

Title of report: 2024/25 Budget, Medium Term Financial and Treasury Management Strategy - Revenue

Meeting: Cabinet

Meeting date: Thursday 25 January 2024

Cabinet Member: Peter Stoddart, Finance and corporate services

Report by: Director of Resources and assurance

Report author: Head of Strategic Finance (Deputy S151 Officer)

Classification

Open

Decision type

Budget and policy framework

Wards affected

All Wards

Purpose

To recommend to Council the proposed 2024/25 revenue budget, Medium Term Financial Strategy and the Treasury Management Strategy.

Recommendation(s)

That Cabinet recommend to Council for approval:

- a) the council tax base of 71,999.97 Band D equivalents in 2024/25;**
- b) an increase in core council tax for 2024/25 of 2.99%;**
- c) an additional precept in respect of adult social care costs of 2% applied to council tax in 2024/25 resulting in a total council tax increase of 4.99%, increasing the band D charge from £1,786.61 to £1,875.76 for Herefordshire Council in 2024/25;**

- d) the balanced 2024/25 revenue budget proposal totalling £207.7 million, subject to any amendments approved at the meeting, specifically the net spending limits for each directorate as at appendix C;
- e) delegates to the section 151 officer the power to make necessary changes to the budget arising from any variations in central government funding allocations via general reserves;
- f) the allocation of additional funding of £2.5 million announced in the Local Government Settlement in December 2023 to support strategic housing (£0.8 million), to reverse planned parking charge increases (£0.4 million) and a transfer to the Financial Resilience earmarked reserve (£1.3 million);
- g) the Medium Term Financial Strategy (MTFS) 2024/25 to 2027/28 at appendix A be approved;
- h) the Treasury Management Strategy at appendix D be approved; and
- i) the responses to scrutiny committee recommendations to follow in a supplementary paper to be approved.

Alternative options

1. It is open to Cabinet 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. Cabinet 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 £207.7 million is proposed for 2024/25. The proposal includes a 4.99% increase in council tax and reflects the provisional financial settlement announced in December 2023 and the current understanding of future years funding and responsibilities.
4. The draft 2024/25 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 £1,875.76, representing an increase of £7.43 per month. 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 £2.5 million of additional income to fund social care pressures identified in the Community Wellbeing Directorate; reflecting increases in both demand and cost for services to support the county's residents.
6. An increase to the base budget for 2024/25 is proposed to fund identified budget pressures of £43.3 million. Savings and efficiencies of £19.5 million are proposed to mitigate these pressures to deliver a balanced budget.

Autumn Statement & Funding Updates

7. The Chancellor's Autumn Statement on 22 November 2023 included economic forecasts from the Office for Budget Responsibility (OBR) and set out medium term spending plans.

Inflation Forecasts and National Living Wage Increases

8. The OBR has forecast inflation to remain higher for longer and it is now expected that inflation will not return to the 2% target until the second quarter of 2025, more than a year later than forecast in the March 2023 Budget.
9. Consumer Price Index (CPI) inflation is forecast to fall to 4.8% in the final quarter of 2023 with an increase of 7.5% across 2023 compared with a rate of 6.1% in the March 2023 Budget. The increase for 2024 is 3.6% compared with 0.9% previously forecast. CPI inflation is expected to reduce below the 2% OBR target between 2025 and 2027 before returning to a rate of 2% for a longer term.
10. In advance of the Autumn Statement, Central Government announced an increase to the National Living Wage for individuals aged 21 and over of 9.8% from 1 April 2024 from £10.42 to £11.44 per hour.
11. The impact of the increase in the National Living Wage 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.

Planned Council Tax Increases

12. The Local Government Settlement in February 2023 confirmed that the council tax referendum limit would be increased to 3% in 2024/25. In addition, local authorities are able to meet adult social care pressures by raising council tax by a further 2% though additional precept in 2024/25.
13. Each 1% increase in council tax will generate approximately £1.3 million of recurrent funding to meet demand pressures and deliver the council's services. The proposed draft revenue budget for 2024/25 assumes the maximum increase of 4.99% in 2024/25.
14. The provisional settlement published in December 2023 is a one year settlement. This is the sixth consecutive one-year local government finance settlement. The settlement confirmed an additional £0.8 million in New Homes Bonus and other movements in grants and core funding.
15. The 2024/25 draft revenue budget, presented to Cabinet for consideration on 14 December 2023, has been updated to reflect revisions to estimated funding for the council in 2024/25 to include allocation of £0.8m to support strategic housing, £0.4m to reverse planned parking charge increases and £1.3m transfer of funds to the Financial Resilience earmarked reserve to support future financial risks.

Revenue Budget Proposals 2024/25

16. The base budget proposed for 2024/25 is summarised below and detailed in Appendix C with Directorate Savings Proposals detailed in Appendix B.

Detail	2023/24 Base Budget	Unfunded Pressures	Mitigation	Savings	New funded items	2024/25 Proposed Budget
	£'000	£'000	£'000	£'000	£'000	£'000
Community and Wellbeing	68,124	17,182	(5,123)	(3,251)	-	76,932
Children and Young People	50,812	17,623	(800)	(2,503)	-	65,132
Economy and Environment	27,735	5,811	(2,000)	(3,080)	-	28,466
Corporate	25,530	2,376	-	(2,772)	-	25,134
All Ages Social Care	4,000	(4,000)	-	-	-	-
Sub Total	176,201	38,992	(7,923)	(11,606)	-	195,664
Central	17,107	314	-	(7,915)	-	9,506
Strategic Housing					824	824
Reversal of parking increases					400	400
Financial Resilience Reserve					1,287	1,287
TOTALS	193,308	39,306	(7,923)	(19,521)	2,511	207,681
Funded by:						
Council tax	126,980					135,054
Business rates	40,614					43,249
Collection fund surplus	1,400					-
Revenue support grant	983					1,048
Rural sparsity delivery grant	5,353					5,982
Social care support grant	13,466					15,647
ASC Discharge Fund	951					1,585
Mkt Sustainability/Fair Cost of Care	2,062					3,853
Services Grant	1,268					208
New Homes Bonus	231					1,055
TOTALS	193,308					207,681

Directorate Key Budget Pressures 2024/25

17. A summary of Unfunded Pressures of £43.3 million in 2024/25, by Directorate, is noted in the table below. It is proposed that the £3.8 million All Ages Social Care budget, approved in the 2023/24 revenue budget, is applied to the Community Wellbeing Directorate in 2024/25 to fund demand and cost pressures in adult social care.

Pay Award: This pressure represents an impact of the estimated pay award for 2024/25 on staffing expenditure across each Directorate.

Inflation: This pressure represents the impact of inflation across contractual and non-contractual commitments in 2024/25. Inflation is estimated based on a variety of relevant inflation and price indices as well as contract specific rates.

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 activity in each service area.

Transformation: This pressure reflects expenditure required to deliver transformation of service activity and improvements in each Directorate.

Pressure	Community Wellbeing	Children & Young People	Economy & Environment	Corporate Services	Central	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Pay Award	1,160	1,253	806	809	-	4,028
Inflation	7,115	2,121	2,100	1,158	-	12,494
Demand	8,873	12,886	2,776	-	314	24,849
Transformation	34	1,363	129	409	-	1,935
TOTAL	17,182	17,623	5,811	2,376	314	43,306

Community Wellbeing

18. The Directorate faces continued challenge in 2024/25 as a result of increasing demand and complexity of need for the county's ageing population, limited market availability, 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.
19. Planned activity in 2024/25 aims to respond to these challenges and deliver savings and efficiencies across the Directorate 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

20. Unprecedented increases in the demand for children's social care have had a significant impact on Children's Services nationally. Insufficiency of local residential placements, growing demand in Special Educational Needs (SEN) 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.
21. In 2024/25, savings proposals through the 3 Year Financial Plan place workforce stability and the reduction of high cost placements as key priorities for the Directorate to ensure it lives within its means after 3 years. There will be a continued focus on the conversion of high cost agency staff to permanent posts and a decrease in the number of social workers, aligned to expected reductions in the number of children in care due to improvements. The 3 Year Financial Plan is aligned to support the delivery of activity per the Children's Improvement Plan.
22. The Quarter 2 revenue outturn forecast for 2023/24 presented at the Cabinet meeting on 23 November 2023 reports an overspend of £13.8 million before management action, with the most significant forecast overspend in Children & Young People (£11.8 million).
23. The forecast overspend represents the key national and local pressures facing the provision of children's social care. The key challenges and source of overspend in 2023/24 include:
 - a. sufficiency of placements (local and national);
 - b. unprecedented demand (increasing in a number of areas post covid);
 - c. placement costs (including the impact of inflation and National Living Wage);

- d. transport services (increase in numbers and contract prices);
- e. recruitment and retention (local and national challenges); and
- f. responsibility to support Unaccompanied Asylum Seeking Children (UASC).

24. The Directorate base includes additional funding of £17.6 million to ensure the budget is sufficient to meet the cost of service delivery in 2024/25.
25. This comprises additional funding of £10.8 million, allocated to address demand and cost pressures influencing the 2023/24 outturn position plus amounts to reflect the estimated pay award (£1.2 million), inflation (£2.1 million) and a further £3.5 million which represents additional estimated demand pressures in 2024/25. These pressures are informed by activity data and trend analysis in 2023/24 plus estimated changes for 2024/25 including £1.6 million in respect of Special Educational Needs (SEN) Transport.
26. The table below outlines how savings planned over the three year period will enable a reduction in the base budget by 31 March 2027.

	Year 1 2024/25 £'000	Year 2 2025/26 £'000	Year 3 2026/27 £'000	Total 3 Year Saving £'000
Base budget b/f	50,812	65,132	59,761	
Additional funding	10,750	-	-	
Pressures less Mitigations	6,073	-	-	
Planned savings	(2,503)	(5,371)	(2,292)	(10,166)
Base budget c/f	65,132	59,761	57,469	

Economy & Environment

27. It is proposed that additional funding announced in the Local Government Settlement in December is allocated to defer the implementation of parking charge increases to recognise previously deferred savings targets. Investment in the Directorate will provide sufficient resource and capacity to support growth in the economy in 2024/25 and beyond with additional one-off funding allocated to ensure the Local Plan can be delivered in the next 12 months and to provide resources and expertise to support the Future Operating Model and contractual arrangements with BBLP.

Corporate Services

28. Savings will be delivered in 2024/25; reducing costs through a review of corporate services, business support functions across the council and a review of the council's management structure.

Proposed Directorate and Council-wide Savings

29. Total savings of £19.5 million are proposed in the 2024/25 draft budget comprising £11.6 million of Directorate savings and a further £7.9 million of council-wide savings. These savings include a range of proposals to:
- a. transform the delivery of services;
 - b. increase opportunities to recover the costs of service delivery;

- c. reduce expenditure to deliver recurrent efficiencies; and
- d. review of the size and shape of the organisation.

Category of Saving	Directorate	Council-wide	TOTAL
	£'000	£'000	£'000
Transform	5,488	7,915	13,403
Reduce	5,103	-	5,103
Increase	1,015	-	1,015
TOTAL	11,606	7,915	19,521

- 30. Details of individual proposals and a description of planned activity for Directorate savings of £11.6 million are included at Appendix B.
- 31. In addition to the proposed Directorate savings, a further £7.9 million of savings will be achieved through planned transformation activity across the council in 2024/25. Efficiencies and savings will be achieved through the council's Thrive programme with improvements to systems, processes and technology; using digital solutions and technology to improve the customer offer and maximise opportunities to work with communities and partners alongside maximising income through service cost recovery.
- 32. Delivery of these initiatives will require the council to transform as an organisation to ensure the future sustainability of the council and the services it delivers. This will require a review of the size and shape of the workforce to create a lean and resilient council for the future.

Community impact

- 33. 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.
- 34. 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

- 35. 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.
- 36. 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

37. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:
- A public authority must, in the exercise of its functions, have due regard to the need to –
- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
38. Service specific equality impact assessments for the service specific budget proposals will be completed, as required, to assess the impact on the protected characteristic as set out in the Equality Act 2010. The duty means that the potential impact of a decision on people with different protected characteristics is always taken into account when these assessments have been completed then we will consider mitigating against any adverse impact identified. Where additional governance is required to support possible service delivery changes the impact of a decision on people with different protected characteristics will be fully detailed and disclosed in that governance decision report.

Resource implications

39. 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.
40. 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.
41. 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.
42. The draft Auditor's Annual Report for 2022/23 notes that arrangements are appropriate and that the council has undertaken appropriate analysis and consultation to arrive at reasonable and prudent assumptions in respect of income and expenditure, including inflation at appropriate rates and reflecting the impact of increases in demand for services.
43. Audit testing of the robustness of savings proposals included in the 2023/24 budget has confirmed that there was appropriate evidence to support proposals and they had been consulted upon. The report acknowledges that delivery of savings has been monitored throughout 2023/24 with risks to delivery and mitigating actions clearly identified and reported to Cabinet.
44. The audit report provides 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. These arrangements, assessed by external audit, underpin the 2024/25 budget setting process to support the preparation of a realistic balanced budget.

Legal implications

45. 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.
46. 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).
47. 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.
48. 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.
49. 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.
50. 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.
51. 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.
52. 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.
53. 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

54. 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.
55. The budget has been updated using the best available information; current spending, anticipated pressures and estimates in respect of the provisional 2024/25 funding settlement.
56. 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.
57. The council maintains a general fund reserve balance above the minimum requirement, earmarked reserves and an annual contingency budget to manage these risks.
58. 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
Unexpected events and emergencies By its nature, the financial risk is uncertain	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 31 March 2023 was 9.6m (6.0% of budget). Additionally, national resources have historically been provided to support national issues.
Not delivering required improvements The council must address the statutory direction and improvements across Children's Services	Low	Medium	The Children's Improvement Board continues to work with the Department for Education, the appointed Commissioner for Children's Services and its improvement partner Leeds City Council and resources have been allocated to address required transformation and improvement. Performance against the Improvement Plan is monitored and reported on a quarterly basis. A three year Strategic and Financial Plan has been developed to ensure the Children & Young People Directorate is able to deliver recurrent savings over a three year period.
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.	High	Medium	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 2024/25. In year monitoring of performance enables Directorates to forecast trends and identify changes in demand. Talk Community and strength Based Assessment have evidenced managing demand and investing in Early Help

			and Prevention will support our response to increasing demand. 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 service to ensure that forecasting is reliable and timely.
Potential overspend and non-delivery of savings required to balance the budget	Medium	Medium	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.
Volatility in Government funding streams The government settlement for 2023/24 is a one year settlement; the assumed funding for the MTFS period is not confirmed	High	Medium	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.
Interest and Inflation There is uncertainty over interest and inflation rates	Medium	Medium	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.

Consultees

59. 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.
60. A series of 13 local budget public consultation events were held between 22 November and 23 December 2023 plus additional targeted consultation undertaken with community groups, young people and the business community. The consultation presented high-level options to contribute towards balancing the council's budget for 2024/25 and their likely impact. These options included reducing and transforming services, increasing charging for services and increasing council tax.
61. There were 652 participants across these local events. There was clear support for continuing discount for council tax for those most in need, reviewing the council's assets to maximise returns and benefits and investing in potholes repair and the road network.

62. An online public consultation was available for residents to complete between 21 November and 31 December 2023. A total of 326 responses were received to the online questionnaire with a further 9 responses submitted by email.
63. Scrutiny Management Board were consulted with on 10 and 16 January 2024 and their recommendations for consideration by Cabinet will be circulated as a supplementary paper to this agenda item.

Appendices

Appendix A: Medium Term Financial Strategy 2024/25 to 2027/28

Appendix B: Proposed Savings Plans 2024/25

Appendix C: Proposed Directorate Base Budgets 2024/25

Appendix D: Treasury Management Strategy 2024/25

Appendix E: Earmarked Reserves and General Fund Balances to 31 March 2024

Appendix F: Online Budget Consultation Report 2024-25

Appendix G: Budget Consultation Report 2024-25

Background papers

None identified.