Appendix 1

The Medium-Term Financial Strategy (MTFS) 2024-25 to 2028-29

Contents

Introduction and Background

Introduction

1. The Medium-Term Financial Strategy (MTFS) set out in this document is the articulation of the Council's financial plans for the next four years (2025/26 to 2028/29). It is based on assumptions known and made at the time of publication. For this reason, the MTFS will be updated quarterly in the coming financial year (as it was in 2024/25) and fully refreshed prior to the commencement of the 2026/27 financial year. The quarterly updates will be reported to Cabinet.
2. The MTFS also sets out the Council's budget for 2025/26 and describes the changes from the current year (2024/25, the base year) to arrive at the budget.
3. The Medium-Term Financial Strategy (MTFS) provides the strategic financial framework to financial planning for the council. It is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It aids robust and methodical planning as it forecasts the council's financial position, taking account of known pressures, major issues affecting the council's finances, external economic influences, and local factors. It helps the council to plan for these pressures and issues so far as these can be seen and assessed. This is particularly important during a period when the council faces considerable pressures and challenges.
4. The key overriding aim of the MTFS is therefore to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's key strategic priorities and services.
5. This MTFS addresses the structural budget deficit to put the council on a sustainable financial footing.
6. The MTFS is based on the Final Local Government Finance Settlement published on 3 February 2025. In line with best practice, it is the intention to update the MTFS on a quarterly basis and report these updates to Cabinet.

Strategic Purpose of the MTFS and the Context within which it is set

7. The MTFS has been informed by strategic steers from the council's administration in terms of the future vision for the City. This will be augmented by the on-going work to refresh the City Plan as the final plan that supports the delivery of the city and the council plan will be updated accordingly. It will be reflected in future MTFS updates.
8. The MTFS sets the strategic financial vision of the council. That is, we will invest with purpose in services and assets to improve residents' lives whilst growing the city and ensuring financial sustainability for the council.
9. Our focus will be on:
   - reducing demand by boosting early intervention and strengths-based practice across all services;
   - increasing productivity & growth of the city;
   - creating market opportunities;
   - using minimal modern and fit for purpose council assets;
   - provide high-performing, mid cost services; and
   - foster a diverse economy; and
   - actively engage residents in the delivery process

10. The MTFS does not include any potential financial implication of local government reorganisation or devolution at this stage.
11. It is also essential that the council is financially sustainable and resilient over the medium term, including ensuring it does not find itself again in the financial difficulties that led to the need for Exceptional Financial Support (EFS). Therefore, a key part of the proposed financial strategy is to continue to rebuild the council's reserves and to ensure sound and robust budgetary management and control.
12. Further details on the national and local strategic context are set out in Annex 1.

Growing the City

13. Supporting the growth of the city and increasing our revenue base, while ensuring prosperity is shared across our communities, is a critical mission for the organisation over the next 10 years. Securing growth is also a key foundational aspect of the ability of the Council and the city to deliver our objectives.
14. To enable that, the 2025/26 budget sets out a range of measures that will support these aspirations. For example, purposeful investment, through the Revolving Regeneration Fund in the capital programme, will allow us to intervene and secure long term benefit for the city when and where development and regeneration opportunities arise. Moreover, a renewed focus on achieving inclusive growth, be it in the context of the skills development and pathways, or wider socio-economic interventions, will also be a key focus of activity.
15. In the longer term the council remains ambitious to create economic prosperity through growth. The council's growth strategy aims at unlocking residential and commercial developments in the pipeline and bringing forward further developments, generating growth in council tax and business rates income which provides a route to maintaining a balanced budget over the medium term.

Transformation Plans

16. The council established a comprehensive Transformation Programme **adapt | grow | thrive** aimed at addressing the structural budget deficit and modernising service delivery. Transformation savings are a major contributor to reducing reliance on EFS in 2024/25 and are key to balancing the budget in 2025/26.

MTFS 2024-25 to 2028-29

17. The MTFS is summarised in Table 1 below.

TABLE 1: SUMMARY MTFS

	Approved 2024/25 Budget £M	2025/26 Budget £M	2026/27 Budget £M	2027/28 Budget £M	2028/29 Budget £M
Net Revenue Expenditure	278.52	230.78	236.10	247.69	258.56
Funding	(239.24)	(230.78)	(236.10)	(247.69)	(258.56)
(Surplus)/Deficit	**39.28**	**(0.00)**	**(0.00)**	**(0.00)**	**(0.00)**
Exceptional Financial Support (EFS)	(39.28)	0.00	0.00	0.00	0.00
(Surplus)/Deficit (after EFS)	**39.28**	**(0.00)**	**(0.00)**	**(0.00)**	**(0.00)**

18. Table 2 sets out the MTFS from 2024/25 to 2028/29. It shows the forecast changes from the base year (2024/25). The 2025/26 position is the proposed budget for the forthcoming financial year. Further details are provided in Annex 2.

TABLE 2: MEDIUM TERM FINANCIAL STRATEGY

	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Net Revenue Expenditure (2024/25 Approved Budget)	**278.52**	**278.52**	**278.52**	**278.52**
Pay and Price Inflation	6.03	6.56	13.41	20.30
Budget Pressures and Commitments	14.64	23.48	28.89	33.68
Transformation Savings	(34.52)	(47.78)	(50.02)	(50.82)
Other Savings (including increases to ring-fenced grants)	(13.97)	(14.96)	(14.83)	(14.83)
Other Amendments*	(19.92)	(9.72)	(8.28)	(8.28)
Revised Net Revenue Expenditure	**230.78**	**236.10**	**247.69**	**258.56**
Funding (2024/25 Approved Budget)	**(239.24)**	**(239.24)**	**(239.24)**	**(239.24)**
Centrally Held Funding*	8.47	3.15	(5.72)	(14.89)
Council Tax and Business Rates Growth Target			(2.72)	(4.43)
Revised Funding	**(230.78)**	**(236.10)**	**(247.69)**	**(258.56)**
(Surplus)/Deficit	**(0.00)**	**(0.00)**	**(0.00)**	**(0.00)**
Exceptional Financial Support (2024/25 Approved Budget)	**(39.28)**	**(39.28)**	**(39.28)**	**(39.28)**
Removal of EFS	39.28	39.28	39.28	39.28
Revised Exceptional Financial Support	**0.00**	**0.00**	**0.00**	**0.00**
(Surplus)/Deficit (after EFS)	**(0.00)**	**(0.00)**	**(0.00)**	**(0.00)**

*Social Care Grant is now a ring-fenced grant and £24.3M of grant income budget has been moved from Centrally Held Funding to Children & Learning (£9.5M) and Community Wellbeing (£14.8M)

Forecast financial position 2025/26 – 2028/29

19. Changes since the MTFS update reported to Cabinet in October 2024 are summarised in Table 3 below, with further detail provided in Annex 3.

TABLE 3: SUMMARY OF CHANGES SINCE OCTOBER 2024

	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Forecast Budget Shortfall Oct 2024	**18.23**	**21.08**	**23.45**	**23.84**
Pay and Price Inflation (including employer's NICs increase)	5.93	6.35	7.03	8.61
Budget Pressures	(0.59)	2.13	2.22	2.22
Executive Commitments	1.14	2.93	4.07	4.73
Transformation Savings	(4.65)	(10.64)	(11.56)	(12.27)
Increases to ring-fenced grants	(9.18)	(11.68)	(11.68)	(11.68)
Other Savings	(3.12)	(2.04)	(2.04)	(2.04)
Centrally Held Funding	(8.28)	(8.04)	(8.68)	(8.90)
Other MTFS Amendments	0.50	(0.10)	(0.10)	(0.10)
Council Tax and Business Rates Growth Target			(2.72)	(4.43)
Revised Budget Shortfall	**0.00**	**0.00**	**0.00**	**0.00**

20. The MTFS includes the implications of the 2025/26 local government finance settlement and funding assumptions for future years set out earlier in this report. It will be reviewed each year as part of the business and budget planning framework to reflect any new pressures, changes in funding assumptions and any revision to the council's corporate plan.
21. Based on current forecasts, the council's funding in 2025/26 and 2026/27 is sufficient to meet its net expenditure. This is heavily dependent on the delivery of savings from the transformation programme (£34.5M in 2025/26 rising to £47.8M in 2026/27) and this will be closely monitored through the council's monthly budget monitoring reports. The council's growth strategy is expected to generate additional council tax and business rates income in the medium term and a growth target has been included in the later years of the medium-term financial forecast to achieve a balanced position.

Exceptional Financial Support (EFS)

22. The budget gap for 2024/25 of £39.3M was closed with the use of Exceptional Financial Support (EFS). Under EFS the council can use capital resources (capital receipts and borrowing) to fund revenue expenditure up to a limit agreed with central government. This is called a Capitalisation Directive, and the council has been advised that government is minded issuing such a directive to Southampton.
23. Any borrowing taken out to fund EFS must be repaid over 20 years. Capital receipts attract no such repayment costs but are limited to the amount of asset sales the council has or can achieve. Capital receipts are most appropriately used to fund new capital investment or to fund one-off initiatives such as transformation.
24. It is unlikely that the council will require the full £39.3M to support the 2024/25 budget. As at the end of January (Month 10), budget monitoring is projected positive variance of £19.0M, and this means the EFS required to close the budget gap falls to £20.3M (£39.3M less £19.0M).
25. The current EFS facility offered by government is available for one financial year (2024/25). The council has applied for an extension of EFS support for 2025/26 and the outcome is expected to be notified by 24 February 2025. This would allow any unused EFS from 2024/25 to be available for use if required in 2025/26.
26. The budget proposal for 2025/26 is a balanced budget without the need for EFS support. However, EFS will be required in 2025/26 to deal with equal pay, to fund the on-going cost of transformation and to finance service design and restructuring. It may also be required

to manage financial risk in 2025/26 notably in relation to the delivery of transformation savings.

Transformation Savings

27. The council's adapt | grow | thrive transformation programme is the primary vehicle for generating savings over the medium term to balance the budget and ensure financial sustainability. The programme is expected to generate £34.5M of savings in 2025/26 rising to £50.8M by 2028/29.
28. Table 4 summarises the transformation savings that have been included in the medium-term financial forecast in Annex 2 broken down by directorate impact.

TABLE 4: SUMMARY OF TRANSFORMATION SAVINGS BY DIRECTORATE

	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Children & Learning	(7.12)	(9.67)	(9.67)	(9.67)
Community Wellbeing	(14.04)	(17.55)	(17.55)	(17.55)
Enabling Services	(0.43)	(0.90)	(0.90)	(0.90)
Growth & Prosperity	(5.60)	(9.27)	(10.58)	(10.58)
Resident Services	(6.98)	(9.93)	(10.86)	(11.66)
Strategy & Performance	(0.20)	(0.20)	(0.20)	(0.20)
Centrally Held Budgets	(0.16)	(0.25)	(0.25)	(0.25)
Total Transformation Savings	**(34.52)**	**(47.78)**	**(50.02)**	**(50.82)**

29. The table shows the Transformation savings targets across the MTFS period, including the contribution of each directorate. Please note the table above is a breakdown by directorate rather than by programme portfolio. The breakdown by portfolio is in the Transformation Update report.

Transformation Costs

30. The estimated forecast cost of the Transformation Programme for 2024/25 to 2026/27 are summarised in Table 5 below.

TABLE 5: FORECAST TRANSFORMATION PROGRAMME COSTS

	2024/25 £M	2025/26 £M	2026/27 £M
Forecast expenditure:			
Transformation Team resource requirements	3.16	3.60	1.73
Enabling Services and Data & Digital resource to support the programme	0.99	2.61	0.66
Consultant support requirements (including Newton Europe)	7.27	5.16	
Total forecast expenditure	**11.42**	**11.37**	**2.39**

31. The costs include the estimated cost of Newton Europe as the Council's Transformation Partner alongside other approved and anticipated resources. These costs are funded centrally, outside the revenue budget.

Source of Savings

32. The Transformation Programme has assessed where the savings will be delivered from based on savings proposals and business cases. Table 6 shows the breakdown.

TABLE 6: INDICATIVE SOURCES OF TRANSFORMATION

Savings Expectation		Prevention & Demand Reduction	Efficiencies & Productivity - Non-Establishment	Efficiencies & Productivity - Establishment	Growth & Income	Establishment Savings - Range of Posts Potentially Affected	
Portfolio	£M	£M	£M	£M	£M	Posts	Posts
ASC & Health Total	17.3	12.5	1.7	3.1		55	65
Children's Services Total	9.4	8.4	0.3	0.8		23	25
Schools & SEND Total	5.0		5.0				
Growth & Prosperity Total	3.8		3.6	0.2		2	2
Resident Services Total	11.7	3.1	3.8	1.6	3.2	36	45
Customer & Community Total	1.0			1.0		15	16
Enabling Excellence Total	2.8		2.6	0.2		4	6
Total	**50.8**	**24.0**	**16.9**	**6.8**	**3.2**	**135**	**159**

33. This shows that 48% of the projected savings across the MTFS period will be from prevention and demand reduction, mainly in adults, children's and resident services. Efficiencies and productivity not affecting headcount account for a further 33% of target savings with income growth accounting for 6%.
34. Inevitably given the scale of the financial challenge and level of savings required, the council will need to be a smaller organisation. This means a reduction in posts of between 135 and 159 to deliver the £6.8M of establishment savings (13% of savings total). This does not equate to compulsory job losses as the figures includes both occupied and unoccupied posts and other means of headcount reduction will also be deployed including not filling the unoccupied posts, voluntary severance and natural workforce attrition.

Funding and Council Resources 2025/26 to 2028/29

35. Table 7 below summarises the Council's key planning assumptions for the MTFS. Percentages indicate forecast year-on-year changes. Estimates of general funding are shown in the Medium Term Financial Forecast at Annex 2.

TABLE 7: SUMMARY OF KEY PLANNING ASSUMPTIONS

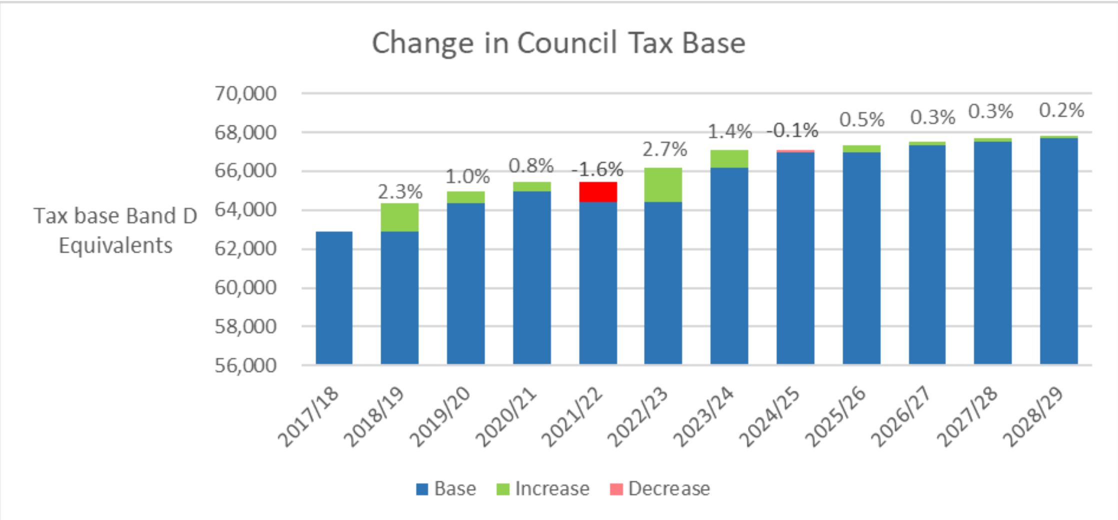
2024/25	Item	2025/26	2026/27	2027/28	2028/29
£1,812.69	Increase in Core Council Tax Charge	2.99%	2.99%	2.99%	2.99%
£253.73	Increase in Adult Social Care Precept	2.00%	2.00%	2.00%	2.00%
66,989	Council Tax Base (No. of Band D equivalents)	67,345	67,539	67,715	67,817
49.9p	Increase in Small Business Rates Multiplier	0.0%	2.1%	2.0%	2.1%
54.6p	Increase in Standard Business Rates Multiplier	1.7%	2.1%	2.0%	2.1%
£13.73M	Change in Revenue Support Grant*	2.7%	2.0%	2.0%	2.0%
£6.10M	Change in Top Up Grant	1.3%	-31.2%	2.0%	2.1%
£0.04M	Change in New Homes Bonus	49.5%	-100.0%	0.0%	0.0%
£1.53M	Change in Other Non-Ringfenced Grants# (excluding business rates compensation grants)	584.2%	-1.1%	-0.4%	-0.4%
	Pay Inflation	2.0%	2.0%	2.0%	2.0%
	Consumer Price Index (CPI)	2.1%	2.0%	2.1%	2.4%
	Employer's Local Government Pension Fund rate	16.8%	16.8%	16.8%	16.8%
	Borrowing Rates	5.0%	5.0%	5.0%	5.0%

*Some specific grants have been rolled into Revenue Support Grant in 2025/26
2024/25 has been adjusted to remove Social Care Grant now treated as a ring-fenced service grant

Council Tax and Adult Social Care Precept

36. In the local government finance settlement local authorities were given the ability to increase core council tax of up to 3% and an increase in the adult social care precept of up to 2% for 2025/26 without the need for a local referendum. As set out in Table 7 above, increases are being applied in 2025/26 in line with those referendum limits. The government has given no indication of council tax referendum limits that will apply beyond 2025/26. For planning purposes, the working assumption for 2026/27 and future years is that the same limits will apply, that is a 2.99% increase in the core council tax and a 2% increase in the adult social care precept. The council tax base that has been assumed for each financial year is detailed in the chart below.

CHART: CHANGE IN COUNCIL TAX BASE



37. The tax base includes estimates for additional premiums for second homes, the effect of which is expected to reduce over time as behaviours change. The 2021/22 estimated tax base assumed an increase in the number of local council tax support claimants due to the

pandemic, however this was not as severe as anticipated, hence there was a 'bounce back' effect in 2022/23, with an increase in the estimated collection rate giving a further boost to the 2022/23 tax base, as shown in the chart below.

38. Table 8 below shows the council tax and adult social care precept income that has been included in the medium-term financial forecast at Annex 2.

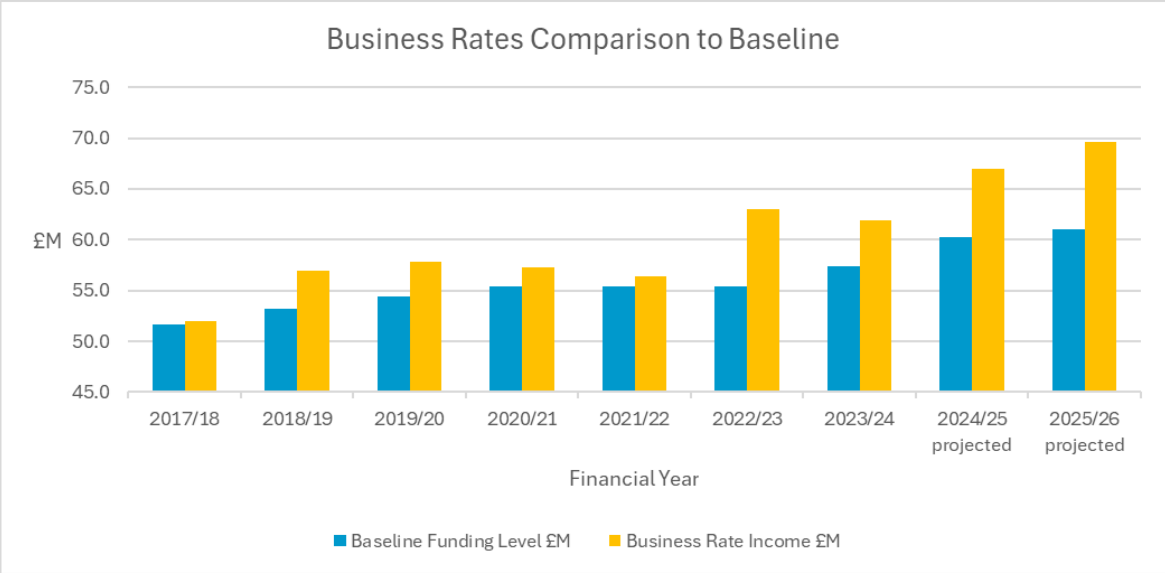
TABLE 8: COUNCIL TAX INCOME

	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Council Tax - General Precept	108.64	112.79	117.13	121.56
Council Tax - Adult Social Care Precept	19.53	22.16	24.92	27.80
Total Council Tax Income	**128.17**	**134.95**	**142.05**	**149.37**

Business Rates

39. Under the business rates retention scheme local authorities retain a proportion of the business rates for their area, including growth, but also take the risk of reductions in business rates during times of economic downturn, although there are ‘safety net’ arrangements in place to protect against very large reductions. Local authorities are compensated by way of S31 grant for reductions to business rates arising from changes in government policy since the retention scheme was introduced e.g. additional reliefs and a lower uplift or freezing of the business rates multiplier. Following legislative changes in 2023, the standard rate multiplier is now set independently from the small rate multiplier. For 2025/26 the government has frozen the small business rates multiplier and increased the standard multiplier by 1.67% in line with the increase in the Consumer Price Index (CPI) for September 2024.
40. The MTFS assumes that both multipliers will increase with inflation from 2026/27 onwards as set out in Table 7 above. Updates to rateable values are scheduled to occur every 3 years beginning in 2026.
41. The MTFS assumes the impact of the revaluations on the council’s income will be neutral, on the assumption that the Top-Up Grant (see later) will be adjusted as with previous revaluations. The graph below shows the growth in business rates income (including government grant in lieu of rates) above the Government's baseline funding level since 2017. The level of business rates income is affected by successful appeals and other changes to rateable values as well as unfunded reliefs.

CHART: BUSINESS RATES COMPARISON TO BASELINE



Council Tax and Business Rates Growth

42. The MTFS includes prudent estimates for additional council tax and business rates income from residential and commercial developments that are either in progress or are reasonably certain to go ahead. The council's growth strategy is aimed at generating additional income in the medium term by unlocking other developments in the pipeline and bringing forward new proposals. The MTFS includes a target for growth from 2027/28 to help achieve a balanced budget.
43. Southampton has one of the designated tax sites in the Solent Freeport. Freeport status means that normal tax and customs rules do not apply and give varying forms of tariff flexibility. Tax measures and planning concessions at the designated tax sites should help to incentivise private business investment. The MTFS assumes that any growth in business rates in the designated tax site will be pooled for use as agreed by the Freeport

Government Grants

44. Table 9 below shows the changes to government grants following the Autumn Statement and the Local Government Finance Settlement announcements. These are the additional grants over and above those assumed in the last MTFS update (October 2024).

TABLE 9: CHANGES TO GOVERNMENT GRANTS

	Oct MTFS Update 2025/26 £M	Finance Settlement 2025/26 £M	Difference £M	Comment
Revenue Support Grant	14.01	14.10	0.10	
Grants rolled in to RSG	0.09	0.00	(0.09)	
Top-Up Grant	6.29	6.17	(0.12)	
New Homes Bonus	0.00	0.05	0.05	
Services Grant	0.39	0.00	(0.39)	Repurposed
Recovery Grant	0.00	7.26	7.26	
Social Care Grant	24.30	28.83	4.53	
Children's Social Care Prevention Grant	0.00	1.69	1.69	
Local Authority Better Care Grant	10.70	13.21	2.50	Incorporates ASC Discharge Fund
ASC Market Sustainability and Improvement Fund	3.91	4.85	0.95	
Adult Social Care Discharge Fund	2.50	0.00	(2.50)	Consolidated into Better Care Grant
Domestic Abuse Safe Accommodation Grant	0.61	0.76	0.15	
Homelessness Prevention Grant	1.30	2.98	1.68	
Net Gain in Funding	**64.10**	**79.92**	**15.82**	
Employer's National Insurance Contributions Grant	0.00	2.11	2.11	
Total	**64.10**	**82.02**	**17.92**	

Revenue Support Grant (RSG)

45. Historically Revenue Support Grant (RSG) was a major source of funding for the council, however large reductions were made in the 2010s as part of austerity measures. Between 2013/14 (when the Business Rates Retention scheme was introduced) and 2019/20 the grant was reduced by 85%. Since 2020/21 inflationary uplifts have been applied to RSG. For 2025/26 the council’s grant has increased by £0.37M, reflecting the September 2024 CPI increase (1.7%) and the rolling in several small grants totalling £0.16M. The MTFS assumes that RSG for 2026/27 onwards will increase at 2% per annum in line with CPI. The government launched a consultation on reform of the local government finance system in December 2024 which it intends to implement from 2026/27. Given uncertainty over the outcome of the reforms, the MTFS does not reflect any potential impact of an update to the needs and resources assessments underpinning the allocation of RSG.

Top-Up Grant

46. As part of the business rates retention scheme the council receives Top-Up Grant for the difference between its baseline funding level (the element of the settlement funding assessment relating to business rates) and its business rates baseline. The council’s Top-Up Grant for 2025/26 is £6.17M. Business rates baselines have not been reset since the scheme was introduced in 2013/14. The Government intends to reset business rates baselines as part of the funding reforms being implemented from 2026/27. A baseline reset will have a redistributive effect across local authorities and consequences for the Top-Up Grant receivable. The MTFS assumes the council’s Top-Up Grant will reduce in 2026/27 because of the reset.

New Homes Bonus (NHB)

47. The New Homes Bonus scheme rewards housing growth and empty properties being brought back into use. The scheme has been rolled over for one more year, with one-off allocations for 2025/26. Its replacement from 2026/27 will be considered as part of the wider funding reforms. The grant is being funded via a 'top-slice' of £290M nationally from the resources allocated to local authorities. The council's allocation for 2025/26 is £0.05M, with the increase in housing stock being only 0.01% over the 0.40% national baseline threshold.

Public Health Grant

48. The Public Health Grant continues to be a ring-fenced grant to local authorities in 2025/26. Final allocations for 2025/26 were published on 7 February 2025. The Council's allocations for 2024/25 and 2025/26 are outlined in Table 10 below. The MTFS assumes the grant continues at £20.16M in future years, pending any changes arising from local government funding reforms.

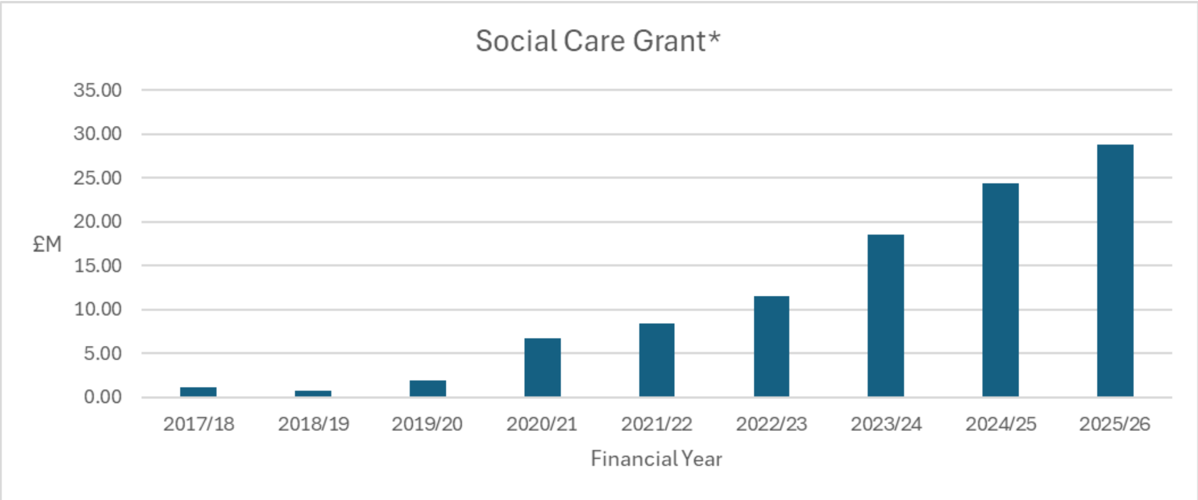
TABLE 10: PUBLIC HEALTH GRANT

	2024/25 £M	2025/26 £M
Public Health Grant allocations	19.14	20.16

Social Care Grant

49. The government announced £600M of additional funding for social care in the Autumn Budget 2024 and in the local government finance settlement this was increased to £880M. The council’s allocation of Social Care Grant for 2025/26 is £28.83M. The government stipulates that it can only be used to meet spending in adults and children’s social care and as such the grant income is now budgeted for within the Children & Learning and Community Wellbeing directorates. As is seen from the chart below, the Social Care Grant has become an increasingly important source of funding for the council over recent years and this is a risk area should funds be distributed differently, reduced or discontinued. The MTFS assumes the grant continues at £28.83M in future years.

CHART: SOCIAL CARE GRANT



*Known as Adult Social Care Support Grant in 2017/18 and 2018/19, and Social Care Support Grant in 2019/20

50. For 2025/26 the other main adult social care grants are being maintained at their 2024/25 levels. The Improved Better Care Fund Grant and Adult Social Care Discharge Grant have

been combined into a single Local Authority Better Care Grant. The council's allocation of LA Better Care Grant for 2025/26 is £13.21M and its allocation of ASC Market Sustainability and Improvement Fund is £4.85M.

Recovery Grant

51. The government has introduced a new Recovery Grant for 2025/26 which is targeted at local authorities with high levels of deprivation and relatively low ability to generate council tax income, of which Southampton is one. The council's Recovery Grant allocation for 2025/26 is £7.26M. The MTFS assumes this funding is on-going, however in practice it is likely that the grant will be subsumed within RSG following the reforms to the local government finance system due to be implemented in 2026/27.

Other Grants

52. The Council receives a variety of other grants from government. Ring-fenced grants are recorded as service income and grants which are not ring-fenced to specific services are held centrally.
53. The government has introduced a new Children's Social Care Prevention Grant for 2025/26, which is intended to enable investment in additional prevention activity. The council's allocation for 2025/26 is £1.69M.
54. Several existing children's social care grants including the Supporting Families programme have been amalgamated into a single Children's and Families Grant for 2025/26. The total grant has been maintained at 2024/25 levels and the council's allocation is £2.17M.
55. The council has been allocated £2.11M funding in 2025/26 to compensate for the direct costs of the changes to employer national insurance contribution rates and thresholds announced in the Autumn Budget 2024. This is £1.4M less than the estimated General Fund direct costs to the council.
56. Services Grant has been stopped and the funding redeployed into Recovery Grant. The council received £0.39M of this grant funding in 2024/25.

Sensitivity to funding assumptions

57. Table 11 below shows how much the council's funding would change in 2026/27 if funding assumptions changed by 1%. The figures are provided for 2026/27 as funding for 2025/26 has either been notified in the local government finance settlement or has been set as part of approving the budget for 2025/26.

TABLE 11: SENSITIVITY TO 1% CHANGE IN FUNDING ASSUMPTIONS

	£M
Core Council Tax Charge/Adult Social Care Precept increase	1.28
Council Tax Base	1.35
Business Rates Multiplier	0.73
Revenue Support Grant	0.14
Top-Up Grant	0.06
Public Health Grant	0.19
Social Care Grant	0.29
LA Better Care Grant	0.13
Recovery Grant	0.07

Financial Assumption in the MTFS

Inflation Assumptions

58. Core inflation assumptions are set out in Table 7 above.
59. In previous years, inflation was distributed directly to Directorate budgets. For 2025/26 and the MTFS period, inflation will be held centrally. It will be released based on demonstrable need. For example, when pay awards are settled.
60. If the inflation built into the MTFS is insufficient to cover actual cost increases, the expectation is that this excess will be contained within cash limits. Directorates, should for example, seek to increase productivity to mitigate inflationary pressures.

Pay Inflation

61. The 2024/25 pay award cost 3.5% on average, compared with 3.0% that had been allowed for within the MTFS agreed in March 2024, creating an ongoing inflationary pressure of £0.7M which directorates are required to absorb. For 2025/26 and thereafter a 2% pay award has been assumed and budgetary provision held within the central inflation budget. If actual pay awards are higher than has been assumed directorates will need to manage the difference. Although the local government pay settlement is negotiated separately, pay awards for the wider public sector are likely to have a bearing, along with the level of general price inflation and the national living wage.

National Living Wage

62. Increases in the national living wage (NLW) have implications for pay awards and the council's supplier chain costs in areas like social care. The council has adopted the Living Wage Foundation’s recommended living wage, which is currently £12.60 (set in October 2024 but to be implemented by the council from 1 April 2025), for payment of its employees, and this rate is higher than the government's NLW (£12.21 from April 2025).

Employer’s National Insurance Contributions

63. In the Autumn Budget 2024 the government announced an increase in the employer’s national insurance contribution rate from 13.8% to 15.0%, together with a reduction in the secondary threshold from £9,100 to £5,000, effective from April 2025. The direct cost of this change to the council is estimated at £3.5M (General Fund). This cost is being met in part by government funding, as noted above.

General Inflation

64. The 12-month Consumer Price Index (CPI) rate has been in the range 1.7% to 2.6% in the period April – December 2024, with September being the lowest month and November the highest. The central inflation budget includes provision for contract inflation for 2025/26 and future years. Contract uplifts are generally based on specified indices/measures in the months preceding when the uplift applies. For 2025/26 £1.5M has been included for contract inflation at an average increase of 3.2%. This budget will be distributed to directorates based on demonstrable need. There is a risk that should inflation be at a higher rate than anticipated costs will rise. Directorates will need to manage any inflation above what has been provided for in the MTFS within their cash limits.
65. In addition to the above, £4.7M for 2025/26 inflation on adults and children's social care provider contracts has been provided for centrally within the MTFS.

Sensitivity to Inflation Assumptions

66. Table 12 below shows the estimated additional cost to the Council in 2025/26 if the pay award or general inflation is 1% higher than assumed in the MTFS. As noted above, the expectation is that excess inflation will have to be managed within Directorate cash limits.

TABLE 12: SENSITIVITY TO 1% CHANGE TO INFLATION RATES

	£M
Pay inflation	1.34
General contract inflation (excluding social care contracts)	0.48
Social care provider contract uplift	0.96

Pension Fund - Employer Costs

67. The Hampshire Local Government Pension Scheme employer contribution rate applicable from April 2023 to March 2026 is 16.8%. No changes to the rate have been assumed following the next triennial revaluation which will take effect from April 2026.

Borrowing Rates

68. Since 2012, the council has pursued a strategy of internal borrowing – minimising external borrowing by running down its investment balances and only borrowing short term to cover cash flow requirements. The capital financing budget is set on the assumption that this will continue. A borrowing rate of 5.0% for 2025/26 and ongoing has been assumed within the MTFS.

Fees & Charges Policy

69. The council's current fees & charges policy has the following set of principles:
    - The council's discretionary fees and charges (and concessions against these charges) will be set in accordance with the following general principles:
        - Fees and charges will, in general, be increased annually in line with the Consumer Price Index (CPI). Normal expectation would be to apply the September CPI, unless there are exceptional reasons.
        - The council will seek to recover relevant full costs in setting its charges.
    - All charges will therefore increase annually by the Consumer Price Index (CPI) unless there are exceptional reasons not to do so. A business case is required for any area considered an exception to this inflationary increase where there is no planned increase, or the increase proposed is below CPI. This would be considered by Cabinet

or Cabinet Member in consultation with the Executive Director Enabling Services and will include the application of subsidies or concessions which will result in a reduction in the recovery of income. Market forces may dictate swift changes to fees and charges and to ensure commercial flexibility, where an increase above CPI is applied, a business case would not be required.

- Reasonable notice should be given to service users and any necessary consultation, where applicable, will also be undertaken before a final decision in line with the council's consultation policy.
- A full schedule of fees and charges, both statutory and discretionary, will be included with the annual budget for review by Full council at its budget setting meeting. This will ensure a transparent, consistent and centralised approach to the annual review and approval of fees and charges.

70. This policy was set in July 2023 when CPI inflation was running at 6.8%, following a generational high of 11.1% in October 2022. Headline CPI inflation at September 2024 was 1.7%. A minor amendment to the policy is recommended to allow more flexibility in setting charges including to recover costs. It is proposed to amend the wording of the policy to "fees and charges will, in general, be increased annually by at least the Consumer Price Index (CPI)."

Directorate Budgets

71. Directorate budgets are constructed on a Cash Limits basis. That is, Directorate expenditure is capped at the sum of the cash limits set. Directorate budgets are constructed from a base position (in this case 2024/25), with the addition of pressures, savings, additional specific grants and other MTFS adjustments to arrive at the base budget for 2025/26. This is repeated for each year of the MTFS.
72. As noted above inflation is held centrally and will be distributed to Directorates based on need.
73. Table 13 below shows the Directorate breakdown for each year of the MTFS. Directorate by Directorate breakdowns are provided at Annex 4 and at service activity level in Annex 5.

TABLE 13: DIRECTORATES MTFS

	Approved 2024/25 Budget £M	Forecast Changes £M	2025/26 Budget £M	Forecast Changes £M	2026/27 Budget £M	Forecast Changes £M	2027/28 Budget £M	Forecast Changes £M	2028/29 Budget £M
Children & Learning	61.78	(20.49)	41.29	(3.04)	38.25	0.04	38.30	0.00	38.30
Community Wellbeing	97.66	(33.84)	63.82	(2.80)	61.02	0.72	61.74	0.72	62.46
Enabling Services	26.52	(0.12)	26.40	0.02	26.42	0.10	26.52	(0.19)	26.33
Growth & Prosperity	39.07	(4.14)	34.93	(1.78)	33.15	0.61	33.76	1.82	35.58
Resident Services	24.75	(9.04)	15.71	(2.65)	13.06	(0.74)	12.32	(0.58)	11.74
Strategy & Performance	3.93	1.23	5.17	(0.04)	5.13	0.00	5.13	(0.03)	5.10
Inflation	(0.00)	12.43	12.43	6.74	19.17	6.77	25.93	6.89	32.82
Directorate Expenditure	**253.72**	**(53.97)**	**199.75**	**(3.55)**	**196.20**	**7.50**	**203.70**	**8.64**	**212.34**

74. A more detailed breakdown is shown for 2025/26 in Table 14 below.

TABLE 14: MOVEMENTS IN DIRECTORATE BUDGETS 2025/26

	Approved 2024/25 Budget £M	Pay and Price Inflation £M	Pressures and Commitments £M	Transformation Savings £M	Other Savings £M	Other Amendments £M	2025/26 Budget £M
Children & Learning	61.78	0.00	0.76	(7.12)	(4.48)	(9.66)	41.29
Community Wellbeing	97.66	0.00	0.72	(14.04)	(5.34)	(15.19)	63.82
Enabling Services	26.52	0.00	0.66	(0.43)	(0.09)	(0.25)	26.40
Growth & Prosperity	39.07	0.00	1.11	(5.60)	(0.03)	0.38	34.93
Resident Services	24.75	0.00	(0.66)	(6.98)	(4.02)	2.62	15.71
Strategy & Performance	3.93	0.00	0.00	(0.20)	(0.16)	1.59	5.17
Inflation	(0.00)	5.93	0.00	0.00	0.00	6.49	12.43
Directorate Expenditure	**253.72**	**5.93**	**2.59**	**(34.36)**	**(14.12)**	**(14.01)**	**199.75**

75. Note that other amendments include the distribution of the social care grant as a specific grant to Children & Learning and Community Wellbeing. It also includes the centralisation of core inflation provision.

Budget pressures, commitments and savings

Budget Changes agreed in previous years

76. As part of the MTFS rebasing exercise that took place in July 2024 and subsequent reviews, some budget pressures and savings agreed in previous years have been reversed out of the medium-term financial forecast. This is to remove those changes that are superseded by transformation business cases or other developments. These adjustments to the budget are included in the relevant section below, that is, the reversing out of previously agreed changes to budget pressures are included within the summary of budget pressures etc.

Budget Pressures

77. Table 15 summarises new and changes to budget pressures that have been included in the medium term financial forecast in Annex 2, not including the inflationary pressures which are outlined above in the other financial assumptions section. The budget pressures are mainly due to demographic factors and continuing high demand for council services, higher financing costs, borrowing costs from using Exceptional Financial Support (EFS) and revenue consequences of the transformation programme.

TABLE 15: SUMMARY OF BUDGET PRESSURES

	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Children & Learning	0.76	0.20	0.20	0.20
Community Wellbeing	0.72	1.44	2.16	2.88
Enabling Services	0.66	0.93	1.03	1.03
Growth & Prosperity	1.11	2.95	4.83	6.65
Resident Services	(0.38)	1.87	1.87	1.87
Strategy & Performance	0.00	0.00	0.00	0.00
Centrally Held Budgets	9.85	10.70	10.70	10.70
Total Budget Pressures	**12.72**	**18.10**	**20.79**	**23.34**

78. Table 16 below summarises the Executive commitments that have been included in the medium-term financial forecast in Annex 2. These include the impact on capital financing costs of adding new schemes to the capital programme.

TABLE 16: SUMMARY OF COMMITMENTS

	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Resident Services	(0.28)	(0.28)	(0.28)	(0.28)
Centrally Held Budgets	2.26	5.72	8.44	10.68
Total Commitments	**1.98**	**5.44**	**8.16**	**10.40**

Savings and Specific Grant Changes

79. The council's adapt | grow | thrive transformation programme is the primary vehicle for generating savings over the medium term to balance the budget and ensure financial sustainability. The programme is expected to generate £34.5M of savings in 2025/26 rising to £50.8M by 2028/29. Table 4 at paragraph 28 summarises the transformation savings that have been included in the medium-term financial forecast in Annex 2.
80. The council has identified other savings through efficiencies and other measures which help to balance the budget, these are summarised in Table 17. This includes increases to ring-fenced grants which form part of service budgets.

TABLE 17: SUMMARY OF OTHER SAVINGS AND SPECIFIC GRANT CHANGES

	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Children & Learning	(4.48)	(4.40)	(4.36)	(4.36)
Community Wellbeing	(5.34)	(5.34)	(5.34)	(5.34)
Enabling Services	(0.09)	0.39	0.39	0.39
Growth & Prosperity	(0.03)	0.02	0.06	0.06
Resident Services	(4.02)	(5.52)	(5.32)	(5.32)
Strategy & Performance	(0.16)	(0.16)	(0.16)	(0.16)
Centrally Held Budgets	(0.96)	(0.69)	(0.61)	(0.61)
Total Other Savings	**(15.07)**	**(15.70)**	**(15.34)**	**(15.34)**

81. For 2025/26, additional savings identified are £4.3M, additional grants £10.7M and other adjustments are £0.1M.

Reserves and Balances

82. The council holds revenue reserves to provide cover for risks and unforeseen events, to meet known or predicted requirements and to manage timing differences in funding. There are two types of General Fund revenue reserve: i) the General Fund Balance, which operates as a working balance to manage uneven cash flows and to provide a contingency against emerging events or emergencies. CIPFA recommend a minimum balance of 5% of net revenue expenditure; and ii) earmarked reserves, which are used as a means of building up funds for use in a later financial year for known or predicted requirements, including risks. A new revenue reserves policy was adopted in 2023 to move away from using reserves to help balance the budget and towards a position where reserves are used for non-recurrent purposeful investment or spend and to ensure that there is financial provision set aside to meet known future one-off commitments or liabilities.
83. The General Fund Balance has been increased in 2024/25 from £10.1M to £12.0M in line with the CIPFA recommended minimum and it is considered appropriate to maintain it at this level for 2025/26.
84. Earmarked reserves (excluding schools' balances) totalled £40.6M at the end of 2023/24 and are forecast to be £38.5M at the end of 2024/25, after taking account of the use of £4.2M of ring-fenced revenue grants that were carried forward via reserves. The MTFS includes the setting aside of sums to rebuild reserves over time. Table 18 below shows the planned contributions to reserves within the MTFS. The forecast future position for reserves is shown in Annex 6 and is summarised in table 19. The reserves forecast does not include any use of reserves to meet budget shortfalls in 2025/26 or future years.

TABLE 18: FORECAST USE OF CORPORATE EARMARKED RESERVES

	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Transfers to/from Reserves Budget Brought Forward	**2.07**	**2.40**	**5.88**	**7.32**
Contribution to Transformation & Improvement and Organisational Redesign reserves in 2024/25 – reversal of one-off addition to budget	(2.17)			
Contribution to Social Care Demand Risk Reserve in 2024/25 – reversal of one-off addition to budget	(0.20)			
Drawdown from MTFR Reserve in 2024/25 to increase General Fund Balance – reversal of one-off credit to budget	0.78			
Budgeted repayment to MTFR Reserve in 2024/25 for Collection Fund timing differences - reversal of one-off addition to budget	(0.08)			
Drawdown from MTFR Reserve in 2024/25 for contingency purposes – reversal of one-off credit to budget	2.00			
Contribution to Investment Risk Reserve in each of 2023/24, 2024/25 and 2025/26 for risk of reduction in value of Pooled Property Investment Fund – reversal of addition to budget		(0.40)		
Contribution to MTFR Reserve to rebuild reserves – addition to budget		3.88	1.44	
Transfers to/from Reserves Budget Carried Forward	**2.40**	**5.88**	**7.32**	**7.32**

85. Table 19 below shows the forecast General Fund earmarked reserves (excluding schools' balances) at the end of each financial year of the MTFS. See paragraphs 94 to 106 of the main budget report for the S151 Officer's assessment of the adequacy of reserves.

TABLE 19: GENERAL FUND EARMARKED RESERVES

	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Total earmarked reserves (excluding schools' balances)	38.50	39.02	43.77	51.17	58.58

86. The earmarked revenue reserves forecast excludes £11.1M relating to a cumulative overspend on the Dedicated Schools Grant (DSG) as at the end of 2021/22, which in accordance with regulations is being held in a separate DSG Adjustment Account so as to have no impact on the General Fund and non-school services the council provides. The regulations do not allow for any subsequent DSG surpluses to be applied to reduce the balance in the adjustment account, they are held in a DSG Reserve within earmarked revenue reserves. The combined forecast position at the end of 2024/25 across the adjustment account and reserve is a £5.6M cumulative overspend. The regulations apply to the end of 2025/26, so if the DSG deficit is not eradicated by the end of that year or if the period to which the regulations apply is not extended further, the £5.6M net deficit will fall to be included within General Fund earmarked reserves from 2026/27.

Capital programme

87. Planned capital expenditure and the associated financing is detailed within the budget report for approval by Council in February 2025. The programme has been reviewed and reprofiled considering the economic environment (inflation and interest rates), funding pressures and changing priorities. The proposed Capital Programme for 2024/25 to 2029/30 totals £642.84M and includes £329.92M for the General Fund and £312.92M for the HRA. The General Fund Capital Programme includes the following major commitments:
    - £10.2M for flood alleviation schemes
    - £77.0M for highways and transport schemes
    - £68.2M for schools and other education projects
    - £34.6M for Outdoor Leisure improvements
    - £32.0M over 4 years for the new Revolving Regeneration Fund (RRF)
88. Consideration has been given to the most appropriate use of capital resources in supporting the programme and meeting the investments and the priorities for the City. All capital projects must ensure purposeful investment and focus on delivering the optimum value for money for the council and its benefits are fully considered against taking account of the financial challenges the council faces
89. All the revenue implications of the capital projects are built into both the General Fund Estimates and Housing Revenue Account Business Plan.

Purposeful Investment

90. All investment, either revenue or capital, to have a clear purpose and strong business case. Proposals will be tested against the following Purposeful investment criteria:
    - Does it reduce revenue expenditure/increase income in the current year or future years?
    - Does it stop a potential financial pressure in future years?

- Does it have a significant impact on the lives of residents?

Governance and Delivery

91. The following action are being taken to ensure capital investment is purposeful, in line with the City Plan, and with appropriate delivery governance:
    - All capital schemes will be reviewed to ensure they are an investment with a purpose in line with those agreed.
    - Review of the Corporate Plan, People Plan and the supporting strategies to reflect the priorities of purposeful investment and a sustainable organisation.
    - Identify further opportunities to invest in the city and the council including innovative ideas and ensuring business cases have been developed in anticipation of funding becoming available.
    - The Strategic Capital Board to ensure capital projects are being prioritised and the investment is based on strong business cases.
    - A Capital Delivery Board is being established to oversee capital delivery.

Housing Revenue Account (HRA)

92. The national self-financing regime for the Housing Revenue Account (HRA) was introduced in April 2012. A 40-year HRA Business Plan, covering both capital and revenue expenditure projections, has been prepared using the planning principles agreed by Council in November 2011 and amended by subsequent budget reports.
93. The main points to note are:
    - The capital budget proposals for 2025/26 reflect a reprioritisation of capital expenditure to maximise improvement against the decent homes standard.
    - A provision of £2.28 Bn (including inflation adjustment) is set aside for existing stock investment, that may be required over the next 40 years.
    - The revenue budget meets the agreed minimum balances of £3M in 2024/25, £4M in 2025/26 and £7M from 2027/28 and over the life of the Plan. This represents an increase from the minimum £2M following a review of the working balance during 2023/24.
94. Rental increases are limited by national government policy and are currently calculated using the Consumer Price Index inflation plus 1% for 2025/26. Rental policy beyond 2025/26 is subject to the results of a government consultation, launched as part of the 2024 Autumn Budget which ended in December 2024. The consultation proposed rents increases of CPI +1% for at least 5 years. The financial plan assumes increases of CPI +1% from 2025/26 and thereafter. The budget proposals recommend service charges increasing in line with rental inflation of 2.7% for 2025/26 with a more detailed review of service charges to be undertaken during the year. Landlord Controlled Heating charges are to decrease by 10% in 2025/26 following a reduction in energy costs.

Dedicated Schools Grant (DSG)

95. The local authority receives money from central government each year to fund schools. This is called the Dedicated Schools Grant (DSG). The DSG is allocated by the Department for Education (DfE) through 4 separate funding blocks – early years, schools, high needs, and central school services with a total estimated for 2025/26 of £297M provided in the settlement announced on 18 December 2024. The main driver of funding levels is pupil numbers.

96. The DSG allocations reflect an increase of £15.5M compared to the current allocations for 2024/25. In addition, grants received in 2024/25 totalling £11.6M, to cover increased costs in teacher's pay and pensions, have been rolled into the Schools Block and Central School Services Block (CSSB) for the 2025/26 funding allocation. It should be noted that the published funding allocations include funding for academies which will be recouped by the DfE for direct distribution to academies. The DSG 2025/26 funding after recoupment, which the local authority will receive, is estimated to be £196.3M an increase of £16.6M as outlined in table 20.

TABLE 20: DEDICATED SCHOOLS GRANT 2025/26

Block	DSG 2024/25 Before Recoupment £M	DSG 2025/26 Before Recoupment £M	DSG 2025/26 After Recoupment £M	Change to 2024/25 £M
Schools Block	195.83	210.82	116.19	6.57
Central School Services Block	1.63	1.72	1.72	0.11
High Needs Block	45.79	50.18	43.78	3.42
Early Years Block	26.96	34.64	34.64	6.48
Total DSG	**270.21**	**297.36**	**196.33**	**16.58**

97. The overall position for schools in Southampton is that the level of funding required to implement the National Funding Formula (NFF) levels is more than the total schools block funding. This is due to the impact of school data changes between years and the amount needed to support growing schools. The Schools Forum on 21 January 2025 agreed to reduce the basic per pupil funding factor values within the formula and apply a minimum funding guarantee of -0.5%.

98. Funding through the central school services block (CSSB) is used to support a range of council services supporting schools (for example, the school admission service) with the decision regarding the use of funding made by the Schools Forum. The year on year increase is due to the rolling in of grants, however the cumulative reduction to the CSSB fund from 2022 is now £0.32M. It was agreed in January 2025 to transfer £0.1M from the schools block to the CSSB to minimise the mitigations needed to the Education service such as reducing the costs of the service. Additional mitigations required to reduce the impact of service reductions include identifying additional grant funding and increased traded income.

99. The additional funding in the high needs block reflects the budget announcement in October 2024 to increase the overall schools budget nationwide by £2.3BN with £1BN being directed towards SEND and Alternative Provision. The additional funding in the early years block reflects the expansion of the entitlements in under 2 year olds and 2 year olds with working parents. From April 2025 the minimum pass through rate to early years providers will increase from 95% to 96%.

100. The deficit the authority has within the ring-fenced Dedicated Schools Grant (DSG) must also be highlighted as a further and significant risk. This currently stands at an estimated £5.6M cumulative deficit forecast by the year-end, an improvement of £1.5M from the £7.1M cumulative deficit as of 31 March 2024. This deficit would normally need to be offset against other revenue reserves, effectively further reducing our General Fund reserves. However, Government has provided a statutory override of the normal accounting practice,

which means from 2023/24 until 2025/26 a deficit will not be counted against the Council's General Fund reserves. The Council cannot rely on any further extensions of this override and firm plans must be implemented and monitored to eliminate this deficit by, or before, 31 March 2026.

101. Outside of the DSG deficit, individual schools can also incur a deficit. The total of these deficits amounts to £4.3M according to our latest 2024/25 forecast, which compares with a £4.9M deficit at the last year-end (2023/24). Three schools are expected to return to a surplus position at the end of March 2025. At the time of writing there are two schools in deficit that are working with the Executive Director for Children and Learning and the finance team to finalise their deficit recovery plans (DRP). One of these schools has additional support from the DfE's school resource management advisers (SRMA).

Budget and Business Planning

Directorate Business Plans

102. Directorate Business Plans are focussed on 2025/26 and enable services (and Directorates) to manage within the cash limit targets set out above. The directorate business plans are included in Members' Room documents. Further refinement of the budget and business planning process will be undertaken in next financial year to ensure the directorate plans demonstrate the delivery of the city plan and the council plan.

Budget Management and Accountability

103. Following the Chartered Institute of Public Finance and Accountancy (CIPFA) review of the council's resilience and financial management in 2023, progress has been made in implementing CIPFA's recommendations, in both stabilising the council's financial position and improving financial management. Further work is planned on improving financial management across the organisation and within the finance function. This is being delivered through the Reshaping Financial Management programme.

104. As part of improving financial management the presentation of the medium-term financial forecast has been simplified to show changes from year to year on an incremental basis, with the starting point for each year being the approved budget for the previous year. This makes it easier for budget holders and managers to understand the changes to the budget from one year to the next.

105. Budget accountability statements, requiring sign-off by budget holders at all levels of the council from executive directors downwards confirming understanding of their responsibility to manage services within the resources allocated, were introduced in 2024 and their use will continue in 2025/26. Budget holder briefing packs will clearly set out reductions to budgets relating to transformation savings and other savings, as well as any budget pressures that have been recognised.

106. Achievement of transformation savings will form part of overall financial monitoring, informed by the tracking of delivery of financial and other non-financial benefits through the Benefits Realisation Group. Budget holders will be required to report any variations between forecast for the year and the budget available and rectify any adverse variations as soon as possible, through the development and implementation of deficit recovery plans. The Budget Review Panel, chaired by the Chief Executive, will be used to test the robustness of deficit recovery plans. The council will monitor its revenue and capital budgets (including the HRA) monthly, including progress in delivering transformation and other savings and deficit recovery plans, where necessary. The financial monitoring timetable for 2025/26 is included at Annex 7.

Financial Risk Management

Key Risks for the Council

107. There is a significant degree of uncertainty, arising from both internal and external factors, which could have a significant impact on the key assumptions made within the MTFS. These risks are reflected in a 'Key Financial Risks' document which identifies the key financial risks to the council's financial position over the short to medium term together with a summary of the mitigating actions in place and planned, which is reviewed on a quarterly basis as part of financial monitoring. These financial risks are reflected in the assessment of the adequacy of estimates and reserves.

108. Factors that can have a material effect on the financial position of the council include:

• Changes in the economy • Unmanaged service pressures and increases in demand • Level of future pay awards and general inflation assumptions • Impact of National Living Wage • Changes to employer pension contribution rates • Non achievement of planned savings • Projected income levels from fees & charges	• Adequacy of contingencies and reserves in any one period • Treasury Management and interest rate changes • Level of insurance provisions • Ad hoc or unforeseen events/emergencies • Social care reforms • New unfunded burdens • Welfare reforms
• The lack of certainty in government funding for future years including grants and reforms to the local government finance system • Changes in function • Changes in how services are funded • Council tax policy, housing growth and the level of local council tax support • Business rates volatility, more frequent business rates revaluations and changes to the Business Rates Retention scheme, including the resetting of baselines for measuring growth • Changes in legislation and government policy	• Provider failure • Demographic changes • Impact of exiting the European Union • The legacy impact of the COVID-19 pandemic • Ending of the statutory override for the Dedicated Schools Grant deficit in 2025/26 • Delivery of the transformation programme within planned timescales and available resources • Devolution and local government reorganisation

Key Risks in the MTFS and Financial Forecasts

109. It is important to note that the revised forecast represents the best estimate of the forecast position moving forward. However, there are risks associated with these revised forecasts. The main risks are:

- Financial – the majority of the future years' forecast and model is based on a series of assumptions, the further into the future you look the higher the risk that these assumptions are inaccurate.
- Political – The 2025/26 local government finance settlement is only for 1 year, with a multi-year spending review due to take place in Spring 2025. The government plans to implement reforms to the local government finance system in 2026/27 and further

changes may arise from devolution and local government reorganisation. The impact of any positive or negative change to our future funding as a result of any such changes will need to be considered in due course.

- Treasury – the MTFS is based on a reasonably stable global financial position going forward. If the assumptions change it may have a major impact on the financial position of the council particularly around business rate income, and interest payments.
- Internal Change – The adapt | grow | thrive transformation programme is intended to put the council back on a sustainable financial footing. Inevitably, such changes have associated risks.

Conclusion

The strategy sets out a sustainable financial position for the council over the five year period, and puts the organisation in a strong position to deal with the opportunities available to the city from devolution, regeneration and growth. There are risks to the balanced financial position set out and these are described in the section above and in the CFO statements. These will be managed via monthly monitoring of the financial position and quarterly updates to the MTFS. This alongside strong financial management described above should ensure the council is aware of pressures early giving more time to manage the pressure within the cash limits via deficit recovery plans.