

Report subject	<b>Budget Monitoring 2023-24 at Quarter Three</b>
Meeting date	7 February 2024
Status	Public Report
Executive summary	<p>This report provides the quarter three 2023/24 projected financial outturn information for the general fund and housing revenue account (HRA) and monitoring of the capital programme.</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 a surplus of £2.8m for the year with overspending within services offset by savings on central budgets.</p> <p>Delivering to this latest projection remains critical as the medium term financial plan assumes this level of surplus to achieve balance over the four years of the plan.</p>
Recommendations	<p><b>It is RECOMMENDED that Cabinet:</b></p> <ol style="list-style-type: none"> <li><b>1. Note the budget monitoring position for quarter three 2023/24, and the outcomes of the orderly closures of FuturePlaces Ltd and Poole Housing Partnership.</b></li> <li><b>2. Agree the delegation for delivery of grants up to £1m as set out in Appendix C.</b></li> </ol> <p><b>It is RECOMMENDED that Cabinet recommend Council:</b></p> <ol style="list-style-type: none"> <li><b>3. Agree the acceptance of grants, delegations for delivery and capital virements for schemes over £1m as set out in Appendix C</b></li> </ol>
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> <p>To comply with the council's financial regulations regarding capital virements and acceptance of grants.</p>

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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 two budget monitoring report indicated a projected net overspend of £4.3m with pressures in the Children's and Operations directorates requiring mitigations to be developed. The expenditure control mechanism has been in place across the council since September to minimise spend on non-essential activity.
3. Non-delivery of transformation savings in full was already anticipated in the first quarter with service budgets and transformation savings both reduced. This has prevented some unplanned savings being available in the current year to offset emerging unbudgeted pressures.

### Quarter Three Revenue Outturn Projection 2023/24

4. The council is projecting a £2.8m surplus across all budget areas. Directorates that are projecting overspends are required to continue working on mitigation plans to balance their budgets where possible.
5. Table 1 below provides a summary of budget variances for each directorate:

**Table 1 : Summary General Fund Projected Outturn at Quarter 3**

Q2 Variances £000's	Directorate	Working budget £000's	Q3 Forecast £000's	Under/ Overspend £000's
(2,094)	Wellbeing	133,415	127,860	(5,555)
2,054	Children's	87,920	91,059	3,139
4,685	Operations	63,750	68,543	4,793
(446)	Resources	39,008	38,319	(689)
81	Corporate Items	(324,093)	(328,581)	(4,488)
<b>4,280</b>	<b>Total projected outturn</b>	<b>0</b>	<b>(2,800)</b>	<b>(2,800)</b>

6. Wellbeing services include adult social care, housing and community, and commissioning & procurement. The main reasons for the increased budget surplus compared with quarter two are fewer than expected adults with learning disabilities and mental health issues needing support from the service and increased income recovery from the NHS for care placements.
7. Children's services have identified further pressures from an increase in the number of children looked after coupled with the need to retain agency workers for longer than previously anticipated. Mitigation activities are on-going including the recruitment of permanent staff and the careful monitoring of agency use.
8. Operations pressures are on-going. The main variance is from car parking where despite the projected achievement of the income target the additional costs of collection create a net pressure for the service. The impact of the poor summer was reported at quarter two and reduced visitor numbers have been seen with expenditure reduced to mitigate the net impact on other commercial income where possible. It has also not been possible to recover the overspend from the delayed planning service restructure. In quarter three, further income losses are included for the bereavement service due to challenging market conditions with some offset in transport services from lower fuel costs and staff savings.
9. Net pressures across all service areas are mitigated by overall savings on central budgets. The main movements from the previous quarter are £6.2m savings from reduced revenue provisions for debt following external review with this partially offset by a £2.4m reduction in the transfer of staff costs to the transformation programme.
10. Appendix A1 provides the detail and reasons for projected budget variances in each service area.
11. Appendix A2 provides a summary revenue outturn statement.

### **Closure of FuturePlaces Ltd**

12. A comprehensive review has been undertaken of documents FuturePlaces Ltd has produced or obtained in the process of developing business cases for the council's regeneration schemes.
13. In line with the principles agreed by Cabinet as part of "The future of BCP FuturePlaces Ltd, investment and development" report 27 September 2023, this has determined a fee of £2.69m is payable to the company for those documents required to progress the council's regeneration priorities.
14. The £2.69m is to be funded from:
  - a. £0.22m existing council revenue budgets
  - b. £0.31m capitalisation of expenditure relating to the existing regeneration schemes in the council's Capital Investment Programme (CIP) at Holes Bay and Poole Town North
  - c. £1.63m unused (see below) from the £4m provision included at the end of 2022/23 to balance the working capital loan provided to the company at that date
  - d. £0.53m residual balance creates a pressure in the 2023/24 revenue budget. This pressure is within the range provided to Cabinet as part of the above 27 September report.

15. The company, after taking into consideration any remaining payments and income due including the £2.7m settlement from the council for work undertaken above, is projected to repay £2.38m of the £4.75m outstanding debt principle.
16. The £2.37m of debt remaining will be written off against the £4m provision detailed above.
17. Once the final transactions between BCP Council and BCP FuturePlaces Ltd have been concluded, the council will go through the process of closing the company. This will include resolving any final matters such as payments to creditors, including HMRC, and producing a final set of accounts. Companies House will then be approached to strike off the company.

### **Savings Monitoring 2023/24**

18. Delivery of budgeted savings is fundamental to a sustainable MTFP. The table below provides the progress on achieving the £34m of programmed savings with 72% shown as delivered by the end of the third quarter. The savings within Wellbeing shown as not yet delivered are expected to be implemented over the fourth quarter 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.**

<b>Directorate</b>	<b>Council Approved Savings 2023/24 £000s</b>	<b>Quarter Three Delivered 2023/24 £000s</b>	<b>Not yet delivered 2023/24 £000s</b>
Wellbeing Directorate	(9,684)	(7,697)	1,987
Children's Services Directorate	(1,183)	(1,183)	0
Operations Directorate	(10,903)	(9,946)	957
Resources Directorate	(508)	(508)	0
Corporate Items	(3,021)	(3,021)	0
Transformation – not itemised	(9,044)	(2,373)	6,671
<b>Total Savings</b>	<b>(34,343)</b>	<b>(24,728)</b>	<b>9,615</b>

*Note that the table above includes housing and community within Operations rather than reflecting the move to Wellbeing for consistency.*

19. Wellbeing savings not yet delivered are unchanged from the last quarter and 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.
20. Operations savings are many and varied. It has been established that circa £1m (due to waste disposal, highways maintenance, and planning services) is likely to be unachievable with amounts included within the projected budget variances in Appendix A1. The car parking savings have been included as achieved as the actions have been taken to deliver the budgeted income although there is a net budget deficit from higher costs of processing payments.
21. The transformation savings not expected to be delivered of £6.7m are included as a pressure in the year end projected outturn variances within corporate budgets as reported last time.

22. Appendix A3 provides a schedule of progress for revenue budget savings delivery at quarter three. Those not expected to be ultimately delivered are shaded red in the appendix.

### Reserves Monitoring for 31 March 2024

23. 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.
24. 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	21.9	4.0
Earmarked reserves	68.5	20.2	(48.3)
<b>Total reserves</b>	<b>86.4</b>	<b>42.1</b>	<b>(44.3)</b>

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

25. The main movements in earmarked reserves include drawing down:
- Financial resilience reserves to support the budget and MTFP £31.7m
  - Government grants £9.7m
  - Corporate priorities and improvement £3.3m
26. Appendix B provides a summary of earmarked reserves projected for 31 March 2024.

### Dedicated Schools Grant (DSG)

27. 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.
28. The year end projection at quarter two is an overspend of £0.1m which increases the funding gap to £27.2m with an estimated cumulative deficit of £63.0m.

**Table 4: Summary position for dedicated schools grant**

Dedicated Schools Grant	£m
<b>Accumulated deficit 1 April 2023</b>	<b>35.8</b>
Budgeted high needs funding shortfall 2023/24	27.1
Overspend in 2023/24	0.1
<b>Projected accumulated deficit 31 March 2024</b>	<b>63.0</b>

29. The year end projection is a small improvement from quarter two but there are significant risks in the assumptions made for new placements in the final quarter.

30. The DfE safety valve conversation regarding the accumulated deficit progressed over quarter three with an updated DSG management plan submitted to the DfE with the outcome awaited.

### **Capital Investment Programme (CIP)**

31. Actual expenditure to date is £38m (23%) of the revised 2023/24 CIP budget totalling £165m. Whilst this is in part due to the spend profile and timing of recharges to schemes, expenditure during the year has been impacted by the broader economic conditions.
32. Many schemes have needed to be re-evaluated due to the increasing cost of borrowing and material inflation. This in turn has led to delays as some schemes have been re-engineered or paused until greater certainty regarding viability and deliverability can be ascertained. Furthermore, due to significant cost increases a number of schemes will be required to go back to Cabinet and Council for re-approval delaying the programme timescales. Some significant examples of low scheme expenditure to date are provided below.
33. The Transformation Cities Fund has undertaken a reprofiling exercise which has already resulted in £15m being slipped into future years. Of the remaining £20m budget in 2023/24 only £7m has been spent to date with it likely that more of the programme will slip into future years.
34. Carters Quay housing and commercial development was planned to spend £15m this year but only £0.4m has been spent in the year to date.
35. The CHNAS programme (annual budget £54m) has identified homes for purchase, but many are still progressing through the conveyancing process, and it is expected that these should start to complete during the final quarter. However, two major CHNAS schemes at Alma Road (£3.8m) and Roeshot Hill (£6.1m) have been abandoned with no expenditure incurred to date.
36. The initial Fleet list in the programme needed to be revised due to complications with procurement from the market following covid and the challenge of rising costs with £4m remaining to be spent from the £10m planned.
37. The detail of the capital programme monitoring is included in Appendix C along with virements and grants acceptance decisions recommended to be made by Cabinet and Council.

### **Housing Revenue Account (HRA)**

38. 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.
39. The 2023/24 budget comprises total income of £51.5m for the year and a net surplus of £6.7m.
40. There are favourable income variances from rents and service charges of £0.6m due to lower levels of rental voids and the delivery of additional HRA properties via the development programme. Supervision & management costs are forecast to be £1.1m less than budget due to higher than expected staff vacancies and no need to use the contingency budget. These positive variances are offset by additional spending of £1.7m 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. These variances offset and the net operating surplus is forecast to be £23.8m, in line with budget.

41. There is a favourable variance of £0.2m for interest earned due to higher than budgeted interest rates.
42. An exceptional gain of £1.9m has been recorded in quarter three as a result of the return to the HRA of the retained surplus that Poole Housing Partnership Ltd built up during the period when it functioned as the arm's length management organisation (ALMO) for the Poole neighbourhood properties.
43. The projected net surplus is £8.7m, £2.1m favourable to budget. This compares with the quarter two position of a projected surplus in line with budget. The increase between quarters is primarily due to the exceptional gain arising from the return of the PHP surplus.
44. The capital programme budget of £46.5m is forecast at quarter three with an annual spend of £25.5m, being 55% of the annual programme. This compares with 67% at quarter two. 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.
45. Appendix D provides a summary of HRA budget monitoring for both the revenue and capital account at quarter three.

### **Scenarios**

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

### **Summary of financial implications**

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

### **Summary of legal implications**

48. 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**

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

### **Summary of sustainability impact**

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

## Summary of public health implications

51. 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

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

## Summary of risk assessment

53. 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.
54. 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.
55. 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.
56. 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.
57. The impact of the pay award announced in November 2023 has now been worked through with budget provided to services for the additional costs of employed staff. The shortfall from the amount budgeted continues to be reported as a central pressure.
58. 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.

## Background papers

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

BCP Council – Democracy (ced.local) item 10

60. The link to the 2023/24 quarter two budget monitoring report is below:

BCP Council – Democracy (ced.local) item 58

## Appendices

- Appendix A    A1 Revenue Projected Budget Variances by Service Area  
                   A2 Revenue Outturn Summary 2023/24  
                   A3 Revenue Savings Monitoring 2023/24



Appendix B	Earmarked Reserves Projection for 31 March 2024
Appendix C	Capital Programme Monitoring 2023/24
Appendix D	HRA Projected Outturn 2023/24