CABINET

Report subject	**Quarter Two Budget Monitoring 2021/22**
Meeting date	15 December 2021
Status	Public Report
Executive summary	This report includes 2021/22 budget monitoring information as at the end of September 2021. The projected outturn for the revenue account can be balanced by allocating a further £4.2 million from the Covid pressures grant tranche 5. The projection for the 2021/22 revenue account is an overspend of £10.2 million within services and the transformation programme. The application of largely one-off central resources can balance this position, including the release into the revenue account of further Covid pressures grant tranche 5, leaving £4.0 million available to support Covid pressures next year. The updated 2021/22 projections for reserve movements, the capital programme and housing revenue account (HRA) are also included.
Recommendations	**It is RECOMMENDED that Cabinet:** **1. Agree the £0.84 million allocation from the contain outbreak management fund (COMF) for additional adult social care expenditure as set out in paragraph 70 and appendix A3.** **2. Request that Council delegates the final decisions in spending the COMF allocations for winter planning to the director of public health in consultation with the chief executive, and leader of the council as urgent decisions may be required as considered in paragraph 72.** **3. Request that Council approve the use of £4.2 million of the Covid pressures grant to support the net unavoidable pressures within services as set out in paragraph 67.** **4. Request Council approve the capital virement to accept new grant funding as set out in paragraph 94.**
Reason for recommendations	To comply with accounting codes of practice and best practice which requires councils to regularly monitor the annual budget position. To comply with the council's financial regulations regarding budget virements.

Portfolio Holder(s):	Councillor Drew Mellor, Leader, Finance & Transformation
Corporate Director	Graham Farrant, Chief Executive
Report Authors	Adam Richens, Chief Finance Officer and S.151 Officer Adam.richens@bcpcouncil.gov.uk
Wards	Council-wide
Classification	For Decision

Background

1. In February 2021 Council agreed the annual general fund net revenue budget of £241 million, a capital programme of £125 million and the net use of reserves of £41 million. Budgets were also agreed for the housing revenue account (HRA).
2. At quarter one the projected revenue budget overspend was £12.6 million within services due to one off Covid pressure (£3 million), on-going Covid pressures (£5.5 million) and ongoing service pressures (£4.1 million).
3. This was offset by central savings and one off surpluses within the 2021/22 accounts of £5 million, reducing the net projected overspend to £7.6 million.
4. This position included full delivery of the budgeted £7.5 million transformation savings target for 2021/22 of which £2.4 million had been confirmed as delivered.

Revenue budget monitoring - September 2021

5. The quarter two projection for the 2021/22 revenue budget outturn is an overspend of £10.2 million within services and transformation. The reasons can be summarised as follows:

    1. £3.0 m Covid pressures potentially one-off in nature
    2. £5.1 m Ongoing Covid related pressures
    3. £3.5 m Ongoing service pressures
    4. (£2.7m) Ongoing carparking income recovery (but still below pre Covid)
    5. (£2.4m) Grants received to replace base budget or overspend
    6. £3.7 m Transformation programme net savings shortfall

6. There is an interest saving of £0.6 million outside of services. The resulting net overspend can be offset by the application of the following resources that naturally fall as <u>one-off</u> surpluses with the 2021/22 accounts:

    - £2.9 m Refinancing of the capital programme resources (2020/21 outturn)
    - £1.4 m Extra sales, fees and charges grant income confirmed for 2020/21
    - £0.5 m Extra sales fees and charges grant income estimated for 2021/22
    - £0.4 m Dividend from the local authority trading company (Tricuro)
    - £0.2 m Net other changes
    - £4.2 m Drawdown of Covid pressures grant tranche 5 (leaving £4.0 million for transfer to earmarked reserves)

7. A summary of the revenue outturn position as projected at the end of quarter two is shown in the table below. This includes the proposed use of the covid pressures grant to balance the budget due to unavoidable net pressures, with the remaining level of grant that would be transferred to reserves shown as a surplus at the bottom of the table.

Figure 1: General Fund – Summary projected outturn as at 31 March 2022

Directorate	Working Budget	Forecast Outturn	Forecast Variance
Adult Social Care	209,431	227,866	18,436
	(94,086)	(111,096)	(17,010)
Adult Social Care Total	**115,345**	**116,771**	**1,426**
Children's Services (excl. DSG)	81,300	91,924	10,623
	(12,051)	(13,426)	(1,375)
Children's Services Total	**69,250**	**78,498**	**9,248**
Operations	165,556	168,546	2,990
	(95,284)	(102,906)	(7,622)
Environment & Community Total	**70,272**	**65,640**	**(4,632)**
Resources & Chief Executive Office	151,214	152,436	1,222
	(111,909)	(112,693)	(785)
Resources & Chief Executive Office Total	**39,306**	**39,743**	**438**
Net Cost of Services	**294,172**	**300,652**	**6,480**
Transformation (including target savings)	22,015	25,705	3,690
	(23,590)	(23,590)	0
Transformation Total	**(1,575)**	**2,115**	**3,690**
Net Position	**292,597**	**302,767**	**10,170**
Covid Pressures Grant Committed	(1,700)	(1,700)	0
Release of Residual Covid Grants Tranche 5	0	(8,193)	(8,193)
Refinancing of Capital Expenditure	0	(2,900)	(2,900)
Sales, fees and charges compensation 2021/22	(1,649)	(2,149)	(500)
Reserves use Covid Sales, Fees and Charges	0	(1,402)	(1,402)
Other Corporate Items	(289,249)	(290,462)	(1,213)
Total Budget	**(0)**	**(4,038)**	**(4,038)**

8. The overspend at service level has reduced from £12.6 million at quarter one to £6.5 million at quarter two. This is largely due to place operations which has moved into a £4.6 million budget surplus, compared with a projected overspend

of £0.3 million at quarter one. The improvement is from increased income, particularly car parking and seafront, and reduced costs of waste disposal.

9. This improved position in place operations has been partially offset by recognising the delay in achieving the target transformation savings this year along with the reprofile of related expenditure, with a net £3.7 million budget shortfall now reflected. There may be some further savings in the transformation programme in the second half of the year from staff restructuring underway and activity to reduce expenditure through enhanced commissioning activity.

10. The approach continues to be the management of the financial position by expecting services to deliver within the envelope of their original 2021/22 budget as far as possible. However, for children's services there is recognition that further budget support is needed from measures to improve the service. The projected overspend compared with quarter one has reduce by £0.4 million due to the award of government grant to support unbudgeted improvement activity. In addition, for adult social care (ASC) services there are unavoidable market pressures related to the Covid hospital discharge scheme arrangements with processes also requiring additional staff resources. ASC during quarter two has reduced its projected overspend by £0.6 million largely from additional income.

11. The mitigation strategy to balance the budget proposed in this report is to drawdown further allocations of £4.2 million from the tranche 5 covid pressures grant to support net overall budget pressures. This is in addition to the specific allocations to services already made of £1.7 million from this grant for expenditure related to the pandemic. This leaves a balance of £4.0 million available from the £9.9 million grant to carry forward into next year. This is the surplus showing in the above table which would be transferred into reserves.

12. The detail of projected variances is included in Appendix A1. A general fund summary forecast outturn is included in Appendix A2.

Summary of 2021/22 projected outturn by directorate

13. The following paragraphs summarise the projected 2021/22 budget position for each directorate.

Adult Social Care - net overspend £1.4 million (1.2%)

14. The ASC overspend has reduced by £0.6 million overall compared with quarter one. Covid pressures on care costs have increased alongside growth in other care service demands over quarter two. There is offset from additional income from the NHS and client contributions with new savings reported from employee vacancies.

15. The highest contributor to the overspend is related to extra Covid costs, with £1.5 million from higher cost care packages due to the hospital discharge scheme introduced by the government during the pandemic. Residential care costs continue to be above budget because of market forces and home care packages of increasing size. Not all clients can recover and regain independence within the 4 weeks of leaving hospital, as specified in national guidance, because of capacity shortages in NHS therapy services. Packages of care that are picked up to be funded by BCP after the 4 week NHS funded period will be larger and of higher cost because patients are discharged earlier, more dependent, and often without the recovery services they need. Although the hospital discharge scheme

is due to end on 31 March 2022, it is likely that higher market costs and higher hospital discharge demand will continue from Covid infections and the enduring impact of the pandemic on the health and social care system

16. The additional committed cost of managing the hospital discharge scheme this year is anticipated to be £0.16 million with the existing level of progress being made. However, this is not sufficient to adequately manage the scheme processes. The forecast includes the recruitment of additional staff to administer the scheme and catch up with the backlog of cases accumulated during the pandemic with this further cost of £0.4 million funded by tranche 5 of the Covid pressures grant to complete all process after the end of the scheme.
17. Not directly linked to Covid, is a £0.8 million projected overspend in packages of care mainly due to demands from older people. The projections for older people remain volatile as costs continue to increase. Residential fees are now 3% above budget, 10% higher than the same time last year and 16.6% higher than pre-pandemic.
18. The medium term financial plan is being updated to allow for the level of exceptional increase in residential fees and additional demand for both care home placements and larger home care packages following hospital discharge
19. The £0.5 million projected additional refunds from the NHS for clients eligible for continuing health care (CHC) are due to more people with learning disabilities being found to be CHC eligible. As the backlog for CHC applications, which accumulated due to a pause in NHS CHC activity during the pandemic, begins to be cleared, the overall impact of these refunds will become more apparent.
20. There is £0.2 million over recovery projected for service user contributions.
21. Projected employee savings of £0.1 million are projected from vacancies which have not been filled due to workforce shortages.
22. The shortage of home care workforce capacity is leading to a higher number of residential care placements and more people waiting for domiciliary care to become available, adding uncertainty to the projections

Workforce capacity and winter plan fund

23. On the 4 November the council was notified of the provisional allocation of £1.183 million workforce capacity fund for the winter plan as announced on 25 October. The detail is as follows:
    a. This grant must only be used to deliver measures that address local workforce capacity pressures in adult social care between 21 October 2021 and 31 March 2022 through recruitment and retention activity. Councils are expected to work closely with their provider partners to think innovatively about the measures they put in place individually and collectively, including passporting funding directly to providers where appropriate. It will be important to retain existing staff capacity as well as encourage new and returning entrants.
    b. It is paid in two instalments, 60% (£0.71 million in November 2021 and 40% (£0.473 million) in January 2022.
24. The funding should be spent only on time-limited activity during the 21 October 2021 to 31 March 2022. If a local authority chooses to make payments to providers, where possible, they should endeavour to passport funds as early as

possible during the grant period to ensure providers have time to use the resources to maximum effect. Due to the short timescale to deployment the chief executive will make an urgent decision to accept the grant and agree the spending plan in consultation with the portfolio holder for ASC.

25. There are prescriptive and discretionary elements to the fund. Due to the short timescale to deployment the chief executive will make an urgent decision to accept the grant and agree the spending plan in consultation with the portfolio holder for ASC.

Infection control grant round 3 fund

26. On 21 October the Department of Health and Social Care (DHSC) published the guidance and allocation of round 3 of the Infection Control Fund. It comprises three distinct allocations of funding for infection prevention and control, vaccines, and testing. The fund is split in two categories
    a. A mandatory allocation of £2.672m strictly prescribed by the grant conditions to be distributed to care providers within 20 days of receipt. The fund is paid in two instalments, 60% (£1.603 million) in November 2021 and 40% (£1.069 million) in January 2022. The council has no discretion over the method of distribution.
    b. A discretionary allocation of £1.093 million which will require specific approval. This element is also paid in two instalments, 60% (£0.656 million) in November and the remaining 40% (£0.437 million) in January 2022.

27. As for the workforce capacity fund, due to the need to allocate funding quickly the chief executive will make an urgent decision to accept the grant and agree the spending plan in consultation with the portfolio holder for ASC.

Children's Services - net overspend £9.2 million (13.4%)

28. The overall forecast position has reduced by £0.4 million reflecting the award of funding from the Department of Education for service improvement in children's social care, with activity already underway and included in the projected overspend at quarter one.

29. The projected overspend relating to the cost of care has decreased from quarter one of £4.3 million to £3.7 million for quarter two. This includes new placements made but more than offset by successful reunifications home for some children together with other demand strategies relating to placement costs. There are still clear national, regional, and local cost pressures that reflect increased demand for all placement types, specifically for children with very complex needs, and with rising costs for individual packages but these pressures continue to be scrutinised and managed at pace.

30. The other area of significant pressure is staffing. This has increased since quarter one and the total forecast variance is now £5.2 million net of government grant (57% of the overspend). There continues to be considerable market difficulties in the recruitment of permanent workers causing the continued and increased use of higher cost agency staff against established posts within social care.

31. In addition to the agency use against established posts there are several extra agency social workers over establishment to cover current levels of increased demand. The planned reduction of these over establishment agency staff has

commenced with the service identifying a number of agency staff to end from the end of November onwards to reduce the overspend. A proportion of this reduction is already reflected in the current forecast variance.

32. The recruitment and retention strategy has been refreshed along with the campaign. Two specialist recruitment agencies are working with the council to enhance our impact within this extremely competitive market which reflects the national challenge for the recruitment of experienced social workers.

33. Within the staffing overspend is the cost of commissioned teams to carry out essential work to ensure appropriate timescales are met for the assessment of cases with the highest safeguarding risks. This has been necessary to prevent significant service deterioration due to a trebling of the statutory requirement, a high element of which can be directly traced to higher post-Covid demand levels.

34. There is also an element of non-achievement of the budget allowance for a level of vacancies in establishment posts as prompt recruitment in front line services continues to be essential to maintain service stability and improvements. In addition, savings have not been realised due to the delay corporately in restructuring business support functions and system support teams across the council.

35. There is a forecast £1 million pressure for special education needs (SEN) transport. This budget is traditionally volatile and challenging to project as it is demand led and impacted by numerous variables outside of the control of the council. Despite an increase in the budget from last year, there is further demand from the rising caseload of education, health, and care plans (EHCPs), from pupils with medical conditions and from those with challenging behaviour. The impact of places created locally in satellite special schools to cope with the rising EHCP demand has increased the number of journeys.

36. Other variances include the additional cost in the SEN team of legal support for work on tribunals of £0.1 million.

37. A saving of £1 million has been agreed by Council from the quarter one monitoring report by switching the family investment fund budget to the contain outbreak management fund (COMF) ring-fenced grant.

Place Operations – net underspend £4.6m (6.6%)

38. The overall position for operations for quarter two is a net underspend of £4.6 million which is 6.6% of the £70 million net budget. Parking and waste services account for much of the total, but there are also significant contributions from seafront services and telecare. Although a significant net underspend, there are some service pressures within place operations.

39. Covid pressures within environment services are income losses greater than allowed for in the budget. The projection includes a budget shortfall for cremations income of £0.8 million, due to reduced demand for services.

40. In addition, the reduction in trade waste income experienced last year from periods of lockdown and reduced commercial activity is on-going, the forecast is little changed from June.

41. The cost of emergency accommodation placements, principally within local hotels and B&B accommodation, is currently expected to be managed from a combination of in-year revenue budget resource allocation, government grant allocations and one-

off utilisation of £0.35 million from the contain outbreak management fund (COMF). Next year's budget will likely recognise a £0.35 million budget pressure as COMF funding will no longer be available. The current forecast will continue to be reviewed as it is highly dependent on estimated numbers, which are subject to change.

42. Communities have been allocated additional grants in year of £0.950 million to support vulnerable residents in self-isolation and this has released eligible expenditure from the COMF.

43. Several smaller pressures across the services are anticipated at £0.1 million.

44. The main changes from the June report are in business-as-usual areas, although some surpluses are in services where income expectations had been reduced in the budget for 2021/22 because of the Covid pandemic.

45. Parking services are anticipating a net overachievement against budget of £2.7million. This is a significant improvement but is still much lower than would have been anticipated in a pre-pandemic year. The MTFP has been updated to reflect a delayed return to income budget levels pre-Covid as town centre carparks have not recovered well. Members are due to consider winter seasonal parking and travel offers and any agreed above those given in previous years will impact the current forecast.

46. Concessionary fares are forecasted to underspend by £0.3 million. The council continues to support bus travel across the conurbation and are compensating the two local bus companies in line with government guidance. The historic trend of reduced bus use has been reflected in maintaining pre Covid funding levels and this has brought down the amounts expected to be paid for the year.

47. Communities are forecasting an overspend of £0.2 million in respect of the community safety service review. Staff costs are overspent by £0.2 million due to budgeted restructuring delays from the smarter structures project. There is also an additional £0.1 million pressure in relation to potential costs associated with community centres.

48. Environment are forecasting a net saving of £1.5 million in residual waste collection and disposal. The increase from June is mainly down to improving recyclate prices, and the re-tendering of waste contracts costing less than anticipated. The take up of the garden waste service is performing well with a forecast surplus of £0.5 million. The estimated income for drop kerbs is consistent with June's position.

49. There are budget pressures within environment services. The forecast position regarding greenspace, concessions and trading has worsened due to the inclusion of a bad debt provision in relation to a sporting concession. The pressure in respect of arboriculture works remains. The highways operational cost pressures include preparations for the winter service. There is also an estimated overspend of £0.3 million on the cost of the council's fleet because of increased fuel prices and parts for older fleet vehicles.

50. Now the summer season is mostly over it is possible to forecast with some certainty the position for seafront services. Seafront operations and trading, most notably catering, has been especially successful over the summer period, and is expected to achieve a position ahead of budget by £0.4 million, Beach hut income is also estimated to be ahead of budget by £0.2 million.

51. Telecare net income continues to forecast £0.3 million additional income to budget. Neighbourhood Services (comprising net income from garages and photovoltaic

panels) continues to project an overall £0.1 million improved position to budget. In-year Housing Delivery spend to support the 5-year Council Newbuild Housing & Acquisitions Strategy (CHNAS) is forecast to be £0.1 million lower than budget.

52. Libraries expect an underspend against staffing budgets of £0.1 million due to vacancies within the service. Smaller savings and pressures across the services are anticipated in the region a net underspend of £0.1 million.

Resources & Chief Executive Office - net overspend £0.4 million (1%)

53. The combined position for both the resources and chief executive office is a net overspend of £0.4 million down from £0.6 million presented for the June update.

54. The largest ongoing Covid pressures is the loss of income in relation to council tax and business rates summons income. During lockdown courts were closed and although operating now there is backlog in court dates for the council which impedes the process of raising summons to taxpayers. This represents a total pressure of £0.4 million.

Transformation Savings

55. Transformation savings of £7.5 million have been built into the budget for 2021/22. At the end of quarter two £5.1 million of savings have not yet been identified for delivery and have been factored into the projected overspend for the year along with related expenditure reductions of £1.4 million.

56. The corporate smarter structures project should deliver some savings towards the residual target and work is underway to confirm the level of savings this year and the MTFP impact of a full financial year.

57. The third party spend project has indicated initial areas for savings opportunities and the deliverability and timing of these will be established during the next phase of work. Most of the potential savings identified will take some time to deliver with the benefit in future years.

Central Items - net surplus £14.2 million

58. This includes a forecast underspend on interest payable of £0.6 million due to having higher cash balances than anticipated meaning the requirement for short term borrowing has been reduced. It also includes an expect one off dividend payment from Tricuro of £0.4 million.

59. Set out in the financial outturn report 2020/21 presented to Cabinet on 23 June 2021 there were a series of actions undertaken by the finance team to release revenue resources earmarked for capital to support the 2021/22 budgetary position. The total amount released is £2.9 million with the decision made at Council in September when the outturn report was considered.

60. Government compensation for lost sales, fees, and charges (SFC) during 2020/21 outturn totalled £12.6 million. After meeting the first 5% loss of income in full, losses above this level are funded by government at 75%. The outturn figure was based on an estimate where there remained some ambiguity in the calculation. Therefore, a risk factor was transferred to reserves of £1.4 million in case an amount needed to be repaid to government. Now the scheme for 2020/21 has concluded this amount can be released back into revenue for 2021/22.

61. The SFC scheme is continuing for the first quarter of 2021/22, and the initial estimate of the grant is ahead of the £1.6 million budget by £0.5 million.
62. The balance of central items is the further use of the Covid pressures grant tranche 5 to underpin the overspend within services.

Covid pressures grant 2021/22 - £9.9 million

63. Tranche five of the Covid pressures grant was allocated to councils to manage the extra costs from the pandemic. Funding is not ring fenced and it is for the council to decide how to support services. The government note that it is expected to be spent on the same priority areas as last year. These are: adult social care, children's services, public health services, household waste services, shielding the clinically extremely vulnerable, homelessness and rough sleeping, domestic abuse, managing excess deaths, and support for re-opening the country.
64. The 2021/22 budget allocated £1.03 million from the grant to support specific service pressures. In other service areas, such as where demand was already rising before the pandemic and the specific impact not easy to quantify, allocations were expected to be made during the year with the use of the grant brought into the projected outturn at the same time.
65. Since the budget was set in February new allocations were agreed for resort management and summer resilience and some originally budgeted expenditure agreed to be funded instead by the contain outbreak management fund (COMF). The amount left uncommitted at the end of quarter one was £8.35 million.
66. The updated quarter two position includes funding returned from unspent summer resilience allocations with a portion repurposed for winter resilience, plus new allocations to increase ASC staffing to manage the hospital discharge scheme.
67. It is **recommended that Council approve a further £4.2 million is used to balance the net overspends** projected across all budgets at quarter two. The then unallocated balance of £4.0 million would be added to reserves. A summary of the tranche 5 funding is in the table below:

Figure 2: 2021/22 Covid Pressures Grant Tranche 5

Allocations	**£000's**
Total Grant 2021/22	(9,893)
Budgeted amount not transferred to the COMF	350
Post budget allocations - resort management / summer resilience	1,193
Unallocated balance of tranche five at quarter one	**(8,350)**
Summer resilience under spend	(335)
Winter resilience allocation	53
Adult social care additional staffing for hospital discharge scheme	439
Grant released into the revenue account at quarter two	**(8,193)**

Contain Outbreak Management Fund (COMF)

68. The unspent COMF from 2020/21 has been carried forward and amalgamated with the previously separate test and trace grant. The amounts brought into 2020/21 as uncommitted are £1.8 million for the original COMF and £0.97 million for the test and trace grant. The director of public health has authority to commit expenditure within normal delegated limits and has committed further expenditure in 2021/22. In addition, Council in November approved that the £1 million family investment fund should be paid for from the COMF instead of charged to the base revenue budget.

69. During the quarter two budget monitoring process any approved COMF budgets no longer required have been returned to the fund with the balance of unallocated COMF from 2020/21 £2 million.

70. It is proposed that **additional adult social care expenditure of** £0.84 million is approved to support care providers and the wider system with pressures related to Covid 19. This includes supporting efficient and safe hospital discharges, monitoring infection status, supporting the booster programme, other plans to protect public health and provide additional brokerage capacity. The details are included in Appendix A3. This expenditure meets the criteria of the COMF and is supported by the director of public health. As it is a virement less than £1 million but greater than £0.5 million it requires the **approval of Cabinet.**

71. The 2021/22 COMF allocation of £2.553 million is currently held in contingency for winter planning. The director of public health has identified that continuing the interventions under the local outbreak plan may require contingency spending of up to £1.176 million. The details are included in Appendix A4. This is based on the updated contain framework published in October as part of the government's Autumn and Winter Plan launched by the new UK Health Security Agency (UKHSA). It sets out how national, regional, and local partners should continue to work with each other, the public, businesses, and other partners in their communities to prevent, manage and contain outbreaks.

72. The updated framework applies to the autumn and winter period and will be reviewed and updated as necessary in spring 2022. **As all contingency spending may be required at short notice it is proposed that the decision is delegated to the director of public health in consultation with the chief executive and leader of the council**.

Reserves monitoring 2021/22

73. Earmarked reserves have been set aside for specific purposes and these were reconsidered in June 2020 in the light of the new financial environment and need to fund the transformation programme which is fundamental to delivering savings at scale.

74. Councils nationwide received significant Covid related grants during 2020/21 which have artificially increased all reserve holdings. Grants received in relation to business rates have particularly obscured the true reserve position due to the intricacies of collection fund accounting. The Council received £40.4 million for business rates in 2020/21 which will be paid back to the collection fund in 2021/22. In addition, £18.5 million was carried over from specific grants to be applied to pandemic spend.

75. Figure 3 below summarises the projected movement in reserves during the current financial year but without making any assumptions about how the estimated surplus for the year is applied. This is considered further in the MTFP update report on the meeting agenda.

Figure 3: Summary of projected movements in reserves

	Balance 1 April 2021	Balance 31 March 2022	Movement
	£m	£m	£m
Un-earmarked reserves	15.3	15.3	0.0
Earmarked reserves*	153.8	43.1	(110.7)
Total reserves	**169.1**	**58.4**	**(110.7)**

*These reserves do not include revenue reserves earmarked for capital or school balances. They do include:

- £60.1 million specifically in relation to Covid.
- £30.1 million to support the 2021/22 budget and £2.1 million towards the 2022/23 budget.

The main **movement** on other earmarked reserves during the year are as follow:

Financial Resilience Reserves

a) £25,106k **Refinancing of the Capital Programme Reserve – phase 1**

As per the approved 2021/22 budget reserve to be fully draw down

b) £4,748k **Refinancing of the Capital Programme Reserve – phase 2**

As per the approved 2021/22 budget reserve to be fully draw down

c) £4,432k **MTFP Mitigation Reserve**

As per approved Cabinet report £3.4m to support accelerated regeneration, £0.3m for SEND, £0.2m for Climate Change and £0.5m Clean Green Safe

Transition and Transformation Reserves

d) £10,188k **Transformation Mitigation Reserve**
Drawn down as per the approved 2021/22 budget

e) £2,000k **Transformation – Contribution from outside General Fund**
Drawn down as per the approved 2021/22 budget

Government Grants

f) £40,409k **Covid 19 NNDR Section 31 Grants**
Monies received in 2020/21 to offset collection fund deficit payable in 2021/22

g) £1,402k **Covid 19 Sales, Fees and Charges Grant 2020/21**
Draw down of risk factor previously set aside in the outturn for 2020/21

h) £15,004k **Other Covid 19 Grants**
Assumed spend of all Covid related grants except in relation to Council Tax and NNDR

Dedicated Schools Grant (DSG) 2021/22

76. The 2021/22 budgeted high needs funding shortfall is £10.8 million, reducing to £9.7 million after a £1.1 million (0.5%) transfer of funding from the school block. Other DSG blocks have been set with balanced budgets with no surplus available to reduce the overall funding gap.

77. This budget is being monitored through the High Needs Block Deficit Recovery Board. The report to the Board in October reflecting the quarter two position indicated an overspend of £1.3 million, resulting in an annual funding gap for 2021/22 of £11 million. The most significant budget variance is the level of placements made in the independent and non-maintained special schools. The budget was set based on the target to reduce these placements but there is no indication yet that this can be achieved.

78. As always, the forecast is based on assumptions for future caseload and placements with now more confidence in data quality with additional resources in place in the services to improve record keeping and query resolution timescales.

79. The accumulated deficit is expected to increase from £7.8 million at 1 April 2021 to £18.6 million by the end of the year as shown in the table below:

Figure 4: Summary position for dedicated schools grant

Dedicated Schools Grant	£m
Accumulated deficit 1 April 2021	**7.8**
Budgeted high needs shortfall 2021/22	9.7
Projected in-year over spend on high needs	1.3
Projected in-year savings on other blocks	(0.2)
Projected accumulated deficit 31 March 2022	**18.6**

Capital budget monitoring

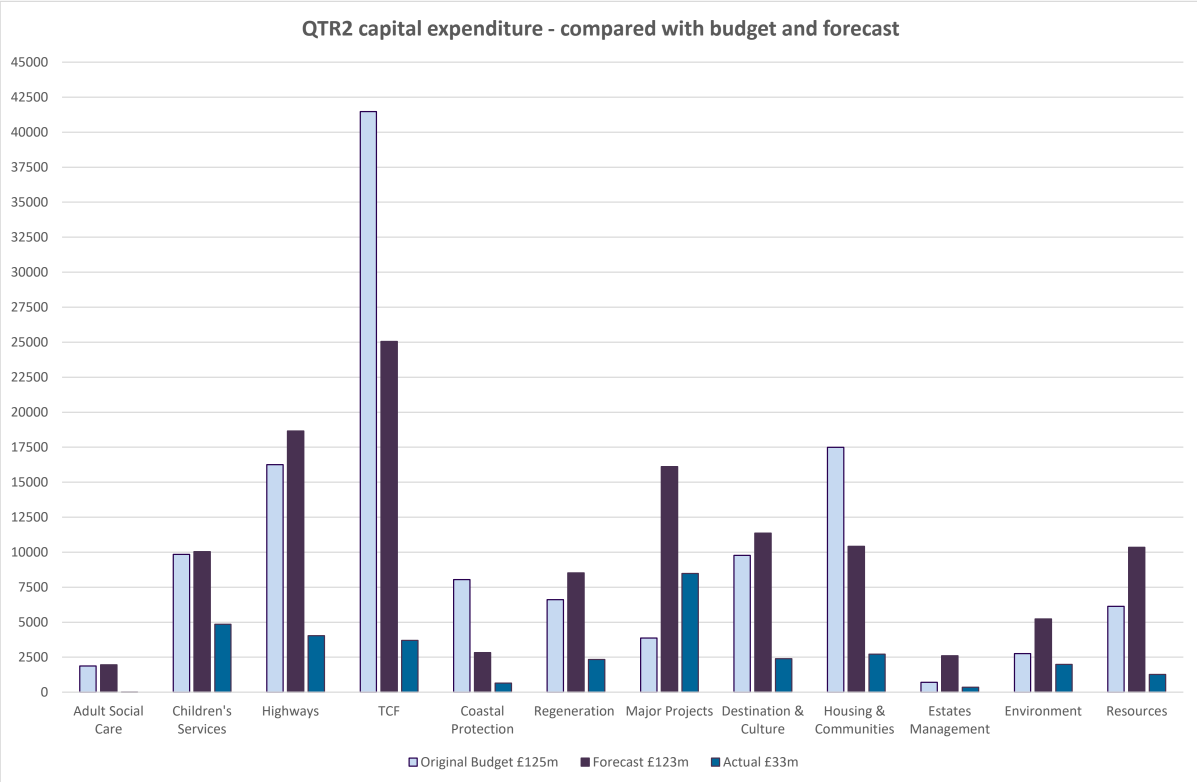
80. This section covers the council's budgeted capital investment programme (CIP) in respect of general fund capital expenditure only. Housing Revenue Account (HRA) related capital spend is reported separately within this report.

81. The original capital investment programme (CIP) budget approved by Council in February 2021 was £124.8 million. Amendments to the programme since include new approved schemes, increases to existing scheme budgets, reprofiling of approved capital budget to later years as well as the carry forward of unspent capital budget brought forward from 2020/21. These changes have resulted in a revised budgeted capital programme as at end of September of £123.1 million.

82. The capital programme excludes the £50 million from the Futures Infrastructure Fund and £10 million SEND infrastructure loans until such time as specific capital projects to utilise this funding are approved and included within the CIP.

83. Figure 5 below reflects first half year spend against the latest full year forecast and original budget.

Figure 5: Capital Budget Monitoring as at 30 September 2021



84. At £32.8 million, actual capital expenditure to date at end of September is 27% of the full year forecast of £123.1 million. Covid-19 and Brexit continue to have significant impact on market conditions. This includes increases in raw materials prices, construction cost increases, and labour and material supply chain issues. This has impacted on delivery of the capital programme in various ways. There have been increases in tendered prices compared with original estimates across capital projects, reduced capacity to undertake works to planned timeline because of labour shortages and in some cases fewer than expected responses for tendered works. Some cost increases can be absorbed within risk / contingency allowance within approved capital budgets. Other price variations will require capital budget increases –to be funded from either BCP funds (for example S.106 / community infrastructure levy (CIL), external grant or additional prudential borrowing.

85. Project managers will, as with every year, be encouraged to review scheme progress on an ongoing basis throughout the year and advise where there are significant revisions. Based on this information reprofiling will continue to be undertaken where necessary to reflect these changes within the CIP.

Financial risks in the capital investment programme (CIP)

86. Salix Funding – grant £2.5 million

The CIP includes £2.5 million of Salix government grant funded capital works that are required to complete within a specified timeframe. The council is working with Salix to extend original planned programme timeline to 31 March 2022 at the earliest. Failure to deliver within the agreed revised timeframes would require the council to underwrite the costs of any expenditure incurred after the agreed deadline. The potential risk exposure to the council is estimated to be £0.6 million. However, Salix have indicated that they would accept committed spend to be set off against the grant funding. Other risk mitigation options being explored include the potential to swap prudential borrowing on other energy improvement capital schemes for Salix funding, provided the alternative schemes meet Salix funding eligibility requirements. Legal Services are also providing support around the interpretation of grant conditions as stipulated in the Salix agreement letters, and the position is being kept under review.

87. Transforming Cities Fund £11.5 million

The Council was awarded TCF grant to deliver a strategic programme of highway improvements to better facilitate sustainable means of travel across the conurbation. The TCF grant was awarded on the assumption that £11.5 million of third-party contributions from bus companies would form part of the local contribution requirement. This consisted of bus operator investment in new vehicles, engine upgrades and investments in new routes. Discussions are ongoing with bus operators to confirm the ongoing availability of this funding. The council is reviewing what additional local contributions could be attributable to the TCF Programme to mitigate the potential impact. This issue has already been raised with the DfT. At this stage there is no indication from the DfT that this would impact on the overall TCF grant award.

88. Princess Road £0.5 million

The CIP includes development of private rented sector housing and hostel accommodation within the general fund. The capital budget benefits from £0.5 million of Homes England grant funding, provided the key milestone of completing foundations (piling) works to blocks C and D by 31 March 2022 is achieved. Whilst the tender process for build works has now completed, and preferred bidder selected, the timescale to achieve this milestone remains very tight.

89. Fleet Replacement

In September 2021 council approved the 3 year fleet replacement plan (FRP). Post Covid market conditions have resulted in significant additional lead-in times for new vehicle orders, which has meant that the majority of vehicles originally planned to be replaced in 2021/22 are not likely to be received until 2022/23. The profile of planned capital spend for 2021/22 and resulting annual borrowing repayments has been adjusted within the MTFP accordingly. There is also financial risk that further capital budget could be required to deliver the FRP in full. This is because trade discounts originally assumed within FRP vehicle replacement costs may not be available to the same extent in the current market. This position will continue to be monitored.

90. Inflationary Financial Pressures

Some schemes are expected to come under inflationary financial pressures, with ten projects having increases less than £0.5 million with a total value of £2.4 million and four projects expected to have larger increases. Of these, the increase for the Princess Road housing development project was approved by Council in November. Other projects, such as the Bistro redevelopment project, which is still at planning stage, are not yet certain enough to come forward for additional funding.

Capital investment programme – financing.

91. The CIP has been adjusted to incorporate capital refinancing adjustments approved by Council in September.

92. There has been a marked move towards greater use of prudential borrowing to fund capital spend. The council's projected capital financing requirement (CFR) for 31 March 2022 is £536.6 million. This includes allowance for all capital projects approved within the capital programme (including HRA), the £50 million Futures Infrastructure Fund and £10 million SEND infrastructure fund. Based on benchmarking with other local authorities, there is capacity to further increase the level of borrowing taken out (CFR) without becoming an outlier, provided borrowing remains affordable and annual borrowing repayments (principal and interest) can be repaid.

Capital budget virements and acceptance of capital grants 2021/22

93. In accordance with the council's financial regulations the following rules associated with capital virements and acceptance of grants apply (after advice from the Chief Finance Officer):

    - Acceptance of grants greater than £100,000 and up to £1 million require Cabinet approval
    - Virements over £1 million require prior Council approval.
    - Virements over £500,000 and up to £1 million require prior Cabinet approval.
    - Corporate Directors can approve virements over £100,000 up to £500,000.
    - Service Directors can approve virements up to £100,000.

94. The following capital virement to accept new grant requires **Council approval**, as it is above £1 million:

    Directorate: Operations

    Purpose: Accept further £1.6 million of Towns Fund (MHCLG) grant

    MHCLG have awarded and paid over to the council a total sum of £2.7 million this year from the Towns Fund grant allocation. An amount of £1.1 million of this was accepted by Council in November. This funding will be used to help develop businesses cases for each of the proposed Towns Fund schemes within the programme and to fund project delivery. Additional Towns Fund capital grant could be secured pending MHCLG approval of the individual scheme business cases.

Housing revenue account (HRA) monitoring

95. The HRA is a separate account within the council that ring-fences the income and expenditure associated with the council's housing stock. The HRA does not therefore directly impact on the council's wider general fund budget.

96. Within the HRA the council operates two separate neighbourhood accounts. The Bournemouth account comprises 5,100 tenanted properties and is directly managed in-house by the council. The Poole account comprises 4,517 tenanted properties and is managed by Poole Housing Partnership (PHP). PHP operate as an arm's length management organisation (ALMO) in line with a management agreement with the council.

97. Appendix C1 provides the detail of revenue budget monitoring across both neighbourhood accounts and Appendix C2 provides the same for capital budget monitoring across both neighbourhood accounts.

Bournemouth and Poole Neighbourhoods - Revenue account

98. Budgeted income from rents (dwelling rents and non-dwelling rents) across both neighbourhoods is broadly in line with budget. Bournemouth neighbourhood forecasts additional £0.2 million recharges of housing development team staff costs to the HRA capital programme. This reflects growth in the team and appropriate recognition of resources required to deliver capital schemes. There is no significant variance to budget in either HRA neighbourhood on other income. Repairs and maintenance spend in the Bournemouth neighbourhood HRA is forecast to be £0.2 million under budget. This arises from vacant posts within the grounds maintenance service. Forecast supervision and management staff costs for the Bournemouth neighbourhood are also forecast to be £0.5 million under budget this financial year. Poole neighbourhood HRA will now also incur an additional £0.2 million (to budget) interest cost on PWLB loans, as part of a Public Works Loans Board (PWLB) loan swap between the general fund and HRA.

99. The overall impact of quarter two revenue budget variances is that the combined forecast annual contribution to new build capital programmes of £6.0 million (£5.5 million budgeted). This consists specifically of £2.7 million contribution from the Bournemouth neighbourhood and £3.3 million from the Poole neighbourhood.

Bournemouth and Poole Neighbourhoods - Capital programme

100. Work on major capital projects across both neighbourhoods continues – including Sterte Court and Project Admiral in the Poole neighbourhood, and Moorside Road, Luckham Road / Charminster Way and Ibbertson Way in the Bournemouth neighbourhood. Both neighbourhood capital programmes have required (and are likely to require further) approval of additional capital budget to deliver approved schemes. This is a result of inflationary pressures on materials and labour – the impact of Covid / Brexit on the market. Longer lead in times for goods, materials and services have also had an impact on timelines for capital project delivery, with significant capital spend not now expected until the second half of the year, (for example, Moorside Road, Luckham Road in the Bournemouth neighbourhood) and further capital spend now reprofiled into 2022/23 (for example, Craven Court and Herbert Avenue).

101. In quarter one there was reduced property access arising from Covid related restrictions, and this impacted delivery of the kitchen and bathroom replacement

programmes across both neighbourhoods. The position was significantly improved over quarter two with the backlog of works reduced.

102. As a result of Covid, as with the general fund, the HRA capital programmes for each neighbourhood have evolved significantly since originally approved by Council in February 2021.

Financial risks in the HRA capital programme

103. The Wilkinson Drive capital budget within the Bournemouth neighbourhood was approved by council on the basis that 13 new housing units would be developed. As a result of design revisions required as part of the planning application process (permission obtained September 2021), the number of new units to be developed has reduced from 13 to 11. The capital budget, however, is maintained at original approved levels. This is a reflection of inflationary market pressures, which have resulted in the build cost per m2 increasing from £2,441/m2 to £2,712/m2. The revised build price has been verified by the council's employers agent as market comparable. In addition, the funding profile of approved capital budget has been modified to increase the level of RTB and reduce the level of prudential borrowing allocated to the scheme.

104. There is potential delay to one other capital scheme within the Bournemouth neighbourhood starting on site this financial year due to a potential leasehold access issue. This position will continue to be monitored over the next quarter.

Scenarios

105. Services consider previous and current year trends in estimating budget requirements over the remainder of the financial year with the most likely scenario taken forward in year-end financial projections.

Summary of financial implications

106. This is a financial report with budget implications a key feature of the above paragraphs.

Summary of legal implications

107. The recommendation in this report are to ensure the council remains financially viable over 2021/22 with an improved prospect of balancing future year budgets.

Summary of human resources implications

108. There are no human resources implications from the recommendations in this report other than additional staffing related to grant funding within ASC.

Summary of sustainability impact

109. There are no sustainability impacts from the recommendations in this report.

Summary of public health implications

110. The council is seeking to maintain appropriate services for the vulnerable as well as improve the sustainability of services important for the wellbeing of all residents.

111. The proposed allocation from the contain outbreak management fund earmarked reserve will continue support for the well-being of our residents during the on-going pandemic.

Summary of equality implications

112. Budget holders are managing their budgets with due regard to equalities issues.

Summary of risk assessment

113. There remains significant uncertainty in the length and depth of impact from the Covid-19 pandemic over the autumn and winter of 2021/22 and this may impact on the year end projections in this report.

114. Budget recovery meetings are taking place to review the financial position of children's services, but it is unlikely that expenditure can be reduced to the extent needed to balance the budget in the current year with on-going pressures expected over the medium term. There is no evidence yet that demand for the service or costs of provision are reducing. Significant concerns remain therefore for the in-year financial position and the future sustainability of the council.

Background papers

Cabinet papers:

February 2021 – papers for budget 2021/22

http://ced-pri-cms-02.ced.local/ieListDocuments.aspx?CId=285&MId=4260&Ver=4&LO=1

29 September 2021 – 2021/22 quarter one budget monitoring report

http://ced-pri-cms-02.ced.local/ieListDocuments.aspx?CId=285&MId=4836&Ver=4&LO=1

Appendices

Appendix A1	Projected variances greater than £100,000 for 2021/22
Appendix A2	Revenue summary position 2021/22
Appendix A3	Adult Social Care proposed allocation from the 2020/21 COMF
Appendix A4	Public Health Contingency Allocations from the 2021/22 COMF
Appendix B	Schedule of forecast movement in reserves for 2021/22
Appendix C1	Summary of HRA revenue budget monitoring for 2021/22
Appendix C2	Summary of HRA capital budget monitoring 2021/22