



# Title of report: Q2 2024/25 Budget Report

<b>Meeting:</b>	<b>Cabinet</b>
<b>Meeting date:</b>	<b>Thursday 28 November 2024</b>
<b>Cabinet Member:</b>	<b>Cabinet member finance and corporate services</b>
<b>Report by:</b>	<b>S151 Officer</b>
<b>Report Author:</b>	<b>Director of Finance (S151 Officer)</b>

## Classification

Open

## Decision type

Non-key

## Wards affected

(All Wards);

## Purpose

To report the forecast position for 2024/25 at Quarter 2 (September 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 service delivery targets, and that the reasons for major variances are understood and are being addressed to the cabinet's satisfaction.

The forecast 2024/25 outturn shows a net overspend of £10.2 million at Quarter 2, before management action estimated at £8.2 million to reduce the forecast overspend to £2.0 million.

## Recommendation(s)

**That: Cabinet**

- a) Reviews the financial forecast for 2024/25, as set out in the appendices A-D, and identifies any additional actions to be considered to reduce forecast cost pressures;**
- b) Notes the progress in delivery of savings targets for 2024/25; and**
- c) Approves the transfer of Earmarked Reserve balances to establish a Contingency Reserve to manage the risk of unforeseen demand and cost pressures.**

## Alternative options

1. Cabinet may choose to review financial performance more or less frequently; or request alternative actions to address any identified areas of variance from budget, including referral to the relevant scrutiny committee.

## 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. Detailed explanations for variances from budget are set out in Appendix A by Directorate and Service area.
3. This report presents the mid-year forecast outturn position for 2024/25 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 2 revenue outturn position for 2024/25 shows a forecast variance from budget of £10.2 million (4.8% of net budget), before management action. It is expected that planned management activity will reduce the forecast overspend to £2.0 million.
5. This variance represents cost pressures of £11.6 million noted below, reduced by £1.4 million of delivered Children & Young People 2024/25 Savings Targets, previously removed from the 2024/25 budget by amendment.
  - I. +£3.9 million in-year net cost pressures;
  - II. +£5.0 million 2024/25 Savings Targets assessed 'at risk';
  - III. +£0.4 million 2023/24 Savings Targets assessed 'at risk'; and
  - IV. +£2.3 million Council wide Savings pending completion of Directorate restructures and vacancy reviews.
6. The forecast outturn position for 2024/25 by Directorate, is shown in Table 1 below.

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

<b>2024/25 Forecast Revenue Outturn at Quarter 2 (September 2024)</b>			
	<b>Revenue Budget £m</b>	<b>Forecast Outturn £m</b>	<b>Forecast Variance £m</b>
Community Wellbeing	76.8	80.2	3.4
Children & Young People	64.9	64.9	0.0
Budget Amendment	2.3	0.9	(1.4)
Economy & Environment	27.7	29.0	1.3
Corporate Services	24.7	26.9	2.2
<b>Directorate Total</b>	<b>196.4</b>	<b>201.9</b>	<b>5.5</b>
Central	16.4	21.1	4.7
<b>Total</b>	<b>212.8</b>	<b>223.0</b>	<b>10.2</b>

## Management Activity and Recovery Actions

7. Initial activity already underway is expected to reduce this forecast overspend to £2.0 million, as set out in Table 2 below, and each Directorate will continue to identify further recovery action and options to mitigate at risk savings targets and ensure recurrent spending is sustainable within the resources available. Corporate Directors will continue to develop Directorate recovery plans to manage in year delivery of services within the approved budget.
8. Additional 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.

**Table 2: Updated forecast revenue position 2024/25**

	Revenue Budget	Forecast Outturn	Forecast Variance	Management Action/Planned Mitigations	Revised Forecast
	£m	£m	£m	£m	£m
Community Wellbeing	76.8	80.2	3.4	(3.1)	0.3
Children & Young People	64.9	64.9	0.0	(0.1)	(0.1)
Budget Amendment	2.3	0.9	(1.4)	(0.9)	(2.3)
Economy & Environment	27.7	29.0	1.3	(1.1)	0.2
Corporate Services	24.7	26.9	2.2	(0.6)	1.6
<b>Directorate Total</b>	<b>196.4</b>	<b>201.9</b>	<b>5.5</b>	<b>(5.8)</b>	<b>(0.3)</b>
Central	16.4	21.1	4.7	(2.4)	2.3
<b>Total</b>	<b>212.8</b>	<b>223.0</b>	<b>10.2</b>	<b>(8.2)</b>	<b>2.0</b>

## Delivery of Savings

9. 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. As part of routine financial monitoring arrangements, a review of the delivery and status of the 2024/25 approved savings at Quarter 2 has been undertaken; informed by planned and actual activity in the year to date to determine savings targets at risk of in-year delivery.
10. This review **confirms £8.9 million (46%) of the total savings target for the year has been delivered at Quarter 2** with a further £5.6 million (28%) assessed as 'on target/in progress' for the year. Savings of £5.0 million (26%) are assessed as 'at risk' with work underway to identify mitigations as a priority.
11. The budget amendment, approved in February 2024, removed savings of £2.3 million from the Children & Young People Directorate budget. 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' but not reflected in the outturn position at Quarter 2. This budget is monitored on a weekly basis due to its volatility and risk of impact on the Directorate financial outturn. As activity to deliver

this target progresses to provide assurance of delivery, achievement of the saving will be reflected in the outturn position.

12. 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. Progress on delivery of savings and mitigations will continue to be monitored and reported in the next budget monitoring report to Cabinet.
13. A breakdown, by Directorate, of 2024/25 approved savings is shown in Table 3 below. Explanations for under/non-delivery and planned mitigations, identified as part of Directorate recovery plans, are set out in Appendix D.

**Table 3: Assessment of Delivery of Savings at Quarter 2**

	Target £m	At Risk £m	In Progress £m	On Target £m	Delivered £m
Community & Wellbeing	3.2	-	1.2	0.6	1.4
Children & Young People	2.5	0.2	0.9	-	1.4
Economy & Environment	3.1	0.2	0.1	0.1	2.7
Corporate Services	2.8	1.2	0.4	-	1.2
Council wide Savings	7.9	3.4	2.3	-	2.2
<b>Total</b>	<b>19.5</b>	<b>5.0</b>	<b>4.9</b>	<b>0.7</b>	<b>8.9</b>
	100%	26%	25%	3%	46%

## Earmarked Reserves

14. The council's earmarked reserves represent amounts set aside for future expenditure; to support specific corporate priorities or for general contingencies and cash flow management. The overall level of reserves is reported to Cabinet at least annually; the last report to Cabinet in May 2024 noted total audited balances of £82.8 million comprising the general fund balance of £9.6 million and earmarked reserve balances of £73.2 million.
15. It is considered prudent to maintain a level of reserve balances commensurate with risk and an assessment to confirm the adequacy and robustness of balances is undertaken annually by the Section 151 Officer as part of the budget setting process.
16. Whilst provision was made in the 2024/25 revenue budget to support increases in demand and cost across all services, the council continues to experience significant in-year financial pressures in respect of social care budgets for adult and children and home to school transport; these budgets representing the majority of the forecast overspend at Quarter 2. These pressures are widely reported as the key budgetary pressures for local authorities across the country.
17. To mitigate against such in-year pressures, the establishment of a Contingency Reserve of £11.0 million is proposed; with funds transferred from the Business Rates Risk Reserve. This will reduce the balance on the Business Rates Risk Reserve from £19.7 million at 1 April 2024 to £8.7 million. The remaining balance is considered reasonable and prudent to manage risks in the business rate regime including uncertainty over appeals.

18. The Contingency Reserve balance of £11.0 million will remain under review during 2025/26; future use of the reserve will be subject to appropriate governance in accordance with the Council's Finance Procedure Rules and Constitution.
19. The Chartered Institute of Public Finance and Accountancy (CIPFA) highlights an annual assessment of the adequacy of reserve balances as best practice in the context of an authority's internal control framework and risk management arrangements. In order to assess the adequacy of earmarked reserves, the Section 151 Officer and leadership team should take account of the strategic, operational and financial risks facing the authority to ensure adequate reserves to manage the impact of uneven cashflows, as contingency to cushion the impact of unexpected expenditure and as a means of building up funds to meet known or predicted requirements.
20. The council's earmarked reserve balances at 1 April 2024 are included at Appendix E. A full risk assessment to determine appropriate levels of reserve balances will be undertaken as part of the budget setting process for 2025/26 and an explanation of risk and justification of balances will be reported.

### **Dedicated Schools Grant (DSG)**

21. 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.
22. 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.
23. At 1 April 2024, the cumulative deficit brought forward totals £6.1 million. The current in-year forecast is an overspend of £7.6 million within the High Needs block of the DSG; this will increase 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.
24. 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.

### **Capital Outturn**

25. The 2024/25 approved capital budget of £160.0 million has been revised to £96.4 million. The revised capital budget includes £15.3 million of unspent project budgets brought forward from 2023/24, approved movements of £2.8 million, removal of a project (£2.6) million and £3.7 million additional grants, all of which are detailed at the bottom of Appendix B Table b. In line with external audit advice the capital budgets have been re-profiled at Quarter 2 in line with expected

delivery therefore, £82.8m budget has been re-profiled from 2024/25 to future years, a full break down by project can be seen in Appendix B Table c. A summary breakdown is shown in Table 4 below.

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

	<b>2024/25 Budget £m</b>	<b>2025/26 Budget £m</b>	<b>2026/27 Budget £m</b>	<b>2027/28 Budget £m</b>	<b>Total £m</b>
February 2024 Council Approved Budget	160.0	50.8	19.2	-	230.0
Re-profile Budget	(82.8)	55.3	20.1	7.4	0.0
Removal of Maylords Library Project	(2.6)	-	-	-	(2.6)
Other Approved Movements	2.8	2.5	-	-	5.3
23/24 Carry Forward	15.3	-	-	-	15.3
Additional Grant	3.7	25.1	22.4	20.3	71.5
<b>Revised Capital Budget</b>	<b>96.4</b>	<b>133.7</b>	<b>61.7</b>	<b>27.7</b>	<b>319.5</b>

26. The forecast spend position is £88.8 million which represents an underspend of £7.6 million against a budget of £96.4 million. Full details for each project are in Appendix B, Table a. This underspend consists of £5.4 million projects that will deliver below the project budget and £2.2 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

27. 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

28. 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.
29. This report is to review the financial outturn at Quarter 2 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

30. 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.
31. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. Whilst this paper is not seeking any project specific decisions, in determining the council's budget allocation, the council is working towards its equality objectives (found here: [Equality, diversity and inclusion – Herefordshire Council](#)). In addition, projects identified within the delivery plan, where relevant, will be subject to an Equality Impact Assessment to ensure appropriate attention is given to our Equality Duty.

### **Legal implications**

32. There are no direct legal implications arising from this report, however, the council must ensure compliance with the Code of Practice on Local Authority Accounting.

### **Risk management**

33. 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.
34. This report includes recommendations in respect of the forecast financial position for 2024/25 and the reallocation of earmarked reserves. If approved, the risks to the forecast position are managed through routine financial management processes to ensure that expenditure incurred is appropriate, eligible and within budget.

### **Resource Implications**

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

### **Consultees**

36. 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 – Earmarked reserve balances

**Background papers**

None Identified