Report for:	**Overview & Scrutiny Committee 08 April 2025**
Item number:	**6**
Title:	**2024/25 Finance Update Quarter 3 (Period 9)**
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 3 (Period 9) 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.

General Fund

1.2 By the end of the year, the Council is forecast to spend £340m of day to day services for all residents and services for the most vulnerable and £79m on capital investment into schools, roads, the environment and its commercial and operation estate. For day to day services, this is against a budget of £302m and therefore the Council continues to face a challenging financial position in the current year. Through the year, the demand for social care and housing support has continued to increase and the price paid has far exceeded what was expected.

1.3 Most services have seen small improvements in their spending against budget since Quarter 2 with the exception of Adult social care where the forecast overspend has increased by almost £1m. This is due to on-going increases in numbers requiring support packages, but particularly an unprecedented increase in number of younger adults (aged 50-64). This trend is new to this quarter and is not reflective of prior years' activity. It is too early to determine if this is the new trend or one-off activity in year however the costs are being experienced now. The overall cost impact of £1.7m has been mitigated to some extent by additional income receipts.

1.4 Although the end of year forecast is broadly in line with that reported in quarter 2, there are a number of risks that are being carefully monitored and therefore the end of year outturn remains subject to change. Some risks continue to be driven by external factors, such as increasing inflation and on-going high interest rates which place financial challenges on residents and businesses and make it harder for the council to collect income due as well as increasing borrowing costs for capital investment. Shortage in the supply within the housing market coupled with high demand is impacting on costs, particularly for nightly accommodation. Within adult social care services, the main driver of the increase since quarter 2 is from demand for services of the cohort of clients aged 50 to 64, presenting with physical disability and mental health needs.

1.5 Some risks are more internally focussed. Each service undertakes modelling and scenario planning to determine the financial forecasts as part of regular monthly monitoring however, there are always some unknowns and work continues to deliver all the assumed savings.

1.6 With a £37.2m forecast overspend, it has been absolutely crucial that every possible action is taken to stop and or reduce non-essential spend between now and the end of March. The Council has a legal requirement to deliver a balanced position each year and may not have sufficient of its own resources to cover the full forecast £37.2m overspend. Mitigations that will be applied includes any unused contingency budgets, and a further forensic review of the Council's balance sheet to provide one off in year contributions to fund the overspend. However, this may not be sufficient and reaching a balanced position at the year-end may require some use of Exceptional Financial Support (EFS) from government, who have agreed in principle that up to £28m could be drawn down. This doesn't come without on-going financial implications particularly if the Council uses the EFS permission to borrow to fund the gap. Each £1m of EFS used will add £72,000 to revenue costs each year for the next 20 years.

Dedicated Schools Grant (DSG)

1.7 The Dedicated Schools Grant (DSG**)** forecast at Quarter 3 remains in line with the previous two quarters and stands at £2.6m overspend. 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.

Housing Revenue Account (HRA)

1.8 The Housing Revenue Account reports a Quarter 3 forecast surplus of £5.976m. While this is £2.627m less than the budgeted assumption, it is a £1.611m improvement from the Quarter 2 forecast. This improvement has largely been driven by re-categorisation of some costs between revenue and capital and delays in commencing some capital programmes of work which has resulted in lower borrowing costs than originally assumed when the budget was set in March 2024.

Capital

1.9 The General Fund capital forecast spend at Quarter 3 is £79.235m which is £44.6m under the revised budget (Quarter 2 £22.8m underspend). The HRA capital forecast spend is £239.4m, which is £86.2m under the revised budget. This is in line with the Quarter 2 position.

1.10 A number of budget adjustments are proposed against the general fund capital programme notably, the inclusion of £20m capital budget for exceptional financial support if required; the deletion of the Wards corner Development budget (£5.8m) and the re-profiling of £8.6m budget into future years.

Risks and Issues

1.11 Attention is drawn to paragraphs 6.9 – 6.24 of the report which highlights risks and issues which may further negatively impact on the year end budget forecast. These may not materialise, but the risks remain and need to be highlighted.

1.12 These paragraphs also describe specific actions being taken to reduce expenditure across the remainder of the financial year.

1.13 Paragraphs 11.1 to 11.4 contain the Director of Finance statutory comments. Attention is drawn particularly to paragraphs 11.3 and 11.4 which underlines again the low level of reserves that the Council has and the likelihood that some use of Exceptional Financial Support from Government will be required to offset overspends that cannot be mitigated corporately or from spending restrictions.

2. Recommendations

2.1 The Overview and Scrutiny Committee are recommended to:

2.1.1 Note the significant forecast General Fund overspend of £37.2m at Quarter 3 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 that despite actions implemented to reduce spend and identify one-off mitigations these are unlikely to be sufficient to fully off-set the final overspend position and therefore in order to deliver the mandated balanced position at year end, some use of Exceptional Financial Support (EFS) from Government must be expected.

2.1.4 Note that for each £1m of EFS required to balance the 2024/25 budget outturn, £72,000 additional revenue cost will be added each year for the next 20 years.

2.1.5 Note that statutory comments are included in the original report to Cabinet.

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