

Title of report: Q3 2025/26 Budget Report

Meeting: Cabinet

Meeting date: Thursday 26 March 2026

Cabinet Member: Cabinet member finance and corporate services

Report by: S151 Officer

Report Author: Director of Finance (S151 Officer)

Classification

Open

Decision type

Non-key

Wards affected

(All Wards);

Purpose

To report the forecast position for 2025/26 at Quarter 3 (December 2025), including explanation and analysis of the drivers for the material budget variances, and to outline current and planned recovery activity to reduce the forecast overspend.

To provide assurance that progress has been made towards delivery of the agreed revenue budget and service delivery targets, and that the reasons for major variances are understood and are being addressed to the cabinet's satisfaction.

The forecast 2025/26 outturn shows a net overspend of £6.3 million at Quarter 3. Management recovery action and planned contributions to reserves are expected reduce the forecast overspend to £4.4 million.

Recommendation(s)

That: Cabinet

- a) Reviews the financial forecast for 2025/26, as set out in the appendices A-D, and identifies any additional actions to be considered to achieve future improvements; and**
- b) Notes the proposed early repayment of reserve contribution by the Children & Young People Directorate; and**

c) Notes the management action identified to reduce the forecast outturn position for 2025/26; and

d) Agrees the continuation of management actions to reduce the forecast overspend as identified in this report.

Alternative options

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

Key considerations

Revenue Outturn

2. The council's approved net revenue budget for 2025/26 is £231.5 million which includes planned savings of £3.9 million. Detailed explanations for variances from budget are set out in Appendix A by Directorate and Service area.
3. This report presents the revenue forecast outturn position for 2025/26 and highlights continuing budget pressures to support increases in demand across social care budgets, temporary accommodation and Special Educational Needs and Disabilities (SEND) transport services.
4. The Quarter 3 revenue outturn position for 2025/26 shows a forecast variance from budget of £6.3 million (2.7% of net budget), before management action. This variance represents cost pressures of £6.3 million comprising £4.7 million in-year net cost pressures and £1.6 million of brought forward Savings Targets assessed as 'at risk' as at Quarter 3.
5. The 2025/26 approved budget included a contribution from reserves of £1.4 million in 2025/26, to the Children & Young People Directorate budget, to bridge the gap of Year 2 savings following the extension of the 3 Year Financial Plan. The contribution was required to be repaid in Years 3 and 4 (2026/27 and 2027/28) of the revised plan period.
6. The forecast outturn position for the Children & Young People Directorate at Quarter 3 is an underspend of £2.0 million as a result of robust management of expenditure to deliver services and forecast delivery of savings in full. It is therefore proposed that the contribution from reserves is repaid in the year ending 31 March 2026, a year earlier than previously planned.
7. The impact of planned management activity and recovery actions of £3.3 million and the early repayment of reserve funding in the Children & Young People Directorate of £1.4 million, will result in a revised forecast overspend of £4.4 million, as outlined in Table 2. Any overspend in 2025/26, not mitigated by 31 March 2026, must be funded using the council's available reserves.
8. The forecast outturn position for 2025/26 by Directorate, before recovery action, is shown in Table 1 below.

Table 1: 2025/26 Forecast Revenue Outturn before management recovery action

2025/26 Forecast Revenue Outturn at Quarter 3 (December 2025)			
	Revenue Budget £m	Forecast Outturn £m	Forecast Variance £m
Community Wellbeing	90.4	96.3	5.9
Children & Young People	58.8	56.8	(2.0)
Economy & Environment	27.9	27.1	(0.8)
SEN/Home to School Transport	12.7	15.0	2.3
Corporate Services	22.9	24.8	1.9
Directorate Total	212.7	220.0	7.3
Central	18.8	17.8	(1.0)
Total	231.5	237.8	6.3

Management Activity and Recovery Actions

9. Recovery actions expected to reduce the forecast overspend in Quarter 4 include:
 - i. £2.8 million allocation of the Budget Resilience Reserve to mitigate the impact of cost pressures and volatility in demand in Directorate Budgets;
 - ii. continued review of the council's contract arrangements and shareholding in Hoople Ltd; and
 - iii. continued challenge of forecast and planned expenditure over the remainder of the financial year through Directorate expenditure control panels.
10. Expenditure controls first implemented during 2023/24 remain in place to support recovery activity and robust control over expenditure in 2025/26. Directorate panels will continue to review expenditure on goods and services as well as changes in staffing arrangements to maintain the increased level of rigour and challenge over expenditure for the remainder of the financial year.
11. The Budget Resilience Reserve was established in 2024/25 to manage the impact of in-year cost pressures and volatility in demand across social care budgets. In the financial year ended 2024/25, £4.0 million of this reserve was applied to cost pressures in the Community Wellbeing Budget, reducing the balance carried forward to the current financial year to £7.0 million.
12. The proposed £2.8 million use of the Budget Resilience Reserve in 2025/26 will reduce the balance of this reserve to £4.2 million at 31 March 2026.
13. As detailed in the 2026/27 Revenue Budget, Medium Term Financial Strategy and Treasury Management Strategy report approved by Council on 13 February 2026, the £4.2 million balance will be transferred to the Contract Inflation Fund to manage inflationary increases in Directorate contracts.
14. The Annual Review of Earmarked Reserves 2025/26 reported by Cabinet on 5 February 2026 confirmed a forecast balance in the Budget Resilience Reserve of £4.2 million at 31 March 2026 and a nil balance at 31 March 2027 to reflect the proposed transfer in 2026/27.

Table 2: Updated forecast revenue position 2025/26

Updated 2025/26 Forecast Revenue Outturn at Quarter 3 (December 2025)					
	Revenue Budget £m	Forecast Outturn £m	Forecast Variance £m	Mgm't Action £m	Revised Forecast £m
Community Wellbeing	90.4	96.3	5.9	(2.8)	3.1
Children & Young People	58.8	56.8	(2.0)	-	(2.0)
Economy & Environment	27.9	27.1	(0.8)	-	(0.8)
SEN/Home to School Transport	12.7	15.0	2.3	-	2.3
Corporate Services	22.9	24.8	1.9	(0.5)	1.4
Directorate Total	212.7	220.0	7.3	(3.3)	4.0
Central	18.8	17.8	(1.0)	-	(1.0)
Total	231.5	237.8	6.3	(3.3)	3.0
Early repayment of reserve contribution (Children & Young People)					1.4
Revised forecast outturn position					4.4

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. A review of the delivery and status of the 2025/26 approved savings has been undertaken; informed by planned and actual activity in the year to date to determine savings targets at risk of in-year delivery.
- This review **confirms £1.6 million (40%) of the total approved savings target for the year has been delivered at Quarter 3** with a further £2.3 million (60%) assessed as 'on target' for the year. No savings are currently assessed as 'at risk'.
- A breakdown of 2025/26 approved savings is shown in Table 3 below with further detail on the status of individual saving target set out in Appendix D, Annex 1.

Table 3: Assessment of Delivery of 2025/26 Approved Savings at Quarter 3

	Target £m	Delivered £m	On Target £m	In Progress £m	At Risk £m
Children & Young People	3.9	1.6	2.3	-	-
Total	3.9	1.6	2.3	-	-
	100%	40%	60%	0%	0%

- Savings not delivered recurrently in previous years have been carried forward into 2025/26 for continued monitoring of delivery. A focused review of the original proposals and planned activity was undertaken during Quarter 1 and revised savings plans have been developed, where appropriate, to confirm activity to deliver savings in 2025/26.
- The status of delivery of the revised savings, which total £11.9 million, is shown in Table 4 below with further detail on the status of individual saving target set out in Appendix D, Annex 2.

Table 4: Assessment of Delivery of Brought Forward Savings Targets at Quarter 3

	Target £m	Delivered £m	On Target £m	In Progress £m	At Risk £m
Community Wellbeing	3.2	1.8	0.4	1.0	-
Economy & Environment	0.4	0.4	-	-	-
Corporate Services	0.5	0.5	-	-	-
Home to School/SEN Transport	0.5	0.3	-	-	0.2
Transformation	7.3	5.6	-	0.3	1.4
Total b/fwd Savings	11.9	8.6	0.4	1.3	1.6
	100%	66%	4%	17%	13%

20. At 31 December 2025 (Quarter 3), £8.6 million (72%) of the £11.9 million brought forward savings have been delivered with a further £1.7 million (15%) forecast to be delivered in year; £1.6 million (13%) remain at risk and with focused activity underway to resolve or mitigate in year.
21. To respond to increasing cost pressures in the provision of mainstream home to school transport and SEND transport services, an external review was commissioned by the Chief Executive in 2025/26 to identify efficiencies across transport routes, reduce costs and introduce a new operating model for transport services, with a target to deliver savings of £0.5 million in 2025/26 as per Table 2 above.
22. This review will deliver savings of £0.5 million over the three terms of the 2025/26 academic year with £0.3 million recognised in the year ending 31 March 2026 (in respect of Autumn Term 2025 and Spring Term 2026) and the balance of savings of £0.2 million to be recognised in the first quarter of the 2026/27 financial year (in respect of Summer Term 2026).
23. The **delivery of savings in full and on time is critical** to ensure the 2025/26 revenue outturn position is balanced and to prevent further pressure on future years' budgets. Progress on delivery of savings and mitigations will continue to be monitored and reported in the next budget monitoring report to Cabinet.

Dedicated Schools Grant (DSG)

24. The cumulative DSG deficit is accounted for as an unusable reserve on the council's Balance Sheet, as permitted via statutory instrument, which will remain in place until 31 March 2028. This enables all local authorities to ring-fence the DSG deficit from the overall financial position in the statutory accounts. Beyond the period of the statutory override, the expectation is that any balance on the DSG Unusable Reserve will transfer back to the council's total Earmarked Reserves.
25. On 1 April 2025, the cumulative deficit brought forward was £20.0 million. The Q3 (December) 2025/26 forecast reports an overspend of £18.2 million within the High Needs block of the DSG; increasing the cumulative deficit to £38.2 million by 31 March 2026.
26. 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.

27. The Final Local Government Settlement published on 9 February 2026 confirmed the proposed treatment of DSG deficits as part of wider SEND reform. The first phase of support will be to address historic deficits with a High Needs Stability Grant to cover 90% of High Needs-related DSG deficit accrued up to the end of 31 March 2026. The remaining 10% balance will be a liability of the council at the end of the statutory override period on 31 March 2028.
28. The grant will be paid in Autumn 2026, subject to eligibility checks. Based on the forecast deficit at Quarter 3, the grant represents a potential contribution of £34.4 million to address the deficit balance forecast at £38.2 million at 31 March 2026. The receipt of the grant in 2026/27 will have a positive impact on the council's borrowing requirement and reduce the interest payable expenditure in 2026/27 over the medium-term period. It is proposed that the reduction in interest payable expenditure will be transferred to a DSG repayment reserve to manage the 10% (£3.8 million) remaining deficit which will not be met by the government grant at 31 March 2028.

Capital Outturn

29. The 2025/26 approved capital budget of £155.2 million has been revised to £115.1 million. The revised capital budget includes £11.7 million of unspent project budgets brought forward from 2024/25, removal of a project £6.0 million, £14.5 million additional grants and a reduction of £60.3 million where budgets have been reprofiled to future years. A summary breakdown is shown in Table 5 below.

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

	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	Total £m
25/26 Approved Capital Programme	155.2	87.5	38.6	0.2	-	281.5
Removal of Wye Valley Trust Project	(6.0)	-	-	-	-	(6.0)
24/25 Carry Forward	11.7	6.0	-	-	-	17.7
Reprofile Budget	(60.3)	25.0	22.0	12.7	0.6	-
Additional Grant	14.5	19.5	22.3	37.5	42.6	136.4
Revised Capital Budget	115.1	138.0	82.9	50.4	43.2	429.6
Forecast Spend at Quarter 3	94.0					
Variance from Budget	(21.1)					

30. The forecast spend position, at Quarter 3, is £94.0 million which represents a variance of £21.1 million against the revised capital programme budget of £115.1 million.
31. The in-year forecast variance represents £2.6 million of underspend on project budgets and £18.5 million in respect of project budgets to be rolled forward for delivery in 2026/27. Explanations for variances from budget by individual project are detailed in Appendix B, Table a.
32. In accordance with best practice, capital budgets were reprofiled at Quarter 2 to reflect the revised expected profile of project delivery. Forecast spend has been monitored by reference to the reprofiled budget from Quarter 2. The full capital programme analysed by project for current and future years can be seen in detail by Appendix B, Table b and explanations for the reprofile were reported at Quarter 2.

33. Forecast delivery of the council's capital programme for 2025/26 assumes a requirement to undertake external borrowing and provision was made in the approved 2025/26 revenue budget to support this borrowing. Cashflow forecasting arrangements have been strengthened in 2025/26 to consider the cashflow requirements of the capital programme; managing the timing and affordability of loan interest payments, minimising cash balances and utilising internal borrowing where possible, in accordance with the council's Treasury Management Strategy.
34. The capital programme includes a number of projects expected to mitigate key revenue budget pressures. The **delivery of these projects on time and within budget is critical** to ensuring maximum impact on the 2025/26 revenue outturn position and to mitigate pressure in future years. These projects are detailed below in Table 6. The delivery of capital projects is monitored by individual project boards, Major Projects Forum and monthly Directorate Budget Boards.

Table 6: Capital Projects expected to deliver positive impact on revenue budgets

Capital Project	Expected Revenue Impact
Home to School / SEN Transport cost pressures	
High Needs Grant £2.1m	The lack of local special educational needs and disabilities (SEND) placement provision to meet current and future levels of demand is one of the council's corporate risks. The provision of additional SEN places within Herefordshire will mitigate increasing cost pressures for out of county placements with a corresponding impact on home to school transport costs.
Social Care demand and cost pressures	
Children's residential homes £0.4m	This project will provide a short break facility, reducing costs by increasing in-county provision.
Temporary Accommodation demand and cost pressures	
Acquisition Fund for Housing Provision £5.0m Empty Property Investment & development £0.6m	The acquisition of buildings to address the shortage of suitable accommodation for people needing emergency accommodation is expected to deliver reductions in cost pressures of around £0.6m per annum.
Repair and maintenance budgets	
Estates Building Improvement Programme works Highways and Public Realm investment works	Delivery of improvements and maintenance of the council's estate and highways network ensures efficient spend of revenue maintenance/repair budgets and insurance premiums.

35. Key risks to the capital programme include delays in delivery, limitations in market capacity resulting in a reduced number of bidders, reduced competition and choice, and inflationary increases to costs. Where capital projects are funded by external grants, there is further risk that delays in delivery mean that grant conditions and time constraints cannot be met resulting in the loss or clawback of grant. All projects are monitored robustly to mitigate the risks to project budgets, delivery of benefits and potential loss of grant funding.
36. The council projects with significant grant funding are detailed below:

- i. Highway Maintenance Block: an annual grant provided by the Department for Transport (DfT), regular monitoring of spend ensures maximum use of the grant in each financial year (£21.3m in 2025/26).
- ii. Levelling Up Fund (LUF): this grant funds a number of capital projects to the north and south of the river as well as the Hereford Transport Hub. The grant allows flexibility to move the match funding between projects to ensure application of grant funding is prioritised.
- iii. Local Transport Grant: an annual allocation to support investment in local transport maintenance and enhancements and deliver more ambitious transport projects. In 2025/26, the council is forecasting to spend the grant awarded in full, including a £3.0 million allocation to highways spend.
- iv. Stronger Towns Fund: the Herefordshire Stronger Towns Partnership includes 3 council projects which are part-funded by the Stronger Towns Fund: Hereford Museum & Art Gallery, the Library & Learning Centre and Greening the City. For each of these projects, grant funding is used first to ensure application before deadlines to reduce the risk of grant clawback.
- v. Bus Service Improvement Grant: the grant allocation must be spent in the financial year of award. The forecast assumes the funding will be spent in full in 2025/26; some work has already been commissioned with further delivery planned by the end of the financial year.
- vi. Brownfield Land Release Fund (BLRF): the grant, to turn surplus land into new homes, must be committed by November 2025. The forecast at Quarter 3 assumes the grant monies will be utilised in full in 2025/26 to deliver flood alleviation works to support the redevelopment of Merton Meadow.

Community impact

37. In accordance with the accepted code of corporate governance, the council must ensure that it has an effective financial control framework to support delivery of services within the agreed budget. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition, the council has an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies.

Environmental Impact

38. 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.
39. This report is to review the financial outturn at Quarter 1 of 2025/26 so will have minimal environmental impacts, however consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

Equality duty

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

Legal implications

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

Risk implications

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

Corporate Risk R2: Demand for client-based services continues to increase resulting in increased budget pressures and poor outcomes for those people in receipt of our services.	
Risk score at Q3	Impact of report recommendations and actions
Risk Rating: High Inherent Risk Score: 16 Residual Risk Score: 12	Demand-led social care budgets are identified as high risk budget areas and financial support is targeted in these areas. This report identifies actions to mitigate the risk of overspends including continued Directorate expenditure controls and planned use of the Budget Resilience Reserve.
Corporate Risk R3: Lack of local special educational needs and disabilities (SEND) placement provision to meet current and future levels of demand.	
Risk score at Q3	Impact of report recommendations and actions
Risk Rating: Very high Inherent Risk Score: 16 Residual Risk Score: 9	This report identifies the impact of cost pressures in SEND transport provision and the High Needs block of the Dedicated Schools Grant on the council's financial position. Proposed activity through the future capital programme, DSG deficit management plan, continued Home to School transport review alongside wider SEND reform is expected to have a positive impact on local sufficiency and the council's future financial position.
Corporate Risk R4: Failure to deliver capital and major projects within identified resources and planned timeframes resulting in significant overspend and reduced project outcomes.	
Risk score at Q3	Impact of report recommendations and actions
Risk Rating: High Inherent Risk Score: 16	This report identifies key risks to the capital programme at paragraph 35 above. These include delays in delivery,

Residual Risk Score: 12	market capacity, inflationary increases and clawback of grant funding. Activity to ensure robust management of the capital programme and monitoring of external borrowing requirements are in place to mitigate risks to the council's financial position.
Corporate Risk R5: Failure to deliver a sustainable financial strategy that supports delivery of the Council Plan priorities.	
Risk score at Q3	Impact of report recommendations and actions
Risk Rating: High Inherent Risk Score: 16 Residual Risk Score: 12	This report identifies measures to reduce the forecast overspend of £6.3 million to £4.4 million by 31 March 2026 with additional management and recovery action planned in Quarter 4 to further reduce the overspend and protect the council's financial position and sustainability. Any overspend in 2025/26, not mitigated by 31 March 2026, must be funded using the council's available reserves. The forecast Earmarked Reserves balances at 31 March 2026 were reported at the Cabinet meeting held 5 February 2026 and to Council on 13 February 2026.

Resource Implications

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

Consultees

46. None in relation to this report.

Appendices

Appendix A – Revenue outturn

Appendix B – Capital outturn

Appendix C – Treasury management outturn

Appendix D – Savings delivery

Background papers

None Identified

