Herefordshire Council

Title of report: Q1 2025/26 Budget Report

Meeting: Cabinet

Meeting date: Thursday 25 September 20255

Cabinet Member: Cabinet member finance and corporate services

Report by: S151 Officer

Report Author: Director of Finance (S151 Officer)

Classification

Open

Decision type

Non-key

Wards affected

(All Wards);

Purpose

To report the forecast position for 2025/26 at Quarter 1 (June 2025), 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 2025/26 outturn shows a net overspend of £4.3 million at Quarter 1, before management action estimated at £3.3 million to reduce the forecast overspend for 2025/26 to £1.0 million.

Recommendation(s)

That: Cabinet

a) **Reviews the financial forecast for 2025/26, as set out in the appendices A-D, and identifies any additional actions to be considered to achieve future improvements; and**

b) **Notes the management action identified to reduce the forecast outturn position for 2025/26; and**

c) **Agrees the continuation of management actions to reduce the forecast overspend as identified in this report.**

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 2025/26 is £231.5 million which includes planned savings of £3.9 million. Detailed explanations for variances from budget are set out in Appendix A by Directorate and Service area.

3. This report presents the first revenue forecast outturn position for 2025/26 and highlights continuing budget pressures to support increases in demand across social care budgets, temporary accommodation and Special Educational Needs and Disabilities (SEND) transport services.

4. The Quarter 1 revenue outturn position for 2025/26 shows a forecast variance from budget of £4.3 million (1.9% of net budget), before management action. It is expected that planned management activity will reduce the forecast overspend to £1.0 million.

5. This variance represents cost pressures of £4.3 million comprising £2.9 million in-year net cost pressures and £1.4 million of brought forward Savings Targets assessed as 'at risk' as at Quarter 1.

6. The forecast outturn position for 2025/26 by Directorate, is shown in Table 1 below.

Table 1: 2025/26 Forecast Revenue Outturn before management recovery action

2025/26 Forecast Revenue Outturn at Quarter 1 (June 2025)			
	Revenue Budget £m	**Forecast Outturn £m**	**Forecast Variance £m**
Community Wellbeing	90.8	93.6	2.8
Children & Young People	59.1	58.0	(1.1)
Economy & Environment	29.1	29.5	0.4
SEN/Home to School Transport	12.7	13.4	0.7
Corporate Services	23.0	24.5	1.6
Directorate Total	**214.7**	**219.0**	**4.3**
Central	16.8	16.8	-
Total	**231.5**	**235.8**	**4.3**

Management Activity and Recovery Actions

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

i. allocation of the Budget Resilience Reserve to mitigate the impact of cost pressures and volatility in demand in Directorate Budgets;
ii. continued review of the council's contract arrangements and shareholding in Hoople Ltd; and
iii. challenge of forecast expenditure over the remainder of the financial year through Directorate expenditure control panels.

8. The Budget Resilience Reserve was established in 2024/25 to manage the impact of in-year cost pressures and volatility in demand across social care budgets. In the financial year ended 2024/25, £4.0 million of this reserve was applied to cost pressures in the Community Wellbeing Budget, reducing the balance carried forward to the current financial year to £7.0 million.

9. As detailed in the Earmarked Reserves and General Balances Policy Statement 2025/26, allocation of reserve funding in each financial year will require application to the council's S151 Officer and Cabinet approval to ensure that appropriate measures have been taken within Directorates. At the end of each financial year, any unused balance will be considered as part of the annual review of earmarked reserves.

10. Expenditure controls first implemented during 2023/24 remain in place to support recovery activity and robust control over expenditure in 2025/26. 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 2025/26

Updated 2025/26 Forecast Revenue Outturn at Quarter 1 (June 2025)					
	Revenue Budget £m	**Forecast Outturn £m**	**Forecast Variance £m**	**Mgm'nt Action £m**	**Revised Forecast £m**
Community Wellbeing	90.8	93.6	2.8	(2.8)	-
Children & Young People	59.1	58.0	(1.1)	-	(1.1)
Economy & Environment	29.1	29.5	0.4	-	0.4
SEN/HometoSchool Transport	12.7	13.4	0.7	-	0.7
Corporate Services	23.0	24.5	1.5	(0.5)	1.0
Directorate Total	**214.7**	**219.0**	**4.3**	**(3.3)**	**1.0**
Central	16.8	16.8	-	-	-
Total	**231.5**	**235.8**	**4.3**	**(3.3)**	**1.0**

Savings

11. Council approved a total of £3.9 million of savings for 2025/26 comprising targets in the Children & Young People Directorate aligned to refresh of the 3 Year Financial Plan. A review of the delivery and status of the 2025/26 approved savings has been undertaken; informed by planned and actual activity in the year to date to determine savings targets at risk of in-year delivery.

12. This review **confirms £1.6 million (40%) of the total approved savings target for the year has been delivered at Quarter 1** with a further £2.3 million (60%) assessed as 'on target/in progress' for the year. No savings are currently assessed as 'at risk'.

13. A breakdown of 2025/26 approved savings is shown in Table 3 below with further detail on the status of individual saving target set out in Appendix D, Annex 1.

Table 3: Assessment of Delivery of 2025/26 Approved Savings at Quarter 1

	Target £m	Delivered £m	On Target £m	In Progress £m	At Risk £m
Children & Young People	3.9	1.6	0.8	1.6	-
Total	**3.9**	**1.6**	**0.8**	**1.6**	**-**
	100%	**40%**	**20%**	**40%**	**0%**

14. Savings not delivered recurrently in previous years have been carried forward into 2025/26 for continued monitoring of delivery. As set out in the 2024/25 Quarter 4 Outturn Report to Cabinet in June this year, a focused review of the original proposals and planned activity has been undertaken during Quarter 1 and revised savings plans have been developed, where appropriate, to confirm activity to deliver savings in 2025/26.

15. The status of delivery of the revised savings, which total £11.9 million, is shown in Table 4 below with further detail on the status of individual saving target set out in Appendix D, Annex 2. A reconciliation of changes in the individual targets brought forward is included in Appendix D, Annex 3.

Table 4: Assessment of Delivery of Brought Forward Savings Targets at Quarter 1

	Target £m	Delivered £m	On Target £m	In Progress £m	At Risk £m
Community Wellbeing	3.2	0.8	0.1	2.3	-
Economy & Environment	0.4	0.1	-	0.3	-
Corporate Services	0.5	0.3	-	0.2	-
Home to School/SEN Transport	0.5	-	-	0.5	-
Transformation	7.3	4.7	0.4	0.8	1.4
Total b/fwd Savings	**11.9**	**5.9**	**0.5**	**4.1**	**1.4**
	100%	**50%**	**4%**	**34%**	**12%**

16. At 30 June 2025 (Quarter 1), £5.9 million (50%) of the £11.9 million brought forward savings have been delivered with a further £4.6 million (38%) forecast to be delivered in year; £1.4 million (12%) remain at risk and with focused activity underway to resolve or mitigate in year.

17. The **delivery of savings in full and on time is critical** to ensure the 2025/26 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.

Dedicated Schools Grant (DSG)

18. 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 2028. This enables all local authorities to ring-fence the DSG deficit from the overall financial position in the statutory accounts. 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.

19. On 1 April 2025, the cumulative deficit brought forward was £20.0 million. A deficit budget of £20.2 million has been approved for 2025/26; if expenditure is contained within the approved budget, the cumulative DSG deficit will total £40.2 million by 31 March 2026.

20. Activity data which informs the forecast will be updated in Quarter 2, to reflect changes in demand for the 2025/26 academic year commencing in September 2025 and a revised forecast position will be reported in the Quarter 2 Report to Cabinet in November.

21. Measures to contain the deficit and mitigate future cost and demand pressures continue to be managed by the Service through the DSG Deficit 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

22. The 2025/26 approved capital budget of £155.3 million has been revised to £175.4 million. The revised capital budget includes £11.7 million of unspent project budgets brought forward from 2024/25, removal of a project £6.0 million and £14.5 million additional grants. A summary breakdown is shown in Table 5 below.

Table 5: Revised Capital budget 2025/26 to 2029/30

	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	Total £m
25/26 Approved Capital Programme	155.3	87.5	38.6	0.2	-	281.6
Removal of Wye Valley Trust Project	(6.0)	-	-	-	-	(6.0)
24/25 Carry Forward	11.7	6.0	-	-	-	17.6
Additional Grant	14.5	11.0	10.3	7.8	8.6	52.2
Revised Capital Budget	**175.4**	**104.5**	**48.9**	**8.0**	**8.6**	**345.4**
Forecast Spend at Quarter 1	117.9					
Variance from Budget	**(57.5)**					

23. The forecast spend position, at Quarter 1, is £117.9 million which represents a variance of £57.5 million against the capital programme budget of £175.4 million.

24. The in-year forecast variance represents £0.3 million of underspend on project budgets and £57.2 million in respect of project budgets to be rolled forward for delivery in 2026/27. Explanations for variances from budget by individual project are detailed in Appendix B, Table a.

25. In accordance with best practice, capital budgets will be reprofiled at Quarter 2 to reflect the

revised expected profile of project delivery. Forecast spend will be monitored by reference to the reprofiled budget from Quarter 2 for the remainder of the financial year. The full capital programme analysed by project for current and future years can be seen in detail by Appendix B, Table b.

26. Forecast delivery of the council's capital programme for 2025/26 assumes a requirement to undertake external borrowing and provision was made in the approved 2025/26 revenue budget to support this borrowing. Cashflow forecasting arrangements have been strengthened in 2025/26 to consider the cashflow requirements of the capital programme; manging the timing and affordability of loan interest payments, minimising cash balances and utilising internal borrowing where possible, in accordance with the council's Treasury Management Strategy.

27. The capital programme includes a number of projects expected to mitigate key revenue budget pressures. The **delivery of these projects on time and within budget is critical** to ensuring maximum impact on the 2025/26 revenue outturn position and to mitigate pressure in future years. These projects are detailed below in Table 6. The delivery of capital projects is monitored by individual project boards, Major Projects Forum and monthly Directorate Budget Boards.

Table 6: Capital Projects expected to deliver positive impact on revenue budgets

Capital Project	**Expected Revenue Impact**
Home to School / SEN Transport cost pressures	
Council school transport fleet £0.4m	An allocation of £0.4m was included in the 2025/26 Capital Programme to invest in a council-owned fleet of vehicles to deliver cost savings, informed by revised route options and efficient passenger utilisation as part of the wider review to introduce a new operating model for home to school transport services in 2025/26. Significant progress has been made to date and the review of vehicle use and future requirements is planned as part of the next stage of work to ensure maximum revenue impact.
High Needs Grant £2.1m	The lack of local special educational needs and disabilities (SEND) placement provision to meet current and future levels of demand is one of the council's corporate risks. The provision of additional SEND places within Herefordshire will mitigate increasing cost pressures for out of county placements with a corresponding impact on home to school transport costs.
Social Care demand and cost pressures	
Children's residential homes £0.4m	This project will provide a short break facility, reducing costs by increasing in-county provision.
Temporary Accommodation demand and cost pressures	
Acquisition Fund for Housing Provision £5.0m Empty Property Investment & development £0.6m	The acquisition of buildings to address the shortage of suitable accommodation for people needing emergency accommodation is expected to deliver reductions in cost pressures of around £0.6m per annum.
Repair and maintenance budgets	
Estates Building Improvement Programme works	Delivery of improvements and maintenance of the council's estate and highways network ensures efficient spend of

Highways and Public Realm investment works	revenue maintenance/repair budgets and insurance premiums.

28. Key risks to the capital programme include delays in delivery, limitations in market capacity resulting in a reduced number of bidders, reduced competition and choice, and inflationary increases to costs. Where capital projects are funded by external grants, there is further risk that delays in delivery mean that grant conditions and time constraints cannot be met resulting in the loss or clawback of grant. All projects are monitored robustly to mitigate the risks to project budgets, delivery of benefits and potential loss of grant funding.

29. The council projects with significant grant funding are detailed below:

    i. Local Transport Plan (LTP): an annual grant provided by the Department for Transport (DfT), regular monitoring of spend ensures maximum use of the grant in each financial year (£21.3m in 2025/26).
    ii. Levelling Up Fund (LUF): this grant funds a number of capital projects to the north and south of the river as well as the Hereford Transport Hub. The grant allows flexibility to move the match funding between projects to ensure application of grant funding is prioritised.
    iii. Local Transport Grant: an annual allocation to support investment in local transport maintenance and enhancements and deliver more ambitious transport projects. In 2025/26, the council is forecasting to spend the grant awarded in full, including a £3.0 million allocation to highways spend.
    iv. Stronger Towns Fund: the Herefordshire Stronger Towns Partnership includes 3 council projects which are part-funded by the Stronger Towns Fund: Hereford Museum & Art Gallery, the Library & Learning Centre and Greening the City. For each of these projects, grant funding is used first to ensure application before deadlines to reduce the risk of grant clawback.
    v. Bus Service Improvement Grant: the grant allocation must be spent in the financial year of award. The forecast assumes the funding will be spent in full in 2025/26; some work has already been commissioned with further delivery planned by the end of the financial year.
    vi. Brownfield Land Release Fund (BLRF): the grant, to turn surplus land into new homes, must be committed by November 2025. The forecast at Quarter 1 assumes the grant monies will be utilised in full in 2025/26 to deliver flood alleviation works to support the redevelopment of Merton Meadow.

Community impact

30. 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

31. 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.

32. This report is to review the financial outturn at Quarter 1 of 2025/26 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

33. 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.

34. The mandatory equality impact screening checklist has been completed for budget proposals where appropriate and it has been found to have a high impact for equality for some budget proposals. These are included at Appendix E.

Legal implications

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

Risk management

36. 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 are escalated to the council's Corporate Risk Register.

Resource Implications

37. 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

38. 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 – Equality Impact Assessments for revised Savings – to follow

Background papers

None Identified

Further information on the subject of this report is available from
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