APPENDIX 2

Section 25 Local Government Act 2003 Report

1. SUMMARY

1.1. The purpose of the Section 25 Report is to advise on the robustness of the proposed budget and the adequacy of reserves before the Cabinet makes recommendations to the Council in respect of the Revenue Budget for 2026/27.

2. BACKGROUND

2.1. Section 25 (1) of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer under the Local Government Act 1972) to report to the Council when setting the Council tax on:

- the robustness of the estimates in the budget, and
- the adequacy of the proposed reserves

2.2. The Council must have regard to this report when making decisions in respect of the budget and Council Tax (Section 25(2) Local Government Act 2003).

2.3. Although the 2003 Act does not explicitly require the Chief Finance Officer to report on the estimates and proposed reserves to the Cabinet it is prudent to do so. This is because Cabinet recommends these to the full Council.

3. THE 2026/27 REVENUE BUDGET

3.1. The Process & Key Assumptions

3.1.1. During 2025/26, the government completed the Fair Funding review, which is the single biggest change to Local Government financing in a generation, with the aim to update the funding formulas to better reflect the needs of residents throughout the country and rebalance the funding available. Final confirmation of the impact of the Fair Funding review was received very late, as part of the provisional settlements which was made available in late December 2025. This has made the 2026/27 budget process extremely difficult to complete, with significant movements still being discussed on the eve of the announcements, which meant that Councils have had to work in short, truncated timescale to prepare the estimates for next year and the strategy to achieve a balanced budget.

3.1.2. Aside from Fair Funding reform, it has been another tremendously challenging year in local government with double digit increases in virtually every demand led services (Temporary Accommodation, Adult Social Care, Children's Social Care and Special Education Needs and Disability). This is combined with the continued increases in inflation and a stagnant house building market means that any marginal increase in council tax income has been completed outstripped by this increase in cost.

3.1.3. During 2025/26, there has been a minimal number of councils declaring a section 114 notice. However, 30 councils have had over £2.5bn of support agreed in principle by the government through the Exceptional Finance Support (EFS) scheme, of which, £1.3bn relates to support for 2025/26 and a further £1.1bn for prior years. The prior year allocation relates to 8 councils. The support is in the form of either a capitalisation directive (allowing them to borrow for everyday service expenditure) and/or above referendum limit in Council tax increases. It should be noted that whilst the capitalisation directive appears to have less significant direct impact on residents, this decision should not be taken lightly, as any borrowing for every day services will add to future revenue costs through additional financing costs, unless assets can be sold to repay. This form of support basically gives the council breathing space to allow time to reduce revenue costs substantially and is not a solution to the funding crisis facing the sector.

3.1.4. The settlement for 2026/27 was on one hand slightly better than estimated, mainly due to the lobbying which Waltham Forest, London Councils and our local MP's did to make the case to MHCLG that Housing costs in London were an important factor when considering relative funding need. However, unfortunately the fair funding settlement fell well short of the actual funding need of the borough. With years of chronic underfunding across the sector, the Fair Funding review only managed to re-slice a pie that was still woefully inadequate for the size of the issues facing all councils across the country.

3.1.5. Temporary Accommodation continues to be the single biggest pressure facing the Council, with over 1,600 households at the end of December in need of emergency support. In April 2023, there were 858 households in TA, increasing to 1,581 by March 2025 - an increase of more than 80% in a two-year period. Combine this with 6% increase in the number of children with an Educational Health Care Plan (EHCP) and 5.8% increase in Adult Social Care client numbers, it is a stark realisation a 5.5% increase in funding is not going to scratch the surface.

3.1.6. Our social care (both Adults & Children's) supply base are already on the brink of bankruptcy, as we have seen at least 3 major contractors to the Council in the last 12 months fall into administration. The Fair Funding review and subsequent settlement did not go anywhere near far enough to prop up Council's finances and we now forecast that our reserves will be depleted by Dec-26. Therefore, we will need to apply for Exceptional Finance Support (EFS) to balance the 2026/27 Budget, which is in line with the previous estimate by the Council that it would require EFS within 18-24 months of Feb-25 Budget setting report.

3.1.7. On homelessness, Waltham Forest has managed to hold off any significant financial pressures in this area for a decade due to its choice to build homes at a greater rate than many other councils in the country. However, significant pressure started to build during 2024/25 and has continued into 2026/27, if the steps outlined by the service are not effective and the demand isn't contained then there will need to be a further draw on reserves to balance the position. No additional base budget has been provided to the service in 2026/27, as the overspend is expected to be contained through management actions. However, the Council has made an allowance in the contingency budget should the management actions not achieve the full savings amount.

3.1.8. On SEND, for both the general fund and the high needs block there are significant pressures from the number of children being identified as requiring Educational Health Care Plan (EHCP) (which is a national issue, not just this borough) and then the knock on effect of these children's needs in the SEND service, from social work support, to transport costs as well as specialist teachers & support. The government has allowed authorities to have "negative" balances in reserves for the High Needs Block until March 2028 meaning the problem is not being addressed. If the statutory override is not extended, all authorities will need to write the negative balance off, meaning an immediate impact on the general fund, which will cause many councils to enter into a section 114 situation. For Waltham Forest, the high needs block deficit is forecast at £9.464m in-year and the cumulative net Dedicated Schools grant forecast deficit is £14.843m. If this was required to be written off, it would not immediately require a

Section114 but would seriously deplete the Council's reserves and the likelihood of additional EFS request or Section 114 increases significantly.

Conclusion: whilst the budget is balanced for 2026/27, each service must take action to ensure they manage to contain their expenditure within the set budget limit. This will only be achieved by:

- Tactical management actions to reduce the in-year overspend.
- Longer term market management and demand reduction projects which will reduce the overall expenditure in the MTFS period.
- The Council's Transformation programmes have been identified to reduce both cost and demand on services, through more efficient processes, better income & debt collection and value for money in every decision. The programmes are all now in train and must deliver the savings that have been identified in the robust business case approvals made during 2025/26.

3.2. **Senior Officers, Managers & staff involvement**

3.2.1. The Council has maintained a robust system of budget monitoring during 2025/26 with a detailed Financial Monitoring Reports presented monthly to Senior Leadership Team, Cabinet and Budget Scrutiny.

3.2.2. In July 2025, the Senior Leadership Team (SLT) were presented with an early version of the MTFS for the following three years, which showed a funding gap of **£14m** in 2026/27 plus an underlying service pressure of £30m, therefore a total of approximately £44m. This was then presented to all Corporate Directors in the Council (the Extended Leadership Team (ELT), and each service was asked to consider savings proposals and created the foundation for a more collegiate approach to financial management within the authority. Many of these savings' proposals were identified through the Transformation programme which started in late 2023/24.

3.2.3. Throughout the summer & autumn, work continued with senior leaders to identify management actions to reduce the in-year pressures, with a particular focus on significantly reducing the number of agency staff, reducing the use of consultant and the use of honorariums.

3.2.4. During December, Strategic Directors presented their saving to the rest of SLT, for a robust discussion and challenge. These sessions and further refinement have identified **£31.848m** savings, for 2026/27 to 2028/29 which have been included in the 2026/27 Budget.

Conclusion: All senior officers understand the financial position and the imperative for management actions to curtail the overspend and then deliver savings to reduce the funding gap. However, there is a risk here, that there is insufficient organisational capacity and ability to transform quickly enough, which must be addressed for this budget to be delivered. Action must be taken by all senior officers, for the Council's finances to be sustainable over the MTFS period.

3.2.5. **Cabinet, Scrutiny, Labour Group, Conservative Group and Reform Group**

3.2.6. The refreshed MTFS scenarios (including potential EFS options) were presented to Cabinet members in November 2025, with a full and transparent process on the assumptions, the risks and the opportunities, and followed up with a series of away days where cabinet members could fully engage in the budget process and the savings proposals.

3.2.7. There is a monthly Finance meeting with the Leader & Deputy Leaders, Portfolio member for Finance, the Section 151 and the Deputy S151 officers to understand the monthly finance monitor, any MTFS updates and Fees & charges progress. The Portfolio member for Finance also has a bi-weekly 1:1 with the Section 151 officer and members of the Resources Management team to be fully briefed on any finance/commercial/legal/audit issues and give direction and guidance as necessary.

3.2.8. Budget scrutiny regularly reviews the financial monitor and the refreshed MTFS. Finance colleagues also offer finance training sessions and workshops for all members to understand the Council's budget better.

Conclusion: I see no risk from a lack of engagement or buy in from members, they have agreed with the major assumptions in the budget & MTFS (based upon the best information we have currently) and I am confident they understand the need for strong financial controls and the need to support the actions of senior officers to reduce the level of spend.

3.3. **Inflation**

3.3.1. For Waltham Forest, the consistently high inflation rates have manifested in every service area, with significant wage increase of 3.2% as an average across the workforce (greater for those on London Living Wage), whilst utilities costs have plateaued during the year. There continues to be constant pressure from third party contractors for inflation or above inflation increases due to their own financial pressures and increases in material prices which has put considerable pressure on the General Fund, the HRA and all capital projects, which continues into 2026/27 and beyond. As of December 2025, inflation has eased, however, there is not expected to be a substantial reduction in interest rates until at least mid-2026, meaning debt costs will remain prohibitively high alongside continued inflationary pressures.

Conclusion: the capital strategy has been refocussed to enable protection of the MTFS and alongside a commercial approach to any requests for inflationary increases means the Council is taking positive steps in this budget to mitigate this risk as much as possible, but it will need careful monitoring to ensure that projects and services remain within budget.

3.4. Adult Social Care

3.4.1. There continues to be pressures on providers across all adult social care, which was exacerbated by the increase to Employers' National Insurance from April 2025 with no additional funding from government. The service continues to see continual upward pressures in demand and price (mostly in external placement costs) the Council has now engaged an external consultancy for a substantial transformation savings programme, to start in August 2026, to drive efficiencies in process, contractual negotiations and service delivery. The council has chosen to also invest in its in-house commissioning function, to review all external contracts and commissioning arrangements plus to understand where further savings and efficiencies could be gained through better market management and the use of multi-borough frameworks.

3.4.2. For 2026/27, the service will have a £2.150m budget increase to recognise the base funding shortfall for external placement costs (£1m), Disabled Facilities Grant (£0.9m) and £3.024m, due to the increase levels of demand, that cannot be contained through transformation or efficiency programmes

Conclusion: The service must reduce the high costs, it is incurring (compared to comparator neighbours), which in turn will reduce the risk to the 2026/27 budget. This needs to be taken further through the transformation partner, to ensure that the right care is provided at the right time for the right cost, to ensure that the overspend in 2025/26 is drastically reduced into 2026/27 and beyond. This is an area of considerable risk and requires a cross-council, mission-based approach to solve many of the issues. This area will be under significant financial and performance scrutiny during 2026/27 and if progress isn't made, then there will need to be a stronger action plan put into place.

3.5. Children's Social Care

3.5.1. During 2024 to 2026, the number of Children in care has fallen significantly from a high of 312 to the latest data showing 262. The benefits of lower numbers in care are partly offset by rising unit costs of places due to market conditions.

3.5.2. The service has continued to reduce the level Section 17 spend as well as its level of temporary agency/contract staff, through conversion to permanent staffing or holding vacancies where it is safe to do so, bringing down the overall children's expenditure closer to the planned levels.

3.5.3. For 2026/27, the service will have an increase in its base budget to recognise base budget funding shortfall for Placements £2.1m, and £0.720m, due to the increase levels of demand, that cannot be contained through transformation or efficiency programmes

Conclusion: The service has taken considerable steps in 2024 through to early 2026 to reduce the number of children in care generally, but also those in residential care, giving them a better outcome as well as lower costs to the Council, meaning the 2026/27 budget is achievable. However, the service needs to ensure that all placements are reviewed regularly.

The service has also drastically reduced the number of temporary staff, either through attrition or through conversion to permanent members of staff, meaning reduced costs but also a permanent workforce that is focussed on the best needs of the children in the borough. This area will be under significant financial and performance scrutiny during 2026/27 and if progress isn't made, then there will need to be a stronger action plan put into place, now that there has been a significant investment to correct historic budget pressures due to uncontrollable demand.

3.6. **Special Educational Needs and Disability Service (SEND)**

3.6.1. There are continuing pressures in the SEND service, which is significant in the preparing for adulthood placements and Home to School Travel Assistance. Actions had been identified to mitigate these pressures, but these have not been successful in 2025/26 in mitigating the increase in costs.

3.6.2. The Home to School contract is of particular importance given the historic weaknesses in the market and its providers, which has meant the current contract has had to be extended for 2 years on a cost plus basis, meaning that the contract spend can be fully scrutinised by officers and only these agreed costs plus a slim margin can be paid to the provider, allowing the council to have greater influence on the costs where possible.

The Preparing for Adulthood service (also known as Transitions in other councils) is overspending in 2025/26 and will now be realigned during 2026/27 so that the costs and budget is split and sit in the correct area (either Children's or Adults) so as to ensure the right teams are completing the right panel reviews and there continues to be a focus from both Social Care Strategic Directors to ensure that the right packages are being purchased for these children to young adults in transition to ensure the right outcomes for the child as well as value for money for the council. This area will need a particular focus during 2026/27 to ensure the forecast budget is robust enough to contain any pressures.

3.6.3. For 2026/27, the service will have an increase in its base budget to recognise base budget funding shortfall for £2.932m due to the increase levels of demand, that cannot be contained through transformation or efficiency programmes.

Conclusion: The SEND service is a high-risk area of the budget, and whilst there are plans in place to mitigate the pressures more will need to be done as part of the transformation programmes to manage this area effectively and within budget, including the successful implementation of the planned staffing restructure to address part of the current overspend position.

Housing Demand and Temporary Accommodation (TA)

3.6.4. Waltham Forest, like all London Boroughs has seen an exponential increase in demand for temporary accommodation, mainly due to the lack of affordable housing, plus also a collapsing private rental sector as well as the failure of Local Housing Allowance (LHA) rates to keep up with market conditions. The numbers in TA have plateaued during 2025/26 due to a huge effort of staff to provide alternative housing options for those residents presenting as homeless. However, the current level (c 1,600 families) is not sustainable, and a significant transformation and demand management programme is in train to reduce this figure back to a more manageable figure.

3.6.5. The Council is seeing significant reduced supply and increased cost in procuring private rented properties, as the private rental market has been contracting in London. There are signs of this slowing down, however it is a risk in 2026/27 that private landlords will continue to exit the market (due to the Renters Rights Act). Increased costs are still a significant risk both in terms of procuring and sustaining placements and the lack of supply forces the Council to use more expensive types of accommodation, particularly commercial hotels.

3.6.6. The Council is working hard to tackle the issue of supply of new affordable homes, through the nationwide purchase of street properties and block purchase deals with developers such as Countryside. It has also block purchased rooms at two sites within the borough at a much-reduced cost to standard nightly accommodation for a 2-year period.

3.6.7. The Council has chosen not to provide any additional budget, to the Temporary Accommodation budget in 2026/27 as the potential opportunities for savings and demand management in this area are high and the TA pressure is not sustainable at its current levels and so must be addressed. However, the Council has chosen to create a contingency centrally should the TA savings and demand reduction plans not achieve the necessary financial impact as quickly as planned in 2026/27.

Conclusion: Housing and TA remain one of the highest risk factors to the council during 2026/27. Even with new homes being built by the Council, registered providers and private developers, demand is outstripping supply. There was a very real risk here of demand (and thus costs) vastly outstripping the financial reserves the Council has, within a 24-month period and will need strong demand management processes and mitigations, which both officers and members are well aware, hence the creation of the central contingency for non-delivery of savings. This area will be under significant financial and performance scrutiny during 2026/27.

The Housing Revenue Account (HRA)

3.6.8. The HRA had low levels of reserves during 2024/25 and therefore has had to replenish them to increase the HRA's financial resilience to ensure risk mitigation against future pressures (e.g. Building Safety, damp & mould etc). The Housing service has delivered a significant efficiency programme to reduce the net cost of the service and therefore to contribute to the replenishment of reserves, with the reserve level now ahead of the original plan.

3.6.9. The council has continued with the lower level of capital contribution from revenue funding for a period of 5 years to allow this funding to be used to rebuild the HRA reserves to a level of around £13m to £15m, at which point the HRA will be in a much more stable position and can consider investing back into estate regeneration, but only once the reserves have been replenished. The delay to the capital contribution means that the HRA debt is not paid off as quickly, however given the scale of the HRA debt, a 5-year reduction will not have a material impact on debt levels at this time.

3.6.10. The HRA also had a significant pressure on the maintenance area, to achieve the decent home standard commitment (part of the Councils C2 rating). In addition, the largest maintenance provider is requiring a contract renegotiation to increase the level of preliminary cost recovery due to under-pricing in the original contract cost. This increase cost has been included in the HRA budget and will ensure the maintenance provider will be able to complete the significant planned maintenance programme before the contract ends in 2027.

Conclusion: This is an area that needs close monitoring especially given the potential shocks that can occur suddenly and the low level of reserves, especially given the requirement for the HRA stock to meet "good homes standards" and provide safe accommodation for its residents. The approach outlined above is sensible and gives the HRA the ability to rebuild its financial position and continue to house the boroughs residents.

The Dedicated Schools Grant and High Needs Block

3.6.11. The increase in funding for the High Needs block is unlikely to be sufficient to fund the projected increase in Education and Health Care Plans (EHCPs) and other inflationary pressures. There is a significant risk of an additional in-year deficit in 2026-27.

3.6.12. The cumulative net DSG deficit is **£14.843m** comprising the High Needs Block deficit of **£18.336m** offset by surplus balances on the other Blocks.

Conclusion: The DSG deficit had been relatively small in a previous year but has increased significantly in 2025/26 and this trend is likely to continue. Therefore, this unfunded demand is leading to increases in the cumulative deficit. The Education service (alongside the Schools' Forum) needs to implement a series of management actions to mitigate this risk and has prepared a strategic deficit management plan to prevent the situation worsening and to turn the financial deficit around.

4. PROJECTED 2025/26 OUTTURN

4.1. The latest full year forecast for the year is a service pressure of **£32.973m** which will be managed by corporate action to balance the budget position by year-end, including a significant contribution from reserves.

4.2. There has been a reduction in Children's Social Care spend during 2025/26 which has reduced the overspend considerably. Adults Social Care has a robust plan in place but will need careful monitoring during 2026/27 to ensure not only are the savings delivered, but that spend is reduce, income is collected efficiently and that markets are managed.

4.3. Temporary Accommodation, Adult Social Care and SEND remain the biggest areas of concern within the 2025/26 outturn and the future MTFS period, which will require the use of Exceptional Financial Support to balance in-year positions for this MTFS period whilst the demand management and efficiency programmes get up to full speed.

Conclusion: The Council has managed to contain the £32,973m overspend position, which has been relatively flat since Month 3, but this has taken a lot of work to keep demand levels stable and not increasing. The 2026/27 Budget has now recognised some areas have fundamental budget shortfalls or unforeseen pressures which cannot be contained through any management action so base funding has been increased. Other areas have not had budgets increased for demand increases, as robust saving programmes have been identified to manage these positions, and a central contingency has been created to cover any shortfall in delay to the planned savings. Exceptional Financial Support has been requested to provide the Council, the time to transform itself, reduce the levels of demand across Adults, Children's, SEND and TA whilst also providing a safe and legal level of reserves as a prudent measure to ensure any potential future unforeseen pressures or shocks can be contained.

5. RESERVES

5.1. The Council's total reserves have reduced significantly from **£126m** in 2020/2021 to a forecast of **£32.543m by March 2026**. Within that are large balances which are not controlled by the Council (e.g. Schools balances), but the earmarked reserves reduced from **£87m** in 2020/21 to **£19.371m** by March 2026. Reserves were chosen to be utilised to fund the MTFS in recent years as well as the Fair Deal programme to enhance services coming out of COVID-19 pandemic.

5.2. A recent study shows that the Council was ranked 12th out of 26 London boroughs (6 did not respond) in terms of reserves as a percentage of net expenditure, a measure of how much reserve cover the Council has. Whilst this was slightly above the average it did show a big concentration of councils between 2% and 3%, for which the Council is at the upper end of this group.

5.3. The Council has used a large proportion of the Budget Strategy Reserve £5.3m in 2025/26 to fund transformation programmes to deliver savings. This is the foundation of the balanced budget for 2026/27 but going forward it will not have the same level of reserve available for this change capacity.

Conclusion: The earmarked reserve balance of **£19.371m** is low for an authority this size at 6% of our general fund budget and to ensure long term financial sustainability, must be replenished, meaning that in-year pressures must be contained and that the funding gaps are closed and generate a surplus/underspend on the general fund.
The council cannot rely on its reserves to cover future funding gaps and so senior officers and members must deliver on the savings that have been identified and continue to manage in year pressures within the financial envelope.

6. CAPITAL STRATEGY

6.1. The Capital Investment Strategy demonstrates the delivery of our investment programme and plans, recognising the vital role that the Council plays in ensuring Waltham Forest continues to build for the future. It sets out the Council's capital programme with **£733.4m** of planned investment over the 11 years to 2033/34.

Conclusion: the strategy (and thus officers and members) has recognised that market factors such as high inflation, high interest rates and rapidly increasing material prices means that the previous level of capital investment ambition in the borough has had to be reconsidered, and a new principle-based approach will apply for all new schemes to protect the Council's MTFS. The programme also contains **£8.6m** of contingency for existing schemes, with the main focus of the programme being on Housing delivery, street property purchases and the fully funded Levelling Up Funding programmes.

7. MEDIUM TERM FINANCIAL STRATEGY

7.1. The Council's latest MTFS forecasts a net funding gap of **£19m in 2027/28 and £24m in 2028/29**, this gap can be reduced by further savings and efficiencies throughout the future MTFS periods and if not, then further applications for EFS will be required. The Fair Funding review has only identified a 4.2%% increase for the Council's funding in 2027/28 and 4.1% in 2028/29 which is insufficient to cover the inflationary and demand pressures across the majority of services.

Conclusion: To deliver a robust balanced MTFS in the future, requires significant amount of savings by tactical utilisation of EFS. The Council has put robust programme management in place, all staff members are aware of the financial situation and the need to curtail spending, all Directors and Heads of Services have been fully engaged throughout the run up to the 2026/27 Budget, identifying options for savings & efficiencies. The work will need to continue through 2026/27 and beyond to ensure that the Council remains financially sustainable, as the funding gap is still a significant challenge.

8. CONCLUSION

8.1. Robustness of estimates and assumptions

8.1.1. In my role as Section 151 Officer of the authority, I am comfortable with the robustness of the estimates in the Budget and the MTFS (as far as it can be predicted). The assumptions allow for targeted service pressure funding where necessary, realistic savings and efficiencies which have a more than reasonable chance of delivery, as well as an overall level of contingency should the savings/demand reduction not be achieved next year, as expected.

8.1.2. Services must take the actions they have committed to, to ensure the council's future sustainability and replenishment of reserves to mitigate the risks identified throughout this report. Even with the EFS request, the Councils reserves are low when compared to our peer authorities meaning our ability to react to shocks is diminished and so resetting Council finances must be a priority for the MTFS period.

8.2. Financial Sustainability

8.2.1. In my role as Section 151 I can confirm that the authority:

- has adequate reserves for the next 12 months, subject to any major unforeseen unfunded burdens or shocks and only if the EFS request of £19m is approved by MHCLG.
- has adequate reserves for the next 12 months, subject to services delivering the management actions to reduce the overspend and the MTFS savings that have been identified already and making progress

toward the remaining MTFS gap through the Transformation workstreams, and subject to the same points as above.

- The Senior Leadership Team and the Council's political leadership team and Council are in fully supportive of the need to make some tough decisions to close the funding gap.

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