

Appendix 6 - S151 Officer Section 25 Report

The robustness of the 2026/27 budget and adequacy of reserves

1 Purpose of the report

- 1.1 This is an important report which provides the context within which the entire suite of the 2026/27 budget and Medium-Term Financial Plan (MTFP) and Treasury Management Strategy Reports on this agenda and must be considered when making decisions in relation to setting the annual budget and Council Tax.
- 1.2 The report advises Elected Members of the Council of the Corporate Director of Finance's (S151 Officer) report on the robustness of estimates made for the purposes of the budget calculations and the adequacy of proposed financial reserves as required by statute.

2 Legal Framework

- 2.1 Section 25 of The Local Government Act 2003 (the Act) includes the following statutory duty in respect of the budget report to Council:

'the Chief Financial Officer (CFO) of the authority must report to it on the following matters:

- a) the robustness of the estimates made for the purpose of the calculations;*
- and*
- b) the adequacy of the proposed financial reserves.'*

- 2.2 The Act also requires the Authority to which the report is made to have regard to the report when taking decisions about the budget and setting the Council Tax. The Chief Financial Officer is as defined in Section 151 (S151) of the Local Government Act 1972 and is fulfilled by the Corporate Director of Finance.
- 2.3 Section 26 of the Local Government Act 2003 places an onus on the CFO (the Corporate Director of Finance and S151 Officer) to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget. For the purpose of the Act 'reserves' include the 'General Fund Balance'.
- 2.4 This report has been prepared by the CFO to fulfil this duty and gives the required advice relating to the 2026/27 financial year. This includes a consideration of the budget proposals as a whole and the key financial risks facing the Council.
- 2.5 In accordance with s31A of the Local Government Finance Act 1992, the Council is required to have regard to this report when making decisions on agreeing the budget and setting the Council Tax for the financial year 2026/27.

3 Chief Finance Officer Overall Opinion

- 3.1 At 2024/25 budget setting the Council's financial position was deemed critical by the previous S151 Officer due to demand pressures, a critically low level of revenue reserves, and it was unable to set a balanced revenue budget for 2024/25 without recourse to Exceptional Financial Support (EFS) from Ministry of Housing, Communities and Local Government (MHCLG).
- 3.2 There has been a significant improvement in the Council's financial position and financial resilience (including increased levels of reserves in the medium term) from that which existed at 2024/25 budget setting. This has been backed up by improved governance existing throughout the Council, and budgetary control measures being strengthened along with quicker and more effective intervention when budgets are overspending (including the requirement for services to produce recovery plans). However, there still needs to be a continuing focus on the Council's finances in the future.
- 3.3 Whilst the Council reserves have improved further during 2025/26 and now the balance on usable unrestricted reserves are forecast to be £25.937m at 31 March 2026, they are still at a relatively low position compared to other local authorities. However, the Council reserves are adequate to support the budget for 2026/27 having regard to the assessment of current financial and other risks and the implementation of recommended management control measures as set out in this report. Provided these assessed risks do not increase substantially and beyond those that have been reasonably assumed in developing the budget, the Council is capable of delivering an increase in its financial resilience over the MTFP period through the planned contributions to reserves. The Council must aim to rebuild its usable unrestricted revenue reserves over the period of the MTFP as outlined in Section 12 of this report and the Reserves Policy in Appendix 7 of the budget report.
- 3.4 As detailed in the main budget report the Council has in the Provisional Local Government Finance Settlement which was published on 17 December 2025 received a substantial increase in Government funding and a substantial increase in Core Spending Power (CSP) following the Fair Funding Review 2.0. This will further help to improve the Council's financial position.
- 3.5 The Mayor and Executive are proposing a lower Council Tax increase for 2026/27 than the maximum allowed by the Government of 4.99%, with only a 2% increase being proposed relating to the Adult Social Care precept to reflect the increased costs of the statutory duties required for Adult Social Care. Whilst in my opinion as S151 Officer I would recommend the maximum increase allowed is applied, given the improved financial position and financial resilience of the Council and the improved governance and budget spending controls that exist and the amount of the estimated increased funding available to the Council, it is possible financially to accommodate a decision for a lower than maximum increase in Council Tax to be set for 2026/27. As S151 Officer an increase in Council Tax below 2% in 2026/27 would not be acceptable as this would mean a lack of contribution towards the increased costs of Adult Social Care which the Government have assumed in their

calculation of the funding available to the Council, and also in my view this would potentially open the Council up to increased scrutiny of the Council's financial position by the Government.

- 3.6 Also, at this stage it is recommended that no decisions are made in relation to 2027/28 and 2028/29 Council Tax increases, and these should be made at a later date when there is more certainty on the financial position.
- 3.7 The budget is currently balanced budget for the period of the MTFP from 2026/27 to 2029/30. There is a high level of uncertainty relating to 2029/30, and the figures for 2029/30 will be reviewed and updated when further information is made available in the future regarding Government funding levels.
- 3.8 The estimated Government funding forecast to be available to the Council means that the Executive is currently able to propose that there is no requirement to implement any further additional budget savings in 2026/27 and the rest of the MTFP period. However, work will continue to identify and deliver efficiencies and savings in the future through robust budget monitoring and the Transformation Programme.
- 3.9 However, it needs to be noted that there is also a high level of budget savings planned to be made over the MTFP period in savings approved in previous years, including additional budget savings totalling £3.517m relating to 2026/27, which are built into the MTFP, and are assumed that they will be fully achieved or replaced with alternative savings. This is a risk in that if these are not fully achieved, or replaced with alternative savings of a similar value, it will create pressures on the budget and requiring the use of low levels of reserves.
- 3.10 Based on the risks and issues set out in this report, in my opinion as Corporate Director of Finance (S151 Officer), the budget estimate of £200.675m and a Council Tax requirement of £78.460m for 2026/27 to be presented for approval by Council is robust on the basis that:
 - a) All Members and Officers will work collaboratively together with an unrelenting focus and priority placed upon:
 - a. controlling costs within cash limited budgets without exception
 - b. delivery of all budgeted savings on an ongoing basis
 - c. noting that the failure to deliver planned savings in any financial year will add to the budget gap in the following financial year
 - d. Directors will ensure full staff compliance across their respective service areas of the Finance and Contract Procedure Rules

These control measures will serve to preserve and rebuild the Council's revenue reserves to strengthen the Council's financial resilience over the medium term.

- b) The Council takes all necessary measures to realise the delivery of planned asset sales and capital receipts in 2026/27 (estimated to be £17.749m in 2026/27) which are required to fund transformation investment over the MTFP, and the capital programme.
 - c) The funding for the Transformation Programme is maintained at current levels over the period of the MTFP (i.e. £26.7m over the period from 2024/25 to 2028/29).
 - d) That outputs both financial and non-financial are realised as part of the Transformation Programme, and any expenditure is spent in accordance with best value principles.
 - e) That sufficient senior and specialist capacity of the Finance Team is maintained to be able to service the organisational requirements associated with delivering transformation alongside its normal duties in upholding the S151 officer statutory responsibilities to the required standard.
- 3.11 The Council must continue to proactively address the areas for improvement set out in previous reviews by external bodies. In particular, embedding improvements to budget modelling and forecasting within the operational management of services underpinned by effective systems and processes will deliver improved and embedded financial management practices across all directorates.
- 3.12 Whilst I am able to provide a high level of assurance for the 2026/27 budget, I do have concerns that I will be unable to provide such assurance for the medium term should the MTFP position change significantly. This medium term judgement reflects the following concerns;
- Continued inflationary and service demand pressures above that provided;
 - Potential significant financial risks around Children's and Adult Social Care budgets;
 - Continued uncertainty around the treatment of Dedicated Schools Grant (DSG) deficits, both historic and accruing future deficits (see paragraph 11.10 for further details)

4. Current Context and Financial Standing of the Council

2025/26 Financial Position

- 4.1 The Council approved a balanced budget for 2025/26 in February 2025, with a net revenue budget of £143.304m approved by Council for 2025/26.
- 4.2 As detailed in the Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2025/26 report to Executive on 4 February 2026, the Council is forecast to overspend by £1.675m at year end against its budget of £143.304m in 2025/26 after the proposed use of central contingences and other budgets. There is a forecast budget pressure of £7.719m across Directorates and Central budgets mainly in relation to Children's Social Care expenditure. In line with the financial strategy, provisions have been made to

mitigate this position through the planned use of central contingencies and other central budgets totalling £6.044m which has reduced the overall forecast budget pressure to £1.675m. This includes net savings totalling £7.675m which are forecast to be unachieved in 2025/26.

- 4.3 During 2025/26, the Council's approach to financial management and control has continued to be rigorous and further reviewed and strengthened to continue to maintain a firm grip on financial management and embed this in the strategic and operational management of the organisation. This has included the continuation of monthly budget monitoring of all budgets, and the holding of Member led budget clinics every quarter (with the exception of Children's Care where these are held monthly). It is essential to continue with this in order to sustain the current momentum in the improvement in the Council's finances.
- 4.4 There has been an unrelenting focus by the Leadership Management Team and Executive Members upon managing budgets and tracking the delivery of approved savings over the course of the year. Where original plans have proved difficult or not possible to deliver within the year, alternative mitigations have been deployed as far as possible by Directors through the development and implementation of Financial Recovery Plans.
- 4.5 The table below summarises the main variances within the Council which have proven difficult to mitigate fully due to a combination of:

- The demand led and statutory nature of the services which have experienced increased demand and complexity of need beyond those anticipated
- Inflationary pressures continuing to impact the supply chain for goods, works and services
- The nature of some current operating models which need to be modernised to realise efficiencies
- The requirement for more effective demand management to support and enable communities to become more resilient and self-reliant

2025/26 Forecast Outturn Quarter Three	£m
Adult Social Care	1.483
Children's Social Care – mainly due to increased numbers and complexity of external residential placements	4.408
Children's Social Care –unachieved savings	3.833
Other variances (Environment and Community Services, Education & Partnerships, Regeneration, Legal and Governance Services, Finance, and Central)	(2.005)
Use of central contingency and other central budgets	(6.044)
Total	1.675

- 4.7 As part of the proposed 2026/27 budget, substantial budget totalling £15.549m for 2026/27 rising to £35.963m in 2029/30 has been provided for forecast service demand pressures and re-basing of budgets (including for reduced income levels and legislative requirements). However, it still remains important to manage demand more effectively, deliver efficiencies, and

develop longer term transformation to control costs, particularly in the areas of Adult Social Care & Health, Children's Care, Education and Partnerships (SEND transport), Homelessness, and Environment, Communities and Culture (Waste Disposal), in order to ensure the financial sustainability of the Council in the medium to longer term.

- 4.8 As reported previously the Council's usable unrestricted reserves and the General Fund Balance had reduced considerably over the period 2015/16 to 2023/24 to a critically low level of £12.055m at 31 March 2024. Whilst the level of reserves has improved considerably during 2024/25 and 2025/26 to a forecast level of £25.937m at 31 March 2026 (as per the Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2025/26 report), they are still at a relatively low level compared to other local authorities, with further details being included in the Adequacy of Reserves Section 12 and in Appendix 7 of the main budget report.
- 4.9 Dedicated Schools Grant (DSG) - As detailed in the Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2025/26 report and in Appendix 12 of this report, the DSG deficit is predicted to increase by £9m during 2025/26 and it is currently forecast that there will be a total cumulative DSG deficit of £31.213m at 31 March 2026, including £32.515m relating to the High Needs Block which is partly offset by £1.302m of surplus forecast across the other blocks. The pressure has been driven up by Education and Health Care Plans (EHCPs) increasing. This is a risk to the Council as detailed in paragraph 11.10.
- 4.10 There needs to be a continuing focus on the Council's finances in the future, and the Council needs to have a firm grip and take firm and unwavering action in 2026/27 in order to control expenditure within its annual income sources without exception in order to protect and rebuild reserves to a sufficient level over the medium term 2026/27 to 2029/30.

5 Recommendations in relation to financial recovery and resilience

- 5.1 In September 2024 MHCLG withdrew the Best Value Notice in relation to the Council's failings in culture and governance. However, there is still a continuing need to embed improvements in relation to securing financial sustainability and delivery of transformation, whilst effectively implementing new strategies to embed positive cultures.
- 5.2 The Council is progressing on its improvement journey and must seize opportunities to deliver modernisation and efficiency in its operations and embed more robust financial management practices with momentum to protect its financial position and succeed in the medium to longer term.
- 5.3 The Council must maintain sufficient capacity within its permanent staffing establishment across service directorates and enabling services such as HR, Legal, IT and Finance in order to achieve the change required. This risk was highlighted by DLUHC/Grant Thornton, MIIAB, and CIPFA as part of its Financial Management Review during 2024/25. Ensuring that the Council has the appropriate skills, knowledge and capacity in place across service

directorates and enabling services such as finance, HR, ICT and legal services is critical to the Council's success. Permanent budget growth has been provided for these services in previous years with further growth proposed in 2026/27, alongside temporary funding for staff where required as part of the Transformation Programme.

- 5.4 Alongside the need to redesign and transform service delivery, there is a requirement to continue to review and strengthen the financial management arrangements within service directorates, including improved demand and cost modelling, forecasting and reporting, improved financial management skills amongst budget holders, as well as upskilling the finance team, and ensuring underlying IT systems, business processes and procedures are in place to support financial planning and strategic and operational decision making.
- 5.5 The nature of the demand pressures across the Council particularly in Children's Social Care have proved difficult to control and mitigate in previous years and term and controlling these are critical to securing financial sustainability of the Council.
- 5.6 Service Directors will be required to deliver fully on all their budgeted savings for 2026/27, whilst proactively managing operational income and expenditure to remain within the budget allocations for which they are responsible and accountable without exception.
- 5.7 In addition to ensuring appropriate resources within the service areas, this work will need appropriate engagement of the Finance Business Partnering function. Additional permanent budget resource was provided for the Finance Function as part of the approved 2025/26 budget to provide adequate resources to enable additional capacity and increased qualified accountancy staff to implement a new operating model and structure for the Finance Function. This was as part of the financial management improvement plan to ensure that it is adequate to meet the longer term needs of the Council and meet the statutory responsibilities of the S151 Officer (Section 114(7) of the Local Government Finance Act 1988 requires the local authority to provide its Chief Finance Officer with such staff, accommodation and other resources as are in his/her opinion sufficient to allow his/her duties under the Act to be performed) . Whilst this has improved the capacity through permanent recruitment of suitably qualified staff to a number of key posts, there is a requirement to maintain this increased capacity, as generally recruitment is difficult in this area due to lack of available suitably qualified and experienced accountancy staff within the local government sector.
- 5.8 Budget holders and decision makers within service areas must become more proficient in understanding and managing the financial consequences of their decisions and further training will be provided throughout 2026/27.
- 5.9 Finance Business Partnering needs to be continued to be developed further to provide greater forward looking, proactive analysis (in particular, in analysing the root causes of budget pressures), information, advice and constructive challenge to Directorate Management Teams. The Finance Business Partner is the S151 Officer's representative and should be positioned as a full and

equal member of the Directorate DMT, representing and advising Service Directors on behalf of the S151 Officer, and upholding the statutory responsibilities of the S151 Officer. This is necessary to establish a firm grip upon the financial management of Service Directorates and embed a strong financial management culture.

6. Robustness of Estimates

- 6.1 Budget estimates are based upon a combination of known data and assumptions of which some are within the organisation's control, and some are outside of its control. Therefore, it is not possible to predict the future with certainty and so the statement on robustness of estimates cannot give a 100% guarantee that expenditure and income will be incurred as expected in developing those budget estimates.
- 6.2 Whilst the multi-year Local Government Finance Settlement for 2026/27 to 2028/29 has provided some certainty around local government funding, indications are that allocations for 2027/28 and 2028/29 could potentially change as data used is updated, and the financial planning environment is still uncertain due to continuing increased service demand in a number of areas and relatively high inflation still existing generally. Additionally, there is still some uncertainty around local government funding post 2028/29 where currently limited information is available.
- 6.3 The S151 Officer has relied upon the following measures in order to meet the requirements for assessing the robustness of estimates:
 - Budgets have been aligned to the identified spending needs of the Council through the assessment of demand, pay inflation, non-pay inflation, contractual inflation and assessment of income sources as set out in the detailed proposed 2026/27 Budget and MTFP.
 - Director's assessment of expected demand for service provision over the term of the MTFP and testing this to assess the credibility of future growth pressures.
 - Sensitivity analysis on the assessment of service demand for the demand led statutory service areas to assess the adequacy of reserves.
 - A further review of income from fees and charges for discretionary services has been undertaken and a Fees and Charges policy which was first implemented in 2024/25 is proposed again for 2026/27 to provide a framework within which fees and charges should be managed.
 - Budget growth proposals have been subject to challenge and implementation plans have been required for all proposals.
 - The Overview and Scrutiny Board have been engaged in the review and challenge of budget proposals during the consultation period and a series of all member briefings and consultation events have been held to help shape budget proposals.
 - Budget proposals have been subject to public and staff consultation where appropriate and feedback has been factored into the finalisation of proposals.

- The use of in-year budget monitoring by Directors and engagement through monthly budget clinic sessions to understand and address the underlying drivers of cost and the recurrent vs non recurrent nature of pressures being experienced in year.
- The Capital Programme has been extensively reviewed to ensure Council resources are utilised within affordable limits, whilst also ensuring provision for essential expenditure required to support the delivery of the Council's objectives and priorities
- The Treasury Management position reflects the annual requirement to meet capital financing costs of £14.151m in 2026/27 which is equivalent to 7.1% of the Net Revenue Budget.

7 Proposed Council Tax 2026/27

- 7.1 In the Fair Funding Review 2.0 and the Provisional Local Government Finance Settlement the Government confirmed their intention that the maximum permissible Council Tax increase for 2026/27 without the need for a referendum would remain at 4.99% (which includes a 2.99% increase in the core (general) Council Tax and the continuation of the 2% Adult Social Care precept). The Government will assume that local authorities will increase the Council Tax by the maximum permissible in their calculation of the Council's Core Spending Power, which is a measure of how much the Government believes local authorities can raise from Council Tax and that they have available to spend.
- 7.2 The Mayor and Executive are however considering the increased estimated Government funding proposing that the maximum permissible Council Tax increase of 4.99% is not adopted in 2026/27. Instead, the Mayor and Executive are proposing that there is no increase in core (general) Council Tax for 2026/27 but are proposing that the Council Tax is only increased for the 2% Adult Social Care Precept for 2026/27 to fund the increased costs of statutory duties within Adult Social Care. This will financially help residents and help to continue the aims of the Fair Funding Review 2.0 in equalising Council Tax and lessen the gap that currently exists. Decisions on future years Council Tax increases will be confirmed later when more certainty is available on Government funding over the medium term.
- 7.3 The Council's S151 Officer would recommend that the Council increases the Council Tax each year by the maximum allowed by the Government, due to the fact that the Government will assume that the maximum permissible increase of 4.99% is applied and will use this in their calculations of Government funding to the Council and also in any potential future evaluation of the Council's finances. It should be noted that the lost income arising from any increase in Council Tax below the maximum allowed will be permanently lost forever in future years. If a 2% increase in Council Tax is applied in 2026/27 this will mean that approximately £2.250m p.a. of Council Tax income is lost in 2026/27 and each year in the future. This means that approximately £9m of Council Tax income is permanently lost forever to the Council over the period of the MTFP from 2026/27 to 2029/30.

- 7.4 However, whilst not recommended, given the improved financial position and financial resilience of the Council and the improved governance and budget spending controls that exist and the amount of the estimated increased funding available to the Council it is possible to financially accommodate a decision by the Mayor and Executive for a lower than maximum increase in Council Tax to be proposed for 2026/27.
- 7.5 As S151 Officer an increase in Council Tax below 2% in 2026/27 would not be acceptable as this would mean a lack of contribution towards the increased costs of Adult Social Care which the Government have assumed in their calculation of the funding available to the Council, and also in my view this would potentially open the Council up to increased scrutiny of the Council's financial position by the Government.
- 7.6 Also, at this stage it is recommended that no decisions are made in relation to 2027/28 and 2028/29 Council Tax increases, and these should be made later when there is more certainty on the financial position.

8 Governance

- 8.1 The Budget has been prepared with the full involvement of the Leadership Management Team led by the Chief Executive and has engaged fully the Elected Mayor and the Executive over many months and iterations of budget proposals.
- 8.2 Under the Council's Constitution, financial management is delegated to each Director, and they are required to manage expenditure within approved resources allocated to their control.
- 8.3 All senior officers have received relevant training the Constitution and Contract and Finance Procedure rules and are required to comply fully with these procedures. Further training will be provided during 2026/27.
- 8.4 Monthly budget monitoring, forecasting and reporting arrangements will continue throughout 2026/27, and essential spending controls including vacancy management and contract compliance will remain indefinitely.
- 8.5 Savings delivery will be monitored monthly and reported quarterly as part of the quarterly budget monitoring report to ensure savings delivery remains on track.
- 8.6 An enhanced programme management framework linked to continuous improvement will be introduced in 2026/27 and operate over the period of the medium-term financial plan.
- 8.7 It is planned that joint performance and budget monitoring quarterly reporting will be established during the first quarter of 2026/27 to provide a greater link between finance and performance
- 8.8 Realisation of capital receipts from asset sales is critical to funding delivery of the Transformation Programme and the Capital Programme.

9 Accounting Practice

- 9.1 The annual audit report by the Head of Internal Audit (Veritau) gave a Reasonable Assurance conclusion in July 2025 in relation to the framework for governance, risk management and control operating in the Council. In giving their opinion, they highlighted that there were no significant control weaknesses which, in the opinion of the Head of Internal Audit, need to be considered for inclusion in the Council's annual governance statement.
- 9.2 It was noted that within that assessment, the conclusion of the most recent internal audit reports relating to core financial systems has given substantial assurance on the audit of the main accounting system, debtors and payroll, and for creditors, which gives the S151 officer some degree of assurance over the control environment and completeness and accuracy of financial reporting arrangements for core financial systems that impact upon budgeting and financial reporting.
- 9.3 Issues were however identified in the audits of direct payments and domestic abuse. Direct payments was reported to Audit Committee in December 2024 and details of the domestic abuse audit were contained within their report to Audit Committee in July 2025. Both audits received an opinion of Limited Assurance and contained a number of findings rated as Significant. Veritau recognised in their report that the Council had provided detailed action plans to address these issues and whilst the findings are significant for the service and should be addressed as soon as possible they did not believe they indicated wider control issues. Therefore, Veritau did not recommend them for inclusion in the Council's annual governance statement.
- 9.4 The annual audit report by the Council's external auditors (Mazars) for the year ended 31 March 2025 presented to Audit Committee in December 2025 identified a number of significant weaknesses in Value for Money arrangements and recommendations for improvement as follows:
- Financial sustainability - that the Council was reliant on EFS to set a balanced budget for 2024/25
 - Financial sustainability – that Council had a significant and growing DSG deficit
 - Performance management arrangements - that a new Council Plan 2024-27 had been developed which articulates the Mayor's four priorities and outlined the approach that will be taken to address those priorities. Mazars however identified a lack of evidence of a clear link between the Council Plan priorities in 2024/25, the strategic workplan and the detailed outcomes and measures reported

The report did note that progress had been made and that a number of actions had been taken but they recommended further work was still required.

10 Budget Delivery

- 10.1 The budget development process for 2026/27 required the production of a summary business case in relation to every budget proposal for service demand or budget growth which captured the key financial information, impact upon service users, delivery timescale, and any risks around delivery.
- 10.2 All transformational expenditure which is to be funded by Flexible Use of Capital Receipts (FUoCR) must be approved in line with the agreed process, with a FUoCR funding form required to be completed. Any expenditure will be subject to governance arrangements as in the FUoCR Strategy in Appendix 10. Transformation projects will be subject to programme and project management in accordance with the Performance Management governance arrangements to provide assurance of delivery.
- 10.3 It is critical that the Leadership Management Team and Executive have an unwavering focus upon ensuring the following during 2026/27:
- delivery of budgeted savings
 - development and implementation of further transformation, efficiency and demand management plans
 - strict cost control including on vacancies, other staff costs and expenses,
 - compliance with Contract Procedure Rules to ensure expenditure is 'on-contract' and appropriate use and control of purchase card expenditure.
 - continuation of monthly budget monitoring, forecasting and challenge sessions to ensure that proactive arrangements are in place to address adverse variances as they emerge
 - continuation of quarterly member led budget challenge sessions (monthly for Children's Care) and review sessions with full engagement of portfolio holders in overseeing financial performance
 - integration of operational and financial management processes that enable the development of more robust data driven demand and cost models which are the foundation for effective financial planning, forecasting, monitoring and control.
- 10.4 The S151 Officer has continued to maintain a centrally held Corporate Contingency budget of £0.995m for 2026/67 to utilise against any additional service demand which may occur above that provided in the budget and to avoid the use of reserves for this purpose.
- 10.5 The S151 Officer has made financial provision for a Savings Delivery Risk Reserve of £1.377m in 2026/27, due to the following factors:
- the challenging nature of the savings programme which is predicated heavily upon new transformation, redesign and demand management measures
 - the fact that programmes of this magnitude can take a period of time of implement
 - the Council's potential lack of sufficient resources and capacity to ensure delivery with momentum
- 10.6 It is anticipated that the amount of transformation expenditure will be up to £5.789m in 2026/27 funded from the Flexible Use of Capital Receipts

(FUoCR). This is included in the Flexible Use of Capital Receipts Strategy for 2026/27 in Appendix 10 and this will be presented for consideration and approval by Council as part of the budget report on 18 February 2026. It is essential that the capital receipts are received during the year to fund the Transformation Programme and the Capital Programme.

11 Key Risks impacting Budget Delivery

11.1 Demand for Children's Social Care

As described in the MTFP, the Council continues to experience exceptionally high levels of demand, complexity, and cost of children's social care, particularly in relation to its reliance upon external residential provision to meet the needs of children in its care. The budget has been increased from £31m in 2019/20 to £57m in 2025/26, with a further proposed increase of £3m for demand in 2026/27 and £3m p.a. for 2027/28 and 2028/29, and a further £1.5m in 2029/30 based upon further expected pressures.

11.2 Demand and cost of Adult Social Care

Costs are increasing due to increased demographic demand pressures (in particular, in residential care), together with expenditure required so that services provided comply with statutory requirements. A total of £6.782m has been included in the MTFP for 2026/27 rising to £17.754m in 2029/30. This includes a total of £8.277m over the period of the MTFP for the increased charges from commissioned care providers due to increases in the National Living Wage rates.

There is also a risk in future years due to the national Adult Social Care (ASC) Fair Pay agreement which is planned to be implemented in 2028. This is a government initiative to set legally binding minimum standards for pay, working hours, and conditions for the entire adult social care (ASC) workforce through sector-wide bargaining, aiming to improve recruitment and retention by creating industry-wide pay scales and better terms. Local authorities could potentially incur substantial additional costs from the implementation of this and there is a risk that without adequate funding this would be a financial pressure for local authorities. The 2025 Spending Review allows for an increase of over £4 billion of funding available for adult social care in 2028/29, compared to 2025/26. As part of this, £500 million has been earmarked for improving pay, terms and conditions, and other matters such as - potentially - training and development for adult social care workers as part of the first ever fair pay agreement. This additional government funding will be paid to Councils to reflect the increased cost of care. However, there is still some uncertainty as to whether this will be sufficient to cover the full costs arising from the implementation of this.

11.3 Integrated Transport Service

The budget is for home to school transport for children and transport for vulnerable adults. Whilst additional budget of £0.500m has been provided in 2026/27 to address the increasing numbers and complexity of Special Educational Needs and Disabilities (SEND) pupils requiring transport, there is a need to continue to monitor this area closely.

11.4 Strategic Commercial Investments

There are potential shortfalls on income from strategic commercial investments that the Council holds, including office accommodation and shopping centres, arising from potential tenancy changes and generally due to the current economic climate. Whilst an additional £1.000m p.a. is being provided from 2026/27 there is a danger that this will be insufficient if a number of major tenants cease to end their leases or not renew the current leases.

11.5 Homelessness

In line with the national issue affecting many local authorities across the country, the Council is experiencing an increase in the number and complexity of homelessness cases and a need for temporary accommodation. This is coupled with an increase in the cost of provision, especially in relation to bed and breakfast accommodation. The Local Housing Allowance (LHA) within Housing Benefit Subsidy is proving to be insufficient to meet these costs resulting cost pressure to the General Fund budget. As additional budget has been provided in recent years for this there is currently not an issue with the budget, but there is a need to monitor this closely for further increases.

11.6 Waste Disposal Costs

This budget has been reviewed over the period of the MTFP taking into account latest estimates on tonnages and costs per tonne. This has included evaluation of the effect of the introduction of Simpler Recycling in 2026/27 on waste tonnages. There is risk of a budget pressure if tonnages do not reduce or costs increase as planned. It should also be noted that whilst outside the current MTFP period there is a new waste disposal contract and Tees Valley Energy Recovery Facility planned to operate from 2030 which could impact on the price per tonne of waste disposed that the Council has to pay.

There is also an unknown risk arising from the planned introduction of the Emissions Trading Scheme (ETS) in 2028/29. This will increase waste disposal costs for local authorities, particularly those operating energy-from-waste (EfW) facilities or incinerators. Whilst it is currently estimated that this will cost £1m p.a. from 2028/29 and this has been included in the MTFP, it remains a risk until further information becomes available. Extended Producer Responsibility funding will be used to offset the costs of ETS and other waste costs such as those from Simpler Recycling and there is therefore also a risk if EPR funding ceases.

11.7 Delivery of Savings

Whilst the estimated Government funding forecast to be available to the Council means that the Executive is currently able to propose that there is no requirement to implement any further additional budget savings in 2026/27 and the rest of the MTFP period, it needs to be noted that here is also a high level of budget savings already planned to be made over the MTFP period in savings approved in previous years, including additional budget savings totalling £3.517m relating to 2026/27, which were already built into the MTFP. The MTFP assumes that all budgeted savings will be fully achieved or

replaced with alternative savings. This creates a risk in that these are not fully achieved or replaced with alternative savings of a similar value creating pressures on the budget and requiring the use of low levels of reserves. The Savings Delivery Risk Reserve is available to mitigate any budget pressure arising from this.

11.8 Insured and uninsured risks

The Council holds an Insurance Fund Provision totalling £2.6m at 31 March 2025 for future insurance claims received but not yet paid. In addition, an annual budget contribution of £0.5m is provided to the Insurance Fund Reserve to address claims received and paid in year. Regular actuarial reviews take place to assess the level of provisions and reserves that are required.

11.9 Internal Borrowing

The Council adopts a policy of optimising its treasury management activities to utilise internal borrowing from its cash balances where it is prudent to do so. This and the associated costs of external borrowing are factored into the current capital financing forecast cost of £14.151m for 2026/27.

11.10 Dedicated School Grant (DSG) deficits

As detailed in the Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2025/26 report to Executive and in Appendix 12 of this report, the Council DSG deficit is predicted to increase by £9m during 2025/26 and it is currently forecast that there will be a total cumulative DSG deficit of £31.213m at 31 March 2026. The pressure has been driven up by Education and Health Care Plans (EHCPs) increasing. The position will be closely monitored during 2026/27 and reported through quarterly budget monitoring.

The Government has stated that the Dedicated Schools Grant (DSG) statutory override which instructs Councils to account for the DSG negative balance in a separate reserve and not to fund it by using its General Fund will continue to 31 March 2028.

The Government has confirmed that the Schools White Paper that is to be published early in 2026 will include plans for reform of special educational needs provision. It also announced that further details on plans to support local authorities with historic and accruing Dedicated Schools Grants deficits and conditions for accessing such support will be provided later in the Local Government Finance Settlement process. To date no further information has been received regarding this.

Significant uncertainty therefore remains about the future of SEND provision and the associated deficits, including what matters might be covered. In addition, the timing and content of the proposed reforms to SEND provision will have a significant impact on the remaining periods in which local authorities remain responsible for funding these services and in which deficits are expected to continue accumulating.

In addition, even if funded by central government, it is not clear what role local authorities will continue to play as key partners in complex local delivery systems including partners in education (state and private), healthcare, children and families, and transport providers. Transitions for those who might require continuing support as working age adults with learning disabilities will continue to need careful operational and financial planning.

Therefore, whilst the Government recognises the issue as mentioned above there is still a high level of the uncertainty in relation to a Government funding solution and as the current statutory override has only been extended until the end of 2027/28 this presents a significant risk to the Council's financial position. This is as the forecast DSG deficit at 31 March 2026 of £31.213m is greater than all of the Council's forecast usable revenue reserves of £25.937m at 31 March 2026, and the DSG deficit is currently forecast to increase in future years of the MTFP by more than the forecast increase in reserves. Like many local authorities, without a solution from the Government, this could result in the Council being subject to a s114 Notice in the future.

The DSG risk is included in the Council's Strategic Risk Register and was reflected in the Annual Governance Statement for 2024/25 and will be for 2025/26 as well.

The DSG deficit has potentially resulted in a capital financing cost to the Council. The effect of expenditure being greater than income on this grant has depressed overall cash balances, incurring an opportunity cost of the investment income that could have been earned.

Further details of the DSG budget and DSG deficit and the management actions being taken following the completion of the Delivering Better Value programme to manage the deficit are provided in Appendix 12. The Council must continue to demonstrate strong leadership including engagement with all local system partners and apply robust financial control and operational; rigour so that all expenditure and related deficits are managed appropriately.

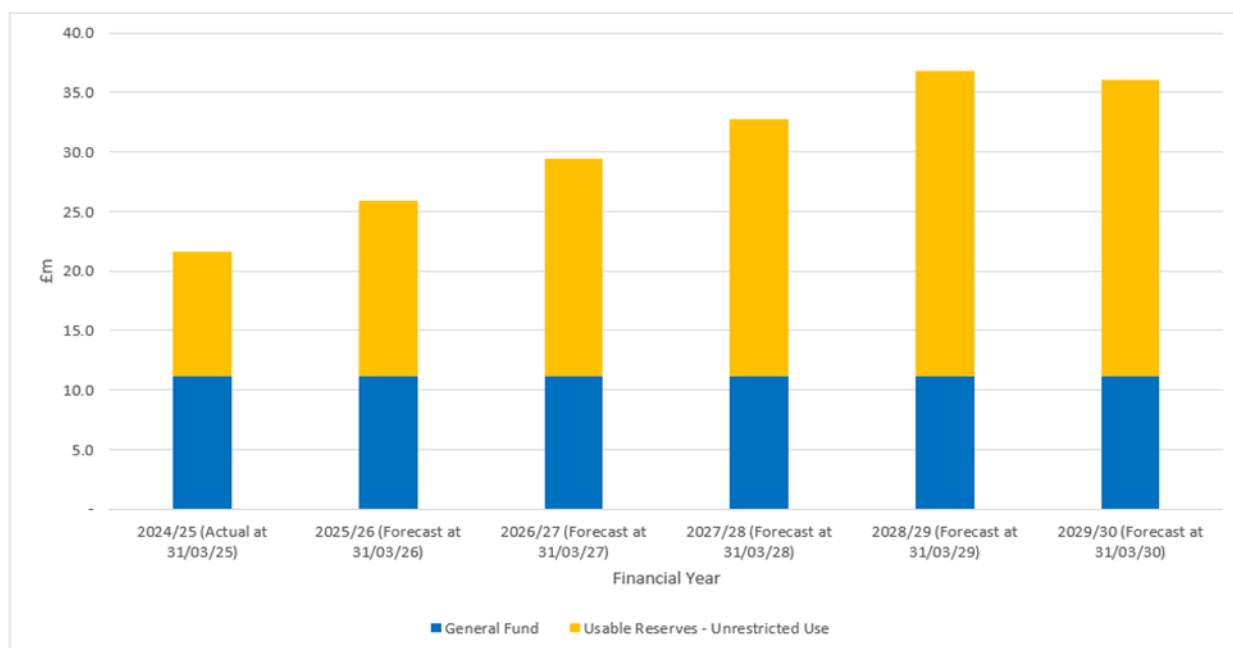
11.11 Utilisation of Reserves

The proposed budget for 2026/27 does not place any requirement or reliance upon the use of revenue reserves to balance the revenue budget position and this principle will be upheld over the term of the MTFP.

12 Adequacy of Reserves

- 12.1 The level of Council reserves has improved considerably during 2024/25 and 2025/26 now are forecast to stand at £11.100m for General Fund and £14.837m for useable unrestricted reserves on 31 March 2026 (as per Revenue and Capital Budget – Forecast Year-end Outturn position at Quarter Three 2025/26 report), however there are still at a relatively low position compared to other local authorities. The Council still has one of the lowest levels of total reserves as a proportion of its net revenue expenditure when compared to all unitary councils in England as illustrated in Figure 1 of the Reserves Policy in Appendix 7.

- 12.2 The Council must aim to rebuild its unrestricted revenue reserves over the period of the MTFP as outlined in the Reserves Policy in Appendix 7 of the budget report.
- 12.3 The Financial Reserves Policy at Appendix 7 sets out the plans to rebuild and maintain the level of reserves over the 2026/27 to 2029/30 period of the MTFP as reflected below to continue the recovery of the Council's financial position and rebuild its financial resilience:



- 12.4 Following a review of the Reserves Policy (Appendix 7), the minimum level of the General Fund Balance, the S151 Officer recommends that the minimum level of the General Fund Balance will be set at a minimum of £11.1m over the MTFP period to 2029/30. In the 2026/27 proposed budget the level is 5.5% of the net revenue budget.
- 12.5 Within usable unrestricted revenue reserves, the Financial Resilience Reserve (FRR) will continue to operate as is to meet unforeseen financial pressures that cannot ultimately be managed within directorate budgets. and to strengthen the Council's financial resilience given the uncertain environment within which the Council is managing its operations and increasing demand for statutory services. It is proposed that the estimated Collection Fund Surplus for 2025/26 of £1.922m is transferred to this Reserve. The S151 Officer recommendation is that the FRR is required to be maintained to at least £10m in 2026/27 and at least £20m by the end of 2029/30 to strengthen the Council's financial resilience and to provide sufficient resilience to support the management of risks in the delivery of the revenue budget over the current MTFP period.

- 12.6 Also, a new Reserve is to be established from 2026/27 to manage budget fluctuations and to smooth the short-term impact of funding changes and cost pressures over the MTFP period. As mentioned in paragraph 2.5 of the budget report there is uncertainty regarding Government funding for 2029/30 onwards and based on current projections there is a need to utilise this new Reserve to transfer additional Government funding estimated to be received in 2027/28 and 2028/29 to 2029/30, to enable a balanced budget to be set for 2029/30. This Reserve will be reviewed regularly over the MTFP period as further information becomes available.
- 12.7 It is essential that Directorates exercise strict management of expenditure within approved budgets in 2026/27 with no overspending, which will detract from achieving the planned rebuilding of reserves.