

Report of the Chief Financial Officer (S151 Officer) on the robustness of the 2026/27 budget estimates and the adequacy of reserves

Introduction

This report is made under section 25 of the Local Government Act 2003, which the Council is required to have regard to when making decisions in accordance with s.31A of the Local Government Finance Act 1992.

Section 25 of the Local Government Act 2003 requires that the Chief Financial Officer reports the following matters to Council, when approving the budget for the financial year 2026/27:

- the robustness of the estimates made for the purpose of the budget calculations; and
- the adequacy of the proposed financial reserves.

Members must have regard to this report, and the advice which it contains, when making decisions about the budget.

This report considers the budget for the financial year 2026/27 as well as the risks and issues over the 4-year period of the Medium-Term Financial Strategy: 2026/27 to 2029/30.

In preparation of this report, advice included in [CIPFA Practice Oversight Panel advisory note six: The Section 25 notice – additional support](#), which specifically addresses Dedicated Schools Grant (DSG) deficits when preparing a Section 25 notice, has been considered.

National and Local Financial Risks

Nationally, local authorities continue to face significant financial pressures whilst demand and cost of statutory services continue to rise. In 2025/26, the council has continued to experience cost pressures in adult social care services, temporary and emergency accommodation, and Special Educational Needs and Disabilities (SEND) and Home to School transport budgets.

The outcome of the Fair Funding Review 2.0 represents a total reduction in the council's allocation of funding from central government of £17.3 million over the multi-year settlement period from 2026/27 to 2028/29. This reduction in funding compounds the pressures faced by the council and increases the challenge of maintaining delivery of services to residents in a rural county.

Overview of financial management and governance arrangements

Whilst Herefordshire is not immune to national issues, the council is in a strong position to respond to and withstand future financial pressures. This position is evidenced through:

- a balanced budget for 2026/27 which includes realistic and achievable, albeit challenging, savings targets;
- adequate reserves to manage financial risks and respond to emerging pressures in 2026/27;
- effective expenditure controls, robust financial management and timely, accurate in-year financial reporting;
- a timely audit report for 2024/25 providing valuable, external assurance of the council's internal control framework and accuracy of financial reporting;
- positive cashflow and robust management of liquidity; and
- a strong balance sheet with low levels of borrowing relative to the council's asset base.

The council's financial planning and monitoring arrangements which safeguard the financial sustainability of the council have been reviewed against National Audit Office criteria by external auditors. The [Auditor's Annual Report for the year ended 31 March 2025](#) published in September 2025 confirms there are no significant weaknesses or improvement recommendations in respect of arrangements for financial

planning, alignment of financial plans to other operational planning and in identifying and managing risks to financial resilience.

The report includes a key recommendation in respect of the council's DSG deficit position and an improvement recommendation in respect of the achievement of savings in 2024/25.

The council received an unqualified audit opinion on the 2024/25 financial statements in September 2025; the first council to achieve this by 30 September 2025. The timely and accurate preparation of the council's statutory accounts is critical in enabling a timely audit to provide valuable, independent assurance of the accuracy and compliance of the council's financial reporting and underlying accounting transactions, estimates and judgements, ahead of decisions on the future revenue budget and capital programme.

Performance against 2025/26 approved Revenue Budget

The [Quarter 2 revenue outturn position for 2025/26](#) reports a forecast variance from budget of £7.0 million (3.0% of net budget), before management recovery action which is expected to reduce the forecast overspend to £3.7 million by 31 March 2026. The overspend includes in-year cost pressures of £5.6 million and £1.4 million savings targets brought forward from 2024/25 assessed as 'at risk'. At Quarter 2, £4.1 million of savings targets remain 'in progress' or 'on target'.

In-year cost pressures represent increases in client demand and complexity of care across adult social care budgets and increases in demand for temporary accommodation in the Community Wellbeing Directorate, pressures in public transport subsidised routes in the Economy & Environment Directorate and continuing budget pressures in SEND and Home to School Transport costs.

The proposed budget for 2026/27 addresses each of these areas to ensure that the budget allocations are sufficient to meet the costs of service delivery; with savings proposals identified to address increasing demand and costs in these service areas.

To deliver services within the approved budget in 2026/27, continuing robust financial management and responsible stewardship of resources is essential, particularly in areas of high-risk activity and demand led services. Whilst estimates of the required budget in these areas is based on reasonable and appropriate assessments of costs and volume, there is a risk that these estimates will be exceeded. Directorates will need to manage delivery of services within approved budget and identify recovery actions for in-year overspends to mitigate the impact on the council's overall financial position.

Expenditure controls will remain in place throughout 2026/27. Directorate panels will continue to review expenditure on goods and services as well as changes in staffing arrangements to maintain an increased level of rigour and challenge over expenditure.

In 2026/27, control panels will also monitor the allocation of inflation to Directorate base budgets through the centrally held Contract Inflation Fund. This fund has been established 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. 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.

Timely budget monitoring and collaboration between service and finance teams to support accurate forecasting will highlight adverse variances and emerging costs pressures, enabling prompt management action to mitigate risks to in-year delivery within budget.

Delivery of Savings

Council approved a total of £3.9 million of savings for 2025/26 comprising targets in the Children & Young People Directorate aligned to refresh of the 3 Year Financial Plan. Savings of £11.9 million not delivered recurrently in 2024/25 were carried forward into 2025/26 and a review of the original proposals and planned

activity was carried out to develop revised savings plans, where appropriate, to confirm activity to deliver savings in 2025/26. A total of £15.8 million savings has been monitored for delivery throughout 2025/26.

The delivery of savings at a time of increasing demand and budget pressures remains a significant challenge for the council. The Quarter 2 2025/26 Budget Report presented to Cabinet in November 2025 reports forecast delivery of £14.4 million (£8.0 million delivered at Quarter 2 and £6.4 million in progress/on target for delivery) with the balance of £1.4 million assessed as 'at risk'. Whilst work continues over the remainder of the financial year to maximise delivery of these savings or identify mitigations, the delivery of recurrent savings, in full and on-time, is critical to ensuring a balanced revenue outturn position to prevent risk to the council's reserves and pressure on future years' budgets.

Dedicated Schools Grant (DSG)

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.

Herefordshire, like many other local authorities, continues to experience increases in demand which are not met by corresponding increases in funding and the number of authorities with significant DSG deficits is increasing. This remains a significant risk for the council with a forecast deficit at Q2 of 2025/26 of £17.5 million within the High Needs block of the DSG; increasing the cumulative deficit to £37.5 million by 31 March 2026.

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. The council awaits information from central government on the proposed solution to address this national issue and its impact on the council's future financial position and resilience.

Robustness of estimates

The development of the 2026/27 Revenue Budget and 2026/27 to 2029/30 Medium Term Financial Strategy (MTFS) has been led by the council's Finance Team working collaboratively with Directorate Leadership Teams, the Corporate Leadership Team and Cabinet.

All key assumptions and areas of estimation and judgment which inform the budget, savings, income, inflation, growth bids and capital projects have been subject to review and challenge as part of the budget setting process in 2026/27. Directorate budget proposals, savings plans and capital project business cases have been assessed alongside the impact of emerging cost pressures and relevant activity data in 2025/26, to inform the production of the 2026/27 revenue budget.

There has been increased engagement in the budget setting process for 2026/27 achieved through regular communication with stakeholders, sharing of information and increased transparency in respect of estimates, judgements and assumptions which inform the budget. Regular updates of progress in development of the budget have been shared with local MPs, Cabinet, Corporate Leadership Team, Leadership Group and council staff through routine All Staff Briefing sessions. Members and Group Leaders have received regular briefings where the in-year cost pressures, key risks and impact of the outcome of the Fair Funding Review have been discussed by all political groups.

This approach in 2026/27 has supported an informed and effective scrutiny of the revenue budget and capital programme, evidenced through both the formal scrutiny process as well as through increased requests for information, clarity and explanation of proposals from Members and Officers.

The assumptions which inform the 2026/27 budget and MTFS are explained in Table 2 of the MTFS, included at Appendix A to the Budget Report. Assumptions have been developed and assessed by the Finance Team with support from specialist external advisors and professional networks. 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.

Adequacy of reserves

An assessment to confirm the adequacy and robustness of reserve balances has been undertaken as part of the budget setting process for 2026/27. The [Earmarked Reserves and General Policy Statement 2026/27](#), sets out the council's approach to maintaining appropriate levels of reserves and general balances to meet known future commitments and to mitigate against unforeseen future events.

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.

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.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Resilience Index is a comparative tool to support good financial management. The index shows a council's position on a range of measures associated with financial risk to highlight where additional scrutiny may be required. The data for the most recent index reflects figures obtained from the Revenue Expenditure and Financing England Outturn Report 2024/25 (RO Forms) as at 31 March 2025.

The reserve sustainability measure provides a measure of how long in years it will take for a council to run out of reserves if they continue to use them as they have and the associated level of risk. This data highlights the council's reserve sustainability measure to be 'lower risk' and notes the council has average reserves relative to its nearest neighbour and other unitary authority comparator groups.

The risk assessment for 2025/26 has determined that a General Fund balance of £10.1 million, unchanged from 2024/25, should be maintained. This is equivalent to 4.3% of the proposed operating budget of £234.1 million for 2026/27 and equates to between two and three weeks of net expenditure. I consider this to be an adequate working balance to manage risk in 2026/27.

As funding pressures continue, the council will need to consider opportunities to replenish reserve balances, as part of the future financial strategy, to build and protect financial resilience to mitigate against future financial risks.

The Annual Review of Earmarked Reserves 2025/26 and Earmarked Reserves and General Policy Statement 2026/27 was reported to Cabinet in February 2026. A full schedule of Earmarked Reserve balances, including forecast use to 31 March 2027, is included at Appendix E to the Budget Report.

Statement of Chief Financial Officer (S151 Officer) Opinion

In discharging governance and monitoring roles, Members are asked to consider the financial risks highlighted and the actions required to manage expenditure within the proposed budget and preserve the council's financial position.

Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (S151 Officer) to report to Council on the robustness of estimates and adequacy of reserves and requires that Council have regard to this report in approving the budget recommended by Cabinet.

The sources of assurance which inform my assessment include:

- Audited Statement of Accounts 2024/25, published on time with an unqualified Independent Auditor's Opinion, and Audit Findings (ISA 260) Report for the year ended 31 March 2025;
- Annual Auditor's Report for the year ended 31 March 2025 which confirmed that there are no significant weaknesses or improvement recommendations in respect of arrangements for financial planning, alignment of financial plans to other operational planning and in identifying and managing risks to financial resilience;

- Audited Annual Governance Statement 2024/25, approved by the Audit & Government Committee in September 2025, confirming the effectiveness of the council's governance arrangements and internal control framework;
- review and scrutiny of the 2026/27 revenue budget assumptions and savings proposals by Scrutiny Management Board in January 2026 and engagement with political groups throughout the budget setting process;
- the risk assessment of reserve balances through the Annual Review of Earmarked Reserves reported by Cabinet in February 2026; and
- use of insights and benchmarking using a variety of tools including the CIPFA Financial Resilience Index, LG Inform, Pixel financial modelling and analysis produced by the Society of County Treasurers.

This report sets out my assessment of the national and local risks to the delivery of the 2026/27 budget and the financial resilience of the council. In consideration of these risks, it is my opinion that:

- estimates used in the revenue budget and capital programme for 2026/27 are robust, informed by reasonable and realistic assumptions and judgements;
- the revenue budget for 2026/27 is deliverable, subject to robust in-year management of cost and demand pressures and continued expenditure controls;
- forecast earmarked reserve and general balances are adequate for 2026/27;
- subject to the pending national solution to address cumulative DSG deficits at the end of the statutory override period, the revenue budget is informed by realistic assumptions and represents a deliverable, albeit challenging, budget for 2026/27;
- appropriate actions have been identified to respond to areas of high risk to the council's budget and there are robust arrangements to monitor delivery;
- the council's financial sustainability will be placed under increased pressure over the 4-year period covered by the Medium-Term Financial Strategy as a result of the combined impact of the following risks:
 - continuing increases in demand and complexity of care needs, driving cost pressures in adult social care budgets;
 - forecast movement in earmarked reserves and reduction in balances held for budget resilience (from £16.8 million at 31 March 2025 to £11.4 million forecast at 31 March 2027) and liabilities and risk (from £14.1 million at 31 March 2025 to £0.1 million forecast at 31 March 2027);
 - the solution to address the council's DSG deficit may have a positive impact on the estimated future funding gap, which provides for the interest costs of borrowing to cover the cumulative deficit; however the proposed solution may have a negative impact on the council's reserve balances;
 - continuing reductions in the level of central government funding which informs the council's Core Spending Power and corresponding reliance on council tax income to support the delivery of services.

In consideration of the increasing risks to the council's financial position, it is imperative that the council continues to exercise robust management of the revenue budget and capital programme and works with immediate focus from April 2026 to identify and deliver specific activity, through the future financial strategy, to address the funding gap in future years.

Rachael Sanders
Director of Finance (S151 Officer)