Cabinet
10 November 2026
Medium Term Financial Plan (MTFP) and budget strategy

Portfolio Holder:
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Local Councillor(s):

All

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1. Executive summary

This report presents the latest position on the development of the 2027/28 revenue budget and the updated Medium-Term Financial Plan (MTFP) covering the period 2027/28 to 2031/32. It outlines the financial challenges facing Dorset Council, the assumptions underpinning current forecasts, and the actions being taken to maintain long-term financial sustainability while continuing to deliver essential services.

The financial outlook for local government remains challenging. Dorset Council continues to face increasing demand for services, rising workforce and provider costs, demographic pressures, and ongoing uncertainty surrounding government funding and policy reform. Alongside these national factors, Dorset's ageing population and rural geography create additional service and cost pressures that are expected to continue throughout the planning period. Changes to how funding is distributed across Local Government via Fair Funding 2.0 has not seen these characteristics of Dorset recognised and so increased Government funding cannot be relied upon to close any budget gap.

The MTFP has been developed using a service-led approach, drawing on service plans to identify expected demand, cost pressures and opportunities for transformation against a prioritisation framework. This strengthens the evidence base for financial planning and provides a more robust understanding of future funding requirements.

Despite this, the Council faces a significant forecast budget gap over the medium term. The position reflects increasing demand and expenditure pressures that continue to outpace expected growth in funding and income. Work is ongoing across all directorates to identify savings, efficiencies and transformation opportunities to reduce the gap and support a balanced budget.

The Council's strategy remains focused on prevention, demand management, service transformation and productivity improvements. Prevention is a whole-council approach that seeks to improve outcomes for residents while reducing the need for more costly interventions in the future. Service plans increasingly support these objectives by identifying opportunities to redesign services, improve outcomes and make best use of available resources.

Alongside the revenue budget, the Council continues to deliver a substantial capital programme that supports investment in infrastructure, assets and service improvement. The affordability of the programme and its impact on future revenue budgets continue to be closely monitored.

While the MTFP represents a prudent assessment of the Council's financial position, significant uncertainty remains around future government funding reforms, business rates arrangements and wider economic conditions. Cabinet is therefore asked to note the current position, endorse the budget assumptions and principles set out in this report, and support the continued development of a balanced budget for consideration by Full Council in February 2027.

2. **Recommendation**:

That Cabinet:

(i) notes the updated cost pressures and savings set out in this paper and the validation work that has been carried out on them;

(ii) notes the assumptions being used in the MTFP;

(iii) notes the financial gap arising from (i) and (ii) above;

(iv) notes the 2027/28 principles for multiyear budget setting outlined in section 13;

(v) notes the approach to closing the budget gap set out in this paper, recognising that this is work in progress;

(vi) continues to lobby local MPs and work with peers to press the case for fair funding for Dorset;

(vii) agrees that Portfolio Holders work with officers to continue to identify and develop further efficiencies and savings;

(viii) endorses the next steps and timetable leading up to the 2027/28 budget which will be presented to full Council on 11 February 2027.

Reason for Recommendation:

Local authorities are legally obligated to set a balanced annual budget, meaning that planned expenditure must be matched by sustainable income sources. This excludes reliance on one-off or short-term funding that cannot be maintained over time.

This report is being presented to Cabinet to provide an update on the projected budget gap for 2027/28 and the subsequent years covered by the MTFP. It also outlines progress made to date on identified actions and savings, including the forecasted financial performance for 2026/27 against the approved budget.

3. Financial implications

Covered within the report.

4. Climate implications

The Council's budget continues to fund action set out in the climate and ecological emergency action plan, including commitments as part of the capital plan over the term of the MTFP.

5. Other implications

None that are not covered in this report.

6. Risk assessment

6.1 Having considered the risks associated with this decision, the level of risk has been identified using the new risk scoring methodology as:

Based on our current assessment, the MTFP risk would be categorised as **Capacity (High)** because at this stage significant work is still required to address the budget gap. Assuming the council continues to meet its requirement to set a balanced budget, and the proposed actions are successfully implemented, the residual risk would be **Tolerance (Medium)**.

This assessment reflects the current position and is based on present assumptions. Given the dynamic nature of the financial environment, risk levels may change over time and should be kept under regular review.

6.2 The council is required to set a balanced annual budget. Dorset Council is anticipating:

1. fully using its budgeted contingency in the current year 2026/27,

2. requiring some use of reserves to meet the quarter 2 forecast overspend,
3. requiring use of reserves and one-off sources of funding to meet the costs of transformation set out in the transformation reports presented at Cabinet

a. The Quarter 2 report, which will be presented to Cabinet on 10 November 2026 alongside this paper, provides further detail on the financial matters affecting the 2026/27 budget. Where service overspends cannot be mitigated, this will have a consequential impact on the financial position for 2027/28 and future years.

b. Any use of reserves puts further pressure on the revenue budget as the increased reliance on external borrowing increases the amount of interest paid by the Council.

c. Looking ahead, further pressure on the Council's reserves comes from the cumulative deficit on the Dedicated Schools Grant (DSG). Dorset's SEND Reform plan was accepted in October 2026 and the High Needs Stability grant is therefore expected in November. Despite receiving £145m grant the SEND reform plan projections indicated a cumulative DSG returning to an overspend of around £150m at the 31 March 2028, when the statutory override ceases. The long-term SEND reforms have yet to be finalised with the government stating:

For deficits that arise in 2026–27 and 2027–28, local authorities can expect that we will continue to take an appropriate and proportionate approach, though it will not be unlimited.

If the statutory override ends without a full write off of the deficit as at March 2028 this would mean that many Section 151 officers across England would be giving consideration to issuing a section 114 notice.

d. Taking into account both the local and national operating context, the S151 Officer, the Council's Chief Finance Officer, has assessed the current financial risk level as high. Readers of this report should therefore anticipate that continuing to set and deliver a balanced budget will require reprioritisation of service delivery to maintain long-term financial sustainability.

7. Equalities Impact Assessment

The Council's budget serves as a strategic framework to support the delivery of its priorities. Achieving a balanced budget relies on a number of key assumptions and the successful implementation of transformational change programmes. While the overall budget framework has not been subject to a standalone equality impact assessment, individual programmes and changes that underpin budget delivery will each be assessed for their potential impacts.

8. Appendices

Appendix 01 – Directorate Pressures

9. Background papers

Budget strategy report 2026/27

Full Council Budget and Medium-Term Financial Plan Strategy Report (MTFP)

Period 4 financial management report to Cabinet 2026/27

10. Financial context

2026/27 current year position

10.1 The Council began this planning cycle with an initial budget gap of £17.55m for 2027/28, carried forward from the previous MTFP.

10.2 The Quarter 2 2026/27 financial management report to Cabinet sets out a forecast overspend for the current year of £8m. Work to refine the forecast position for the year has continued over the summer with additional pressures being built into the forecast as well as savings targets not being on track to be achieved.

10.3 An overspend in the current year will impact not just on the current year, but also the base budget for future years if the required savings cannot be delivered in time for the beginning of the new year. We must also review the sustainability of any short-term or non-recurrent savings which have been made this year to help manage the 2026/27 position.

Funding for Local Government

10.4 The Government introduced a multi-year Local Government Finance Settlement (LGFS) in the autumn of 2025. This is a significant development for councils as it provides greater certainty over future funding allocations and supports longer-term financial planning. For Dorset Council, a multi-year settlement (MYS) has the potential to improve the robustness of the MTFP by reducing the reliance on annual funding assumptions and providing greater confidence when planning transformation activity, investment decisions and the delivery of savings programmes.

10.5 The LGFS reflects the Government's revised approach to funding distribution, with a greater proportion of resources directed towards authorities with higher levels of deprivation, lower council tax raising capacity and greater assessed need. As a result, Dorset has not benefited

to the same extent as some other authorities from the additional funding made available through the LGFS. The way in which funding is distributed centres around two key measures:

1) **Relative need** –cost of doing business e.g. labour costs, remoteness increasing journey time or differing commercial property prices.
2) **Local resource** – Council Tax and income from sales fees and charges.

In simple terms funding then flows as follows:

A. Relative need > local resource = more government funding.
B. Relative need < local resource = less government funding.

10.6 Fair Funding 2.0 has introduced significant changes to the funding formula and fundamentally changed the assessment and resultant allocation of funding.

10.7 Changes include up to date Index of Multiple Deprivation (IMD), removing remoteness for all but ASC and changing the underlying formula for a number of grants and combining a number of distinct funding streams.

10.8 The Council's strong council tax base mean that it gains less from the redistribution methodology despite continuing to experience significant demand and cost pressures, particularly within adult social care and the additional costs associated with being a large rural authority.

10.9 As stated in the February 2026 MTFP Full Council paper, modelling provided by LG Futures indicates a £6m reduction in grants over the multiyear LGFS (2026/27 to 2028/29). Therefore, all new funding for Dorset relies on local decisions, centring on Council Tax levels.

Table 1: LG Futures estimate August 2026 of Dorset's total funding resources

£m	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Business Rates	74.3	58.7	59.1	60.7	62.2	63.8
Council Tax	337.8	361.2	384.7	409.7	436.3	464.6
Grants	85.2	110.6	107.3	104.3	106.6	108.9
Total Resources	**497.3**	**530.5**	**551.1**	**574.7**	**605.1**	**637.4**
Percentage of resources coming from Council Tax	*67.9%*	*68.1%*	*69.8%*	*71.3%*	*72.1%*	*72.9%*

10.10 This report has been drafted ahead of the Government's Autumn Budget on 28 October 2026 which is expected to provide further detail on public

spending, local government funding reform and devolution. While a MYS provides greater certainty for financial planning, there remains a risk that future funding reforms and redistribution mechanisms could reduce Dorset's relative share of national funding despite continuing demand pressures in adult social care, children's services, SEND and being a rural authority.

10.11 Further announcements are also anticipated on business rates reform, including changes to reliefs, retention arrangements and the wider funding system. Given the importance of business rates as a source of local government funding, any reforms could have implications for Dorset's future funding position and MTFP assumptions.

10.12 The Government has signalled its intention to establish a National Care Service, with social care becoming free at the point of need. While the detail, timelines and funding arrangements remain uncertain, any reforms could have significant implications for Dorset given the scale of adult social care expenditure and the county's ageing population.

10.13 In addition, the Council will continue to monitor developments relating to the proposed High Value Council Tax Surcharge from April 2028. Further clarification from Government is expected and may require updates to future financial planning assumptions.

10.14 Future funding streams, economic investment programmes and powers are increasingly channelled through mayoral strategic authorities as part of the Government's devolution agenda. The Prime Minister Andy Burnham making positive reference to Wessex and the Southwest devolution agenda at Prime Minister Questions on Wednesday 21 October 2026 Dorset and Dorset continues to engage positively with devolution opportunities.

10.15 This was followed up with confirmation in the Government’s budget text released on 28 October 2026 that the Government is working towards final agreement of a Mayoral Strategic Authority (MSA) for Wessex.

10.16 The final decision to establish an MSA will be subject to the formal consent of all of the constituent councils.

10.17 The Secretary of State for Housing, Communities and Local Government has confirmed that as a MSA Wessex would receive a 30-year Investment Fund and capacity funding to support with the cost of setting up and running the Authority.

10.18 Following the Autumn Budget, further detail on Dorset's funding position is expected through the *provisional* LGFS, anticipated in late December.

The MTFP and Dorset Council

10.19 The Council Plan provides the Council's strategic direction and sets out the ambition of working together to create a fairer, more prosperous and

more sustainable Dorset for current and future generations. Its four priorities are:

1) Provide high quality and affordable housing
2) Grow our economy
3) Communities for all
4) Respond to the climate and nature crisis

10.20 The MTFP is the financial strategy underpinning the Council Plan and the vision to be a Modern Sustainable Unitary. It links policy, risk and service planning with a multi-year assessment of funding, demand and cost pressures, savings and investment requirements, enabling informed resource allocation to agreed priorities while maintaining the Council's long-term financial resilience.

Table 2: Dorset's current MTFP

	Previous Year Budget 2025-26 £m	Current Year Budget 2026-27 £m	MTFP Yr1 2027-28 £m	MTFP Yr2 2028-29 £m	MTFP Yr3 2029-30 £m
Total funding available	**417.152**	**482.609**	**515.380**	**535.591**	**562.259**
Budget requirement	417.152	482.609	551.386	591.282	639.833
Budget gap (cumulative)	**0.000**	**0.000**	**(36.006)**	**(55.690)**	**(77.574)**

11. Financial modelling assumptions and the initial budget gap

11.1 Under Section 25 of the Local Government Act 2003, the Chief Financial Officer (CFO) is required to report to Full Council when it considers the budget and sets Council Tax for the upcoming financial year. This report must address the robustness of the financial estimates and the adequacy of reserves included in the budget proposals, ensuring that Members have access to professional and authoritative advice to inform their decisions.

11.2 The financial modelling assumptions outlined in this section form a critical basis for the CFO's assessment of the reliability of the estimates and the sufficiency of reserves. Members are therefore required to take this into account when making decisions in relation to the budget and the setting of council tax and scrutinising the assumptions in this report.

11.3 The process of rolling forward the financial model and rebasing it to reflect the new financial year, along with decisions approved by Cabinet since the previous budget was set, marks the starting point of the new financial

planning cycle. Additionally directorates have been required to prepare updated service plans.

11.4 In preparing the draft budget proposals, a range of assumptions were built into the MTFP model for 2026/27 and beyond. These assumptions will be reviewed and refined on an ongoing basis as new information becomes available, up to the point at which the budget is formally set.

Service Plans

11.5 During 2026, the Council introduced a new multi-year service planning approach designed to strengthen the link between strategic priorities, transformation activity and financial planning. Service plans are increasingly focused on identifying cross-cutting opportunities that support the Council Plan and Dorset's vision of becoming a Modern Sustainable Unitary by getting us to the future faster and being financially sustainable.

11.6 Modern Sustainable Unitary vision and cross-council approach is detailed in the service plans through the need to respond to increasing demand, ongoing financial pressures and the opportunities presented through prevention, modernisation, workforce development and stronger community partnerships.

11.7 The service planning process provides a structured framework for reviewing priorities, managing demand, identifying opportunities for transformation and ensuring resources are aligned to the Council Plan. It encourages services to look beyond organisational boundaries and consider how activities can be delivered more effectively across the Council.

11.8 Service plans are a key component of the MTFP and directly inform future savings, investment requirements and demand assumptions. Version 2 service plans are due by the end of October 2026 and require Executive Director sign-off. These plans will include the future direction of the service, proposals for managing demand, improving outcomes, delivering efficiencies and identifying investment needs over the medium term. As the iterative process matures, service planning will play an increasingly important role in ensuring that financial decisions are evidence-based, strategically aligned and support the Council's long-term financial sustainability.

11.9 Only savings and growth that are evidence-based with credible delivery plans have been incorporated into the MTFP.

Assumptions

11.10 The MTFP is underpinned by a range of financial and demand assumptions, including inflation, fees and charges. Applying appropriate assumptions remains a critical component of robust financial planning, as even small changes can have a significant impact on the Council's forecast financial position. For example, a 1% increase in general inflation equals £3.6m.

11.11 However, a single organisation-wide assumption can be overly simplistic given the diversity of more than 450 services delivered by the Council, each of which is subject to different cost drivers, demand pressures, legislative requirements and levels of risk. The Council is therefore moving towards a more evidence-led approach, using data, service intelligence and risk management to better understand the factors driving expenditure and funding requirements through Service Plans. This approach aims to improve the accuracy of financial planning by targeting resources where pressures are greatest, rather than relying on blanket assumptions that may not reflect the specific circumstances of individual services and could lead to inefficient allocation of resources. This is detailed in the following paragraphs.

11.12 The current assumptions for the forthcoming financial year are outlined in the table below. It is important to note that these remain under review and will continue to be updated ahead of the Full Council meeting in February 2027.

Table 3: MTFP budget assumptions

Variable	Budget Set 2026/27	Latest assumption 2027/28	Latest assumption 2028/29	Latest assumption 2029/30
Required council tax increase	<3%	<3%	<3%	<3%
Council tax base growth	1.24%	1%		
Required Social Care Precept	<2%	<2%	<2%	<2%
Business rates growth	-6.61%	0%	0%	0%
Pay award	3.2%	3%	3%	2.5%
General inflation	3.4%	2.5%	3.0%	3.0%
Increase in fees & charges	5.0%	4.0%	5.0%	5.0%

Local taxation

11.13 Our planning assumption is that Dorset Council will continue to be required to utilise the maximum Council Tax flexibilities available, currently a 3% Council Tax increase alongside a 2% Adult Social Care Precept. This reflects the increasing reliance placed on locally raised taxation by the Government through the Fair Funding Review and LGFS, with the Council's Core Spending Power assumptions effectively requiring authorities to levy the maximum permitted increases in order to realise the full funding available. For Dorset, 93% of the 2026/27 increase in Core Spending Power was attributable to additional Council Tax income rather than new Government funding.

11.14 For Band D Council tax payers this equates to an additional £2.11 per week on the Dorset Council element of the bill.

11.15 Whilst Council Tax collection rates remain resilient, care will be needed with council tax modelling for the budget. The latest collection data will be available as part of the Q2 finance management report at this Cabinet meeting.

11.16 In respect of Business Rates there remain concerns around income collection over the medium term as a result of the sustained economic instability, affecting in year collection rates and collection of arrears. If recent years are anything to go by the Autumn statement may well confirm further changes to business rates.

Pay pressure

Local Government Pay award

11.17 The pay and conditions of employment for local government services employees are determined by the National Joint Council (NJC), which comprises representatives from Trade Unions (58) and Employers (12**)**.

11.18 The 2026/27 NJC pay award was agreed at 3.3% and for the 2026/27 financial year. The MTFP currently assumes a 3.2% increase in pay inflation for 2027/28, reflecting anticipated ongoing national pay trends.

National Living Wage

11.19 The National Living Wage is expected to increase from £12.71 per hour in April 2026 to £13.36 per hour from April 2027, representing an increase of approximately 5.1%. The National Minimum Wage is also expected to increase across all age groups, with the Government continuing its policy of narrowing the gap between younger and older workers. This may be revised in future Government budgets.

National Insurance

11.20 From 6 April 2026, the employer National Insurance rate remains at 15%, and the Secondary Threshold remains at £5,000 per year. No further changes to these measures have been introduced for the 2026/27 tax year.

11.21 Looking ahead to 2027/28, no further rate increases have been formally announced.

Pay inflation

11.22 All Council staff are paid at an hourly rate which is above the national living wage. Therefore, changes to the national living wage do not add further pressure onto the direct pay bill.

11.23 Where the council commissions services, for example within the care sector these employers may be impacted by the rises in national living wage or changes to national insurance and so seek support from the commissioner (the Council) with meeting the cost. Inflation requests are being managed consistently through a senior officer group.

General inflation

11.24 Inflation remains a key MTFP assumption, affecting pay, contracts, commissioned services, construction costs and the wider supply chain. Recent forecasts indicate easing underlying pressures, although higher energy costs are expected to keep inflation above target in the short term. The MTFP assumes general inflation of 2.5% for 2027/28, reflecting an expected move towards longer-term target levels. This is considered a reasonable central planning assumption, but economic and geopolitical uncertainty, particularly fuel and energy market volatility, could prolong inflation and increase the Council's operating, supplier and contract costs. Inflation assumptions will therefore continue to be monitored.

11.25 Reflecting this uncertainty, Adult Social Care and Children in Care forecast models are built with inflation included and do not receive additional central inflationary increases.

12. Continuing and new budget pressures in the MTFP

12.1 As part of reviewing the MTFP gap for 2026/27 the senior leadership team (SLT) and their teams have been preparing service plans, reviewing budgets for the current year and assessing the ongoing impact of rising costs and demand for services.

12.2 The table below shows a full breakdown of the pressures, savings and movement in the base budget for each directorate based on these current assumptions.

Table 4: October 2026 budget position by directorate and whole authority

£m	Adjusted base budget 26/27	Total Pressures	Total Savings	Proposed base budget 27/28	Increase / (Decrease) in base after adjustments	% increase in base
Adult Social Care	174.12	24.02	(5.65)	192.50	18.37	11%
Children's Services	105.11	15.43	0.00	120.54	15.43	15%
Economy & Environment	104.36	12.94	(4.02)	113.28	8.92	9%
Modern & Customer	26.59	1.01	0.00	27.60	1.01	4%
Housing & Prevention	20.37	1.95	0.00	22.32	1.95	10%
Chief Executive's Office	12.73	0.59	0.00	13.32	0.59	5%
Assurance & Governance	8.92	0.49	0.00	9.41	0.49	5%
Resources	8.16	0.33	0.00	8.48	0.33	4%
Service budgets	**460.35**	**56.76**	**(9.67)**	**507.44**	**47.09**	**10%**
Central Finance	(460.35)	(11.08)	0.00	(471.43)	(11.08)	2%
Budget Gap				**36.01**		

12.3 A summary of the key points from the table above:

i. Total pressures within service budgets £56m

ii. Total savings identified to date £9.67m

iii. Remaining budget gap £36m

12.4 The following table includes only the new or changing assumptions and reconciles the increase from a net budget gap of £17.6m to £36m. The MTFP is a live document that is frequently updated as new information becomes available, such as service demand and need, government funding and inflation.

Table 5: The change in the budget gap from February's Full Council to October 2026

Budget Gap - Feb 2026	17.6
Funding adjustments	2.7
Other Changes (Interest, capital, increments)	5.1
Inflation adjustments	-
Directorate Pressures & Savings	10.6
Budget Gap - Oct 2026	36.0

12.5 More detail of the material pressures is contained in Appendix 1.

13. Draft budget principles

13.1 To ensure the Council sets a robust and balanced budget, it is essential to follow a clear and structured approach. These budget principles provide a framework to guide decision-making, helping all parties understand how they can contribute to balancing the budget. They also support the Council in making necessary, and sometimes difficult, choices to deliver the priorities and outcomes set out in the Dorset Council Plan within the constraints of available resources.

13.2 Several of the budget principles are aligned to the new risk appetite framework, helping strengthen the line of sight between the budget principles and the council's broader approach to risk management and decision-making.

13.3 Dorset's budget principles, outlined below, are proposed for Cabinet's continued endorsement and will guide the remaining work on the budget strategy.

i. **No reliance on reserves** – The budget will not be balanced by drawing on reserves.

ii. **Priority-led resource allocation** – Funding decisions will be aligned with the Dorset Council Plan and its strategic priorities using service plans that are continually updated

iii. **Protect and improve services** – Services will be safeguarded where possible but must demonstrate value for money and improved efficiency.

iv. **Maximise unitary council benefits** – We will continue to seek savings and efficiencies from our status as a unitary authority.

v. **Adopt a commercial mindset** – The Council will pursue opportunities to operate more commercially where appropriate. This aligns with our open appetite for Commercial risks.

vi. **Evidence-based decisions** – Business cases will underpin key decisions, and we will consider 'invest to save' and prevention opportunities. This aligns with our cautious appetite for Finance risks, which recognises some uncertainty where there is potential to improve service delivery.

vii. **Realistic and accountable budgeting** – Budgets must be achievable and aligned with the Council's objectives, with clear accountability for delivery and sound financial management.

viii. **Transformation in progress** – We are implementing both short-term and long-term transformational savings plans as part of our ongoing strategy to deliver sustainable financial improvements. This aligns with our open appetite for Project/Programme risks, reflecting the Council's willingness to pursue change and innovation where there are demonstrable benefits.

ix. **Work within the financial strategy** – All resource allocation must align with the overarching financial strategy approved by Cabinet.

x. **Target new Government funding** – Where possible, new Government funding will be directed towards existing spending pressures and priorities

13.4 Based on the current options identified, the Council would need to identify £36 million of savings to prevent drawing from reserves to balance the 2027/28 budget. This level of reliance on reserves is not sustainable given the limited reserves available and is therefore not a viable solution.

13.5 The Chief Financial Officer's (CFO) Section 25 statement will need to assess the robustness of the proposed budget and the adequacy of reserves in this context.

14. Timetable

14.1 The major milestones in the remaining budget and MTFP timetable are set out in the table, below.

Table 6: MTFP timetable

10 November 2026	Cabinet (Q2 and MTFP)
26 January 2027	People and Health Scrutiny Committee
27 January 2027	Place and Resources Scrutiny Committee
2 February 2027	Budget presented to Cabinet
11 February 2027	Budget recommended to full Council

15. Risk

15.1 There is significant risk in our planning assumptions at this stage. Officers' initial work has identified a £36m budget gap in 2027/28 with further gaps within future years. The remaining budget gap equates to £95 per head of Dorset population (based on 379,578 population figure).

15.2 Adult Social Care reforms, SEND Transport costs, inflation and pay awards continue to be the main focus but these are not our only risks. Risk and sensitivity of the budget to volatility in planning assumptions are key aspects of the financial model and budget development.

15.3 Consequently, the medium-term financial position of the organisation will feature within the authorities' risk register: "As a result of ongoing funding pressures, demand growth and inflation, the assumptions underpinning the MTFP may not be achieved, leading to service reductions, delayed investment and/or increased use of reserves." This will become Risk ID 96. This could include delivery risk of items contained with service plans.

16. Capital programme

16.1 The capital programme has been subject to a comprehensive review with the specific aim of right-sizing the Council's capital ambitions to better reflect organisational capacity, deliverability, affordability and available resources.

16.2 This review sought to ensure that only schemes supported by robust business cases, clear strategic objectives and realistic delivery plans remained within the programme. The resulting revised capital programme was approved by Cabinet in June 2026

16.3 The Quarter 2 Budget Monitoring Report for 2026/27 shows a revised capital programme of approximately £106m, with expenditure and commitments totalling £52m, representing 49% of the annual budget.

16.4 At the halfway point in the financial year, this demonstrates that the programme is progressing broadly in line with budget and provides early evidence that the capital programme review has been successful in right-sizing the programme to a level that is both realistic and deliverable within the Council's capacity

16.5 Delivery of the capital programme is monitored monthly by the Capital Strategy & Asset Management Group (CSAMG), providing ongoing oversight of project progress, risks and programme capacity.

17. Reserves

17.1 Reserves are used to support the activities of the Council and based on the revenue forecast as at the end of 2026/27 there will be a requirement for the following use of reserves:

1) £8m overspend from the general fund and earmarked reserves,
2) Transformation investment
3) Possible funding for the ERP implementation (multi-year) subject to the December 2026 Cabinet paper.

17.2 The General Fund Balance at the end of 2025/26 was £35.9m and is forecast to increase to £40.7m.

17.3 The Council's MTFP includes an annual budgeted contribution of £4.7m to the General Fund balance. By maintaining an adequate level of General Fund balances, the Council is better placed to manage in-year budget variances, respond to emerging risks, and avoid the need for more significant corrective action should financial challenges arise.

17.4 The Council is currently forecasting that earmarked reserves will be £120m by 31 March 2027.

17.5 Therefore, the total available reserves is forecast to be in the region of £161m by 31 March 2027. This is before any reserve requirements outlined in 17.1. Appendix 02 details the estimated future reserve position.

18. Lobbying

18.1 The council continues to highlight the case for additional investment in Local Government through Dorset's MPs, with peers and through networks like the Society of County Treasurers (SCT), the County Councils' Network (CCN) and with the Local Government Association (LGA).

18.2 Campaigning alone will not deliver enough resources to meet all our challenges and we must focus on reducing costs and growing income at the same time.

19. Further work to close the gap

19.1 As there is every year there remains much work to be done, and the actions are:

a. Focus on prevention and activity that supports the Modern Sustainable Unitary vision.
b. Continue with service planning and prioritisation, due by the end of October
c. Continue to validate, test, challenge and update the budget assumptions and growth model
d. Ensure that robust cost controls are maintained through the remainder of 2026/27 to minimise the spend pressures being brought into future years.
e. Continue to identify and implement savings whilst protecting frontline services, taking advantage of the financial efficiencies that becoming a unitary council has presented;
f. Continue to engage with consultation processes around funding formulas for the future;

19.2 It will be a through a combination of these measures that the Council will meet its legal requirement to set a balanced budget.

20. Summary and conclusions

20.1 While Dorset Council is not alone in facing substantial financial pressures, it is essential that we identify local preventative solutions alongside continuing to make a strong case for further national investment to support the Council's ability to meet its statutory responsibilities and deliver vital services.

20.2 Many of the pressures, risks and the national context is familiar to the rest of the sector. Dorset remains committed to developing solutions to close the budget gap, building on the creativity, energy and discipline of our workforce to deliver a balanced budget and become a Modern Sustainable Unitary.

Appendix 01 - Directorate pressures

1.1 The following paragraphs outline the material pressures over £1m within each directorate and the status of mitigating action.

1.2 Figures contained are the current working totals and subject to further scrutiny and mitigation as officers progress through the budget setting process therefore inclusion in this report at this stage does not mean that the pressure or value is confirmed as part of the budget gap.

Adults and Housing

1.3 The overall growth modelled for Adults and Housing is an increase of £23.789m, an increase of 11%.

1.4 Growth has been modelled for adult care packages in 2027/28. The modelling reflects the increase in the number of people supported since October 2025/26 (when the 2026/27 budget was set), and together with projected growth for the remainder of the financial year. Key areas of growth include Homecare, Extra Care, Supported Living and care homes.

1.5 The Council continues to use external advisors, LG Futures, to support forecasting of government funding allocations across various grant streams. At this stage, it is assumed that all existing grant funding for Adults will continue.

Children's Services

1.6 The overall current growth modelled for Children's Services is an increase of £15.4 million, to £120.5 million, representing a 15% uplift.

1.7 Specific budget increases are focused on areas that support the council's commitment to improving outcomes for children and young people, particularly ensuring the best start in life for all. Prevention and early support remain key drivers.

1.8 The primary driver for the proposed budget growth is the Children in Care population.

1.9 Children's Services are actively working to reshape the children in care population and budget requirement by influencing:

1) The number of children in care, aiming to reduce reliance on statutory care through early intervention and family support.
2) The mix of care placements, with a shift towards more stable, cost-effective, and locally provided options, for example foster families.
3) The cost of placements, by investing in council-run provision and reducing dependency on high-cost external providers.

1.10 Key initiatives include:

1) Reviewing and updating fostering fees, to support recruitment and retention of foster carers and ensure competitive, sustainable arrangements.
2) Stabilising the Social Worker workforce
3) Further work to refine the placement mix, for example reduce reliance on external residential care and promote kinship arrangements
4) Maintaining the prevention approach, through continued investment in Locality and Pathfinder models, which focus on early help, multi-agency collaboration, and reducing escalation into statutory services.

1.11 This is a fluid position, as the Children in Care cohort continues to change, inflationary pressures evolve, and new ideas and approaches are explored and developed.

1.12 In addition to the pressures outlined above, there are other areas within Children's Services under pressure:

1) Special Educational Needs (SEN),
2) Permanently achieving transformation savings to ensure long-term sustainability and improved service delivery.
3) Uncertainty remains with Children's Services grants and the formulas used to allocate each Local Authorities allocation. Dorset could be disadvantaged if there is a formula change.

Economy & Environment (E&E) Directorate

18.17 Pay inflation is included at £1.722m. This assumes a 3% national pay award.

18.18 General (non-pay) inflation is included at £2.298m. This is calculated on a 2.5% uplift and 5% for energy costs.

18.19 Directorate specific pressures are almost £10.4m, offset by just over £4m of Directorate specific savings, meaning a net pressure of just under £6.4m. Key areas of growth include:

18.20 Cabinet 11th November 2025 agreed to a pipeline of asset disposals as a key mechanism for the Strategic Asset Management Plan. The MTFP includes a net cost of £1.080m in respect of this, primarily in respect of disposal of industrial sites which is offset by reduced borrowing costs for the capital programme.

18.21 This MTFP includes a one-off £1m for the next phase of the Strategic Partnership work in Weymouth.

18.22 Cabinet 6th October 2026 agreed to implement new interventions in respect of public buses and community transport. This MTFP includes £1.863m of investment cost in 2027/28, as well as future year impacts as set out in that paper.

18.23 The MTFP includes the full year effect of the new HRC contract which came into effect in August 2026, at a cost of £1.5m. However, lower tonnages are being experienced, with an estimated effect of £1m in 2027/28, so the full effect of the HRC contract cost is partially mitigated.

18.24 As reported in the quarterly finance reports, growth in Concessionary Fares expenditure means that this budget line needs realignment. £1.020m is included in the 2027/28 proposals for this purpose.

Core Services

18.25 Core Services covers Modern and Customer, Resources, Chief Executive's Office and Assurance and Governance.

18.26 The overall budget proposed for Core Services is an increase of £2.418m, an increase of 4.3%.

18.27 Of this increase the most significant is related to pay inflation and increments of £1.738m.

Central Finance

18.28 Within Central Finance the costs associated with the Minimum Revenue Provision (MRP) have been reduced by £3.1m following the policy revision at the end of 2024/25.

18.29 The interest payable related to the capital programme has been increased by £3.1m to reflect the expected borrowing costs. This is needed to fund the existing capital programme as well as an estimate of new capital projects in 2027/28 to 2031/32.

18.30 An additional £3.8m of pressure has been included within the MTFP. This comprises £1.7m to reflect the lower council tax collection rate and the associated reduction in income, together with £2.1m arising from the removal of the forecast council tax and Business Rates surpluses.

18.31 £0.3m has been included in the Contingency budget to reinstate funding following the pay award increase for 2026/27, meaning the contingency budget would be £8.5m for the following year.

Appendix 02 – Reserves

	31/03/2026 £'000	31/03/2027 £'000	31/03/2028 £'000	31/03/2029 £'000
General Fund Balance	**35,983**	**40,757**	**45,531**	**50,305**
% of net budget	8.63%	8.45%	9.43%	10.42%

	31/03/2026 £'000	31/03/2027 £'000	31/03/2028 £'000	31/03/2029 £'000
General Fund				
(A) Financial strategy	25,454	25,455	10,000	10,000
(B) PFI Reserves	4,706	4,862	3,869	3,224
(C) Insurance Reserve	2,521	2,222	1,922	1,622
(D) Trading Account Reserves	276	276	307	307
(E) Transformation Fund	-	-	-	-
(F) Other Reserves	11,247	14,564	9,298	9,214
(G) Repairs & maintenance	1,748	1,748	-	-
(H) Unused Grant Funds	43,020	36,370	21,342	17,061
(I) Infrastructure related	5,627	5,482	5,277	5,110
(J) Innovation	571	571	-	-
Sub-total	**95,170**	**91,550**	**52,015**	**46,538**
(K) Section 31 Grant Reserve	12,883	10,000	9,000	8,000
(L) Public Health	1,782	1,682	500	500
(M) SEND Reform Plan Support	17,181	17,181	16,685	16,685
Total Earmarked Reserves	**127,016**	**120,413**	**78,201**	**71,723**
Total Reserves	**162,999**	**161,170**	**123,732**	**122,028**

	Title	Description
a	Financial strategy	These reserves have been established to support the Council's long-term financial sustainability. They include £10m set aside to provide resilience against uncertainty arising from future Government funding changes and £15m to fund the implementation of the Oracle Fusion ERP programme.
b	PFI reserves	These reserves are sinking funds held for replacement furniture and equipment, and to cover additional costs of any future legislative changes with the council's two Public Finance Initiative (PFI) arrangements.
c	Insurance reserve	The insurance reserve is to support settling claims.
d	Trading Account reserves	The balance held in this reserve represents retained surpluses from traded services which are reinvested in future services.
e	Transformation Fund	This reserve was set up to fund investment expenditure that would generate reductions in revenue costs.
f	Other reserves	Various reserves to cover partnership working, one-off activities or smooth future cost pressures or activities that may be required where a grant or budget may not be available. These reserves also cover the risks of cost overruns on projects, costs that are contingent upon project outcomes and potential conversion of schools to sponsored academies.
g	Repairs & maintenance	This is a reserve to provide short-term support for the revenue budget for repairs and maintenance.
h	Unused grant funds	Various reserves to fund future expenditure where the received grant for the work or service has not been fully utilised in the year.
i	Infrastructure	Various reserves to cover infrastructure development in the area.
j	Innovation	Associated reserves linking to Enterprise Zone and related business park developments.
k	Section 31 Grant Reserve	This reserve holds unspent Section 31 grant funding received from the Government during the COVID-19 pandemic to compensate local authorities for losses arising from reduced Council Tax and Business Rates collection.
l	Public Health	Reserved underspends from the Public Health grant, to cover any future related Public Health activity.
m	DSG recovery plan funding	Reserves specific for the Dedicated Schools Grant and future support for High Needs Block deficit support.