

Title of report: 2025/26 Draft Budget - Revenue

Meeting: Cabinet

Meeting date: Monday 13 January 2025

Cabinet Member: Peter Stoddart, Finance and corporate services

Report by: Leader of the Council (Section 9E)

Report author: Director of Finance

Classification

Open

Decision type

Budget and policy framework

Wards affected

All Wards

Purpose

To present the draft 2025/26 revenue budget, Medium Term Financial Strategy and the Treasury Management Strategy.

The Council has a statutory responsibility to set a Budget and Council Tax in advance of the new financial year. The 2025/26 Revenue Budget and Medium Term Financial Strategy 2025/26 to 2028/29 will be recommended to Council in February 2025.

Recommendation(s)

That Cabinet:

- a) **approves the 2025/26 draft revenue budget, which includes the key pressures for each Directorate and savings proposals, for consultation with Members, the council's relevant scrutiny committees, business rate payers and the public; and**
- b) **acknowledges that the funding assumed in this draft budget is an estimate of expected funding; to be confirmed following publication of the Final Local Government Finance Settlement for 2025/26.**

Alternative options

1. It is open to Council to recommend alternative spending proposals or strategies; however, given the legal requirement to set a balanced budget, should additional expenditure be proposed compensatory savings proposals must also be identified. If it is proposed to spend less, the impact on service delivery of the proposed reduction should be considered.
2. Council can agree a council tax increase above the referendum principle levels. This is not recommended as doing so would require the increase to be subject to a local referendum, incurring additional costs to the council.

Key considerations

3. A balanced draft revenue budget which totals £232.0 million is proposed for 2025/26. The proposal includes a 4.99% increase in council tax and estimates of central funding to be confirmed following the publication of the final Local Government Financial Settlement in February 2025.
4. The draft 2025/26 revenue budget assumes a total council tax increase of 4.99%: 2.99% increase in core council tax and a 2% adult social care precept. This increases the band D equivalent charge to £1,969.36, representing an increase of £7.80 per month (£1.80 per week). This is the maximum increase permitted; a higher increase would require the support of a referendum.
5. The 2% adult social care precept will generate approximately £2.7 million of additional income to contribute to continuing adult social care pressures: reflecting increases in demand, complexity of need and cost for services to support the county's residents.
6. The Medium Term Financial Strategy for 2024/25 to 2027/28 published as part of the 2024/25 revenue budget included a planned reduction in the increase in council tax in 2025/26 to 3.99% (1.99% increase in core council tax and a 2% adult social care precept). As a result of unexpected reductions in the funding provided by Central Government following the Local Government Policy Statement in November 2024 and Provisional Settlement in December 2024, the council is increasingly reliant on funding raised locally through council tax. Whilst this planned reduction has not been possible in 2025/26, the revised MTFs for 2025/26 to 2028/29 assumes the rate of increase in future years will be at the reduced level of 3.99%.
7. An increase to the base budget for 2025/26 is proposed to fund identified budget pressures of £26.1 million. Savings and efficiencies of £6.9 million are proposed to mitigate these pressures to deliver a balanced budget.
8. Nationally, local authorities continue to face significant financial pressures whilst demand and cost of statutory services continues to rise; increasing the challenge of delivering transformation and improvements in the delivery of services. In 2024/25, the council set a balanced budget with a commitment to transformation; creating a lean and resilient organisation and ensuring the future sustainability of the council and the services it delivers.
9. The proposed budget and strategy for 2025/26 builds on the prudent approach and robust financial management exercised in 2024/25 and prior years: to preserve and protect the council's future financial resilience and sustainability at a time of increasing cost pressures, reduced Central Government grants, uncertainty over future funding arrangements and planned reorganisation of the local government framework.
10. As a result of the robust management of the revenue budget and responsible stewardship of the council's financial resources, the council is in a strong and resilient position to respond to and withstand future financial pressures. This strong financial position is evidenced through:

- a balanced budget for 2025/26 which includes realistic and achievable savings;
 - adequate reserves to manage financial risks and respond to emerging pressures;
 - positive cashflow and high levels of liquidity;
 - a strong balance sheet with low levels of borrowing relative to the council's asset base;
 - an unqualified audit opinion on the financial statements for 2023/24 published by the statutory deadline; and
 - external assurance in respect of the council's financial sustainability confirmed in the Auditor's Annual Report for 2023/24, with no significant weaknesses identified.
11. A sustainable financial strategy has been developed for 2025/26 and onwards, to ensure the council can achieve an ambitious programme of innovation and improvement to deliver the best for Herefordshire.

Autumn Budget & Funding Update

12. The Chancellor announced the Autumn Budget 2024 on 30 October 2024; a one-year spending review for 2025/26 with a multi-year spending review for subsequent years expected in Spring 2025. The Local Government Finance Policy Statement was published 28 November 2024 outlining Government's proposals for 2025/26 alongside longer-term plans for reforming local authority funding.
13. The November Policy Statement confirmed the introduction of £1.53 billion new grant funding for local government across three priority grants: Recovery Fund (£600.0 million), Social Care Grant (£680.0 million) and Children's Service's Prevention Grant (£250.0 million), noting that these grants would be funded, in part, by the abolition of the Rural Services Delivery Grant (£110.0 million) and the Services Grant (£87.0 million).
14. In the financial year 2024/25, the council received a total of £7.1 million across the two abolished funding sources: £6.9 million in Rural Service Delivery Grant funding and £0.2 million in Services Grant. A total of £6.6 million was received in 2023/24 and £7.6 million in 2022/23.
15. The previous allocation of Rural Services Delivery Grant recognised the increased financial pressures in delivering services in a rural county. Herefordshire has the fourth lowest population density in England (approximately 189,000 residents across 842 square miles) and, as such, the council faces specific challenges and additional costs in the delivery of services to sparsely populated communities: provider market insufficiency, a higher proportion of older residents with increased demand for services, limited access to health and support services, difficulties in the recruitment of health care and social workers and greater distances to access residents increasing costs in the provision of waste services, transport and social care.
16. Analysis from the Rural Services Network (RSN) highlights the impact of the abolition of these grants on rural communities, with many rural authorities receiving no increase in Core Spending Power in 2025/26 contrasting with substantial increases for urban metropolitan areas. This RSN analysis of 2025/26 funding values, reveals that urban authorities will receive 41% more in government funded spending power per capita compared with rural areas.
17. The council is committed to ensuring that funding appropriately reflects rural need, and the additional cost pressures of service delivery and demand in rural areas, in order to prevent further deepening of rural deprivation and inequalities. Responses to consultations on the Provisional Settlement and Local Authority Funding Reform will be submitted alongside collaboration and representation through the Rural Services Network and Society of County Treasurers.
18. At the date of publication in November, the Statement highlighted that new grant funding would be targeted towards "places that need it most", using deprivation as a proxy for those areas "with greater need and demand for services" but the basis for redistribution was not confirmed.

19. The Provisional Local Government Finance Settlement 2025/26 published 18 December 2024 confirmed the local authority allocation of redistributed grant funding across new priority grants. The council's allocation of the redistributed grant funding for 2025/26 is noted in the table below:

Table 1: Council's allocation of redistributed grant funding 2025/26

Funding source	Grant funding abolished* £'000	Allocation of new grants 2025/26 £'000
Rural Services Delivery Grant	(6,927)	
Services Grant	(208)	
Recovery Grant		NIL
Children's Social Care Prevention Grant		369
Total	(7,135)	369

*2024/25 allocation

20. In 2024/25, the council received total Central Government grant funding of £32.2 million, in addition to locally raised council tax and retained business rates of £178.3 million (£24.3 million in 2023/24). In 2025/26, based on provisional allocations, the council expects to receive Central Government grant funding of £29.7 million; this represents a reduction of £2.5 million across these comparable sources from 2024/25 to 2025/26.

Table 2: Comparison of grant funding 2023/24 to 2025/26

Funding source	2023/24 £'000	2024/25 £'000	2025/26 £'000
Revenue Support Grant	983	1,048	1,422
Rural Services Delivery Grant	5,353	6,927	-
Services Grant	1,268	208	-
Social care support grant	13,466	17,482	20,336
ASC Discharge fund	951	1,585	1,585
Mkt Sustainability/Fair cost of care	2,062	3,853	3,853
New homes bonus	231	1,055	1,605
Children's social care prevention	-	-	369
Homelessness & rough sleeping	-	-	487
Total grant income	24,314	32,158	29,657
Reduction in funding 2024/25 to 2025/26			(2,501)

21. The reduction in Central Government grants results in less funding per head than urban areas despite the increased costs of service delivery to rural communities. To maintain services and deliver the best for residents, the council is therefore increasingly more reliant on funding through council tax than its urban counterparts.

22. Furthermore, the removal of this funding places increased pressure on the council to manage the impact of continuing growth in demand and cost for services. It limits the council's ability to build upon its strong financial position and maximise opportunities to deliver ambitious improvements for residents.

Council Tax Income

23. The Provisional Settlement confirmed that the council tax referendum limits would remain unchanged for 2025/26: councils with social care responsibilities are permitted to increase council tax by up to 3% with an additional 2% to meet adult social care pressures, without a local referendum.
24. Each 1% increase in council tax will generate approximately £1.4 million of recurrent funding to meet demand pressures and deliver the council's services. The proposed draft revenue budget for 2025/26 assumes the maximum increase of 4.99% in 2025/26.
25. In February 2024, Council unanimously approved the implementation of council tax premiums for empty properties and second homes in line with regulation and guidance issued by the Secretary of State. Total council tax income of £146.5 million in the 2025/26 draft revenue budget includes estimated income of £3.1 million in premiums applied to second homes and empty properties.
26. This estimate is informed by the number of dwellings confirmed as second homes or empty dwellings and the duration of the property's status, as per billing data as at December 2024. A series of verification checks to confirm occupancy and ownership status has been undertaken during 2024/25 to provide assurance in respect of the value of this budgeted income. A range of compliance measures are in place and will remain under review during 2025/26 to ensure that council tax premiums are charged on all relevant dwellings.

Business Rates Income

27. The total value of business rates due is collected by the council, paid to Government and redistributed back to the council via a formula grant mechanism. Business rates income collected by the council is accounted for separately from the council's revenue budget in the Collection Fund.
28. The revenue budget includes a fixed amount, estimated as part of the budget setting process, which is transferred from amounts collected in the Collection Fund. This means that if there is over or under collection of business rates income, the council's revenue budget is protected in that financial year. The council is responsible for maintaining a balance in the Collection Fund to manage movements in collection.
29. The council retains additional business rates income from the Hereford Enterprise Zone (HEZ). The HEZ was designated by Government as one of the 48 Enterprise Zones in 2012, designed to boost local growth and create jobs in specialist sectors including advance manufacturing and engineering, agri-food, business services, construction including built environment and security.
30. Within these zones, businesses are able to benefit from incentives including: a business rate discount of up to 100% over 5 years, enhanced Capital Allowances (corporation tax relief) for machinery and equipment purchases and simplified planning regulations through Local Development Orders.
31. Any growth in business rates above an agreed baseline (after reliefs and discounts) within the enterprise zone over a 25-year period, from April 2013, is retained by the council to be reinvested locally. The 2025/26 revenue budget includes additional business rate income retained from the HEZ of £1.3 million.

32. Following confirmation of final amounts to be retained from business rates collected from the Hereford Enterprise Zone, following submission of amounts collected and reliefs awarded in September 2025, any additional rate income retained above the budgeted income of £1.3 million will be transferred to Earmarked Reserves to be reinvested locally to support economic growth and development in future years. A programme of initiatives and activity to support growth in skills, business and tourism is currently being developed.
33. If additional funding is confirmed in the Final Local Government Settlement, expected late January/early February 2025, the value of additional business rates income applied in 2025/26 will be reduced.

Extended Producer Responsibility

34. Outside of Core Spending Power, the Provisional Settlement confirmed the allocation of £1.1 billion in income from the extended producer responsibility for packaging (pEPR) scheme will be allocated to local authorities in 2025/26. The extended producer responsibility for packaging (pEPR) regulation is part of the Environment Act 2021 and requires businesses to take responsibility for the packaging they sell in the UK, from the time it is placed on the market until it is disposed of.
35. The Government will assess the impact of additional pEPR income on the relative needs and resources of individual local authorities, and how it is factored into measurement of local authority spending power, ahead of the 2026/27 settlement. The council's allocation is confirmed as £3.5 million and this has been included in the total funding for 2025/26. Government is yet to announce the allocation of new burdens funding for the collection of food waste from all households which will be required from 2026/27.

Inflation Forecasts and National Living Wage Increases

36. Domestic inflation rates are generally in decline. Consumer Price Index (CPI) inflation fell to the target rate of 2.0% in May 2024, before a period of movements above and below the target (2.2% in July and August, 1.7% in September, 2.3% in October). The decline since last year has been led mainly by falling food, alcohol, tobacco and energy prices. CPI inflation is expected to rise to 2.5%, before falling back to the target rate of 2.0% by mid-2025.
37. Continuing geo-political risks may have an impact on inflation rates in the short-term: the risk of ongoing conflicts with a potential impact on oil prices and labour shortages, leading to sticky wage growth, may result in increased inflationary pressures.
38. In the Autumn Budget, Government announced an increase to the National Living Wage for individuals aged 21 and over of 6.7% from 1 April 2025 from £11.44 to £12.21 per hour, an increase of 16.3% in the National Minimum Wage for 18 to 20 year-olds and 18.0% for both under-18s and apprentices.
39. The impact of the increase in the National Living Wage, Employer's National Insurance and movement in CPI inflation on the rates that the council pays for services under contract, and in particular care contracts, has been considered as part of this draft budget.

Revenue Budget Proposals 2025/26

40. The base budget proposed for 2025/26 is summarised below and detailed in Appendix C with Directorate Savings Proposals detailed in Appendix B.

Detail	2024/25 Base Budget	Unfunded Pressures	Mitigations	Savings	2025/26 Proposed Budget
	£'000	£'000	£'000	£'000	£'000
Community and Wellbeing	75,891	15,273	-	-	91,164
Children and Young People	59,536	4,898	(1,442)	(3,929)	59,063
Economy and Environment	38,403	4,012	-	-	42,415
Corporate Services	21,032	3,388	(1,568)	-	22,852
Sub Total	194,862	27,571	(3,010)	(3,929)	215,494
Central	17,902	(1,401)	-	-	16,501
TOTALS	212,764	26,170	(3,010)	(3,929)	231,995
Funded by:					
Council tax	135,054				146,451
Business rates	43,249				47,567
Enterprise Zone Business rate income	-				1,282
Collection fund surplus	-				2,000
Revenue support grant	1,048				1,422
Rural services delivery grant	6,927				-
Social care support grant	17,482				20,336
ASC Discharge fund	1,585				1,585
Mkt Sustainability/Fair cost of care	3,853				3,853
Services grant	208				-
New homes bonus	1,055				1,605
Reserve funding	2,303				-
Employer's NI impact funding*	-				1,500
Children's social care prevention	-				369
Homelessness & rough sleeping	-				487
Extended producer responsibility grant	-				3,538
TOTALS	212,764				231,995

*estimate until Final Settlement

Directorate Key Budget Pressures 2025/26

41. A summary of Unfunded Pressures of £27.6 million in 2025/26, by Directorate, is noted in the table below.

Pay Award: This pressure represents an impact of the estimated pay award for 2025/26 on staffing expenditure across each Directorate.

National Insurance (direct impact): This pressure represents the direct impact of increases in the rate and thresholds for employer's national insurance (Er's NI) on the council's paybill. It

is expected that this pressure will be funded by Government, to be confirmed in the Final Settlement, and the proposed draft budget includes estimated funding of £1.5 million.

Inflation: This pressure represents the impact of inflation across contractual and non-contractual commitments in 2025/26. Inflation is estimated based on a variety of relevant inflation and price indices as well as contract specific rates. Inflation is funded at 90% in this revenue budget, as in the previous financial year.

Demand: Demand pressures reflect additional demand for services based on most recent activity data and costs. This pressure includes adjustments to reflect trend analysis and planned transformation activity in each service area.

Table 3: Directorate Pressures 2025/26

Pressure	Community Wellbeing	Children & Young People	Economy & Environment	Corporate Services	TOTAL
	£'000	£'000	£'000	£'000	£'000
Pay Award	601	672	410	414	2,097
Er's NI (direct)	448	514	283	287	1,532
Inflation	7,361	2,148	619	278	10,506
Growth/Demand	6,863	1,564	2,700	2,309	13,436
TOTAL	15,273	4,898	4,012	3,388	27,571

42. To recognise and mitigate the risk to the revenue budget of excessive cost pressures and volatility in demand across social care budgets, a contingency reserve of £11.0 million has been established in 2024/25, as approved by Cabinet in November 2024. This Budget Resilience Reserve will remain under review during 2024/25 and 2025/26 and future use of the reserve will be subject to appropriate governance in accordance with the Council's Finance Procedure Rules and Constitution.

Community Wellbeing

43. The Directorate faces continued challenge in 2025/26 as a result of increasing demand and complexity of need for the county's ageing population, increased demand for temporary accommodation, the impact of hospital high occupancy rates and an increase in the number of individuals unable to fund their own care linked to the impact of increases in the cost of living and inflation.
44. The budget requirement for 2025/26 reflects future cost pressures including increasing demand, acuity and complexity of care and price inflation including general inflation and the impact of increases in national insurance contributions and National Minimum and National Living Wage on health and social care provider contracts.
45. The Directorate will continue to respond to these challenges in 2025/26 through increased collaboration with health and community partners, reviewing high-cost Adult Social Care packages and improved utilisation of existing care contracts.

Children & Young People

46. The 2024/25 revenue budget included additional investment of £17.6 million for Children & Young People services to provide sufficient funding to meet the costs of service delivery. This additional funding comprised £14.3 million to address demand and cost pressures plus £3.3 million to meet inflationary increases and the cost of the annual pay award.

47. The increase in revenue budget was supported by a 3 Year Financial Plan which placed workforce stability and a reduction in high-cost placements as key priorities for the Directorate. This plan identified proposed savings of £10.2 million over the three years from 2024/25 to 2026/27.
48. Workforce savings represented a planned reduction in the number of agency social workers, assuming conversion of agency to permanent contracts, and a reduction in the social worker establishment consistent with an expected reduction in demand and the number of children in care. Reduced expenditure relating to high-cost placements was planned through detailed reviews of care packages and re-procurement, reunification with families, where appropriate, or placement with foster families, alongside the natural progression of care to supporting living when individuals reached the appropriate age.

Table 4: Children & Young People 3 Year Financial Plan (as at 2024/25 Budget Setting)

Planned activity/transformation	Year 1 2024/25 £'000	Year 2 2025/26 £'000	Year 3 2026/27 £'000	Total 2024/25 £'000
Workforce savings	(1,344)	(1,477)	(933)	(3,754)
Reduction in high-cost placements	(959)	(3,894)	(1,359)	(6,212)
SEN Transport efficiencies	(200)	-	-	(200)
TOTAL	(2,503)	(5,371)	(2,292)	(10,166)

49. The Quarter 2 2024/25 Budget Report presented to Cabinet in November 2024 confirms a forecast balanced position for the Children & Young People Directorate; services are forecast to be delivered within the approved budget in the year ending 31 March 2025.
50. The report also notes forecast delivery of Year 1 savings of £2.3 million by 31 March 2025. As at September 2024, saving targets S2 (Reduction in Social Worker establishment) and S3 (Reduction in number of agency social workers) totalling £1.4 million are confirmed as delivered in full. Activity to deliver saving target S1 (Reduction in High Cost Placements) of £0.9 million is assessed as 'in progress' and, notwithstanding the risk of emerging demand over the remainder of the financial year, this target is expected to be delivered in full.
51. Activity to deliver savings target S4 (£0.2 million in respect of SEN Transport efficiencies) is assessed as 'at risk' at Quarter 2 of 2024/25 with work underway to expedite delivery as part of a wider review of transport cost pressures and local sufficiency across the council.
52. The Children's Services and Partnership Improvement Plan was endorsed by Cabinet in July 2024. The Phase 2 Improvement Plan has been developed to bring focus, pace and measures to the improvement journey, building upon achievements in the last two years and introducing a Quality Assurance Framework of measures (key performance indicators, service user feedback and audit activity) to enable future progress to be monitored.
53. As the Service continues to transform and deliver improvements, it is appropriate that supporting plans are refreshed to ensure that planned activity continues to reflect the impact of progress to date, whilst supporting required future improvements and service priorities.
54. In February 2024, Directorate savings presented as part of the 2024/25 revenue budget proposed a target of £5.4 million for delivery in 2025/26 (Year 2 of the 3 Year Financial Plan). Following evidenced delivery of savings and service within budget in the 2024/25 financial year and significant transformation across the Directorate, the 3 Year Financial Plan has been refreshed to ensure that future savings remain realistic and achievable and in support of required improvements.

55. For 2025/26, the original plan proposed savings of £5.4 million comprising £1.5 million reduced workforce costs and £3.9 million reduced placement costs. A detailed review of the original proposals has been undertaken by the service, led by the Interim Director of Children's Services and informed by achievement of existing saving targets in 2024/25 and planned future activity.
56. This review has identified realistic and achievable savings proposals of £3.9 million for 2025/26. This represents a significant increase in savings forecast to be delivered in Year 1 and contributes to total savings of £6.4 million across Years 1 and 2, representing 63% of required savings per the original Financial Plan across this period.
57. It is proposed that the £3.7 million balance of total savings planned over the original 3 Year Financial Plan period are reprofiled over an additional year, extending the delivery period to 4 years: 2027/28.
58. As service improvement and transformation continue in 2025/26, detailed savings plans to deliver the Year 3 and 4 target of £3.7 million will be finalised and these will be subject to internal quality assurance and external audit review as part of routine Value for Money (VFM) audit testing procedures.
59. It is proposed that the gap arising between the original planned target for Year 2 and the revised savings identified for 2025/26 of £1.4 million is funded from the budget resilience reserve (Contingency Reserve) in 2025/26. The £1.4 million contribution from reserves in 2025/26 will be repaid in Years 3 and 4 of the revised plan period, alongside delivery of the balance of £2.3 million of savings.
60. Unprecedented increases in the demand for children's social care continue to have a significant impact on Children's Services nationally. Growing demand in Early Help, Special Educational Needs and Disability (SEND) and Home to School Transport services and national challenges in the recruitment and retention of social workers continue to contribute to pressures across the Directorate.

Dedicated Schools Grant (DSG)

61. The cumulative DSG deficit is accounted for as an unusable reserve on the council's Balance Sheet, as permitted via statutory instrument, which will remain in place until 31 March 2026. This enables all local authorities to ring-fence the DSG deficit from the overall financial position in the statutory accounts.
62. Beyond the period of the statutory override, the expectation is that any balance on the DSG Unusable Reserve will transfer back to the council's total Earmarked Reserves. The deficit will have an impact on the council's overall financial position once the override period ends and this risk is being managed alongside the assessment of the adequacy of the council's reserves, as part of the council's medium term financial strategy.
63. It should be noted that this issue is a major concern amongst local authorities nationally. A survey by the Association of Local Authority Treasurers (ALATS) reveals the nationwide deficit currently exceeds £3.0 billion across English councils, projected to rise to £5.6 billion by 2025/26 and £8.0 billion by 2026/27.
64. At 1 April 2024, the cumulative deficit brought forward totals £6.1 million. The Q2 (September) 2024/25 forecast was an overspend of £7.6 million within the High Needs block of the DSG; increasing the cumulative deficit to £13.7 million by 31 March 2025. A focused review to quantify the impact of emerging demand in 2025/26 and future years is currently underway to inform the council's DSG Deficit Management Plan. It is expected that this will increase the forecast deficit by 31 March 2025.

65. The Provisional Settlement confirmed that Government will set out plans for reforming the SEND system next year including a decision on the statutory override. The council continues to work with the Department of Education, Local Government Association and other local authorities to seek clarification on the position once the statutory instrument expires and a sustainable funding strategy for the High Needs budget.

Economy & Environment

66. Investment in the Directorate will provide sufficient resource and capacity to support growth in the economy in 2025/26 and deliver key projects through the Capital Programme. The Directorate will continue to implement the new operating model and contracting arrangements for public realm services and manage pressures in the operation of waste collection and disposal contracts arising due to growth in the volume of domestic waste and inflationary increases in the contract sum.
67. As part of budget setting activity, a review of the Development Planning Control income target for 2025/26 has been undertaken; considering historic performance against budget, expected growth and the impact of planned reform of the National Planning Policy Framework (NPPF) and other changes to the planning system by Government.
68. Further work has been completed by the council's Internal Auditors in collaboration with Transformation team staff: analysing income generated to understand changes in the volume of chargeable activity and activity type, considering timeframes for turnaround and benchmarking activity and income levels with similar sized rural authorities. This review determined that actual income generated by the council is comparable to similar authorities and that the current income budget is not achievable.
69. The Quarter 2 2024/25 Budget Report presented to Cabinet in November 2024 highlights forecast under-delivery of planning income of £1.3 million for the year ending 31 March 2025. In 2023/24, the revenue budget outturn report noted under-delivery of planning income of £1.0 million for the year.
70. For 2025/26, it is proposed that the Development Planning Control income budget is reduced by £1.0 million. This reset represents a revised income target which is realistic and achievable, whilst enabling the service to continue to identify efficiencies in service delivery and opportunities to maximise income generation.
71. Additional funding in 2024/25, through increase in Rural Services Grant at the Final Settlement, was allocated in the 2024/25 revenue budget to provide additional funding for drainage works across the county (£445k), Lengthsman scheme services (£250k) and improvements to Public Rights of Way (£250k). Despite the loss of Rural Services Grant, this commitment will continue in 2025/26 to maintain delivery in these priority areas across the county.
72. Expenditure for these schemes in future years will be subject to confirmation of future funding arrangements, and the multi-year settlement, and the review of the council's public realm services contract.

Home to School and SEND Transport

73. There are significant pressures in the provision of mainstream home to school transport and SEND transport services experienced in Herefordshire and nationally. The recent County Council's Network (CCN) (November 2024) highlights the financial pressures impacting local authority home to school transport budgets, with growth in Education, Health and Care Plans (EHCPs) for SEND students and increases in more costly travel such as individual taxis and passenger assistants intensifying the challenge.

74. The CCN report notes that since 2014, the number of EHCPs has surged by 140%, with average costs per SEND pupil rising 32% from £6,280 to £8,299 per annum. This rise in demand has led to a dramatic increase in home to school transport costs over the last decade and CCN figures project costs will reach £3.6 billion per year by 2030 for councils across England.
75. The Provisional Settlement notes that Government intends to set out plans to reform the SEND system in further detail next year. Ahead of any substantive reform, the council must manage increasing demand and cost pressures in transport services by identifying innovative strategies to:
- influence demand using data to understand user requirements;
 - maximise independence and reduce reliance on council transport services; and
 - employ digital technologies to maximise opportunities to consolidate routes and deliver efficient journeys.
76. An external review has been commissioned by the Chief Executive and an action plan is currently being developed which will deliver efficiencies across the council's transport routes, reduce costs and introduce a new operating model for transport services in 2025/26.
77. Additional investment in a council-owned fleet of vehicles in the proposed Capital Programme for 2025/26 is planned to further mitigate this revenue budget pressure. This investment will seek to deliver maximum cost savings, informed by revised route options and most efficient passenger utilisation.

Corporate Services

78. The budget requirement for 2025/26 reflects investment in the Corporate Services Directorate to support continued delivery of transformation across the council; enabling innovation through technology and the use of digital tools to build a data and intelligence-led organisation. These improvements in the use of technology will support demand management, deliver efficiencies and inform decision-making across the council's services and strategic priorities.

Central

79. The Central budget comprises financing transactions, Minimum Revenue Provision (MRP) and other corporate budget items including: pension costs, costs in respect of the administration of housing benefit and council tax and business rate collections and income from the council's business rate pooling arrangement. This budget is informed by planned delivery of the council's Capital Programme and corresponding borrowing requirement.

Delivery of 2024/25 Savings

80. The 2024/25 revenue budget included a challenging savings target of £19.5 million comprising Directorate savings of £11.6 million and council-wide savings of £7.9 million across a range of proposals to transform services, reduce expenditure, increase opportunities for cost recovery and review the size and shape of the organisation.
81. The challenging savings target set, and the difficult decisions taken to deliver efficiencies in both services and the size and shape of the council, form the basis of a sustainable financial strategy which is underpinned by robust financial management and continued expenditure controls, accuracy in forecasting and effective collaboration between service and finance teams.
82. The council's financial planning and monitoring arrangements which safeguard the financial sustainability of the council have been reviewed against National Audit Office criteria by external auditors. The Auditor's Annual Report published in September 2024 confirms there

are no significant weaknesses in arrangements to ensure the council manages risk to its financial sustainability.

83. Delivery of savings at a time of increasing demand and budget pressures remains a significant challenge for the council. The Quarter 2 2024/25 Budget Report presented to Cabinet in November 2024 reports forecast delivery of £14.5 million (74% of total savings) in 2024/25 with the balance of £5.0 million assessed as 'at risk'.
84. Work is underway to maximise delivery of these savings in 2024/25 or identify mitigations. The delivery of savings in full and on time is critical to ensure the 2024/25 revenue outturn position is balanced and to prevent further pressure on future years' budgets.
85. Despite efficiencies across the council in 2024/25, Directorate teams have continued to deliver key priorities and Delivery Plan milestones whilst providing increased support to recognise the impact of the increasing costs of living on residents and businesses in the county. In addition, the council has made significant progress in the delivery of capital projects.
86. There have been measurable improvements in public health outcomes with successful initiatives to stop smoking and improve mental health. Strategies and frameworks to improve services to children and young people have been informed by pilot schemes and surveys to gain a better understanding of their experiences across the county. Progress to improve the lives of the aging population has been made using data and intelligence to address issues in the discharge process and respite services. This improvement work will continue over the remainder of 2024/25 and will be measured as part of routine performance reporting.
87. The council is committed to identifying solutions to develop affordable housing and work is underway to review best practice options through engagement with developers and registered providers.
88. In delivery of objectives to expand and maintain the county's transport infrastructure network, the council has completed surface dressing works across 30 sites across Herefordshire and plans to spend the remaining budget to deliver further improvement by the end of the financial year.
89. The council continues to work towards reducing carbon emissions to achieve net zero by 2030/31 and making the county more resilient to the effects of climate change. Progress has been made in developing the next carbon management plan, farm carbon audits have been completed and the second phase of the Home Upgrade Grant is in delivery, supporting improved household energy efficiency for residents.
90. Transformation work has continued across the council in 2024/25 with advancements including digital technology in customer services and pilots of M365 and the use of Artificial Intelligence being progressed in the year.

Proposed Savings 2025/26

91. Total savings of £3.9 million are proposed in the 2025/26 budget which represent savings in the Children & Young People Directorate in Year 2 of the Financial Plan, as noted above in paragraphs 46 to 52.
92. Savings planned in Year 2 of the revised Financial Plan will build upon the successful delivery of savings achieved in 2024/25; continuing the conversion of high-cost agency staff to permanent posts and a planned reduction in the staffing establishment aligned to the locality model and reduced levels of demand. A reduction in placement costs, across residential, complex needs and supported accommodation placements, will deliver further savings in 2025/26.

93. Details of individual proposals and a description of planned activity for these savings are included at Appendix B. Whilst no additional Directorate savings are proposed, as part of the budget setting process a series of mitigations have been identified to contain growth and minimise pressures on Directorate budgets in 2025/26 and these are noted below.

Mitigations

94. Mitigations of £3.0 million include £1.4 million contribution from the budget resilience reserve (Contingency Reserve) in 2025/26 to bridge the gap of Year 2 savings identified in the Children & Young People Directorate as noted above at para 58. This application in 2025/26 is a result of revisions to planned activity and timing of savings and this contribution will be repaid in Years 3 and 4 of the revised plan period, alongside delivery of the balance of £2.3 million of savings.
95. Transformation expenditure in the Corporate Services Directorate will be mitigated in 2025/26 through the application of £0.6 million of capital receipts. This application is permitted by statutory Direction and the council is required to evidence compliance with qualifying conditions to its external auditors. The qualifying expenditure will generate efficiencies, ongoing savings and reductions in the cost of service delivery. The proposed application in 2025/26 represents modest use of this flexibility by the council.
96. The balance of mitigations represents increases in fees and charges of £0.5 million and realignment of Directorate budgets which total £0.5 million to mitigate corresponding growth in 2025/26.

Table 5: Mitigations

Mitigation	Children & Young People £'000	Corporate Services £'000	Total £'000
Utilisation of Contingency Reserve to mitigate Year 2 savings gap	(1,442)	-	(1,442)
Application of Capital Receipts to mitigate qualifying transformation expenditure	-	(600)	(600)
Increased fees and charges	-	(531)	(531)
Realignment of Directorate budgets to mitigate corresponding growth	-	(437)	(437)
TOTAL	(1,442)	(1,568)	(3,010)

Community impact

97. The draft budget demonstrates how the council plans to use its financial resources to deliver its statutory responsibilities and strategic priorities. The budget and savings proposals support the overall delivery plan and service delivery strategies in place.
98. In accordance with the adopted code of corporate governance, the council achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions. Determining the right mix of these is an important strategic choice to make to ensure intended outcomes are achieved. The council needs robust decision making mechanisms to ensure our outcomes can be achieved in a way that provides the best use of resources while still enabling efficient and effective operations.

Environmental Impact

99. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a

strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

100. Whilst this overarching budget setting document will not detail specific environmental impacts, consideration is always made to minimising waste and resource use in line with the council's Environmental Policy. A specific environmental impact assessment for the service specific budget proposals will be considered as appropriate to seek to minimise any adverse environmental impact and actively seek opportunities to improve and enhance environmental performance.

Equality duty

101. Equality Impact Assessments for the savings options and budget proposals will be made available as part of the 2025/26 Revenue Budget report to be presented at the meeting of Cabinet on 23 January 2025.

Resource implications

102. The financial implications are as set out in the report. The ongoing operational costs including, human resources, information technology and property resource requirements are included in the draft budget and will be detailed in separate governance decision reports as appropriate.
103. The council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from its resources. This includes taking properly informed decisions and managing key operational and financial risks in order to deliver objectives and safeguard public money.
104. Under the Local Audit and Accountability Act 2014, the council's external auditors are required to assess whether the council has made proper arrangements under three areas, as defined by the National Audit Office: Financial Sustainability, Governance and Improving economy, efficiency and effectiveness.
105. For the 2023/24 financial year, the council was the first and only council in the country to receive an audit opinion on the financial statements and its value for money arrangements by the statutory deadline of 30 September 2024.
106. The Auditor's Annual Report for 2023/24 notes that arrangements for identifying, developing, monitoring and reporting on savings are appropriate and that the council has used appropriate key assumptions together with sensitivity analysis when developing its 2024/25 budget. These arrangements, assessed by external audit, underpin the 2025/26 budget setting process to support the preparation of a realistic balanced budget.
107. Audit testing of the robustness of savings proposals included in the 2024/25 budget confirmed a 'green' rating in respect of the council's plans to bridge its funding gap and identify achievable savings. Auditors selected a sample of savings schemes across Directorate and council-wide savings representing £14.6 million (75% of the £19.5 million total savings for 2024/25). The findings confirm that Officers provided supporting working papers including detailed calculations to support the figures, alongside evidence that plans have been developed through engagement between budget holders and service managers
108. The audit report provides valuable, independent assurance that the council has robust financial planning arrangements in place to identify all significant financial pressures and risks to financial resilience and to support the sustainable delivery of services in accordance with strategic and statutory priorities.

Legal implications

109. When setting the budget it is important that councillors are aware of the legal requirements and obligations. Councillors are required to act prudently when setting the budget and council tax so that they act in a way that considers local taxpayers. This also covers the impact on future taxpayers.
110. In acting prudently, the council has an obligation to determine whether any planned council increase is excessive (based on a set of principles defined by the Secretary of State and approved by the House of Commons).
111. The level of council tax rise does not meet the definition of an excessive increase so can be approved without the need for a referendum.
112. The Local Government Finance Act 1992 requires a council to set a balanced budget. To do this the council must prepare a budget that covers not only the expenditure but also the funding to meet the proposed budget. The budget has to be fully funded and the income from all sources must meet the expenditure.
113. Best estimates have to be employed so that all anticipated expenditure and resources are identified. If the budget includes unallocated savings or unidentified income then these have to be carefully handled to demonstrate that these do not create a deficit budget. An intention to set a deficit budget is not permitted under local government legislation.
114. The council must decide every year how much they are going to raise from council tax. The decision is based on a budget that sets out estimates of what is planned to be spent on services. Because the level of council tax is set before the year begins and cannot be increased during the year, risks and uncertainties have to be considered, that might force higher spending more on the services than planned. Allowance is made for these risks by: making prudent allowance in the estimates for services; and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
115. Local government legislation requires the council's S151 officer to make a report to the full Council meeting when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals (the statement is contained within the risk management section of this report). This is done so that members will have authoritative advice available to them when they make their decisions. As part of the Local Government Act 2003 members have a duty to determine whether they agree with the S151 statutory report.
116. The council's budget and policy framework rules require that the chairpersons of a scrutiny committee shall take steps to ensure that the relevant committee work programmes include any budget and policy framework plan or strategy, to enable scrutiny members to inform and support the process for making Cabinet proposals to Council.
117. Section 106 of the Local Government Finance Act 1992 precludes a councillor from voting on the Council's budget if he or she has an outstanding council tax debt of over two months. If a councillor who is precluded from voting is present at any meeting at which relevant matters are discussed, he or she must disclose that section 106 applies and may not vote. Failure to comply is a criminal offence.

Risk management

118. Section 25 of the Local Government Act 2003 requires the S151 officer to report to Council when it is setting the budget and precept (council tax). Council is required to take this report

into account when making its budget and precept decision. The report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.

119. The budget has been updated using the best available information; current spending, anticipated pressures and estimates in respect of the provisional 2025/26 funding settlement.
120. The known most substantial risks have been assessed as part of the budget process and reasonable mitigation has been made where possible. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process.
121. The council maintains a general fund reserve balance above the minimum requirement, earmarked reserves and an annual contingency budget to manage these risks.
122. Key financial risks and mitigating actions are noted in the table below. The impact measure refers to the potential financial severity of each identified risk.

Key Financial Risk	Likelihood	Impact (Potential Severity)	Mitigating Action
<p>Unexpected events and emergencies By its nature, the financial risk is uncertain</p>	Low	High	The Council maintains a strategic reserve at a level of between 3 and 5% of its revenue budget for emergency purposes. The level of this reserve at 1 April 2024 was 9.6m (4.5% of 2024/25 revenue budget). Additionally, national resources have historically been provided to support national issues.
<p>Not delivering required improvements The council must address the statutory direction and improvements across Children's Services</p>	Low	Medium	<p>The Phase 2 Children's Services and Partnership Improvement Plan was endorsed by Cabinet in July 2024 introducing a Quality Assurance Framework of measures (key performance indicators, service user feedback and audit activity) to enable future progress to be monitored. Performance against the Improvement Plan is monitored and reported on a quarterly basis.</p> <p>The supporting Financial Plan has been revised for 2025/26 to ensure the Children & Young People Directorate is able to continue to deliver savings whilst sustaining improvement in service delivery.</p>
<p>Increasing demand for Adult and Children's Social Care Demand for Children's services continue and demand for adult services increases as the population ages.</p>	High	Medium	<p>Demand led pressures are reflected within our spending plans; additional funding to support increased demand has been applied to Community Wellbeing and Children & Young People Directorate base budgets for 2025/26. In year monitoring of performance enables Directorates to forecast trends and identify changes in demand.</p> <p>Increasing demand for social care represents a key financial pressure for all councils. Robust and regular budget monitoring identifies emerging pressures and the financial impact on in-year budgets across the council. Financial monitoring is informed by activity data and trend analysis from the relevant</p>

			<p>service to ensure that forecasting is reliable and timely.</p> <p>The Budget resilience reserve represents a contingency budget for 2025/26 and future years to mitigate the risks of excessive cost pressures and volatility in demand.</p>
<p>Potential overspend and non-delivery of savings required to balance the budget</p>	Medium	Medium	<p>High risk budget areas have been identified and financial support is targeted in these areas. Robust and regular financial monitoring which is reported to Directorate and Corporate Leadership Teams and Cabinet enables the timely identification of actions to mitigate the risk of overspends.</p>
<p>Volatility in Government funding streams The government settlement for 2025/26 is a one-year settlement; the assumed funding for the MTFS period is not confirmed.</p>	High	Medium	<p>The MTFS reflects prudent estimates and assumptions in the financial planning over the medium-term period where it is acknowledged that uncertainty over future funding exists.</p> <p>Government have confirmed that there will be significant reform of funding arrangements in future years, including a Fair Funding Review and reset of Business Rates. The MTFS will be updated to reflect the impact for the council as further information is received.</p>
<p>Interest and Inflation There is uncertainty over interest and inflation rates.</p>	Medium	Medium	<p>The Treasury Management Strategy is informed by latest forecast, as provided by our Treasury Management Advisors. Increases in borrowing rates will be offset by increases in investment returns.</p>
<p>Dedicated Schools Grant The future cumulative deficit requires direct financial support from council core budgets if the period of statutory override is not extended beyond 31 March 2026.</p>	High	Medium	<p>The high needs budgets are funded by the dedicated schools grant, but any overspend becomes a council liability.</p> <p>This risk cannot currently be mitigated; expenditure will be monitored as part of routine budget monitoring arrangements and the council will continue to work with the Department for Education and monitor progress against the DSG Deficit Management Plan.</p> <p>This represents a significant local and national pressure and urgent reform is required. Collaboration between the Department for Education, MHCLG, HM Treasury and local authorities must inform plans to reform funding arrangements and future decision on the statutory override to manage the national deficit and minimise the impact on local authority financial positions.</p>

Budget Timetable

123. The high-level timetable to approval of the 2025/26 revenue budget by Council is set out below:

Date	Activity
13 January 2025	Draft 2025/26 revenue budget to Cabinet
14 January 2025	Meeting of Scrutiny Management Board to consider revenue budget for 2025/26
23 January 2025	Meeting of Cabinet to recommend 2025/26 revenue budget to Council
Late Jan/early Feb	Final Local Government Finance Settlement
7 February 2025	Meeting of Council to approve 2025/26 revenue budget

Consultees

124. The council's constitution states that budget consultees should include parish councils, health partners, the schools forum, business ratepayers, council taxpayers, the trade unions, political groups on the council, the scrutiny committees and such other organisations and persons as the Leader shall determine.
125. In 2025/26, the council developed an online budget simulator tool, enabling residents and other stakeholders to consider funding choices and the impact of changes in income and expenditure on the delivery of services. Engagement also asked for feedback on priorities for the 2025/26 budget and council tax increase options. A further event to engage with the business community was held in December 2024.
126. The results of consultation activities will be included in the updated 2025/26 Budget Report for the meeting of Cabinet on 23 January 2025.
127. Scrutiny Management Board will be consulted with on 14 January 2025; any resulting recommendations will be considered by Cabinet ahead of its scheduled meeting on 23 January 2025.

Appendices

- Appendix A: Medium Term Financial Strategy
- Appendix B: Proposed Savings Plans
- Appendix C: Proposed Directorate Base Budgets
- Appendix D: Treasury Management Strategy

Background papers

None identified.