

BCP Council

Cabinet Meeting 11 February 2026

Item: Agenda Item 6

Budget 2026/27 and Medium-Term Financial Plan

Addendum

Background

1. The February 2026 Budget 2026/27 and Medium-Term Financial Plan report to Cabinet set out that in order to present a legally balanced budget for 2026/27 the Council was having to draw down £4.825m in unearmarked reserves. This conflicted with the stated aim of increasing these reserves to protect the financial health and sustainability of the Council. The draw down was necessary primarily as the council is struggling to cover the £10.5m borrowing costs in 2026/27 that it will need to incur to fund the accumulating deficit on its Dedicated Schools Grant (DSG) as pertaining to year-on-year Special Educational Needs and Disability (SEND) expenditure above the annual government grant.
2. The 2026/27 Budget report also set out that the advice of the council's Director of Finance was to apply any resources announced by government as part of the final 2026/27 local government finance settlement to restore unearmarked reserves and protect the future financial health of the council recognising:
 - a) that in each of the next 3 years the council will be receiving less Revenue Support Grant (RSG) from the government than it is receiving in 2025/26. By 2028/29 this reduction amounts to £5.9m per annum (4.1%). On the basis that it would have been fair to assume the 2025/26 funding would have increased by at least the government's 2% inflationary target the indication is the council will be losing around £15m annually by the 3rd year (2028/29) of the local government finance settlement.
 - b) there is a total funding gap of £30.1m across the following two-year period 2027/28 and 2028/29.
3. It was hoped that additional resources that might have been received in the final 2026/27 settlement may have included any of the following matters all designed to support the council's financial health and sustainability.
 - i) A response to a 6 January 2026 application by the council for Exceptional Financial Support (EFS) from the government which requested.
 - o Government permission to increase council tax by more than the 4.99% threshold limit.
 - o Government permission to capitalise the £10.5m cost of borrowing to finance the DSG deficit in 2026/27.
 - ii) Any government support for historic or accruing DSG deficits.
4. An independent review of the councils EFS application on behalf of government concluded that it was fully justified recognising particularly the challenges around current and future DSG deficits and the councils below average level of council tax.

Final 2026/27 Local Government Finance Settlement

5. On the 9 February 2026 government announced the final Local Government finance settlements for 2026/27, the latest date the settlement has been received since 2017/18. This statement included the following announcements specific to BCP Council.
- Ability to increase council tax by an additional 1.75% over and above the standard 4.99% threshold increase in 2026/27 (6.74% total allowable increase). The council will therefore not need to hold a referendum for increases up to and including 6.74%. At this level, the council will generate an extra £4.9m in extra annual revenue from 1 April 2026 onwards towards essential services.
 - Support for the council's historic and accruing DSG deficits in waves. The first phase of which has been designed to address historic deficits and will take the form of a new High Needs Stability Grant to cover 90% of the deficit as at the 31 March 2026. This grant will be subject to BCP Council submitting and securing the Department for Education (DfE) approval of a Local SEND Reform Plan. If agreement is reached the grant will be paid during the autumn of 2026 and will need to be held as a grant received in advance within reserves and applied to the residual balance on the 31 March 2028.
 - Government also acknowledged that the SEND reform plans will take time to fully embed and local authorities will need further support. For deficits that arise in 2026/27 and 2027/28, it was highlighted that local authorities can expect that government will continue to take a similarly appropriate and proportionate approach to such support, although it was recognised that this support would not be unlimited.
 - In respect of the statutory override, which allows the council to ignore the DSG deficit, within its statutory accounts, it was confirmed that this will cease on the 31 March 2028. **The advice to local authorities from government is that they need to plan to be able to meet the cost of the residual deficit from their own resources in 2028/29 including setting aside appropriate reserves in the preceding years.** If the council also receives 90% of its forecast accruing DSG deficits in 2026/27 and 2027/28 then the council will need reserve funding of £37.9m in 2028/29 to specifically cover the residual deficit.

Financial Implications – Extra council tax flexibility

6. The following table summarises the impact on the councils Band D council tax of the additional increase.

	2025/26	£1,855.41	Annual Variance
Based 4.99% increase	2026/27	£1,947.99	increase £92.58
Based 6.74% increase	2026/27	£1,980.46	increase £125.05
			Extra £32.47 increase

7. An increase of an extra 1.75% would generate an extra **£4.951m** in financial resources for the council from 2026/27 onwards. It should be highlighted that even with the extra increase our 2026/27 council tax will be below the £2,001.05 charged by Dorset Council in the current 2025/26 financial year and their estimated £2,100.90 charge in 2026/27. An updated **Appendix 2** to the original Cabinet report is attached to this addendum.

8. The proposal is this extra council tax revenue is used to support essential services and enable the 2026/27 budget to be put forward avoiding the need to draw down £4.825m on unearmarked reserves. The residual £126k will be used to better support the base revenue budget contingency for 2026/27. In respect of future years this will reduce the funding gap over the period to 31 March 2028 from £30.1m down to £24.8m with the funding gap for 2027/28 reducing to £13.6m.

Financial Implications – Support for Historic DSG Deficit

9. The impact of the support for historic accumulated deficits is assumed to be a contribution of **£165.24m** (£183.6m * 90%) and impacts of the previously assumed deficits as follows.

	Previous Estimate	Latest Estimate
31 March 2025	£113.3m (Actual)	£113.3m (Actual)
31 March 2026	£183.6m	£183.6m
31 March 2027	£279.3m	£114.1m
31 March 2028	£379.3m	£214.1m

10. Although this contribution is welcome and positive the council will still be technically insolvent as these net deficits will still be greater than the councils' forecast reserves. Based on the sentiment in the final 2026/27 local government finance settlement the council would anticipate receiving a further £176.13m contribution in 2028/29 towards the deficits of £95.7m in 2026/27 and £100m in 2027/28. It is assumed that ultimately the council will be required to manage from its own funds £37.93m which is 10% of the previously assumed 31 March 2028 deficit.
11. An additional consequence of the payment is it reduces the amount of borrowing and subsequent interest that the council will need to incur to finance the DSG deficit. As a matter of prudence, it has been assumed that this payment will be made towards the end of the 2026/27 financial year and therefore the impact, estimated at £6.6m per annum, will not materially impact before the 2027/28 financial year. From a risk perspective it should be emphasised that the £165.24m High Needs Stability grant is not guaranteed and is subject to the agreement of a Local SEND reform Plan with DfE.
12. In respect of the MTFP this reduction in SEND interest costs will reduce the funding gap over the period to 31 March 2028, as reference in section (8) above from £24.8m down to £18.1m with the funding gap for 2027/28 reducing from £13.6m to £6.9m.

Financial Implications: Funding strategy for the DSG residual deficit

13. The final local government finance settlement for 2026/27 made it clear that the council has to develop a strategy on how it will fund, in 2028/29, the element of the DSG deficit that will be retained locally. As set out in section 10 this retained deficit for the council to manage locally is currently estimated at £37.9m. The intention is to continue an open dialogue with government to explore the options for funding such a significant amount however it will be essential that the council continues its strategy of delivering capital receipt from surplus asset disposals over the next two-year period.

Summary Financial Implications

14. The announcement will have a consequential impact on the MTFP of the authority and reserves position of the council as set out figure 1 and 2 below.

Figure 1. Original MTFP Position of the Council as per Cabinet report

	February 2026 MTFP Position			
	26/27 £m	27/28 £m	28/29 £m	Total £m
Annual – Net Funding Gap	(0.0)	18.7	11.5	30.1
Cumulative MTFP – Net Funding Gap	(0.0)	18.7	30.1	

Figure 2. Updated MTFP Position of the Council

	Updated Budget 2025/26 £m	February 2026 MTFP Position			
		26/27 £m	27/28 £m	28/29 £m	Total £m
Service Pressures (net of any specific grant changes)					
Wellbeing Directorate	194.6	11.5	7.9	8.2	27.6
Children's Directorate	111.8	9.2	8.2	8.2	25.5
Operations Directorate	60.3	1.3	4.1	5.6	11.0
Resources Directorate	50.2	(0.0)	0.3	1.6	1.9
Service Pressures (net of any specific grant changes)	416.8	22.0	20.5	23.5	66.0
Savings, Efficiencies, Fees & Charges					
Wellbeing Directorate		(3.1)	(1.1)	(0.9)	(5.1)
Children's Directorate		(1.4)	0.0	0.0	(1.4)
Operations Directorate		(4.0)	(2.2)	(1.3)	(7.5)
Resources Directorate		(1.0)	(0.5)	(0.1)	(1.6)
Transformation		(4.4)	(7.5)	(1.2)	(13.1)
Savings, Efficiencies, Fees and Charges		(13.9)	(11.1)	(3.6)	(28.6)
Corporate Items - Cost Pressures	10.6	10.2	4.6	6.6	21.4
Funding - Changes	(432.8)	(16.6)	(9.7)	(17.0)	(43.3)
Debt interest due to accumulated SEND deficit	8.1	2.4	(4.2)	1.7	(0.1)
Annual – Net Funding Gap	2.8	4.0	0.1	11.2	15.3
Application of one-off business rates resources to MTFP	(2.8)	(4.0)	6.8	0.0	2.8
Annual – Net Funding Gap	0.0	(0.0)	6.9	11.2	18.1
Cumulative MTFP – Net Funding Gap		(0.0)	6.9	18.1	

Figure 3. Updated Reserves 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
Unearmarked Reserves	17.9	26.1	27.3	29.3	29.3
Earmarked Reserves	68.5	39.0	55.7	32.5	26.3
Government Contribution: High Needs Stability Grant	n/a	n/a	n/a	n/a	165.2
Total Reserves	86.4	65.1	83.0	61.8	220.8
Dedicated Schools Grant	-35.8	-63.5	-113.4	-183.6	-279.3
Net Position	50.6	1.6	-30.4	-121.8	-58.5

Please note: the presentation of the above table is subject to future advice and guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).

Final Local Government Finance Settlement 2026/27 – Other implications

- 15.** The 9 February 2026 final local government finance settlement for 2026/27 also announced potential additional resources for Homelessness, Rough Sleeping and Domestic Abuse. However, no adjustments will be made until the detail of how the grant has to be applied has been made available and also how it links with various initiatives the council has put forward to government for consideration.

Revised Cabinet recommendations to Council

- a) Undertakes a recorded vote in relation to the following items as required by the Local Authorities (Standing Orders) (England) (Amendments) Regulations 2014.**
- i) Agrees that a net budget requirement of £456.7m, resulting in a total council tax requirement of £301.984m is set for 2026/27 based on the draft local government financial settlement figures published by government in December 2025.
 - ii) Agrees an increase in council tax of 6.74% for 2026/27 inclusive of the additional 2% social care precept.
 - iii) Confirms the key assumptions and provisions made in the budget as proposed and as set out in Appendix 3.
 - iv) Agrees the allocations to service areas in the budget as set out in Appendix 5.
 - v) Agrees the implementation of £14m of savings as set out in Appendix 5a.
 - vi) Approve that the current Council Tax discount for Beach Chalets on Mudeford Sandspit and Hengistbury Head is removed from 1 April 2026 onwards see appendix 5b.
 - vii) Approves the flexible use of capital receipts efficiency strategy as the mechanism for funding the council's transformation related and invest to save expenditure as set out in Appendix 6.
 - viii) Approves the capital investment programme (CIP) as set out in paragraphs 66 to 82 and Appendix 7.

- ix) Approves the asset management plan as set out in Appendix 8.
 - x) Agrees the treasury management strategy (TMS) and prudential indicators as set out in paragraphs 84 to 87 and Appendix 9.
 - xi) Accepts and supports the formal advice of the chief finance officer on the robustness of the budget and the adequacy of the reserves as set out in paragraphs 102 to 109 and Appendix 10 and this addendum.
 - xii) Acknowledges the copy of the councils Exceptional Financial Support application submitted on the 6 January 2026 attached as Appendix A to this addendum and a previous related letter dated 5 December 2025 as Appendix B.
- b) Agree to borrow £95.7m to fund the 2026/27 excess Special Educational Needs and Disability (SEND) High Needs DSG revenue expenditure above the government grant being made available. This is also based on previous assurance from government that the council can exceed its borrowing thresholds temporarily based on their commitment to return the SEND system to financial sustainability.**
 - c) Agrees to protect essential services by setting aside the additional resources from the additional 1.75% council tax flexibility in 2026/27 to avoid using unearmarked reserves to balance the 2026/27 budget and to subsequently reduce the previous £30.1m funding gap in the councils MTFP.**
 - d) Agrees to continue a dialogue with government on options for funding in 2028/29 the locally retained element of the DSG deficit and in support to continue the strategy of disposing of surplus assets to generate the necessary capital receipts.**
 - e) Approves the chief officers' pay policy statement 2026/2027 for consideration and approval by the council in accordance with the provisions of the Localism Act 2011 as set out in paragraphs 111 to 113 and Appendix 12.**