CABINET

Report subject	**Council Budget Monitoring 2024/25 at Quarter One**
Meeting date	4 September 2024
Status	Public Report
Executive summary	This report provides the quarter one 2024/25 projected financial outturn information for the general fund and housing revenue account (HRA). The February 2024 approved general fund budget for 2024/25 was balanced on the assumption of £38m in savings, efficiencies, and additional resources. The quarter one budget monitoring position for 2024/25 demonstrates the ongoing financial challenges to this authority from relentless increasing demand and cost pressures. These pressures are not dissimilar to those faced by all upper tier local authorities. The council's robust financial governance and proactive management of its budget is enabling significant mitigation. Services are expected to implement mitigation strategies to address emerging operational pressures identified within the first quarter. This is critical to maintaining the financial health and sustainability of the council as the medium-term financial plan makes no allowance for replenishing any reserves used to balance 2024/25 budget. The expenditure on the Special Educational Needs and Disability Service (SEND), which is within the high needs budget, continues to exceed the government grant made available as part of the Dedicated Schools Grant (DSG) and reflects the rising demand for services in this area. This position has significantly worsened from the already dire position assumed in the budget for 2024/25. BCP Council has taken steps to manage this situation locally but, as a national issue, these steps are limited. Conversations for an urgent solution continue with the Department for Education (DfE) and the Ministry of Housing, Communities, and Local Government (MHCLG).
Recommendations	**It is RECOMMENDED that Cabinet:** **A. Note the budget monitoring position for quarter one 2024/25.** **B. Recommend to Council the revenue budget virement set out in paragraph 5.**

	C. Request a detailed report to October Cabinet from the Corporate Director for Children's Services on the High Needs Dedicated Schools Grant expenditure forecast and available mitigation measures in 2024/25. This report will need to seek Council approval for any additional resources over the approved budget.
Reason for recommendations	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. To comply with the council's financial regulation concerning approval for budget virements.
Portfolio Holder(s):	Cllr Mike Cox, Finance
Corporate Director	Grahan Farrant, Chief Executive
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Wards	Council-wide
Classification	For Decision

Background

1. In February 2024 Council agreed the 2024/25 annual general fund net revenue budget of £360m, and a capital programme of £148m. The revenue budget included delivery of £38m of itemised service and transformation savings. Budgets were also agreed for the ring-fenced housing revenue account (HRA) and Dedicated School Grant for school funding.
2. All outturn variances for 2023/24 financial year have been rigorously reviewed and 2024/25 service budgets considered for adjustment where these variances were identified as on-going and not already reflected in the base budget of the new year. Most adjustments are within officer delegated limits with those above recommended for approval in this report.
3. A spending control mechanism remains in place across all areas with only essential spending permitted. This will remain in force until there is full confidence that the budget pressures can be managed.

Revenue Virements 2024/25

4. The following rules associated with revenue virements apply:
   - Virements over £1 million require Council approval.
   - Virements over £500,000 and up to £1 million require Cabinet approval.
   - Corporate Directors can approve virements over £100,000 up to £500,000.
   - Service Directors can approve virements up to £100,000.
5. In accordance with these rules the following permanent virement is recommended for **approval by Council:**

   To reduce the adult social care budget by £5.1m and redirect these resources to support the additional costs of children's social care.

   This virement is to take account of the adult social care savings identified in quarter four of 2023/24 after the budget had been set for this financial year and recognising pressures emerging in the first quarter of 2024/25 for children's social care.

Revenue Outturn Projection 2024/25 at Quarter One

6. The council is currently projecting an overspend at outturn of £3.6m.
7. This position is after:
   a. Releasing £4.3m of the £7.9m contingency to offset savings delayed but expected to be realised in full in the future. The contingency was specifically increased on a one-off basis in 2024/25 to recognise the optimism bias in savings proposals included within the budget as £38m is the highest for any one year since the council was formed in April 2019.
   b. Reflecting processed budget virements within officer delegations and those recommended to Council in this report.
8. A summary of the year end projection is included in the table below. The table summarises the total variances by directorate and includes the impact of the savings not expected to be delivered by the year end. The detail of savings is considered further in the next section of the report.

Table 1: Summary projected outturn as at quarter one

Quarter One Position			Projected Outturn Variances (surplus) / overspend		
Budget Area	**Revised Budget £000's**	**Projected Outturn £000's**	**Total Variance £000's**	**Undelivered Savings in variance £000's**	**Underlying Variances £000's**
Wellbeing	125,295	125,188	(107)	2,310	(2,417)
Children	91,029	94,349	3,320	2,194	1,126
Operations	78,387	79,109	721	149	572
- Carparking	(19,457)	(17,357)	2,100	0	2,100
Resources	40,354	41,105	751	109	642
Total Services	**315,608**	**322,394**	**6,785**	**4,762**	**2,023**
Central	(315,608)	(318,816)	(3,207)	(4,302)	1,095
Total	**0**	**3,578**	**3,578**	**460**	**3,118**

9. In-year service pressures (other than those related to undelivered savings) are emerging particularly in children's social care due to the continued use of agency staff and cost of care packages and within carparking services. As recently reported in detail to the 25 July 2024 Audit & Governance Committee, central budgets have a pressure from lower investment income because of reduced cash balances available for investments and likely further reductions in interest rates during the year.

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.

Savings Monitoring 2024/25

12. Delivery of budgeted savings of £38m is fundamental to a balanced in-year position and the sustainable MTFP. The table below provides the progress across service reductions, additional resources, and transformation and efficiency programmes with 87% projected at quarter one to be delivered by the year end. Amounts not expected to be delivered are included in the budget variances in Appendix A1.

Table 2: Summary of progress in savings delivery 2024/25.

2024/25 Savings by Directorate	Council Approved Savings £000s	Quarter 1 Forecast £000s	Quarter 1 Forecast Shortfall £000's
Wellbeing Directorate	(10,330)	(9,633)	698
Children's Services Directorate	(2,953)	(2,453)	500
Operations Directorate	(10,060)	(10,060)	0
Resources Directorate	(1,085)	(1,012)	73
Total general service based savings	**(24,428)**	**(23,158)**	**1,270**
Wellbeing Directorate	(3,847)	(2,235)	1,612
Children's Services Directorate	(4,162)	(2,467)	1,695
Operations Directorate	(3,829)	(3,680)	149
Resources Directorate	(1,192)	(1,156)	36
Across services	(503)	(503)	0
Total transformation/efficiency savings	**(13,533)**	**(10,041)**	**3,492**
Total service based savings	**(37,961)**	**(33,199)**	**4,762**

13. The delayed voluntary redundancy process at the end of the last financial year has meant some transformation savings across several services cannot be fully realised this year due to staff notice periods but full amounts will be achieved for next year. In some instances, alternative in-year savings have been found through vacancy management or expenditure areas where possible.

14. In Wellbeing the main savings not yet delivered include for demand management, where it is too early in the year to confirm, and from delayed commissioning activity to reduce the cost of services as it has taken longer than expected to recruit staff.

15. In Children's services, there is delay in mobilisation of the new service delivery model and staff restructures due to preparation for the next social care full Ofsted inspection and also due to the delay in agreeing a single pay and grading structure across the council. Other savings not delivered include greater contributions from the NHS towards care costs and the rising costs of care overall.

16. Across Operations and Resources, most savings are considered to be on track with only a small amount of savings unable to be delivered.

17. Appendix A3 provides a schedule of progress for revenue budget savings delivery at quarter one.

Reserves Monitoring for 31 March 2025

18. Table 3 below summarises the projected movement in reserves during the current financial year.

Table 3: Summary of projected movements in reserves

	Balance 1 April 2024	Balance 31 March 2025	Movement
	£m	£m	£m
Un-earmarked reserves	26.1	26.1	0
Earmarked reserves*	39.0	35.9	(3.1)
Total reserves	**65.1**	**62.0**	**(3.1)**

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

19. The above table assumes that the mitigations to address the current £3.6m projected overspend will be successful. This will need to be reviewed as part of future budget monitoring reports.

20. Earmarked reserves are those that have been set aside for specific purposes The main movements in earmarked reserves include drawing down government grants in line with the latest profile of their application.

21. Appendix B provides a summary of earmarked reserves projected for 31 March 2025.

Dedicated Schools Grant (DSG)

22. The DSG in 2024/25 totals £363m and is provided to fund early years' providers, schools, a small range of central services and provision for pupils with high needs. High needs funding within this total is £61m.

23. Consistent with many councils nationally, in recent years the DSG funding has not met the growing demand and rising placement costs for pupils with high needs. The high needs funding gap for 2024/25 was budgeted at £28m. This is net of a funding transfer of £1.3m from schools as agreed by the Department for Education in late February 2024.

24. The accumulated deficit reflecting the 2024/25 funding shortfall was projected to increase from £63.5m at 1 April 2024 to £91.5m by March 2025.

25. At the end of quarter one an anticipated in-year overspend of £15.9m on top of the budgeted funding gap of £28m (total high needs funding gap of £43.9m) is projected with an accumulated deficit at March 2025 of £107.4m.

Table 4: Summary position for dedicated school's grant

Dedicated Schools Grant	£m
Accumulated deficit 1 April 2024	**63.5**
Budgeted high needs funding shortfall 2024/25 (*as per DSG management plan used as part of the Safety Valve conversation*)	28.0
High needs overspend 2024/25 (*growth in EHCPs and costs*).	15.9
Projected accumulated deficit 31 March 2025	**107.4**

26. There remains a large number of assumptions in the projection this early in the financial year with data quality in the service still needing to improve. However, the number of education, health, and care plans (EHCPs) and average placement costs are both increasing ahead of growth allowed for in the DSG deficit management plan and budget for 2024/25. The impact of the special education needs improvement strategy and plan is yet to change the trajectory of demand or reduce the average cost of provision with the £107m forecast in line with BCP and government DBV consultant forecasts from 2022.

27. The 15-year DSG deficit management plan developed for the DfE Safety Valve conversations on which the budget for 2024/25 had been set, included a forecast 30 new plans per month once the backlog was cleared from the start of the new financial year, but there has been a higher number of new applications, currently forecasting 70 new plans a month.

28. System improvements have been made, with the assessment backlog reduced and existing plans updated as necessary and with panel decisions focused to avoid costly tribunals and appeals. The assessment rate from requests is now in line with the national average and appropriate banding and use of specialist placements has been reviewed, while collaborating with parents to gain confidence in mainstream provision.

29. The new government is being urged to find a solution to the national DSG deficits as a priority and conversations are on-going with representatives of the DfE and MHCLG in seeking an immediate solution to the drain on the council's cash flow and cash balances in funding the DSG shortfall. A solution to the cashflow issue must be in place by February 2025 to enable the council to set a balanced budget for 2025/26. A longer-term solution must be in place before the statutory override (which keeps the accumulated DSG deficit out of the General Fund) falls away on 1 April 2026.

30. The council's DSG deficit management plan is in the process of being updated to reflect the most recent position.

31. A recommendation of this report requests the Corporate Director for Children's Services provides the 2 October 2024 Cabinet with a report setting out the range of mitigating actions being both taken and considered to address the current forecast £15.9m overspend. This report will consider all possibilities including

- The extent of use of Alternative Provision.

- A review of the health elements of packages and the extent to which these costs should be recovered from the National Health Services.
- The viability of spending £2.8m on the budgeted Inclusion Fund when school exclusions remain high.
- Officer representation on the High-Cost placements board external to Children's Services.
- A freeze on any discretionary expenditure within the forecast which is not purely related to placements or statutory functions.
- Consideration from schools to support this deficit.

32. The October report should also provide details of the impact of the current position and the proposed mitigations on the DSG Deficit management plan.

Capital Programme

33. System changes in accounting for capital projects is in progress with corporate monitoring reports in development. Progress has been delayed due to staff shortages and overall monitoring of the capital programme will be reported for quarter two. In the meantime, the capital programme is being monitored with budget holders at individual project level with no significant issues being identified.

Housing Revenue Account (HRA)

34. 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.
35. The 2024/25 HRA budget was approved by Council in February 2024. It budgeted for total income of £55.6m for the year and a net surplus of £5.9m.
36. A £0.2m favourable income variance from rents is projected due to lower levels of rental voids and right-to-buy sales than expected. Other favourable variances are from supervision and management expenditure due to an unused contingency of £0.3m, and from interest earned of £0.45m with rate movements ahead of budget with borrowing costs fixed.
37. The forecast depreciation charge of £14.8m is £2.4m adverse to budget. This is due to harmonisation between the Bournemouth and Poole neighbourhoods implemented at the end of last year. As a non-cash charge credited each year to the major repairs reserve to provide funding for the HRA's planned maintenance capital programme it has no overall impact on the financial position of the HRA.
38. The net impact of the above variances is that the £5.9m budgeted surplus is projected to reduce to £4.4m.
39. The HRA February 2024 budget paper set out a capital programme of £44.7m for 2024/25. This includes £25.2m investment in new-build projects delivered as part of the council newbuild housing and acquisitions strategy (CNHAS) and £16.2m in planned maintenance. Expenditure for the year is forecast at £40.9m due to slippage on new build schemes and purchase of existing properties with planned maintenance expenditure currently on track.

40. Appendix C provides a summary of HRA budget monitoring for both the revenue and capital account at quarter one.

Scenarios

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

Summary of financial implications

42. This is a financial report with budget implications a key feature of the above paragraphs.
43. The growing DSG deficit is a significant risk to the financial position of the council with the accumulated DSG deficit forecast to be greater than the total of the council's earmarked and unearmarked reserves at 31 March 2025. The forecast that the in-year funding gap is continuing to grow will inevitably bring forward the date when the council exhausts its cashflow position which is currently providing the resources to cover the excess High Needs budget related expenditure.

Summary of legal implications

44. 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

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

Summary of sustainability impact

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

Summary of public health implications

47. 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

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

Summary of risk assessment

49. The projected outturn is prepared based on estimates and assumptions, including that mitigation plans for current general fund budget pressures will be successful. Budget monitoring corporately will continue to be reported quarterly to manage these variances and other significant issues emerging throughout the year.
50. The most significant risk to the council's financial sustainability continues to be the current level and growth of the accumulated deficit for the DSG. The annual funding gap will continue to grow unless current trends can be reversed and there

are no signs that current activity underway is being successful. Central government will need to take action to address the national problem but in the meantime the council needs take steps to minimise the financial problem as far as possible.

Background papers

51. The link to the budget papers at February Council for 2024/25 is below:

Welcome to BCP Council | BCP (ced.local) items 76 (HRA) and 77 (General fund)

Appendices

Appendix A	A1 Revenue Projected Budget Variances by Service Area 2024/25
	A2 Revenue Outturn Summary 2024/25
	A3 Revenue Savings Monitoring 2024/25
Appendix B	Earmarked Reserves Projection for 31 March 2025
Appendix C	HRA Projected Outturn 2024/25