CABINET

Report subject	**Council Budget Monitoring 2024/25 at Quarter Three**
Meeting date	5 February 2025
Status	Public Report
Executive summary	This report provides the quarter three projected financial outturn information for the general fund, housing revenue account (HRA) and capital programme. The quarter three overall revenue projected outturn is for a balanced position to be achieved based on the latest assumptions, including that the expenditure control mechanisms remain in place for the remainder of the year. A small contingency remains unused for any unexpected costs over the final quarter.
Recommendations	**It is RECOMMENDED that Cabinet:** **A. Note the budget monitoring position for quarter three 2024/25.** **B. Agree the acceptance of capital grants for the general fund detailed in Appendix C1 paragraph 2.** **It is RECOMMENDED that Cabinet recommends that Council:** **C. Agree the acceptance of capital grant for the HRA detailed in Appendix D paragraph 20.**
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 finances. Also, to comply with the council's financial regulations regarding acceptance of grants.
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 £359m, 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 (DSG) for school funding.
2. A budget pressure of £3m was reported at quarter two, after releasing the total £7.9m of central contingency resources to offset undelivered savings and unmitigated service pressures. The contingency was specifically increased on a one-off basis in 2024/25 to recognise the optimum bias in the highest level of savings included in the budget in the five years since the council was formed.
3. Services are expected to deliver balanced budgets by the year end by finding mitigations to budget pressures, with this aided by strengthening their response to the expenditure control measures that will need to continue for the full year.

Revenue Outturn Projection 2024/25 at Quarter Three

4. Overall, the net pressures of £3m identified at quarter two are projected to be mitigated by the year end to deliver a balanced position overall for the council.
5. A summary of the total variances by Directorate is included in Table 1 below and includes the impact of the savings not expected to be delivered during the year.

Table 1: Summary projected outturn as at quarter three

Quarter 2		Quarter 3 Budget Position				
Total Variances £000's	Budget Area	Revised Budget £000's	Projected Outturn £000's	Total Variance £000's	Undelivered Savings in variance £000's	Underlying Variances £000's
1,385	Wellbeing	125,390	125,813	423	(2,310)	(1,887)
3,205	Children	92,277	95,675	3,398	(2,233)	1,165
3,038	Operations	61,257	61,415	158	0	158
862	Resources	41,822	42,370	548	(109)	439
(5,526)	Central	38,049	33,564	(4,485)	4,652	167
	Funding	(358,795)	(358,836)	(41)	0	(41)
2,964	**Total**	**0**	**0**	**0**	**0**	**0**

6. Wellbeing directorate services have reduced the previously reported overspend by £1m, largely due to additional income across the directorate and delivering early on saving programmed for next year.

7. The Operations directorate services overspend projected last quarter has been almost fully mitigated through reduced pressures from commercial operations and environment services. There are the usual risks in the income projections as the weather can impact, particularly in March.
8. The pressures in children's services have grown further due to an increase in the number of children in care and staff recruitment difficulties, with agency staff needing to be retained for longer with some mitigation in other budgets and use of grants and specific reserves.
9. Resources services have reduced pressures or increased savings largely through vacancy management and re-evaluating staff time charged to transformation projects.
10. Appendix A1 provides the detail and reasons for the main projected budget variances in each service area and these include any undelivered savings.
11. Appendix A2 provides a summary revenue outturn statement.

Savings Monitoring 2024/25

12. Savings delivery reported at quarter two noted that 88% of the £38m budgeted savings were on track to be delivered and there are no changes to this position at quarter three. In respect of the residual 12% the majority will be delivered but not within the originally timeframe.

Reserves Monitoring for 31 March 2025

13. 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	26.6	0.5
Earmarked reserves*	39.0	35.4	(3.6)
Total reserves	**65.1**	**62.0**	**(3.1)**

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

14. The above table assumes that the projected balanced revenue position will be delivered at outturn.
15. 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.
16. Appendix 10a to the 2025/26 Budget and Medium-Term Financial Plan report presented as a sperate report on the meeting agenda includes a summary of earmarked reserves projected for 31 March 2025.

Dedicated Schools Grant (DSG)

17. 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.

18. Consistent with many councils nationally, the growing demand and rising placement costs continues to outstrip funding growth 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.

19. 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.

20. At quarter two the anticipated overspend was £16.5m (total high needs funding gap of £44.5m) with a projected accumulated deficit at March 2025 of £108m as reported to Cabinet in October. The year end projection at quarter three is unchanged as detailed in table 4 below

Table 4: Summary position for dedicated schools grant

Dedicated Schools Grant	£m
Accumulated deficit 1 April 2024	**63.5**
Budgeted high needs funding shortfall 2024/25	28.0
High needs overspend 2024/25	16.5
Projected accumulated deficit 31 March 2025	**108.0**

21. The number of education, health, and care plans (EHCPs) and average placement costs continue to rise. The VAT charges for private schools implemented from 1 January 2025 applies equally for those categorised as special schools. The council can reclaim the VAT charged so there should be little impact from this change in government policy. There could be some pressure from parents of children with special needs in private schools moving their children into the state sector but the potential scale of this is not yet known.

22. Actions included in the deficit management plan to change the trajectory of the deficit are still in the early stages of implementation, but it is hoped these will start to impact next year.

23. Conversations are on-going with government in seeking a solution to mitigate the impact of the high level of unfunded expenditure, with the progress outlined in the Budget and MTFP report on the meeting agenda.

Capital Programme

24. The original £148 million capital budget has been updated to £123m at quarter three to take account of adding expenditure slippage from 2023/24 of £62m, and a net reduction from reprofiling some expenditure into 2025/26, adding new schemes, and removing schemes no longer viable or being reconsidered (£87m). The majority of schemes in the current programme are within the Operations directorate, accounting for £109m (89%) of the programme.

25. In 2024/25, the total programme includes funding for education provision not yet allocated to schemes to ensure full oversight of all the funding available from the Department for Education (DfE). At quarter three there remained £11.7m of funding uncommitted and carried forward into 2025/26. A Cabinet report considering the children's services capital programme is planned for March 2025.

26. Appendix C provides a monitoring report for the capital programme at quarter three. This shows 62% of the current year programme has been delivered.

27. General fund capital grants for Cabinet approval are included in Appendix C1 paragraph 2.

Housing Revenue Account (HRA)

28. 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.

29. 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.

30. The main income variances are favourable, from rents (£0.7m) due to ongoing lower levels of rental voids and right-to-buy sales than expected and from higher utility recharges (£0.6m).

31. Favourable expenditure variances include from supervision and management largely from staff vacancies and reassessment of provisions (£0.8m). There are also lower repairs and maintenance costs of (£0.5m) from bringing services in-house, new contracts, and a low number of properties becoming void. Net interest costs are also favourable (£1.2m) with rate movements ahead of budget with borrowing costs fixed and lower spending due to reprofiling of the capital programme.

32. The forecast depreciation charge of £14.8m is £2.4m adverse to budget and is unchanged from the previous estimate. It follows the harmonisation of approaches between the two neighbourhoods implemented at the end of last year. As a non-cash charge, it has no overall impact on the financial position of the HRA.

33. The favourable forecast variances for both income and operating expenditure result in a forecast net operating surplus of £26.9m that is £2.9m favourable to budget. The impact of the higher depreciation charge and lower net interest payable results in a final net surplus of £7.4m that is £1.5m favourable to budget.

34. 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 & acquisitions strategy (CNHAS) and £16.2m in planned maintenance. Expenditure for the year is forecast at 70% of budget at £31.5m (£40.4m projected at quarter two) with further slippage on new build schemes overall and purchase of existing properties. The planned maintenance programme was reported as on track at quarter two but now with slippage of £3.4m.

35. **Appendix D** provides a summary of HRA budget monitoring for both the revenue and capital account at quarter three and **provides the details of the Homes England grant for Council approval in paragraphs 19 and 20.**

Scenarios

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

Summary of financial implications

37. This is a financial report with budget implications a key feature of the above paragraphs.
38. The growing DSG deficit is a significant risk to the financial position of the council with the accumulated DSG deficit greater than the total of the council's earmarked and unearmarked reserves on 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 treasury management headroom position which is currently providing the resources to cover the excess high needs budget related expenditure.

Summary of legal implications

39. 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

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

Summary of sustainability impact

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

Summary of public health implications

42. 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

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

Summary of risk assessment

44. The projected outturn is prepared based on estimates and assumptions, including that mitigation plans for general fund budget pressures will be successful.
45. 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 demand trends can be reversed, significant extra funding is provided or the council's responsibilities change. Central government has committed to resolve the national funding problem and return the system to financial sustainability but in the meantime the council has taken steps to minimise the financial problem as far as possible.

Background papers

46. 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)

47. The link to the December Cabinet budget monitoring report for quarter two is below:

    Welcome to BCP Council | BCP item 83

Appendices

Appendix A	A1	Revenue Projected Budget Variances by Service Area 2024/25
	A2	Revenue Outturn Summary 2024/25
	A3	Savings schedule has not been included this quarter as information is unchanged from quarter two and can be found on the second link in the background papers above.
Appendix B		Earmarked reserves schedule has not been included this quarter as the projection for 31 March 2025 is included in the Budget and MTFP report at Appendix 10A on the meeting agenda
Appendix C	C1	Capital Programme Monitoring 2024/25
	C2	Capital Programme Schedule
Appendix D		HRA Projected Outturn 2024/25