

# Financial Year 2026/27: Adequacy of Reserves and Robustness of Budget Estimates (Section 25 statement)

### s151 Officer Statement

The purpose of this Section 25 Report is to set out the assessment made by the Section 151 Officer and conclusion regarding the Council's ability to set a balanced budget for financial year 2026/27. In making decisions regarding the revenue budget and setting the council tax, the Council has various legal and fiduciary duties, as summarised below:

#### Legal and Fiduciary Duties

The Council is required by the Local Government Finance Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the calculation of the council tax requirement and setting of the overall budget and council tax. The amount of council tax requirement should be sufficient to meet the council's legal and financial commitments and ensure proper discharge of its statutory duties, resulting in a balanced budget.

Section 25 of the Local Government Act 2003 requires that the Local Authority when making its budget calculations, the Chief Finance Officer (s151 Officer), must report to Council on the robustness of the underpinning estimates made for calculation purposes and the adequacy of financial reserves to support the budget proposed. Council has a statutory duty to have regard to the s151 Officer's report when making decisions on the budget adopted.

Section 28 of the Local Government Act 2003 imposes a statutory duty on the Council to monitor expenditure and income against budgeted assumptions throughout the financial year. If monitoring establishes that the budgetary situation has deteriorated the Council must take such action necessary to deal with the situation, for example, reduction in spending, increase income, or where possible utilise reserves.

Section 114 of the Local Government Act 1988 requires that where the s151 believes that the expenditure of the Local Authority is likely to exceed (or is proposed to exceed), the resources (including sums borrowed), available to meet that expenditure, the s151 has a duty to make a report to Council.

In exercising its fiduciary duty, the Council should be satisfied that the proposals put forward:

- Are a prudent use of resources available
- The proposals strike a fair balance between the interests of local tax and rate payers, current and future, alongside the community's interests in adequate and efficient services, whilst complying with statutory duties.

#### Assessment of whether a legal budget can be set

The financial position of the Council remains challenging. The Council is in receipt of Exceptional Financial Support (EFS), for financial year 2024/25 (£13million) and received a provisional agreement for £3million of EFS for financial year 2025/26, in February 2025.

The provisional £3million of EFS for 2025/26 allowed the Council to set a balanced budget and avoid the issue of a s114 notice.

There are a number of significant factors driving the financial position of the Council, as follows:

- Funding constraint: A reduction in government funding support via the settlement from central government. Detailed in appendix A of the MTFS.
- Funding constraint: A significant reduction to the Council's tax base (council tax). Detailed in appendix B of the MTFS.
- Expenditure pressure: Increasing commissioning costs for both adults and children's social care. Detailed in appendix D of the Revenue Budget Financial Year 2026/27 report.
- Expenditure pressure: Increasing capital financing costs, not necessarily driven by future planned capital programmes, but driven through High Needs Block (HNB) deficit financing and the financing of Minimum Revenue Provision (MRP) associated with EFS.
- Reserves dependant on EFS. The reserves sufficiency statement is included in appendix E of the MTFS.

An amended request for EFS in relation to financial year 2025/26 and a further request to support the revenue budget in 2026/27 was made to central government in December 2025. The revised 2025/26 EFS request has increased from the original £3million to £20 million. As detailed in the reserves sufficiency statement, the Council is operating with low levels of usable revenue reserves, and a General Fund constructed from the original 2024/25 EFS request. The in year (2025/26) financial pressures (reported via quarterly budget monitoring to Executive), will significantly reduce the available General Fund to a level well below the s151 recommended 5% of net revenue budget. The revised 2025/26 request, (if approved), should provide greater resilience to the reserves, allowing for capacity to build volatility / risk reserves in support of the demand led services in 2026/27, whilst maintaining a General Fund minimum provision.

In respect of 2026/27, the net revenue expenditure budget (after increases in fees and charges and application of identified savings) is £210.9 million compared to Core Spending Power of £177.9 million. £3.0 million of reserves (created through application of EFS), is planned to support the net revenue budget with an EFS request of £30million required to enable the setting of a balanced revenue budget. EFS remains an interim financial support arrangement, subject to annual government approval. It is noted over the life of the MTFS, the requirement for EFS to balance the forecast revenue position, creates additional debt (via MRP), which has a General Fund impact on an annual basis and longer term financing implications.

### **Conclusions on setting a balanced budget**

In determining whether it is reasonable to set a balanced budget for financial year 2026/27, the following has been considered:

- The utilisation of historic EFS and subsequent MRP impacts.
- The 2025/26 EFS request providing funds to enable the Council to be considered a going concern as at 31.3.2026, with sufficient opening balances to support the 2026/27 net revenue budget.
- The application for EFS to balance the gap between proposed net revenue expenditure and core spending power.

### **Assessment on whether the budget is reasonable and prudent**

This s25 statement focuses on the statutory and fiduciary considerations a s151 Officer must make in determining if the budget being set is reasonable and prudent. In setting the budget the Council has a duty to:

- Continue to make provision to enable the meeting of statutory duties.

- Ensure governance processes are robust and support decision making.
- The MTFS reflects the significant challenges faced, whilst remaining responsive to wider economic factors, setting savings strategies which are monitored and delivered against.
- Understands the profile of existing and forecast liabilities, allowing for provision of repayment.
- Has appropriate levels of reserves and monitors liquidity.
- Prepares the annual statement of accounts in an accurate and timely manner.

### Robustness of Estimates

The Council is operating in an extremely challenging financial environment, the robustness of estimates underpinning the proposed revenue budget have been reviewed as follows:

General Fund Revenue Budget	
Risk	
Non delivery of savings	The savings included in the MTFS have been through an enhanced officer and member challenge process. Savings will be monitored monthly in 2026/27 to ensure expected outcomes and enable early corrective action if savings are not delivered as planned.
Funding is lower than forecast	Enhanced procedures are being adopted to monitor and forecast collection rates and impacts on the tax base. 2026/27 marks a revaluation year for the ratable base (business rates), with appeals likely. Enhanced monitoring, supported by an externally commissioned, specialist partner will enable early identification of issues.
Property	The council is undertaking an asset review with a view to creating an asset disposal strategy and supporting plan. The impact of any disposals will be assessed on a business case basis prior to completion and approval by members. There is a risk of voids and capital works relating to the property portfolio (operational assets and investment holdings), as the Council does hold an aging asset estate.
Income, fees and charges budgets	The 2026/27 budget relies in part upon generation of fees and charges across Council services. The Council has historically operated a cost plus budgeting basis, with a number of income budgets requiring review and rebasing. Fees and charges will be reviewed and rebased as part of new budget setting processes for 2027/28.
Expenditure budgets	Significant growth has been factored into the 2026/27 net revenue budget. The Council has operated a cost plus budgeting basis, this process relies heavily on the base budgets accurately reflecting service delivery. The base budgets have not been reviewed and realigned in a number of financial years. Expenditure budgets are now being subject to greater review as part of the Financial Review Panel and will be subject to realignment as part of the 2027/28 budgeting process.
Pay and price inflation	The Council has budgeted for pay inflation of 3.5% and contractual inflation (unless specified in a contract) at CPI + 1%. Social care commissioning in particular is sensitive to price inflation with packages being driven by specific care needs as opposed to generic inflation.
Overspends on the capital programme	The future capital programme has been set with an envelope of £10million, inclusive of a £1.5million contingency budget. Significant slippage from 2025/26 will be unfunded in 2026/27 as capital financing capacity is being consumed by financing of EFS.
Interest rate rise increasing financing costs	Whilst economic forecasts propose interest rate reductions, the capital financing is based on current PVLB projections, if rates were to increase this would put further pressure on budgets. The Council (due to EFS) is carrying an MRP requirement which would be subject to charge at the PVLB rate as at 31.3.xx annually. The capital financing indicators, at current rates forecasts demonstrate financial distress.
Capital Financing Costs exceed budgeted levels	Capital financing costs are dependant on capital programme delivery, and revenue pressures generating a need for EFS. EFS from 2025/26 has become the main driver of the in year Capital Financing Requirement moves. Treasury indicators show that the Liability Benchmark will exceed CFR in financial year 2027/28 based on delivery of the proposed capital programme, existing EFS financing requirements and future EFS requirements, which in turn are dependant on the revenue budget being delivered as a minimum online. The Council currently operates an annuity based MRP policy, which in turns means the call on General Fund increases annually.
Local Government Reorganisation	No provision has currently been made to cover costs associated with Local Government Reorganisation. The Council is part of the Ridgeway proposal and any required funding in 2026/27 with regard to development of further proposal or initial works will be a call on reserves.
Exceptional Financial Support declined by central government	The MTFS shows a reoccurring requirement for EFS over the medium term. If EFS were declined, the Council would be required to enact a savings proposal in scale unseen in prior financial years. This puts the Council at risk of 114.

## Growth of the Revenue Budget

Net Expenditure Growth Trends (£millions)	2022/23	2023/24	2024/25	2025/26	2026/27
Base Budget	138.5	151.3	163.6	167.1	184.2
Base Budget Growth	10.6	16.5	17.5	24.5	31.2
Savings Applied including one off savings reversed back into the subsequent years base budget	-5.3	-9.1	-16.5	-8.2	-4.5
Net Revenue Budget Approved/Proposed	143.8	158.8	164.6	183.4	210.9
Published / forecast outturn - overspends	4.7	3.10	6.80	8.50	
Growth - gross annual growth plus overspend, less savings	10.0	10.5	7.8	24.8	26.8

Historically the Council has delivered savings to help mitigate growth in the expenditure base. As years progress the complexity of saving required to mitigate rising costs is increased. Ambitious and challenging savings strategies have been identified in recent years, however, in some instances due to marketplace factors, savings have been undeliverable. Moving forward to balance the expenditure pressures, whilst also taking into consideration constrained funding, the Council will need to ensure savings allocated to the revenue budget are delivered. The current MTFS is set with future years savings targets of £15million annually, which is not insignificant. However, the targets set still result in the Council requiring increasing EFS in the medium term. EFS comes with a significant cost in the form at MRP.

## EFS and Capital Financing

EFS as a percentage of CFR movement	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Movement in CFR	26.8	34.3	33.9	40.7	46.7
EFS Allocation	13.0	20.0	30.0	40.0	47.0
<b>EFS as a percentage of CFR mover</b>	<b>48.5%</b>	<b>58.3%</b>	<b>88.5%</b>	<b>98.3%</b>	<b>100.6%</b>

Comparison of CFRs and Liability Benchmark	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Closing CFR	319.7	354.0	387.9	428.6	475.3
Loans CFR	310.3	345.6	380.5	422.3	470.3
Liability Benchmark	259.9	309.3	369.1	435.4	490.0

The treasury indicators above show the impact of EFS and increasing revenue pressures. In 2026/27 the Council remains compliant with the prescribed Prudential Code indicators, and the locally set fiscal rule of capital financing budgets remaining within 10% of the Council's net revenue stream. However, in 2027/28 the indicators are compromised with the liability benchmark exceeding the Loans CFR and the CFR itself. In the context of the Prudential Code, it is rare for the Liability Benchmark to exceed the Loans CFR as the Loans CFR represents the theoretical maximum level of borrowing permitted. When this occurs, it indicates negative investable resources (i.e. CFR minus investable resources like reserves and cash balances). The Liability benchmark includes a £10million liquidity buffer, this combined with low reserves will drive the benchmark above the main CFR. If the benchmark is higher than external loans (loans CFR), it signals an immediate need to take on long term borrowing to fund capital and liquidity, as essentially the Authority has depleted all internal resources and is fully exposed to interest rate and refinancing risks for the full CFR. Furthermore, the ratio of capital financing to net revenue stream exceeds the 10% fiscal rule in 2027/28 (forecast ratio 12.1%). Capital financing impacts are largely felt a year in arrears due to MRP being applied at outturn, therefore 2027/8 impacts are driven by 2026/27 and preceding activity. In order for the indicators (and it should be noted the indicators remain compromised through the MTFS post 2027/28), significant

adjustment to spending plans in 2026/27 would be required. The indicators as forecast are dependent on the proposed revenue budget being delivered online, with no further impacts on reserves (reserve forecasts are a driver of the liability benchmark and indicators), and no increased requirement in 2026/27 for EFS.

## Reserves

Reserves	2025/26	2026/27	2027/28	2028/29	2029/30
Opening Balances as at 1.4.xx annually	10.60	15.83	12.81	11.23	9.91
In year anticipated utilisation - planned in budget setting	-2.27				
Provision for any in year overspends and outturn adjustments	-12.50	-33.02	-41.58	-46.32	-45.18
Allocation of requested Exceptional Financial Support to balance budget	20.00	30.00	40.00	45.00	45.00
Allocation of requested Exceptional Financial Support to maintain General Fund				1.54	2.10
<b>Projected Closing General Fund Balance</b>	<b>15.83</b>	<b>12.81</b>	<b>11.23</b>	<b>11.45</b>	<b>11.83</b>
<b>151 Recommend General Fund minimum level</b>	<b>9.20</b>	<b>10.55</b>	<b>11.05</b>	<b>11.44</b>	<b>11.83</b>
<b>Cumulative Exceptional Financial Support to balance budget and maintain General Fund</b>	<b>20.00</b>	<b>30.00</b>	<b>40.00</b>	<b>47.00</b>	<b>48.00</b>

The reserves statement is included in appendix E of the MTFS. It should be noted that (excluding schools balances, Public Health, and the Insurance reserves), the reserves are generated through EFS and require (based on forecasts above) EFS to be maintained at the recommended 151 level. There currently is an un-forecast risk to the Council's General Fund from the schools' balances which have been diminishing over recent years. Under accounting regulations, once the overall schools' balances decline into deficit this will become chargeable against the Council's General Fund, increasing any EFS requirement. Detailed work is underway with the schools to enhance reporting and quantify the level of risk.

## Conclusion

The Council's financial position is precarious. Funding is constrained and growth in the Council's tax base has not kept pace with increasing revenue costs. The 2026/27 net revenue budget has been subject to realignment of the council tax base and historic savings, which alongside annual standard growth (pay inflation, contractual inflation, social care demand), has created a funding gap, proposed to be supported by EFS. Should central government not support the revised 2025/26 (£20million) and 2026/27 (£30million) EFS requests this would put the council into a s114 position. In the medium term the Council remains under considerable financial pressure, with compromised financial indicators, highlighting a sustainability and s114 risk. The finances will remain under tight scrutiny, with monthly monitoring and reporting of the 2026/27 budget to be implemented.