

# BCP Council

4 February 2026

## Section 25 Report of the Director of Finance (s151 Officer) (Prepared in consultation with the Chief Executive)

### Background

1. The Local Government Act 2003 (Section 25) requires the Director of Finance to report on the following matters to council 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.
2. Council must have regard to this report when making its decisions around the annual budget and the level of council tax.
3. 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 chief financial officer when final budget decisions are being made. To give a level of additional assurance to this report it is also prepared in consultation with the Chief Executive.
4. It should be emphasised that councils can and do experience significant financial difficulties. Section 114 (s114) of the Local Government Finance Act 1988 requires the S151 Officer, in consultation with the council's Monitoring Officer and Head of Paid Service, to report to all the authority's members if they believe the council is unable to set or maintain a balanced budget, or if unlawful expenditure is identified. Such a notice is only given in the gravest of circumstances and is most likely to be required in a situation in which reserves have become depleted, and it is forecast that the council will not have the resources to meet its expenditure in a particular financial year. In such circumstances a full council meeting must then take place within 21 days to consider the notice and during this period no new agreements involving spending can be entered into, unless approved by the s151 Officer.
5. Since the legislation came into force in 1988, 19 s114 notices have been issued with 14 of these having been issued since 2018. Although they remain rare it is clear they are not as rare as they used to be. Recent high-profile cases include those at Barnet Council, Birmingham Council, Croydon Council, Northamptonshire County Council, Northumberland County Council, Nottingham City Council, Slough Borough Council, Thurrock Council, and Woking Council. This clearly demonstrates they can occur in different types of councils, in different geographical regions and in councils under different political control.
6. **Figure 1: Analysis of s114 Notices since 2018.**

Council	Date of S114 Notice	Geography	Type	Political control at time of S114
Northamptonshire	Feb 2018 and July 2018	East Midlands	County council	Conservative
Croydon	Nov 2020 and Dec 2020	London	London borough	Labour
Slough	Jul 2021	South East	Unitary council	Labour
Nottingham	Dec 2021	East Midlands	Unitary council	Labour
Northumberland	May 2022	North East	Unitary county	Conservative
Croydon	Nov 2022	London	London borough	NOC
Thurrock	Dec 2022	East of England	Unitary council	Conservative
Woking	May 2023	South East	District council	Lib Dem
Birmingham	Sep 2023 (twice)	West Midlands	Metropolitan District	Labour
Nottingham	Nov 2023	East Midlands	Unitary council	Labour
Barnet	Jan 2025	London	London borough	Labour

## **Introduction**

7. It is a demanding time for local authorities. They continue to grapple with immense resourcing challenges ranging from addressing the consequences of government policies such as the National Living Wage to relentless rising demand for services be that for Children's or Adult Social Care or homelessness and these are coupled with recruitment constraints for staff. The financial resilience of all local authorities is therefore under severe strain. Nationally, although inflation has fallen, it is currently above the government's 2% target and with an economy that shrank by 0.1% in October 2025, debt of around £2.9 trillion, and annual debt payments of over £100 million future adjustments to public expenditure levels cannot be ruled out. Given local authorities' statutory duty to provide a vast range of services where demand is likely to continue to grow the pressure on council finances and services will just continue.
8. Reflecting on the financial performance of BCP Council, in each of the six completed financial years since 2019 its actual financial outturn has delivered an improved position from that outlined in the original approved budget for the year. That is unlikely to be the case in 2025/26 with a quarter three forecast of a £4.6m overspend. From an external perspective, the Council's External Auditor, Grant Thornton in their annual report on the 2024/25 accounts concluded that the Council remains under significant financial pressure and is not financially sustainable due to both the current cumulative, and growing, deficit on its Dedicated Schools Grant (DSG). In addition, BCP Council is not considered to have effective arrangements for securing Economy, Efficiency and Effectiveness due to the statutory direction which remains in place in respect of the special educational needs and disability service. The two key recommendations in the 2024/25 report can be listed as follows.

### **Financial Sustainability:**

- (KR1) The Council should update its DSG management plan and ensure the actions are embedded and monitored. Further action should be identified if the current actions are not having the impact as intended to ensure action is taken at pace. In addition, the council should continue to monitor the impact of the DSG deficit on the cashflow position and ensure it monitors and manages the level of reserves and increase its level of reserves where possible.

### **Improving Economy, Efficiency and Effectiveness**

- (KR2) The Council should address the weaknesses identified by a recent statutory direction in relation to the SEND (special education needs and disability) services.

The Council were though not issued with a Statutory Recommendation (SR) which would have had to have been considered by full Council and also referred to the Secretary of State. This, the reduction in the number of key recommendations from 2023/24, and the fact that for the second year in a row the External Auditor did not raise any significant weaknesses in respect of governance is a testament to the work undertaken in responses to the August 2023 Best Value Notice and that of the Administration in attempting to improve the councils financial rigour.

9. In respect of key external assessments, Children's Services were rated "Good" by Ofsted in December 2024 which was a marked improvement from the 2021 "inadequate" rating. Additionally, the council is hopeful that it will receive positive feedback which demonstrates our improvement journey early in 2026 on the following external inspections carried out in November and December 2025.
  - Adult Social Care assessment by the Care Quality Commission.
  - BCP Homes by the Social Housing Regulator.
  - Special Educational Needs and Disability by Ofsted.

10. However, council should be under no illusions. BCP Council cannot be considered to be financially sustainable until its accumulating DSG deficit has been resolved. The government may well be taking over the day-to-day cost of the service from 1 April 2028 however by then the accumulated DSG deficit for BCP could be well in excess of £350m. I still maintain that it is inconsistent with the spirit and intent of the original 2014 Children's and Families Act for the financial consequences of the introduction of education, health and care plans (EHCPs) to have to be borne by the council. This cost is demonstrated by the £8.1m in lower interest and extra debt costs that the general fund has had to manage in 2025/26 alone and amounts to £8.1m in service reductions which would not otherwise have had to be implemented. In 2026/27 this cost is predicted to rise to £10.5m.

### Robustness of Financial Estimates

11. A summary of key assumptions being used to underpin the 2026/27 budget can be summarised as set out in figure 2 below.

12. **Figure 2: Key Budget & MTFP Assumptions**

	2026/27	2027/28	2028/29
Council Tax (Includes 2% Social Care Precept)	4.99%	4.99%	4.99%
Pay Award	2.8%	2.0%	2.0%
Minimum Increase in Fees & Charges	2%	2%	2%
National Living Wage (NLW) % Increase in the National Living Wage	4.1%	2%	2%
	Dec-25	Dec-26	Dec-27
Bank of England - Base Rate	3.75%	3.25%	3.25%

**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 based on the specific cost profile of the service.

13. The key budget and medium-term issues faced by the council are summarised in the following sections. In considering these members are reminded that Local Authorities should not put public money or services at risk.

### Financial Outturn 2025/26

14. The Quarter 3 Budget Monitoring report which appears as a separate item on the 4 February 2026 Cabinet report sets out the council is currently forecasting that it will overspend its 2025/26 approved budget by £4.6m (1.3% of its net budget) after the release of all the budgeted contingencies. This position is despite the proactive financial management demonstrated by the implementation of a freeze on all non-essential expenditure and vacancies (Quarter One, October 2025) and the request that the council's senior leadership team and portfolio holders consider what further action can be taken including the extent to which any previously agreed savings for 2026/27 can be brought forward (Quarter Two, November 2025).
15. 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 financial performance in previous year's (the outturn has been within budget for each of its first 6 years), from 2025/26 in year monthly service reporting and the fact that it is hoped that the current controls on expenditure will continue to bear down on service expenditure.

16. The intent is to fund this forecast overspend from the one-off additional business rates resources being made available in 2026/27 following the fundamental review of council's collection funds in accordance with the approved financial strategy. This approach also recognises that some of the previously assumed use of the amount originally released in 2024/25 and profiled over a four-year period, has now been reprofiled into 2026/27 and later years.
17. There is no further flex in these business rates resources so any extra deterioration in the forecast overspend would have to be funded from unearmarked reserves. As a matter of principle should any improvement be delivered in the final quarter then consideration will need to be given to.
  - a. Further supporting unearmarked reserves and improving the financial health of the council which has been impeded by the 2025/26 forecast overspend.
  - b. Ensuring that the council can continue to fund its regeneration service after 31 March 2027.
  - c. As recognised in the Treasury Management Strategy, to the voluntary repayment of debt.

#### **Provisional Local Government Finance Settlement for 2026/27**

18. Although a 3-year settlement has been announced it should be emphasised that the second and third years 2027/28 and 2028/29 are illustrations only and will only be confirmed as part of the annual local government finance process. It is clear that the current funding formulas do BCP Council no favours. Personally, I do not believe there is enough money in the system to provide either the quantity or quality of services residents expect to be delivered by local authorities. Consideration could also be given to establishing an independent body to distribute resources so that everyone can have confidence that it is entirely fair.

#### **DSG Deficit – Statutory Override**

19. Any private sector organisation which has negative reserves on its balance sheet, is likely to fail the “going concern” accounting concept unless there are shareholder/directors support or guarantees in place. In local government a material uncertainty related to “going concern” is unlikely to exist as the financial reporting framework assumes the council's services, at least its statutory services, will continue to be delivered in all scenarios. Therefore, in local government, the most likely scenario is the council's Director of Finance (known as the Section 151 Officer) would have to contact MHCLG to advise them of their financial concerns and the possibility of issuing a report under Section 114 of the Local Government Act 1988. A s114 report would result in an immediate and severe restriction of non-statutory services. Even statutory services may be subject to a reduction in frequency or quality.
20. Due to the accumulating deficit on our Dedicated Schools Grant, BCP Council had negative reserves as of 31 March 2025. This means that all things being equal the s151 Officer would have been required to issue a s114 report. However, to mitigate this position, which is a problem nationally, the government issued a DSG Statutory Override by way of a statutory instrument (SI) which became law at the end of November 2020. This means the council cannot contribute to the deficit, cannot hold a reserve to act as a counterweight and has been required to move the deficit to an unusable reserve where it will sit as though it did not exist within the council's accounts and is disregarded from a balance sheet perspective. This means a s114 report triggered by the DSG deficit outweighing BCP reserves should not be issued while the statutory override is in place.
21. The statutory instrument reads as follows.

***Where a local authority has a deficit in respect of its schools' budget for a financial year beginning on 1st April 2020, 1st April 2021 or 1st April 2022, the authority***

***(a) must not charge to a revenue account an amount in respect of that deficit; and***

***(b) must charge the amount of the deficit to an account established, charged, and used solely for the purpose of recognising deficits in respect of its school's budget.***

22. As part of the Chancellor of the Exchequers 26 November 2025 national budget the government announced that the government will take over the responsibility for day-to-day funding of SEND from 1 April 2028 onwards which is when they also propose to end the current statutory override. This means that from a test of solvency basis the accumulating DSG deficit can be ignored until the 2028/29 budget setting process.
23. Also, as part of the November national budget government set out that the current accumulated deficit and any further increase in the deficit between now and the 31 March 2028 will be retained by BCP Council and that support for historic and accruing deficits would be announced as part of the December 2025 provisional local government finance settlement for 2026/27. This did not happen, instead the provisional settlement was accompanied with a further statement that further details, and the conditions for accessing such support would be provided later in the settlement process. That said it became clear that any such support would be linked to the submission and quality of a Local SEND Reform Plan to be completed within the 2 months after the release of the school's white paper early in 2026 and based on five principles.
- **Early.** Children should receive the support they need as soon as possible. Intervening upstream, including earlier in children's lives when this can have most impact, will start to break the cycle of needs going unmet and getting worse.
  - **Local.** Children and young people with SEND should be able to learn at a school or college close to their home, alongside their peers, rather than travelling long distances from their family and community. Special schools should continue to play a vital role supporting those with the most complex needs.
  - **Fair.** Every school education setting should be resourced and able to meet common and predictable needs, including as they change over time, without parents having to fight to get support for their children. Where specialist provision is needed for children and young people in mainstream, special or alternative provision, we will ensure it is there, with clear legal requirements and safeguards for children and parents.
  - **Effective.** Reforms should be grounded in evidence, ensuring all education settings know where to go to find effective practice that has excellent long-term outcomes for children and young people.
  - **Shared.** Education, health and care services should work in partnership with local government, families, teachers, experts and representative bodies to deliver better experiences and outcomes for all our children and young people
24. The council will be supported in its development of Local SEND Reform Plans by SEND and financial advisers in a similar vein as to the support received from the Department for Education DfE as part the Delivery Better Value in SEND programme (DBV in SEND) and as part of a subsequent SEND Safety conversation.
25. This position presents a clear, and dangerous position for the council and its future sustainability. At the end of 2025/26, the deficit on the DSG is predicted to be **£183m**. At the end of the Statutory Override extension period BCP Council is currently forecast to have an accumulated deficit of around **£379m**.

### **DSG Deficit – Cashflow Crisis**

26. As highlighted above the council's annual revenue expenditure on the Special Educational Needs and Disability (SEND) service is significantly higher than the government funding made available as part of the High Needs Block of the annual Dedicated Schools Grant (DSG). This expenditure is being driven by the council response to the needs assessment of the child as set out in their Education, Health, and Care Plans (EHCPs) which are a requirement under the Children's and Families Act 2014.

27. **Figure 3:** Forecast High Needs Revenue Expenditure 2024/25 and 2027/28

Revenue	Original Budget	Actual Outturn	Original Budget	Q3 Forecast Estimate	Original Budget	Initial Estimate
Expenditure	2024/25 £m	2024/25 £m	2025/26 £m	2025/26 £m	2026/27 £m	2027/28 £m
DSG - Grant Funded Expenditure	62.3	62.0	65.7	64.5	64.5	64.5
Additional Budgeted Expenditure	28.0	28.0	57.5	57.5	95.7	100.0
Further Additional Expenditure		21.8		16.0		
<b>Total Estimated Expenditure</b>	<b>90.3</b>	<b>111.8</b>	<b>123.2</b>	<b>138.0</b>	<b>160.2</b>	<b>164.5</b>
Dedicated Schools Grant (DSG) Funding	-62.3	-62.0	-65.7	-64.5	-64.5	-64.5
<b>Total DSG Grant Funding</b>	<b>-62.3</b>	<b>-62.0</b>	<b>-65.7</b>	<b>-64.5</b>	<b>-64.5</b>	<b>-64.5</b>
<b>Net Overspend / Unfunded</b>	<b>28.0</b>	<b>49.8</b>	<b>57.5</b>	<b>73.5</b>	<b>95.7</b>	<b>100.0</b>

Prior Year Adjustment non High Needs Related	-1.9
Other elements of the DSG	-1.3

Accumulated DSG Deficit				
	31.3.24	31.3.25	31.3.26	31.3.27
	63.5	113.3	183.6	279.3

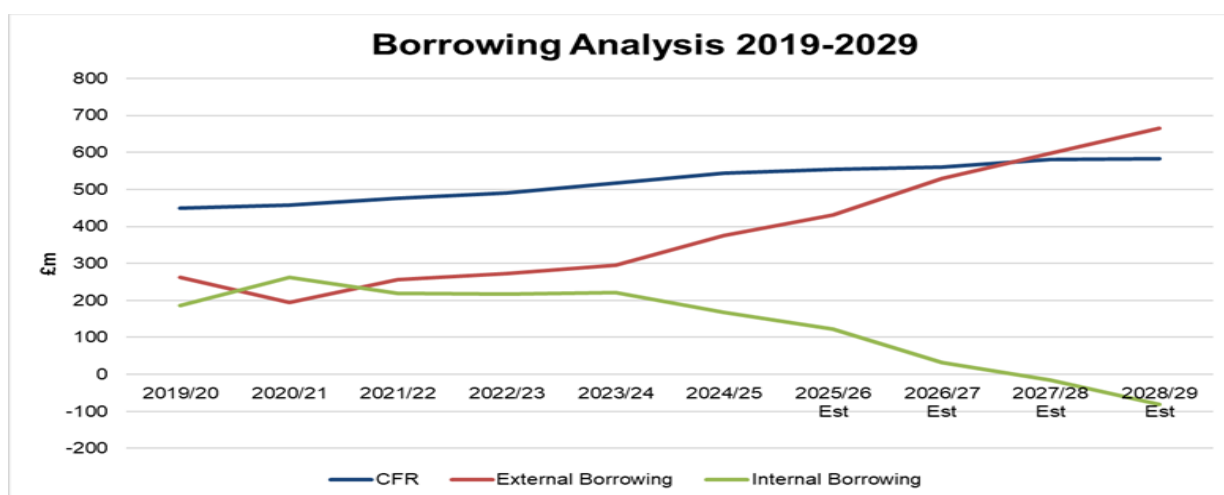
28. The table in figure 3 above demonstrates that in 2025/26 the council is forecasting to spend £73.5m (1148%) more than the £64.5m High Needs Block grant allocation for this financial year. This is £16m more than the amount assumed as part of the February 2025 originally approved budget for the year. The reasons for the increase were set out in detail as part of a report to Cabinet in December 2025 which sought Council approval for the increase in the level of the budget. For 2026/27 the Council is forecasting to spend £95.7m (148%) more than the grant being made available by the Government.

29. This excess of demand and expenditure over grant has been ongoing nationally since the introduction of EHCPs. Locally the deficit has been growing exponentially for several years with the result that the BCP Council forecast accumulated deficit as of 31 March 2027 is now estimated to be £279m as set out in figure 4 below in the context of the council's overall reserves position.

30. **Figure 4:** BCP Reserves including the Accumulated DSG Position

	Balance 31-Mar-23 £m	Balance 31-Mar-24 £m	Balance 31-Mar-25 £m	Q3 Estimate 31-Mar-26 £m	Budget 31-Mar-27 £m
Total Reserves	86.4	65.1	83.0	61.8	50.8
Dedicated Schools Grant	-35.8	-63.5	-113.4	-183.6	-279.3
Net Position	50.6	1.6	-30.4	-121.8	-228.5

31. 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. Currently the council is 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.
32. Figure 5 below sets out that the latest estimates in respect of BCP Councils treasury management headroom. This indicates that we will come into close proximity to the threshold at the tail end of 2026/27, but it is unlikely that it will be fully exhausted until the 2027/28 financial year which is therefore the latest estimate of when the threshold on borrowing, referred to as its Capital Financing Requirement (CFR) is forecast to be breached. In effect this is the point at which the council runs out of cash to continue to cashflow the DSG deficit on behalf of the Department for Education. Robust management of, and slippage within, the capital programme has deferred this position from the end of the current 2025/26 financial year.
33. **Figure 5:** Analysis of BCP Councils borrowing



34. As part of a process supporting the delivery of a legally balanced budget for 2025/26 the government provided the view that councils can exceed its borrowing limits provided it is only temporary. They were also clear they would advise Ministers that they believed the council would not be breaching the Prudential Code while the government works with councils on a long-term resolution. Council will need to keep this issue on its agenda and reflect as to how it will be impacted by any support for historic and accruing DSG deficits once the government make any announcements on this issue.

35. It should also be recognised that if the council did not have to cover the DSG 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 £8.1m in 2025/26 increasing to £10.5m in 2026/27, a cost incurred due to mostly external factors beyond the council's control and one that the council has had limited power to tackle. In respect of 2025/26 that is £8.1m of savings, efficiencies and additional resources implemented which could have been avoided if it were not for this issue and which could have been used to otherwise benefit our residents. It has consistently been raised with government that the councils general fund bearing these cashflow implications does not appear consistent with the spirit and intent of the Children's and Families Act 2014 which introduced the Education, Health and Care Plans (EHCPs).
36. The statutory override is in place to avoid some of the serious consequences of having such a large and growing DSG deficit but has now itself become a threat to councils' financial stability as it is a debt the council is not permitted to tackle proactively, and it is one that the government have not provided any guidance on how they would expect the council to manage. This is an impossible situation. There remains a concern in the sector that the government will be able to implement the necessary changes to reform the SEND system to achieve financial sustainability. And even if they do, this appears **not** to mean that in the process, they will completely address this councils historic and accruing DSG deficit which needs to happen to address the existential threat to the council's future.

#### **New Pay and Grading Structure**

37. A key requirement following the establishment of BCP Council was to create a single new pay and grading structure. In setting a 2025/26 Budget a single pay and grading structure supported by standard terms and conditions applied across all posts was not in place. Potential risks associated with this position increased the longer it took to achieve this outcome however officers were committed to achieving a single pay and grading and terms and conditions outcome.
38. The position was resolved when Council on 16 July 2025 agreed to the enhanced Pay and Reward offer post a further ballot of trade union members and agreement to move towards a collective agreement. The report set out the intent to increase the permanent pay bill of the authority by £4.545m (2.44% increase on the pay base) which was a further £1.752m above the amount included in the 2025/26 Budget and Medium-Term Financial Plan as agreed by Council in February 2025. These calculations related to the individual appointments and salaries of colleagues as they were known as of 21 April 2025 and related to filled paid permanent posts and excluded any provision for vacant posts, casual employees, apprentices, agency staff or as a result of any future re-mapping outcomes. The report also emphasised that the annual incremental drift exposure of the council, which the financial planning assumption continues to be that it will be managed by services, has increased from £1.5m to £4m per annum due to the additional head room within grades from the revised structure. The report included and Council approved a list of savings proposals to cover the further additional £1.752m cost.
39. Council has therefore taken a quantum leap forward in 2025 in mitigating the risks associated with not having a single pay and grading. However, the structure of the financial implications will present services with risk moving forward particularly from the additional annual incremental drift exposure which the council's budget has consistently year on year assumed will be managed by services. Therefore, the increase in base salary costs implemented via this project and the additional incremental drift will challenge the ongoing viability of numerous council services.
40. The approach will be a particular challenge in managing services which operate on a full cost recovery basis, who cover their costs by fees and charges or third-party contributions, or who



recharge their costs to either capital or the Housing Revenue Account. Services partly funded by these mechanisms are only receiving corporate resources to reflect the proportion of their service funded directly from a source other than those listed. Additionally, it should be emphasised that no resources were provided to cover any vacant or casual posts or for any service re-mappings after the 21 April 2025.

41. An emerging risk is associated with how staff were assimilated into the newly approved pay structure which was at the bottom of the grade and market pressures to secure new staff at spinal column points higher up within the pay band. Cabinet working with the Senior Leadership Team will need to keep this issue under constant review.
42. In approving Pay and Reward Council requested the Director of Finance review the assumed allocation to each service area of the resources being set aside corporately. At this stage not all the resources have been distributed. These resources will be carried forward and held as a resource to be applied, for example, as the evidence around the application of the new allowances structure emerges.

#### **Pay Award**

43. The budget as presented makes provision for a 2.8% pay award in 2026/27. Any deviation from the amount provided will require £2m for every 1% variation. Trade unions tabled a pay claim in December 2025 for 2026/27 which included demands for an increase of at least £3,000 or 10% (whichever is greater) across all spinal column points, a two-hour reduction in the working week and an increase of one day's annual leave. Government's initial evidence to pay review bodies is for a 2.5% increase in 2026/27. Benchmark comparisons indicate other local authorities across the southwest are assuming around 3% with our nearest neighbour at 3.2%.
44. Reflecting on the current 2025/26 financial year the pay award the council budgeted for was 2.8% which proved to be inadequate in comparison with the 3.2% agreed. Looking further back in 2024/25 the budget provided for 4.5% and the actual award averaged out at closer to 4%.
45. The adequacy or otherwise of the 2.8% provision presents a clear risk to adequacy of the budget.

#### **Uncertainty**

46. High levels of financial planning unpredictability exist at this time caused principally by the ongoing implications of various inflationary factors on the costs of goods and services procured by the council with geopolitical factors continuing to have a particular influence.

#### **Delivering savings, efficiencies and additional income generation**

47. There is significant risk associated with delivering £14m in additional savings, efficiencies and additional income/resources which underpin the delivery of the legally balanced budget for 2026/27. This includes assumptions of significant income generation and reduced service-based expenditure which have required some very difficult and painful choices.
48. In 2025/26 the analysis based on the Quarter Three Budget Monitoring report shows that 90% of the £9.6m budgeted savings for the year are on track to be delivered. The majority of the currently undelivered savings will eventually be delivered just not within the original time-horizon.
49. The overall savings risk recognises the relentless requirement to identify further potential proposals to support the ongoing need to balance future year budgets.

#### **Realisation of capital receipts to fund transformation and invest to save programmes**

50. In the context of the council's overall financial position and its financial sustainability, a critical issue is the assumption that the council will generate capital receipts to finance its various transformation and invest to save programmes over the 4-year period to 31 March 2029. The

budget and MTFP as proposed has been drawn up on the basis that capital receipts of £18.5m will be made available over this period to cover the estimated transformation and invest to save expenditure. This expenditure includes £2m expenditure in 2025/26 associated with the closure of the previous main transformation investment programme, £2.8m on approved Adult Social Care Services specific transformation programmes, £1.9m on approved Children's Services specific transformation programmes, £415k on a range of small invest to save proposals and then a provision of £3m per annum from 2026/27 to fund the necessary transformation and invest to save programmes required to support the annual balancing of the councils budget of which £1m is specific to reductions in the head count of the authority. This requirement will grow if the council is granted a capitalisation direction to fund the 2026/27 and 2027/28 borrowing costs / lost interest on the DSG deficits via the sale of assets.

51. The key risk to the council is in respect of any expenditure which it intends to incur before the necessary cash from actual capital receipts has been realised. Bear in mind that conveyancing is often described as a challenging, time-consuming process, with many potential pitfalls. Any transformation expenditure which cannot be financed because insufficient capital receipts have been generated has to be charged to the revenue budget. This risk is mitigated by the fact that as of early January 2026 £11.5m of the £18.5m target has already delivered with a further £5.8m anticipated before the 31 March 2026.

### **Adult Social Care Services**

52. The role of adult social care in our society cannot be overstated. It is a fundamental pillar that provides dignity, safety, and independence to millions, supports families, underpins local economies, and alleviates pressure on the NHS by enabling timely hospital discharges and reducing avoidable admissions. However, it is a sector that historically has been left on the margins of government policy, despite clear evidence of its essential contribution to communities and economic wellbeing.
53. The adult social care sector was already facing an unsustainable level of pressure before recent government policy changes added further financial strain. Years of funding pressures, rising demand, and workforce challenges have left providers in a precarious position, struggling to deliver essential services within increasingly tight budgets. The announced uplift to the National Living Wage will have done little to ease the pressure either on local authorities or the care providers who's services they commission. As demonstrated earlier in this report any government confidence that these costs can be absorbed by the extra resources included in their new Fair Funding Formula is misplaced for authorities such as BCP Council who will be receiving less Revenue Support Grant (RSG) in 2026/27 than it is actually receiving in the current 2025/26 financial year. The reality is that the funding falls far short, leaving the council struggling to absorb these costs without risk and implications to the range of essential services it provides.
54. Reflecting on the robustness of the budget the risk is associated with the possibility that demand for care and support exceeds the approved budget or the cost of care home placements continues to increase beyond the inflationary increases allowed for in the budget. In addition, should the current capacity in the domiciliary care market, at the council's framework rates, fail to keep pace with demand this could result in higher home care costs above framework rates.
55. A separate risk is the significant financial challenge due to the high proportion of self-funding care home residents locally whose depleting capital resources require local authority funding support.
56. Assurance around the delivery of the Adult Social Care budget can be provided by the analysis which demonstrates the service has been delivered within the parameters of the approved budget in every completed financial year since April 2019 up to an including 2024/25. However, this is not the case in the current 2025/26 financial year with a £3.8m (2.7%) overspend

predicted. The assumption is that the provisions for demand and inflationary increases included in the 2026/27 budget will be sufficient to cover these legacy issues as well as address the anticipated future demands.

57. Looking to the future in its 2024 manifesto the now Labour government made a committed to create a National Care Service. In support of this objective they announced in January 2025 an independent commission, chaired by Baroness Louise Casey, to make clear recommendations on how to rebuild the adult social care system to meet the current and future needs of the population. The first phase of the commission will identify the “critical issues” and recommend tangible, pragmatic solutions that can be implemented in a phased way to lay the foundations for a National Care Services by the middle of 2026. The second phase, set to be finalised by 2028 will make longer-term recommendations for the transformation of adult social care and shape how services should be organised to best create a fair and affordable adult social care system for all.
58. As all previous attempts to reform adult social care have failed there is a clear risk that despite the best of intentions the opportunity to deliver the necessary reforms to create an affordable and sustainable Adult Social Care system will not be taken. Even if it is, the fact that the finance aspect will only be considered as part 2 of the commission and not reported on until 2028 means the current system which fails both the NHS and councils is likely to continue for probably another 3 years.
59. In considering the robustness of the 2026/27 it is worth considering an additional risk introduced via the Fair Funding Formula that the Department of Health and Social Care will be publishing “notional” adult social care amounts which will be their expectation of how much council funding should be spent on adult social care. It is unclear how this approach reconciles with the unringfenced nature of funding and what level of pressure they will apply to any disparities.

#### **Adult Social Care Sector – Fair Pay Agreement**

60. As a result of legislative changes, the Fair Pay Agreement (FPA) via Adult Social Care Pay Negotiation Body will set a minimum standard for pay and other terms and conditions in Adult Social Care market. The agreement is aimed at improving the whole care market workforce and ASC workforce pay conditions, staff retention and make the sector more attractive as an employment opportunity. This, however, will limit the ability of funding bodies, local and health authorities, to minimise the impact of sector pay expectations on their own budgets. The FPA consultation runs till mid-winter 2026, but what is understood so far is that the government’s plan is to devolve £500 million of grant funding in 2028/29 to local authorities to initiate the FPA. However currently there is no detail as to what the agreement will result in – higher wages, establishing sector pay floors, pay spines, increase in care worker annual leave allowance and subsequent need to employ higher number of employees by care providers. One of the illustrative potential outcomes suggests an increase in basic pay to care workers by 5.1% in April 2028. For BCP Council such increase would mean a pressure of £4.9 million in addition to already reported MTFP growth. It needs to be assumed that such additional pressure would be entirely covered from the new external DHSC grant. Whether the grant would be on-going and whether local authority grant allocations would lead to an additional pressure from pay negotiations, remains unknown at this time.

Additionally, pressures will emerge from private care sector, with self-funders depleting their own resources faster and accessing local authority funded care much quicker. There are no tools to quantify this impact on the BCP Council budget. FPA could also potentially pose a risk of pay increase disputes where local authority in-house care workers annual pay award, negotiated by National Joint Council, would differ from sector pay increases required by newly formed negotiation body.

### **Section 117 (6) Mental Health Act 1983 Accommodation Plus**

61. Guidance issued by the Local Government and Social Care Ombudsman and legal advice clarified that people should not be paying for services which meet their mental health needs under Section 117, including specialist accommodation/supported living. Where accommodation costs form an intrinsic part of the aftercare arrangement, the Council and/or Integrated Care Board (ICB) should pay for this, and the person should not be expected to claim housing benefit. This legal position may affect as many as 110 people currently in specialist accommodation in BCP Council who may be entitled up to 6 years back pay. There will be an expectation that NHS Dorset will pay part of the cost identified in line with their agreed contribution to the after-care provision for each individual. BCP potential risk after NHS Dorset contribution could be as high as £2.4m in backpay and over £396,000 as an ongoing net pressure. In 2025/26 financial year Adult Social Care recorded circa 60 service users with Accommodation Plus needs having impact on the ASC 2025/26 budget position. It is felt legality remains a key factor in potential retrospective claims however the current provision related to Accommodation Plus is recognised to be sufficient (£1.052m). Any further changes to the provision will be a result of ongoing work pertaining to historic cases from the perspective of 6 years liability limitation period.

### **Housing Services**

62. The councils housing register currently has over 3,300 households of which 146 are banded in the emergency or gold band representing the highest needs category. This demand reflects the ongoing affordability challenges driven by record house prices, high mortgage rates, long waiting lists for social-rent housing, and the continued prevalence of second homes and short-term lets. Currently there are 601 households in temporary accommodation of which 64 are in Bed & Breakfast accommodation including 5 families.
63. The Council's housing strategy continues to focus on addressing affordability pressures and supporting those most in need. Previous initiatives such as the Council Newbuild Housing and Acquisition Strategy (CNHAS) have been successful in reducing reliance on costly Bed & Breakfast accommodation and improving access to affordable homes. However, the programme has also presented challenges, particularly around capital and interest repayments and the significant resource required to manage and maintain the acquired properties. These financial pressures, combined with high interest rates and inflationary impacts on property management, underline the need for future delivery models that balance housing need with long-term affordability.
64. To help mitigate these challenges, the Council will continue to receive government support through the Homelessness, Rough Sleeping and Domestic Abuse Grant, which forms part of the 2026/27 finance settlement. This funding is subject to ring-fencing and conditions of use as set out by government. In addition, a portion of the Homelessness Prevention Grant (HPG) is being consolidated into the Revenue Support Grant (RSG). When considered together, the overall funding available for 2026/27 is in line with the allocation received in 2025/26, providing continuity of resources to support homelessness prevention and temporary accommodation needs. Alongside this, a review of rents and service charges for temporary accommodation is underway to support cost recovery and financial sustainability.

### **Children's Services**

65. BCP Council is committed to ensuring every child can live a happy fulfilled life. However, the council continues to face spiralling costs and pressures in children's services which has seen the services budget increase by 100% between 2019/20 and 2026/27 acknowledging the direct comparison is impacted slightly by the movement of certain specific grants into the base RSG calculation. The continuation of such increases presents a key risk to the sustainability of the councils' finances.
66. To emphasise the point as of December 2025 the council has 628 Looked After Children (LAC) which is a 19.4% increase compared to 526 LAC in March 2020. In addition, as of November

2025 4,921 children have an Educational Health and Care Plan (EHCPs) which is an 101% increase compared to 2,448 EHCPs in January 2020.

67. For 2026 these pressures have been extenuated by additional costs associated with the National Living Wage and the growing cost and demand for the council to fund transport costs for pupils particularly those with Special Educational Needs and Disabilities. The Home to School Transport budget for 2026/27 is proposed to be £19.3m which is an increase of £2.2m compared to the 2025/26 budget. For comparison, as part of the Operations Directorate, the council is budgeting to spend £8.593m on the concessionary fares scheme in 2025/26.
68. From an assessment of the robustness of the budget perspective it should be emphasised that £7m is being provided in 2026/27 to cover demand and cost increases in Children's Social Care. This is higher than in previous years in an attempt to also rebase the budget based on the current in-year forecast overspend. For future years annual growth of £6m per annum is being provided for.

### **Operations Directorate**

69. The Operations Directorate is diverse covering a wide range of service areas including Commercial Operations, Environment, Planning & Transport, Infrastructure, Investment & Development, and Customer & Property. This is a broad portfolio containing various activities which are uncertain by nature and therefore capable of variation from the budget assumptions. For example, several of the Commercial Operation services generate significant income levels which will be weather dependent as would be anticipated for a coastal tourism destination.
70. The budget as presented allows for inflationary pressures associated with the waste disposal market, fuel inflation, cleaning, RNLI, seafront, intelligent traffic systems and abandoned & untaxed vehicles. In addition, provision is made for additional borrowing costs associated with the fleet replacement strategy, including its electrification where appropriate, and the increase in journey numbers associated with concessionary fares.

### **Extended Producer Responsibilities (EPR)**

71. This government policy is 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 were given a guaranteed allocation of £9.447m to help offset costs associated with waste collection and disposal.
72. During November 2025 the Council was notified of a £9.703m allocation for 2026/27 however it is worth stressing that this amount is not guaranteed and therefore there will be a high degree of uncertainty in regard to the final amount eventually receivable. It is clear that the Scheme Administrator (PACK UK) will be required to assess the effectiveness of the council's waste management services via an audit process. If it is deemed that we are not compliant then the council can be fined part of our ERP payment (up to 20% i.e. £1.941m) and also instructed in what we need to do to become efficient and effective. For example, this could involve PACK UK deciding, at the council's cost, that we should introduce a separate paper/cardboard collection process.

### **Waste Strategy**

73. A current significant uncertainty in the context of the council's medium term financial plan is the impact of the national waste strategy and the possible implications of policies such as the plastic film collection (April 2027), and Deposit Return Scheme (October 2027) for each of which there is likely to be an additional recycling cost and savings in the volume of black bin waste. There is then the Emissions Trading Scheme (January 2028) which is likely to lead to a general increase in waste disposal costs. At this stage the MTFP includes estimates of the impact of the waste strategy in 2027/28 and 2028/29 based on work undertaken by industry experts. However, the potential impact will need careful monitoring as the level of uncertainty reduces closer to actual implementation dates.

### **Dorset Local Enterprise Partnership (DLEP) Closure**

74. Cabinet received a report at its meeting on the 29 October 2025 consequential to government's decision to cease funding the functions previously delivered by Local Enterprise Partnerships and the request that Local Authorities integrate these activities into business-as-usual arrangements. Cabinet resolved to accept the following residual funding.
- |      |               |   |
|------|---------------|---|
| i)   | £866,951.68   | revenue funding                                   |
| ii)  | £2,498,208.50 | capital funding                                   |
| iii) | £1,275,000    | capital funding subject to future loan repayments |
75. In addition, Cabinet agreed to ringfence these funds for the benefit of the community and to delegate authority to the Chief Operating Officer and the Chief Financial Officer in consultation with the Portfolio Holder for Destination, Leisure and Commercial Operations and the BCP Growth Board to allocate this funding. It is a legal requirement of the closure arrangements that these funds are used for purposes consistent with the previous LEP funding of delivering economic growth, job creation, and developing local economies, and including support for small businesses, skills infrastructure. More specifically.
- “Support the long-term resilience of the businesses, workforce and communities of Dorset - co-developing local strategies, driving economic growth and productivity, attracting funding and investment, working to transform careers education and helping shape a skilled, adaptable workforce”.*
76. The intention is to bring forward a Cabinet report in March 2026 as part of the BCP Growth Plan setting out how these resource will be allocated. The BCP Growth Board will play an advisory role in this process.

### **Operational risk of a reduction in fees, charges and rents income.**

77. Although the 2026/27 budget includes estimates for fees, charges, and rents the actual amount collected can be heavily influenced by factors outside of the council's control such as the weather and individuals' personal wealth. The inflationary uplifts applied to these income streams can also be impacted by the elasticity of demand. Associated risks include not putting in place appropriate arrangements for their collection. BCP Council is particularly sensitive to changes in such income streams due to significant parking and seafront activity as demonstrated by benchmarking when compared against other local authorities.

### **Council owned Companies and Joint Ventures**

78. 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 where the risk is likely to materialise
79. A good example is the Council has resources at risk in respect of advance fees incurred on schemes being worked up by the Bournemouth Development Company (BDC) a partnership between the Council and MUSE, which should eventually be covered by the individual schemes business case. For example, in respect of the Winter Gardens Scheme the Council has outstanding loans totalling £3.74m (plus accruing interest) supporting the expenditure undertaken. The council has previously made a £4.2m provision to cover its 50% share of the overall costs associated with the partnership should it not progress.

### **Carters Quay**

80. 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.
81. In late 2023 Inland Partnership entered administration with the Council having made £15.3m in payments as part of the contract arrangements.

82. 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.
83. Until the current position is resolved with the administrator there is a clear risk the arrangement will cost more than has been allowed for as part of the previously approved business case. Alternatively, there is a risk that council may choose to pay off the debt associated with the amount already incurred.

#### **Capitalisation of costs.**

84. Provided in line with the parameters of approved capital schemes, and the Accounting Code of Practice, the council will continue to adopt the approach of charging expenditure incurred developing an Outline Business Case (OBC) to capital. Under normal circumstances subsequent expenditure preparing the Full Business Case (FBC) and delivering the scheme shall also be capitalised.
85. However, it should be noted that by continuing this approach the council is continuing to accept the risk that it will have to write off to revenue any payments on schemes which it subsequently decides not to progress with be that at either OBC or FBC stage.

#### **Resources Directorate**

86. A particular risk which impacts on the robustness of the proposed 2026/27 Budget is the assumption that ICT & Programme Management Service will successfully manage to finance their establishment and activities in line with income achievable and available funding. This includes the Projects & Programmes (PPM) Centre of Expertise and the Data & Analytics service. Alternative funding sources will continue to be fully explored alongside a review of the priorities of these services. This recognises that only transformation expenditure which leads to deliverable savings can be funded via the flexible use of capital receipts whereas improvement expenditure does not meet the required legislative framework to be funded via this source.
87. Resources have been included in the proposed 2026/27 budget to revise the previous income assumptions included in the budget and MTFP for the Policy, Communication and Marketing Service.

#### **Loss or disruption to IT systems and Networks from cyber-attack**

88. A loss or disruption to IT systems, specifically those caused by cyber-attacks, can incapacitate essential networks, for example, by encrypting or destroying data on which vital services depend. Such attacks could cause a variety of real-world harm if services like social care, housing, or place (highways etc) are impacted.
89. Financial loss is the most common impact through both direct loss of funds as well as recovery costs and reputational impacts. In 2020, both Redcar and Cleveland Council and Hackney Council faced ransomware attacks that had significant financial impacts on their services, resulting in £10m and £12m worth of damages, respectively. In January 2024 three councils in Kent, Canterbury City Council, Thanet District Council and Dover District Council were referencing disruption to their services as a result of an attack. In November 2025, three central London councils, Hammersmith and Fulham, Kensington and Chelsea, and Westminster were all citing similar problems.
90. Public confidence may be affected if the council is not able to adequately protect its IT systems and networks against loss or disruption, whether caused accidentally or intentionally. The industry adage is when, not if, an attack will happen. No council is immune from such attacks and for this reason the council further invested into its security arrangements as part of the 2025/26 budget.

91. In January 2025 the Home Office launched a consultation around ransomware and proposals to increase incident reporting and reduce payments to criminals. Their intent is to deter criminals from attacking UK organisations including local government and to increase intelligence and understanding of the ransomware threat. That said attacks on Marks & Spencer, Heathrow Airport, Transport for London, Jaguar Land Rover, and the Co-op Group emphasise that even the country's largest organisations are at risk and that all companies and councils should do all they can to counter threats and protect themselves. To emphasise the point since April 2019 antidotally the council was exposed to its highest level of cyber threat activity during the last 12 months.

#### **Microsoft Licensing Costs**

92. Ongoing work on the Councils Microsoft licensing budget suggested a significant pressure of up to £10m per annum due to a revised licensing pricing structure for Dynamics F&O. This increase was specifically associated with the human resource arrangements and a requirement to have a full Dynamics license allocation to process timesheets.
93. Subsequent to the notification, significant investigation and discussion has been carried out with our licensing reseller, Microsoft, and peer colleagues in other local authorities to reach a solution. This identified the issue as a bug that it is anticipated will be fixed by an update process in late January 2026.
94. Should the fix not be successful then the council will have a £1m unavoidable cost exposure which has not been provided for as part of the proposed 2026/27 budget or MTFP and will also be required to fundamentally rework how the council operates to avoid even further additional licensing cost exposure. Should this mitigation approach be required this will require a significant amount of cross-authority activity to resolve before the 15 April 2026 deadline for renewing these licenses. In support of the impact assessment the council is being supported by a third-party to carry out a full licensing audit and to assist in developing further optimisation strategies.

#### **Legal Claims**

95. The Council has several outstanding legal claims against it. Examples include claims brought against the council due to contractual terms and arrangements and claims because of the impact of the Councils actions on third parties. Detailing them is likely to prejudice the council's position and/or disclose privileged legal advice. Some are high-profile cases. They cover a range of matters such as planning, highway, car parking, social care, and employment disputes. Each has the potential to have an adverse impact on the council's financial position. 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 alongside any settlements or costs awarded against the council.

#### **Enterprise Resource Planning (ERP) System**

96. Following the engagement of KPMG as part of the original Transformation Investment Programme the Council implemented a Microsoft ERP system on the 1 April 2024. This is a relatively new system in the local authority marketplace and with any new system there is always numerous glitches and a period of associated learning. Although we are seeing clear improvement there will always be risks associated with new systems. One such heightened risk is the council's vulnerability to changes in the structure of Microsoft Licensing arrangements.
97. A related risk which has though diminished in the last twelve months is in respect of our financial accounting requirements as the council has now completed a financial outturn and set of statutory accounts based on the new system and these have been reviewed by the External Auditor.



### **Dorset County Pension Fund (Pooling)**

98. Local government pension pooling is a UK government initiative to consolidate the investments of 86 local authority pension funds into a smaller number of large-scale asset pools. The intent is to reduce costs, achieve economies of scale, and boost investment in UK economic growth and infrastructure. The proposal is for Dorset County Pension Fund to transfer its investment management to the Local Pensions Partnership Investments (LPPI) pool on dissolution of the Brunel Pension Partnership.
99. Clearly the primary and secondary pension fund contribution rates are impacted by the success or otherwise of its investments underpinned by its investment managers. Therefore, there are risks to the council of such a significant change.

### **Adequacy of reserves**

**Figure 6: Latest Reserve Forecast**

	Balance 31-Mar-23 £m	Balance 31-Mar-24 £m	Balance 31-Mar-25 £m	Q3 Estimate 31-Mar-26 £m	Budget 31-Mar-27 £m
<b>Unearmarked Reserves</b>	17.9	26.1	27.3	29.3	24.5
<b>Earmarked Reserves</b>	68.5	39.0	55.7	32.5	26.3
<b>Total Reserves</b>	<b>86.4</b>	<b>65.1</b>	<b>83.0</b>	<b>61.8</b>	<b>50.8</b>
<b>Dedicated Schools Grant</b>	<b>-35.8</b>	<b>-63.5</b>	<b>-113.4</b>	<b>-183.6</b>	<b>-279.3</b>
<b>Net Position</b>	<b>50.6</b>	<b>1.6</b>	<b>-30.4</b>	<b>-121.8</b>	<b>-228.5</b>

100. The council must ensure **Unearmarked Reserves** are retained at an appropriate level 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 operational risk associated with the operation of the council and the management of service expenditure, income, and the council's funding. They should not be seen in a short-term context. They should not only be placed in the context of significant uncertainty in respect of the impact on the council of increases in commissioning costs due to the governments national living wage, general inflationary pressures, and the relentless increase in service demands particular social care and homelessness, but also in the context of the future.
101. 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 previously had a policy of trying to maintain their unearmarked reserves at up to 10% of NRE. Benchmarking demonstrates that steps taken up to 31 March 2025 have moved the council into the mid-range compared to other unitary councils.
102. As a reminder the council has taken proactive steps to improve its financial health and sustainability across both 2023/24, 2024/25 and 2025/26 which has included increasing its unearmarked reserves by over 60% to £29.3m. They now represent 8% on a net revenue expenditure basis (RA 2025/26). The 31 March 2026 forecast position includes.
- the transfer in of £2m from a previous earmarked reserve to cover transformation related redundancy costs which could not be funded via the flexible use of capital receipts (FUCR). During 2025 the legislation has been changed which means all such costs can now be

funded via the FUCR and consequentially the resources can be redirected into unearmarked reserve.

103. The forecast position as of 31 March 2027 is that they will now decrease to 6% based on a 2026/27 net revenue expenditure basis. The 31 March 2027 position includes.
- b. the transfer out of £4.8m to support the setting of a legally balanced budget for 2026/27. The intent is that this item is reversed by the extent of any support for historic or accruing DSG deficits which the government are expected to announce in February 2026. This announcement will hopefully be in the form of the promised detail which was not provided as part of either the November 2025 local government financial policy statement, the Chancellors November 2025 Budget, or the December 2025 provisional local government finance settlement for 2026/27. In addition, recognising the lack of a government announcement of support for historic and accruing DSG deficits the council applied on the 6 January 2026 for exceptional financial support in the form of either.
    - Government permission to increase council tax by more than the 4.99% threshold limit.
    - Government permission to capitalise the £10.5m cost of borrowing to finance the DSG deficit in 2026/27.
104. It should also be noted that it is assumed the 2026/27 net revenue expenditure calculation has been adjusted to take account of the £70.9m of previous specific grants the government are rolling into the Revenue Support Grant calculation from 2026/27 as part of their Fair Funding Formula approach. In itself this will have the impact of increasing the NRE and therefore reducing the percentage of unearmarked reserve coverage of NRE. Without an adjustment the 8% will automatically become circa. 6.7%.
105. In support of the unearmarked reserves position the council has undertaken a detailed risk assessment (presented as Appendix 10b). Recommended previously as part of the CIPFA Financial Resilience Review this indicates that the council should maintain its unearmarked reserves within the range £53m to £159m. However, this includes recognition of the DSG deficit which if ignored, which we are advised to do, would mean our unearmarked reserves should be in the range £20.4m to £37.5m.
106. In line with 2025/26 the proposal is to maintain an in-year base revenue contingency at 0.8% of the council's net revenue expenditure as part of the strategy to assist in the mitigation of unforeseen events. For 2026/27 the 0.8% contingency equates to £3.328m. For comparison our nearest neighbour has a general contingency of £8.5m for 2026/27.
107. **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.
108. The council had earmarked reserves of £68.5m as of 31 March 2023. Of this, £30m related to resources specifically set aside to support the balancing of the 2023/24 budget, and to avoid the severe cuts to services that would otherwise have had to be made. As these resources were one-off then the 2024/25 approved budget was required to include £38m of savings, efficiencies and additional income to ensure the necessary structural adjustment to the budget / service levels was made.
109. It should be emphasised that over one-third of the 31 March 2026 earmarked reserves balance relates to government grants paid in advance of the actual expenditure. This figure tends to

change in the final quarter of the financial year as government work on a cash as opposed to accruals basis with a tendency for grants to be issued in these final months.

110. Whilst the current level of reserves may be adequate to support the core budget for 2026/27 it does not require any professional judgement from the Chief Financial Officer (CFO) to assess that the council's reserves **cannot** be considered adequate based on the accumulating DSG deficit. However, as legislation prevents the council from making provision to offset the deficit in 2026/27 it appears there is no other option than to accept the position. Members do need to recognise that this legislation will not, as it stands, be applicable for the financial year 2028/29 and in the absence of government support the council will be insolvent from the 1 April 2028 onwards.

### **Conclusion**

111. In the context of this report, the Director of Finance considers that the estimates used for the purposes of the proposed 2026/27 budget are robust given a clear understanding by members and senior management of the following:
- That Corporate Directors, Service Directors and Budget Holders have provided the Chief Executive with direct assurance that they have accepted their budgets and have agreed to deliver their services within its financial parameters including the realisation of approved savings.
  - That over the next 3-years the council will receive less Revenue Support Grant than it is receiving 2025/26. This alongside the inevitable changes in demand and cost pressures will require the senior leadership team and Cabinet portfolio holders to bring forward further options for reducing the net cost of services including additional transformation and invest to save programmes. Alongside this Cabinet will need to receive a report in the spring of 2026 providing assurance that the current transformation and invest to save programmes will deliver the level of savings promised when the investment was approved and to the currently approved timescales.
  - That the new pay and reward structure implementation was based on a range of financial assumptions including the increase in the annual incremental drift exposure from £1.5m to £4m per annum and the exclusion of any provision for vacant posts, casual employees, apprentices, agency staff or as a result of any future re-mapping outcomes. These are all costs which will need to be managed by the relevant services however the council report recognised that these issues would challenge the ongoing viability of a number of services.
    - The robustness of this statement is on the clear understanding that where Corporate Directors, Service Directors and Budget Holders believe they cannot manage the impact of the additional incremental drift exposure, or the cost of any re-mappings since the 21 April 2025 date which unpinning the Council report, that they will provide the Chief Executive and Portfolio Holder with options for mitigation by 31 March 2026.
  - Directors will continue to diligently identify and rigorously apply mitigation strategies for their identified in-year 2025/26 budget pressures.
  - Children's Services continue to acknowledge the fiscal consequences of their service decisions around SEND by doing all they can to contain the cost of services within the grant made available by government.
  - Effective governance arrangements will be maintained at Portfolio Holder, Executive, Senior Management, Directorate, and budget holder level to monitor the overall delivery of the 2026/27 budget.
  - That the council will steel a march on the process of delivering the necessary savings to enable the 2027/28 budget to be legally balanced including.

- Going back to basics with a review of every item of expenditure to determine if it is absolutely necessary and value for money. This will include a continuation of the current year's expenditure freeze until sufficient savings to balance the £18.7m funding gap for 2027/28 have been identified.
- Ongoing development of invest to save and service specific transformation programmes supported by the ICT Programme Management Team.
- Star Chamber events for each and every service which include the line-by-line analysis of the budget, the detail of every post, the detail of every contract supported by the budget and relevant benchmarking information.
- A presumption will apply that every vacancy triggers a review of the post and its function — whether statutory or non-statutory — to determine whether the role is still required in its current form. This review will include:
  - assessing whether the duties can be re prioritised, absorbed within the existing team, or delivered differently.
  - fully exploring opportunities to use existing technology and capabilities developed through the significant investment in Transformation over recent years.
  - Where appropriate, considering internal recruitment only, where a genuine need for the role remains.

The overarching aim is to improve the productivity of the organisation by managing down the overall headcount and pay bill through natural turnover and redesign, avoiding the need for a large-scale redundancy programme

112. However, the Director of Finance also concludes that the level of reserves cannot be considered adequate given a clear understanding by members and senior management of the following:

- That on 1 April 2025 the council was technically insolvent as it had 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 £95m per annum which is the amount the expenditure on the High Needs Block continues to be more than the annual government grant being made available. Although government will take responsibility for the day-to-day operational costs of the service from 1 April 2028 onwards the historic and accruing deficits will be retained by the council. Without government support for these retained deficits the council will actually become insolvent from 2028/29 which is when the current statutory instrument that allows them to be ignored, falls away.
- That the use of unearmarked reserves to balance this budget is contrary to the strategy of the Administration to improve the financial health and sustainability of the Council.
- That at around the 5.9% unearmarked reserves are only just sufficient to cover an unexpected single event such as a cyber-attack 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 clearly be insufficient for the realisation of multiple risks.
- Earmarked reserves should be supported by a clear plan held by the service which details the profile of when the resources will be drawn down. Any resources identified as not needed for their original purpose will be redirected into unearmarked reserves.
- That all opportunities will be taken for the level of unearmarked reserves to be enhanced and for the overall financial sustainability of the council to be improved.