CABINET

Report subject	**Budget 2025/26 and Medium-Term Financial Plan**
Meeting date	5 February 2025
Status	Public Report
Executive summary	To set out for Cabinet's consideration and recommendation to Council the proposed 2025/26 budget and council tax based on. • Increasing council tax by 4.99% in 2025/26 in line with the government's annual referendum threshold which can be broken down into a 2.99% basic increase and a 2% uplift by way of the Adult Social Care (ASC) precept. • Implementation of the approved financial strategy. • Implementation of £7.8m of further savings, efficiencies, and additional income generation required to set a legally balanced budget and support the basis of a more financially sustainable council moving forward. • Borrowing to fund the Special Educational Needs and Disability services revenue expenditure above the level of the Dedicated Schools Grant (DSG) High Needs grant. It will also be considered with government if it would be prudent to obtain a capitalisation direction associated with the 2024/25 and 2025/26 interest costs on the accumulated DSG deficit. • Recognise that the government must come up with a permanent solution to return the SEND system both locally and nationally to financial sustainability. • Recognition that the council is technically insolvent from the 1 April 2025 onwards as the accumulated deficit on the DSG will be greater than the total reserves held by the council, with a negative overall general fund position and is only protected by the statutory override. This report also provides the latest Medium Term Financial Plan (MTFP) covering the 3-year period to 31 March 2028.
Recommendations	**It is RECOMMENDED that Cabinet recommends that Council:** **a) Undertakes a recorded vote in relation to the following items as required by the Local Authorities (Standing Orders) (England) (Amendments) Regulations 2014.** i) Agrees that a net budget of £356m, resulting in a total council tax requirement of £281.2m, is set for 2025/26 based on the draft local government financial settlement figures published by government in December 2024. ii) Agrees an increase in council tax of 2.99% for 2025/26 in respect of the basic annual threshold and the collection of the additional social care precept of 2%. iii) Confirms the key assumptions and provisions made in the budget as proposed and as set out in Appendix 3.

	iv) Agrees the allocations to service areas in the budget as set out in Appendix 5. v) Agrees the implementation of £7.8m of savings as set out in Appendix 5a. vi) Approves the flexible use of capital receipts efficiency strategy as the mechanism for funding the council's transformation related expenditure as set out in Appendix 6. vii) Approves the capital investment programme (CIP) as set out in paragraphs 84 to 97 and Appendix 7. viii) Approves the asset management plan as set out in Appendix 8. ix) Agrees the treasury management strategy (TMS) and prudential indicators as set out in paragraphs 100 to 103 and Appendix 9. x) Accepts and supports the formal advice of the chief finance officer on the robustness of the budget and the adequacy of the reserves as set out in paragraphs 118 to 124 and Appendix 10. **b) Accepts the government revenue and capital grant announcements linked to the 2025/26 local government finance settlement. This includes a £1.373m UK Shared Prosperity Fund (UKSPF) grant for 2025/26 split between revenue and capital as set out in paragraphs 37 to 40.** **c) Agree to borrow to fund the 2025/26 excess Special Educational Needs and Disability (SEND) High Needs DSG revenue expenditure above the government grant being made available. This is subject to clarification and negotiation with government, including whether or not a capitalisation direction will be required. A capitalisation direction may also be considered in respect of the associated interest costs.** **d) Approves an increase in the permanent pay bill of the authority due to the implementation of the pay and reward project from the £1.641m pa agreed in December 2024 to £2.793m pa (1.5%) after the end of the pay protection period.** **e) Delegate to the Chief Executive, in consultation with the Director of Finance, Leader, and Portfolio Holder for Finance, the allocation of any additional resources that become available through the final 2025/26 local government finance settlement or any other means.** **f) Approves the chief officers' pay policy statement 2025/2026 for consideration and approval by the council in accordance with the provisions of the Localism Act 2011 as set out in paragraphs 126 to 128 and Appendix 12.**
Reason for recommendations	The council is required to set an annual balanced budget presenting how its financial resources, both income and expenditure, are to be allocated and utilised.
Portfolio Holder(s):	Cllr. Mike Cox, Portfolio Holder for Finance
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Wards	Council-wide

Classification	For Recommendation

Overview of the proposed 2025/26 budget

1. The proposed 2025/26 Budget marks a watershed moment in the financial position of BCP Council. It is the first time the council will start a financial year with an accumulated deficit on its Dedicated Schools Grant (DSG) in excess of the total amount of its reserves and balances. In other words, it is the first time the council will start the year in a technically insolvent position. The Council is protected by the ongoing statutory override, but that is due to expire on 31 March 2026, by which time the government is committed to resolving the SEND budget. The matter is made even worse as the council will in 2025/26 have exhausted its treasury management cashflow headroom which up until now has been the mechanism by which it has been able to temporarily fund the excess high needs DSG revenue expenditure. Although the government are committed to establishing a permanent resolution to return the system to a financial sustainable position, any announcement on their proposals will be presented too late to be incorporated in the councils 2025/26 proposed budget. The consequence is that without some form of government support or guidance the council would be unable to present a legally balanced budget for 2025/26.

2. At the time of writing this report the discussions and negotiation with government remain ongoing. They focus on the fact that any solution is being seen as only temporary on the basis that the government have made a firm commitment to act to deliver a solution which addresses this issue and also returns the SEND system to financial sustainability. As local authorities can exceed their borrowing limits provided it is only temporary, consideration is being given as to whether or not a formal capitalisation direction (permission to borrow) is required to fund the £57.5m of revenue SEND High Needs expenditure above the £64.5m DSG government grant in 2025/26. Consideration is also being given to whether there would be any advantage to the authority in applying for a capitalisation direction to cover the costs that fall to the general fund from this arrangement being lost investment income / additional borrowing costs. The views of CIPFA and the External Auditor will be sought before any conclusions are reached.

3. BCP Council is not alone in facing the challenges presented by an accumulating deficit on its DSG caused by the level of annual revenue expenditure on SEND services exceeding the annual High Needs grant made available by the Department for Education (DfE). Nationally the accumulated deficit is estimated to reach £8bn by end of 2026/2027. BCP is, though, the first local authority to raise the cashflow issue directly with government. In a report issued by the Public Accounts Committee on the 15 January 2025 the committee's chair, Sir Geoffrey Clifton-Brown, issued an urgent call for Government to take action to improve a system which is failing the families who need it, and putting almost half of all councils in England at risk of effective bankruptcy within 15 months.

4. Setting the DSG issue to one-side, the general approach being taken as part of the 2025/26 budget and medium-term financial plan focuses on value for money, the council's financial health and ongoing sustainability and continues the approach of adopting a traditional and conventional approach to local government finances. It is however a budget that has to continually recognise the acute pressures caused by previous years of austerity, inflation uncertainty, current high borrowing rates and the exceptional demand pressures faced by all local authorities, and other public services, at this time. Principal amongst these is the impact of the following two major announcements included in the Chancellor of the Exchequer's 30 October 2024 national Autum Budget.

   - An increase in the National Living Wage by 6.7% or to £12.21 from April 2025.
   - An increase in National Insurance contributions from 13/8% to 15% with a reduction to the per-employee threshold at which employers become liable from £9,100 down to £5,000.

5. **Figure 1:** Analysis of the impact of the NLW and NI increases on BCP Council

Estimate £000's	
	National Living Wage
9,028	ASC - Commission Care Costs
957	Children's Services - Commissioned Care Costs
9,985	
	National Insurance Increase
5,200	Employeed Staff
4,870	ASC - Commission Care Costs
445	Children's Services - Commissioned Care Costs
10,515	
20,500	**Total costs associated with NLW and NIC**
	Specific Funding Contributions
(5,867)	Social Care Grant *(no resources for demand and other inflationary pressures)*
(3,318)	Estimated National Insurance Contribution Grant employed staff
(9,185)	
11,315	**Net Position on NLW and NIC**
4.38 %	**Council Tax Increase required to cover just NLW and NIC contribution changes**
5.00 %	**Maximum permissable Council Tax before a referendum**
0.62 %	Council tax increase available to cover demand and other inflationary pressures in not just Adults & Children but all other services provided by the council, the annual pay award for staff, extra interest costs of DSG deficits etc.

6. What figure 1 demonstrates is that after taking account of the additional government resources that could reasonably be applied in support of these specific government policies, 88% of the permitted 2025/26 council tax increase is required to cover the shortfall relating to these two government policy announcements. This leaves very little of the resources generated by a 4.99% council tax increases to support all the other demand and cost pressures the council will face.

7. In respect of the proposed 2025/26 budget, other key additional salient points include.

   a) In line with the government thresholds, to increase council tax by 2.99% for the basic element and 2% for the social care precept.

   b) Provision of £6.5m in extra resources to cover demand and inflationary pressures in the council's highest priority area, Children's Services. This is in addition to the £5.1m of permanent addition resources provided as an adjustment to the 2024/25 budget as agreed by Council in October 2024.

   c) Provision of £14.4m in extra resources to cover demand and inflationary pressures to the most vulnerable members of our community via investment in Wellbeing Services be that adult social care or housing services.

   d) Assumes the delivery of £7.8m in savings, efficiencies, and additional resources for 2025/26 with each saving supported by a detailed delivery plan with some supported by the application of one-off resources to phase in their implementation.

   e) Lifting on the freeze on all non-essential expenditure that was applied as part of the Council agreed budget for 2024/25.

Corporate Strategy

8. Consideration of the development of the 2025/26 budget for BCP Council will be within the context of the Council having been formed in 2019 as the most complex piece of Local Government Reorganisation in a generation. It will also be in the context of a unitary authority which is currently only in its sixth year of existence, with annual gross turnover of around £781m, and an annual net revenue budget which for 2024/25 was £357m. Consideration should also be given to the legacy impact on the organisation's financial and non-financial resources of the global Covid-19 public health emergency, the cost of living crisis, and a financial environment which saw the council enter the governments Exceptional Financial Support programme in 2022 and will again as part of this proposed 2025/26 Budget.

9. In setting the budget for 2025/26, it is also critical that consideration is given to the vision and ambitions of the council, ensuring that the organisation commits its limited resources in accordance with its stated priorities.

10. In support of this, a new BCP Corporate Strategy was developed following a change in administration after local elections in May 2023. This was adopted by the Council in January 2024. This Corporate Strategy replaced the Big Plan and previous Corporate Strategy and provides a simplified strategic framework, establishing a single set of key priorities and ambitions for the Bournemouth, Christchurch, and Poole (BCP) area.

11. The Corporate Strategy creates a vital component for policy development, service planning and performance management, enhancing good governance and transparency in decision-making.

12. As set out in the Corporate Strategy, the vision for the area is "**where people, nature, coast and towns come together in sustainable, safe and healthy communities**" with two key priorities and a set of ambitions for each:

    a) Our People and Communities – everyone leads a fulfilled life, maximising opportunity for all.

    b) Our Place and Environment – vibrant places where people and nature flourish, with a thriving economy in a healthy, natural environment.

13. These priorities are underpinned by our approach as a council, to be "an open, transparent and accountable council, putting our people at the heart of our services" with a set of guiding principles by which the council will work. This is shown in figure 1 below with an A4 version attached at Appendix 1a.

Figure 2: BCP Corporate Strategy

14. The Corporate Strategy is supported by delivery plans which will set out high level actions and SMART objectives to work towards the ambitions. Key performance indicators, published in a Delivery Plan, will help the council to monitor progress and identify trends.

15. Despite facing a persistently challenging economic climate, the council has advanced key priorities aimed at positively impacting residents, businesses and the local area. For instance:

- The council continues efforts to reduce the number of families temporarily housed in Bed and Breakfasts (B&Bs). The number of children in B&Bs over Christmas was reduced by 90% compared with last year, thanks to Bournemouth, Christchurch and Poole (BCP) Council's partnership efforts to address homelessness and the need for emergency accommodation. Additionally, despite an increase in demand, the council is on track to meet end-of-year targets.
- Targeted initiatives continue to focus on reducing the number of people rough sleeping across Bournemouth, Christchurch and Poole, with particular attention given to those who have been living on the streets long-term.
- Support remains consistent for individuals with learning disabilities and mental health conditions to ensure they are able to live independently, and where possible, are supported into employment. The Supported Employment Review has been recognised as one of six priorities in the co-produced Day Opportunities Strategy. Furthermore, the BCP Council-led Shared Lives scheme, which matches adults and young people with care and support needs with skilled carers to become part of their home and local community, was rated as 'Good' by the Care Quality Commission (CQC).
- The council has also collaborated with partners to deliver a new vision to support carers, outlining a commitment to improving the future for nearly 69,000 unpaid carers across Dorset, coordinated by the Pan Dorset Carers Steering Group. This group includes BCP Council, Dorset Council, carers across Dorset, and NHS Dorset.
- The council's School Attendance Team has been working closely with all schools across Bournemouth, Christchurch and Poole to identify priority pupils who are missing out on education.
- Upton Country Park has successfully completed the first phase of a £2.3 million Discovery Project, which celebrates the heritage of Upton Country Park by restoring, conserving, and interpreting its historical features and landscapes. This initiative has been made possible by the Parks for People Programme supported by The National Lottery Heritage Fund and The National Lottery Community Fund, alongside additional funding from BCP Council and the Friends of Upton Country Park. It aims to create a more accessible, sustainable, and vibrant attraction that will engage visitors through opportunities for learning, participation, and inclusive interpretation.
- The council continues to invite the input of communities on local matters, seeking views from neighbourhood groups, community organisations, and individuals as part of a Community Governance Review. This review supports the establishment of elected parish and town councils, which can make decisions about their own communities, invest in facilities, manage local assets such as recreation grounds, play parks, and community buildings, and organise events and festivals.
- The council was also given a clean bill of health by the Government in August 2024 following the removal of the 'Best Value Notice' meaning it had met all standards for delivering best value for residents. The Ministry of Housing, Communities and Local Government noted the council's work since the notice was given to update its transformation plan, work to improve its budget position, provide direction by delivering a corporate strategy, strengthen its leadership team and undertake governance reviews of subsidiary companies.
- The council also continues to prioritise its commitment to improve local highstreets and town centres, becoming one of only four areas across the UK to trial the High Street Rental Auctions scheme, leading the way and setting an example for other local authorities in filling empty shops.

Financial Strategy

16. A financial strategy designed to support the setting of a legal and robust budget for 2025/26 focused on conventional local government financial management processes and revenue sources was approved by Cabinet in July 2024. Developed by Cabinet working with Senior Officers, the strategy was focused on the following summarised workstreams.

a) Delivery of the February 2024 Medium Term Financial Plan (MTFP)

Deliver the assumptions included in the MTFP with specific emphasis on the assumed savings, efficiencies, additional fees and charges and service adjustments.

b) Dedicated Schools Grant (DSG)

Implement the 15-DSG recovery plan. Explore with the Ministry of Housing, Communities and Local Government (MHCLG) and Department for Education (DfE) a solution to the councils significant accumulating DSG deficit and how a legal balanced budget for 2025/26 can be set when the headroom in Treasury Management being used to cashflow the deficit will be fully exhausted.

c) Financial outturn 2023/24

Review of the 2023/24 Financial Outturn to consider extent to which the base revenue budget can be rebased to reflect income and expenditure patterns in the period since the 2024/25 budget was set.

d) Accommodation strategy

Ongoing review of underutilised and unused buildings with a view to rationalising the corporate estate and further consolidating the staff in the civic centre.

e) Corporate landlord model

Continue the work to develop and implement a virtual Corporate Landlord Model which in turn will support the production of a full Asset Management Plan.

f) Pipeline of capital receipts from asset disposals

Continue with the development of an ongoing programme of sales from assets no longer needed for service or strategic reasons.

g) Capital programme

Minimise new capital requirements/bids by only considering fully externally funded schemes, those where there is a legal requirement, and robust self-financing business cases that use the council's ability to borrow to invest in capital infrastructure and which additionally drive down operational costs or avoid demand pressures.

h) Transformation investment programme

Continue the delivery of the transformation business case with particular focus on the already programmed savings and the underlying need to resize the authority with the resultant reduction in the head count of the authority.

i) Fees and charges

Applying the principle of full costs recovery ensure all fees and charges are increased in line with the impact of inflation on the service including the impact of the pay award and the pay & reward workstream.

j) Service rationalisations

Consideration of services that the local authority is not required to provide and any expenditure on services that it currently provides above the statutory minimum.

k) Procurement and commissioning

Following the creation of an Officer Procurement and Contracts board, consider the extent to which improved contract management arrangements can drive better value for money arrangements.

l) Harmonisation of services

Continue to eliminate areas of difference in service standards across the conurbation following the 2019 Local Government Reorganisation.

m) Review of the business rates collection fund

Ongoing review of the Business Rates Collection Fund following the fundamental review undertaken with independent expert advice in support of the 2024/25 budget process

n) An enabling council – A strength-based approach

Continue consideration of the extent to which the community would be better placed to manage council assets, and the services delivered within them through volunteers and other sources of funding.

o) Explore alternative structures for the delivery of services

Explore via a community governance review, the extent to which a greater level of harmonisation can be achieved via the consistent transfer of services to town and parish councils

p) Resident cards

To potentially be introduced with potential differential charging approach between residents and non-residents.

q) Integrated care system

Discussions with the representatives of the new Integrated Care System (who represent the delivery of National Health Services across Dorset) with a view to determining how the two organisations can more effectively work together with a view to driving down the overall costs of the system.

r) Housing Revenue Account (HRA) / Companies

Update the 30-year HRA business plan following the creation of BCP Homes. This should be facilitated by a complete review of all recharges between the General Fund and both the HRA and companies, and vice versa, to ensure in line with latest best practice.

s) Review of the balance sheet

Continue ongoing review of the authority's balance sheet including reserves and provisions.

t) Government reforms

Continue to monitor various government proposals which will have a direct impact on either the cost base or income sources available to the council.

17. In addition, and in support of the financial strategy, Cabinet agreed to a 2024/25 in-year expenditure freeze as part of the 2024/25 budget report and a 2024 voluntary redundancy process to support future year savings at its meeting on the 2 October 2024.

18. In essence, the financial strategy has been designed to improve the overall financial resilience of the council, to provide more overall financial stability, and to ensure that the Council can set a balanced budget and manage the medium-term financial strategy, and to avoid what is referred to as a s114 report being issued. A brief explanation of a s114 report is provided in Appendix 1b.

Best Value Notice / CIPFA Financial Resilience Review

19. On 3 August 2023 the council was issued with a non-statutory Best Value Notice from DLUHC in response to concerns highlighted in an external assurance review they had commissioned because of the non-traditional approach taken by a previous administration. This external assurance review, which is an independent review into the council's governance arrangements, was undertaken by Leslie Seary the former Chief Executive of the London Borough of Islington and built on an Assurance Review carried out by the Councils Chief Executive.

20. A Best Value Notice is issued to "facilitate engagement with that authority and to obtain assurance of the steps it is taking to secure compliance with the Best Value Duty, as required by the Local Government Act 1999".

21. As an exercise in continuous improvement, the council welcomed both the external assurance review and Best Value Notice. In response, an action plan was developed and was regularly reviewed by DLUHC and Cabinet. These monitoring reports also picked up on the actions of the council's Chief Executive's internal assurance review carried out over a similar timescale.

22. One of the actions was for the council to commission a CIPFA financial resilience review. Such reviews can be requested in tandem to the one for external assurance of governance however, due to the assessment of our issues being particularly governance-related, the CIPFA review was only requested following the outcome of the governance review.

23. CIPFA undertook the necessary detailed work in September 2023, however their final report was significantly delayed due to their resource constraints and other priorities taking precedence. Their final report and the associated action plan were presented to Cabinet in July 2024. It is important to highlight that their findings highlighted that BCP Council had taken positive steps to improve its financial resilience since the BV Notice was issued and there were no critical recommendations.

24. As an outcome, in September 2024, the council received a letter from the Ministry of Housing, Communities and Local Government ((MHCLG) which set out that they would not be renewing the Best Value Notice. The letter thanked the council for its constructive engagement and the positively way it had worked with government to implement a range of improvement measures to address their identified concerns. BCP Council was one of the first councils not to have a BV Notice renewed.

Public Consultation

25. In support of the process for setting a budget for 2025/26, and as part of its commitment to being open and transparent, the council undertook a consultation asking residents and stakeholders for their views on the importance of council services, the level of council tax increase and priorities for spending. A questionnaire and consultation document were produced and available online and in paper format. The consultation was widely promoted through a press release and social media channels. The consultation was sent to residents and stakeholders signed up to the council's consultation register. The consultation closed on Friday 29 November 2024. Alongside the open consultation, the council decided to undertake a sample survey to obtain the views of a representative sample of residents.

26. In total we received 1,226 responses to the consultation questionnaire and 750 sample survey respondents. A summary of the consultation and sample survey findings and the full analysis report can be found in Appendix 1b.

Provisional Local Government Finance Settlement for 2025/26

27. On 18 December 2024, Jim McMahon, the Minister of State for Local Government and English Devolution, announced the 2025/26 provisional local government (LG) finance settlement. This was preceded on the 28 November 2024 by a local government finance policy statement which set out some detailed assumptions in advance of the settlement.

28. Figure 3 below sets out the impact of the provisional 2025/26 local government finance settlement on the unringfenced grant allocations as it pertains to BCP Council.

Figure 3: Provisional LG 2025/26 Finance Settlement - Unringfenced grants

	2024/25 £m	2025/26 £m	Change £m
Unringfenced Grants			
Revenue Support Grant (RSG)	4.2	4.4	+0.2
- Specific Grants rolled in RSG	0.1	0.0	-0.1
Service Grant	0.4	0.0	-0.4
New Homes Bonus	0.1	0.3	+0.2
Recovery Grant	0.0	0.0	-
	4.8	**4.7**	**-0.1**

29. Once again, the announcement was later than expected; it was issued the day before the Parliamentary Christmas recess, and it was also the 7th consecutive one-year settlement. These issues combine to create difficulties for all local authorities by shortening the time available to react and undermining their ability to undertake accurate long-term financial planning.

30. In presenting the provisional settlement government will make reference to it providing for a 5.4% increase to the "spending power" of the council in 2025/26, which was 5.7% nationally. This indicator captures the main streams of government funding to local authorities but can be confusing as it also includes.

    a. 100% of the extra resources that the council would generate if it increased council tax by the maximum permitted 4.99% in 2025/26.

    b. 100% of the extra resources that the council will be able to retain locally from the 1.7% September 2024 inflationary increase to business rates.

31. Therefore, substantially the provisional LG 2025/26 finance settlement announced a reduction in the general unringfenced grants made available to support the authority in the substantial financial challenges it is facing at this time. This included confirmation that the council will not receive an allocation from the new £600m Recovery Grant introduced for 2025/26. This grant is being allocated to areas with the greatest need and demand for services and less ability to raise income locally. BCP Council did not receive an allocation under this funding formula because it is an area with a relatively high council tax base and is therefore deemed to be able to generate more of its resource needs locally via council tax. This approach creates a significant concern for the future as the government also announced a consultation document on Local Government Funding Reforms with a phased implementation beginning with the first year of the multi-year settlement in 2026/27.

32. Early work by a national modelling organisation suggests that BCP Council could see up to a £12m per annum reduction in Revenue Support Grant from these future funding reforms. At this stage the MTFP makes no financial planning assumptions relating to this assumed outcome as the work remains at an early stage and the council will be lobbying to the encourage government not to implement a funding formula that takes local resources, predominately raised via council tax and business rates, and redistributes them nationally.

33. The provisional LG Finance Settlement did though announce increases in a number of specific grants that have to be applied in line with the governments funding conditions. This includes the social care grant (as referenced in paragraph 4 of this report), the Homelessness and Rough Sleeping grant (24% increase from £7.051m to £8.723m), Children's and Families Grant (21% increase from £2.127m to £2.566m) and a new Children's Social Care Prevention grant (£0.966m allocation) to invest in additional prevention activity through transition to family help and its national roll out. In respect of specific government grants to support capital expenditure there was a significant 39% increase in the Highways Maintenance grant (£7.478m from £5.390m) and the Disabled Facilities Grant was increased from £3.838m to £4.366m although unusually this increase was backdated and applied from 2024/25 onwards.

34. The other significant element of the provisional settlement was confirmation that government will be making a total amount of £515m available nationally to compensate local government for the impact of the National Insurance Contributions increase on councils as employers of staff. However, individual allocations to local authorities will not be published until the final settlement normally issued in early February. This is on the basis that the data set they are proposing to use is not yet complete. For the purposes of drafting this budget proposal the assumption is that the council will receive £3.3m compensation for the increase in employer national insurance costs for its employed staff which is an annual £1.9m shortfall compared to the £5.2m forecast increase to the councils cost base from 2025/26. The actual impact is more than £5.2m however it is a standard assumption in such situations that services which are paid for via fees and charges, grants, capital, the housing revenue account or are full cost recovery will adjust their charges/recharges as appropriate. The council's response to the consultation issued in respect of the provisional 2025/26 settlement is attached as Appendix 1d.

Extended Producer Responsibility

35. Alongside the provisional LG Finance settlement, the government also announced further details of this policy designed to help achieve environmental goals such as recycling by making producers responsible for their products along their entire lifecycle including the post-consumer stage. In 2025/26 BCP council have been given a guaranteed allocation of £9.447m to help offset costs associated with waste collection and disposal.

36. Regarding future years there is a high degree of uncertainty. It is clear that the Scheme Administrator (PACK UK) will be required to assess the effectiveness of the council's waste management services, and the amount received will no longer be guaranteed and will be impacted by the market's reaction to these costs and their activity to reduce packaging and increase recycling. At this stage a 20% reduction in 2026/27 and further 10% reduction in 2027/28 have been assumed in the grant allocation. In future years the arrangement may have an impact on costs associated with recycling and waste disposal and there may also be the need for additional service costs to ensure compliance with this new government policy. The Environment Service are looking to engage leading sector specialist to help ensure the robustness of the council interpretation of the policies financial implications.

UK Shared Prosperity Fund (UKSPF)

37. The UKSPF was introduced in 2022 as a three-year programme as part of the levelling up agenda to support all places across the UK. Underneath the overarching aim of building pride in place and increasing life chances, there are three UKSPF investment priorities of communities and place, supporting local business, and people and skills.

38. The council's 2022 allocation of £4.195m successfully delivered outputs and outcomes across business, communities and skills in line with the approved investment plan. Activity is governed by the Local Partnership Group and the council's UKSPF Strategic Board, with progress reported to government.

39. In December 2024, the programme was extended for a further year with the council to receive in 2025/26 a total of £1.373m, split as £1.119m revenue funding and £0.254m for capital.

40. This report via recommendation (b), requests that the UKSPF extension is accepted by Council and spent in line with the existing already approved investment plan with existing governance arrangements to continue. Overall responsibility for the investment plan is to be delegated to the Chief Operations Officer in consultation with the Portfolio Holder for Destination, Leisure and Commercial Operations. A report reviewing the programme and its successes will be brought to Cabinet in 2026/27

Quarter 3 Budget Monitoring Report – 2024/25

41. The December projection for the current 2024/25 financial year is that the council will manage its budget within the parameters of the February 2024 Council approved resources for the year. This estimate is an improvement from the quarter two forecast £2.964m overspend and reflects a combination of the continuation of the application of strictly controls over expenditure and budget holders applying mitigation strategies to reduce or manage previously identified service pressures.

42. At this stage the balanced forecast has been achieved without drawing down the entire £7.9m of corporate contingencies set aside as part of the original budget to manage risks including that associated with the delivery of £38m of assumed savings. The residual £0.9m not being applied at this time will help address any volatility in a number of estimates including those associated with contributions towards social care costs, inclusive of those from the NHS and other local authorities.

43. As a matter of principle should any surplus resources be available at year end then consideration with be given, as recognised in the Treasury Management Strategy, to the voluntary repayment of debt bearing in mind the budget for the year adopted a different strategy to debt repayment from that previously applied.

44. Full details of the quarter three Budget Monitoring report and latest forecast for 2024/25 are presented as a separate report on this Cabinet agenda.

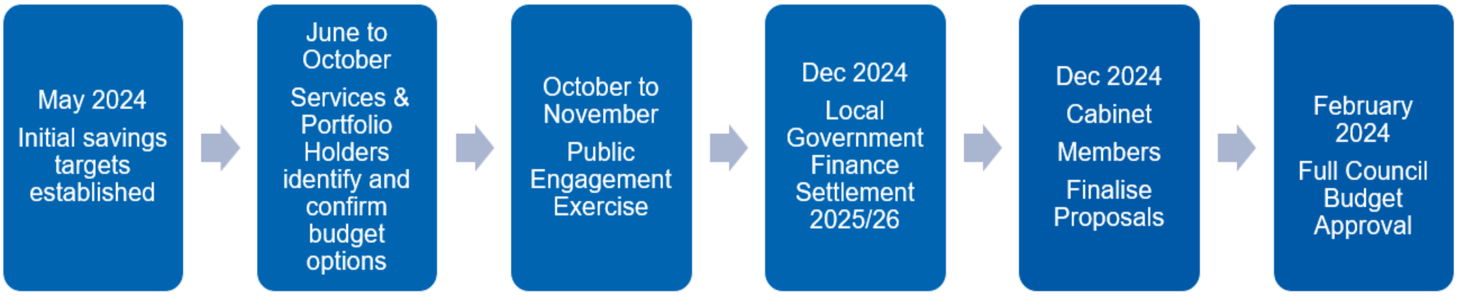
2025/26 Proposed Budget

45. Council has a legal responsibility to set an annual balanced budget (Local Government Finance Act 1992) presenting the plan for how its financial resources are to be allocated and utilised. In that context the budget for 2025/26, and the MTFP, should be seen in the context of a rolling, evolving process structured to enable the ongoing proactive management and prioritisation of the council's resources. It is therefore an evolving document which will be constantly changing, and which will require regular monitoring with actions taken to mitigate variations as they occur. As such Cabinet have been clear that work will remain ongoing in relation to efforts to materially improve the council's financial sustainability and resilience.

46. As a relatively new council, setting the budgets in the first seven years has been a challenge due to the lack of historic data and trend information for the council as a single entity. Stability around this position has been and will continue to be impacted by the ongoing uncertainty around the impact and long-term consequences of Covid-19 alongside that caused by the cost-of-living crisis and other global economic events.

47. The budget planning process and timetable in support of the 2025/26 budget were approved by Cabinet in July 2024. A high-level summary can be shown as follows.

Figure 4: High level summary of the budget planning process



48. The key dates in the 2025/26 budget setting process can be set out as follows.

July 2024	Cabinet – Quarter 4 - Financial Outturn 2023/24
July 2024	Cabinet - MTFP update report
September 2024	Cabinet - Quarter 1 - 2024/25 budget monitoring.
October 2024	Cabinet - MTFP update report.
October 2024	Budget Consultation Exercise Opens
November 2024	Budget Consultation Exercise Closes
November 2024	All Members – Draft developing 2025/26 Budget Presentation
December 2024	Cabinet – Quarter 2 – 2024/25 budget monitoring
December 2024	Cabinet – MTFP update report.
December 2024	Cabinet – Cashflow crisis caused by demand, cost for high needs
January 2025	Cabinet - Council Tax – 2025/26 tax-base report.
January 2025	Audit & Governance Committee (Treasury Management Strategy)
January 2025	All Member – Final proposed 2025/26 Budget Presentation
January 2025	Presentation to representatives from Commerce & Industry
February 2025	Cabinet - Quarter 3 – 2024/25 budget monitoring.
February 2025	Cabinet – 2025/26 proposed budget & MTFP update.
February 2025	Councill – 2025/26 proposed budget and council tax setting.

49. In addition, and in support of the process, the council's constitution has been updated in 2024 by way of new Budget and Policy Framework Procedure Rules which enhanced governance and safeguard arrangements around any proposed alternative budget proposals.

50. Furthermore, steps have also been taken to enhance the associated Budget Overview and Scrutiny arrangements. This included an all-members Budget Skills Training for Councillors session which was held on 29 July 2024, which was followed, in September 2024 by Directorate Budget Awareness sessions and during October 2024 by task & finish working groups to explore key lines of enquiry within their area of responsibility. The areas considered in further detail were as follow.

Children's Services Overview and Scrutiny Committee

School Transport costs

Care growth forecast

Health and Social Care Overview and Scrutiny Committee

Demand Management (Adult Social Care)

Environmental and Place Overview and Scrutiny Committee

Climate & ecological emergency budget including costs associated with reaching net zero ambitions

Bed and breakfast costs and temporary accommodation

Overview and Scrutiny Board

Car Parking Charges

Residents card

51. Following the task and finish groups a series of recommendations were made to the Overview and Scrutiny Board. These recommendations fell into 3 categories.

    a. Recommendations to Cabinet on budget matters.

    b. Recommendations to Cabinet on matters not specifically related to the budget.

    c. Recommendations from the Overview & Scrutiny Board to other Overview & Scrutiny Committees.

52. Regarding (a) above the recommendations to Cabinet on budget matters, these were included as a separate item on the 10 December 2024 Cabinet agenda as "Recommendations from the Overview & Scrutiny Committees". Portfolio Holder responses to these recommendations are now presented as Appendix 3a to this report. BCP has been recognised by the Centre for Governance and Scrutiny as a leader of good practice in terms of the budget scrutiny process adopted to support the 2025/26 budget.

53. In relation to officers, financial management training is also being provided for budget holders and all directors to ensure maximum efficiency in managing our budgets and clear financial understanding amongst our senior managers.

54. Figure 3 below sets out the current Medium-Term Financial Plan (MTFP) to 2028. As a reminder to Cabinet, the table sets out changes in the revenue budgets on an annual basis, either positive numbers which represent additional costs to be met, or negative numbers which represent forecast cost reductions or additional income. The variances are shown in the year in which they are expected to be first seen and are then assumed to recur on an ongoing basis in each of the following years. One-off changes will be seen as an entry in one year and will then be reversed out in a following year. For example, there is currently a £3.7m pressure in 2025/26 in respect of one-off savings that were approved for 2024/25. A more detailed summary statement is presented as Appendix 4 and 5.

55. Key features of the 2025/26 proposed budget as presented include.

- £49.0m planned increase in council spending across all services. This is not drawn out in Figure 5 on the basis the numbers are presented net of any specific government grants.
- £14.4m (11.5% increase) to cover demand and inflationary cost pressures in wellbeing services including adult social care and homelessness services.
- £6.5m (7% increase) to cover demand and inflationary cost pressures in children's services.

- £7.8m of savings, efficiencies, service reductions, and additional fees and charges across services including £1.7m which has been established as transformation related all of which is supported with a detailed delivery plan.
- 2.8% assumed pay award for 2025/26.
- 4.99% increase in council tax for 2025/26 made up off 2.99% for the basic amount and 2% for the social care precept. Subject to necessary directions the social care precept will no longer be shown as a separate line on the council tax bills. The financial planning assumption for future years is also 4.99% in line with the OBR forecasts
- Continuation of the utilisation of the one-off business rates collection fund surplus as per the 2024/25 approved budget. In 2025/26 these resources are being used to continue to facilitate the delivery of council regeneration activity and the externalisation of the Russell Cotes Museum ambitions, as well as assisting with the one-off costs associated with Pay and Reward, and steps to improve the robustness of the budget proposal.

Figure 5: Medium Term Financial Plan to 31 March 2028

	Revised Budget 2024/25	Jan 2025 MTFP Position (updated from February 2024)			
Service Pressures (net of any specific grant changes)	£m	25/26 £m	26/27 £m	27/28 £m	Total £m
Wellbeing Directorate	125.5	14.4	6.0	6.2	**26.6**
Children's Directorate	92.3	6.5	5.3	5.3	**17.0**
Operations Directorate	31.7	7.1	(0.1)	2.3	**9.3**
- Operations Directorate: Waste & Extended Producer Responsibilty	29.5	(8.7)	1.9	0.8	**(6.0)**
Resources Directorate	41.4	2.4	0.2	0.0	**2.6**
Service Pressures (net of any specific grant changes)	**320.4**	**21.7**	**13.3**	**14.5**	**49.5**
Savings, Efficiencies, Fees & Charges					
Wellbeing Directorate		(2.8)	(0.9)	(0.8)	**(4.5)**
Children's Directorate		0.0	0.0	0.0	**0.0**
Operations Directorate		(2.7)	(3.3)	(2.0)	**(8.0)**
Resources Directorate		(0.7)	(0.1)	(0.1)	**(0.9)**
Transformation		(1.7)	(3.5)	(5.2)	**(10.4)**
Reversal of one off savings in 2024/25		3.7	0.0	0.0	**3.7**
		(4.1)	**(7.9)**	**(8.1)**	**(20.1)**
Corporate Items - Cost Pressures	**21.7**	**4.8**	**7.1**	**6.2**	**18.2**
Funding - Changes	**(338.7)**	**(23.0)**	**(10.4)**	**(17.6)**	**(50.9)**
Annual – Net Funding Gap	**3.4**	**(0.6)**	**2.1**	**(4.9)**	**(3.4)**
Application of one-off business rates resources to MTFP	**(3.4)**	**0.6**	**2.8**	**0.0**	**3.4**
Annual – Net Funding Gap	**0.0**	**0.0**	**4.9**	**(4.9)**	**0.0**
Cumulative MTFP – Net Funding Gap		**0.0**	**4.9**	**0.0**	

Please note: The MTFP as presented does not provide for two specfic known unknowns namely any potential impact of the governments funding reforms and future waste strategy.

56. Full details of the service pressures, corporate costs pressures and funding changes, where not referenced elsewhere in this report, are as set out in Appendix 3. A summary of the key assumptions can be set out as follows.

Figure 6: Key Budget & MTFP Assumptions

Key MTFP Financial Planning Assumptions

	2025/26	**2026/27**	**2027/28**
Council Tax: Core	2.99%	2.99%	2.99%
Council Tax: Social Care Precept	2.00%	2.00%	2.00%
Pay Award	2.8%	2.0%	2.0%
Mininum Increase in Fees & Charges	2%	2%	2%
National Living Wage (NLW) *% Increase in the National Living Wage*	6.7%	2%	2%
	Dec-24	Dec-25	Dec-26
Bank of England - Base Rate	4.75%	4.00%	3.50%

Please note:
a) The increase in fees and charges should be regarded as a minimum increase to those not set by statute. The principle of full cost recovery may mean increases above these levels for example were costs are likely to rise by the National Living Wage which the government have confirmed will be £12.21 per hour in 2025/26 an increase of 6.7% over the £11.89 amount for 2024/25.
b) Current December 2024 Bank of England Base Rate is 4.75%.

Savings and Efficiencies

57. Across the first seven years of BCP Council the savings have flowed from reduced staffing, lower operational costs, from creating common and consistent charging policies or from reduced service levels. A detailed schedule of all the assumed savings supporting the proposed budget for 2025/26 is presented as appendix 5a, which includes those savings attributed to the council's various transformation programmes. Each of these savings is underpinned by a detailed plan for delivery.

58. In respect of the Transformation Programme, managers have worked closely with heads of service and directors and given the priority of setting a balanced budget the focus of attention has been on the identification of savings. Care has been taken to ensure the correct categorisation of savings and to avoid duplication or double counting. Cabinet on the 15 January 2025 received a report setting out the completion of the main Transformation programme noting that specific programmes in Adult Social Care and Children's Services will continue as will ongoing work to reduce the head count of the authority.

59. The scale of the ongoing challenge faced by BCP and all other local authorities means that difficult choices concerning service changes must be made by the Council to ensure a legally balanced budget for 2025/26 can be set. Although focused primarily on discretionary services, consideration has also been given to statutory services and reducing service levels towards the statutory minimum.

60. It should also be highlighted that as a matter of policy, the budget assumes that all locally set fees and charges will be increased at least in line with inflation and/or be adjusted to ensure they are set at a level which guarantees full cost recovery including the impact of the National Living Wage set for 2025/26 and the increase to Employers National Insurance costs.

61. The proposed £7.8m savings supporting the delivery of the 2025/26 budget includes £317k from not continuing with the annual allocation of resources as a Ward Improvement Fund. Forecasts indicate that only £100k of the amount made available in 2024/25 will be used. Any unspent 2024/25 resources will be carried forward for use in future years.

62. The table below sets out the level of savings which have been put forward since 2019 as part of the process of balancing the annual budgets. This demonstrates that the savings have been particularly focused on the two previous financial years.

Figure 6: Annual Service based savings since 2019 (shown on an incremental basis)

	Budgeted 2019/20 £m	Budgeted 2020/21 £m	Budgeted 2021/22 £m	Budgeted 2022/23 £m	Budgeted 2023/24 £m	Budgeted 2024/25 £m	Estimate 2025/26 £m	Total £m
Total	(11.2)	(9.4)	(20.7)	(6.6)	(34.0)	(38.0)	(7.8)	(127.7)

Council Tax

63. In proposing a Council Tax for 2025/26 the Cabinet has reflected on the fact that it is government policy to fund cost pressures in local government principally through the ability to raise council tax, including the social care precept. Recognition has also been made of the need to ensure that every step is being taken to align the council's expenditure with the resources at its disposal.

64. The proposal is to increase council tax by 4.99% in 2025/26. This increase can be broken down into a 2.99% increase in relation to general inflationary pressures and an additional 2% relating to the social care precept.

65. The financial planning assumption for future years continues to be that council tax will be increased by 4.99% per annum in line with the Office for Budget Responsibility (OBR) economic and fiscal outlook forecasts which accompanied the October 2024 Autumn Budget.

66. The strategic approach taken by government since its 2015 spending review is that local councils can increase council tax as a mechanism for funding cost and demand pressures in local services. For the last 10 years in a row (since 2016/17), this has included the use of the Adult Social Care council tax precept as a means of asserting national direction on how such resources should be applied. From 2025/26 the government intent is that the social care precept is not shown separately on the actual council tax bills.

67. As a reminder the table below sets out the levels that government legislated for BCP Council to increase its council tax by in comparison to the actual levels of council tax set over the last 5-year period. Note, the 2021/22 Social Care precept was identified as being available to be taken in either 2021/22 or 2022/23. BCP Council chose to defer the full increase to 2022/23.

Figure 7: BCP Actual Council Tax Increases compared to Government Thresholds

	Government Assumed Increases (thresholds)			BCP Council Actual Increases		
	Basic %	Social Care	Total	Basic %	Social Care	Total
2021/22 Financial Year	1.99%	3.00%	**4.99%**	1.55%	0.00%	**1.55%**
2022/23 Financial Year	1.99%	1.00%	**2.99%**	0.00%	4.00%	**4.00%**
2023/24 Financial Year	2.99%	2.00%	**4.99%**	2.99%	2.00%	**4.99%**
2024/25 Financial Year	2.99%	2.00%	**4.99%**	2.99%	2.00%	**4.99%**
2025/26 Financial Year	2.99%	2.00%	**4.99%**	2.99%	2.00%	**4.99%**

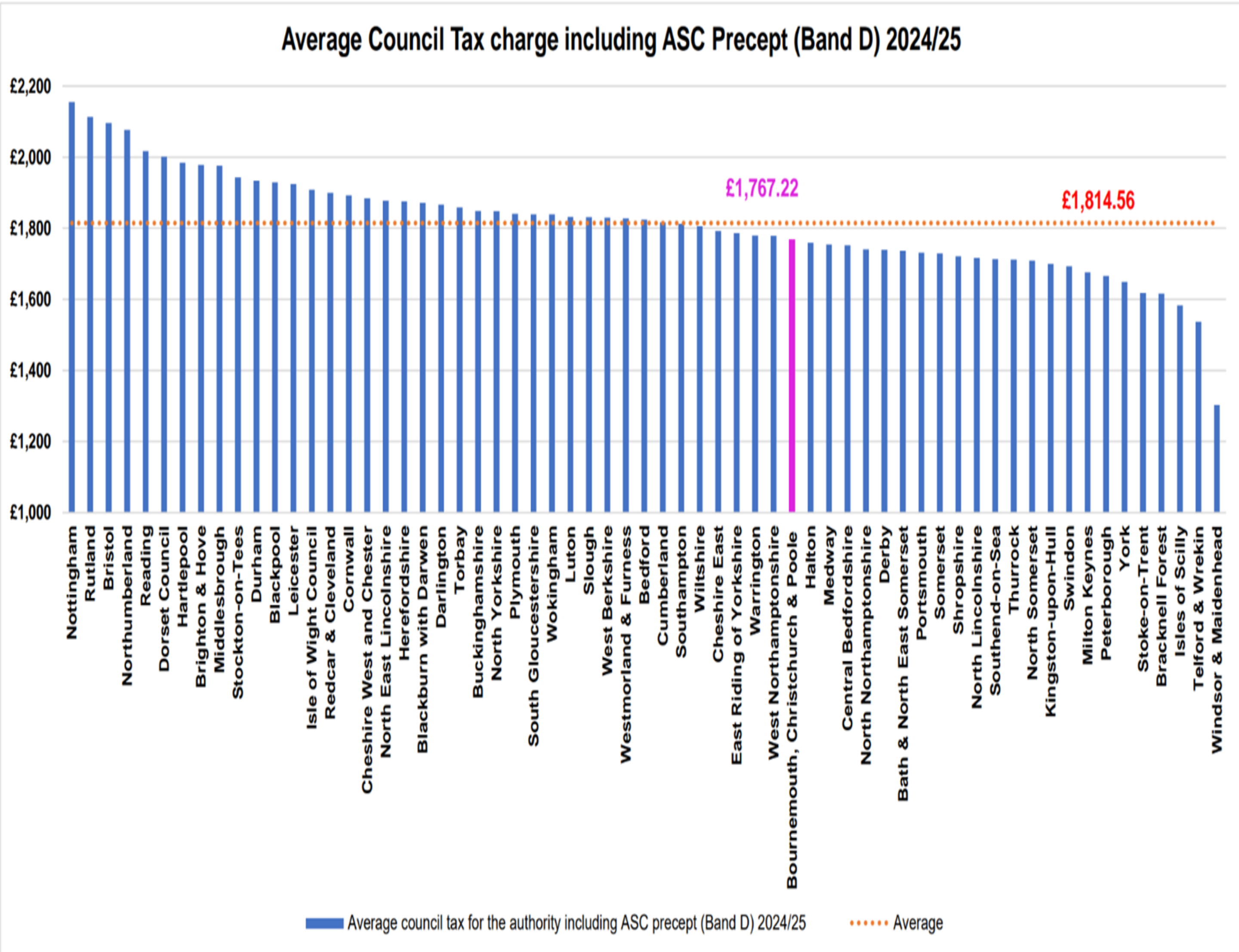
- Please note social care precept for 2021/22 could be carried forward into 2022/23

68. Previously the council has requested, but not been granted, the flexibility to increase council tax by the additional 2.43% that it could now be charging if it had increased its amounts in line with government policy across the two-year time horizon 2021/22 and 2022/23. If government had sanctioned this adjustment, it means the council would have been able to avoid approximately £6.5m per annum of the service reductions that it has otherwise had to put forward over the last few years.

69. The BCP Band D council tax for 2024/25 is £1,767.22. The equivalent council tax for our nearest neighbour Dorset Council was over 13% higher at £2,001.15. This equates to approximately £35.5m per annum in additional resources BCP Council could be generating based on the BCP 2025/26 tax base if it had Dorset Council's level of Council Tax. It should be recognised that in

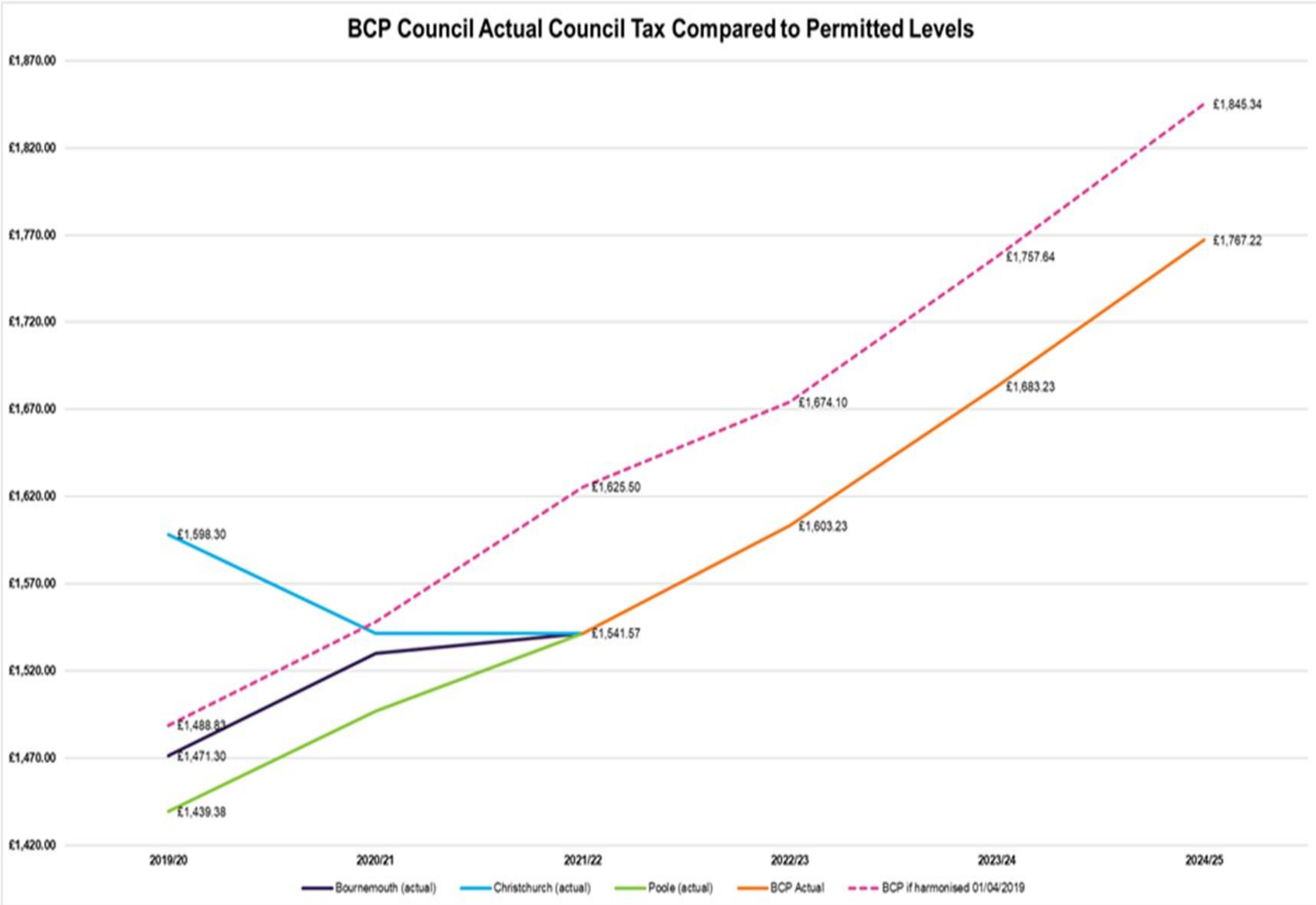
comparison to other unitary councils BCP Council has a council tax level which is below the average and would have still been below the average if it had increased its Council Tax by the 2.43%.

Figure 8: Unitary Authorities 2024/25 Average Council Tax Levels



70. Figure 9 below demonstrates that if the council tax had been harmonised in April 2019, as the new Dorset Council did, and followed government guidelines and applied the maximum increases since then, then cumulatively our council tax would have been £1,845.34 in 2024/25 which is 4.4% higher than the cumulative £1,767.22 actual rate set. We are therefore clear that this council has locally decided not to generate and therefore forfeit the £11.8m per annum extra revenue that we could have been generating. While this is an annual benefit to our local council taxpayers it will have had a direct impact on the level of services the council has been able to provide.

Figure 9: BCP actual council tax levels compared to permitted levels.



Dedicated Schools Grant

71. The most significant risk to the council's financial sustainability continues to be the current and growing deficit on the Dedicated Schools Grant (DSG) specifically regarding the annual revenue expenditure on the high needs block being more that the annual government grant. The predicted £44.6m annual funding gap for 2024/25 (72%) is forecast to grow to an annual funding gap of £57.5m (92%) in 2025.26.

Figure 10: Forecast High Needs Revenue Expenditure 2024/25 and 2025/26

Revenue Expenditure	Original Government Grant 2024/25 £m	Original Budget 2024/25 £m	Latest Estimate 2024/25 £m	Original Government Grant 2025/26 £m	Original Budget 2025/26 £m
DSG - Grant Funded Expenditure	62.3	62.3	62.0	64.5	64.5
Additional Budgeted Expenditure		28.0	28.0		57.5
Further Additional Expenditure			16.6		
Total Estimated Expenditure	**62.3**	**90.3**	**106.6**	**64.5**	**122.0**
Dedicated Schools Grant (DSG) Funding	-62.3	-62.3	-62.0	-64.5	-64.5
Total DSG Grant Funding	**-62.3**	**-62.3**	**-62.0**	**-64.5**	**-64.5**
Net Overspend / Unfunded	**0.0**	**28.0**	**44.6**	**0.0**	**57.5**

72. Once a small adjustment on the other elements of the DSG is taken into account, it means the accumulated annual DSG deficit is forecast to grow from £63.5m on 31 March 2024 to £108m on the 31 March 2025 and £165.5m on the 31 March 2026. This means that from the 1 April 2025 onwards the council will technically be insolvent as the DSG deficit is greater than the councils total general fund reserves. Ordinarily any council in such a position would be required to issue what is referred to as a s114 report which would put the council into effective administration and in turn lead to further government intervention. However, this action is currently not necessary as the government have put in place, to 31 March 2026, a statutory override which enables the council to ignore the DSG deficit for the purposes of a s114 assessment.

73. Despite not having the government grant to fund these SEND bills they still need to be paid, and all councils are prohibited from borrowing to fund the day-to-day operational/revenue expenditure. Up until 2025/26 the council has been using what is referred to as its "treasury management headroom" to enable the relevant invoices to be settled. Generally, this headroom is the timing difference between receipts for council tax or business rates arriving and the date when the actual bills they fund are paid, alongside any cash-backed balance sheet items such as reserves and provisions. Forecasting indicates this headroom will be exhausted in the first quarter of the 2025/26 financial year.

74. It should be recognised that if the council did not have to cover this deficit this cash would be earning interest or would enable a lower level of external debt to be held. Therefore, cash flowing the DSG deficit is estimated to cost the council in the region of £4.7m in 2024/25, and a further £7.5m in 2025/26, a cost incurred due to mostly external factors beyond the council's control and one that the council has had limited power to tackle.

75. The consequence of being unable to cashflow the DSG deficit in 2025/26 means the Council would have been unable to set a legally balanced budget for 2025/26. Therefore, as part of the precursor to a formal s114 report the council's Director of Finance wrote to DLUHC on the 22 May 2024 to seek its advice, guidance and support on how a legally balanced budget for 2025/26 could be set.

76. The statutory override is in place to avoid some of the serious consequences of having such a large and growing deficit but has now itself become a threat to council's financial stability as it is a debt the council is not permitted to tackle proactively, and it is one that the government are not providing an effective long term financial solution to manage. This is an impossible situation where the council cannot pay off the deficit, but the increase of the deficit threatens the financial sustainability of the council and puts services at risk.

77. The letter from the Director of Finance was supplemented by correspondence from the Council Leader and Local MPs which highlighted the precarious position the council is in and encouraged government to find a solution. Full details of the issue and all the correspondence was set out in report to Cabinet on the 10 December 2024.

78. In response, representatives of the MHCLG and DfE met with the Council's Chief Executive and Director of Finance on both the 19 December 2024 and 23 January 2024. As set out in section 2 of this report negotiations remaining ongoing. Currently they are focused on the fact that as part of its treasury management headroom councils can exceed its borrowing limits provided it is only temporary. The government's view is that any such borrow would be temporary as they are committed to act to deliver a solution which addresses this issue and returns the SEND system to financial sustainability. A capitalisation direction (permission to borrow) may though be sought to cover the £12.2m impact on the general fund from lost investment income / additional borrowing costs.

79. For background the government have issued capitalisation directions to 19 authorities in 2024/25. These include Birmingham (£685m), Bradford (£140m), Croydon (£38m), Nottingham (£41m), Plymouth (£72m), Somerset (£77m) and Southampton (£122m). None of these related the expenditure on the SEND service. The public announcement on these indicative announcements were made on the 29 February 2024.

80. The only other real option open to the council to set a legally balanced budget for 2025/26 would be to reduce the SEND expenditure to be in line with the government's High Needs grant allocation.

81. Focusing on the service aspects, the number of Education, Health and Care Plans (EHCPs) continues to rise to 4,343 in November 2024 compared to 3,683 in November 2023, representing a percentage increase of 17.9% across the calendar year. This is having an impact on our ability to maintain timeliness and service the annual requirements of the volume of plans in the system due to the available budget. Improvement work continues to focus on the process and pathways in use to streamline processes and make efficiencies where possible.

82. When comparing to the demand in the Southwest region and England nationally, BCP is broadly in line with rates per 10k and new assessment request levels.

83. Six week and 20-week timeliness for new assessments (ECHNA) remains strong as it has been for the last 12 months, however the increase in service demand for new ECHNAs does mean that the 100% position achieved and held for most of the last 12 months will now deteriorate. A potential forecast for timeliness given the current level of demand against the budget for education psychologists and associated SEND case officer roles for quarter four will result in 55%-70% completion at 6 weeks and 20 weeks and the creation of a new backlog. Arrangements will be made to prioritise and protect the most vulnerable children i.e. those with an elective home education or known to social care. Whilst there will be a deduction in timeliness this will still be broadly in line (or ahead of) the national average for timeliness. Furthermore, it should be noted that the SEND service's caseload is now 18% higher than this point last year. This creates pressure on the ability to manage new requests and service the plans already in the service; this is the case for the SEND assessment and review service and the SEND strategic service area; particularly the educational psychology service and appeals and mediation processes and service area.

Capital Investment Programme (CIP) - Overview

84. The capital strategy is based on the following core principles:

- Capital projects are supported by appropriate business cases, that clearly identify funding sources and are approved in accordance with the council's financial regulations. No project that relies on government grant, external funding (including third party contributions) or capital receipts can commence until the council has complete assurance the funding will be / has been received or has otherwise explicitly agreed to accept the risk.
- The use of prudential borrowing for capital projects where no alternative source of funding is identified must comply with published HM Treasury PWLB borrowing restrictions. Business cases must demonstrate the debt is affordable, prudent, and sustainable and that the council is able to meet annual borrowing repayments. The council's overall borrowing capacity is set out in its treasury management strategy.
- Interest rates from the council's invest-to-save framework (which provides a framework through which to recognise an appropriate level of risk for each project) are applied to all business cases that rely on future income streams from which to meet annual borrowing repayment costs. Such business cases are required to show the impact on affordability by reference to the current prevailing and the invest to save interest rates.
- BCP Council's capital resources (community infrastructure levy (CIL), developer s106 contributions, capital reserves, capital receipts) are prioritised towards:
  - commitments under the council's flexible use of capital receipts strategy (FUCR)
  - schemes which require a local contribution to leverage in capital grants or external capital contributions
  - schemes which enable delivery of the savings assumed within the MTFP
  - schemes which enable the council to exploit its assets
  - schemes which protect key infrastructure
  - schemes considered a corporate priority.
- No resources are earmarked within the capital strategy for the consequential impacts of capital investment on the council's revenue budget (for example programme maintenance). These must be identified and managed within revenue budgets set as part of the MTFP.

- Funding earmarked for delivery of the capital strategy (including external government grant and new borrowing facilities) is only recognised within the capital programme as these funds are used / allocated to approved capital projects.
- Capital receipts, besides the funding of the transformation investment programme via the FUCR strategy will also be considered for application as part of the Treasury Management Strategy towards the voluntary repayment of debt.

85. Figure 10 below presents a high-level summary of planned capital spend over the next five years. It is forecast that £136m will be spent in 2025/26 and a further £97m in the following four years creating a total 5-year programme of £233m spend on assets and infrastructure across the conurbation.

86. In line with the Council Financial Regulations which allow capital budgets to be reprofiled between years following activity slippage, nearly £70m has been reprofiled and carried forward from 2024/25 to 2025/26 based on forecast expenditure in December 2024. Further reprofiling may be necessary at year end depending on actual expenditure incurred to that point. In the event that more expenditure than anticipated is incurred for reprofiled projects, the budget will be taken back to cover the 2024/25 spend in full.

87. £30m is planned to be spent on Highways maintenance, improvements, asset management and bridges in 2025/26. This represents 22% of the Capital programme. This activity is almost fully funded from government grants such as the Transforming Cities Fund, Highways Maintenance grant (Local Transport Plan), Bus Service improvement grant, Active Travel, etc.

88. £33.8m is planned to be spent on seafront and flood and coastal erosion activity in 2025/26 mainly funded from the Levelling up fund and Environment Agency grants, representing 25% of the programme.

89. £22m of the programme is taken up by sustainable waste, green infrastructure and fleet. This represents 16% of the CIP.

90. The remaining 37% of the CIP is planned on sustainable travel and network management (10%) Children Services (12%), Housing and regeneration schemes (6%). Housing Revenue Account (HRA) schemes are shown in a separate report. The Wellbeing activity is mainly connected to the use of the Disabled Facilities grant. Other smaller capital investment includes museums, leisure, culture, ICT infrastructure and estates.

91. The 2025/26 totals include grants carried forward from previous years but not yet committed. Services will bring forward strategies to utilise these in due course.

Figure 10: Capital Investment Programme Expenditure profile to 31 March 2030

Capital Investment Programme General Fund Planned programme	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	Total 2025/30 £000
OPERATIONS						
Customer Arts and Property *(Museums; Engineering: Assets, Road Maintenance, Highway, bridges, TCF*; Estates)*	34,242	2,218	2,218	2,218	1,318	**42,214**
Commercial Operations *(Flood & coastal erosion risk management, Seafront, Culture, Leisure)*	34,111	11,868	10	-	-	**45,989**
Environment *(Waste & recycling, green spaces & coservation, parks, fleet)*	22,189	6,451	7,832	410	-	**36,882**
Investment and Development *(Housing Delivery, Regeneration)*	8,644	4,023	-	-	-	**12,667**
Planning and Transport *(Sustainable travel, Network management, Transport Improvement)*	12,667	9,129	9,137	7,854	7,854	**46,641**
Operations Strategy	253	-	-	-	-	**253**
Total Operations Directorate	**112,106**	**33,689**	**19,197**	**10,482**	**9,172**	**184,646**
CHILDREN SERVICES						
Basic needs, schools conditions, Special Education needs and disabilities sufficiency, Childcare	16,169	1,161	1,161	511	-	**19,002**
Total Children Services Directorate	**16,169**	**1,161**	**1,161**	**511**	**0**	**19,002**
WELLBEING						
Housing and Community	3,790	1,775	1,775	1,775	1,775	**10,890**
Adults Social Care	2,685	2,672	2,684	2,701	2,650	**13,392**
Total Wellbeing Directorate	**6,475**	**4,447**	**4,459**	**4,476**	**4,425**	**24,282**
EXECUTIVE						
IT and Programmes	1,588	1,199	1,222	1,246	-	**5,255**
Total Executive Directorare	**1,588**	**1,199**	**1,222**	**1,246**	-	**5,255**
	136,338	40,496	26,039	16,715	13,597	233,185

92. The CIP consists of capital schemes that have either already been approved or that are progressing through the approval process in accordance with the council's financial regulations and governance framework for example the Fleet Replacement programme, and ICT laptop replacement programme. It excludes potential new projects that have not yet progressed to a stage where they have been fully costed. Full details of the Capital Investment Programme are presented in Appendix 7a.

93. The CIP continues to be funded from a combination of government grant and other external funding sources (s106 contributions, CIL, and third-party contributions) and prudential borrowing. 79% of the funding to support capital expenditure is from Government grants. 15% is funded from prudential borrowing.

Figure 11: Capital Investment Programme Funding profile to 31 March 2030

Capital Investment Programme General Fund Funding Profile	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	Total 2025/30 £000
Prudential Borrowing	(20,087)	(12,256)	(11,330)	(2,666)	(59)	(46,398)
Reserve Funding (general fund Capital)	(557)	-	-	-	-	(557)
Reserve Funding (General fund revenue)	(920)	(518)	(518)	(518)	(518)	(2,992)
BCP Funding Requirement	**(22,729)**	**(12,774)**	**(11,848)**	**(3,184)**	**(577)**	**(51,112)**
S106	(458)	-	-	-	-	(458)
CIL	(4,110)	(1,691)	-	-	-	(5,801)
Non-government grants	(1,053)	-	-	-	-	(1,053)
Government Grants	(107,357)	(26,031)	(14,191)	(13,531)	(13,020)	(174,130)
Third party contributions	(631)	-	-	-	-	(631)
External Funding Contributions	**(113,609)**	**(27,722)**	**(14,191)**	**(13,531)**	**(13,020)**	**(182,073)**
	(136,338)	**(40,496)**	**(26,039)**	**(16,715)**	**(13,597)**	**(233,185)**

94. The main financial risks associated with the CIP are associated with inflation driven by the post pandemic economic environment, the war in Ukraine, events in the Middle East, and government fiscal policies. Senior Responsible Officers (SROs) for all projects have been required to review their projects and assess their viability considering the current cost of material and labour and to allow appropriate contingencies for uncertainty moving forward. As a result, projects such as Princess Road Hostel and Private Sector, Carter's Quay and the Bistro redevelopment (Southbourne) have been removed from the CIP requiring new business cases.

Carters Quay Development

95. The Carters Quay Housing and Regeneration Scheme is a Build to Rent Scheme designed to provide 161 new homes with an ancillary ground floor amenity and commercial space. Council in late 2021 agreed to purchase the completed scheme from Inland Partnership Limited for £44.3m.

96. The Council's priority is to recover the land from the administrator and develop the site for housing.

97. The scheme is subject to challenging viability issues caused by build cost inflation and high interest rates for borrowing requirements. Discussions are ongoing with external funders to secure additional grants to support the scheme. Once this is achieved, the scheme will return to Cabinet and Council with an updated business case.

Asset Management Plan (AMP)

98. An asset management plan (AMP) is the foundation to ensuring the council's portfolio of assets is being managed in the most efficient and cost-effective way. It is a time-bound commitment to action that ensures that the council's property assets are proactively managed to fully meet both its current and future requirements, with an increasing focus on long term financial and climate sustainability.

99. Attached as Appendix 8 is an update on the summary AMP for the council produced as part of the 2024/25 budget report. It is recognised that this document will evolve into a more comprehensive and traditional full plan, as advocated by best practice, as part of the 2026/27 budget. This evolution was originally planned for 2025/26 however work around the Corporate Landlord Model and the centralisation of all aspects of land and property management has not yet been completed. Included in the appendix is a high-level action plan for the next 12 months and an update on progress in delivering those previously agreed.

Treasury Management Strategy (TMS)

100. The council's Treasury Management Strategy (TMS) is subject to regular review and was last reported to the Audit & Governance Committee for monitoring and update purposes in January 2025. The council is required to set its prudential indicators in the context of the overall strategy

on an annual basis. The treasury strategy, practices, and prudential indicators for 2025/26 are set out in Appendix 9 for approval by Council.

101. A significant element of the TMS is the council's approach to balancing the risks associated with its need to borrow, namely:

a) *Credit Risk*: Which is the risk associated with an institution failing and the council's investment being reduced due to bank bail-in arrangements. An approach to managing this risk is to use internal balances before undertaking external borrowing which will also provide a better return for the council as the cost of borrowing exceeds any value the council could earn on these internal balances

b) *Interest Rate Risk:* This is the exposure to interest rate movements on its borrowing and investments. The council is susceptible to upward movements in long term rates given the amount of borrowing still required over the next 5 to 10 years

c) *Re-financing Risk:* Focuses on managing the exposure to replacing current financial instruments (borrowings) as and when they mature

d) *Liquidity Risk:* This aims to ensure the council has enough cash available as and when needed.

102. The strategy is significantly influenced by the requirements of the devolved system of council housing (HRA) finance. This includes the operation of a two-pool approach to debt management with the debt of the HRA (council house tenant account) and that of the General Fund (council taxpayers account) separated. All external debt is taken out by reference to the relevant pool although it should be noted that there is still flexibility to transfer debt between the two if required.

103. In order to ensure that the council is compliant with CIPFAs 2021 Prudential and Treasury Management codes the prudential indicators, including the approved borrowing limits, have been amended to incorporate the assumption that £57.5m of additional borrowing will be undertaken in 2025/26 to enable the excess SEND expenditure over the DfE grant to be financed. In addition, the borrowing headroom provides the flexibility to cover a £12.2m capitalisation direction to cover the interest on the SEND borrowing. Provision within the borrowing limits is also made for the reprofile of phase 1 and the new phase 2 borrowing to support the vehicle fleet replacement strategy.

Reserves

104. The council holds reserves as part of its approach to maintain a sound financial position and to demonstrate that there are no material uncertainties about the council as a going concern. The requirement for financial reserves is linked to legislation such as the Local Government Act 1992, which requires councils to "have regard" to the level of reserves needed to meet future expenditure when calculating a budget. As part of his formal annual section 25 report the council's Director of Finance is required to report on the adequacy of reserves. This assessment is summarised later in this report.

105. It may be worth emphasising that reserves should not be seen in a short-term context. Therefore, they should not only be placed in the context of significant uncertainty in respect of the impact on the council of increases in commission costs due to the governments national living wage and national insurance increases, general inflationary pressures, and service demands but also in the context of the future. This means they should also be seen in the context of potential future issues which could include.

- Government funding reforms from 2026/27 with early indications the council may lose up to £12m per annum over a phased period of time.
- Significant additional services pressures for 2028/29 when the MTFP is rolled forward including £1.6m per annum associated with the uplift in Microsoft Licenses and £1.2m per annum for the final phase of the vehicle fleet replacement strategy.
- Future implications of the governments waster strategy including the implementation of the Emissions Trading Scheme (ETS) from April 2028.

In general councils hold two main forms of reserves.

106. **Unearmarked Reserves**
Are set aside to help manage the risk to the council's financial standing in the event of extraordinary or otherwise unforeseen events and to mitigate the underlying risk associated with the operation of the council and the management of service expenditure, income, and the council's funding.

107. The Chartered Institute of Public Finance and Accountancy (CIPFA) previously advised that general or unearmarked reserves should be 5% of net revenue expenditure (NRE) as an absolute minimum. Our nearest unitary neighbour, Dorset Council, has a policy of trying to maintain their unearmarked reserves at 10% of NRE.

108. As a reminder the council has recently undertaken proactive steps to improve its financial health and sustainability and this included an almost 50% increase in the level of its unearmarked reserves, from £17.9m on the 31 March 2023 to a forecast £26.6m on 31 March 2025. At £26.6m they will represent 7.7% on a NRE basis. National benchmarking demonstrates that the steps taken have moved the council into the mid-range compared to other unitary councils.

109. Earmarked Reserves:
Are set aside to meet identified spending commitments and can only be used for the purpose for which they have been created. These reserves will continually be reviewed, and any resources not needed as intended transferred into unearmarked reserves. They include reserves in support of various partnerships where the council is the accountable body, reserves which represent government grants received in advance of the associated expenditure, reserves held on behalf of third parties and several reserves the council is required to hold in line with statute or its own governance requirements. The council had earmarked reserves of £39m as of 31 March 2024. Details of the councils earmarked reserves are presented at Appendix 10a.

Figure 12: Latest Reserve Forecast

`	Balance 31-Mar-23 £m	Estimate 31-Mar-24 £m	Estimate 31-Mar-25 £m	Estimate 31-Mar-26 £m
Unearmarked Reserves	17.9	26.1	26.6	26.6
Earmarked Reserves	68.5	39.0	35.4	24.9
Total Reserves	**86.4**	**65.1**	**62.0**	**51.5**
Dedicated Schools Grant	**-35.8**	**-63.5**	**-108.0**	**-165.5**
Net Position	**50.6**	**1.6**	**-46.0**	**-114.0**

Financial Health Indicators

110. In developing the budget strategy for 2025/26, and the medium-term financial plan, the council has been reflective of the outcomes of the annual CIPFA Financial Resilience Index and other financial benchmarking. In determining the strategy, it is essential to ensure the council manages its financial resilience to meet unforeseen demands and pressures on services.

111. The latest CIPFA Financial Resilience Index benchmarking is based on the Revenue Outturn information for 2023/24, and figures submitted for each local authority reflecting their position on 31 March 2024. In respect of BCP the index was adverse in the areas listed below:

a) **Change in Reserves** – percentage change in reserves over the previous three financial years. This was also the most significant change from the previous year and reflects the use of reserves to support the delivery of legally balanced budgets in 2022/23 and 2023/24.

b) **Level of Reserves** – ratio of useable reserves to the council's net revenue expenditure

c) **Social Care Ratio** - proportion of budget spent on adult and children's social care services is high. Social care costs are seen as an inflexible cost because it is considered difficult to reduce them in the short term and they impact on the council's ability to respond with agility to changing demands

112. In addition, the resilience index continues to emphasise that the council is highly geared towards council tax, business rates and sales, fees and charges income. This means that any disruption to these income streams will impact on the financial health and sustainability of the council.

Sensitivity analysis

113. A key determinate as to the adequacy of reserves is the sensitivity within the budget and how quickly the demands that the council is required to manage, and their associated cost, can change. It continues to be the case that relatively minor changes or shifts in key planning assumptions can have a significant impact on the council's financial position as highlighted in figure 13 below.

Figure 13: Council sensitivity to potential changes in assumptions

Description	£000s
Children in Care (average high cost - residential) per child	498
Children in Care (average top 10 independent fostering) per child	103
Intensive homecare package for a disabled person *(average top ten excluding proportion of Health funding)*	337
Vulnerable adult (learning disability - residential <65) *(average excluding proportion of Health funding)*	108
Vulnerable adult (learning disability - residential <65) *(average top ten excluding proportion of Health funding)*	245
Older person's supported residential care *(average excluding proportion of Health funding)*	57
Older person's supported residential care *(average of the top ten excluding proportion of Health funding)*	145
Increase in adults' cost of care for every 1p increase in the National Living Wage	160
Increase in the £7.386m 2024/25 cost of the concessionary fare scheme (per 1% increase journey numbers)	74
Change in the Pay Award by 1% from 2024/25	1,899
Change in the Revenue Support Grant by 1% from 2024/25	(42)
Change in the level of Council Tax by 1% from 2024/25	(2,586)

114. In being mindful of these key sensitivities, it should be established that the cost of a child in care or vulnerable adult can exceed £1m per year for a single case, which the council is responsible for paying in the first instance. It is only subsequently able to reduce the amount to those shown in figure 13 above once it has negotiated a contribution from National Health Service Dorset. The risk associated with achieving this outcome is held by the council. It is also worth bearing in mind that every £100,000 is equivalent to the council tax generated on 57 homes (2024/24 band D equivalents).

115. Also, of relevance to the sensitivity of the budget is the robustness of the estimates made to underpin the budget. As per the position on reserves the councils Director of Finance is formally required to report on their robustness as part of his formal annual section 25 report.

116. Officers will have factored into their assumptions numerous matters such as government announcements, economic forecasts, trend analysis and professional judgement. Of relevance is the uncertainty at this time due to the inflationary environment and any new programmes,

initiatives or approaches being adopted for the first time which inevitably carry a greater level of risk than business as usual activity.

117. As per recommendation (e) of this report it is proposed that any changes between the provisional 2025/26 Local Government Finance settlement, issued in December 2024, and the final settlement due in early February 2025, will be delegated to the Chief Executive in consultation with the Director of Finance, Leader, and Portfolio Holder for Finance to allocate.

Director of Finance advice on the robustness of the budget and adequacy of reserves

118. The Local Government Act 2003 (Section 25) requires the Director of Finance to report on the following matters to members when agreeing its annual budget and council tax levels.

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

119. Council must have regard to this report when making its decisions around the annual budget and the level of council tax.

120. For members of the Council the Section 25 statement provides critical context for budgetary discussions. The provision of this information is a legal requirement and ensures that all members have regard to the professional advice provided by the authority's Director of Finance when final budget decisions are made being made. To give a level of additional assurance to this report it has also been prepared in consultation with the Chief Executive.

121. It should be emphasised that councils can and do experience significant financial difficulties as recent high-profile cases such as those at Northamptonshire County Council, Slough Borough Council, Croydon Council, Thurrock Council, Woking Council, Birmingham Council, and Nottingham City Council all demonstrate.

122. The formal s25 report of the s151 Officer is included as Appendix 10 to this report. In conclusion to his report the Director of Finance considers the proposed budget for 2025/26 is robust and the level of reserve is adequate, given a clear understanding by members and senior management of the following:

a) The council, on 1 April 2025, will technically be insolvent as it will have negative general fund reserves due to the deficit on its DSG as pertaining to expenditure on the Special Educational Needs and Disability service. This DSG deficit is growing by more than £57.5m per annum which is the amount the expenditure on the High Needs Block continues to be more than the government funding being made available. A permanent solution needs to be identified with government by this time next year on the basis that as it stands, the Director of Finance is unlikely to be able to advise that a legally balanced budget can be set for the 2026/27 financial year.

b) That the funding source for the 2025/26 excess expenditure on the Special Educational Needs and Disability (SEND) high needs service over the government grant being made available is yet to be finalised and is still subject to confirmation.

c) The financial assumptions associated with the pay and reward project and the continuation of the assumption that budget holders manage within their budgets any additional incremental drift associated with the new arrangements, as with the current arrangements.

d) The need to carefully monitor the Local Government Funding reforms which indicate a significant risk that the council will be unable to retain a greater proportion of resources generated locally.

e) That unearmarked reserves are only just sufficient to cover an unexpected single event such as a cyber-attack, the requirement to provide for/or write-off the expenditure on Carter's Quay, or significant in-year overspending. Any such single event would then require drastic action to restore such reserves to the minimum recommended level. They would be insufficient for the realisation of multiple risks.

f) That the advice of the Director of Finance is to continually look to all opportunities to increase unearmarked reserves and improve the councils overall financial sustainability.

g) Earmarked reserves will be supported by a clear plan held by the service and will be drawn down in line with the profile. Any not needed for their original purpose will be redirected into unearmarked reserves.

h) The levels of reserves and contingencies is adequate, but all opportunity should be taken for them to be enhanced by any further improvement in the in-year position.

i) Effective governance arrangements will be maintained at Portfolio Holder, Executive, Senior Management, Directorate, and budget holder level to monitor the overall delivery of the 2025/26 budget.

j) Portfolio Holders, Directors and budget holders accept their responsibilities and accountability to deliver their services within the parameters of the agreed budget including the realisation of approved savings.

k) Directors will diligently identify and rigorously apply mitigation strategies for any in-year budget pressures that do materialise.

123. It should be highlighted in mitigation of the risk associated with the appropriate financial management processes and practices it is intended to ensure that all budget holders are issued with a "Budget Assurance Statement" in support of their 2025/26 budget. This document will formalise that they accept their budget and agree to deliver services within its financial parameters. The document is also intended to provide evidence in support of any major elements such as the staffing establishment and high value contracts.

124. Councillors should also carefully consider the risks set out in the summary of risk assessment section of this report.

Housing Revenue Account (HRA)

125. A report on the HRA and rent setting is included as a separate item on the agenda for this meeting and should be considered alongside this report to councillors in setting the budget for 2025/26.

Chief Officers' Pay Policy Statement

126. Further to the provisions of the Localism Act 2011, the council is required to publish its local Chief Officers' Pay Policy on an annual basis for consideration by council before 31 March each year.

127. The council's pay policy has been duly prepared by the People and Culture service and is attached as Appendix 12 to this report to ensure the council is able to consider it this year in accordance with the statutory timetable as prescribed by government.

128. For 2025/26 the policy has been updated to reflect changes associated with special severance payments, pay supplement policy, and the scheme of delegation.

Scheme of councillor allowances

129. The council is required to adopt an annual scheme of councillor allowances as specified under the Local Authorities (Members' Allowances) (England) Regulations 2003.

130. Council on 23 July 2024 agreed a scheme of members' allowances for 2024/25 which included a provision that the allowances be increased in accordance with the Employees' National Pay Award when determined and backdated to 7 May 2024. The agreed pay award applicable to the scheme of allowances was 6.75% for 2023/24 and 4.5% for 2024/25. The budget as proposed allows for a pay award-based increase in 2025/26 and the impact of the Employers National Insurance change.

131. As part of the proposed budget, provision has been made for a total cost of £1.692m in 2025/26.

Consultation

132. Under Section 65 of the Local Government Finance Act 1992, councils have a statutory duty to consult with representatives of business rate payers on its proposed expenditure for the following year. Business leaders across Bournemouth, Christchurch and Poole were invited to attend a presentation held on 31 January 2025 on the budget for 2025/26 and Medium-Term Financial Plan from the BCP Council Leader, Chief Executive, and the Director of Finance.

133. The necessary additional resources, savings and efficiencies required to balance the budget over the next three years will each need to be reviewed to determine the extent to which they may require consultation. Consideration will also need to be given to the relevant period, stakeholder groups and method of consultation.

Options Appraisal

134. Numerous alternative permutations are possible around budget savings proposals and council tax strategies for 2025/26. Any alternatives considered will need to be supported by a robust evidence base detailing the sustainable substitute funding strategies. Any alternative will also require the appropriate level of due diligence and the advice of the statutory officers.

135. It is not an acceptable alternative not to agree a legally balanced budget for 2025/26, and to advocate a circumstance which leads to a s114 report being issued accompanied by an assumption that commissioners would be appointed to make the necessary difficult decisions.

136. Only a decision to increase council tax by the maximum 4.99% can be considered consistent with government policy for the funding of local government both now and into the future.

137. A decision to increase council tax in line with the maximum will best protect the current and future financial sustainability of council and will best preserve service delivery levels into the future.

Summary of financial implications

138. Any financial implications of the report's recommendations are considered, alongside alternative options, elsewhere within this report.

139. Councillors should consider how effective the 2025/26 proposed budget will be in supporting the financial sustainability of BCP Council.

Summary of legal implications

140. The council is required to set a council tax for 2025/26 before 11 March 2025. It may not be set before all major precepts (i.e. precepts from the Police and Fire Authorities) have been issued or before 1st March 2025, whichever is the earlier. The decision to set the level of council tax is reserved to Council and cannot be taken by Executive or delegated to officers, although the Executive must recommend a budget to Council.

141. Before determining the level of the tax, the Council must estimate its proposed revenue expenditure, considering amounts required by way of contingency, any need to raise reserves and any other amounts which the Council is legally required to transfer between funds. It must also estimate its anticipated income, any relevant transfer between funds and any proposed use of reserves. It must then calculate the difference between the two which is the council tax requirement.

142. The Council's Director of Finance (under s151 Local Government Act 1972) is required to report to the Council on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves. The Council must have regard to the report when making decisions about the calculations in connection with which it is made. The Director of Finance has a statutory duty under section 114 Local Government Finance Act 1988 to issue a written report if he considers that a decision taken by the Council would be unlawful and likely to cause a financial deficiency.

143. In reaching decisions on these matters, Members are bound by the general principles of administrative law. Lawful discretions must not be abused or fettered, and all relevant considerations must be taken into account. No irrelevant considerations may be taken into account, and any decision made must be one which only a reasonable authority, properly directing itself, could have reached. Members must also balance the interests of service users against those who contribute to the Council's finances. The resources available to the Council must be deployed to their best advantage.

144. Members must also act prudently. Members must also bear in mind their other statutory duties to have regard to certain matters when making decisions. Members must have regard to their Public Sector Equality Duties and the impact decisions, if approved, may have on those who fall within the protected characteristics under the Equalities Act 2010. Members must consider the Equalities Impact Assessment prepared in support of this report and the need to eliminate

discrimination, to mitigate against negative impacts where these are known and to promote equality when making decisions. A failure to follow these principles could open the Council to judicial review.

145. Members have a fiduciary duty to the council taxpayers and others in the local authority’s area. This means that members must behave responsibly in agreeing the budget. Members have no authority to make anything other than a balanced budget.

146. Among the relevant considerations which Members must take into account in reaching their decisions are the views of business ratepayers and the advice of officers. The duty to consult representatives of non-domestic ratepayers on the Council’s expenditure plans is contained in Section 65 of the Local Government Finance Act 1992.

147. In considering the advice of officers, and the weight to be attached to that advice, Members should have regard to the personal duties placed upon the s151 Officer. Members are obliged under the Code of Conduct to have regard to the advice of the s151 Officer and Monitoring Officer. The Council may take decisions which are at variance with their advice, providing there are reasonable grounds to do so. However, Members may expose themselves to risk if they disregard clearly expressed advice, for example as to the level of provision required for contingencies, bad debts, and future liabilities. In addition, if Members wish to re-instate savings recommended by the Director of Finance in order to balance the budget, they must find equivalent savings elsewhere.

148. The Director of Finance is required by Section 151 of the Local Government Act 1972 and by the Accounts and Audit (England) Regulations 2011 (as amended) to ensure that the council’s budgeting, financial management, and accounting practices meet relevant statutory and professional requirements. This is in addition subject to the requirements set out above.

149. Members must also have regard to, and be aware of, the wider duties placed upon the council by various statutes governing the conduct of its financial affairs. These include the distinction between revenue and capital expenditure and the requirement to set prudential indicators in line with capital investment plans that are prudent, affordable, and sustainable.

150. Section 106 of the Local Government Finance Act 1992 makes it a criminal offence for any Member with arrears of council tax which have been outstanding for two months or more to attend any meeting at which a decision affecting the budget is to be made, unless the Member concerned declares at the outset of the meeting that he or she is in arrears and will not be voting on the decision for that reason. The Member concerned must not vote but may speak. The application of Section 106 of the 1992 Act is very wide and Members should be aware that the responsibility for ensuring that they act within the law at all times rests solely with the individual Member concerned.

151. If a referendum is held after the beginning of the relevant financial year, the higher rate of council tax will be payable unless and until it is overturned by a ‘no’ vote in the referendum. It must also provide “substitute calculations” which need to be presented to Council setting out what the alternative budget would be. This means that that if a party proposes a council tax above the referendum limit, they must also produce “substitute calculations” within the referendum limit, to be used in the event that the referendum would reject the increase. In the event that a referendum rejects the increase, the billing authority would be able to issue new bills, offer refunds at the end of the year or allow credits against liability the following year, although individual council taxpayers would be entitled to a refund on demand.

Summary of human resources implications

152. The 2025/26 budget will have a direct impact on the level of services delivered by the council, the mechanism by which those services are delivered and the associated staffing establishment. It is inevitable that the 2025/26 budget proposals we lead to a further reduction in the workforce. Not all these posts will currently be filled. Some will be vacant posts, some will currently be provided via agency staff arrangements, and some will be filled with staff on short term contracts. Where a redundancy is necessary action has been taken to ensure that they will be a voluntary redundancy in so far as is possible.

153. This report acknowledges that various transformation programmes and the actions necessary to manage future years budgets are also likely to have an impact on future staffing levels.

Summary of sustainability impact

154. Consideration has been given as part of this budget for 2025/26 of ways in which BCP Council could contribute to environmental improvements / targets and by example encourage this approach in those with whom it deals. The budget continues to protect the staffing resources associated with climate change and ecological emergency activity. In addition, as at the 31 March 2024 £1.239m was available in an earmarked reserve to support project activity.

155. The accommodation and business transformation programmes underlying the MTFP will make the council more environmentally friendly through a reduced estate and different ways of working, including the continued ability for staff to work effectively from home. This will reduce energy consumption and pollution levels as well as produce savings to protect services. The budget as presented also assumes a further investment in greening the council's vehicle fleet as set out in a separate report as part of the February Cabinet and Council agendas.

156. An Environment & Place Overview & Scrutiny Budget Working Group in the Autumn of 2024 set out that based on current understanding that £64m may be required to meet the council's net zero targets by 2030 although a proportion of this would be delivered through strategic partnerships and securing external funding. The ongoing challenge to the council will be bridging the gap between the resources needed and the £1.239m available in the earmarked reserve.

157. In addition to the environmental and social impacts of climate change, there is also a risk to BCP Council of significant financial consequences if it fails to meet its declared climate targets. Council has pledged to become carbon neutral by 2030 as an organisation and lead the area to become net zero carbon ahead of the 2045 UK100 target. Based on forecasts from the London School of Economics the council would have to incur costs of over £3m per annum to purchase the necessary offsetting carbon credits to meet the carbon neutral pledge in 2030. Clearly this cost will act as an incentive to the council to prioritise the activity and investment necessary to meet this priority.

Summary of public health implications

158. The Department of Health and Social Care allocated BCP Council £21.77m, a 2.3% increase from 2023/24, to deliver its public health service in 2024/25. This was combined with the £15.44m allocated to Dorset Council as part of a joint pan Dorset service.

159. In addition, there was an additional package of investment nationally from 2024/25 of £70 million per year to support local authority led smoking services in support of delivering smoke free generation. (BCP allocation for 2024/25 is £422,313)

160. In April 2024 Cabinet agreed there were opportunities to better discharge the council's public health functions outside of a shared service agreement. Therefore, from April 2025 BCP Council will be transitioning aways from the current pan Dorset service.

Summary of equality implications

161. In this budget the council has sought to maintain appropriate services for the most vulnerable as well as improve the sustainability of services important for the wellbeing of all residents.

162. The impacts of the council budget for 2025/26 have been assessed considering the nine protected characteristics (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and other characteristics including low socio-economic status, carers and care leavers. The Equality and Human Rights Commission's six domains of equality measurement framework have also been considered, identified as the areas of life that are important to people and that enable them to flourish. These are: Education, Work, Living standards, Health, Justice and personal security, and Participation.

163. The cumulative impact of the proposals indicates that low-income households and individuals will be most negatively affected, followed by older age groups and disabled people. However, the investments and mitigating actions aim to support these groups and promote equality within the community.

164. As part of the budget, council tax is being raised to support increased service provision, which will have a positive impact on many residents. Mitigating actions have been identified to support those who would be most negatively affected.

165. Individual equality impact assessments have or will be carried out to support individual savings where a potential negative impact has been identified for service users or the workforce. This will ensure conscious consideration is given to the Public Sector Equality Duty and mitigating actions are put in place to minimise any potential or actual negative impacts.

166. An overarching EIA is included as Appendix 11 to this report.

Summary of risk assessment

167. Throughout this report and the accompanying formal s25 report of the Director of Finance, presented at Appendix 10, reference has been made to several key risks to which the council is currently exposed. Members are reminded that these can be summarised as follows.

- **Accumulating DSG Deficit.**
  Expenditure by BCP Council of c£58m more annually than the government grant available to fund the Special Educational Needs and Disability service is not sustainable. The accumulating deficit will mean the council will technically be insolvent as of 31 March 2025. The statutory override that allows the council to ignore the accumulated DSG deficit in relation to the assessment of its financial solvency expires on the 31 March 2026. The lack of an extension beyond this point will impede the council's ability to set a legally balanced budget for 2026/27. The government have committed to establishing a permanent resolution to return the system to a financial sustainable position

- **Cashflow Crisis**
  BCP Council has been cash flowing the annual payment of SEND invoices in excess of the annual DSG high needs grant by what is referred to as its "treasury management headroom". Generally, this headroom is the timing difference between receipts for council tax or business rates arriving and the date when the actual bills they fund are paid, alongside any cash-backed balance sheet items such as reserves and provisions. The use of this headroom has a direct impact on services the council can otherwise provide as it means less earned interest or higher external debt costs. This cost is estimated as £4.7m in 2024/25 and £7.5m in 2025/26. This headroom will be fully exhausted in 2025/26.

  Noting negotiations are still ongoing, on the basis that any solution is temporary, and the government are committed to returning the SEND system to financial sustainability, the government are recommending the council uses its ability to borrow in excess of its borrowing limits which it can do provided it is only for temporary period. In addition, the council may apply for a capitalisation direction (permission to borrow) to cover the £12.2m impact on the general fund from lost investment income / additional borrowing costs across the two financial years 2024/25 and 2025/26.

  Capitalisation Directions are issued via the governments Exceptional Financial Support programme being part of which subjects the council to potential government intervention. BCP Council had a Best Value Notice issued against it when it entered the programme in 2022. Therefore, the risk of some form of intervention cannot be ruled out.

  As the 19 Capitalisation Directions issued for 2024/25 were issued on the 29 February 2024 there is a risk that council will not have received formal notification when it is asked to set its 2025/26 budget.

  The solution proposed by government is not a permanent one. BCP Council will need to seek a similar arrangement for any excess SEND expenditure over its DSG High Needs grant now for every year until the government implement a solution which returns the system to a financially sustainable position.

- **New Pay and Grading Structure**.
  The council does not have a single pay and grading structure, and terms and conditions applied across all posts. The potential risks increase the longer it takes to achieve this outcome. This risk has further increased based on the recent Trade Union ballot outcome however officers remain committed to achieving the single pay and grading and terms and conditions outcome.

- **Council Tax – Taxbase**
  The 2025/26 budget as proposed assumes an extra £9.7m will be generated annually from a 3.6% increase in the council tax, taxbase. Predominantly this relates to the application of a 100% premium to second homes from 1 April 2025 onwards. There is a key risk around this

assumption that the increased revenue will not be delivered as property owners could take action to avoid the additional liability such as the sale or rental of the property.

- **Financial Outturn 2024/25**
  Quarter 3 2024/25 budget monitoring sets out that the council is currently expecting to manage within the parameters of the February 2024 Council approved resources for the year. This includes utilising £7m of the £7.9m contingencies set aside within the original budget.

  The risk will be that although the Quarter 3 forecast is based on trend analysis and professional judgement it is only based on activity from 75% of the financial year. Predications and estimates can and will change over the remaining 25% of the financial year. Assurance can be taken from the finance performance in previous year's, from 2024/25 in year monthly reporting and the fact that it is hoped that the current controls on expenditure will continue to bear down on service expenditure.

  As a matter of principle should any surplus resources be available at year end then consideration with be given, as recognised in the Treasury Management Strategy, to the voluntary repayment of debt bearing in mind the budget for the year adopted a different strategy to debt repayment from that previously applied.

- **Legal Claims.**
  Covering various matters such as planning, highway, car parking, social care, or staffing, numerous legal claims have been logged against the council. As an example, recently the council was one of 23 named in a legal claim by Thurrock Council seeking to mitigate its failed Solar Farm investments. This relates to the council's membership of the Association for Public Service Excellence (APE) which it is claimed provided Thurrock with valuation advice upon which it relied. Ultimately this could end up affecting all 256 councils in the UK. The risk includes exposure to legal costs in defending the councils position in excess of the normal provision made as part of the legal service budget.

- **Uncertainty.**
  High levels of financial planning uncertainty at this time caused principally by the ongoing implications of various inflationary factors on the costs of goods and services procured by the council alongside the uncertainty associated with the impact of the 30 October National Budget. Principle amongst these is the current financial planning assumption that the council will receive £3.3m compensation for the increases in employer national insurance costs for its employed staff which are forecast to increase the councils cost base by £5.2m (equivalent to the resources generated by a 2% council tax increase). The actual grant allocation will not be known until the release of the final local government finance settlement for 2025/26 which is normally in early February. Another area of concern in the current interest rates at which the council can borrowing money. These have been going in the opposite direction to those anticipated which mirrored anticipated reductions in the Bank of England base rate.

- **Pay Award**
  A 2.8% provision for 2025/26 pay award has been made as part of the proposed budget. The Government announced in December 2024 that it is proposing a 2.8% pay award for public sector workers next year including teachers and NHS staff. Local government workers pay award tends are subject to a separate process via the National Employers Organisation, however the budget assumption has been pegged to the government's announcement as a useful benchmark.

- **Local Government Funding Reforms**.
  As part of the November 2024 local government finance policy statement the government outlined its intention to progress with funding reforms across local government with a phased implementation beginning with the first year of a multi-year settlement in 2026/27. Early work by a national modelling organisation suggests that BCP Council could see up to a £12m per annum reduction in Revenue Support Grant from this process.

- **Extended Producer Responsibility**
  A new government policy designed to help achieve environmental goals such as recycling by making producers responsible for their products along their entire lifecycle including the post-consumer stage. In 2025/26 the government have given the council a guaranteed grant allocation of £9.447m. The risk manifests itself in regard to future years on the basis the grant will not be guaranteed and will be influenced by the market's reaction to the policy and the steps it takes to reduce packaging and increases recycling.

- **Loss or disruption to IT systems and Networks from a cyber-attack.**
  Such actions can incapacitate essential networks by encrypting or destroying data on which vital service depend. Financial loss is common through both direct loss of funds as well as recovery costs and reputational damage. Recent ransomware attacks are reported to have cost councils between £10m and £12m in damage. The industry adage is when, not if, an attack will happen. On the 14 January 2025 the Home Office launched a consultation around ransomware and proposals to increase incident reporting and reduce payments to criminals.

- **Council Owned Companies and Joint Ventures.**
  BCP operates several companies and third-party arrangements with these organisations exposed to their own set of financial and operational risks. As such the council would only provide for its share of such risks in circumstances were the risk is likely to materialise

- **Intervention.**
  Children Services is on a journey of improvement since the inadequate Ofsted judgement in February 2022. Additionally, the external auditor concluded as part of their latest annual report (Audit & Governance Committee July 2024) that despite good progress against previous recommendations especially governance, a more robust financial strategy covering the MTFP period, and the administrations clear focus on financial rigour the council still has significant weaknesses due to the assessment of Children's Services and the accumulating DSG deficit. Note should however be made that BCP Council was one of the first local authorities not to have its Best Value Notice renewed, as confirmed in September 2024, and via the Children's Services Improvement Board there is cautious optimism that the December 2024 full Ofsted inspection of Children's Social Care will demonstrate a marked improvement in the quality of the service

- **Children's Services.**
  Ongoing costs and demands on the service including the impact on the cost of commissioned care due to the announced increases in national insurance and the national living wage as well as the delivery of approved savings at a time when they are focused on their improvement journey.

- **Wellbeing Services**.
  Ongoing costs and demands on the service including the impact on the cost of commissioned care due to the announced increases in national insurance and the national living wage as well as the capacity in the care market and demand in supporting homelessness.

- **Housing: Temporary Accommodation including Bed and Breakfast**
  Ongoing costs and demands on supporting the 3,100 households on the councils housing register and 520 households in temporary accommodation of which 99 are in Bed and Breakfast.

- **Delivering savings, efficiencies, and additional income generation**.
  Combination of delivering the £7.8m of additional savings, efficiencies and additional income assumed in approving the 2025/26 budget with the relentless requirement to identify further potential proposals to support the ongoing need to balance future year budgets.

- **Realisation of capital receipts to fund the council's transformation programme.**
  £18.7m of capital receipts from the disposal of assets needs to be delivered across the two-year period 2024/25 and 2025/26 to fund the approved spend on transformation programmes (including the service specific programmes in Children's and Adult services). Based on currently approved asset disposals the indication is that there would be a £0.4m shortfall across this time horizon. However, some of the forecast receipts are hopefully prudent estimates and work on the pipeline of assets indicates there is scope for a couple of others to come forward subject relevant governance approvals. There is also the possibility for the expenditure on the transformation programme to be further reprofiled.

- **Carters Quay.** Payments of £15.3m have been made towards the development of the agreed 161 new homes with ancillary ground floor amenity and commercial space scheme. Inland Partnership the contractor entered administration late in 2023. Officers are currently in negotiation with the Administrators for the developers to recover the land at Carters Quay. BCP Council have a registered charge on the land to cover the monies paid but are negotiating a release fee to obtain the freehold title and take possession of the land. A further update is anticipated once the land is recovered and build costs to complete are known

Background papers

168. February 2024 Budget and Medium-Term Financial Plan 2024/25 2024
https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=284&MId=5386&Ver=4

169. July 2024 Financial Outturn 2023/24
https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5901&Ver=4

170. July 2024 MTFP Update Report
https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5901&Ver=4

171. September 2024 Quarter One Budget Monitoring Report 2024/25
https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5902&Ver=4

172. October 2024 MTFP Update Report
https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5903&Ver=4

173. December 2024 Quarter Two Budget Monitoring Report 2024/25
https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5906&Ver=4

174. December 2024 MTFP Update Report
https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5906&Ver=4

175. Assessing the serious cashflow issue caused by ever-increasing demand and cost outstripping High Needs Dedicated Schools Grant government funding.
https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5906&Ver=4

176. Council Tax – Taxbase report 2025/26
https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=6057&Ver=4

177. The full budget consultation report is available on the council's engagement website
https://haveyoursay.bcpcouncil.gov.uk/

Appendices

Appendix 1a	Corporate Strategy (A4 format)
Appendix 1b	Consideration of s114 report
Appendix 1c	Analysis of Budget Consultation Exercise
Appendix 1d	BCP Council response to provisional 2025/26 LG Finance Settlement
Appendix 2	Schedule of Council Tax Charges 2025/26
Appendix 3	Key Assumptions
Appendix 3a	Portfolio Holder responses to budget scrutiny
Appendix 4	Absolute MTFP
Appendix 5	Budget Summaries
Appendix 5a	Savings Schedule 2025/26 Onwards
Appendix 6	Transformation Investment Programme including Flexible Use of Capital Receipts
Appendix 7	Capital Investment Programme (CIP) Overview & Narrative
Appendix 7a	CIP Individual Project Listing
Appendix 7b	CIP IT & Programmes Investment Plan

Appendix 7c	CIP Telecare
Appendix 8	Asset Management Plan
Appendix 9a	Treasury Management Strategy
Appendix 9b	Treasury Management Policy and Practices
Appendix 10	s25 Report of the CFO (Robustness of the budget adequacy of reserves)
Appendix 10a	Reserves Summary and Detail Statement
Appendix 10b	Reserves Risk Assessment
Appendix 11	ENIA
Appendix 12	Chief Officer Pay Policy 2025/26