

Report subject	<b>Medium Term Financial Plan (MTFP) Update</b>
Meeting date	16 July 2025
Status	Public Report
Executive summary	<p>This report:</p> <ul style="list-style-type: none"> <li>• Aims to ensure the council presents a legally balanced 2026/27 budget.</li> <li>• Presents an update on the 11 June 2025 Spending Review.</li> <li>• Provides details of two consultation documents issued on 20 June 2025 namely the Local Government Fair Funding Review and Modernising and Improving the administration of council tax.</li> <li>• Presents an update on the MTFP position of the council.</li> <li>• Acknowledges the action of the Leader of the Council and Director of Finance in writing to Government to seek assurance around the council's ability to continue to cashflow the significant and growing Dedicated Schools Grants deficit within the statutory framework.</li> </ul>
Recommendations	<p><b>It is RECOMMENDED that Cabinet:</b></p> <ol style="list-style-type: none"> <li><b>Endorses the latest position regarding the developing 2026/27 Budget and MTFP position.</b></li> <li><b>Acknowledges the ongoing progress being made to ensure a balanced budget position for 2026/27 is presented to Council in February 2026.</b></li> <li><b>In respect of the SEND deficit, note the update and acknowledges the action taken by the Leader and the Director of Finance.</b></li> </ol>
Reason for recommendations	<p>To comply with accounting codes of practice and best practice which requires councils to have a rolling multi-year medium term financial plan.</p> <p>To provide Cabinet with the latest high-level overview of the 2026/27 Budget and 3-year medium-term financial plan.</p> <p>To provide an update on the 11 June 2025 Comprehensive Spending Review (SR25) and the consultations documents issued</p>

	<p>on 20 June in respect of the local government funding formula and the modernisation of council tax.</p> <p>To acknowledge that the current and growing deficit on the Dedicated Schools Grant (DSG) as it pertains to the expenditure on Special Educational Needs and Disability (SEND) service continues to be an existential threat to the financial sustainability of the council.</p>
Portfolio Holder(s):	Cllr. Mike Cox, Portfolio Holder for Finance
Corporate Director	Graham Farrant, Chief Executive
Report Authors	Adam Richens, Director of Finance <a href="mailto:adam.richens@bcpcouncil.gov.uk">adam.richens@bcpcouncil.gov.uk</a>
Wards	Council-wide
Classification	For Decision

## Background

1. Cabinet on 13 May 2025 received an MTFP Update report which set out the framework in support of the delivery of the 2026/27 budget including the proposed.
  - a) Budget planning process.
  - b) Budget timeline.
  - c) Financial strategy.
2. As a reminder the February 2025 council approved budget for 2025/26 and Medium-Term Financial Plan (MTFP) has the following key features.
  - a) A balanced MTFP over the 3-year period to 31 March 2028 based on conventional local government financial management processes and revenue sources.
  - b) A 4.99% council tax increase for 2025/26 with a financial planning assumption of the same increase in each of the following years consistent with the projections from the Office Budget Responsibility.
  - c) Assumed delivery of £9.6m in annual savings, efficiencies, and additional resources to balance the 2025/26 budget as itemised and supported with individual delivery plans. This was a significant reduction from the £38m assumed in support of the 2024/25 Budget.
  - d) A target of £19m in capital receipts from the disposal of assets to fund the council's ongoing transformation projects over the 2-year period 2024/25 and 2025/26.
  - e) An ongoing request to government to honour their pledge to provide full compensation in respect of their Employers National Insurance increases on staff

directly employed by the Council. Since the budget was published analysis by the Local Government Association suggests that over 60% of council tax increases nationally will be consumed by the rise in employers' National Insurance through direct or indirect effects.

- f) Management of numerous financial risks. Principle amongst these is the existential threat to the financial viability and sustainability of the Council caused by the accumulated deficit on the Dedicated Schools Grant (DSG). The 2025/26 budget assumed additional temporary borrowing through the Council's Treasury Management powers to fund the excess Special Educational Needs and Disability (SEND) High Needs revenue expenditure above the grant made available by government via the DSG. This shortfall was budgeted to be £57.5m in 2025/26 with the consequential impact that the cumulative DSG deficit is increased from £108m on 31 March 2025 to a predicted £165.5m on 31 March 2026. This Treasury Management mechanism is only being made available as a temporary solution on the pretext that the government have committed to returning the SEND system to financial sustainability during 2025, although this now appears to be unlikely to be achieved.

### **Comprehensive Spending Review 2025**

- 3. On 11 June 2025 the Chancellor of the Exchequer delivered the 2025 Comprehensive Spending Review (SR25). The review set out the medium-term path for public finances and included departmental settlements for 2026/27, 2027/28 and 2028/29. The settlement for 2028/29 is only provisional as it will be subject to review as part of a 2027 Spending Review.
- 4. The document set out that local authority core spending power will increase by 2.6% in each of the next three years. At the outset it is important to recognise that this headline figure includes the assumption that every local authority will increase their council tax by the maximum permitted amount which for unitary and other upper tier councils will be 5% per annum (3% core increase and 2% social care precept) in each of those three years.
- 5. Early assessments suggest it was a tough settlement for local government in that it does not give the sector the funding it requested and will result in much smaller increases in funding than the sector has received in recent years. However, it was considered better than many other parts of the public sector, even if the increases in resources are largely the result of increasing council tax rather than grant funding.
- 6. For BCP Council the main hope was that SR25 included details of how the government would return the SEND system to financial sustainability. Instead, the Spending Review included the following statement.

*To make the system more inclusive and improve outcomes for all children and young people, the government will reform the current Special Educational Needs and Disabilities (SEND) system. Details of the government's intended approach to SEND reform will be set out in a Schools White Paper in the autumn. The government will also set out further details on supporting local authorities as we transition to a reformed system as part of the upcoming local government funding reform consultation.*

- 7. The Director of Finance therefore decided to wait until the local government funding reform document was made available before considering if he had sufficient evidence to avoid any further action associated with his statutory responsibilities to ensure a balanced 2026/27 budget is delivered.

8. The referenced funding reforms also act as a reminder of the risk posed by this process to the current MTFP position. As set out in the May MTFP Update report there is a clear risk resources that BCP Council currently receive will be redirected to other local authorities, particularly those in the north. At this stage no amount in respect of a potential funding reduction has been included in the developing 2026/27 budget or MTFP. However, it was a factor in the scenario planning exercise included in the May report and the request that services develop £13.3m in savings proposals to support the financial planning process.
9. Other key headlines associated with SR25 include.
  - Commitment to simplify the local government funding landscape by consolidating as much revenue funding as possible from across government departments into the Local Government Finance Settlement.
  - Investment in affordable housing via confirmation of a £39bn successor to the Affordable Homes Programme over a 10-year period from 2026/27 to 2035/26.
  - £950 million will be invested through a fourth round of the Local Authority Housing Fund (2026/27 to 2029/30)
  - A 10-year social rent settlement from 2026 at Consumer Price Index (CPI) +1%. In addition, there will be a consultation on how to implement social rent convergence.
  - Confirmation that local authorities will continue to receive funding for the Extended Producer Responsibility (ERP) scheme. Allocations were guaranteed in 2025/26 but from 2026/27 the amounts received by authorities will depend on actual payments made.

### **Government Consultation Document: Fair Funding Review 2.0**

10. On 20 June 2025 the Deputy Prime Minister Rt Hon Angela Rayner released a consultation document on government plans for a new local government funding formula based on factors such as population and poverty aimed at allocating more resources to deprived areas and in doing so directing more resources towards the North of the country. The consultation pledges protections to limit sudden drops in grant income and to maintain support for rural and coastal areas with high costs.
11. In regard to the main local government funding reforms the government are proposing a three-year phased transition period. They also intend to protect the vast majority' of councils through a cash flat (0%) funding floor which would assume full use of council tax flexibility. However, some councils (i.e. those whose current share of funding is the furthest from the new share and are therefore facing largest losses) will need bespoke arrangements, suggesting they will not receive 0% floor protection. It is understood for this limited number of authorities the floor could be up to -7%.
12. In addition, the consultation includes a commitment to also simplifying the system with multi-year settlements and by reducing the vast array of small grants by consolidating into larger pots, scrapping bureaucracy and competitive bidding.
13. The impact of the new system on each council is not clear. Ministers have not published an illustration of what it will mean on an individual local authority basis. In an impediment to financial planning it may not be until the release of the provisional 2026/27 Local

Government Finance Settlement, historical released around the time parliament recesses for the Christmas holidays, that the council gets to fully understand the outcome if this consultation.

14. As part of the consultation the government also recognised the pressure local authorities are facing because of their Dedicated School Grant deficits. The document made a statement that they will commence a phased transition process which will include working with local authorities to manage their SEND system, including historic and accruing deficits. In addition, they announced a two-year extension to the DSG statutory override until 31 March 2028, with more detail again promised in the provisional Local Government Finance Settlement.
15. It is critical to emphasise the importance of the need for government to support BCP Council with its historic and accruing DSG deficit. Urgent assistance is required with the unsustainable annual high deficits, budgeted at a £57.5m annual deficit in 2025/26, and the rapidly growing cumulative deficit, estimated at £171m on 31 March 2026. At best these deficits will force the council to make further reductions in essential services in 2026/27 to cover the cost of servicing the further additional debt that will have to be taken on to fund the annual deficit on the SEND service. At worse the council risks declaring itself effectively bankrupt as it can only exceed its treasury management borrowing limit on a temporary basis and the government only recommended this approach as appropriate for 2025/26 on the basis of it's previously committed to return the SEND system to financial sustainability in 2025.
16. **Appendix A** sets out a letter to the Director of Finance at MHCLG to provide them with an update on BCP Councils DSG position and to seek assurance that they remain committed to providing a financially sustainable solution from 2026/27 and resolving our cashflow deficit. This letter is additional to a letter dated 1 July 2025 on the same subject matter from the Council Leader to Angela Rayner as the Deputy Prime Minister and MHCLG Secretary of State, attached as **Appendix B**.
17. The consultation is for an eight-week period ending on the 15 August. Details of the 46 questions being posed is set out in **Appendix C**.

**Government Consultation Document: Modernising and improving the administration of council tax.**

18. Through this consultation the government are exploring options to improve support towards council tax and improve the council tax collection, and enforcement processes to deliver a fairer and more efficient system for taxpayers and councils. They believe there are clear opportunities to modernise the administration of the council tax system and take the view that deliberate tax avoidance should not be tolerated.
19. The consultation includes proposals including.
  - Changing the billing from 10-months to 12-months.
  - Updating and modernising the information requirements to improve transparency of council tax information.

- Updating and revising disregards in particular re-naming “severe mental impairment” (SMI) to make it less outdated and alienating and encourage uptake where eligible.
  - Considering whether the government can do anything to remove barriers to effectively challenging bandings.
  - Changes to collection arrangements to ensure households are free from concerns of disproportionate enforcement action, specifically, capping the cost of liability orders.
20. The consultation is for a 12-week period ending on the 12 September 2025. Details of the 36 questions being posed is set out in **Appendix D**.

### **Latest draft 2026/27 budget and MTFP position**

21. The budget for 2026/27 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. As a sector local authorities have been grappling with sustained financial pressures since 2010. Recently councils have had to become more efficient in navigating the uncertainty and volatility caused by global macro-economic factors, the legacy and long-term consequences of the Covid-19 pandemic, alongside those caused by the recent cost-of-living crisis, and changes in public policy.
22. In support of the process the May Cabinet MTFP Update report considered the level of uncertainty and therefore risk that will apply to the key assumptions underpinning the MTFP. In line with good practice these assumptions were then tested via a process of sensitivity analysis and several different models developed that highlight their impact. At the extremes they indicated there could be an improvement in the position or alternatively a deterioration which would lead to a funding gap of up to £44m for 2026/27.
23. As part of a dynamic, agile approach to financial management Portfolio Holders have been working with Corporate Directors, Service Directors, and Budget Holders to prepare potential additional proposals for balancing the 2026/27 budget should they be required. These will be considered at the Cabinet and Corporate Management Board meeting before being brought forward should they be required.
24. Figure 1 below sets out the latest MTFP position 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.

25. **Figure 1:** Latest updated MTFP position

	Original Budget 2025/26 £m	July 2025 MTFP Position			
Service Pressures (net of any specific grant changes)		26/27 £m	27/28 £m	28/29 £m	Total £m
Wellbeing Directorate	137.9	6.0	6.2	6.5	18.7
Children's Directorate	99.4	5.3	5.3	5.3	15.8
Operations Directorate	36.1	(0.1)	2.3	2.5	4.7
- Operations Directorate: Waste & Extended Producer Responsibility	22.0	1.9	0.8	6.0	8.6
Resources Directorate	42.5	0.2	0.0	1.6	1.8
<b>Service Pressures (net of any specific grant changes)</b>	<b>337.9</b>	<b>13.3</b>	<b>14.5</b>	<b>21.8</b>	<b>49.6</b>
<b>Savings, Efficiencies, Fees &amp; Charges</b>					
Wellbeing Directorate		(1.7)	(0.8)	(0.8)	(3.3)
Children's Directorate		(0.1)	0.0	0.0	(0.1)
Operations Directorate		(3.4)	(2.0)	(1.3)	(6.7)
Resources Directorate		(0.6)	(0.4)	(0.1)	(1.1)
Transformation		(3.5)	(5.2)	0.0	(8.8)
<b>Savings, Efficiencies, Fees and Charges</b>		<b>(9.3)</b>	<b>(8.4)</b>	<b>(2.3)</b>	<b>(20.0)</b>
<b>Corporate Items - Cost Pressures</b>	<b>18.8</b>	<b>9.8</b>	<b>4.1</b>	<b>4.3</b>	<b>18.2</b>
<b>Funding - Changes</b>	<b>(361.6)</b>	<b>(11.5)</b>	<b>(16.4)</b>	<b>(20.1)</b>	<b>(48.1)</b>
<b>Debt interest due to accumulated SEND deficit</b>	<b>7.7</b>	<b>0.5</b>	<b>1.5</b>	<b>2.5</b>	<b>4.5</b>
<b>Annual – Net Funding Gap</b>	<b>2.8</b>	<b>2.7</b>	<b>(4.7)</b>	<b>6.3</b>	<b>4.3</b>
<b>Application of one-off business rates resources to MTFP</b>	<b>(2.8)</b>	<b>2.8</b>	<b>0.0</b>	<b>0.0</b>	<b>2.8</b>
<b>Annual – Net Funding Gap</b>	<b>0.0</b>	<b>5.5</b>	<b>(4.7)</b>	<b>6.3</b>	<b>7.1</b>
<b>Cumulative MTFP – Net Funding Gap</b>		<b>5.5</b>	<b>0.8</b>	<b>7.1</b>	

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

26. Overall, the funding gap has reduced since the May MTFP Update report due to the changes associated with the pay and reward proposal. Most notably.
- Based on the positive pay and reward ballot outcome and on the assumption of Council, support, confirmation of the additional corporate costs associated with the enhanced offer.
  - To ensure the affordability of (a) the additional savings being put forward to fund the corporate costs of the enhanced offer.
27. As a reminder the MTFP position as shown in Figure 1 does not include any reductions in government funding as a result of the Fairer Funding Consultation or the impact of the government's future waste strategy.

## **Options Appraisal**

28. Ultimately the budget process results in a consideration of alternative savings, efficiency, income generation and service rationalisation proposals. This may include consideration of alternative council tax strategies.

## **Summary of financial implications**

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

## **Summary of legal implications**

30. The council has a fiduciary duty to its taxpayers to be prudent in the administration of the funds on their behalf and an equal duty to consider the interests of the community which benefit from the services it provides.
31. It is the responsibility of councillors to ensure the council sets a balanced budget for the forthcoming year. In setting, such a budget councillors and officers of the council have a legal requirement to ensure it is balanced in a manner which reflects the needs of both current and future taxpayers in discharging these responsibilities. In essence, this is a direct reference to ensure that Council sets a financially sustainable budget which is mindful of the long-term consequences of any short-term decisions.
32. As a billing authority, failure to set a legal budget by 11 March each year may lead to intervention from the Secretary of State under section 15 of the Local Government Act 1999. It should however be noted that the deadline is, in reality, 1 March each year to allow sufficient time for the council tax direct debit process to be adhered to.

## **Summary of human resources implications**

33. There are no direct human resources implications associated with this report. However, the 2026/27 budget is likely to 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.

## **Summary of sustainability impact**

34. The 2025/26 approved budget protected 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.

## **Summary of public health implications**

35. The Department of Health and Social Care have announced the council's public health grant allocations for 2025/26 is £23.261m which was an increase of 5.33% from the 2024/25 allocation. It has been agreed that £10.988m will be contributed towards shared contracted services with Dorset Council as part of the phased transition away from shared public health service.
36. In addition to the basic allocation, we have also received the following additional allocations.
- £3.023m drug & alcohol treatment and recovery improvement grant (DATRIG)
  - £429.9k for the local stop smoking and support grant (LSSSASG)



## **Summary of equality implications**

37. Officers are expected to deliver the services they are responsible for with due regard to the equality's implications. A full equalities impact assessment will be undertaken as part of the final February 2026 report to members as part of the annual budget process.

## **Summary of risk assessment**

38. The risks inherent in the financial position of the council include the following issues set out in detail as part of the 11 February 2025 report to full council in relating to the 2025/26 budget and medium-term financial plan.

- Accumulating DSG Deficit.
- Cashflow Crisis
- New Pay and Grading Structure.
- Council Tax – Taxbase
- Financial Outturn 2024/25
- Legal Claims.
- Uncertainty.
- Pay Award
- Local Government Funding Reforms.
- Extended Producer Responsibility
- Loss or disruption to IT systems and Networks from a cyber-attack.
- Council Owned Companies and Joint Ventures.
- Intervention.
- Children's Services.
- Wellbeing Services.
- Housing: Temporary Accommodation including Bed and Breakfast
- Delivering savings, efficiencies, and additional income generation.
- Realisation of capital receipts to fund the council's transformation programme.
- Carters Quay.

39. These risks will continue to be monitored and where possible and appropriate mitigation strategies considered. At the time of writing this report a particular risk which will continue to be considered is in regard to the uncertainty caused by global macroeconomic factors and the progress being made to deliver a balanced budget for 2026/26. An update on the risk associated with the 2024/25 financial outturn is presented as a separate report to Cabinet in July. A developing risk is around the government's agenda for the NHS and particularly Integrated Care Boards (ICBs) and their consequential impact on council operations and funding arrangements.

## **Background papers**

40. December 2024: Assessing the serious cashflow issue caused by ever-increasing demand and cost outstripping High Needs Dedicated Schools Grant government funding.  
<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5906&Ver=4>
41. February 2025: Budget 2025/26 and Medium-Term Financial Plan report.  
<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=284&MId=6294&Ver=4>
42. May 2025: Medium Term Financial Plan (MTFP) Update report.  
<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=6062&Ver=4>

## **Appendices**

- Appendix A: Director of Finance letter to MHCLG
- Appendix B: Letter from BCP Council Leader to the MHCLG Secretary of State
- Appendix C: Fair Funding 2.0: Consultation Questions
- Appendix D: Modernising and improving the administration of council tax: Consultation Questions.