East Herts Council Report

Joint Meeting of Scrutiny Committees

Date of meeting: Wednesday 28 January 2026

Report by: Councillor Carl Brittain – Executive Member for Financial Sustainability

Report title: Draft Budget 2026/27 and Medium Term Financial Plan 2026-2031

Ward(s) affected: All

Summary – This report provides members with an updated Medium Term Financial Plan (MTFP) for the period 2026/27 to 2030/31, building on the version presented to Executive in October. It reflects the implications of the December finance settlement and incorporates a range of other adjustments, including revised forecasts, updated assumptions, and budgetary refinements.

The report also sets out how the funding gap identified in the October Executive MTFP has been addressed, detailing the savings and changes that have enabled a balanced position to be achieved for 2026/27. It also includes the fees and charges to be agreed. Finally, it presents the draft budget for 2026/27 for Members' consideration.

RECOMMENDATIONS FOR JOINT MEETING OF SCRUTINY COMMITTEE:

a) **That Members examine and comment on the Draft Budget 2026/27 and Medium Term Financial Plan 2026-2031 contained within the reports.**

1. Purpose

1.1. The Medium Term Financial Plan (MTFP) that was approved in March 2025 had been updated to reflect the evolving financial landscape and key developments since its adoption. The latest (October 2025) refresh incorporated several significant changes:

- The confirmed pay award for 2025/26 was 3.2% slightly above the 3% assumptions in the original MTFP, adding pressure to the staffing budget.
- In-year pressure reported at Quarter 1 highlighted the impact of the recent revaluation of business rates on the council's assets.
- The review of the savings programme over the medium-term resulted in the removal of over £0.5Million of savings from future years that are no longer considered achievable.
- Two new growth bids been incorporated – one for an additional HR Officer to support organisational resilience, and another reflecting a reduction in the projected BEAM surplus, reverting to the 2025/26 position.

1.2. These updates reflect the Council's commitment to maintaining a realistic and deliverable financial strategy amid ongoing inflationary pressures and constrained funding.

1.3. This work takes place against a backdrop of prolonged financial uncertainty, driven by one-year settlements that have limited strategic planning and hindered preparation for major structural changes, including Local Government Reorganisation (LGR). The recent announcement of a multi-year settlement through to 2028/29 is therefore a welcome development, providing stability and enabling Members to take a longer-term view in shaping priorities and preparing for governance transition.

1.4. The finalisation of the Fair Funding Review (FFR 2.0) also marks a significant milestone in funding distribution. While East Herts faces a reduction in allocation, the impact is less severe than projected in October, allowing for more measured planning.

1.5. The Council's financial planning continues to be underpinned by the Corporate Plan and its LEAF priorities, ensuring decisions on spending and savings remain aligned with strategic objectives.

2. Economic Outlook and Policy Framework

2.1. The Autumn Budget 2025, delivered by the Chancellor on 26 November, was set against a backdrop of persistent fiscal pressures, subdued economic growth, and historically high public debt. The Office for Budget Responsibility (OBR) forecasts GDP growth of 1.3% for 2025/26, with growth stabilising at 1.5% per year through to 2029/30. Inflation, while easing, is expected to remain above the Bank of England's 2% target in the near term, at 3.5% for 2025/26, before returning to target levels by 2027/28. Interest rates remain elevated, increasing borrowing costs across the economy.

2.2. To maintain the government's fiscal rules, the Chancellor announced a further round of tax-raising measures worth £26 billon, following last year's £36 billon. Taxation as a share of GDP is set to reach an all-time high of 38% by 2029/30, while public spending remains elevated at around 44–45% of GDP. Despite these measures, the OBR suggests the government would have met its fiscal targets without further action, but the Chancellor opted to increase the fiscal headroom to £22 billion (0.6% of GDP) to provide greater resilience against economic shocks. The Budget's main focus was on restoring fiscal stability while maintaining investment in priority areas such as housing, energy transition, and public services.

Local Government Impact

2.3. For district councils, the Autumn Budget 2025 introduces a new High Value Council Tax Surcharge on properties over £2 million from April 2028, which will be collected by local authorities but ultimately benefit central government, with no increase in local spending power. Business rates reforms include reduced multipliers for retail, hospitality, and leisure properties, funded by a higher rate for high-value properties, alongside transitional reliefs and some extended retention pilots.

2.4. While the Budget also references a visitor levy for mayoral authorities and a transfer of SEND funding responsibilities to central government, these measures have little direct effect on district councils. Overall, the Budget offers limited new resources for districts and does not address the sector's core funding challenges.

Local Government Finance Settlement Policy Statement 2026/27 to 2028/29

2.5. On 20 November 2025, the Minister of State for Local Government and English Devolution published the policy statement for the 2026/27 to 2028/29 local government finance settlement. It sets out a new needs-based funding system following the Fair Funding Review 2.0, a multi-year settlement for greater certainty, and significant simplification of funding streams. The statement also confirms a full reset of the business rates retention system in 2026/27 and maintains existing council tax referendum principles, allowing shire districts to increase council tax by up to 3% or £5 (whichever is higher) per year without triggering a referendum.

2.6. For district councils, the Policy Statement is expected to result in a relative reduction in funding for most authorities, as updated needs formulas and changes to the tier split shift resources towards counties and metropolitan areas. While transitional protections will ensure that funding reductions are phased in over three years—typically with a 95% funding floor—many districts will still face a gradual decrease in their allocations.

2.7. Additionally, grants such as the Homelessness Prevention Grant will be rolled into new consolidated funding streams, though the precise allocations for each district remain unknown until the provisional settlement is published. Overall, there remains significant uncertainty for district councils until the detailed figures are released.

3. Local Government Finance Settlement and Funding Allocation

3.1. On 17 December 2025, the Government published the Provisional Local Government Finance Settlement for 2026/27, accompanied by indicative figures for 2027/28 and 2028/29. This marks the most significant redistribution of funding within the sector for at least 25 years, following the implementation of the Fair Funding Review 2.0 and a full reset of the Business Rates Retention System. The key headlines being:

- **Fair Funding Review 2.0**: Major changes to the funding formula now place greater weight on deprivation and population, with less emphasis on remoteness.
- **Grant Simplification**: Multiple grants have been consolidated into four main streams, aiming to simplify funding.
- **Business Rates Reset**: All accumulated business rates growth has been reset, redistributing resources based on the new formula.

- **Council Tax**: The settlement assumes councils will apply the maximum permitted increases, making council tax a larger share of local funding.
- **Transitional Protection**: New funding floors and phased arrangements will cushion the impact of changes.
- **Recovery Grant**: The Recovery Grant continues for three years.

3.2. The 2026/27 settlement provides a three-year funding framework, but only the first year is statutory, with subsequent years remaining indicative and subject to change. This means that while there is some increased certainty for medium-term planning, authorities must remain cautious, as future allocations could still be revised.

3.3. There is significant redistribution between authorities as a result of the new funding formula and business rates reset. More deprived and urban areas generally see larger increases in funding, while many shire districts and rural councils face below-average increases or even reductions in cash terms. This shift reflects the government's intention to target resources towards areas of greatest need, but it also creates challenges for councils that may experience a relative loss of funding.

3.4. The complexity and late timing of the settlement announcement have made budget-setting for 2026/27 particularly challenging. Authorities have had limited time to analyse the detailed figures and assess the impact of rolled-in grants, the business rates reset, and transitional protection arrangements. This ongoing uncertainty makes it difficult to plan with confidence, especially for services that rely on multi-year investment or where funding streams have been consolidated or reallocated.

Core Spending Power (CSP)

3.5. Core Spending Power (CSP) is the government's headline measure of the total resources available to a local authority each year. It brings together the main sources of council funding—such as government grants, retained business rates, and council tax—into a single figure, providing a consistent way to compare overall funding levels year-on-year

3.6. East Herts' CSP is forecast to increase modestly over the next four years, rising from £20.60m in 2024/25 to £21.8m by 2028/29—a total increase of 5.8%. However, when council tax is excluded, CSP falls from £7.9m to £6.8m, a reduction of 14%. This reflects the growing reliance on council tax to maintain overall funding levels, as government grant and baseline funding continue to decline.

Year	CSP £M	CSP % change	Excl. CT £M	Excl. CT % change
2024/25	20.6		7.9	
2025/26	21.1	+2.2%	7.9	-0.2%
2026/27	21.5	+2.3%	7.8	-1.2%
2027/28	21.7	+0.7%	7.4	-5.8%
2028/29	21.8	+0.5%	6.8	-7.3%
Average 24/25 to 28/29		+5.85%		-14.0%

Baseline Funding Level

3.7. The Baseline Funding Level (BFL) is a key component of CSP. It represents the share of funding that a council receives through the Business Rates Retention System and is one of the main government grants included in the CSP calculation alongside council tax and other grants. The BFL is intended to reflect each authority's share of national business rates income, adjusted for local circumstances.

3.8. For 2026/27, East Herts' BFL within the settlement is £2.657 million. Because East Herts' assessed business rates capacity is higher than its assessed needs, this funding is paired with a significant tariff payment back to Government. The table below shows the settlement determination for East Herts.

3.9. It is important to note that these figures are provisional because, following the reset of the business rates system, the Government has had to make a number of assumptions about each authority's business rates position for 2026/27. Until the actual data is received—through the NNDR1 return in January 2026 and a bespoke data collection in summer 2026—the settlement figures are based on estimates. Once the true position is known, the

Baseline Funding Level and tariff will be adjusted accordingly to ensure the final settlement accurately reflects East Herts' actual business rates income for the year. Any changes will be incorporated into the 2027/28 settlement and members will be updated as necessary.

	2026/27 £'000
Gross Rates Payable	74,537
Appeals and Bad Debt Provision	(3,242)
Cost of Collection	(204)
Renewables deduction	(91)
Business Rates Baseline (@ 40%)	**28,400**
Baseline Funding Level determined by Government	2,657
Tariff to be paid	**25,743**

Revenue Support Grant

3.10. Revenue Support Grant (RSG) is a general, non-ringfenced grant from central government and forms a key part of CSP. It helps fund local services and is allocated using a national formula based on each council's needs and resources.

3.11. For 2026/27, East Herts' RSG allocation is £4.27 million, as set out in the provisional multi-year settlement. This grant, together with the Baseline Funding Level (BFL) from business rates, makes up the Fair Funding Allocation within CSP.

£ Million	**2026/27**	**2027/28**	**2028/29**
RSG	4.274	3.672	3.041

3.12. It is important to note that the multi-year settlement sets out a planned reduction in RSG year-on-year, with funding levels decreasing to reflect the government's Fair Funding Review and the move towards the final Fair Funding position by 2028/29. This means that, over the settlement period, RSG will form a progressively smaller share of the council's total resources, increasing the reliance on council tax and other local income streams.

Homelessness, Rough Sleeping and Domestic Abuse

3.13. From 2026/27, the government is consolidating major homelessness and rough sleeping grants into a single ring-fenced grant, supporting a shift from crisis response to prevention and holistic support. The grant is designed to give councils flexibility to address local needs, with funding certainty over three years. Temporary accommodation funding is now rolled into RSG, so the figures below focus on prevention, relief, staffing, and support for rough sleeping and domestic abuse. The allocation for East Herts is shown in the table below.

£'000	2026/27	2027/28	2028/29
Total Grant	901	987	1,022
Of which: Homelessness & Rough Sleeping	864	949	984
Domestic Abuse	37	38	38

3.14. The table below shows the provisional finance settlement allocations by grant.

£ Million	2026/27	2027/28	2028/29
Baseline Funding	2.657	2.718	2.773
Revenue Support Grant	4.274	3.672	3.041
Fair Funding Allocation	**6.931**	**6.390**	**5.814**
Council Tax	13.716	14.328	14.967
Homelessness, Rough Sleeping and Domestic Abuse	0.901	0.987	1.022
Total CSP	**21.548**	**21.705**	**21.803**

Council Tax Base

3.15. The Council Tax Base for 2026/27 has now been formally calculated and set at **65,819.15 Band D equivalents** for the district. This figure reflects the latest estimates of new properties coming into use, adjusted for discounts, exemptions, and the anticipated impact of the Council Tax Support Scheme.

3.16. In the MTFP presented in October, the baseline assumption for tax base growth from 2026/27 onwards was set at an annual increase of 500 Band D equivalent properties under the medium growth scenario.

3.17. This has resulted in the tax base being 5 band D equivalent properties higher against the MTFP and will generate an additional £1,000.

3.18. The policy statement confirms that the council tax referendum limit will remain at 2.99% for 2026/27, in line with the assumptions within the Medium-Term Financial Plan (MTFP). This results in a Band D council tax of £207.03 for 2026/27.

3.19. Based on the updated council tax base, the agreed council tax support scheme, and a proposed 2.99% increase in the East Hertfordshire precept for 2026/27, the total projected income from council tax will be £13.627 million. This is lower than the level assumed by the Government in its provisional finance settlement for 2026/27.

4. New Budget Pressures

4.1. As part of the ongoing budget review process, several emerging pressures have been identified and have now been incorporated into the latest iteration of the MTFP and the 2026/27 budget. These pressures reflect a combination of external factors, and local demand trends. The following tables shows the proposed new and existing pressures (within 2025/26 and on-going).

New Pressures	Cause of Pressure	Amount £
Members Allowance	Revised scheme was approved by Council in October 2025 following Independent Remuneration Panel review; changes effective April 2026	11,000
Cloud 9 App	A new mobile app that connects residents to the Council’s waste service for bin collections and recycling, while also offering additional features such as reporting issues and accessing local information.	20,000

New Pressures	Cause of Pressure	Amount £
Interest charges	Borrowing costs expected to rise further; advisors recommend increasing projected average interest rate by 0.5% to reflect market conditions.	140,000
Broxbourne – Performance Support	A new growth pressure has arisen to fund Broxbourne Council’s support for performance monitoring at East Herts, reflecting the need for dedicated resource to coordinate and report on key performance indicators and progress against the Corporate Plan.	15,000
Increase projected pay award budget	The pay award projection for 2026/27 has been increased from 3% to 4% to reflect the “higher for longer” position on inflation, ensuring the Council’s budget remains resilient against ongoing wage pressures.	170,000
	Total New Pressures	**356,000**

Existing Pressures	Cause of Pressure	Amount £
Rapier House Income	No rental income is expected to continue due to the lack of prospective tenants. Consequently, the income budget will be removed, and a business case will be developed to explore alternative uses for the property.	115,000
Sale of Lime Kiln (Northgate End)	Upon completion of the sale of Lime Kiln, the council will no longer receive income from Launchpad, this will be offset by the costs we currently incur in operating the building.	64,000
IT Licences	With the continual reported pressure during 2025/26, a review of IT licences has been	75,000

Existing Pressures	Cause of Pressure	Amount £
	undertaken, and the resulting budget increase reflects the rising costs of essential software.	
Contribution from Other Authorities	As income from other councils has ceased due to the service no longer being provided, the income budget will be removed within Licensing and Improvement & Insight services.	77,000
Repayment of Grant	Following a review of the budget, no further grants were expected to be repaid therefore budget being deleted.	19,000
	Total Existing Pressures	**350,000**

4.2. The total of new pressures (£356,000) and existing pressures (£350,000) amounts to £706,000 before consideration of Local Government Reorganisation (LGR) costs. This £706,000 has been built into the MTFP under the cost of services. In addition, further provisions will be considered to address LGR-related costs as outlined in subsequent sections.

4.3. Following the submission of East Hertfordshire's proposal to government regarding options for Local Government Reorganisation (LGR), councils within Hertfordshire are now reviewing and determining the level of funding each authority will require for 2026/27 up to vesting day. It is anticipated that there will be further one-off costs associated with the implementation of LGR, including pension strain. The proposal is to provide an initial £1 million of funding over two years (20267/27 and 2027/28) for these LGR-related costs, with £250,000 per year from revenue and £250,000 per year from earmarked reserves.

4.4. In addition to the LGR-related funding, over the next two years £318,000 will be placed in a reserve each year—resulting in a total of £636,000—to help smooth out any future increases in pension costs arising from the next Triennial review, or to support any redundancy costs that may fall on the Council as a result of LGR.

4.5. Furthermore, a contingency of £203,000 is proposed for 2026/27 to address any additional pressures that may arise—such as those relating to the BEAM service—until a new business plan is implemented.

5. Funding the Gap: Addressing Existing and Emerging Pressures

5.1. To address the current budget gap (from the October MTFP) of £531,000 for 2026/27, the Leadership Team has worked closely with services to identify a range of proposed savings and income generation initiatives. These proposals protect frontline services while ensuring financial sustainability. Members are asked to consider and approve these measures as part of the budget-setting process, and to consider how the further pressures identified above (in section 4) will be funded. The proposals include:

- Income Generation: increased income from rental of assets, and additional government funding through Extended Producer Responsibility (EPR).
- Fees and Charges Review: aligning charges with market rates and inflation.
- Service Efficiency Reviews: savings through partnership working.
- Pension Fund Outcome: incorporating the financial impact of the latest triennial valuation of the pension fund.

<u>Income Generation</u>

5.2. The Council has entered into two new arrangements to support income generation: leasing out the top floor of Northgate End Car Park and permitting the installation of lockers in several of the Council's car parks. These initiatives have generated an additional £66,000 per year in income for the Council.

5.3. The Council has received confirmation of its Extended Producer Responsibility (EPR) Grant for packaging grant allocation for 2026/27 and can increase the budget back to the 2025/26 level.

5.4. The latest MTFP had prudently assumed a 10% reduction in the EPR grant each year, reflecting the expectation that funding would decrease over time as producers improve their packaging and reduce waste. As a result of the confirmed allocation, an additional £143,000 has been included in the 2026/27 budget, compared to previous projections.

Fees and Charges

5.5. Fees and charges are set in accordance with key principles to ensure financial sustainability, transparency, and fairness. Charges are reviewed annually to reflect inflation and cost recovery, with an emphasis on simplicity, clarity, and alignment. Where full cost recovery is not applied, this is supported by a clear policy rationale. For 2026/27, fees and charges are presented in three distinct areas: garden waste, parking (including tariffs and Traffic Regulation Orders), and other service fees income. This approach ensures that each area is considered on its own merits, with adjustments made to support both the Council's financial objectives and the needs of residents and service users.

5.6. **Garden Waste** - In line with the Council's principles for setting fees and charges—cost recovery, inflation alignment, and transparency—the garden waste subscription fee is proposed to increase from £59 in 2025/26 to £61 in 2026/27, a 3.4% rise. This is below the inflation rate (September CPI being 3.8%) for 2026/27, reflecting a measured approach given anticipated cost pressure.

5.7. The MTFP had already assumed an additional £31K from this increase. The proposed change will generate a further £31K of new income for the 2026/27 budget and future years.

5.8. **Parking** - The Council's parking strategy, as approved in February 2025, set out a series of proposed changes to parking tariffs and Traffic Regulation Orders (TROs) for 2026/27. The underlying principles included applying an average inflationary increase of 3.8% across parking tariffs and introducing specific changes to parking arrangements in line with the Council's broader strategy to manage demand, support local economies, and ensure fair access across all areas.

5.9. During the public consultation on these proposals, the Council received a significant volume of responses from residents and businesses. Many expressed concerns about the potential impact of increased charges on high street trade, accessibility for vulnerable groups, and congestion in residential areas. There was particularly strong feedback that rural towns, with limited public transport and distinct local economies, should not be treated in the same way as larger urban centres. For more detail on the consultation process and feedback, please refer to the parking strategy report included on this agenda for the Executive.

5.10. In response to this feedback, the Council has amended its approach for 2026/27. While the average 3.8% increase will apply to most parking tariffs, rural car parks in Stanstead Abbotts, Buntingford, and Sawbridgeworth will see weekday charges remain unchanged, and Sunday charges will be maintained at current levels (£1.50 per day). Weekend charges will still be introduced in Buntingford and Sawbridgeworth, with Saturday charges matching weekday rates. These changes are intended to support local businesses, maintain accessibility, and address the specific needs of rural communities.

5.11. Changes to the Traffic Regulation Orders (TROs) and parking tariffs (as detailed in Appendix Bi) are expected to generate an additional £277K of income, which will be built into the 2026/27 budget and across the MTFP.

5.12. **Other Services Fees Income** - This category covers all other fees and charges levied by Council services to residents and businesses for the provision of specific services. The Council maintains a strong focus on cost recovery, ensuring that charges reflect the true cost of service delivery wherever possible. While some fees are subject to Government restrictions on the level of increase permitted, others are set locally by the Council. The principles outlined above, particularly around cost recovery, inflation alignment, and transparency have heavily influenced the proposed changes to individual charges for 2026/27.

5.13. A full listing of these charges is provided in Appendix Bii. The MTFP had projected an increase in income from these charges of £50,000. However, following a detailed review and in light of higher inflationary pressures on service provision, a further £79,000 will be generated within these fees and charges. In addition, some budget realignments have been undertaken within the overall financial position for these fees to ensure that budgets are achievable for 2026/27.

Service Efficiency Reviews

5.14. As part of the Council's ongoing service efficiency reviews, a saving of £14,000 has been identified within the Corporate Support Hub for 2026/27. This saving arises from a minor restructure, following a detailed review of task allocation between the Corporate Support Hub and the Licensing team.

Pension Fund Triennial Valuation

5.15. The Local Government Pension Scheme (LGPS) requires all participating employers to undergo a formal actuarial valuation every three years (triennially). The purpose of this valuation is to review the financial position of the pension fund and to set appropriate employer contribution rates for the following three-year period, ensuring the long-term sustainability of the scheme and compliance with statutory requirements.

5.16. The most recent triennial valuation was carried out as at 31 March 2025 for the Hertfordshire Pension Fund, of which East Hertfordshire District Council is a part. This valuation provides a snapshot of the Council's funding position and determines the employer contribution rates for the period from 1 April 2026 to 31 March 2029. The key outcomes of the valuation are:

- **Funding Position**: As at 31 March 2025, East Herts District Council had a funding level of 107.3%. This is an improvement from the previous valuation in 2022, which showed a funding level of 101.6%.
- **Employer Contribution Rates**: The employer contribution rate for the next three years (from 1 April 2026) is 17.1% of pay, with no additional secondary rate required, reflecting the improved funding position.

5.17. The outcome of the 2025 triennial valuation has a significant positive impact on the Council's financial position for 2026/27 and across the MTFP. The reduction in the primary employer contribution rate from 19.8% in 2025/26 to 17.1% from 2026/27 onwards—translates into a saving of £348,000 in 2026/27, with similar savings projected for subsequent years. In addition, the cessation of the secondary rate provides a further ongoing saving of £637,000 from 2026/27.

5.18. The results of the above savings are summarised in the table below.

Savings Area	2026/27 £'000
Income generation	209
Fees and Charges: • Garden Waste • Parking • Other	 32 277 79
Service Efficiency Review	14
Pension Fund Triennial Valuation: • Primary Rate • Secondary Rate	 348 637
Total Savings found	**1,596**

5.19. Bringing together the provisional finance settlement, planned savings, and new pressures—including funding for LGR, redundancy contingency, and general contingencies—the MTFP currently forecasts a surplus of £250,000 for each of the next two years. This surplus will be transferred into a new reserve, providing the Council with flexibility to respond to emerging priorities and pressures. The reserve will be available for Executive drawdown as and when proposals are brought forward and agreed in line with the Council's priorities. The table below summarises the overall financial position from 2026/27.

£'000	20267/27	2027/28	2028/29	2029/30	2030/31
Net Cost of Services	18,017	19,192	20,290	21,339	22,494
Corporate Budget	3,311	3,063	2,919	2,6650	2,615
Pressures	771	549	0	0	0
Savings	(890)	(1,538)	(1,748)	(1,748)	(1,748)
Total Costs	**21,209**	**21,266**	**21,461**	**22,256**	**23,361**
Settlement Funding	(7,832)	(7,377)	(6,835)	(6,835)	(6,835)
Council Tax Demand	(13,627)	(14,139)	(14,670)	(15,220)	(15,790)

Net Budget Requirement	**(250)**	**(250)**	**(44)**	**200**	**735**

6. General Fund Balances and Reserves

6.1. The Council's General Fund reserves are classified as either general or earmarked for specific purposes. The General Fund balance serves as a financial buffer to absorb the impact of unexpected events, emergencies, or fluctuations in cash flow.

6.2. The projected General Fund balance within the MTFP remains unchanged at £3.854 million on the basis that the delivery of funding gap across the MTFP is achieved. Maintaining level of reserves is essential to support financial resilience and ensure the Council can respond to unforeseen pressures.

6.3. In determining the appropriate level of general fund balances, the Chief Finance Officer has based their advice on a range of risk factors, as summarised in the table below. This assessment currently indicates a minimum requirement of £3.649 million.

General Fund balances Minimum Level of Assessment	**2026/27 £million**
Annual Gross Revenue Expenditure (at 4%)	2.393
Annual Gross Capital Expenditure (at 3%)	1.256
Minimum General Fund Balance	**3.649**

6.4. A detailed review of the Council's earmarked reserves has been completed to ensure that resources are aligned with strategic priorities and financial resilience. This review examined the purpose of each reserve, confirmed amounts already committed for specific projects and obligations over the next two years, and incorporated these commitments into the MTFP. Earmarked reserves are essential for managing future risks, funding planned initiatives, and providing flexibility to respond to unforeseen pressures without impacting core services. Following this review, the projected balance of earmarked reserves is estimated to be £14.997 million by the end of March 2026 and £14.342 million by the end of March 2027, reflecting planned utilisation for approved commitments.

6.5. The table below summarises the forecast General Fund and Earmarked Reserves across the MTFP period, with a detailed list of reserves provided in Appendix C.

Financial Year	2024/25	2025/26	2026/27	2027/28
£'000	**Actual balance**	**Forecast balance**	**Forecast balance**	**Forecast balance**
Earmarked	17,297	14,997	14,342	13,688
General	3,854	3,854	3,854	3,854
Total Usable	**21,151**	**18,851**	**18,196**	**17,542**

Section 25 Statement: Reserves Perspective

6.6. The Section 25 Statement of the Chief Financial Officer (CFO) is a statutory report that accompanies the annual budget for East Herts Council. It provides Members with an independent assessment of the robustness of the Council's budget estimates and the adequacy of its reserves, ensuring that financial decisions are made with a clear understanding of the risks, assumptions, and the Council's overall financial resilience. The report outlines the economic context, the rigorous budget-setting process, key financial assumptions, risk management, and the Council's approach to maintaining sufficient reserves. Further detail can be found in Appendix D.

6.7. In summary, the CFO concludes that the 2026/27 budget is both realistic and sustainable, with reserves considered adequate to manage foreseeable risks and support the Council's medium-term strategy. Members are therefore recommended to approve the budget and reserves strategy, note the underlying risks and assumptions, and support the ongoing delivery of savings.

7. Reason(s)

7.1. The Council is required to set a balanced budget each year. The Local Government Finance Act 1992 requires the Council to estimate revenue expenditure and income for the forthcoming year from all sources, together with contributions from reserves, in order to determine a net budget requirement to be met by government grant, business rates and council tax.

8. Options

8.1. The MTFP currently shows a surplus for the first three years, with significant growth already built into the budget. However, it remains essential to sustain this position by continuing to increase council tax, fees, and charges in line with rising costs from pay awards and inflation. Any decision to reduce council tax, limit growth, or hold back on increases to fees and charges would create additional financial pressures in later years of the MTFP or result in increased budget monitoring challenges for 2026/27 and beyond.

8.2. If the Executive were to propose a lower rate of council tax, this would move the Council further away from the government's assumptions and expectations for local funding. Such a decision could be interpreted by government as evidence that there are no funding issues for district councils, despite the fact that core funding is projected to reduce by 14% up to 2028/29, as set out earlier in this report. It would also result in a permanent loss of revenue, increasing financial pressure in future years.

8.3. It is therefore important that the Council continues to review and adjust fees and charges across all services to ensure income keeps pace with rising costs. Any alternative approach—such as reducing fees and charges, limiting growth, or holding council tax below government expectations—would increase financial risk and could compromise the Council's ability to deliver services sustainably in future years.

9. Risks

9.1. Significant uncertainty continues to shape the financial environment in which the Council operates. While the confirmation of a multi-year financial settlement provides a welcome degree of stability and planning certainty, a number of material risks remain that could impact the Council's ability to deliver a balanced and sustainable budget over the medium term.

9.2. Inflationary pressures remain a key concern, particularly in relation to energy, contract inflation and pay awards. Although inflation has moderated from recent peaks, volatility in global markets and domestic economic policy could result in renewed cost pressures.

These risks are compounded by the potential for interest rate fluctuations, which may affect borrowing costs and investment returns.

9.3. Recruitment and retention difficulties persist, especially in areas where there are national shortages of professionally qualified staff. The Council continues to explore workforce strategies to reduce reliance on agency staffing and ensure service continuity. However, the competitive labour market and rising salary expectations present ongoing financial and operational risks.

9.4. The ongoing process of Local Government Reorganisation introduces structural and transitional risks, including potential changes to service delivery models, governance arrangements and funding allocations. These changes may have both short-term financial implications and longer-term strategic impacts that are not yet fully understood.

10. Implications/Consultations

Community Safety

The budget underpins delivery of the Council's policies and priorities in relation to community safety.

Data Protection

No

Equalities

The Council has a duty under the Equalities Act, to have due regard to the need to eliminate discrimination and harassment, to advance equality of opportunity, to foster good relations and to remove or minimise disadvantages suffered by persons who share protected characteristics. Compliance with these duties in the Equalities Act does permit the Council to treat some persons more favourably than others, but only to the extent that such conduct is not otherwise prohibited. In setting the budget, decisions on some matters may be particularly relevant to the discharges of this duty, particularly fees and charges concessions and an equalities impact assessment will be undertaken to assess and ensure compliance with this duty.

Environmental Sustainability

The budget underpins delivery of the council's policies and priorities in relation to the environmental and sustainability areas.

Financial

All financial implications are contained within the report.

Health and Safety

None directly arising from this report.

Human Resources

The budget provides provision of a pay award for up to 3% in 2026/27. The actual award is subject to national NJC negotiations.

Human Rights

None directly arising from this report.

Legal

The Council is required to set a balanced budget each year. The Local Government Finance Act 1992 (as amended by the Localism Act 2011) requires the Council to estimate revenue expenditure and income for the forthcoming year from all sources, together with government grant and contributions from reserves, in order to determine a basic Council Tax Requirement.

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the estimates and adequacy of reserves to the council when it is considering the budget.

Specific Wards

No

11. Background papers, appendices and other relevant material

11.1. Budget 2025/26 & Medium Term Financial Plan 2025-2035 – Council 26 February 2025.

11.2. Medium Term Financial Plan 2026-2031 – Executive 7 October 2025

11.3. Appendices:

- Appendix A MTFP 2026-2031
- Appendix B Fees and Charges 2026/27
- Appendix C Earmarked Reserves
- Appendix D Section 25 Report

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