

Report for: Overview & Scrutiny Committee 10 December 2024

Title: 2024/25 Finance Update Quarter 2 (Period 6)

Report authorised by : Taryn Eves, Director of Finance

Lead Officer: Frances Palopoli - Head of Corporate Financial Strategy & Monitoring

Ward(s) affected: All

**Report for Key/
Non Key Decision:**

1. Describe the issue under consideration

- 1.1 This budget report covers the position at Quarter 2 (Period 6) of the 2024/25 financial year including General Fund (GF) Revenue, Capital, Housing Revenue Account (HRA) and Dedicated Schools Grant (DSG) budgets. The report focuses on significant budget variances including those arising from the forecast non-achievement of approved MTFS savings.
- 1.2 Despite efforts to accurately forecast, and provide for 2024/25 cost pressures, these have proved insufficient and at Quarter 2 there is a £37.2m forecast overspend for the year on General Fund services, an increase of £17.2m since Quarter1 (Qtr1 £20m). The total overspend is made up of £29.5m service pressures from increased demand and cost of service provision and £7.7m as a result of the non-delivery of savings. The movement from Quarter1 is predominately due to increased pressures in Adult social care (£7m) and Homelessness (£5.2m) driven by demand and high provider costs. The remaining additional pressure is a £3.5m in relation to Housing Benefit payments not fully covered by government grant (highlighted in Quarter1 as risk and now included in the numbers as likely to be realised), corporate pressures caused by reduced charges to the DSG and increased pension costs for former employees. The £37.2m forecast assumes the budgeted use of reserves of £5.1m is applied in full but does not include any potential contribution from the Council's main contingency budget of £7.6m or any further use of reserves. Further details of specific actions to reduce the overspend are discussed in Section 6 along with ongoing risks.
- 1.3 As has been the case for the last few years, **adult social care** continues to be the biggest cost pressure on the Council's General Fund with an overspend of £14.6m at Quarter 2. After remaining largely flat last year, the number of older adults with a support package has increased since April. This coupled with increased average cost of care packages over and above what was estimated when the budget was set, is driving some of the unbudgeted spend. The other cost pressure is due to the year-on-year increase in the number of younger adults with a care package with the numbers transitioning to adulthood

increasing the long-term costs to be met by the service. It is hoped that the development and implementation of a transitions service will have positive impact on long term costs.

- 1.4 Mitigation plans are in place to ensure that any current savings not likely to be met, are where possible, achieved through either overachievement of the other current year savings targets or by way of new savings. As it stands at Quarter 2 there will be a shortfall in savings delivery of £3.545m against an original target of £8.245m where no mitigation has been found. This shortfall in savings delivery has been incorporated into the Quarter 2 forecast.
- 1.5 The overspend in **Homelessness** has risen this quarter and continues to be driven by increased demand resulting in a reliance on bed and breakfast and nightly paid accommodation due to the limited availability of longer-term move-on options. Despite the national headline of a fall in inflation, this is not translating into reduced costs in this market, with costs increasing. Further pressures have arisen by delays to 'ready to let' dates on housing delivery projects such as Hale Wharf and TA voids.
- 1.6 A wide range of actions are underway to seek to contain the budgetary pressures including a new the procurement of a new contractor for TA voids. The Housing Demand Programme includes initiatives aimed at containing budgetary pressures, including accelerating the property acquisitions programme, with a particular focus on securing family-sized homes for temporary accommodation. Moreover, there are plans in place to improve income collection rates further, which, although starting to improve, are still well below original budget assumptions. Addressing the demand for temporary accommodation continues to be seen as a priority and there is focussed work to increase supply, improve void performance to return homes into occupation and introduce preventative strategies to reduce those presenting as homeless. The impact of these actions is expected to start to translate into a tangible reduction in spend by the end of this financial year. Furthermore, there are early indications that demand is steady. Together adult social care and housing demand account for 71% of the total overspend.
- 1.7 There has been little change in the **Children's** forecasts since Quarter 1. The budget pressures leading to the £4.5m forecast overspend in Children's services and Education began to emerge in the last quarter of the previous year. The main pressure (£3m) is within Safeguarding and Social Care. Of this, £2.5m relates to placements and the support we provide to families who are intentionally homeless or have no recourse to public funds. The earlier budget forecasts were that costs are due to increased placement costs, which is recognised as a national market issue, rather than increasing numbers. However, demand monitoring at Quarter 2 shows an emerging increase in numbers across all three categories of children looked after, child protection plans and early help. Strategies continue to mitigate these emerging risks but may not avoid additional costs before Quarter 3.
- 1.8 As at Quarter 2 this year there are 37 schools with deficit balances compared to 32 at 31 March 2024, an increase of 5 schools. There is an overall Quarter 2 forecast Schools deficit of £5.6m, compared to £0.11m in 2023/24, an increase of £5.5m since last year. Schools are required to report quarterly to

the Council on their financial position. There were two primary schools that have not yet submitted their Quarter 2 forecasts, so an estimate using spend to date figures have been used. This means that the overall forecast deficit of £5.6m by 31st March 2025 is subject to change. This worsening position adds additional financial risk to the Council's General Fund and focused work continues both at an individual school level and schools forum to provide support and interventions that will improve this position. There are likely to be resource implications to the council associated with the support, interventions and improved governance needed to ensure there are sustainable solutions achieved over the longer term.

- 1.9 The Council is not alone in facing budgetary pressures in all these demand led service areas. As part of the budget process each year, officers utilise data and evidence to estimate service pressures, build in additional budget where appropriate and identify efficiencies for mitigating such pressures. However, the impact of pressures in the wider socio-economic environment, largely outside the Council's immediate control are significant and appear not to be abating. This, coupled with restricted and short-term funding shortfalls is leaving the Council in an extremely challenging financial position to meet this ever-increasing demand.
- 1.10 Culture Strategy and Engagement (**CSE**) is forecasting an overspend of £1.025m. The key reason remains the overspend within Libraries (£772,000). Delays in the start of the public consultation mean the £675,000 opening hours saving is not expected to begin to be delivered until Quarter 1 of 2025/26. The service is mitigating the shortfall as far as possible by holding vacancies. Premises related costs (energy and business rates) and the projected income shortfall makes up the remaining overspend together with the non-achievement of planned commercial income and Digital transformation savings unlikely now to deliver before early next year.
- 1.11 The **Dedicated Schools Grant (DSG)** forecast at Quarter 2 is a £2.6m overspend in line with that reported at Quarter1. The main pressure remains in the High Needs Block (HNB) which supports delivery for children with Special Education Needs and Disabilities (SEND). The in-year position is consistent with the overall recovery plan as set out in the Safety Valve agreement, where the programme is expected to bring the HNB back into surplus by March 2028.
- 1.12 The **Housing Revenue Account** reports a Quarter 2 forecast surplus of £4.365m, which is £4.238m less than the budgeted surplus of £8.603m. This is mainly driven by forecast overspend in Housing repairs services and underachievement of income due to voids. Housing Repairs Service budgets are forecast to overspend, primarily due to higher than anticipated contractor costs and ongoing demand for damp and mould cases but also materials and transport costs which are higher than anticipated. There has been increase in voids in this financial year contributing to the overall rental loss in Quarter 2. This is significantly higher than anticipated and partly contributed by the Neighbourhood Moves Scheme and the handover of new units as part of the new development schemes. The level of forecast overspend is mitigated by some underspends in staffing costs within the HRA and reduction in capital financing cost (borrowing cost) forecast from lower capital spend now forecast in year.

- 1.13 The **Capital** forecast at Quarter 2 is that only £265.748mm / 50% (Qtr1 58%) will be spent in year, of which £102m relates to the General Fund and £163.7m for the HRA.
- 1.14 The draft Statement of Accounts for 2023/24 were published on 28 June 2024 and the provisional financial outturn was reported to Cabinet on the 16 July 2024. The External Audit by KPMG is well underway, and the opinion is expected to be reported to Audit Committee in January 2025. It should be noted that the Council currently has three years of previous unaudited accounts (2020/21 – 2022/23) and the Council's previous auditors, BDO are expected to report their opinion on previous accounts and Value for Money report to Audit Committee on 3 December 2024.

Risks and Issues

- 1.15 Attention is drawn to paragraphs 6.3 – 6.9 of the report which highlights risks and issues which may further negatively impact on the year end budget forecast. These are as yet unquantified and may not materialise but the risks remain and need to be highlighted.
- 1.16 These paragraphs also describe specific actions being taken to reduce expenditure across the remainder of the financial year.
- 1.17 Paragraphs 11.1 and 11.2 contain the Director of Finance statutory comments. Attention is drawn particularly to paragraph 11.2 which underlines again the low level of reserves that the Council has and the work underway to set the 2025/26 Budget and plans to create sustainable, realistic budgets across the medium term.

2. Recommendations

- 2.1 The Overview and Scrutiny Committee are recommended to:
- 2.1.1 Note that the significant forecast General Fund overspend of £37.2m at Quarter 2 and the actions being taken to address this.
- 2.1.2 Note that the Council's reserves position is lower than average for a council of this size and a medium to long term objective must be to improve on this and increase our financial resilience.
- 2.1.3 Note in particular, the Director of Finance's statutory comments in paragraph 11.1 and 11.2 that this is a **pivotal** year for the Council both in terms of the need to focus on reducing the forecast Quarter 2 in year pressure but just as importantly, take the required steps and decisions as part of the Budget/MTFS planning process which is underway to maintain the Council on a sustainable footing.
- 2.1.5 Note that statutory comments are included in the original report to Cabinet.