

**SUBJECT: 2024/25 REVENUE BUDGET – FINANCIAL UPDATE**  
**MEETING: PERFORMANCE & OVERVIEW SCRUTINY COMMITTEE**  
**DATE: 7th October 2024**  
**DIVISION/WARDS AFFECTED: ALL**

**1. PURPOSE:**

1.1 To provide Committee with the latest financial monitoring update of the Council's revenue budget for the 2024/25 financial year.

**RECOMMENDATIONS TO PERFORMANCE AND OVERVIEW SCRUTINY COMMITTEE**

- i. That the Performance and Overview Scrutiny Committee scrutinise the revenue budget forecast for the 2024/25 financial year;
- ii. That the Committee as part of their role assesses whether effective budget monitoring is in place; the extent to which budgets are spent within the agreed budget and policy framework, including the reasonableness of the explanation for variances and; consider the achievement of progress in meeting budget savings targets.

**2. RECOMMENDATIONS (to Cabinet):**

- 3.1 That Cabinet note the overall revenue budget deficit forecast of £3,388,000.
- 3.2 That Cabinet endorse the budget recovery action as outlined within the report to mitigate the forecast deficit and bring the budget back to at least a balanced position by the financial year end.
- 3.3 That Cabinet note the budgetary risks that are inbuilt into the forecast, namely;
  - The volatility of demand for high-cost services, particularly in Adults & Childrens Social Care and Additional learning needs;

- Continuing negotiation around national pay agreements which will further impact forecasts if it results in an award over and above the current offer and no consequential funding is received;
- The risk of the increase in the rate of the employers contribution to the teacher's pension scheme not being fully funded;
- The potential impact upon the Council's financial resilience from the forecast increase in the cumulative schools reserves deficit that is being carried on the Council's balance sheet.
- The risk of further non-delivery of the £10.9m of budgeted savings targets, with services currently forecasting 81.2% delivery;
- The trend of reducing debt recovery, particularly within Council tax where there is a significant increase in the number of discounts and exemptions awarded, and slowing down in collection rates;
- The severely limited reserve cover available to the Council.

3.4 That Cabinet note the forecast increase in the deficit on cumulative schools reserves as outlined in **Appendix 3** of this report of £4,929,000. This would result in school balances ending the financial year in a deficit of £5,832,000, with nineteen of thirty-four schools forecast to be in a deficit balance.

3.5 That Cabinet note that schools which are budgeting to end the 2024/25 financial year in a deficit balance are required to bring forward recovery plans by October half term to ensure that the proposed actions to address their budget shortfalls are instigated.

## 4 KEY ISSUES:

### Context

4.1 The first half of the 2024/25 financial year has seen the continuation of financial headwinds which are having a significant impact upon the Council's service operating environment:

- The wider and longer lasting impact of the pandemic, both economically and socially, continues to impact the Council, particularly in the areas of Homelessness, Children's services, Adult social care and Children's additional learning needs.
- The cost of living challenges continue to have an impact on our communities, with a consequential increase in demand for Council services, and impact upon income generating services;
- Whilst headline inflation has fallen, some discrete areas of Council services continue to experience cost pressures on supplies and services, alongside supply chain issues.

- In continuing efforts to combat inflation, interest rates have remained high, with revised forecasts suggesting that they will remain higher for longer than anticipated at the time of setting the budget;
- The Council continues to deal with a shortage of staff resources in some areas;

4.2 At the July 2024 meeting Cabinet received an indication that services were reporting early cost pressures of £873,000. This position has since deteriorated considerably, with the latest forecast indicating a forecast budget deficit of £3,388,000.

**Current revenue budget forecast position**

**Table 1: Revenue budget forecast summary**

| Directorate                     | In-year budget Pressures / (Savings) £000's | Shortfall in saving target £000's | Total budget deficit / (surplus) forecast £000's |
|---------------------------------|---|-----------------------------------|--|
| Social Care & Health            | 1,390                                       | 1,104                             | 2,494  |
| Children & Young People         | 92  | 376                               | 468  |
| Communities & Place             | 599   | 364                               | 963  |
| Monlife                         | (150)                                       | 104                               | (46)   |
| Chief Executives Units          | 68  | 0                                 | 68   |
| Law & Governance                | 51  | 0                                 | 51   |
| Resources                       | (89)  | 107                               | 18   |
| Corporate, Treasury & Financing | (627)                                       | 0                                 | (627)  |
| <b>Forecast budget deficit</b>  | <b>1,334</b>                                | <b>2,055</b>                      | <b>3,388</b>                                     |

4.3 The total forecast deficit against budget of £3,388,000 is made up of in-year budget pressures of £1,334,000 that have developed since the budget was set in February 2024, alongside a forecast shortfall in meeting budgeted savings target of £2,055,000.

4.4 **Appendix 1** to this report outlines the service variances in detail. At a summary level these primarily relate to the following areas:

| Service                                | <b>(Surplus)<br/>/ Deficit<br/>£000's</b> | Summary   |
|--|---|---|
| Adults care services                   | 1,534                                     | <p>External residential care home placements have increased by 17 since the budget was set, causing £520K of cost pressures.</p> <p>A shortfall of £1.1m against budgeted savings targets is currently forecast.</p>  |
| Childrens care services                | 1,134                                     | <p>The pressure of new referrals and more complex needs has generated additional unbudgeted costs of £1.13m.</p> <p>A higher than usual number of children's placements have broken down, with higher cost alternative provision required.</p>  |
| Additional learning needs              | 440                                       | <p>An unexpected increase in ALN placements at Independent Schools; an ALN pupil staying on for Year 14, and additional support for 2 existing ALN pupils.</p>  |
| Neighbourhood Services                 | 263                                       | <p>Waste &amp; Grounds Maintenance £233k – The 24/25 budget was built on the premise that our polyprop service would be fully operational from the 1st April. Delays in vehicle delivery meaning that the service won't start until early Autumn.</p> <p>Streetlighting £30k – Inflation and irregular maintenance costs have been higher than anticipated.</p>                         |
| Home to School & Passenger & transport | 623                                       | <p><b>Home to school</b> - Increased demand (a 10% increase since 3 years ago) has resulted in additional contracts. A scarcity of operators in this area is resulting in contract premiums or the Council undertaking contracts ourselves.</p> <p><b>Passenger transport</b> - A reduction in grant and public service bus funding for some routes has added to overall pressures.</p> |
| Fleet Maintenance                      | 270                                       | <p>Inflation, supply chain issues, vehicle hire growth and increased borrowing rates have driven operating costs over and above available budget. There are also additional spend requirements this year around EV charging points and a new vehicle management system.</p>   |
| Housing & Homelessness                 | 209                                       | <p>£320k shortfall in the rapid rehousing transition saving due to a delay in occupancy of new accommodation; additional damage and maintenance costs; offset by one-off grant income.</p>  |
| People                                 | 68  | <p>People Management employee costs are currently forecasting to exceed budget by £85k, due to the requirement to uplift resources within the unit to cover service demand. This has been offset by staff and system cost reductions in payroll.</p>  |

|                                 |              |  |
|---------------------------------|--------------|--|
| Legal                           | 73           | A projected shortfall in rechargeable income, and an over spend in staffing due to some regrading and temporary cover arrangements.  |
| Commercial & Corporate Landlord | 232          | Rental income from commercial, industrial & county farms is lower than budgeted due to some staggering of rent increases, and some vacant units remaining to be filled (£204k).<br>There is a shortfall of £207k in the asset rationalisation savings target due to delays in progressing some of the required changes to accommodation. This has been partially offset by staff savings of £179k. |
| Public protection               | (175)        | Staff vacancies, 2 posts having external funding and expected income above budget  |
| Business growth & enterprise    | (256)        | Senior staff vacancies and additional grant funding  |
| Monlife                         | (46)         | Delayed implementation of the area management restructure, delayed staffing savings in museums service and reduced income at our attractions has been more than offset by increased income from our leisure services and markets.  |
| Finance                         | (199)        | Staff savings and the ability to passport core service costs into grants   |
| Treasury costs                  | (283)        | Estimated saving as a result of unbudgeted recoupment of borrowing costs from services for vehicle purchases at the end of the 2023/24 financial year  |
| Council Tax                     | (350)        | CTRS caseloads are running slightly below historical levels.   |
| Other variances                 | (149)        |  |
| <b>Total</b>                    | <b>3,388</b> |  |

### **Budgeted savings targets**

4.5 Services are currently forecasting a shortfall of £2,055,000 or 18.8% in meeting the service savings targets that were set as part of the original budget for 2024/25. Full details can be found at **Appendix 2** to this report, however the main variances are as follows:

**Table 2: Progress against budgeted savings targets**

| Savings proposals by Directorate | Budgeted Saving | Current Forecast | Variance | Percentage met | Comment |
|----------------------------------|-----------------|------------------|----------|----------------|---------|
|----------------------------------|-----------------|------------------|----------|----------------|---------|

|                          | £000            | £000           | £000         | %            |  |
|--------------------------|-----------------|----------------|--------------|--------------|--|
| Social Care & Health     | (4,972)         | (3,868)        | 1,104        | 77.8%        | Adult's services - £729k shortfall against £2.8m target due to the complexity and level of demand for care needs restricting some progress, some savings being dependent upon third party negotiation, and challenges resourcing some of the service change required.<br>The Welsh Government review of the legal non-residential weekly charge cap has been delayed and £375k of savings are not expected to be generated |
| Children & Young People  | (3,172)         | (2,796)        | 376          | 88.1%        | ALN placements - Unexpected increase in new starters at Independent Schools, and additional support for existing pupils  |
| Communities & Place      | (927)           | (563)          | 364          | 60.7%        | £320k shortfall in the rapid rehousing transition due to a delay in occupancy of new accommodation.<br>£50k shortfall in planning income saving target as early indications show lower levels of activity than expected.   |
| Monlife                  | (1,079)         | (975)          | 104          | 90.4%        | A delay in progressing some staff restructuring means that savings will not be fully met in year   |
| Chief Executives Unit    | (86)            | (86)           | 0            | 100.0%       |  |
| People & Governance      | (33)            | (33)           | 0            | 100.0%       |  |
| Resources                | (595)           | (488)          | 107          | 82.0%        | Increased rental income is currently below targets following some staggering of rent increases, and some vacant units remaining to be filled   |
| Corporate Costs & Levies | (77)            | (77)           | 0            | 100.0%       |  |
| <b>Totals</b>            | <b>(10,940)</b> | <b>(8,886)</b> | <b>2,055</b> | <b>81.2%</b> |  |

### **Budget recovery action**

4.6 The budget planning framework for 2024/25 was clear that there is a need to progress the Council on a path towards financial sustainability including conserving an appropriate and prudent level of financial resilience, of which the Council's reserves are a key

component. As a consequence, the final revenue budget proposals for 2024/25 did not include any use of reserves to meet recurrent revenue expenditure.

- 4.7 The delivery of a balanced budget position for 2024/25, alongside substantial budget recovery action within schools is therefore fundamental in maintaining financial stability and limiting any further impact upon the Council's reserves.
- 4.8 Given the significance of the adverse Social Care & Health budget position, and the potential impact this has on the Council's overall financial position, it is important that this service maintains financial discipline and works towards delivering within its approved budget envelope. This will include delivering upon the placement and practice change and reform that was fundamental in the services agreed budget savings.
- 4.9 Given the forecast budget deficit of £3,388,000, it is essential that all Council services maintain financial discipline and engage in similar collective budget recovery action that saw significant improvement in the second half of 2023/24 financial year.
- 4.10 In order to deliver this, a range of mitigation measures will need to be implemented, including, but not limited to:
- Maximising all grant and income opportunities, including the transfer of core costs into grant where conditions allow;
  - Vacancy management with a targeted freeze on filling vacant posts;
  - Bearing down on all non-essential expenditure;
  - Service reduction and efficiency;
  - Maximising the opportunity to meet the costs of organisational reform from capital receipts where regulations allow

### **School budgets and reserves**

- 4.11 The overall level of school reserves are currently forecast to move further into deficit by £4,929,000 by the end of the 2024/25 financial year, to a collective deficit balance of £5,832,000. This is broadly in line with the budgets schools have set for the year.

| <b>School reserve balances at 31<sup>st</sup> March</b> | <b>2022<br/>£000</b> | <b>2023<br/>£000</b> | <b>2024<br/>£000</b> | <b>2025<br/>(Forecast)<br/>£000</b> |
|---|----------------------|----------------------|----------------------|-------------------------------------|
| <b>(Surplus) / Deficit</b>                              |                      |                      |                      |                                     |
| Comprehensive schools                                   | (2,253)              | (1,259)              | 976                  | 2,747                               |
| Middle schools  | 0                    | 0                    | 329                  | 909                                 |

|                 |                |                |            |              |
|-----------------|----------------|----------------|------------|--------------|
| Primary schools | (4,622)        | (3,027)        | (1,142)    | 657          |
| Special schools | (79)           | 31             | 742        | 1,519        |
| <b>Total</b>    | <b>(6,955)</b> | <b>(4,255)</b> | <b>905</b> | <b>5,832</b> |

- 4.12 The legacy impact of the pandemic continues within the school environment, particularly in respect of attendance, behaviours and increased additional learning needs. This has required increased staff and specialist resources to tackle the issues presenting and increased overall costs of provision. Higher than budgeted pay awards for both teaching and non-teaching staff have also impacted upon budgets.
- 4.13 It is currently anticipated that nineteen of the Council's thirty-four schools will be in a deficit balance by the year-end. All schools that register a deficit balance at a financial year-end are required to bring forward budget recovery plans
- 4.14 Those schools budgeting to end the 2024/25 financial year in deficit balance are expected to bring forward recovery plans by October half term. Close monitoring and support will be given to these schools, as well as those at risk of entering a deficit position over the medium term, to ensure that the proposed actions to address medium term budget challenges are instigated.

### **Remaining budgetary risks**

- 4.15 There remain key specific budgetary risks that have the ability to further impact upon the revenue budget during 2024/25:
- **Pay agreements** – The current national employers pay offer of a flat rate increase of £1,290 would be largely in line with the Council's budgeted increase for 2024/25. However the offer is currently under consultation with unions with the risk that any consequential increase in offer takes the award over budgeted levels.
  - **Teacher's pension contributions** - Formal confirmation is still awaited from UK Government to confirm its full funding of the planned increase in the employer pension contribution rates for the centrally administered Teacher's pension scheme. To the extent that it is not fully funded, or allocation of funding does not meet full costs, this presents a budget risk not currently factored into forecasts.



- **Further non-delivery of budget savings**, especially where these involve income generation, changes to structures, alternative delivery models or those involving community or other partners.
- The trend of **reducing debt recovery**, particularly within Council tax where there is a significant increase in the number of discounts and exemptions awarded which has a negative impact on overall income. There is also a slowing down in collection rates as households continue to struggle with the cost of living crisis.
- **Schools reserve balances** – a further draw on balances for 2024/25 of £4.93m would significantly increase the cumulative schools reserve deficit that is being carried on the Council's balance sheet. This consequently impacts upon the Council's overall financial resilience and increases its risk exposure by reducing available balance sheet resources.

### **Financial implications and future focus**

- 4.16 The continuing financial headwinds, increasing demand for services, funding uncertainty, and the need for £10.94m of service savings to be delivered within a challenging operating environment present tangible ongoing budget risks for the year.
- 4.17 When this is considered alongside a significant budget gap to be resolved for 2025/26, and a challenging and uncertain funding outlook over the medium term, it presents a significant challenge to the financial resilience of the Council.
- 4.18 There is therefore a requirement for all services to bear down on avoidable cost and identify further income opportunities wherever possible for the remainder of the year, in order to limit the call on severely limited useable revenue reserves.
- 4.19 A targeted vacancy freeze continues, and enhanced financial monitoring arrangements remain in place. The Financial Management Board will continue to focus on high budget risk areas and in regularly assessing the progress being made against budgeted service savings, and additional budget recovery action.
- 4.20 As we move towards the next formal monitoring period, work will continue to deliver on the structured approach to tackling the underlying budget pressures, with particular importance assigned to tackling costs which have the ability to be recurrent for 2025/26 and beyond.

## **5 RESOURCE IMPLICATIONS:**

- 5.1 The report itself covers the resource implications of the entirety of the revenue budget activity during the year. There are no further resource implications as a result of the recommendations in this report.

**6 EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):**

6.1 This report provides Members with an update on the progress being made against the revenue budget of the Authority and carries no decisions. There are therefore no equality and future generations' implications directly arising from this report.

**CONSULTEES:**

Senior Leadership Team  
Cabinet

**BACKGROUND PAPERS:**

*Appendix 1* – Detailed service commentaries  
*Appendix 2* – Progress against budgeted savings  
*Appendix 3* – Individual school balance forecasts

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