Title of report: Q1 2026/27 Budget Report

Meeting: Cabinet

Meeting date: Thursday 24 September 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 2026/27 at Quarter 1 (June 2026), 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.

Recommendation(s)

That: Cabinet

a) **Reviews the financial forecast for 2026/27, as set out in the appendices A-D, and identifies any additional actions to be considered to achieve future improvements;**

b) **Notes the management action identified to reduce the forecast outturn position for 2026/27; and**

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

Further information on the subject of this report is available from
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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 2026/27 is £234.1 million which includes planned savings of £20.0 million. Detailed explanations for variances from budget are set out in Appendix A by Directorate and Service area.

3. This report presents the first revenue forecast outturn position for 2026/27 and highlights continuing budget pressures to support increases in demand across social care budgets, temporary accommodation, and Special Educational Needs and Disabilities (SEND), and home to school transport services.

4. The Quarter 1 revenue outturn position for 2026/27 shows a forecast variance from budget of £11.6 million (5.0% of net budget), before management action. It is expected that planned management activity will reduce the forecast overspend to £10.7 million.

5. This variance represents cost pressures of £11.6 million comprising £3.6 million in-year net cost pressures and £8.0 million of Savings Targets assessed as 'at risk' as at Quarter 1.

6. Despite activity to manage demand at the 'front-door' of adult social care and increased use of technology enabled care and community-based provision, pressures continue in adult social care budgets with a corresponding reliance on agency staff to enable the council to meet its responsibilities under the Care Act. Further cost pressures represent continuing demand for temporary accommodation with the number of households approaching the service exceeding the number of households rehoused into permanent accommodation in Quarter 1.

7. The forecast outturn position for 2026/27 by Directorate, is shown in Table 1 below.

Table 1: 2026/27 Forecast Revenue Outturn before management recovery action

2026/27 Forecast Revenue Outturn at Quarter 1 (June 2026)			
	Revenue Budget £m	**Forecast Outturn £m**	**Forecast Variance £m**
Community Wellbeing	89.2	94.1	4.9
Children & Young People	58.6	58.6	-
Economy & Environment	24.2	25.1	0.9
SEN/Home to School Transport	14.1	17.1	3.0
Corporate Services	22.5	24.6	2.1
Directorate Total	**208.6**	**219.5**	**10.9**
Central	25.5	26.2	0.7
Total	**234.1**	**245.7**	**11.6**

Management Activity and Recovery Actions

8. Any overspend which cannot be resolved via recovery actions by 31 March 2027 will need to be funded from Earmarked Reserves.

9. A Budget Resilience Reserve of £11.0 million 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 years ended 2024/25 and 2025/26, £6.8 million of this reserve was applied to cost pressures in the Community Wellbeing Budget, reducing the balance to £5.2 million.

10. The Contract Inflation Fund, established to manage inflationary increases in 2026/27, includes £4.2 million transferred from the Budget Resilience Reserve, reducing the balance available to manage in-year cost pressures to £1.0 million. **This reserve is not sufficient to manage the overspend forecast at Quarter 1.**

11. Reserves available to manage risk include the Financial Resilience Reserve (£2.5 million at 1 April 2026) and Business Rates Risk Reserve (£10.0 million at 1 April 2026).

12. The General Fund balance (£10.1 million at 1 April 2026) is not allocated, or earmarked, for a specific purpose but represents a strategic reserve to be used in the event of a major incident or emergency.

13. **These balances are not sufficient to mitigate the forecast overspend at Quarter 1 without significant impact on the council's overall financial resilience and therefore corrective action must be taken immediately to recover in-year forecast cost pressures and mitigate 'at risk' savings.**

14. Recovery actions expected to reduce the forecast overspend in 2026/27 include:

    i. continued activity to deliver savings assessed as 'at risk' at Quarter 1;
    ii. identification of mitigations to manage Directorate cost pressures and savings assessed as at risk; and
    iii. challenge of forecast expenditure over the remainder of the financial year through Directorate expenditure control panels to reduce, defer and stop spend.

15. Expenditure controls first implemented during 2023/24 remain in place to support recovery activity and robust control over expenditure in 2026/27. Directorate panels will continue to review expenditure on goods and services as well as changes in staffing arrangements and delivery of approved savings to maintain the increased level of rigour and challenge over expenditure and performance for the remainder of the financial year.

Table 2: Updated forecast revenue position 2026/27

Updated 2026/27 Forecast Revenue Outturn at Quarter 1 (June 2026)					
	Revenue Budget £m	**Forecast Outturn £m**	**Forecast Variance £m**	**Mgm'nt Action £m**	**Revised Forecast £m**
Community Wellbeing	89.2	94.1	4.9	(0.7)	4.2
Children & Young People	58.6	58.6	-	-	-
Economy & Environment	24.2	25.1	0.9	(0.2)	0.7
SEN/Home to School Transport	14.1	17.1	3.0	-	3.0
Corporate Services	22.5	24.6	2.1	-	2.1
Directorate Total	**208.6**	**219.5**	**10.9**	**(0.9)**	**10.0**
Central	25.5	26.2	0.7	-	0.7
Total	**234.1**	**245.7**	**11.6**	**(0.9)**	**10.7**

Savings

16. Council approved a total of £20.0 million of savings for 2026/27. A review of the delivery and status of the 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.

17. This review **confirms £7.5 million (38%) of the total 2026/27 approved savings target has been delivered at Quarter 1** with a further £6.0 million (30%) assessed as 'on target/in progress' for the year. There are **£6.5 million (33%) of savings currently assessed as 'at risk'**.

18. Savings are assessed as 'at risk' where activity proposed to deliver the saving has not yet commenced or where reductions in the approved budget cannot be confirmed. Activity underway to deliver 'at risk' savings continues across Directorates and progress will be reflected in the Quarter 2 monitoring report.

19. A breakdown of 2026/27 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 2026/27 Approved Savings at Quarter 1

	Target £m	**Delivered £m**	**On Target £m**	**In Progress £m**	**At Risk £m**
Community Wellbeing	7.4	1.3	0.5	1.4	4.2
Children & Young People	3.4	1.3	0.1	2.0	-
Economy & Environment	5.2	3.4	-	1.0	0.8
SEN/Home to School Transport	2.0	-	0.3	0.4	1.3
Corporate Services	2.0	1.5	0.3	-	0.2
Total	**20.0**	**7.5**	**1.2**	**4.8**	**6.5**
	100%	**38%**	**6%**	**24%**	**32%**

20. Savings not delivered recurrently in previous years have been carried forward into 2026/27 for continued monitoring of delivery. The status of delivery of the revised savings, which total £2.7 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 1

	Target £m	Delivered £m	On Target £m	In Progress £m	At Risk £m
Community Wellbeing	0.9	0.2	-	0.7	-
Economy & Environment	0.3	0.1	-	0.2	-
Corporate Services	0.1	-	-	-	0.1
Transformation	1.4	-	-	-	1.4
Total b/fwd Savings	**2.7**	**0.3**	**-**	**0.9**	**1.5**
	100%	**11%**	**0%**	**33%**	**56%**

21. At 30 June 2026 (Quarter 1), £0.3 million (11%) of the £2.7 million brought forward savings have been delivered with a further £0.9 million (33%) forecast to be delivered in year; £1.5 million (56%) remain at risk and with focused activity underway to resolve or mitigate in year.

22. The **delivery of savings in full and on time is critical** to ensure the 2026/27 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)

23. 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.

24. On 1 April 2026, the cumulative deficit brought forward was £36.3 million. A deficit budget of £25.9 million has been approved for 2026/27; if expenditure is contained within the approved budget, the cumulative DSG deficit will total £62.2 million by 31 March 2027.

25. Activity data which informs the forecast will be updated in Quarter 2, to reflect changes in demand for the 2026/27 academic year commencing in September 2026 and a revised forecast position will be reported in the Quarter 2 Report to Cabinet in November.

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.

28. The council submitted its Local SEND Reform Plan to the Department for Education (DfE) on 19 June 2026. Subject to DfE approval, the Plan will evidence eligibility for the High Needs Stability Grant to cover approx. £32.7 million (90%), with the remaining balance of £3.6 million (10%) to be a liability of the council once the statutory override period ends in March 2028.

29. It is expected the grant will be paid to the council in Autumn 2026, subject to approval. The receipt of the grant in 2026/27 will have a positive impact on the council's borrowing requirement and reduce the level of borrowing and corresponding interest payable expenditure in 2026/27 and over the medium-term period. The impact is dependent upon the timing and value of the grant and, once receipt is confirmed, treasury management and cashflow forecasts will be updated. The impact of the receipt of grant will be considered as part of overall treasury management monitoring arrangements to confirm funding for the 10% (£3.6 million) remaining deficit which will not be met by the government grant at 31 March 2028.

Capital Outturn

30. The 2026/27 approved capital budget of £146.9 million has been revised to £169.3 million. The revised capital budget includes £20.3 million of unspent project budgets brought forward from 2025/26, removal of part of a project £0.3 million and £2.4 million additional grants. A summary breakdown is shown in Table 5 below.

Table 5: Revised Capital budget 2026/27 to 2029/30

	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	Total £m
26/27 Approved Capital Programme	146.9	102.1	60.0	44.4	353.4
Removal of Maylords Revenue Reserve	(0.3)	-	-	-	(0.3)
25/26 Carry Forward	20.3	4.8	-	-	25.0
Additional Grant	2.4	2.9	2.5	-	7.8
Revised Capital Budget	**169.3**	**109.8**	**62.5**	**44.4**	**385.9**
Forecast Spend at Quarter 1	112.4				
Variance from Budget	**(56.9)**				

31. The forecast spend position, at Quarter 1, is £112.4 million which represents a variance of £56.9 million against the capital programme budget of £169.3 million.

32. The in-year forecast variance represents £1.0 million of underspend on project budgets and £55.9 million in respect of project budgets to be rolled forward for delivery in 2027/28. Explanations for variances from budget by individual project are detailed in Appendix B, Table A.

33. In accordance with best practice, capital budgets will be reprofiled at Quarter 2 to reflect the revised expected profile of project delivery. Forecast spend will be monitored by reference to the reprofiled budget from Quarter 2 for the remainder of the financial year. The full capital programme analysed by project for current and future years can be seen in detail by Appendix B, Table B.

34. Forecast delivery of the council's capital programme for 2026/27 assumes a requirement to undertake external borrowing and provision was made in the approved 2026/27 revenue budget to support this borrowing. Cashflow forecasting arrangements have been 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.

35. 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 2026/27 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 Board 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 £1.6m	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.
Temporary Accommodation demand and cost pressures	
Acquisition Fund for Housing Provision £5.0m Empty Property Investment & development £0.2m	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.

36. 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.

37. The council projects with significant grant funding are detailed below:

i. Local Transport Plan (LTP): an annual grant provided by the Department for Transport (DfT), regular monitoring of spend ensures maximum use of the grant in each financial year (£23.7m in 2026/27).

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 2026/27, the council is forecasting to spend the £6.0m grant awarded in full.

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 following financial year of award. The forecast assumes the funding will be spent in full for the 2025/26 grant; some work has already been commissioned with further delivery planned by the end of the financial year to spend part of the 2026/27 grant.

vi. Brownfield Land Release Fund (BLRF): Brownfield Land Release Fund (BLRF): the forecast at Quarter 1 assumes the grant monies will be utilised in full in 2026/27 to deliver flood alleviation works to support the redevelopment of Merton Meadow.

Community impact

38. 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

39. 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.

40. This report is to review the financial outturn at Quarter 1 of 2026/27 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

41. 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.

42. 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

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

Risk management

44. 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.

Resource Implications

45. These recommendations have no direct financial implications, however cabinet may wish to consider how money is utilised in order to meet the council's objectives.

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