

SUBJECT: 2024/25 REVENUE BUDGET – FINANCIAL UPDATE
MEETING: PERFORMANCE & OVERVIEW SCRUTINY COMMITTEE
DATE: 11th February 2025
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 £1,593,000 (0.7% of total budget) which is a significant improvement of £2,760,000 since the previous update.
- 3.2 That Cabinet requires budget recovery action to continue for the remainder of the year to ensure all services to bear down on avoidable cost and identify further income opportunities wherever possible in order to bring the budget back to a balanced position.
- 3.3 That Cabinet note a forecast 78.3% delivery of the £10,940,000 budgeted service savings required for the year. This results in a shortfall in savings of £2,376,000 that is included in the above deficit.

- 3.4 That Cabinet note that funding to meet the increase in the rate of the employers contribution to the teacher's pension scheme has been fully received since the previous financial update, and that this no longer represents a budget risk.
- 3.5 That Cabinet note the budgetary risks that are inbuilt into the forecast, namely;
- The volatility of demand for high-cost services, particularly within Adults & Children's Social Care and in Additional learning needs;
 - 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 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 £5,240,000. This would result in school balances ending the financial year in a deficit of £6,144,000, with twenty-four (69%) of thirty-five 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, however the current budget circumstances indicate that it will take schools a considerable amount of time to fully recover deficit balances.
- 3.8 That Cabinet note a forecast Capital budget underspend of £243,000, alongside an indication of slippage in capital schemes of £13,199,000.

4 KEY ISSUES:

Context

- 4.1 The 2024/25 financial year has seen the continuation of financial headwinds which are impacting upon the Council's service operating environment:

- The wider socio-economic landscape and 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. This particularly impacts the service areas of Children’s Social care, Adult social care, Homelessness, and Children’s additional learning needs.
- Wider public sector challenges continue to impact upon Council services, notably within Health where efforts to improve patient pathways impact upon the level and complexity of demand for Social care;
- 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 In December 2024, Cabinet received a financial update reporting a forecast budget deficit of £4,353,000 alongside budget recovery action of just over £1 million, that if delivered successfully would reduce the deficit to £3,334,000.

4.3 The updated forecast budget deficit now stands at £1,593,000 and is reflective of favourable movements within the majority of service budget areas, reflective of successful budget recovery action and additional grant income received at the end of the 2024 calendar year.

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	2,840	1,371	4,211	6.2%
Learning, Skills and Economy	(88)	360	272	0.4%
Infrastructure & Place	211	460	671	2.5%
Customer, Culture and Wellbeing	(454)	118	(336)	-4.1%
People, Performance and Partnerships	(6)	0	(6)	-0.2%
Law & Governance	2	0	2	0.1%
Resources	(497)	67	(430)	-4.9%

Corporate, Treasury & Financing	(2,789)	0	(2,789)	-7.5%
Forecast budget deficit	(782)	2,376	1,593	0.7%

- 4.4 The overall deficit is primarily due to a forecast shortfall in meeting required budgeted savings targets of £2,376,000, alongside significant in-year budget pressures of £2,840,000 within Social Care that have developed since the budget was set in February 2024.
- 4.5 These have been significantly offset by favourable positions within some of our income generating services, and in savings in capital financing costs.
- 4.6 In December 2024 Welsh Government notified of additional grant funding of £1.3m to manage Local Government pay pressures which has significantly improved the overall forecast. This funding has been reflected within the Corporate, Treasury, and Financing section above given the timing of receipt, and the non-specific nature of the funding.
- 4.7 **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	2,040	<ul style="list-style-type: none"> • Improvement of £464k. • External residential care home placements have increased by 30 since the budget was set, causing £620K of cost pressures. • A shortfall of £1.25m against budgeted savings targets is currently forecast. • Domiciliary care demand increased significantly in July and August, at an additional cost of £500k. Whilst no further sustained increase in demand has been seen, the usual cycle of winter pressures are yet to conclude. • Improvement is due to the under spend in the Care at Home service from staff vacancies whilst the reablement project is underway (re-design the workforce).
Children's care services	2,468	<ul style="list-style-type: none"> • Deterioration of £932k. • At the end of December, although the numbers of children being looked after has remained stable, the degree of change and movement in placements has continued to impact costs. This has included one high cost residential placement, a further 6 parent and child placements and extensions to 2 others, which has increased the over spend.

Additional learning needs	348	<ul style="list-style-type: none"> • Improvement of £266k. • An improvement in the net overall cost of ALN independent placements of £117k due to movements in placements; alongside additional grant funding to support the service of £134k
Neighbourhood Services	459	<ul style="list-style-type: none"> • Deterioration of £222k. • Waste & Grounds Maintenance over spend of £678k– Volatility and reduced values of our recycle continues; income has been affected by the introduction of Workplace recycling regulations resulting in reduced volumes. These coupled with the volatility of end market values has resulted in an increasing pressure. • Offset by Highways under spend of £220k - income from external works will exceed budget; staff vacancies being held.
Home to School & Passenger & transport	505	<ul style="list-style-type: none"> • Improvement of £77k. • 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. • Passenger transport - A reduction in grant and public service bus funding for some routes has added to overall pressures. • Improvement as part of overall budget recovery action to maximise income and passport qualifying costs to grant or capital.
Fleet Maintenance	44	<ul style="list-style-type: none"> • Improvement of £64k. • 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. • Improvement as part of overall budget recovery action to passport qualifying costs to grant or capital.
Housing & Homelessness	150	<ul style="list-style-type: none"> • Improvement of £72k. • £400k 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. • Improvement due to reduced impact on Housing benefit subsidy penalty.
People	22	<ul style="list-style-type: none"> • Improvement of £53k. • 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. • Improvement due to reducing temporary support hours and the team are covering maternity leave in-house rather than backfilling the post to contribute to the recovery effort
Legal	21	<ul style="list-style-type: none"> • Improvement of £46k. A projected shortfall in rechargeable income, and an over spend in staffing due to some regrading and temporary cover arrangements.

		<ul style="list-style-type: none"> Budget recovery action has resulted in improvement from holding staff vacancies and in supplies and services.
Commercial & Corporate Landlord	(39)	<ul style="list-style-type: none"> Improvement of £50k. 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 (£181k). There is a shortfall of £58k in the asset rationalisation savings target due to delays in progressing some of the required changes to accommodation. This has been offset by staff savings and one-off income totalling £278k.
Placemaking, Highways & Flooding	(223)	<ul style="list-style-type: none"> Improvement of £113k. £140k over spend in Building control and Planning where fee income has been impacted by economic conditions resulting in reduced applications £60k under spend in Car Parks & Civil Parking Enforcement as pay & display income is currently exceeding budget, and aided by employee savings due to some vacancies. £170k under spend in Highways Development & flooding from full and part year vacancies coupled with improved income mainly from additional Highways development fees and capital programme fees. £133k underspend in Schools Catering from in-year staff savings and capitalisation of qualifying IT costs.
Public protection	(279)	Improvement of £132k. Staff vacancies, 2 posts having external funding and expected income is above budget
Enterprise management	(255)	Improvement of £125k. Senior staff vacancies and additional grant funding
Customer, Culture & Wellbeing	(336)	Improvement of £170k. 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 following successful marketing campaigns.
Finance	(351)	Improvement of £154k. Continued staff savings and the ability to passport core service costs into grants
Capital financing costs	(565)	Improvement of £85k. Savings in interest payable due to slightly lower rates than estimated, coupled with unbudgeted recoupment of borrowing costs from services for vehicle purchases at the end of the 2023/24 financial year.
Council Tax	(617)	<ul style="list-style-type: none"> Improvement of £267k. CTRS caseloads are running slightly below historical levels generating budget savings of £525k

		<ul style="list-style-type: none"> • Council tax income is expected to be £125k less than budgeted as discounts and exemptions continue to rise which have a negative impact on the overall position • Council Tax Premium: An additional £217k will be collected this year compared to budget and will be transferred to the Council tax premium reserve.
Corporate & Central costs	(1,639)	Improvement of £1,639k. Additional Welsh Government grant funding, final pay award costs slightly below budget.
Other variances	(87)	Other smaller net variances.
Total	1,593	

Budgeted savings targets

4.8 Services are currently forecasting a shortfall of £2,376,000 or 21.7% in meeting the service savings targets that were set as part of the original budget for 2024/25 (£2,176,000 or 19.9% at previous update). 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)	(3,601)	1,371	72.4%	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. Children's service placement and practice changes are forecast to deliver £103k less than anticipated due to changes in the complexity of demand.
Learning, Skills and Economy	(3,172)	(2,812)	360	88.7%	ALN placements - Unexpected increase in new starters at Independent Schools, and additional support for existing pupils

Infrastructure & Place	(927)	(467)	460	50.4%	£400k delay in savings relating to rapid rehousing transition as occupancy of new accommodation has been pushed back. £50k shortfall in planning income saving target as early indications show lower levels of activity than expected.
Customer, Culture and Wellbeing	(1,079)	(961)	118	89.1%	A delay in progressing some staff restructuring means that savings will not be fully met in year
People, Performance and Partnerships	(86)	(86)	0	100.0%	To be fully met
People & Governance	(33)	(33)	0	100.0%	To be fully met
Resources	(595)	(528)	67	88.7%	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)	(8,565)	2,376	78.3%	

Budget recovery action

- 4.9 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.
- 4.10 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.
- 4.11 This third financial update for the year represents a move on a positive trajectory towards delivering a balanced year-end budget position. The actions of services to engage in budget recovery action and to maintain financial discipline is positive and is to be commended. It is

essential that this path continues through to year-end and that all possible opportunities to mitigate further cost and maximise income are taken.

- 4.12 The ongoing financial position of the Social Care & Health directorate remains the key risk within this forecast. The level and complexity of demand for both Adult's and Children's care continues to trend upwards and is outstripping the progress being made in the preventative agenda and through 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.
- 4.13 The positive Autumn budget statement delivered by the Chancellor resulted in significant support for the Welsh Government budget and consequently further funding being made available to Councils to support in-year budgetary pressures. Continuing representations for further funding will be made to Welsh Government, both directly through the WLGA and via other Council networks that aims to recognise the unsustainable pressures upon Social care within the Local Government sector in Wales.
- 4.14 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, despite the challenging operating environment. This will include continuing to deliver upon the placement and practice change and reform that was fundamental within the services agreed budget savings.
- 4.15 Despite the overall improvement in budget deficit since the previous update, there remains a significant task to close out the remaining deficit of £1,593,000 to end the year in a balanced position. It therefore remains essential that all Council services maintain the current financial discipline and continue to engage in mitigation measures including:
- 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.

School budgets and reserves

4.16 The overall level of school reserves are currently forecast to move further into deficit by £5,240,000 by the end of the 2024/25 financial year, to an overall deficit balance of £6,144,000. This is a deterioration of £353,000 since the previous update and is of disappointment given the need for collective financial discipline to stem the burden on the Council's reserve.

School reserve balances at 31st March (Surplus) / Deficit	2022 £000	2023 £000	2024 £000	2025 (Forecast) £000
Comprehensive schools	(2,253)	(1,259)	976	2,306
Middle schools	0	0	329	1,385
Primary schools	(4,622)	(3,027)	(1,142)	823
Special schools	(79)	31	742	1,630
Total	(6,955)	(4,255)	905	6,144

4.17 Demands within the school environment remain particularly challenging, notably 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.

4.18 It is currently anticipated that twenty-four (69%) of the Council's thirty-five 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. It is clear from these budget recovery plans that it will take schools a considerable amount of time to fully recover deficit balances, and the Council will need to take assessment of this financial risk within medium term financial planning.

4.19 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

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

- **Increasing demand for services** – particularly around Social care through the winter period, and with pressure on the NHS to improve patient pathways and the consequential 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** – a further in-year deficit will 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

- 4.21 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 remainder of the year.
- 4.22 When this is considered alongside a challenging and uncertain funding outlook over the medium term, and coupled with limited levels of reserves, 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.
- 4.23 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.
- 4.24 As we move towards the financial year-end, 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.
- 4.25 Further funding clarification will be sought, and this remains vital in being able to manage significant upward trends in the 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 reactive 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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