

APPENDIX 5.1

STATEMENT OF THE INTERIM SECTION 151 OFFICER UNDER THE REQUIREMENTS OF SECTION 25 OF THE LOCAL GOVERNMENT ACT 2003 ON THE ROBUSTNESS OF BUDGET ESTIMATES AND ADEQUACY OF THE RESERVES

1. Introduction

- 1.1 To reinforce sound financial management in the administration of public sector resources, the Local Government Act 2003 places a duty on the Council's designated Section 151 Officer to report to Council, as part of the budget process, on the robustness of the estimates and the adequacy of the proposed financial reserves.
- 1.2 It also states that the Authority must have regard to this advice when the Council Tax is being set. The advice of the Interim Section 151 Officer is that the proposed 2026/27 budget is robust and the level of reserves and balances in the draft budget is adequate to deliver the 2026/27 budget.
- 1.3 Guidance on balances and reserves is provided by Local Authority Accounting Panel (LAAP) Bulletin 77 (Nov 2008). The LAAP emphasises the importance of taking account of the Council's medium-term plans and forecasts of resources, and not to focus solely on short term considerations.
- 1.4 Council services face ongoing external demand and cost pressures, which are likely to continue into the future, therefore Shropshire Council needs to transform and modernise to manage these pressures. This is in the context of fewer resources and the need to set a balanced budget which allows for careful investment in capital projects required to ensure the long-term viability of council assets.
- 1.5 At the same time, the cost-of-living crisis remains impacting on more vulnerable residents, with inflation remaining higher than pre-pandemic rates, not least for specialist council services such as childrens and adults. Interest rates are also higher than prior to the pandemic increasing the cost of borrowing. The financial standing of the Council is further compromised by disappointing financial settlements that do not match additional demand for services or new burdens placed upon it. This is a position that would not improve over the life of the three-year settlement.
- 1.6 As a consequence of these circumstances, the Council requires Exceptional Financial Support (EFS) to balance the budget. This represents a facility to borrow to fund revenue activity and attracts debt financing costs that will create further significant financial challenges for Shropshire for some years to come.
- 1.7 This statement is a Financial Management Standard requirement of the CIPFA Financial Management Code issued in October 2019. In difficult circumstances,

this statement represents important reassurance to the Council that the authority's financial management processes and procedures can manage the risks set out in the main budget report.

- 1.8 It focuses on the robustness of estimates and the adequacy of reserves which are central to Shropshire's financial resilience and need to be considered together. It brings together the issues included with the 2026/27 budget report and monitoring of the 2025/26 budget and Capital Programme to enable a conclusion to be drawn, on the robustness of budget estimates and adequacy of the reserves.

2. Background

- 2.1 The net budget requirement for Shropshire Council has grown by £143.825M over the past five years; from £224.616M net budget in 2022/23 to £368.441M in the proposed budget for 2026/27. The 2026/27 settlement included £43.311M of core grants which has been rolled into the RSG. Of this increase, £38.998M has been generated by increasing council tax. A total of 65.12% of the Council's net budget is now funded by the local council taxpayer. £121.0M of ESF is supporting the 2026/27 budget and rebuild the level of general fund reserves to an adequate level required to set the 2026/27 budget.
- 2.2 The Council has set a proposed budget with £5M of savings to be delivered within 2026/27. A total of £43.468M of savings has been written back to the budget due to the inability to deliver them as originally anticipated in 2025/26; this included savings carry forward from prior years. The Council needs to consider new savings proposals through transforming services, efficiency savings, and income generation to cope with demand and inflationary pressures across all areas of work, but particularly Social Care.
- 2.3 The Council has in recent years struggled to live within the available resources. 2024/25 saw the Council overspending at year end by £34.230M and the forecast overspend for 2025/26 is £50.745M at this time. This overspend will be funded through general fund balances as there are no further mitigations in place to manage the budget, although planning is already in place for 2026/27 and beyond.
- 2.4 Shropshire Council's financial position is not uncommon and has resulted from many years of underfunding when compared to other Local Authorities together with rapidly increasing demand for social care services, both children's and adults. The Financial Settlement for Shropshire Council resulted in a £4.4m reduction in funding for 2026/27 financial year, which is a disproportionate reduction in funding compared to other authorities across the country.
- 2.5 The Council has experienced significant demand for social care demand and price increases, with difficulty in containing costs. The increase in demands and the inability to deliver within 2025/26 approved budget has resulted in an

application for EFS, through MHCLG for £71.4M to manage 2025/26 financial overspend and £121.0M to set a balanced budget with adequate reserve balances for 2026/27. This approach is in line with recommendations from government for Councils suffering financial stress.

- 2.6 Shropshire Council alongside the wider sector, looked to the government to fix a broken system of local government funding with a fair and transparent distribution of an adequately resourced settlement through its spending review and funding reform. However, the settlement resulted in a reduction overall of £4.4M for Shropshire and this, along with capping of Council Tax increases, the maximum allowed does not fund the cost of demands facing the Council over the medium term.
- 2.7 The government has agreed for Shropshire to increase Council Tax by an additional 4% increasing Council Tax by 8.99% for 2026/27 only, to reduce the level of borrowing for EFS. This is for one year only and below the maximum level that the council had requested to minimise the future cost of borrowing to finance the costs of debt created by EFS.
- 2.8 The Section 151 officer is strongly recommending to Cabinet and to the Council a one-off increase in 2026/27 of 8.99% and future increases of 4.99% plus (mindful of the provisional financial settlement announcement for the three-year period) for the period of the financial settlement. Collectively it is clear that the Council will require significant transformation and change that reduces net costs and even then, will likely require EFS beyond 2026/27 on current assumptions.
- 2.9 The budget as set out proposes £5M of savings in 2026/27 and maintains adequate reserves. Further savings are outlined for future years. However, to address ongoing demand and cost pressures, the Council must transform services while meeting statutory duties and planning early to ensure a balanced medium-term budget. Having regard for this position, there remains the risk the Council will need to issue a s114 notice in the event of being unable to balance the revenue budget.
- 2.10 Services in the future must be lean and operate at maximum efficiency to remain balanced against resources; transformation change will need to be embraced across all services.

3. Processes

- 3.1 The budget represents the best of spending and income made at a point in time. This statement about the robustness of estimates cannot give an absolute assurance about the budget but gives Members reasonable assurances that the budget has been based on the best available information and assumptions.

3.2 To meet the requirement on the robustness of estimates a few key processes are in place, including:

- The budget setting process included a number of Budget Overviews and Scrutiny sessions (BOSS) meetings with officers to challenge the budget proposals put forward and to consider other opportunities and savings.
- The use of budget monitoring reports in 2025/26 have been used to reset budgets to reflect current demand, including a review on prior years' growth due to significant underfunding in 2025/26, and to update the Medium-Term Financial Strategy (MTFS);
- Peer review by finance staff involved in preparing the base budget (i.e. the existing budget plus identified full year effects updating for growth, pressures, demand modelling and savings and the outcomes of BOSS meetings);
- Monthly budget monitoring through the dashboards which budget holders' access on a regular basis to review the current financial year position, used to review against the proposed assumptions at budget meetings;
- Leadership Board received regular updates on the financial position alongside regular review of Cabinet reports and monthly updates on the budget monitoring position;
- Regular budget forums were held updating members on the financial position and the budget setting process and assumptions;
- The MTFS was updated following the BOSS meetings and reported to Cabinet in October 2025;
- The formal application was submitted to MHCLG for EFS to cover overspending in 2025/26 and manage the funding gap to deliver a balanced budget in 2026/27 financial year;
- Section 151 officer held regular meetings with Portfolio Holder for Finance on the budget setting process and assumptions impacting setting a balanced budget;
- Corporate Directors reviewing and challenging their budget pressures, both individually and collectively;

- Corporate Directors reviewed their proposed budgets for 2026/27 and will provide signed assurance statements confirming they will work to deliver their services within their allocated cash envelope;
 - The Chief Finance Officer providing advice on the robustness, including reflecting current demand, savings and delivery of statutory services and good service standards (unless standards and eligibility are to be changed through a change in policy) in the budget.
- 3.3 The MTFP should be updated on a regular basis which will provide assurance of future years budget requirements and identify budget gaps which will be managed through the delivery of transformational and general efficiency savings and income generation. The budget setting process to set the 2027/28 budget will start early Summer which will allow sufficient time for plans to be developed and deliverable in good time. This should prevent significant overspending which has occurred over the last couple of years. A detailed review on capacity and capability to deliver on plans will also be key in setting the 2027/28 budget and developing the MTFP.

4. Robustness of Revenue Estimates

- 4.1 As part of preparation for this budget all services were asked to identify essential growth requirements as well as deliverable savings which were robustly challenged. A review of previously planned savings led to £43.469 million being returned to the budget, as these savings could not be achieved.
- 4.2 The 2026/27 budget includes £5m of deliverable savings. Savings need to be robust and have specific objectives with realistic timescales supported by detailed plans on how savings will be delivered with confidence to provide assurance they are robust and deliverable. Budget pressures identified as part of the in-year budget monitoring for 2025/26 have also been reviewed and growth has been included in the budget proposals for 2026/27, to re-set budgets to enable budget holders to keep within their budget allocation.
- 4.3 As in previous years, Directors are required to agree their overall 2026/27 cash limited budgets, and for 2026/27 they will be asked to formally sign off their budget. Cabinet Members have worked with their respective Directors throughout the process.
- 4.4 The Transformation and Improvement Overview and Scrutiny Committee Members have been able to review and scrutinise the budget proposals. A range of assumptions have been robustly challenged as part of the development of the Medium-Term Financial Strategy, and the 2026/27 budget process.
- 4.5 Alongside Cabinet, The Transformation and Improvement Overview and Scrutiny exercise full public oversight of the level of overspend in 2025/26 which

is reporting a forecast £53.261m as at quarter 3. There are two key significant risks causing the overspend, the delivery of approved savings not been delivered in full as planned when the 2025/26 budget was set, and demand pressures within social care. The total savings were £59.9m of which only 30% has been delivered leaving £43.469m being written back into 2026/27 budget setting, some of this was carried forward from 2024/25 financial year. The 2026/27 budget has included sufficient growth to re-set the budgets to provide assurance services can deliver within the budget allocation.

- 4.6 As part of monitoring budgets across the Council, officers with budget management responsibility are required to review the detail of their budgets and ensure that they are correctly aligned. To enable this, before the start of the new financial year, they may make adjustments to how the budgets within their Department/Directorates for the new year are allocated at a detailed level.
- 4.7 The Council's Corporate Leadership Team review the Monthly Budgetary Control Reports alongside information provided by the Finance team on the progress towards delivery of planned savings and other projects across the Council. This provides a key element of scrutiny and assurance over the budget and delivery of savings on a regular basis with an opportunity to intervene at an early stage where items or savings are not progressing as expected.
- 4.8 The Council deliver services working with partners and stakeholders across Shropshire. The budgets are set based on the cost of providing services in conjunction with partners, where they make a relevant contribution to services, an example is with the ICB. The ICB budgets are also set in a similar manner, and it is crucial that consideration and discussions take place with the ICB and other partners to agree budgets and share information on the Councils budget setting, and discuss potential and actual policy changes before the budgets are set. This will provide assurance that budgeted contributions are accurate and any outstanding debt due from partners at the beginning of the financial year is fully receivable, in the following year and not resulting in the need for the debt to be written off or a dispute to arise.

5. Capital Budget 2026-2030

- 5.1 The Capital budget is financed through Capital Receipts, Grants and HRA and borrowing which has a revenue implication incorporated in the MTFS. As a result of Shropshire's Financial position, there has been a pause on the Capital Programme due to the financial implication to fund the request made to Government for EFS to the value of £121m for 2026/27 and £71.4 for 2025/26. This borrowing will add additional revenue costs to the budget which has resulted in a review on the Capital Programme. The risks identified within the Capital Programme include:

- Risk of the economy faltering resulting in housing market falls and reduction in land and asset values resulting in lower income and capital receipts than planned which may affect the viability of elements of the capital programme;
- Costs increasing beyond forecasts. The proposed programme takes into consideration the current levels of inflation, but the risk of further unanticipated increases remains, especially where programmes are being paused due to further costs of inflation to complete the projects;
- The ability of Shropshire to fully deliver the programme within the agreed timescales and resultant unplanned cost of delay and sunk costs associated with aborted schemes;
- The consequential revenue impact of any delay in capital investment.

5.2 Shropshire's Capital Programme is set out within Appendix 2 report. All the various major capital projects require clear business cases to be completed including a full assessment of affordability and management of risk at each major stage before they are progressed.

5.3 It should be noted that, as set out, in this report that some schemes have already been impacted by the risks set out above and have been paused until conditions are more favourable. That pause continues to help in assuring the immediate robustness of the Council's revenue plans, and the Council seeks to minimise the impact of any pause.

6. Adequacy of the level of Balances

6.1 Under the Local Authority Act 2003, the Secretary of State has reserve powers to set a minimum level of reserves. The most likely use of this power is where an authority is running down its reserves against the advice of their Statutory S151 Officer.

6.2 Determining the appropriate levels of balances is a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the Council's track record in budget management and delivery of savings.

6.3 These balances are the Council's "safety net" for unforeseen or other circumstances and must last the lifetime of the Council unless contributions are made from future years' revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the Council as these can, and will change over time, and an annual review of the level of all reserves to ensure that they are adequate under current circumstances and economic conditions is required.

6.4 It should be noted that the consequences of not keeping a minimum prudent level of reserves and balances can have extremely serious impacts on a local authority services.

- 6.5 Contingency and provisions within the annual budget will be used in the first instance to meet the cost of risks where they have been provided for. The Council's earmarked reserves act as a second line of defence as they will be set up for a specific purpose, with the General Fund balance only being used as last resort. Any requirement to draw down from reserves or the General Fund balance to meet non-budgeted expenditure or loss of income should be made good in the base budget across the MTFFS period, adding further pressure when balancing those annual budgets.
- 6.6 Where in-year pressures arise a review on contingencies and provisions and earmarked reserves would take place for the purpose of resilience before necessitating an unplanned drawdown on reserves and balances.
- 6.7 The 2025/26 budget is forecasting an overspend of £50.745m and the proposal is for this to be funded through general fund balances resulting in a negative general fund balance of £16.465m. The opening general fund balance was £4.825m with a planned in year budget contribution of £29.455m bringing this to £34.280m however when the forecast overspend of £50.745m is considered the balance is negative £16.465m. Consequently, this has brought about the need for an application for EFS to increase general fund balances to £5.001m to ensure adequate general fund balances remain at the end of 2025/26 and in setting the 2026/27 budget. In addition, the budget has been set to include a contribution to general fund balances by £43.1m which in effect will be funded through EFS. This is required to bring reserves up to an adequate level to manage risks.
- 6.8 The General Fund balance is the sum held centrally for unavoidable cost increases above expected inflation levels, other unforeseen items and spending pressures and acts as the Council's financial safety net. Although the level of reserves is considered adequate in setting the 2026/27 budget the proposal is to maintain and further increase reserves over the period of the MTFP.
- 6.9 The advice of the Section 151 Officer is that having considered the need for balances and the budget risks, the projected year-end level of General Fund Balance of £5.001m can be considered to be adequate, but only on the basis that any adverse budget variations in 2026/27 financial year are tightly controlled and where possible contained within service budgets. Also, it may be necessary to look to redirect earmarked reserves to support any unforeseen pressures that cannot be accommodated by general reserves and contingencies.
- 6.10 The Council holds a variety of earmarked reserves that have been set aside to meet specific liabilities or planned one-off expenditure arising in future years. These are forecast to stand at £23.894m at 31 March 2026. All reserves that have been set aside are regularly reviewed as part of both the budget setting

process and closure of accounts process in order to ensure that they are set at the appropriate level and are neither insufficient nor overstated.

- 6.11 In formulating the Medium-Term Financial Strategy some of the reserves that have previously been set aside may be released to balance the overall budget. A summary of the Council's main strategic earmarked reserves is set out below.

Earmarked Reserves Forecast Closing Balances

- 6.12 The Council has a number of existing earmarked reserves as shown in Appendix 5.3 in the main report. These Earmarked reserves have been reviewed as part of the budget setting process, and all are considered to be sufficient for their purpose.
- 6.13 The Chief Finance Officer has considered the strategic and operational risks and the level and purpose of the balances and reserves currently held by the Council. The level of balances and reserves held is a balance between the risks facing the Council and the opportunity costs of holding those balances.
- 6.14 It should be noted with some concern that earmarked reserves are forecast to be considerably lower than recent years. Ongoing use of them to support base budget is unsustainable. Reserves are a one-off source of funding that can only be used once and should ideally only be used to support one-off expenditure or to temporarily support the budget to allow time for management action to be implemented. There is a significant risk of financial instability if considerable levels of reserves continue to be used to fund ongoing spending.
- 6.15 Given the forecast overspend in 2025/26, it will be necessary to further tighten financial controls and is also likely to result in Members being asked to make increasingly tough decisions in the coming year or years to ensure that this reliance on reserves ceases to manage risks. There is also an explicit need to rebuild General and Earmarked Reserves assumed in future years of the MTFs. The ability of the Council to actually achieve this in 2026/27 and beyond will be key to the future financial resilience of the Council.

Dedicated Schools Grant – High Needs

- 6.16 It is anticipated that the Council would have accumulated a deficit of approximately £42m by the end of 2025/26. This deficit has built up over a number of years arising principally as a consequence of changes in regulation with regards Education Health Care Plans and increasing demand and cost increase well above inflation.
- 6.17 Normally this deficit would be treated as a draw on Council reserves. However, because of the scale of deficits across the Country the Government determined a statutory override could be applied meaning that the deficit could be carried forward year on year without reducing reserves. This has enabled time for Government to seek to find a resolution to a significant fiscal strain.

- 6.18 As part of the final settlement, the Government have announced that they will fund the High Needs deficit by 90% subject to an agreed plan that will stabilise costs of the service moving forward. Further details of the announcement are awaited and in the meantime the Council will begin work on formulating a plan.
- 6.19 Separately the Council will need to plan to fund the remaining 10% of the deficit by the time the statutory override ends 31 March 2028. This will need to be considered as part of review on reserves and specifically as part of the budget setting process for 2027/28.

7. Risks

- 7.1 The significant risks identified with the budget include:
- The DSG deficit, and future demand pressures for EHCPs.
 - Ongoing demand pressures for the SEND service;
 - Ongoing demand pressures for adults and children's services and the need for appropriate funding from the NHS to support some of these pressures;
 - Capacity and capability within the workforce, contracts and third parties to deliver savings to value and profile ;
 - The adequacy of the Government's three-year funding settlement and its sufficiency for the Council to be financially sustainable in the long term. ;
 - Further future legislation changes which create new burdens that are not fully funded;
 - Increasing costs due to economic conditions (i.e. Interest and inflation rates; demographic pressures resulting in increased net costs; etc.);
 - Financial Resilience of the Council because of low levels of general fund balances and the requirement to set the budget for 2026/27 with ESF;
 - Delivering the 2026/27 budget savings and remaining within the available budgeted resources;
 - Income uncertainties – Uncertainties on collection including Council Tax, Business Rates and general outstanding debt;
 - Capital programme needing additional funding insofar as it impacts on revenue costs.
- 7.2 The likelihood of all budget risks occurring in any one year is low and the Council continues to hold a central contingency budget in the 2026/27. The uncertainty relating to the risks identified is an ever-increasing challenge to set a robust medium to long term financial strategy and resilience over the Medium to Long Term
- 7.3 The future budget planning rounds the focus will continue to direct resources to the highest priority services, to invest in vital infrastructure, restore reserve balances for the purpose of financial resilience and to seek alternative funding mechanisms for services and/or assets.

8. Statutory Assurance from the Interim Section 151 Officer

- 8.1 Taking account of all the above considerations, I am of the view that the proposed 2026/27 budget is 'robust' and can be managed within the Council's existing resources.
- 8.2 The Council should note that this is a one-year budget only and the MTFP will be developed in the coming months to identify the medium-term financial position which will enable the budget setting process for 2027/28 to start in June to allow sufficient time to action and develop balances to set a balanced medium term financial plan.
- 8.3 The Council should deliver the improvement plan at pace and develop clear transformation plans with adequate resources for the plans to be implemented in good time. The 2026/27 budget will need to be balanced to enable a good start in identifying future budget requirements and to close potential budget gaps.

9. Conclusions, Advice and Guidance of the Interim S151 Officer

- 9.1 My advice is that in this challenging period with the need to request £71.4m of EFS for 2025/26 and a further request of £121m EFS to set a balanced budget for 2026/27 that the Council start the budget setting process for 2027/28 in late Spring and deliver services in 2026/27 within the budget allocation as a key priority.
- 9.2 Although reserves are adequate for 2026/27, they will need to increase over the term of the MTFP to ensure the Council remains financial sustainable for the longer term. Given the considerable forecast use of reserves in 2025/26 to balance the position, there needs to be an understanding that more tough decisions are likely to be needed in the coming years to balance without the use of reserves.
- 9.3 The financial resilience of the Council is necessarily a joint endeavour between Members, the senior officers, and the Section 151 Officer, and all must strive collectively to plan and deliver services within the budget envelope provided.
- 9.4 In the light of the risks facing the Authority, I recommend that the General Fund balance is maintained at £5.001m, with a review on this early in 2026/27 financial year to set a target level of reserves.