

SUBJECT: 2024/25 REVENUE BUDGET – FINANCIAL UPDATE
MEETING: PERFORMANCE & OVERVIEW SCRUTINY COMMITTEE
DATE: 3rd December 2024
DIVISION/WARDS AFFECTED: ALL

1. PURPOSE:

1.1 To provide Cabinet with an update of the progress against the Councils 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 forecast revenue budget deficit of £4,353,000 which is a deterioration of £964,000 since the previous update.
- 3.2 That Cabinet note a forecast 80.1% delivery of the £10,940,000 budgeted service savings required for the year. This results in a shortfall in savings of £2,176,000 that is included in the above deficit.
- 3.3 That Cabinet note the budget recovery action of £1,019,000 drawn up by services that if delivered will reduce the forecast deficit to £3,334,000.

- 3.4 That Cabinet note that the negotiation of national pay agreements for Local Government employees has concluded, and that the outcome is expected to be within budgeted allocations.
- 3.5 That Cabinet note the budgetary risks that are inbuilt into the forecast, namely;
- The volatility of demand for high-cost services, particularly in Adults & Children’s Social Care and with Additional learning needs;
 - 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 £10,940,000 of budgeted savings targets;
 - 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 a slowing down in collection rates;
 - The severely limited reserve cover available to the Council.
- 3.6 That Cabinet note the forecast increase in the deficit on cumulative schools reserves as outlined in **Appendix 3** of this report of £4,887,000. This would result in school balances ending the financial year in a deficit of £5,791,000, with twenty (59%) of thirty-four schools forecast to be in a deficit balance.
- 3.7 That Cabinet note that schools which are forecasting to end the 2024/25 financial year in a deficit balance have brought forward recovery plans outlining the proposed actions to address their budget shortfalls.
- 3.8 That Cabinet note a forecast Capital budget underspend of £93,000, alongside an indication of slippage in capital schemes of £9,298,000. The minor underspend is related to the Crick Road care home scheme and due to being financed by specific borrowing and does not subsequently represent a usable surplus budget.

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 October 2024 meeting Cabinet received a financial update reporting a forecast budget deficit of £3,388,000. This position has since deteriorated by a further £964,000, to an updated forecast budget deficit of £4,353,000.

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	% Variance to budget
Social Care & Health	2,829	1,068	3,897	5.7%
Children & Young People	139	534	673	1.0%
Communities & Place	338	370	708	2.6%
Monlife	(262)	140	(122)	-1.5%
Chief Executives Units	94	0	94	2.9%
Law & Governance	48	0	48	1.6%
Resources	(209)	64	(145)	-1.8%

Corporate, Treasury & Financing	(799)	0	(799)	-0.4%
Forecast budget deficit	2,177	2,176	4,353	

4.3 The total forecast deficit against budget of £4,353,000 is made up of in-year budget pressures of £2,177,000 that have developed since the budget was set in February 2024, alongside a forecast shortfall in meeting required budgeted savings targets of £2,176,000.

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	(Surplus) / Deficit £000's	Summary
Adults care services	2,505	<p>Deterioration of £971k. External residential care home placements have increased by 19 since the budget was set, causing £620K of cost pressures.</p> <p>A shortfall of £1.25m against budgeted savings targets is currently forecast.</p> <p>Significant increase in domiciliary care demand in July and August equating to a 10% increase in externally commissioned packages of care, at an additional cost of £500k.</p>
Children's care services	1,536	<p>Deterioration of £402k. The pressure of new referrals and more complex needs has generated additional unbudgeted costs of £1.5m.</p> <p>A higher than usual number of children's placements have broken down, with higher cost alternative provision required.</p>
Additional learning needs	614	<p>Deterioration of £174k. An unexpected increase in ALN placements at Independent Schools; increasing numbers receiving EOTAS (Education Other Than At School) bespoke packages; an ALN pupil staying on for Year 14, and additional support for 2 existing ALN pupils.</p>
Neighbourhood Services	304	<p>Deterioration of £41k. Waste & Grounds Maintenance £384k – The volatility and reduced values of recyclate; revised Workplace recycling regulations resulting in a reduction in trade waste collection income; delay in the rollout of the polyprop service due to vehicle supply chains.</p> <p>Offset by Highways External (£100k surplus) - income from external works will exceed budget.</p>

Home to School & Passenger & transport	583	<p>Improvement of £40k. Home to school - 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>Passenger transport - A reduction in grant and public service bus funding for some routes has added to overall pressures.</p>
Fleet Maintenance	110	<p>Improvement of £160k. Inflation, supply chain issues, vehicle hire growth and increased borrowing rates have driven operating costs over and above available budget. Additional requirements for EV charging points and a new vehicle management system.</p>
Housing & Homelessness	222	<p>Deterioration of £13k. £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	75	<p>Deterioration of £7k. People Management & occupational health pressures from additional employee costs, and lower SLA income, . This has been offset by staff and system cost reductions in payroll.</p>
Legal	67	<p>Deterioration of £6k. A projected shortfall in rechargeable income, and an over spend in staffing due to some regrading and temporary cover arrangements.</p>
Commercial & Corporate Landlord	67	<p>Improvement of £165k. 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 (£196k).</p> <p>There is a shortfall of £151k 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 £200k and one-off income of £70.</p>
Public protection	(147)	<p>Deterioration of £28k. Staff vacancies, 2 posts having external funding and expected income above budget</p>
Business growth, enterprise mgmt	(361)	<p>Improvement of £105k. Senior staff vacancies and additional grant funding</p>
Monlife	(122)	<p>Improvement of £76k. 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.</p>
Finance	(197)	<p>No change. Staff savings and the ability to passport core service costs into grants</p>
Treasury costs	(480)	<p>Improvement of £197k. 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</p>

Council Tax	(350)	No change. CTRS caseloads are running slightly below historical levels.
Other variances	(73)	Other smaller net variances.
Total	4,353	

Budgeted savings targets

4.5 Services are currently forecasting a shortfall of £2,176,000 or 19.9% in meeting the service savings targets that were set as part of the original budget for 2024/25 (£2,055,000 or 18.8% as at Update 1). 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)	(3,904)	1,068	78.5%	Adult's services - £1,268k shortfall against £3,159k target due to the complexity and level of demand for care needs restricting progress, some savings being dependent upon third party negotiation, and challenges resourcing some of the service change required. The Welsh Government review of the legal non-residential weekly charge cap is not currently being progressed and £375k of savings will therefore not be generated. Offset by out-performance of Children's service placement and practice change which have targeted high cost placements.
Children & Young People	(3,172)	(2,638)	534	83.2%	ALN placements - Unexpected increase in new starters at Independent Schools, and additional support for existing pupils
Communities & Place	(927)	(557)	370	60.1%	£320k shortfall in the rapid rehousing transition due to a delay in occupancy of new accommodation. £50k shortfall in planning income saving target as early indications show lower levels of activity than expected.

Monlife	(1,079)	(939)	140	87.0%	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%	To be fully met
People & Governance	(33)	(33)	0	100.0%	To be fully met
Resources	(595)	(531)	64	89.2%	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%	To be fully met
Totals	(10,940)	(8,765)	2,176	80.1%	

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 remains fundamental in maintaining financial stability and limiting any further impact upon the Council's reserves.
- 4.8 The ongoing financial position of the Social Care & Health directorate remains the key risk within this forecast, making up nearly 90% of the overall budget deficit. The level and complexity of demand for both Adult's and Children's care continues to trend upwards and is far outstripping the progress being made in placement and practice change. The ongoing programme of reviewing existing Adults care provision remains challenging because of the pressure of managing new referrals and assessments. Equally, as the NHS re-trench around their own cost pressures, there has been little progress in successfully pursuing Continuing Health Care costs.
- 4.9 The positive Autumn budget statement delivered by the Chancellor provided significant support for the Welsh Government budget, with indications that part of this funding will be available to support in-year budgetary pressures. It is vital that strong representations for

further funding are therefore made to Welsh Government, both directly through the WLGA and via other Council networks that aims to recognise the unsustainable position of Social care within the Local Government sector in Wales.

- 4.10 Given the significance of the adverse Social Care & Health budget position, and the impact this has on the Council's overall financial position, it is essential that this service maintains financial discipline and mitigates further cost wherever possible. This will include delivering upon the placement and practice change and reform that was fundamental in the services agreed budget savings.
- 4.11 Given the forecast budget deficit of £4,353,000, it is essential that all Council services maintain the same financial discipline and engage in similar collective budget recovery action that saw significant improvement in the second half of 2023/24 financial year.
- 4.12 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;
 - A review of the capital budget with a view to repurposing budgets, or pausing some capital investment.
- 4.13 To date services have indicated potential budget recovery measures of just over £1 million which continue to be developed and currently sit outside of the forecasts in this report. Should these be delivered in full, the overall budget deficit would reduce to £3,334,000.

Type	Children & Young People	Social Care & Health	Communities & Place	MonLife	Law & Governance	Chief Executives Unit	Resources	Corporate	Total
Increase Grant / Income	74	0	50	20	0	0	0	0	144
Freeze vacant posts	0	0	0	14	0	10	0	0	24
Expenditure reduction	0	0	0	0	0	0	0	250	250
Transfer of eligible costs to Capital	15	0	498	28	0	0	60	0	601
Total	89	0	548	62	0	10	60	250	1,019

School budgets and reserves

4.14 The overall level of school reserves are currently forecast to move further into deficit by £4,887,000 by the end of the 2024/25 financial year, to a collective deficit balance of £5,791,000. This is broadly in line with the budgets schools have set for the year.

School reserve balances at 31st March (Surplus) / Deficit	2022 £000	2023 £000	2024 £000	2025 (Forecast) £000
Comprehensive schools	(2,253)	(1,259)	976	2,480
Middle schools	0	0	329	1,035
Primary schools	(4,622)	(3,027)	(1,142)	816
Special schools	(79)	31	742	1,459
Total	(6,955)	(4,255)	905	5,791

4.15 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.

4.16 It is currently anticipated that twenty (59%) of the Council's thirty-four schools will be in a deficit balance by the year-end. Those schools forecasting to end the 2024/25 financial year in deficit balance have brought forward recovery plans that are being considered by officers and Cabinet. Close monitoring and support will continue to 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 the budget challenges are instigated.

Remaining budgetary risks

4.17 There remain key specific budgetary risks that have the ability to further impact upon the revenue budget during 2024/25:

- **Teacher's pension contributions** - Formal confirmation of funding is still awaited from Welsh Government that will confirm if full funding has been made of the 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.

- **Increasing demand for services** – particularly around Social care as we move into the winter period, and with pressure on the NHS to speed up patient pathways and the potential impact on discharge into social care settings.
- **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. Social services debt recovery remains challenging and is being monitored closely.
- **Schools reserve balances** – the forecast further in-year deficit would significantly increase the cumulative 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

- 4.18 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.
- 4.19 When this is considered alongside a significant budget gap needing 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. There therefore remains 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.
- 4.20 A targeted vacancy freeze continues, and enhanced financial monitoring arrangements remain in place. The Financial Management Board arrangements continue to focus on high budget risk areas and in regularly assessing the progress being made against budgeted service savings, as well as additional budget recovery action.
- 4.21 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.
- 4.22 Further funding clarification over the in-year budget and the medium term remains vital, both in being able to manage significant upward trends in demand for Council services, but also in being able to adequately plan for service delivery over the medium term with a reduced emphasis on more costly short-term emergency solutions.

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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