represents a multi-year settlement outlining multiple years' allocations of funding covering the three-year period from 2026/27 to 2028/29. Funding allocations for the settlement period have been determined through the Fair Funding Review 2.0.
- 2.6 **Council Tax:** 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.
- 2.7 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: 2.99% increase in core council tax and a 2% adult social care precept.
- 2.8 This increases the band D equivalent charge to £2,067.63, representing an increase of £8.19 per month (£1.89 per week). At the proposed level of increase, the total Council Tax income for the council is expected to increase by £7.2 million to £153.7 million.
- 2.9 The maximum level of local Council Tax Reduction scheme discount, approved by Council in 2021/22, has been maintained in all subsequent years to ensure that eligible households receive support as the impact of the rising cost of living continues.
- 2.10 **Business Rates:** 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.
- 2.11 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.
- 2.12 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.

- 2.13 **Fees & Charges:** The council generates income to fund service delivery by charging for the services it provides to residents and businesses. Aside from income generation from locally raised taxes, this is an increasingly important source of funding. Fees and charges are within the direct control of the council to set and uplift, subject to any legislative, economic and political considerations.
- 2.14 Alongside an annual review and uplift of fees and charges, work to ensure maximum service cost recovery and to identify new commercial opportunities across Directorates continues as part of wider transformation activity across the council.

Local Context

- 2.15 In 2025/26, Directorate teams have continued to deliver key priorities and Delivery Plan milestones whilst providing increased support to recognise the impact of the increasing costs of living on residents and businesses in the county. In addition, the council has made significant progress in the delivery of capital projects.
- 2.16 Planned savings will be achieved through control of costs of service delivery, increasing income from fees and charges, managing demand for services in high-cost, demand-led budgets and delivering efficiencies through transformation of services.
- 2.17 Year-on-year timely completion and independent audit of the council's statutory accounts provide assurance over the arrangements in place to provide complete, accurate and timely financial statements and the appropriateness of the council's accounting policies and accounting estimates.
- 2.18 The council's financial position is stable with above average reserve levels compared with similar unitary authorities, low levels of borrowing, positive cashflow and high liquidity and robust financial planning arrangements to identify and manage risks to financial resilience.

Projected Funding Gap over MTFS Period

- 3.1 The MTFS develops a series of financial projections to quantify the estimated funding gap and determine the medium term financial implications must be addressed in order to continue to deliver council services and strategic priorities.
- 3.2 To develop these projections, the current year base budget is inflated to reflect estimated price increases across services and goods with additional amounts to include unavoidable spending pressures and the financial impacts of council priorities and decisions. The adjusted base budget is measured against the estimated funding available to determine the future funding gap.
- 3.3 The projections below, and detailed at Annex B, reflect a funding gap for the medium-term period 2026/27 to 2029/30 of £83.4 million. This is an estimate of the financial gap between what the council needs to spend to maintain services delivery and the funding available. This reflects inflationary costs included as base budget increases from 2027/28 which are not currently matched by increases in core Government funding.

Table 1 Projected Funding Gap to 2029/30

	Proposed 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000	Estimate 2029/30 £'000
Total Funding	234,120	238,331	242,359	253,200
Net Expenditure Budget	234,120	258,902	273,374	285,032
Surplus/(Gap) to be funded	-	(20,571)	(31,015)	(31,832)
Surplus/(Gap) as % of net budget		(7.9%)	(11.3%)	(11.2%)
Total (Gap) to 2029/30				(83,418)

- 3.4 Closing the estimated funding gap in future years represents a significant challenge for the council and this will be an immediate focus for the council from April 2026 as part of the council's future financial strategy. Key areas of focus and activity will include:
- Maximising commercial income from the council's asset base;
 - Collaboration with external specialist partners to deliver efficiencies in high-cost, high-demand areas of service delivery;
 - Review of the council's relationship with subsidiary companies;
 - Creating a lean and resilient council through workforce reviews to determine the future size and scope of the organisation;
 - Use of benchmarking to compare operating costs, working with sector-led experts to identify inefficiencies and opportunities to reduce expenditure; and
 - Investing in the data and digital infrastructure to deliver long-term efficiencies, improvements and transformation in services for resident
- 3.5 It is a legal requirement to set a balanced revenue budget in each financial year. Any savings proposed in 2027/28 to mitigate the estimated funding gap will result in a reduction in the net expenditure budget requirement for 2028/29 with a corresponding reduction to the estimated funding gap.

Dedicated Schools Grant (DSG)

- 4.1 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.
- 4.2 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.
- 4.3 The draft MTFS does not include the impact of planned reform as these cannot currently be quantified. Once plans for reform have been confirmed, including a decision on the statutory override, the MTFS will be updated.

Planning Assumptions

- 5.1 The key assumptions in developing the medium term financial projections are explained below.

Table 2 Key assumptions by budget area

Budget area	Key assumptions
Contract inflation	For 2026/27 the general rate of inflation is assumed at 3% or the individual contract specific rate, will not be allocated directly to services as an increase in Directorate budget. Instead, each Directorate has been set a target to manage inflationary pressures within Directorate budgets. A centrally managed Contract Inflation Fund will be established to manage inflationary increases which cannot be managed within Directorate budgets. For the remaining three years from 2027/28 to 2029/30, inflation is assumed at 2.5%, 2.0% and 2.0% respectively.
Employee related costs	A pay increase has been assumed for the four year MTFS period. The council is part of the Worcestershire Pension Fund, administered by Worcestershire County Council. The triennial valuation of the Pension Fund took place on 31 March 2025. Contributions included for the MTFS period ensure that the future costs to meet existing members' service benefits continue to be covered.
Council tax	An increase of 4.99% is assumed for 2026/27 and for the three years from 2027/28 to 2029/30.
Council tax base	The council's tax base represents the estimated number of Band D equivalent chargeable dwellings for the year. The tax base is forecast to increase by 1.2% each year for the purpose of modelling income for the MTFS; this increase is informed by prior year increases and latest new dwelling forecasts.
Other Government funding sources	Government funding sources included in the MTFS reflect the levels announced in the Provisional Settlement for the multi-year period with Settlement Funding Assessment (SFA) levels in 2029/20 assumed as per 2028/29.
Enterprise Zone retained business rates income	Income of £1.0 million per annum is assumed over the MTFS period. This income will be reviewed annually as part of the development of the in-year revenue budget in consideration of the rates retained from this source.
Fees & charges	Any increases in fees & charges have been incorporated within the budget proposals.
Capital borrowing	Capital borrowing rates of 4.9%, 4.7%, 4.6% and 4.6% have been assumed in respect of financing the Capital Programme over the next 4 years respectively. This assumption will remain under constant review and will be informed by forecasts provided by our Treasury Management Advisors: MUFG Corporate Markets. External borrowing requirements are as per the proposed capital programme for 2026/27 to 2029/30.
Revenue budget savings	The MTFS assumes delivery of savings in 2026/27 in full.
Use of reserves	The MTFS assumes that the proposed use of reserves in 2026/27 (£3.2 million of the Business Rates Risk Reserve and £7.1 million establishment of the Contract Inflation Fund) will need to be funded recurrently from 2027/28.

Robustness of Budget Estimates and Key Risks

- 6.1 The 2026/27 budget and MTFS include estimated values, based on key assumptions noted above and expectations of future events that are otherwise uncertain. Estimates are based on historical experience, current trends and other relevant factors. Financial forecasts are monitored as part of routine budget monitoring arrangements to ensure that risks are identified in a timely manner and mitigation action is taken.
- 6.2 As values cannot be determined with certainty, the table below notes the potential impact of both a positive and negative impact of 1% across the key areas within the MTFS.

Table 3 Impact assessment (1% movement)

	Potential full-year impact of 1% movement (£m)
Council tax	+/- £1.4m
Employee related costs (pay)	+/- £0.8m
Inflation	+/- £2.4m
Demand	+/- £2.0m
Interest on borrowing	+/- £2.1m

- 6.3 The council has strengthened arrangements to identify and monitor financial risks; implementing additional measures to provide increased support to budget managers to deliver planned savings and contain expenditure within the approved budget. These measures include:
- enhanced in-year financial monitoring and reporting to identify key risks and expected financial impacts;
 - improved alignment of activity data and trend analysis to financial forecasts;
 - introduction of expenditure controls to provide increased rigour and challenge of expenditure; and
 - enhanced check and challenge of key assumptions in the outturn forecast.
- 6.4 The key financial risks that could affect the delivery of the MTFS as noted in the table below.

Table 4 Key financial risks

Key Financial Risk	Likelihood	Impact (Potential Severity)	Mitigation
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	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. 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.
Interest and Inflation There is uncertainty over interest and inflation rates.	Medium	Medium	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.
Dedicated Schools Grant The future cumulative deficit requires direct financial support from Council core budgets	High	Medium	The high needs budgets are funded by the dedicated schools grant, but any overspend becomes a council liability. 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. 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.

Adequacy of reserves

- 7.1 The council's useable revenue reserves are split between a general reserve (the general fund) and earmarked reserves that are held for certain purposes. The general fund is held as a strategic reserve to emergency events such as unforeseen financial liabilities or natural disasters.
- 7.2 In line with the council's policy, this reserve is maintained at a minimum level of between 3% and 5% of the net revenue budget. As at 31 March 2025 the general reserve balance totalled £10.1 million, being 4.4% of the council's 2025/26 approved net revenue budget.
- 7.3 Earmarked reserves are amounts set aside for future expenditure to support specific corporate priorities or for general contingencies and cash flow management. For each reserve established, the purpose, usage and basis of transactions needs to be clearly defined.
- 7.4 The overall level of reserves balances is reported to Cabinet at least annually; the last report to Cabinet was in June 2025 noting the total balance of £90.8 million comprising the general fund balance of £10.1 million and earmarked reserve balances of £80.7 million at 31 March 2025.
- 7.5 Earmarked reserve balances include £18.0 million of grant funding carried forward into 2025/26. This represents amounts of grant funding received, with no outstanding grant conditions to be met, which have not yet been applied to relevant expenditure. In accordance with the principles of the CIPFA Code of Practice on Local Authority Accounting and relevant accounting standards, these amounts are accounted for as earmarked reserves, carried forward for application in future accounting periods.
- 7.6 The council's financial strategy aims to minimise the use of reserves in the medium term and to replenish them to support future sustainability, enable the council to respond to

unexpected changes and to invest in the continued transformation and improvement of its services.

- 7.7 The financial resilience reserve was established to manage risks present in the base budget, for example additional placement costs from unexpected demands. At 31 March 2025, a balance of £2.3 million was held in this reserve.
- 7.8 Any overspend in 2025/26 must be funded using the council's available reserves. At Quarter 2 (September) 2025/26, the forecast outturn position assumes £2.8 million use of the Budget Resilience Reserve. This will reduce the reserves available to manage risk in future years.
- 7.9 A forecast of reserves balances at 31 March 2026 and 31 March 2027 will be included at Appendix E to the 2026/27 Revenue Budget Report.
- 7.10 There are robust controls in place, as part of routine budget monitoring arrangements, to monitor in-year transfers to and from reserves and resulting reserve balances and these transactions are subject to review as part of the annual audit of the statutory accounts.
- 7.11 The Local Government Act 2003 (Section 25) requires that the chief financial officer considers the adequacy of the proposed financial reserves as part of the annual budget setting process.
- 7.12 The forecast general fund balance at 31 March 2026 of £10.1 million is within the range required by the council's policy; representing 4.4% of net revenue expenditure in 2025/26. This is sufficient to ensure that the council has adequate resources to fund unforeseen financial liabilities.

Conclusion

- 8.1 The council has a record of robust and effective financial management and is committed to delivering planned savings and managing expenditure within budget in order to preserve the future sustainability of the council.
- 8.2 The planning assumptions and estimates which inform the 2026/27 budget and MTFS to 2029/30 are realistic and prudent and there are appropriate arrangements in place to ensure the council is able to identify and manage risks to financial resilience.
- 8.3 The MTFS provides a balanced budget for 2026/27 and clearly identifies the projected funding gap and risks to delivery. Whilst there are significant challenges ahead, the council's future financial strategy will ensure that the council's finances are aligned to its strategic priorities with a clear focus on required activity to ensure the future sustainability of the council and the services it delivers.

ANNEX A Net revenue budget 2026/27

Detail	2025/26 Base Budget £'000	Unfunded Pressures £'000	Mitigations £'000	Savings £'000	2026/27 Proposed Budget £'000
Community 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	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 rate 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

ANNEX B Medium Term Financial Strategy 2026/27 to 2029/30

Detail	Actual 2025/26 £'000	Proposed 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000	Estimate 2029/30 £'000
Funding:					
Council tax	146,451	153,657	163,260	173,464	184,305
Legacy Funding Assessment (LFA)	78,237	-	-	-	-
Settlement Funding Assessment (SFA)		72,016	74,071	67,895	67,895
Business rates surplus income	-	1,400	-	-	-
Enterprise Zone Business rate income	1,282	1,750	1,000	1,000	1,000
Extended producer responsibility grant	3,538	-	-	-	-
Collection fund surplus	2,000	2,000	-	-	-
Business rates risk reserve funding	-	3,297	-	-	-
Total Funding	231,508	234,120	238,331	242,359	253,200
Expenditure:					
Base Budget b/f		231,508	234,120	258,902	273,374
Pay Award		1,502	2,185	1,792	1,827
Growth – Demand & Pressures		21,064	22,597	12,680	9,831
Savings, efficiencies & mitigations		(19,954)	-	-	-
Net Expenditure Budget	231,508	234,120	258,902	273,374	285,032
Surplus/(Gap) to be funded		-	(20,571)	(31,015)	(31,832)