

CABINET



Report subject	Budget Monitoring 2023-24 at Quarter Two
Meeting date	22 November 2023
Status	Public Report
Executive summary	<p>This report provides the quarter two 2023/24 projected financial outturn information for the general fund and housing revenue account (HRA).</p> <p>The February 2023 approved general fund budget for 2023/24 was balanced on the assumption of a £30m drawdown in reserves and the delivery of £34m in savings, efficiencies, and additional resources including £9m in respect of transformation which were un-itemised.</p> <p>Based on the current projections the Council is forecasting it will instead need to draw down £34.3m from unearmarked reserves (a further £4.3m) to balance the 2023/24 budget.</p> <p>The orderly closure of BCP FuturePlaces Ltd could either reduce the drawdown of reserves by up £2.2m or increase the drawdown by a further £1.2m based on the report to Cabinet in September 2023. An estimate of the outcome should be available by January.</p> <p>Mitigations are being progressed by directorates, including a spending and recruitment freeze where possible, but the risk remains that if these are unsuccessful then the council would be required to reduce its unearmarked reserves below the minimum threshold based on good practice.</p> <p>Delivering to budget remains critical as the medium-term financial plan makes no allowance for replenishing any unearmarked reserves used to balance 2023/24 and there are no earmarked reserves available to support any drawdown over the £30m assumed in the original budget.</p>
Recommendations	<p>It is RECOMMENDED that Cabinet:</p> <p>Note the budget monitoring position for quarter two 2023/24.</p>
Reason for recommendations	<p>To comply with accounting codes of practice and best practice which requires councils to regularly monitor the annual budget position and take any action to support the sustainability of the council's financial position.</p>

Portfolio Holder(s):	Cllr Mike Cox, Finance
Corporate Director	Ian O'Donnell, Corporate Director of Resources
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Wards	Council-wide
Classification	For Decision

Background

1. In February 2023 Council agreed the 2023/24 annual general fund net revenue budget of £309m, a capital programme of £180m and the net use of earmarked reserves to balance the budget and support services of £30m. This revenue budget also assumed the delivery of £34m of savings which included £9m in un-itemised transformation-based savings. Budgets were also agreed for the capital programme and housing revenue account (HRA).
2. The quarter one budget monitoring report indicated emerging net pressures in the Operations and Resources areas with mitigation strategies expected to be developed. Despite underlying cost and demand pressures Adults and Children's directorates presented balanced positions with only a small overspend in central budgets.
3. Non-delivery of transformation savings in full was already anticipated in the first quarter with service budgets reduced by £4m reflecting 2022/23 positive outturn variances that were established as on-going and not already reflected in the 2023/24 budget base. This action reduced the transformation savings target now to be identified to £6.7m and prevented unplanned savings being available in the current year to mitigate unbudgeted pressures.
4. The quarter two projections have been informed by the spending control and vacancy management processes implemented with the agreement of Cabinet from September 2023 to help the council manage service pressures and support the necessary reduction in the expenditure base of the authority to close the funding gap for 2024/25 in the current medium-term financial plan.

Quarter Two Revenue Outturn Projection 2023/24

5. The council is projecting a £4.3m overspend across all budget areas. Directorates that are projecting overspends are required to develop mitigation plans. These are described in the appendices to the report.
6. Table 1 below provides a summary of budget variances for each directorate:

Table 1 : Summary General Fund Projected Outturn at Quarter 2

Directorate	Working budget £000's	Forecast £000's	Under/ Overspend £000's
Wellbeing	131,838	129,613	(2,225)
Children's	86,205	88,259	2,053
Operations	63,508	67,688	4,180
Regeneration costs brought in-house	0	636	636
Resources	34,920	34,474	(446)
Corporate	(316,471)	(316,389)	81
	0	4,280	4,280

7. Wellbeing services include adult social care, housing and community, and strategic procurement. The pressure identified within housing and community in quarter one has been mitigated by greater recognition of grant supported activity. The increased demand for adult social care services is continuing to be supported through additional grants and funding from the NHS.
8. The Childrens directorate has identified new pressures over quarter two in safeguarding, early help, and corporate parenting with some offset from unfilled vacancies in education services. The mitigation activities to resolve the net £2.1m projected overspend are described in the Children's directorate section of Appendix A1.
9. The Operations directorate has made good progress in managing the pressures identified at quarter one. However, the poor summer weather has significantly reduced carparking income projections, and the restructure of the planning service has not yet taken place. Further mitigation plans for the projected £4.2m overspend are in progress as described by the Chief Operations Officer in Appendix A4.
10. The planned orderly closure of the council owned company, BCP FuturePlaces Ltd, in early 2024 has an estimated unbudgeted cost of £0.6m from bringing staff in-house from November 2023. Regeneration activity is to continue under new leadership by bringing together the activities previously undertaken by the company and the regeneration and housing delivery teams within the council. The closure of the company could provide either a net surplus of up to £2.23m or add a further pressure of up to £1.24m as set out in the September 2023 report to Cabinet.
11. The Resources directorate reported pressures at quarter one, with these mitigated in quarter two by keeping posts unfilled, reviewing the use of grants, and implementing expenditure controls with a £0.4m surplus now projected.
12. The net outturn projection for central budgets has changed little from quarter one. Expected prudential borrowing costs have reduced by £1.4m from the reprofiling of capital expenditure on the fleet. However, this positive variance has been offset by an increase in the high-level estimate for the additional costs of the pay award confirmed in early November with the trade unions. Work is progressing to finalise the impact.

13. Appendix A1 provides the detail and reasons for projected budget variances in each service area.
14. Appendix A2 provides a summary revenue outturn statement.

Savings Monitoring 2023/24

15. Delivery of budgeted savings is fundamental to a sustainable MTFP. The table below provides the progress on achieving the £34m of programmed savings with 69% shown as delivered by the end of the first half of the year. Some of the non-transformation savings shown as not yet delivered are expected to be implemented over the remainder of the year with it too early to establish the projected outturn position. The impact of savings not expected to be delivered during the year, including those for transformation, are included in the budget variances in Appendix A1.

Table 2 : Summary of progress in savings delivery 2023/24.

Directorate	Council Approved Savings 2023/24 £000s	Quarter Two Delivered 2023/24 £000s	Not yet delivered 2023/24 £000s
Wellbeing Directorate	(9,684)	(7,697)	1,987
Children's Services Directorate	(1,183)	(1,183)	0
Operations Directorate	(10,903)	(8,792)	2,111
Resources Directorate	(508)	(508)	0
Corporate Items	(3,021)	(3,021)	0
Transformation – not itemised	(9,044)	(2,373)	6,671
Total Savings	(34,343)	(23,574)	10,769

Note that the table above includes housing and community within Operations rather than reflecting the move to Wellbeing for consistency and as further reorganisation is taking place in quarter three.

16. Wellbeing savings not yet delivered include within adult social care for demand management, reassessment of care packages and greater use of technology, for example, and it will take time to implement changes and establish if successful. None of these savings are yet considered to be undeliverable.
17. Operations savings are many and varied. The delivery of savings is still under review with service managers, but it has been established that £2.1m (due to festivals, waste disposal, highways maintenance, carparking and planning services) is likely to be unachievable with amounts included within the projected budget variances in Appendix A1.
18. The transformation savings not yet delivered of £6.7m are included as a pressure in the year end projected outturn variances within corporate budgets.
19. Appendix A3 provides a schedule of progress for revenue budget savings delivery at quarter two. Those not expected to be ultimately delivered are shaded red in the appendix.

Reserves Monitoring for 31 March 2024

20. Earmarked reserves have been set aside for specific purposes and these were reconsidered in quarter one to release funding to support the children's services business case to improve the service.
21. Figure 2 below summarises the projected movement in reserves during the current financial year.

Table 3: Summary of projected movements in reserves

	Balance 1 April 2023	Balance 31 March 2024	Movement
	£m	£m	£m
Un-earmarked reserves	17.9	14.8	(3.1)
Earmarked reserves	68.5	18.2	(50.3)
Total reserves	86.4	33.0	(53.4)

31 March 2024 Un-earmarked reserves were planned to be increased to £19.1m. The Quarter Two forecast as set out earlier in this report will require the application of £4.3m which reduces these reserves to £14.8m.

These reserves do not include revenue reserves earmarked for capital, school balances or the negative DSG reserve.

22. The main movements in earmarked reserves include drawing down:
- Financial resilience reserves to support the budget and MTFP £31.7m
 - Government grants £11.1m
 - Corporate priorities and improvement £3.7m
23. Appendix B provides a summary of earmarked reserves projected for 31 March 2024.

Dedicated Schools Grant (DSG)

24. The 2023/24 budgeted high needs funding shortfall due to the growing demand from pupils with high needs is £27.1m. The accumulated deficit was projected to increase to £62.9m.
25. The year end projection at quarter two is an overspend of £0.5m which increases the funding gap to £27.6m with an estimated cumulative deficit of £63.4m.

Table 4: Summary position for dedicated schools grant

Dedicated Schools Grant	£m
Accumulated deficit 1 April 2023	35.8
Budgeted high needs funding shortfall 2023/24	27.1
Overspend in 2023/24	0.5
Projected accumulated deficit 31 March 2024	63.4

26. At quarter one it had been expected that the in-year funding shortfall would be lower. This was due the delay in processing assessments for education, health, and care plans (EHCPs) and determining placements. This will have led to some children remaining in mainstream provision for longer than assumed in the budget.
27. However, the level of pupils permanently excluded from schools over the last academic year was unprecedented and one of the highest nationally. The council must make provision for those pupils of school age with costs charged to the high needs budget. The number of pupils needing alternative provision in September 2023 means the call on independent providers is greater than allowed in the budget. This trend for permanent exclusions appears to be ongoing in the new academic year.
28. Given the size of the projected growing deficit, the council is having discussions with the Department for Education (DfE) as part of the Safety Valve (SV) intervention programme. This programme is also supported by the Department for Levelling Up, Housing and Community (DLUHC). The first meeting took place on 6 October with a series of further meetings underway exploring the details of the council's current position and to find a way forward in developing an agreed deficit management plan. These early meetings have already established that an extended timescale (beyond five years) will be needed to eliminate the annual funding gap.
29. Final plans are to be provided to the DfE by 12 January 2024 and if an agreement is reached, the council will be held to account for the delivery of the plan and if adequate progress is being made, the DfE will provide funding towards the deficit.

Capital Programme

30. As part of the implementation of new financial system the council went live with a projects module to separately manage the Councils capital programme. Project Managers are now able to be actively involved in the creation and maintenance of their schemes on the system and have direct "live" access to monitor them.
31. Due to the enhanced sophistication that this system provides us, high level reporting from the new system has proven problematic and is taking longer than originally planned. Efforts are ongoing to conclude this by the next monitoring report for quarter three.

Housing Revenue Account (HRA)

32. 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.
33. The 2023/24 budget comprises total income of £51.5m for the year and a net surplus of £6.7m.
34. There are favourable income variances from rents and service charges of £0.9m due to the delivery of additional HRA properties via the development programme plus additional interest earned of £0.3m due to higher than budgeted interest rates. Staff costs for management and supervision are underspent by £0.4m due to vacancies. These positive variances are offset by additional spending of £1.5m on repairs and maintenance of properties in the Bournemouth area. This additional spending is across all three spend categories (responsive repairs,

planned repairs and on preparation of voids for reletting). Work is underway to ensure consistency of standards and accounting practices between the Poole and Bournemouth neighbourhoods with initial work focusing on the procurement model.

35. The projected net surplus is £6.7m as budgeted. This compares with the quarter one position of a projected surplus £0.5m higher. The reduction between quarters is due to the level of repairs and maintenance spend now projected.
36. The capital programme budget of £46.5m is forecast at quarter two with an annual spend of £31m, being 67% of the annual programme. This compares with 80% at quarter one. The shortfall is due to the rescheduling of new build projects and a low volume of acquisitions, the latter due to ongoing high borrowing costs making purchases financially unviable. The planned maintenance programme is currently forecast to be on track.
37. Appendix C provides a summary of HRA budget monitoring for both the revenue and capital account at quarter one.

Scenarios

38. The projected outturn is prepared based on estimates and assumptions, with the mostly likely outcome included in budget monitoring reports.

Summary of financial implications

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

Summary of legal implications

40. The recommendations in this report are to comply with the council's financial regulations with attention drawn to significant budget variances as part of good financial planning to ensure the council remains financially viable over the current year and into the future.

Summary of human resources implications

41. There are no direct human resources implications from the recommendations in this report.

Summary of sustainability impact

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

Summary of public health implications

43. 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.

Summary of equality implications

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

Summary of risk assessment

45. The projected outturn is prepared based on estimates and assumptions in consultation with services. There are key risks in the projections across all service areas.
46. Wellbeing directorate risks for adult social care services are associated with market conditions and the increasing cost of residential care home fees, capacity in the home care market and demand for care from both hospital discharges and the community over the remainder of the year. In housing and community services there could be further demand from the number of homeless people needing support.
47. In Children's services risks include a further rise in demand for children requiring care placements impacting on the general fund. There is also a significant risk that further EHCP growth and permanent exclusions from schools outside the current forecast could significantly increase the DSG deficit above current predications.
48. Operations projections include significant risks around forecast commercial income from car parks and leisure activities. There is an indication that the rising cost of living has impacted on income generation, but the impact may be greater than currently anticipated. There are also risks around the extent that costs can be charged to the capital programme and in support of the HRA.
49. The impact of the pay award announced in November is still being worked through with a high-level estimate indicating at least a further £1.4m should be added to the quarter one estimate bringing the total to £4.7m above that provided in the budget. This estimate could be higher depending on the number of staff earning above scale point 43 (those earning above £49,590), where an increase of 3.88% is to apply in place of the flat rate increase of £1,925.
50. There remains the risk that services will not be able to mitigate their net budget pressures with drawdown of unearmarked reserves being required. This would impact on the financial resilience of the council.
51. The yearend projection is dependent on the outcome of the orderly closure of FuturePlaces Ltd with a range for the general fund from a £2.23m surplus or £1.24m deficit based on the report to Cabinet in September 2023.

Background papers

52. The link to the budget papers for 2023/24 is below:

[BCP Council – Democracy \(ced.local\)](#) item 10

53. The link to the 2023/24 quarter one budget monitoring report is below:

[BCP Council – Democracy \(ced.local\)](#) item 20

Appendices

- Appendix A
- A1 Revenue Projected Budget Variances by Service Area
 - A2 Revenue Outturn Summary 2023/24
 - A3 Revenue Savings Monitoring 2023/24
 - A4 Report from Chief Operations Officer

Appendix B Earmarked Reserves Projection for 31 March 2024

Appendix C HRA Projected Outturn 2023/24