CABINET

Report subject	**Council Budget Monitoring 2025/26 at Quarter Three**
Meeting date	4 February 2026
Status	Public Report
Executive summary	This report provides the quarter three 2025/26 projected financial outturn information for the general fund, capital programme, housing revenue account (HRA) and Dedicated Schools Grant (DSG). The quarter three position is a projected overspend for the general fund of £4.6m (compared with £4.2m at quarter two) largely due to increased demand for adult and children social care with some offset from the central contingency and budgets in the Resources directorate.
Recommendations	**It is RECOMMENDED that Cabinet:** **A. Note the budget monitoring position for quarter three 2025/26.** **B. Encourage Senior Officers, budget holders, and Portfolio Holders to take all reasonable steps to reduce the forecast overspend in the final quarter of the financial year.** **C. Approve the capital virement as set out in Appendix C1 at paragraph 2.**
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	Aidan Dunn, Chief Executive
Report Authors	Adam Richens, Director of Finance and Chief Finance Officer Nicola Webb, Assistant Chief Finance Officer Matthew Filmer, Assistant Chief Finance officer
Wards	Council-wide
Classification	For Decision

Background

1. In February 2025 Council agreed the 2025/26 annual general fund net revenue budget of £356m, and a capital programme of £136m. The revenue budget included delivery of £9.6m 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.

Revenue Outturn Projection 2025/26 at Quarter Three

2. The council is projecting an overspend at outturn of £4.6m and increase of £0.4m compared with quarter two. This forecast is after releasing the general contingency of £2.8m. There is no specific contingency this year to counter non-delivery of programmed savings.

3. 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.

Table 1: Summary projected outturn as at quarter three

Q2		Outturn Forecast at Quarter three					
Variance Forecast £000's	Corporate Directorate	Gross Budget £000's	Net Budget £000's	Forecast Outturn £000's	Total Variance £000's	Savings undelivered £000's	Other Variances £000's
3,668	Wellbeing	337,413	137,963	140,788	2,826	0	2,826
2,735	Children	130,546	100,083	105,193	5,110	0	5,110
302	Operations	187,979	60,131	60,739	608	871	(263)
(203)	Resources	58,732	50,576	49,695	(881)	0	(881)
(2,351)	Central	32,371	8,767	5,677	(3,090)	0	(3,090)
0	Funding		(357,521)	(357,521)	0	0	0
4,151	**Total**	**747,041**	**0**	**362,092**	**4,573**	**871**	**3,702**

4. Pressures identified early in the year have continued. Care costs have increased in adult social care with offset from additional income and commissioning savings reducing the overall pressure from the last quarter. The pressure in children's social care have continued to grow with new caseload and higher placement costs. The forecast for services within Operations remains a small overspend with the Resources directorate increasing the surplus from vacancies, using earmarked reserves and deferring expenditure. The offset from the centrally held general contingency and other central budgets reduces the overall overspend to £4.6m.

5. Within operations services the main pressures are from reduced planning income (continuing the trend from last year), and additional costs for emergency repairs and cleaning costs in facilities management. Reduced expenditure in other service areas reduce the overall overspend for the directorate.

6. Within the Resources budget area, only law and governance services are indicating an overspend which is related to increased staff costs and reduced income from land charges, with mitigations provided by other services.

7. Appendix A1 provides the detail and reasons for the main projected budget variances in each service area.

8. Appendix A2 provides a summary revenue outturn statement.

9. The 2026/27 Budget and medium-term financial plan (MTFP) report scheduled for 11 February Cabinet will consider how the predicted overspend for 2025/26 is to be dealt with should it materialise.

Savings Monitoring 2025/26

10. Delivery of budgeted savings of £9.6m is an important part of a balanced in-year position and a sustainable medium term financial plan (MTFP). The position at quarter three shows the progress of savings from service reductions, additional resources, transformation and efficiency programmes is unchanged from last quarter at 90% to be delivered by the year end. Amounts not expected to be delivered are included in the budget variances in Appendix A1.

11. An amount of only £0.1m has been determined as definitely unachievable as the savings are dependent on events that will not now take place or were later than planned.

Reserves Monitoring for 31 March 2026

12. Table 2 below summarises the projected movement in reserves during the current financial year.

Table 2: Summary of projected movements in reserves

	Balance 1 April 2025	Balance 31 March 2026	Movement
	£m	£m	£m
Un-earmarked reserves	27.3	29.3	2.0
Earmarked reserves*	55.7	32.5	23.2
Total reserves	**83.0**	**61.8**	**25.2**

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

13. The above table assumes that the current projected overspend will be managed, without impacting on the level of reserves at the end of the year.

14. Unearmarked reserves have increased by £2m from a transfer from the transition and transformation reserve which is no longer required. 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, progressing priority corporate and transition and transformation projects.

15. Appendix B provides a summary of earmarked reserves projected for 31 March 2026.

Dedicated Schools Grant (DSG)

16. The ring-fenced DSG in 2025/26 was budgeted at £405m and is provided to fund early years providers, schools, a small range of central services and provision for pupils with high needs. The high needs funding within that total was £64.5m with expenditure projected to be approaching double. A funding gap of £57.5m was budgeted and included in the estimated accumulated deficit for March 2026.

17. High needs funding has been reduced by £0.5m in-year to reflect the growth in the number of placements in the year since January 2024 for provisions hosted by the DfE. The adjustment is unusually high for 2025/26, reflecting the significant

growth over 2024/25 in the number of children and adults up to age 25 in these provisions, with the number in specialist post-16 institutions doubling.

18. The final 2024/25 settlement for the DSG early years block to reflect the January 2025 census, was received in August. This provided an additional £1.9m compared with the estimated clawback in the year end accounts. This was mainly due to funded places for children aged under two being higher than estimated.

19. At quarter three 2025/26 an anticipated overspend of £15.5m is projected for the high needs budget, and with the addition of the £57.5m budgeted gap and reduced DSG income of £0.5m the funding gap is now projected at £73.5m. Saving in other funding blocks reduce the in-year deficit to £70.3.

Table 3: Summary position for dedicated schools grant

Dedicated Schools Grant	£m
Accumulated deficit 1 April 2025	**113.3**
Prior year additional funding – early years	(1.9)
Budgeted high needs funding shortfall 2025/26	57.5
High needs funding reduction 2025/26	0.5
High needs overspend 2025/26	15.5
Surplus on other blocks 2025/26	(1.3)
Projected accumulated deficit 31 March 2026	**183.6**

20. There remain significant assumptions in the high needs projection with data quality in the service still needing to improve. There is no indication yet that the special education needs improvement strategy and plan is changing the trajectory of demand or reducing the average cost of provision.

21. The government has delayed the publication of the Schools White paper, which was expected to address the high needs budget issues, from autumn 2025 to early 2026. There is no release date for this information, but it is expected in February.

22. Conversations are on-going with MHCLG in seeking an immediate solution to the impact the deficit is having on the general fund from the drain on cash resources and the cost of borrowing. The outcome of these conversations is expected in the final Local Government Finance Settlement announcements. This will be reported to Cabinet and Council at the meetings later in February when the 2026/27 budget and MTFP report is presented.

23. In the meantime, the government's November 2025 Budget Statement:

- Confirmed that the DSG statutory override, which keeps the accumulated deficit out of the general fund, will stay in place until the end of the March 2028.
- Set out that from 2028/29, central government support to councils for SEND will be at a level that means further deficits need not accrue. Funding for that in 2028/29 will be absorbed within the overall government budget, not the core schools budget.
- Noted that budgets from 2028/29 onwards will be confirmed in the 2027 Spending Review

- Indicated that further detail on support for historic and accruing deficits, up to 2028/29, and conditions for accessing such support, will be set out in the Local Government Finance Settlement.
- Indicated that further detail on SEND policy changes will be set out in the Schools White Paper, expected in early 2026.

24. A joint letter from the DfE and NHS England on 15 December 2025 noted that support provided to local authorities will be linked to assurance that they are taking steps to make a new system a reality, in conjunction with government confirming the detail of SEND reform. Best practice and case studies from previous programmes are being disseminated, with a focus on efficient spending, such as from Safety Valve and Delivering Better Value, and providing all local authorities with SEND and financial advisers to help consider how these learnings can be applied. These advisers will also play a key role in supporting the preparations for reform, reviewing data, embedding best practice and driving progress toward the delivery of high-quality, inclusive services for children and young people.
25. Provided with the above letter was an early version of a maturity assessment tool for local area partnerships to assess the maturity of current practice, and plan the changes needed to strengthen the local system. This will be an integral part of the local SEND reform plan.

Capital Programme

26. The total resources for the 2025/26 capital investment programme increased from the £136m agreed in February to £173m at quarter two but reduced to £99m in quarter three. This is due to capital scheme budgets of £74m reprofiled to future years and to be reflected in the capital investment Medium Term Financial Plan.
27. Significant movements over quarter two included new schemes for flood defences and the Port of Poole with the Department for Education SEND allocations included. The spending profile of these and other schemes has been assessed over quarter three, given that spend against the programme was only 13% at the half year.
28. The major parts of the programme are within the Operations directorate for £84m (85%).
29. The total spend to date is still relatively low at 42% of the reduced programme, with low spend across Operations and Children's Services projects.
30. Appendix C provides monitoring information for the capital programme at quarter three with the details of the virement to be agreed by Cabinet summarised in paragraph 2 of Appendix C1.

Housing Revenue Account (HRA)

31. 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.
32. The 2025/26 HRA budget was approved by Council in February 2025. It budgeted for total income of £58.5m for the year and a net surplus of £4.1m.
33. The overall net surplus is forecast at £3.7m which is £0.4m below the £4.1m budgeted.
34. The forecast outturn for dwelling rents is in line with budget.
35. Repairs & maintenance expenditure is projected at £1.8m, a deterioration of £0.7m compared with quarter two. The very high volumes of response repairs

being experienced has continued and increased in quarter three. The accelerated programme of stock condition surveys being undertaken, damp and mould works and the very cold and wet weather has increased boiler and roofing repairs.

36. Supervision and management costs are £0.7m lower than budget due to savings on utility costs and staff vacancies. Interest charges are £0.7m lower than budget as reserves were higher than budgeted for the start of year reducing the need to borrow.
37. The forecast expenditure for capital programme is ahead of budget as schemes have caught up on slippage brought forward in programmes from last year.
38. Appendix D provides a summary of HRA budget monitoring for both the revenue and capital account at quarter one.

Scenarios

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

Summary of financial implications

40. This is a financial report with budget implications a key feature of the above paragraphs.
41. 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 position which is currently providing the resources to cover the excess high needs budget related expenditure.

Summary of legal implications

42. 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

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

Summary of sustainability impact

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

Summary of public health implications

45. 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

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

Summary of risk assessment

47. 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.

48. 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. Central government has committed to reduce the impact on local council's from this national problem with details currently awaited. In the meantime, the council must continue to take steps to minimise the financial problem as far as possible.

Background papers

49. The link to the budget papers at February Council for 2025/26 is below:

    Welcome to BCP Council | BCP item General Fund 111 and HRA 113

46. The link to the budget monitoring report 2025/26 at quarter two is on the link below:

    Welcome to BCP Council | BCP item 79

Appendices

Appendix A	A1 Revenue Projected Budget Variances by Service Area 2025/26
	A2 Revenue Outturn Summary 2025/26
Appendix B	Earmarked Reserves Projection for 31 March 26
Appendix C	Capital Programme Monitoring 2025/26
Appendix D	HRA Projected Outturn 2025/26