Report subject	**2022/23 Budget Monitoring at Quarter Three**
Meeting date	Cabinet 8 February 2023
Status	Public Report
Executive summary	This report provides 2022/23 budget monitoring information for quarter 3 for the general fund, capital programme and housing revenue account (HRA). The general fund outturn is projected with a £10.1m surplus for the current financial year.
Recommendations	**It is RECOMMENDED that Cabinet:** **1. Recognise the continued improvement to the 2022/23 in-year position with a £10.1m surplus now projected.** **2. Recommend to Council acceptance of the £18m levelling up grant as set out in paragraph 69**

Background

1. In February 2022 Council agreed the annual general fund net revenue budget of £272m, a capital programme of £154m and the net use of earmarked reserves to support services of £34.7m. Budgets were also agreed for the housing revenue account (HRA).
2. The December 2022/23 Budget Monitoring and Financial Strategy Update report to Cabinet included a projected general fund revenue surplus for the year of £9m.

Revenue budget monitoring at quarter three 2022/23

3. The latest projection for the 2022/23 revenue budget outturn is a surplus of £10.1m overall. There is a small overspend within services of £0.3m offset by a central budget surplus of £10.4m.
4. This further improvement demonstrates the effectiveness of the expenditure controls implemented by Cabinet in September when the cost-of-living impact of rising energy prices and general inflation became clear.
5. The table below is a summary of the revenue outturn position as projected at the end of December 2022.

Figure 1: General Fund – Summary projected outturn for 31 March 2023

Directorate	Revenue	Working Budget	Forecast Outturn	Forecast Variance
Adult Social Care	Expenditure	155,939	157,124	1,185
	Income	(49,820)	(53,484)	(3,664)
Adult Social Care Total		**106,119**	**103,640**	**(2,479)**
Children's Services (excl. DSG)	Expenditure	87,769	93,514	5,745
	Income	(14,086)	(14,160)	(74)
Children's Services Total		**73,683**	**79,355**	**5,672**
Commissioning Centre of Excellence	Expenditure	35,190	36,146	956
	Income	(23,401)	(24,313)	(912)
Commissioning Total		**11,789**	**11,833**	**44**
Operations	Expenditure	166,664	164,424	(2,240)
	Income	(110,211)	(114,533)	(4,322)
Operations Total		**56,453**	**49,891**	**(6,561)**
Resources & Chief Executive Office	Expenditure	178,492	178,045	(447)
	Income	(115,283)	(115,284)	(0)
Resources & Chief Exe Office Total		**63,209**	**62,761**	**(447)**
Net Cost of Services		**311,252**	**307,480**	**(3,772)**
Transformation (including target savings)	Expenditure	16,744	19,244	2,500
	Income Total	(23,590)	(21,995)	1,595
Transformation Total		**(6,846)**	**(2,751)**	**4,095**
Net Position		**304,406**	**304,729**	**323**
Beach Huts Securitisation of Income Stream		3,700	0	(3,700)
Interest on cash investments		(45)	(1,975)	(1,930)
BDC Winter Gardens Provisions Reduction		0	(1,000)	(1,000)
Other Corporate Items		(308,062)	(311,879)	(3,817)
Total Budget		**(0)**	**(10,124)**	**(10,124)**

6. The detail of projected variances is included in Appendix 5a. A general fund summary forecast outturn is included in Appendix 5b.

Summary of 2022/23 projected outturn by directorate

7. The following paragraphs summarise the projected 2022/23 budget position for each directorate.

Adult Social Care - net underspend £2.5 million (2%)

8. The net underspend is due to council-wide restrictions on expenditure including extended periods for vacancies and release of earmarked reserves to mitigate the financial gap in the Medium-Term Financial Plan for the period 2023-2027. There has also been a catch up on the backlog for client charges.

9. Care cost pressures have grown by further £0.5m associated with the rising cost of care home fees and domiciliary care packages to support patients leaving hospital, bringing the projected annual overspend to £10m for people with long term conditions. This is after the use of the Adult Social Care Discharge grant as a contribution towards the home care overspend during the winter months. More people are being placed in residential care because of supply shortage in the home care market.

10. Difficulties in recruitment in the home care market has reduced the ability to source appropriate care for people with learning disabilities and mental health. There are also challenges in sourcing suitable housing and delays in mental health hospital discharges there is an estimated underspend in year of £3.7m.

11. Whilst this underspend will mitigate in part the projected overspend in the long-term conditions budget this financial year, it is happening due to current supply shortage and cannot be assumed as a future budget saving.

12. Further mitigating factors to offset the cost of care pressure include additional income from the NHS for continuing health care (CHC) due to catching up with the CHC assessments that were suspended during the pandemic and additional contributions for Section 117 mental health after care of £3m.

13. The Council is making use of £2.8m NHS funding transferred under Section 256 agreements to support the additional costs arising from the hospital flow approach which is to discharge those who no longer need to occupy beds as timely and safely as possible.

14. Other mitigating factors include additional client contributions of £1.6m including some backlog charges and realignment after the pandemic.

15. A one off transfer to earmarked reserve of £0.1 is planned for additional resources to tackle recovery of historic debt during 2023/24.

16. There is reasonable confidence that the savings projected at this stage will be achieved. There are, however, also risks associated with the continuing increase cost of residential care homes, inflationary pressures and demand for care which increase the scale and volatility of adult social care budgets.

Commissioning

17. The commissioning budget is broadly balanced. Anticipated energy and inflationary costs incurred by the Local Authority Trading Company (Tricuro) of £0.2m are expected to be managed by the company.

18. The shortfall in the receipt of client contributions from the block booked care home placements is reducing and mitigated with savings due to staff vacancies, other miscellaneous savings, and due to the factors described in the paragraphs above.

19. The Council has pooled the Adult Social Care Discharge Fund with Health and using the £4.7m allocation for the BCP area to enable more people to be

discharged to an appropriate setting with adequate and timely social care support, prioritise those approaches that are most effective in freeing up hospital beds and boost general adult social care workforce capacity through recruitment and retention.

Children's Services - net overspend £5.7 million (8%)

20. The projected net overspend for children's services is £5.7m an increase of £0.9m compared with the position reported in November.
21. The projected position includes the recharge to the transformation programme of £1.5m of unbudgeted expenditure incurred to improve the service without there being an expectation of making future budget savings. The forecast currently assumes this element will be covered by a successful capitalisation direction. Should the council move completely towards an approach of funding the 2022/23 transformation investment programme via the flexible use of capital receipts (FUCR) then it is likely that this £1.5m recharge will need to be reversed as the legislation does not allow improvement expenditure to be funded by this mechanism.
22. Pressures previously reported continue for special educational needs and disabilities (SEND) transport of £1.3m due to fee increases, with an anticipated saving of £0.3m in mainstream transport.
23. Staffing pressures have reduced slightly due to vacancy drag but there has been an increase of £0.2m from the continued use in the final quarter of the purchased team of social workers due to an extension of the contract until February.
24. Cost of care placements has continued to increase during quarter three with an increased pressure of £0.8m, the majority due to a net increase of residential placements. Other previously reported and unchanged pressures include £0.2m of lost savings from an unsuccessful bid to government for a new children's home
25. The service is still expecting pressures from the unaccompanied asylum-seeking children (UASC) cohort as the grant income received does not cover the cost of care provided. There is concern this may increase further as more individuals are being placed in the BCP conurbation.

Operations – net underspend £6.6 million (12%)

26. Overall, operations budgets are projecting an underspend, £1.0m higher than last reported. The main pressures relate to the rising cost of living, such as the significant growth in utilities costs of £3.5m plus higher fuel costs. Mitigation plans have been developed to address these. Income generating activities, such as carparking benefitted from good weather over the first and second quarter and seasonal income continued this trend despite poorer weather in December. However, there is some risk in the projections for increased parking charges at the beach and whether the associated additional income of £0.4m will be achieved. Other positive income movements are in the green waste service and further charging of staff time to the capital programme.

Communities

27. Within the Communities directorate there are no individual new material pressures. Fees and charges not governed by statutory provisions have been reviewed and increases will be applied to reflect rising costs in line with corporate guidance.

Environment

28. Environment is seeing a strong budget performance with a positive position over the year on recycling costs per tonne generating a forecast £2.5m saving. However, more recent data indicates rising costs per tonne, with the position being monitored carefully.

29. Identified earlier this year is the additional income from the green waste service of £0.3m due to a combination of recognising the level achieved as part of the 2021/22 outturn alongside the current year price adjustment. In the last quarter this has increased to £0.4m forecast saving.

30. In the bereavement service, cremations income pressures have increased by £0.3m to £0.7m due to the drop in cremation numbers of 800 compared to last financial year. This is due to competition within the BCP area. The impact of high-cost inquests on the coroner's service is unchanged at £0.1m.

31. Fuel prices remain volatile, and the service are working to mitigate this, including consideration of notice to stop all non-essential travel.

Transport and Engineering

32. The latest forecast includes net additional income for car parks of £1.4m an increase of £0.1m since the last report. The pressures on the cost of providing the service, identified in June, are reducing due to the ongoing mitigation work and service harmonisation. These pressures currently stand at £0.6m.

33. Concessionary fares savings of £0.8m are projected due to payments to bus operators now being reflective of actual journeys undertaken rather than based on pre-covid levels of funding that previously the Department for Transport (DfT) had expected to be continued for service sustainability. This budget saving is considered on-going and has been reflected in the MTFP for 2023/24.

34. Street lighting electricity pressures continue and cost mitigations of £0.4m have been undertaken with this work ongoing.

Destination and Culture

35. Whilst seafront services forecast performance to September exceeded expectations due to favourable conditions, the third quarter to December has experienced poor weather resulting in lower trading income. Risk remains in delivering the income target for the remainder of the year but a forecast surplus of £0.1m is anticipated for the year overall.

36. The management fee income shortfall for BH Live has reduced by £0.1m with also a one-off activity adjustment for last year increasing projected revenue. BH Live were reported as trading well last time and this has continued with the budget income now close to being achieved although the full impact of the rising cost of living may not yet be reflected in leisure centre activity.

Planning

37. The planning service is now forecasting a deficit of £0.4m from its balanced budget position last quarter. There are significant pressures within the service, due to additional costs of agency staff. This is continuing to be addressed through a plan to transition away from reliance on agency staff throughout the remainder of this financial year through the forthcoming directorate restructure, and by drawdown of reserves earmarked for the service.

Housing

38. It is still anticipated that the in-year homelessness prevention grant allocation of £2.0m will be fully utilised. This grant is ring-fenced with £5.1m in earmarked reserves from previous year allocations, which is planned to be fully spent by the end of 2024/25 by continuing activities to reduce homelessness. The income shortfall from the acquisition strategy has reduced to £0.1m.
39. The forecast telecare income of £1.4m is still on target to be achieved. This income is from equipment rental charges to associations and new equipment installations. Staff vacancies within the operations centre continue to be filled. A forecast net pressure of £0.25m is presented to reflect a budget realignment identified at outturn.
40. The construction works team (CWT) is on track to meet budgeted surplus of £0.3m. Major projects CWT is delivering this year include housing schemes on behalf of the HRA at Wilkinson Drive and Northbourne, skills & learning service relocation to the Dolphin Centre, Poole Library, Durley Innovation Hub, and the phase 2 refurbishment of the BCP civic centre.
41. Net rental income from Seascape Homes & Properties Limited is on track to achieve budgeted income of £1.3m.
42. Garages and photovoltaic net surplus budget of £2.2m is also on course to be achieved. Cost pressures in relation to the cost of scaffolding for measurers to defer pigeons from settling are expected to be managed from within existing budget allocations.
43. The costs of administering Ukraine, Syrian and Afghan resettlement schemes are expected to be fully funded from in-year government grant allocations.
44. At £0.2m, utilities pressure from increasing gas and electricity prices is consistent with that forecast earlier in the year.
45. Housing services has identified £0.7m of mitigations for cost pressures as previously reported and these remain on course to be delivered. The service is forecasting a broadly balanced budget position for the year overall.

Resources & Chief Executive Office - net underspend £0.4m (<1%)

46. The main pressures continue to be for utility costs and contract payments for IT systems and the library PFI.
47. Customer Services employee costs are forecast to underspend by £0.6m against the additional £1.5m one-off agreed allocation for service improvement. Business Support costs are also forecast to underspend by £0.4m due to unfilled vacancies.
48. Facilities Management: The cost-of-living exercise estimated £0.4m utilities pressure from rising prices. Staff parking income from 1 August 2022 will be used to offset some unbudgeted operational costs of Poole Civic Centre. Repairs and maintenance spend across the civic estate are forecast to overspend by £0.2m, all funded from earmarked reserve. To date the council has incurred £0.1m of works that are expected to be reimbursed from third party insurance claims, and £0.2m of building surveyors and client project managers salaries are expected to be capitalised during the year.

49. Finance: Savings on employee costs from Health & Safety have been realised of £0.2m. The £0.1m pressure on bank charges is due to the continuing management of three bank accounts and the additional cost of BCP's share of Stour Valley and Poole Partnership is expected to be £0.1m.
50. ICT: No change is proposed to the cost-of-living pressure of £0.2m for software contract inflation, the majority of which is within ICT services. The service also retains historic base budget revenue allocation of £0.2m for ICT replacement. This budget has not yet been fully utilised.
51. Law & Governance: Additional income from registrars was projected to offset the related additional salary costs approved in June, however the additional income has not materialised, resulting in an employee cost pressure of £0.1m and an income pressure of just under £0.1m. Legal Services has seen staff vacancies throughout the year which has resulted in the employment of additional temporary staff. The budget for local elections is expected to be underspent by £0.2m. This is no longer required to top up the earmarked reserve as there is a separate corporately held budget for this purpose.
52. Human Resources employee costs are forecast to underspend by £0.1m due to vacancies and staff engaged in the transformation work.
53. Major projects team: This team manages delivery of both capital and revenue projects and is funded from a combination of capital resource, revenue budget, external grants, and the transformation programme. There is currently an unfunded salary related pressure of £0.1m for 2022/23 with the potential for this to increase to £0.4 million in 2023/24 and then reducing to £0.3 million in 2024/25 with the current allocation of budget from the transformation programme.
54. Local Land Charges income has seen a significant reduction post October 2022. It is likely this is mainly due to the significant increase in mortgage rates. The fall was slightly delayed from the September mini budget due to the mortgage offers already issued but we are hopeful it will start to rise now there is more activity in the housing market and the mortgage rates are starting to fall again.

Transformation

55. Transformation savings of £8.7m have been built into the budget for 2022/23. Consistent with quarter two £1.5m of savings have not yet been identified for delivery. Quarter three now includes an identified underspend of £1m on the additional licenses and other revenue costs associated with the programme revenue budget which includes the Microsoft licence fees associated with the new ERP system.
56. The savings identified include £0.8m saving from business support staff. Further work continues in respect of third party spend savings.
57. The estimate of base budget staff costs able to be transferred to the transformation programme has been reduced by £3.5m from the £6.7m budgeted. Further work is ongoing to confirm the final figure for 2022/23. This follows a review of the available evidence to support the recharge for specific workstreams. It also reflects, staff vacancies reducing support service costs and that some backfill arrangements which have been necessary to support business as usual activity.

Central Items - net surplus £10.4m

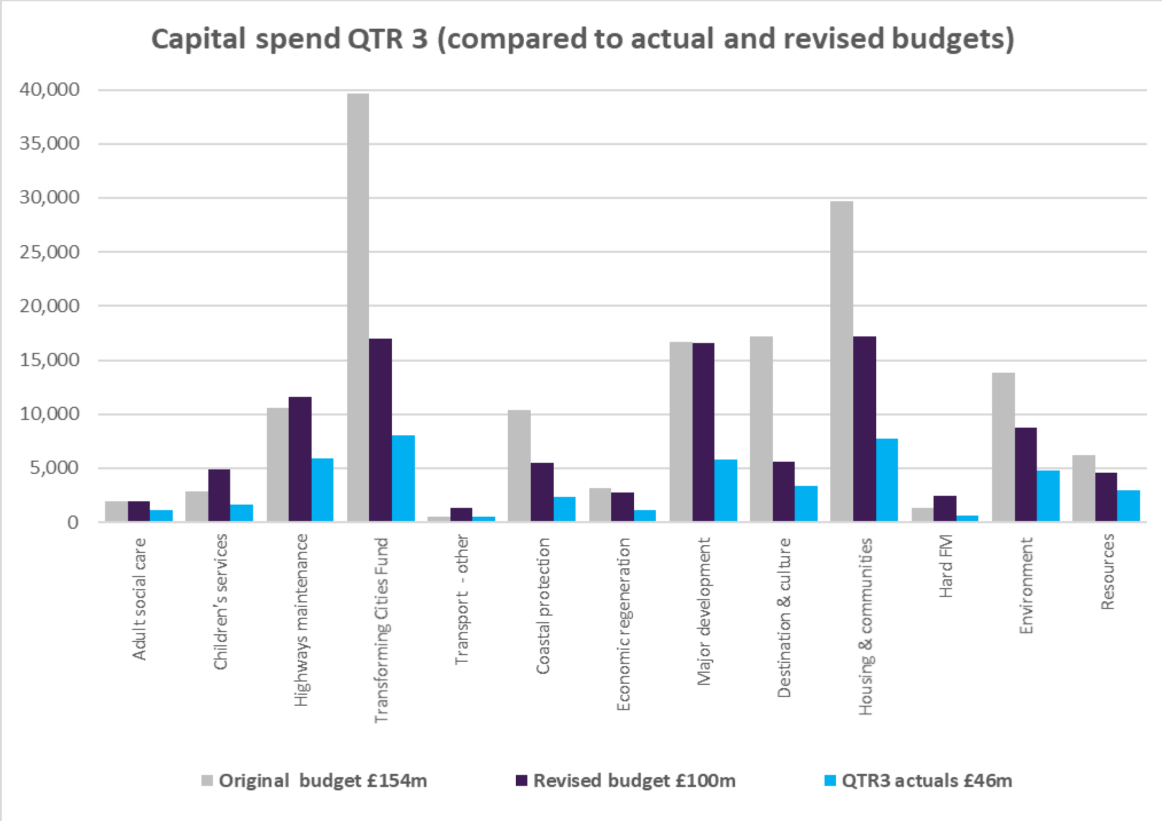
58. In setting the 2022/23 budget 3.1% was set aside for assumed pay award inflation. This was insufficient to cover the final position agreed with the trade unions by the National Employers for local government services which was a flat rate increase of £1,925 on every spinal column point plus an additional day's annual leave, which calculates as an average 5.4% for our staffing mix. The forecast takes account of the fact that the pay award is likely to add an extra £4.1m to the cost base of the council over and above the £5.5m allowed for as part of the original 2022/23 budget. Work on the impact of the extra days leave is ongoing and will need to be factored into future budget monitoring updates.
59. The council in 2021/22 recognised £5m of potential losses attributable to Bournemouth Development Company LLP ("BDC"), a BCP joint venture company. The council is making a provision for their shareholding as a result of on-going viability demands relating to the Winter Gardens project. Since making this provision the West Cliff Mansions (Durley Road) development has been successfully delivered. Profit from this scheme will be retained by BDC and offset the need for the full provision set aside in 2021/22. The benefit to the Council is circa £1m.
60. Release of the £2.2m base budget revenue contingency for 2022/23. This approach will mean there are no resources set aside for any variations that might occur in the remaining three months of the financial year.
61. Release of the £3.7m assumed revenue budget impact of the proposal to securitise the beach hut income stream included as part of the 2022/23 original budget. This net reduction includes foregone income, loan repayments and guarantee fees.
62. Treasury management and property investment income is forecasted to deliver £1.9m over budget. This is reflective of increasing interest rates as well as cash balances than previously forecasted.

Capital budget monitoring at December 2022

63. This report 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.
64. The capital investment programme includes only approved capital schemes that are supported by robust business cases. It does not include pipeline projects that are awaiting business case development and subsequent approval. It also excludes capital funding that, whilst approved, has not yet been allocated to capital projects.
65. In February 2022 Council approved a general fund capital investment programme budget of £154.1m for 2022/23. This budget has since evolved, to include new schemes, inclusion of slippage for 2021/22 and the effect of reprofiling carrying expenditure forward into future years. These have all received appropriate approval in line with BCP financial regulations. The revised capital programme for 2022/23 now stands at £100m. The chart below reflects quarter three spend against this revised programme.
66. As at 31 December 2022, around £46m of the revised full year capital budget of £100m has been spent. This is around 46% of the full year capital budget, which is broadly in line with previous years.

67. Figure 6 below summarises capital spend by directorate.

Figure 6: Capital Budget Monitoring at 31 December 2022



Capital budget virements and acceptance of capital grants

68. 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.

69. The following capital virements to accept new grants require the approval of **Council:**

Directorate: Operations

Acceptance of Levelling up Grant - £18.16m

The council has been successful in a bid to the government's Levelling Up Fund (Round 2), securing £18.16 million in grant funding to support the "BCP Coastal Communities Infrastructure".

Housing revenue account (HRA) monitoring

70. 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.
71. Within the HRA the council operates 9,575 tenanted properties. The management agreement with PHP was terminated on 30 June 2022 and all properties are now managed in-house by the council.
72. Appendix 5c and Appendix 5d provides the detail of both revenue and capital budget monitoring for BCP respectively.

Revenue account

73. Rental income: Total dwelling and non-dwelling rental income of £45.3m was budgeted for the year. This is on course to be achieved, with £34.3m billed up to the end of December. The full year forecast for rental income is in line with budget.
74. Repairs & Maintenance costs: The full year forecast for repair costs is £0.8m greater than the £10.0m budget. This is primarily due to the inflationary cost pressures being experienced in this area. For example, the schedule of rates for Poole neighbourhood response repairs was increased by 9.8% at the start of August in accordance with the contract, which references increases to the prevailing rate of CPI inflation. The full-year forecast is considered reasonably cautious. It represents a considerable increase to prior year actual spend, but at the same time represent current market conditions and pressures.
75. Supervision & Management costs: The full year forecast is £0.5m less than budget of £13.5m. Supervision and management costs include utilities spend, which is forecast to be £0.3m greater than budgeted due to the well documented increases in gas and electricity prices. However, the utilities cost pressure is more than offset by the saving arising from no longer incurring PHP senior management costs (£0.3m) and other forecast underspends across both neighbourhoods.
76. Overall, a net surplus of £5.9m (budget £6.0m) is forecast to be transferred into ringfenced HRA reserves to support the HRA's ongoing capital housing stock investment and maintenance needs.
77. Work has commenced to establish consistent accounting policies across the two neighbourhoods. The council recently appointed a single firm of chartered surveyors to conduct the year-end housing stock valuation of both neighbourhoods, ensuring there will be a consistent valuation approach at the 2022/23 year-end. Depreciation policy will be harmonised when the existing

spreadsheet based fixed asset registers are moved into the new finance system (Dynamics 365) which is planned to go live on 1 April 2023.

Capital programme

78. In February 2022 Council approved an HRA capital programme budget of £63.1m for 2022/23. This includes £48.1m investment in major projects, including those delivered as part of the Council Newbuild Housing & Acquisitions Strategy (CNHAS)) and £15m in planned maintenance. Unspent approved capital budget on major projects of £7.8m was brought forward from the prior year and added to current year capital budget allocation.
79. Of this, £12.6m has been spent in the first nine months of the year on HRA major projects, including Cynthia House, Herbert Avenue, Project Admiral, Moorside Road, Northbourne Day Centre and Princess Road. A further £8.8m has been spent on planned maintenance (principally windows, bathroom and kitchen refurbishments and disabled adaptations). In total 64% of the HRA capital budget has been utilised in the first nine months of the year.
80. The same key financial risks apply to the HRA capital programme as the general fund capital programme. These centre broadly around the ongoing increase in capital budgets from price / cost escalation and reduced availability of new capital funding. In previous years new capital projects could potentially have been part funded from HRA capital reserves or unapplied right-to-buy receipts. The availability of these receipts is reducing as historic unallocated funds are allocated to capital schemes within the HRA capital programme.
81. Moorside Road: Handover of the properties took place in December and new tenants moved in before Christmas.
82. Craven Court: Contractors now in possession of the site. Demolition works due to commence in February 23.
83. Northbourne Day Centre: The project is close to completion, with handover of the properties due on 19th February.
84. Princess Rd: The project is currently on hold while BCP considers options as tender prices quoted are over budget.
85. Hillbourne development: The original 2022/23 budget of £6.7m for this site assumed that construction work would commence in the current year. The start of construction work is now not expected until 23/24, and therefore the budget has been re-phased.
86. Cynthia House (Alice Gardens): This project is close to completion, with handover of the completed properties due in February and March this year.

Appendices

Appendix 5a Projected variances greater than £100,000 for 2022/23

Appendix 5b General fund summary forecast 2022/23

Appendix 5c Summary of HRA revenue budget monitoring for 2022/23

Appendix 5d Summary of HRA capital budget monitoring for 2022/23