

# Council

24 February 2026



**Reading**  
Borough Council  
Working better with you

<b>Title</b>	Chief Finance Officer's report on the robustness of the Council 2026/27 Budget
<b>Purpose of the report</b>	To make a key decision
<b>Report status</b>	Public report
<b>Executive Director/ Statutory Officer Commissioning Report</b>	Darren Carter, Director of Finance
<b>Report author</b>	Darren Carter, Director of Finance
<b>Lead Councillor</b>	Councillor Terry, Leader of the Council
<b>Council priority</b>	All
<b>Recommendations</b>	1. That Council considers the contents of this report in setting the Budget for 2026/27

## 1. Executive Summary

1.1. Local authorities are required to set a balanced budget on an annual basis. The process is underpinned by the professional judgement of the Chief Finance Officer (CFO) who is legally required to write a Section 25 statement. The Local Government Act 2003 (Section 25) requires that the Chief Finance Officer reports the following matters to members when agreeing the annual budget and precept:

- the robustness of the estimates made for the purposes of the budget calculations
- the adequacy of the proposed financial reserves

1.2. The Members of Reading Borough Council shall have regard to this report when making decisions about the 2026/27 Budget.

## 2. Policy Context

### SEND deficits

2.1. The Ministry of Housing, Communities and Local Government (MHCLG) amended the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to introduce a statutory override where a DSG deficit at the end of a financial year must not be charged to a revenue account and instead must be charged to an account established solely for the purpose of recognising deficits in the schools budget. This accounting practice has the effect of separating schools budget deficits from the local authority General Fund and means that these deficits are not charged to the General Fund.

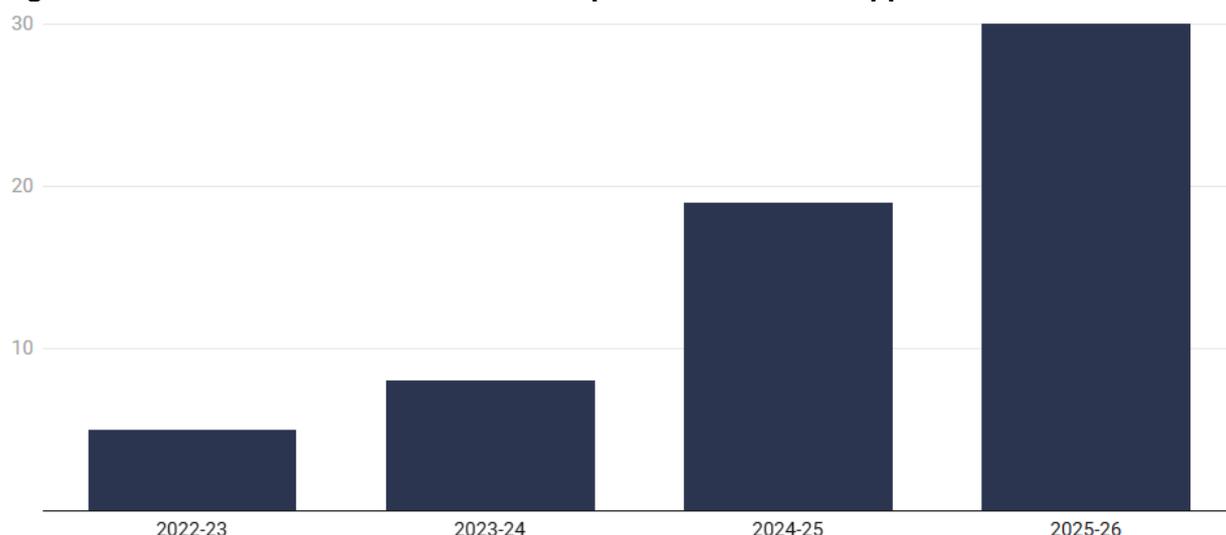
2.2. The intention of the statutory override was to give local authorities flexibility in reducing their DSG deficits. However, the scale of the challenge in the SEND system has made this impossible, and deficits have continued to rise nationally despite the best efforts of the sector.

- 2.3. As a consequence, many authorities including Reading Borough Council have SEND deficits on their balance sheets, which, if the statutory override were to be removed, would result in the authority being unable to produce a balanced budget or maintain adequate levels of general fund reserves.
- 2.4. In November's Budget the government announced that responsibility for funding SEND services would transfer from local government to central government from 2028. This is a significant change that has the potential to radically alter the financial pressures that councils are facing.
- 2.5. The Final Local Government Finance Settlement announced in February 2026 confirmed the Government will fund 90% of the accumulated High Needs Block (SEND) deficit balance as at 31 March 2026. The Council's forecast deficit at the end of this financial year is £48.627m which means this new funding announcement, which is subject to the Council submitting and securing the Department for Education's approval of a local SEND reform plan, will reduce the cumulative deficit to £4.863m.
- 2.6. The Council will need to set aside funding for the remaining 10% of the forecast deficit, together with a contribution to any further deficits that might arise over 2026/27 and 2027/28 after which this expenditure will be fully funded by the Government.
- 2.7. Uncertainty remains about what will happen to the deficits that will arise in 2026/27 and 2027/28, with the final settlement simply saying that "local authorities can expect that we will continue to take an appropriate and proportionate approach, though it will not be unlimited".

### **Exceptional Financial Support (EFS)**

- 2.8. On 17<sup>th</sup> December 2025 MHCLG announced that the government had agreed to provide 30 councils with support to manage financial pressures via the Exceptional Financial Support process, including 3 of the 6 Berkshire councils, and set aside Council Tax referendum principles for 6 authorities.
- 2.9. The following graph shows the number of Councils granted EFS over the last 4 years.

**Figure 1. Number of Councils Grants Exceptional Financial Support**



### **The Final Local Government Finance Settlement and Fair Funding 2.0**

- 2.10. The 2026/27 Settlement is the first multi-year Settlement in a decade, running from 2026/27 to 2028/29. This provides the local government sector with a welcome degree of predictability of funding that will encourage longer-term planning.
- 2.11. A significant proportion of the funding announced in the settlement will be allocated using the principles detailed in Fair Funding 2.0 which seeks to target funding based on

a clear assessment of need. It is therefore disappointing that the Government has chosen to continue to allocate £865 million of funding outside of the Fair Funding principles, using the method introduced last year through the 'Recovery Grant'. Reading Borough Council will receive none of this £865 million.

- 2.12. If the £865m had been included in the pot of funding distributed through the fair funding formula, as had been originally intended, Reading Borough Council would have been entitled to additional funding of £2.050m.
- 2.13. The additional total funding allocated to Reading Borough Council through the funding streams that are included in Core Spending Power is to £6.264m (£3.562m in 2026/27, £1.390m in 2027/28 and £1.392m in 2028/29). This includes an increase in the Homelessness, Rough Sleeping and Domestic Abuse grant, announced in the Final Settlement, of £1.347m in 2026/27, rising to £2.125m in 2028/29.
- 2.14. In the Final Settlement there was also confirmation that the Government will fund 90% of the accumulated High Needs Block SEND deficit as at 31 March 2026. This new ring-fenced grant is subject to each local authority submitting and securing the Department for Education's approval of a local SEND reform plan. Based on current forecasts this one off grant is estimated to reduce Reading Borough Council's cumulative deficit by £44m, with the Council needing to fund the remaining 10% of the deficit in 2028/29. The grant will be applied to the cumulative High Needs Block deficit currently held in the unusable reserves section of the Council's balance sheet, in accordance with the provisions of the statutory override that is in place until 31st March 2028.

**The CIPFA Financial Resilience Index**

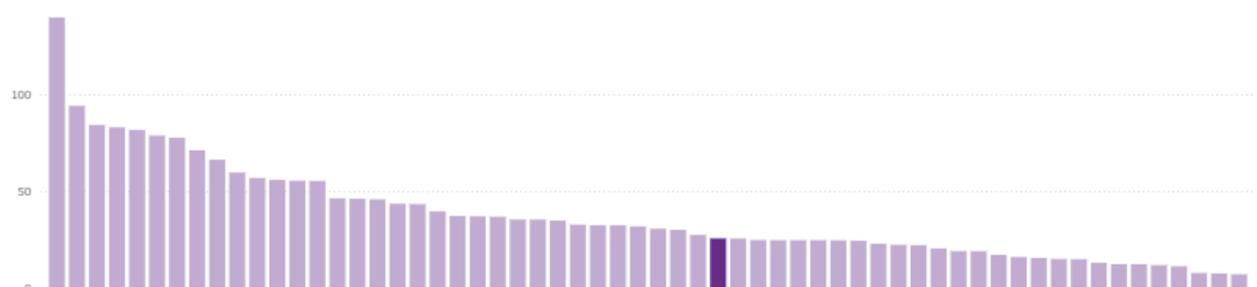
- 2.15. The CIPFA financial resilience index is a comparative analytical tool intended for use by Chief Financial Officers to support good financial management. The index shows a council's position on a range of measures associated with financial risk, highlighting where additional scrutiny may be required. The index for Reading Borough Council as compared to other unitary authorities is as follows:

**Figure 2. CIPFA Financial Resilience Index - Reading**



- 2.16. Nationally, the findings from this year's Financial Resilience Index show that usable reserves continue to fall, debt levels are rising and social care expenditure remains high.
- 2.17. On 31st March 2025, the level of reserves held by Reading Borough Council equated to 25.71% of net revenue expenditure. The following chart shows the level of reserves of all unitary authorities, with Reading being the darker coloured line in the chart.

**Figure 3. Unitary Authority Reserve Levels**



## **The CIPFA Financial Management Code**

- 2.18. CIPFA launched the Financial Management Code in 2019. The Code sets out 17 standards of financial management for local authorities to assess themselves against and councils are required to undertake an annual self-assessment.
- 2.19. The most recent self-assessment was reported to Audit and Governance Committee in April 2025 and indicated an overall rating of Amber, with 11 Green ratings (indicating full compliance, a decrease of 1 from the previous year) and 6 Amber ratings (indicating that minor to moderate improvements were required to demonstrate full compliance, an increase of 1 from the previous year).

## **Statutory Accounts**

- 2.20. KPMG issued a 'disclaimer of opinion' for the 2023/24 Statement of Accounts on 28<sup>th</sup> February 2025, with another disclaimer anticipated for the 2024/25 accounts as they follow the prescribed approach to 'building back assurance'.
- 2.21. As a result, I have not received any external audit opinion on the level of General Fund reserves held by Reading Borough Council on 31st March 2025.

## **Robustness of the Estimates**

- 2.22. The Finance Team has led the production of the 2026/27 Budget and the 2026/27 to 2028/29 Medium Term Financial Strategy (MTFS) with input from the Council's Corporate Management Team.
- 2.23. All aspects of the Council's budget, savings, income, service changes, inflation, pressures, capital projects and new revenue bids have been subject to review, with services being required to review the plans they put forward in previous years and confirm delivery of the proposals or, put forward business cases for change where necessary. Budget proposals have subsequently been reviewed by:
  - The Finance Team
  - Corporate Management Team
  - Lead Councillors
- 2.24. The 2026/27 Budget and the 3-year MTFS have been built on a range of assumptions reviewed and assessed by the finance team with support from our professional networks and specialist advisors. These are set out in detail in the Medium Term Financial Strategy attached as Appendix 1 to the Budget report.
- 2.25. The 2026/27 Budget proposes an increase of £4.700m for Adult Social Care services, an increase of £3.843m for Children's Services, and increases required to address budget pressures in Economic Growth & Neighbourhoods.
- 2.26. In order to manage growing financial pressures, there is a corporate contingency of £1.767m.

## **Adequacy of Reserves**

- 2.27. The level of reserves a council should maintain is a matter of judgement. The consequence of not having adequate reserves can be significant. In the event of a serious problem or a series of events, the Council could run the risk of a deficit or be forced to cut expenditure in a damaging or arbitrary way should reserves not be available.
- 2.28. The proposed working balance for the General Fund reserve is set at 5% of the net budget requirement, equivalent to £9.983m. I consider this to be an adequate working balance.
- 2.29. The Council also maintains a range of earmarked reserves that are directly linked to the risk areas highlighted in this report:

- Financial Resilience reserve £2.045m. This reserve provides cover for a range of risks including local government funding reform, equal pay and Minimum Revenue Provision for which there are known sector-wide risks but for which we have no specific information that would require inclusion in the approved Medium Term Financial Strategy. £0.336m of this reserve will be required to balance the budget in 2026/27.
  - Collection Fund reserve of £6.562m to mitigate against the impact of an economic downturn on the collection of Council Tax and Business Rates. £6.062m will be required in 2026/27 to fund the 2025/26 Collection Fund deficit.
  - Commercial Property reserve £0.923, of which £0.348m will be required in 2026/27.
- 2.30. The Council also maintains the following reserves to protect against the impact of unforeseen events or liabilities:
- Self-insurance reserve £3.208m to meet estimated liabilities in connection with internally held risks related to the Council's Insurance programme.
  - Legal and taxation reserve £0.193m to cover one-off legal or tax liabilities.
  - School deficits reserve £1.301m.
- 2.31. Earmarked reserves are also held for the following:
- Unspent revenue grants £2.399m.
  - Reserves which have a statutory limitation as to their use, such as Schools Balances, Dedicated Schools Grant and Housing Revenue Account (HRA) reserves
  - Committed but unspent budgeted amounts carried forward at the end of the financial year to deliver specific projects
- 2.32. The Council's General Fund revenue reserves, including earmarked reserves, were £49.803m on 31st March 2025 and are forecast to be £30.201m by 31st March 2026. This includes the funding of the projected 2025/26 adverse variance, the planned use of revenue grants brought forward from previous years and the funding of the 2025/26 Collection Fund deficit.
- 2.33. While this level of General Fund reserves is adequate for the setting of the 2026/27 budget there is a need to increase the level of reserves in order to give greater resilience in future years.
- 2.34. A full schedule of reserves and balances including those which are ring fenced to the Housing Revenue Account and Schools is attached at Appendix 1 together with an explanation as to their intended use. It should be noted that the earmarked reserves figures are indicative and will change depending on how quickly associated expenditure is incurred.
- 2.35. The HRA minimum balance is £4.793m for 2026/27 and increases in line with annual rent increases. The forecast HRA balance, which excludes other HRA earmarked reserves, as at 31st March 2026 is £19.187m. The 30-year Business Plan shows the HRA balance reducing to a minimum point of £0.700m headroom against the minimum balance in 2030/31 before increasing again in the remaining years of the plan.

### **3. The Proposal**

- 3.1. The main budget proposals are contained elsewhere on this agenda.
- 3.2. In considering the proposals Members should be aware of the following risks:

#### **Inflation**

- 3.3. Inflationary pressures on the Council's employee and contractor costs represent a significant annual pressure that needs to be funded. Equally, inflation rates impact on

fees and charges, Council Tax capping levels and business rates income through the nationally set Non-Domestic Rates Multiplier.

- 3.4. The annual inflation rate in the United Kingdom as measured by the Consumer Price Index (CPI) stands at 3.4% as at December 2025, up from 2.5% in December 2024. The Consumer Price Index including owner occupiers' housing cost (CPIH) stands at 3.6% as at December 2025, and was 3.5% in December 2024.

### **Pay Award**

- 3.5. The proposed budget includes an increase of 2.4% per annum for 2026/27 with 1.9% for 2027/28 and 2028/29.

### **Adult Social Care**

- 3.6. There are significant pressures in the social care system. These pressures include an increase in the number of service users, in addition to the number of complex care packages and increasing contract inflation. This updated MTFS includes a proposed increase of £4.700 million for Adult Social Care services in 2026/27 to address these pressures.

### **Children's Social Care**

- 3.7. This MTFS update includes a provisional increase of £3.843 million in 2026/27, predominantly in respect of placements for Looked After Children due to increases in costs associated with the age profile and complexity of need.

### **Savings**

- 3.8. The budget proposals require the delivery of £9.657 million of savings in 2026/27; and £14.781 million across the 3-years of the MTFS.

### **Companies**

- 3.9. Reading Borough Council operates the following wholly owned companies:

- Reading Transport Limited (RTL)

The company is experiencing a difficult year financially due to a decline in fare-paying passengers and increasing costs but it is expected to return to profitability in 2026/27.

- Homes for Reading (HfR)

On 22nd January 2024, Policy Committee resolved that the Board and Tenants of Homes for Reading Ltd be consulted on the possible closure of the Company and a transfer of the properties into the Housing Revenue Account. The closure of the company was subsequently confirmed by Officer Decision Notice on 17th July 2024. The process of transferring properties to the Reading Borough Council Housing Revenue Account is now underway.

- Brighter Futures for Children

Brighter Futures for Children ceased operating on 30<sup>th</sup> September 2025 and the functions formerly carried out by the company transferred back to Reading Borough Council on 1<sup>st</sup> October 2025.

## **4. Contribution to Strategic Aims**

- 4.1. Full details of the Council Plan and the projects which will deliver these priorities are published on the Council's website - [Council plan - Reading Borough Council](#). These priorities and the Council Plan demonstrate how the Council meets its legal obligation to be efficient, effective and economical.

4.2. Delivery of the Council's Budget is essential to ensuring the Council meets its strategic aims and remains financially sustainable going forward.

## **5. Environmental and Climate Implications**

5.1. These are set out in the other budget reports on this agenda.

## **6. Community Engagement**

6.1. The public was consulted as part of the 'Budget Engagement', which ran from 18<sup>th</sup> December 2025 until xx January 2026. The feedback from this engagement, alongside the feedback from the Residents' Survey 2025 is set out in Appendices xx and xx of the Budget Report.

## **7. Equality Implications**

7.1. These are set out in the other budget reports on this agenda.

## **8. Other Relevant Considerations**

8.1. There are none.

## **9. Legal Implications**

9.1. The provisions of section 25, of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (s.151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The report will be formally made to Full Council at its budget setting meeting in February.

## **10. Financial Implications**

10.1. These are set out in the main body of the Budget reports included in this agenda.

## **11. Timetable for Implementation**

11.1. Not Applicable.

## **12. Background Papers**

12.1. There are none.

## **Appendices**

### **1. Summary of Estimated Reserve Movements**