Herefordshire Council

Title of report: Q3 2024/25 Budget Report

Meeting: **Scrutiny Management Board**

Meeting date: **Wednesday 26 March 2025**

Cabinet Member: **Cabinet member finance and corporate services**

Report by: **S151 Officer**

Report Author: **Director of Finance (S151 Officer)**

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To report the forecast position for 2024/25 at Quarter 3 (December 2024), including explanation and analysis of the drivers for the material budget variances, and to outline current and planned recovery activity to reduce the forecast overspend. To provide assurance that progress has been made towards delivery of the agreed revenue budget and savings targets, and that the reasons for major variances are understood and are being addressed.

The forecast 2024/25 outturn shows a net overspend of £7.0 million at Quarter 3, before further management action estimated at £5.9 million to reduce the forecast overspend to £1.1 million.

Recommendation(s)

That: Scrutiny Management Board

a) **considers the financial forecast for 2024/25, as set out in the appendices A-E, and makes any recommendations in relation to the report;**

b) **notes the progress in delivery of savings targets and recovery actions for 2024/25; and**

c) **notes the forecast revenue outturn position at Quarter 3 2024/25 of a £7.0 million overspend, before management action, and the potential impact of this overspend on the council's reserves.**

Further information on the subject of this report is available from
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Alternative options

1. There are no alternative options. It is within the remit of the Scrutiny Management Board to undertake a scrutiny role in relation to areas which are cross cutting in nature. The forecast position for 2024/25 at Quarter 3 is likely, in the near future, to have a material impact on council policy and strategies.

Key considerations

Revenue Outturn

2. The council's approved net revenue budget for 2024/25 is £212.8 million which includes planned savings of £19.5 million comprising £11.6 million of Directorate Savings and £7.9 million of Council-wide budget savings.

3. This report presents the forecast outturn position for 2024/25 at Quarter 3 (December 2024) and highlights continuing in-year cost pressures to support increases in demand across social care budgets, temporary accommodation and Special Educational Needs (SEN) transport services.

4. **The Quarter 3 revenue outturn position for 2024/25 shows a forecast variance from budget of £7.0 million (3.3% of net budget), an improvement of £3.2 million compared with the position reported at Quarter 2.**

5. Whilst underlying cost pressures in demand-led budgets remain, the successful delivery of management actions identified at Quarter 2 has had a positive impact on the overall outturn position. Of the £8.2 million of management actions and planned mitigations reported at Quarter 2, £4.9 million have been delivered in the period from October to December 2024.

6. **It is expected that further planned activity in Quarter 4 (January to March 2025) will reduce the forecast overspend to £1.1 million (0.5% of budget) by 31 March 2025, as outlined in Table 2.**

7. Robust, timely monitoring of the revenue budget and responsible stewardship of financial resources throughout 2024/25 has enabled the council to respond to and mitigate financial pressures. Risks to the forecast outturn position, across individual Directorate budget areas, have been reviewed as part routine budget monitoring arrangements and this has enabled a pro-active, managed approach to identifying recovery actions to mitigate the council's overall position.

8. A review of the delivery and status of approved savings has been undertaken at Quarter 3, to confirm the deliverability of savings targets previously assessed as 'in progress'. The impact of this revised assessment is included in the forecast outturn position set out in Table 1 below with additional detail, by Directorate, set out in Appendix D.

9. Where savings are assessed as 'at risk' of delivery, the impact on the forecast outturn position has been mitigated in 2024/25 by targeted management of Directorate budgets to reduce expenditure and positive variances in corporate financing transactions in the Central budget. A review of activity planned to deliver these savings recurrently is underway, as highlighted in paragraph 34 below.

10. The forecast outturn position for 2024/25 by Directorate, is shown in Table 1 below. Movement in the net budget position reflects the transfer of budgets between Directorates and the separation of SEN and Home to School Transport budgets for transparency.

Table 1: 2024/25 Forecast Revenue Outturn before management recovery action

	Revenue Budget £m	Forecast Outturn £m	Forecast Variance £m
Community Wellbeing	76.3	82.0	5.7
Children & Young People	59.7	57.7	(2.0)
Economy & Environment	26.9	27.5	0.6
Corporate Services	21.8	23.1	1.3
SEN&Home to School Transport	9.4	12.0	2.6
Directorate Total	**194.1**	**202.3**	**8.2**
Central	16.4	17.5	1.1
Sub-Total	**210.5**	**219.8**	**9.3**
C&YP Budget Amendment	2.3	-	(2.3)
Total	**212.8**	**219.8**	**7.0**

Key Directorate Variances

11. Detailed explanations for variances from budget are set out in Appendix A by Directorate and Service area. Key cost pressures and movements from the outturn position reported at Quarter 2 are highlighted below, by Directorate.

12. **Community Wellbeing:** The Directorate forecast overspend of £5.7 million represents in-year net cost pressures of £3.3 million and savings targets assessed as 'at risk' of delivery by 31 March 2025 of £2.4 million. In-year cost pressures are largely attributable to increasing demand and complexity of client need, leading to increased costs, and increased demand for temporary accommodation. The Section 151 Officer's Section 25 Report, presented as part of the documents to support the 2025/26 Revenue Budget, provides assurance that the Directorate budget allocation for 2025/26 reflects these cost pressures and is sufficient to meet the costs of service delivery.

13. The 2024/25 budget assumes delivery of approved savings of £3.2 million plus delivery of savings not delivered recurrently in the previous financial year of £2.5 million. Significant progress has been made to deliver against this target with £3.3 million (57%) of the total £5.7 million target forecast to be delivered by 31 March 2025; successfully transforming the way that services are delivered whilst managing cost pressures in demand led areas of the Directorate budget.

14. At Quarter 3, a review of the deliverability of savings previously assessed as 'in progress' has highlighted risks to delivery by 31 March 2025 and, as a result, £2.4 million of savings have been assessed as 'at risk' and this has been reflected in the Directorate outturn position. Clear work plans and associated activity is underway to deliver the savings but, as a result of capacity constraints associated with managing increased demand, these savings will not be delivered in year. Work is underway through Directorate Savings Boards to maximise delivery, or mitigate, in Quarter 4 and to review and strengthen activity plans to provide assurance over delivery and timing of 'at risk' savings from 1 April 2025.

15. **Children & Young People:** The Directorate forecast is an underspend of £2.0 million for 2024/25 with forecast delivery of the £2.3 million savings target in full by 31 March 2025. Alongside transformation and improvements in service delivery, the forecast underspend position reflects the impact of increased rigour and challenge of Directorate expenditure throughout 2024/25 and provides assurance that the savings approved for delivery in 2025/26 (Year 2 of the revised Financial Plan) are already in progress.

16. Forecast expenditure across service areas within the Children & Young People Directorate continues to decrease as a result of review and management of residential placements and continued reduction in agency staff in social worker posts.

17. At Quarter 3, the SEN Transport budget and expenditure have been transferred from the Directorate budget and is reported separately alongside Home to School Transport budget and expenditure.

18. **Economy & Environment:** The Directorate forecast overspend of £0.6 million represents in-year net cost pressures of £0.2 million (after mitigations from reductions in expenditure across energy and waste services) plus savings targets assessed as 'at risk' of delivery by 31 March 2025 of £0.4 million. In year cost pressures reflect the under-delivery of planning income; this income target has been revised in the 2025/26 budget and a realistic budget has been approved.

19. The 2024/25 budget assumes delivery of approved savings of £3.3 million plus delivery of savings not delivered recurrently in the previous financial year of £1.1 million. At Quarter 3, the Directorate is forecasting to deliver £3.9 million (89%) of the total savings target of £4.43 million. Work continues to review original proposals and activity required to deliver the outstanding savings to mitigate the impact on the 2024/25 outturn position and reduce pressures on future years' budgets.

20. **Corporate Services:** The Directorate forecast overspend of £1.3 million represents in-year savings targets assessed as 'at risk' of delivery by 31 March 2025 and in-year cost pressures as a result of the increase in statutory audit fee. The Directorate position has been mitigated by the application of capital receipts against eligible expenditure, as approved by full Council on 7 February 2025, successful reviews of income due to the council and management of employee budgets across the Directorate.

21. The 2024/25 budget assumes delivery of approved savings of £2.8 million plus delivery of savings not delivered recurrently in the previous financial year of £0.9 million. At Quarter 3, the Directorate is forecasting to deliver £2.0 million (54%) of the total savings target of £3.7 million. Work to deliver the outstanding savings in Corporate Services is underway, aligned to the development of the Transformation Strategy and activity led by the newly appointed Director of Transformation & Strategy.

22. **Central:** 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.

23. At Quarter 3, the net £1.1 million overspend represents 'at risk' savings targets which have not been mitigated by recovery actions and efficiencies in year. Work to review the original

proposals, planned activity and timescales, is underway aligned to the development of the Transformation Strategy and Target Operating Model.

Management Activity and Recovery Actions

24. The Corporate Leadership Team has continued to exercise robust financial management of the forecast position throughout the year; monitoring the impact of planned mitigations and recovery actions on the in-year forecast and the progress of delivery of approved savings targets. Monthly Budget Board meetings of Corporate Directors, the Chief Executive and S151 Officer, have taken place to highlight key Directorate pressures and challenges in the delivery of savings, and to identify action plans to manage cost pressures and mitigations for 'at risk' savings.

25. At Quarter 1, a forecast overspend of £10.8 million in 2024/25 was reported, expected to reduce to £6.8 million with delivery of management recovery actions. The impact of strengthened controls and challenge of expenditure, supported by a clear focus on mitigating any in-year overspends and 'at risk' savings, is a reduction in this forecast position at Quarter 3. Recovery actions identified have successfully mitigated cost pressures and challenges in the delivery of savings, **with further activity planned to reduce the forecast overspend to £1.1 million by 31 March 2025**.

26. Corporate Directors will continue to identify further mitigations to manage in-year delivery of services within the approved budget, and expenditure controls implemented during the last financial year remain in place to support recovery activity in 2024/25. Directorate panels will continue to review expenditure on goods and services as well as changes in staffing arrangements to maintain the increased level of rigour and challenge over expenditure for the remainder of the financial year.

27. The updated forecast revenue position for 2024/25, after management actions and planned mitigations is set out in Table 2 below.

Table 2: Updated forecast revenue position 2024/25

	Revenue Budget £m	Forecast Outturn £m	Forecast Variance £m	Recovery Action/ Planned Mitigations £m	Revised Forecast £m
Community Wellbeing	76.3	82.0	5.7	(3.7)	2.0
Children & Young People	59.7	57.7	(2.0)	-	(2.0)
Economy & Environment	26.9	27.5	0.6	(0.6)	-
Corporate Services	21.8	23.1	1.3	-	1.3
SEN/Home to School Transport	9.4	12.0	2.6	(0.5)	2.1
Directorate Total	**194.1**	**202.3**	**8.2**	**(4.8)**	**3.4**
Central	16.4	17.5	1.1	(1.1)	-
Sub-Total	**210.5**	**219.8**	**9.3**	**(5.9)**	**3.4**
C&YP Budget Amendment	2.3	-	(2.3)	**-**	(2.3)
Total	**212.8**	**219.8**	**7.0**	**(5.9)**	**1.1**

28. Recovery actions expected to reduce the forecast overspend in Quarter 4 include:

- allocation of the Budget Resilience Reserve to mitigate the impact of cost pressures and volatility in demand in Directorate budgets;
- challenge of forecast expenditure over the remainder of the financial year through Directorate expenditure control panels; and
- review of financing transactions, Minimum Revenue Provision (MRP) and other corporate budget items aligned to forecast delivery of the Capital Programme and borrowing requirements as part of year end reconciliation and closedown activity.

Delivery of Savings

29. Council approved a total of £19.5 million of savings for 2024/25 comprising Directorate Savings of £11.6 million and £7.9 million of Council-wide Savings. Appendix D includes a detailed breakdown of the assessment of savings targets; at Quarter 3, the revised assessment reflects robust challenge of savings targets previously assessed as 'in progress' and the deliverability of these savings over the remainder of the financial year.

30. This review confirms delivery of £10.2 million (52%) of the total savings target for 2024/25 at Quarter 3. A further £1.1 million are expected to be delivered by 31 March 2025 to bring the total savings delivered in year to £11.3 million (58% of the full year target).

31. Savings of £8.1 million (42%) are assessed as 'at risk' of delivery in 2024/25. Whilst significant progress has been made to deliver against the full year target, the delivery of recurrent savings whilst managing in-year cost pressures and supporting continuous improvement and transformation across services, remains a key challenge for the council.

32. **The impact of 'at risk' savings in each Directorate has been mitigated**, where possible, in 2024/25 and the Directorate forecast outturn positions are noted above at Table 2. **The resulting forecast overspend for 2024/25 of £1.1 million (0.5% of budget) confirms that timely action has been taken throughout the year to manage the risks and challenges in delivering savings alongside managing budget pressures.**

33. Monitoring progress in the delivery of savings throughout 2024/25 has highlighted challenges arising due to areas of overlap and/or conflict between Directorate targets and council-wide targets particularly in areas which relate to reductions and efficiencies in staffing costs. In these instances, delivered savings have been allocated to prioritise delivery of Directorate targets before contributing to council-wide savings. In addition to a full year impact of £2.4 million of savings attributable to the council-wide Mutual Early Resignation Scheme (MERS) saving target, a further £1.7 million of savings relating to reductions in staffing are forecast to be delivered in 2024/25 as part of Directorate Savings Plans.

34. Delivery of savings targets has been further challenged in year by increasing demand and costs for council services, changes in the national economic climate limiting ability to achieve savings in third party expenditure and the timing of transformation activity.

35. Actions to maximise and expedite the delivery of 'at risk' savings targets have been identified and implemented, as outlined below, and progress will continue to be monitored and reported in the next budget monitoring report to Cabinet. Planned action includes:

- review of original proposals and planned activity in the context of current market conditions;
- development of revised savings plans, supported by detailed activity plans with sign off by accountable officer; and
- strengthened monitoring and governance of delivery of savings through Directorate Savings Boards and Budget Board meetings;
- external review of demand and cost pressures in transport services and development of action plan to deliver savings and additional efficiencies in 2025/26; and
- focused review of opportunities to deliver savings through transformation aligned to the Transformation Strategy and development of the council's Commercial Strategy.

36. Savings achieved in 2024/25 have been delivered through transformation and innovation in service delivery, increased service cost recovery, reductions in expenditure and transformation of the size and shape of the organisation to create a lean and resilient council for the future.

37. Directorate led transformation has resulted in the achievement of savings and efficiencies in 2024/25 as well as providing the foundations to accelerate delivery of further savings in 2025/26 and future years.

38. In the Community Wellbeing Directorate, £0.5 million of savings will be realised in 2024/25 through the transformation of care packages and improved utilisation of care contracts with continued delivery in 2025/26.

39. Improvements in the Children & Young People Directorate, including transformation of social work practice and conversion of agency posts, have supported the delivery of services within budget and the achievement of £2.3 million savings in full.

40. In the Economy & Environment Directorate, key transformation activity has resulted in efficiencies in the council's waste collection services and public realm contract; delivering over £1.5 million in transformation savings across the Directorate in 2024/25.

41. In Corporate Services, work to transform the delivery of councils services through the Service Level Agreement with Hoople Ltd continues, with detailed activity plans expected to deliver recurrent savings from 2025/26.

42. A summary of the status of delivery of 2024/25 approved savings, at Quarter 3, is shown in Table 3 below with additional detail, by Directorate, set out in Appendix D.

Table 3: Assessment of Delivery of Savings at Quarter 3

	Target £m	At Risk £m	In Progress £m	On Target £m	Delivered £m
Community & Wellbeing	3.2	0.7	0.4	0.1	2.0
Children & Young People	2.3	-	-	-	2.3
Economy & Environment	3.3	0.4	0.1	0.1	2.7
Corporate Services	2.8	1.3	0.4	-	1.1
Council wide Savings	7.9	5.8	-	-	2.1
Total	**19.5**	**8.2**	**0.9**	**0.2**	**10.2**
	100%	42%	5%	1%	52%

Dedicated Schools Grant (DSG)

43. 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.

44. 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. It should be noted that this issue is a major concern amongst local authorities nationally.

45. On 1 April 2024, the cumulative deficit brought forward totals £6.1 million. A focused review to quantify the impact of emerging demand in 2025/26 and future years has been undertaken during Quarter 3 to inform the High Needs Budget for 2025/26 and the council's DSG Deficit Management Plan.

46. The revised position for 2025/26 is a forecast overspend of £11.1 million in 2024/25. This will increase the council's cumulative DSG deficit of £6.1 million at 31 March 2024 to £17.2 million at 31 March 2025, an increase of £3.5 million from the forecast overspend reported at Quarter 2.

47. The increase in forecast expenditure is largely attributable to an increase in independent school placements, with a 68% increase in places in the 12-month period from January to December 2024. A lack of sufficiency in local authority special school places means the council is reliant upon the independent sector to meet the specialist education needs of children in the county. The increase in Top Up costs (element 3 funding), driven by the national increase in the number of Education, Health and Care Plans (EHCPs) represents an additional cost pressure in 2024/25.

48. Herefordshire, like many other local authorities, continues to experience increases in demand which are not met by corresponding increases in funding. This is a significant risk across local government and the number of authorities with significant DSG deficits is increasing. 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.

49. Measures to contain the deficit and mitigate future cost and demand pressures will be managed by the Service through the DSG Management Plan and the financial impact of agreed mitigations will be monitored and reported throughout the year as part of the council's routine budget monitoring processes.

Capital Outturn

50. The 2024/25 approved capital budget of £160.0 million has been revised to £96.7 million. The revised capital budget includes £15.3 million of unspent project budgets brought forward from 2023/24, approved movements of £0.3 million, £3.8 million additional grants and a reduction of £82.7 million reprofiled into future years, all of which are detailed at the bottom of Appendix B

Table b. A summary breakdown is shown in Table 4 below.

Table 4: Revised Capital budget 2024/25 to 2027/28

	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	Total £m
February 2024 Council Approved Budget	160.0	50.8	19.2	-	230.0
Re-profile Budget	(82.7)	55.3	20.1	7.3	0.0
Other Approved Movements	0.3	2.5	-	-	2.8
23/24 Carry Forward	15.3	-	-	-	15.3
Additional Grant	3.8	25.4	22.4	20.4	72.0
Revised Capital Budget	**96.7**	**134.0**	**61.7**	**27.7**	**320.1**

51. The forecast spend position is £79.6 million, which represents an underspend of £17.0 million against a budget of £96.7 million. Full details for each project are in Appendix B, Table a. This underspend consists of £4.5 million projects that will deliver below the project budget and £12.5 million in respect of project budgets to be rolled forward for delivery 2025/26 if not spent. The full capital programme analysed by project for current and future years can be seen in detail by Appendix B Table b.

Community impact

52. In accordance with the accepted code of corporate governance, the council must ensure that it has an effective financial control framework to support delivery of services within the agreed budget. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition, the council has an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies.

Environmental Impact

53. 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.

54. This report is to review the financial outturn at Quarter 3 of 2024/25 so will have minimal environmental impacts, however consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

Equality duty

55. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.

56. The mandatory equality impact screening checklist has been completed for this activity, and it has been found to have no impact for equality.

Legal implications

57. There are no direct legal implications arising from this report.

Risk management

58. The risks associated with the council's business are recorded on the relevant service risk register and escalated in accordance with the council's Performance Management Framework and Risk Management Plan. The highest risks, i.e. those scoring greater than 16 after controls, are escalated to the council's Corporate Risk Register.

Resource Implications

59. These recommendations have no direct financial implications, however Scrutiny Management Board may wish to consider how money is utilised in order to meet the council's objectives.

Consultees

60. None in relation to this report.

Appendices

Appendix A - Revenue outturn

Appendix B – Capital outturn

Appendix C - Treasury management outturn

Appendix D - Savings delivery

Appendix E - Reconciliation of in-year budget to approved budget

Background papers

None Identified