

**Appendix A4**  
**Medium Term Financial Strategy Principles**  
**2025/26**

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# Our Financial Principles

## 1. Strategy Overview

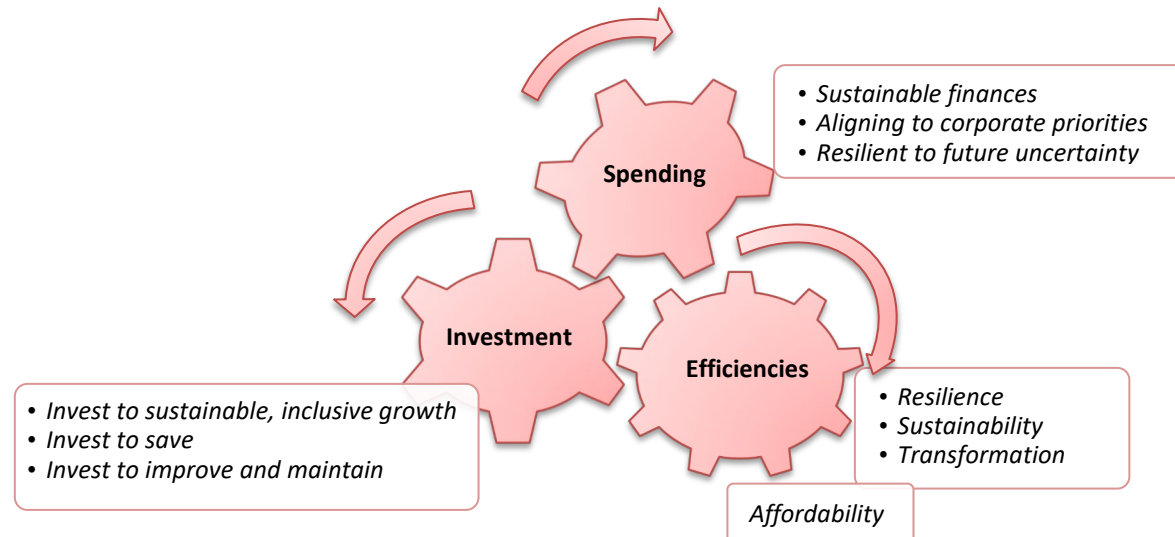
### Putting Strategy into Practice

Our financial principles provide a guide and good practice to support the council's financial management arrangements for delivery of a sustainable and balanced budget. While any one principle, if properly implemented, will likely yield positive results, it is the way these principles reinforce each other that will more fully deliver on the promise of effective financial planning and management.

The detailed resourcing principles that underpin these elements and activities are outlined in Annex 1 and provide the tools for a consistent, transparent approach to the annual budget review.

- 1.1. The council is continuing to face a challenging set of sustained economic and financial challenges related to the cost of living, unprecedented demand and pressure on services, that continues to put ever increasing burden on the council's financial sustainability and resilience, which inevitably underpins key aspects of the council's future strategy. To be resilient to future uncertainty we continue to focus on nine key principles centred around spending, investment and savings.

**Figure 1: Resourcing principles centred around spending, investment and savings**



- 1.2. The council identified three overarching financial elements; spending, investment and efficiencies and adopted guiding principles and good practice to support the process for determination of the budget and the financial management arrangements for delivery of a balanced budget position. The pertinent principles in delivering the budget strategy proposed for 2025/26 are expanded below for spending and efficiency principles, noting that the investment principle focuses on themes covered in more depth within the Capital Strategy.

## **2. Principles on Spending**

### **Aligning spend with corporate priorities**

Consider our obligations in providing services and challenge all existing spend in the context of strategic priorities.

- 2.1. If we are to deliver the priorities of the council we will need to pay close attention to our obligations in providing all services. We need to question whether services are delivering outcomes towards the city vision and the corporate strategy.
- 2.2. Where services are a statutory requirement of the council, are we delivering more than is required of us? In some cases, we may wish to continue to deliver over-and-above, as long as there is a clear strategic outcome that aligns to the council's priorities and it remains within our affordability.
- 2.3. We will challenge all existing spend in the context of strategic priorities, ensuring that council spending is driven by outcomes and results.

### **Being resilient to future uncertainty**

Be prudent, build flexibility for the uncertain financial outlook.

- 2.4. There is significant uncertainty in the financial outlook which means when committing to spending we need to ensure we retain an element of flexibility for the changing environment in which we operate, for example, this needs to be considered when entering into new long term contracts.

Exit strategy to be developed for all external funding.

- 2.5. In order to make the most of opportunities we may be able to bring in additional external funding, however to ensure we build resilience in future uncertainty it is essential that we develop exit strategies for any services funded by external grants prior to entering into arrangements.

## Approach to budget setting

Identify and implement all endorsed savings and efficiencies.

- 2.6. Council services have already been challenged to produce substantial savings in recent years, and many services have already succeeded in making a good start on reducing their budgets, although delivery levels remain lower than required. With financial pressures as they are, it is paramount that we maintain programmes to optimise service delivery and ensure value for money wherever possible.
- 2.7. Within the current financial climate, we will need to make the most of every opportunity to generate savings and efficiencies. Within the current 2024/25 budget we have an identified target (from budget setting and carried forward previously undelivered savings) of £45.3 million of savings, with a further £5.3 million over the medium term. It is important that any savings identified and endorsed are fully implemented.

We will maintain balanced budgets over the medium term.

- 2.8. In order to be prepared and able to respond to changes in the external environment, it is important we set out a balanced budget over the medium term. This is not set in stone but will form the basis of setting the annual budget each year and give us more ability to be resilient to future uncertainty.

We will use taxation where necessary and justifiable.

- 2.9. Local Authorities currently have flexibility to increase Council Tax rates by up to 3% - 5% annually; this generates an increase in revenue to fund services. However, we recognise increasing Council Tax can have a big impact on those on low incomes across the city and hold measures to support those in the most hardship. We will use taxation where necessary and justifiable to support maintaining a balanced budget.

There will be no additional spend unless matched by savings or income.

- 2.10. In maintaining a balanced budget it is important that no additional spending commitments, for new and additional policy, are made unless it can be matched by savings or additional income.

### 3. Principles on Efficiency and Savings

It is clear that savings will need to be made to deliver a balanced budget. By analysing our current strengths and weakness we have developed several key themes and principles.

Some of these will deliver cashable savings to the bottom line and some will be enablers. It is recognised that delivering to these principles will not be easy and will take resource and sometimes difficult decisions around the model of services to ensure outcomes are met within a reduced cash envelope.

#### Resilience

- Fraud and Avoidance
- Build Resilience
- Capital Financing
- Balance Sheet Review

#### Sustainability

- Commercialisation
- Traded Services - Whole cost recovery
- Fees and Charges
- Third Party Spend

#### Transformation

- Productivity and Workforce
- Partnership Working and Early Intervention
- Digital Transformation
- Maximising our Assets

### Financial Resilience

Financial Resilience is about ensuring we are providing efficient services and maximising all income opportunities possible. It is also about how we manage our financial risk to be more in control of changes in the financial and economic environment.

- Financial Resilience is focussed on Fraud and Avoidance:
  - We will proactively be using data intelligence for successful revenue collection.
  - Data cleansing, analytics and technology to locating new payers / contacting defaulters and getting the right bill, to the right person, at the right time.

## **Fraud and Avoidance**

- 3.1. It is vital that the council retains the maximum revenue possible in order to meet our financial pressures. We would want to ensure that we are collecting council tax and business rates wherever possible. We need to review our processes for tackling fraud and avoidance in order to ensure optimum compliance without a dramatic increase in spending on enforcement, which should be a last resort.
- 3.2. Our ability to identify new tax payers / avoiders and, in the instance of Highways Green Claims, those person/s responsible for causing damage to public infrastructure and, where identified, a more commercial approach prior to any write-offs outside the system.
- 3.3. Income may not be optimised if reducing resources are not addressed.

## **Balance Sheet Review**

- 3.4. The council holds ear-marked reserves that are set up either for a time-limited programme, to act as contingency against a specific risk, or to carry forward a service underspend. It is possible that some of the reserves we currently hold could be released if programmes are complete and there is no further planned spending, or if risks have reduced for risk-based reserves.
- 3.5. Other areas of the balance sheet including provisions held against debt are reviewed annually to ensure the balance between the correct level of provision and the impact on the revenue budgets is optimal.

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## **Sustainability**

Sustainability means preparing a finance strategy that is valid now and in the future. With a high degree of uncertainty ahead, it is essential that the council's finances are as robust as possible. This has been broken down into the following areas:

- Third party expenditure:
  - Taking a council wide category management approach to procurement.
  - Focusing on supporting local businesses to access the council's supply chain, and considering social value, sustainability and the environment in our procurement activity.
  - Periodic review of contracts to identify efficiencies of scale and other opportunities.
- Fees and charges:
  - All charges will be increased annually in line with general inflation, unless it can be demonstrated such an increase would be detrimental.
  - We will review all overhead charges and fees and charges annually and eliminate subsidies which don't align to the Corporate Plan and emerging Target Operating Model. All charges will cover the total cost of providing the service.
  - Where charges are set in statute but do not fully recover costs, we will undertake a detailed review of services and make representation to the relevant body.
  - We will undertake periodic targeted reviews to explore all opportunities in areas where evidence indicates our income is lower than our peers.

### **Third Party Expenditure**

- 3.6. Despite improvements in spending over recent years there is potential for further enhancements in how we purchase goods and services.
- 3.7. The council must engage in financial transactions with a wide range of providers, however the sheer volume of supplier data held in finance systems highlights significant inefficiencies. Service provision through strategic procurement offers opportunities to deliver greater value for money.
- 3.8. Through our procurement and commissioning the council is able to foster the local economy and add social value, and the council should recognise this as a responsibility.

## Fees and Charges

- 3.9. Authorities are able to set fees and charges in accordance with legislation governing the level at which fees can be set. If charges are set such that income falls short of the cost to run the service, this indicates that the service is subsidised by the council.
- 3.10. It is an accepted principle that licensed and traded activities should be funded on a cost-recovery basis, paid for by those benefiting from the licensed or traded activity, rather than drawing on the public purse. Fees must be set with a clear understanding of the full costs of the service.
- 3.11. Financial regulations require services to review their fees and charges annually and the expectation is that, where we have local control, the charges are raised in line with inflation so as to ensure no pressure is placed on the budget due to inflating costs. As well as considering the effect of inflation, services must also consider how they can recover the total cost of the service, if legislation allows it.
- 3.12. Where charges do not recover the full cost due to statutory requirements, there should be a more robust process to lobby the regulatory body. All councils are facing similar financial challenges at the moment and it is important that central government assumes the correct level of financial responsibility for delivery of statutory services at a local level.
- 3.13. Be more 'entrepreneurial' in our approach, actively engaging in market development and market shaping where no such market currently exists and using insight to manage specification and demand.

## Transforming Services

Over recent years significant savings have been made through efficiencies and changes in the way services operate. Though there are always opportunities to go further, it becomes increasingly more difficult to make savings and those which there are may require substantial investment to realise.

Therefore, it is important to focus on transforming our approach to services to deliver significant savings.

- Productivity and Workforce
- Maximising use of our Assets

- 3.14. Where fit for purpose, we will seek to optimise the infrastructure that we have already invested in, including right person, right place, right time and automation where possible.



## **Productivity and Workforce**

- 3.15. We will regularly review our workforce and operating model against our service delivery and corporate strategy to ensure optimisation of the balance between cost of resourcing and sufficiency of resourcing.

## **Maximising Use of Our Assets**

- 3.16. Assets are held to support a strategic need or for a net financial return that supports the financial resilience of the council.
- 3.17. Treasury Management - a working balance will be retained, residual funds invested to generate an increased return on investment.
- 3.18. We will leverage other public and private sector investment for new market developments.
- 3.19. We will proactively seek a mixed portfolio including quick wins / early adopters to create a revolving fund.

## **4. Affordability**

- 4.1. It must be recognised that there is significant financial pressure on local authorities and despite all the work in identifying savings and efficiencies through the above measures there could come a point that there is insufficient funding to deliver all services aligned to the Corporate Strategy.
- 4.2. Difficult decisions may therefore be required regarding the priority outcomes and the stopping or reducing of some services which deliver these outcomes.

### Spending Principles

#### **Aligning spend with corporate priorities**

- Subject to delivering statutory responsibilities, we will challenge all existing spend in the context of our strategic priorities and consider our statutory duties and obligations in providing services.

#### **Being resilient to future uncertainty**

- We will be prudent; taking into account the uncertain financial and economic outlook, by building flexibility into future procurement and commissioning plans and developing exit strategies for all externally funded activities.
- Maintain sufficient reserves and balances to manage known risks and events and maintain financial resilience.

#### **Maintaining sustainable finances as a priority**

- No additional in-year spend unless matched by savings or income.
- Implement all endorsed savings and efficiencies unless replaced by alternative ones.
- We will maintain balanced budgets over the MTFS cycle.
- Invest in agreed priority areas that also look to generate future revenue savings or income streams.
- Grant reductions fully passported.

### Investment Principles

#### **Capital Programme**

- We will take a long term perspective on capital investment and operate a clear and transparent corporate approach to the prioritisation of all capital spending.
- We will adopt good governance in how we approve and amend the capital programme, scrutinising decisions relating to capital spend and the delivery of the capital projects.
- We will ensure that investment is prudent, affordable and sustainable over the medium term.
- We will ensure the first call for financing is against external generated grants and public and private sector contributions, with the balance of funding from the council's internally generated resources and then external borrowing, to reduce the cost of servicing debt.

#### **Capital Investments**

- Invest for sustainable, inclusive economic growth: We will expand capacity to grow the economy, whilst delivering whole systems solutions to demographic, social and environmental challenges, sustainably across the City.
- Invest to save: We will invest to support delivery of essential services and generate positive revenue returns.
- Invest to maintain: We will improve and maintain the condition of council assets that have a clear business and operational need, to a standard that meet ongoing legal and statutory duties and work towards creating a carbon neutral estate by 2030.
- Risk aware: The risks of the project have been fully assessed, consulted, communicated, and are at an acceptable level.

# Efficiency Principles

## Financial Resilience

### Building resilience and reducing dependency

- Enable sustainable and resilient businesses; we will replace start-up grants with start-up or scale-up loans, or alternatively an equity stake offered with business support.
- Level the playing field; provide transparency in offering subsidies with clear alignment to strategic objectives.
- Review concessions, with a view to replacing peppercorn rents with charges that transparently recognise the value and importance we place on those services.
- Capital and revenue investments require positive rate of returns and these should bring about improved outcomes and reduced pressure on the core public budget.
- We will offer pump-priming, pump-priming plus grants, or loans to allow for innovation and development of partnerships that require funding for up to a maximum of three years.
- Low interest-paying loans repaid within 2-3 years will be available as a step down mechanism from long term grants.
- Council funded partnership contributions should be subject to the same level of diligence and rigour in contributing to the budget 'gap' as all base budgets.
- Capital investment on non-BCC assets: financed via interest-bearing loan, equity stake (subject to risks assessment), charge to be placed on the asset, or other appropriate mechanism as per the council's capital and treasury management strategy.

### Fraud, Cost Avoidance and Recovery

- We will proactively use data intelligence for successful revenue collection as well as getting the right bill, to the right person, at the right time.

- Through better gathering of evidence at source, and robust calculation of fee rates consistently applied in our charging, we will minimise the need to write off invoiced amounts outstanding.
- Continue to review and develop the corporate debt management policy and processes that enable a single view of the debtor across all systems, reducing duplication of debt collection activity without compromising revenue and facilitates a fairer and compassionate way of supporting debtors back to financial stability.
- We will cleanse data and use analytics and automation to locate and recover debt from 'those that can pay'.

### Balance Sheet Management

- We will actively manage the council's key balance sheet items with a view to releasing long-held funds which could be utilised for current priorities and to maximise investment returns within agreed levels of risk.
- We will develop protocols for releasing developer funds as planned and for the purpose intended, aligned to minimising unnecessary budget growth for future maintenance works.

### Capital financing, Investments and Borrowing

- We will not increase the indicative prudential borrowing commitment in the annually approved capital programme unless the council can make an evidenced and positive return on its investment, or to accommodate accounting treatment changes on leases.
- We will be evidence-led; matching projects and delivery to economic reality and benefit realisation.
- Any capital investment decision which involves prudential borrowing must include the cost of servicing the debt and anticipated pay-back period as part of a robust business case.
- Investment to save/grow decisions will only be supported when the cashable cost reductions (or increased income) exceed the financing costs of any borrowing needed to fund the investment within the agreed pay-back period for the asset type.

## **Transforming Services**

### **Workforce and Productivity**

- Develop the right organisational workforce design that enables delivery of corporate priorities, including structure, pay and grading framework, skills and capacity.
- We will invest in the culture, training and development that will deliver a diverse and inclusive workforce for the future.
- The pay bill should not exceed the annually determined budget percentage.
- We will actively consider opportunities where automation or digital delivery mechanisms are more appropriate.
- Services should fund their own service pressures wherever possible e.g. inflationary uplifts, unless there is a binding contractual agreement that cannot be re-negotiated).

### **Maximising Asset Utilisation**

- Assets held must support a strategic need or offer a positive net financial return that supports the financial resilience of the council.
- We will adopt a corporate landlord approach transferring the management and maintenance of all property assets from the service departments to the centralised function, taking a holistic view of property, deliver economies of scale, opportunities for co-location, rationalisation where appropriate and ensure assets are managed in a professional, efficient and effective manner.
- We will invest in the development of an asset management and valuation system, with clear accounting standards.
- The repurposing of the existing infrastructure to allow the council to deploy for multi-use, e.g. advertising, digital connectivity, with rental income from service providers and from a revenue share on the income they receive.
- We will work with our joint venture partners, City Leap, and other partners to facilitate investment to deliver our net-zero carbon ambitions and use methods of appraisal that take into account carbon impacts.

- We will seek to leverage optimum funds from our estate including opportunities for private sector / pension fund investment where this provides best value.

### **Digital Services**

- Easy, engaging, and inclusive: We will provide easier digital access to council services and encourage people to use it. Take a user-centred approach to design and maximise accessibility. Take action to improve digital inclusion.
- Simple, stable, and secure: We will work in a prioritised and systematic way to simplify and modify our digital estate to make it as secure, resilient, and reliable as practical.
- Well-used and used well: We will Support colleagues to make the best, fullest use of the tools and technologies available to them, developing high levels of digitally skilled collaboration. Provide robust data and insights to ethically improve effectiveness and efficiency.
- Ready to partner, willing to share, and able to innovate: We will adopt the right technologies, systems, processes, culture, and governance to provide a safe and productive environment for wider collaboration and problem-solving using technology.

### **Partnership Working and Earlier Intervention**

- We will invest in capacity building in community, local and regional partners to support delivery of strategic priorities and reduce costs.
- We will work with key stakeholders to use pooled arrangements to increase available cash-flow and /or create revolving funds to deliver long term savings which can be redistributed to re-invest.
- Capacity building should not be developed to simply mirror what the council already does with a transfer of the same budget and the approach should embrace voluntary effort as well as “not for profit” service delivery.

## Financial Sustainability

### Fees and Charges

- The introduction of charges for services should have a clear link between user demand and consumption and the financing of that service.
- As a minimum all locally determined charges will be reviewed annually which will include relevant benchmarking information, and an increase at least in line with general inflation, unless it can be demonstrated that such an increase will harm service usage levels.
- Services operating on a cost-recovery basis, will ensure a calculation is available that determines the total cost of providing the service including overheads.
- Where charges are set in statute but do not fully recover costs, we will undertake a detailed review of services and where appropriate provide the evidence to the awarding body.
- Council Tax increases will be reviewed annually.

### Third Party Expenditure

- We will organise procurement activity and resources to focus on specific areas of spend (category management approach) and seek to drive greater value in our procurement.
- We will focus on supporting local businesses to improve processes and collaboration to enable them to compete for opportunities within the council's supply chain.
- We will encourage and enable suppliers to contribute to Social Value and health and sustainability requirement in our procurement activity.
- We will encourage value chain development, whereby collaborating partners can be recognised and reimbursed for their contribution to delivery of outcomes utilising 'payments-by-results' methodology.

- Market failure: We will intervene earlier where there is a clear rationale to do so, using insight to manage specification and demand.
- Consider a range of opportunities to deliver a return on Strategic and Shareholder Investments, to include creation of value through a wider strategic and outcomes-based commissioning with shared benefits and liabilities.

### Entrepreneurial Approach

- We will be more 'Entrepreneurial' in our approach to delivery and commissioning.
- We will actively engage in market development and market shaping where no such market currently exists and using insight and innovation to explore opportunities to address unmet needs and demand.
- We will invest and use our financial strengths and trusted brand to deliver a positive financial return and attract alternative investment models to support service delivery, e.g. through social investment.
- We will ensure all viable options that create a sustainable asset should be considered in service redesign.
- We will consider services more appropriate for trading activity with an agreed rate of return to the general fund.

### Affordability

- Should the financial sustainability of the council require it, other necessary measures will be considered to ensure a balanced budget can be delivered in each of the financial years of the MTFS; including divestment, reduction or service cessation, where non-priority or lower priority outcomes are no longer cost-effective or affordable.