

Brighton & Hove City Council

Cabinet

Agenda Item 28

Subject: Targeted Budget Management (TBM) 2025/26 Month 2 (May)

Date of meeting: Thursday, 17 July 2025

Report of: Cabinet Member for Finance & City Regeneration

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Ward(s) affected: (All Wards)

Key Decision: Yes

Reason(s) Key: Expenditure which is, or the making of savings which are, significant having regard to the expenditure of the City Council's budget, namely above £1,000,000 and is significant in terms of its effects on communities living or working in an area comprising two or more electoral divisions (wards).

For general release

1 Purpose of the report and policy context

- 1.1 The Targeted Budget Monitoring (TBM) report is a key component of the council's overall performance monitoring and control framework. This report sets out an early indication of forecast risks as at Month 2 on the council's revenue and capital budgets for the financial year 2025/26. Effective financial management is a core component of providing a well-run council, a key priority within the Council Plan that demonstrates that the council manages within its finite resources and optimises the use of those resources.
- 1.2 The forecast outturn 'risk' for 2025/26 at this early stage is a £15.486m overspend on the General Fund revenue budget. Forecasts at this stage of the year are based on early trends and are more difficult to predict with high accuracy, particularly in relation to those areas subject to seasonal variation.
- 1.3 The forecast outturn includes a significant level of savings to be at risk; the report indicates that £4.166m (26%) of the substantial savings package in 2025/26 of £15.789m is potentially at risk.
- 1.4 It is important to note that early projections in each financial year are likely to indicate higher forecast risks as there are significant underlying demand pressures to be managed down, pay awards currently tending to be above budget assumptions, and there are large annual savings targets required to balance the budget. Implementing and addressing these risks is often complex and can have varying lead-in times. There is also limited trend data available at this stage and very limited time to react to emerging information in order to develop recovery measures. While a high forecast risk may give cause for concern, it conveys important information to decision-makers, enhances accountability for managing risk, and ensures that the council is

transparent and open about the level of potential risk it will need to manage down to enable:

- Councillors and residents to be aware of the financial challenge and that managing this can have impacts on some services as they develop recovery plans and actions;
- Councillors and officers to be given advance warning that consideration to more serious council-wide measures such as vacancy freezes or spending restrictions may need to be given if succeeding months do not show improvement;
- Councillors and officers to consider whether or not in-year budgetary reductions, i.e. further permanent savings measures, may be necessary if succeeding months do not show steady improvement, potentially requiring full Council approval subject to the scale and impact on the budget and policy framework.

1.5 The 'forecast risk' at Month 2 is significant and will require exploration of a wide range of options to manage this forecast risk. It is accepted that Budget Managers across the authority will tend toward prudence in forecasting until the data and trends provide more certainty which is a natural (and safer) tendency. However, making broad assumptions about any 'over-prudence' is not sensible or practicable. It is also the case that the council's annual budget is set in an increasingly volatile and uncertain environment, particularly concerning inflation, demands, economic conditions and funding certainty. However, without being transparent about the potential risk, based on current spending and activity levels, the council could give the impression that all budgets and savings plans are on track. This is not currently the case for a wide range of reasons and factors set out in the detail of the report and there is a lot of work to be done to address the forecast risk. It's important to note that the council has maintained significant spending and recruitment controls since November 2024 which remain in place into 2025/26, and will need to continue in order to mitigate the overspend forecast. Further measures that will be implemented to mitigate forecast risks will include:

- Creation of a Savings Delivery Board which will oversee and monitor the delivery of the 2025/26 savings package as well as develop further savings proposals to alleviate the overspend and future year budget shortfalls;
- Further tightening of normal financial management actions across all areas under pressure including vacancy controls and spending prioritisation;
- Urgent development of recovery and transformation plans to address demand and costs, particularly in key areas with the most significant demand pressures, including Temporary Accommodation, and Children and Adult social care.
- Consideration of (and potential consultation on) alternative options where an agreed saving is found to be undeliverable (in whole or in part) or is delayed for unavoidable reasons;
- Exploration of alternative funding sources or bids, or alternative use of ring-fenced funds where this is possible;

- Use of any available 'risk provisions' or unexpected one-off resources to mitigate the position in the short term. The latter cannot normally be estimated and is only known when and if it arises;
- Halting or slowing revenue and/or capital spend to alleviate in-year pressures in the short term (but will normally result in building up future pressures unless projects/services are ultimately stopped or reduced);
- As noted earlier, implementation of considerably more severe recruitment and spending controls including freezes.

While this report sets out an early indication of budget pressures, and may give a 'worst case scenario' of the financial position, it is important to note that budget pressures are significant, higher than noted at this point than in previous years, and unsustainable given the Council's low level of reserves. It is therefore important that leaders and managers across the Council pay close attention to this situation, and focus the necessary time, resources and efforts towards mitigating actions. Alongside the development of service level recovery plans, a Savings Delivery Board has been established with Directors and key support service staff to focus on developing plans to reduce budget pressures in areas of demand led pressure, for example temporary accommodation, adults and children's social care placement costs, and home to school transport.

2 Recommendations

- 2.1 Cabinet notes the forecast risk position for the General Fund, which indicates a potential forecast overspend risk of £15.486m.
- 2.2 Cabinet notes the forecast overspend risk for the separate Housing Revenue Account (HRA), which is an overspend of £0.450m.
- 2.3 Cabinet notes the forecast overspend risk for the ring-fenced Dedicated Schools Grant, which is an overspend of £4.437m.
- 2.4 Cabinet notes the forecast position on the Capital Programme which is an underspend variance of £0.417m.
- 2.5 Cabinet approves the capital budget variations and re-profiling requests set out in Appendix 5.
- 2.6 Cabinet approves the new capital schemes requested in Appendix 6.

3 Context and background information

Targeted Budget Management (TBM) Reporting Framework

- 3.1 That The TBM framework focuses on identifying and managing financial risks on a regular basis throughout the year. This is applied at all levels of the organisation from Budget Managers through to Cabinet. Services monitor their TBM position on a monthly or quarterly basis depending on the size, complexity or risks apparent within a budget area. TBM therefore operates on a risk-based approach, paying particular attention to mitigation of growing cost pressures, demands or overspending through effective financial recovery planning together with more regular monitoring of high risk demand-led areas as detailed below.
- 3.2 The TBM report is normally split into the following sections:

- i) General Fund Revenue Budget Performance
- ii) Housing Revenue Account (HRA) Performance
- iii) Dedicated Schools Grant (DSG) Performance
- iv) S75 Partnership Performance
- v) Capital Investment Programme Performance
- vi) Capital Programme Changes
- vii) Implications for the Medium Term Financial Strategy (MTFS)
- viii) Comments of the Chief Finance Officer (statutory S151 officer)

3.3 The report may also include a Treasury Management update from time to time. This is required to comply with the updated Treasury Management Code which requires a minimum of quarterly reporting. Cabinet already receives mid-year and end-of-year reviews and therefore two additional interim reports will be provided via an appropriate TBM report to ensure compliance with reporting requirements. No report is due at this time.

4 General Fund Revenue Budget Performance (Appendix 3)

4.1 The table below shows the forecast outturn for council-controlled revenue budgets within the General Fund. These are budgets under the direct control and management of the Corporate Leadership Team. More detailed explanation of the variances can be found in Appendix 3.

2024/25 Outturn Variance £'000	Directorate	2025/26 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
(1,062)	Families, Children & Wellbeing	80,300	83,678	3,378	4.2%
2,431	Homes & Adult Social Care	121,641	130,999	9,358	7.7%
(3,797)	City Operations	50,368	49,494	(874)	-1.7%
(43)	Central Hub	33,147	35,345	2,198	6.6%
(2,471)	Sub Total	285,456	229,516	14,060	4.9%
1,380	Centrally-held Budgets	(10,854)	(9,428)	1,426	13.1%
(1,091)	Total General Fund	274,602	290,088	15,486	5.6%

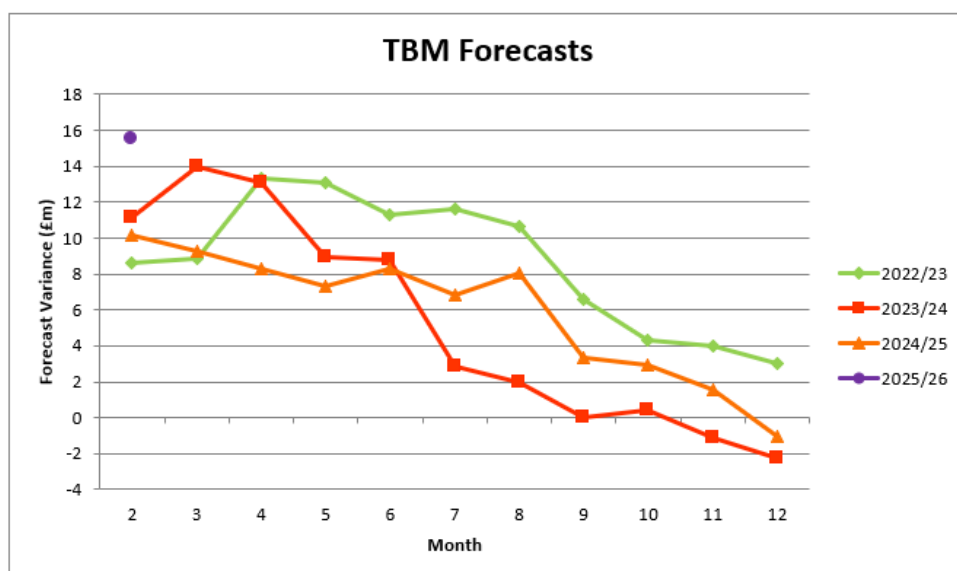
4.2 The General Fund includes general council services, corporate budgets and central support services. Corporate Budgets include centrally held provisions and budgets (e.g. insurance) as well as some cross-cutting value for money savings targets. Note that General Fund services are accounted for separately to the Housing Revenue Account (Council Housing). Note also that although part of the General Fund, financial information for the Dedicated Schools Grant is shown separately as this is ring-fenced to education provision (i.e. Schools).

4.3 The chart below shows the monthly forecast variances for 2025/26 and the previous three years for comparative purposes. This indicates that forecast risk early in the year has been higher in recent years. This is partly due to:

- Pay awards coming in higher than the budget assumptions due to persistent inflation;
- The requirement to deliver successive, large savings programmes which becomes increasingly challenging over time;

- Continuing economic conditions which are impacting external provider costs, many income sources (demand), and recruitment costs and which is difficult to predict with accuracy.

2023/24, was also exceptional in terms of the availability of one-off resources of over £10m across the year, which significantly aided in addressing forecast risks.

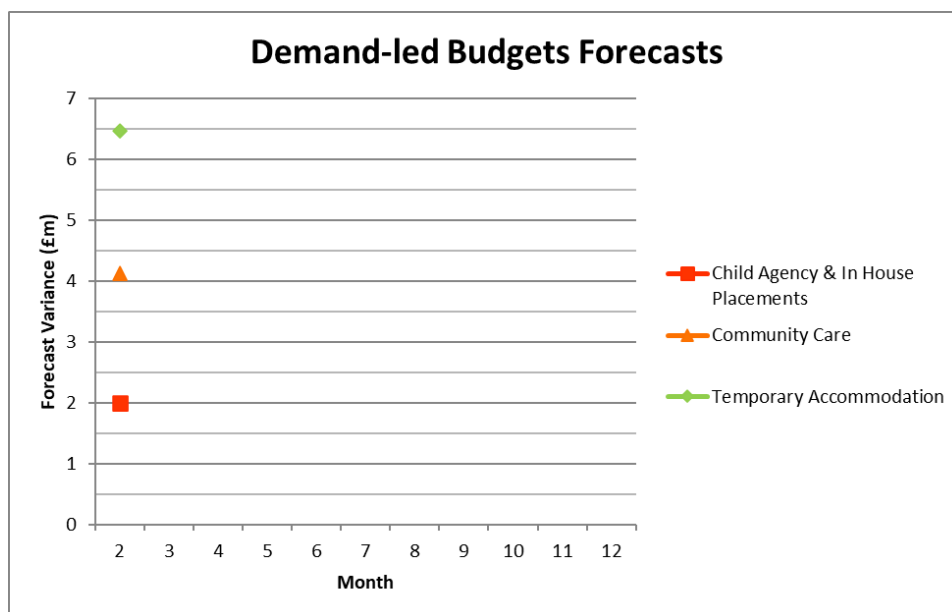


Demand-led Budgets

- 4.4 There are a number of budgets that carry potentially higher financial risks and therefore could have a material impact on the council's overall financial position. These are budgets of corporate significance where demand or activity is difficult to predict and where relatively small changes in demand can have significant implications for the council's budget strategy. These can include income related budgets. These therefore undergo more frequent and detailed analysis.

2024/25 Outturn Variance £'000		2025/26 Budget Month 2 £'000	Forecast Outturn Month 2 £'000	Forecast Variance Month 2 £'000	Forecast Variance Month 2 %
Demand-led Budget					
(1,661)	Child Agency & In House Placements	28,716	30,719	2,003	7.0%
49	Community Care	80,729	84,864	4,135	5.1%
2,652	Temporary Accommodation	3,157	9,621	6,464	204.8%
1,040	Total Demand-led Budget	112,602	125,204	12,602	11.2%

The chart below shows the monthly forecast variances on the demand-led budgets for 2025/26.



TBM Focus Areas

- 4.5 There are clearly ongoing pressures across most areas of the council, particularly front-line, demand-led areas which is a clear indicator of the inflationary and demand pressures driven by current economic conditions. Key areas of pressures are outlined below:
- 4.6 **Children's Services:** The projected outturn position showed significant cost pressures: £0.492m on Home to School transport, In House Children's Disability Residential Provision £0.228m, PFI £0.265m and £2.003m on Children's Placements. This together with other overspends of £0.740m and a recovery plan of (£0.350m) result in a Month 2 overspend of £3.378m. Key drivers of the position are as follows:
- **Home to School Transport:** There are several factors contributing to the overspend in Home to School Transport. These include increased demand on the service (both at 5-16 ages, and 16 up until 19th birthday), increased numbers of children requiring single occupancy journeys, lack of local SEND school sufficiency, and increased numbers of routes required to accommodate individual post 16 learners' timetables. Market forces within SEND transport are also contributing to the overspend in Home to School Transport. The service is also increasingly impacted by local driver, vehicle passenger assistant, vehicle shortages and increased running costs. There is also a lack of competition in the transport market, particularly minibuss providers, which is increasing contract prices still further. There is also increasingly less capacity in the local system to meet demand, not just in the numbers of children requiring transport but the nature of the transport requirements. There was also an increase in solo routes being created to educational provisions where they were the only children attending and using HTST.
 - **Children's Placements:** The Children's Placements budget is facing significant challenges, driven by various factors affecting the cost and availability of suitable placements for children in care. In recent years, there has been a noticeable rise in the number of children entering care

with increasingly complex needs. This includes a small number of children with significant safeguarding risks requiring placements that offer specialised care and support at a very high cost. In addition, the prevailing market conditions have made the current framework contracts unattractive to providers and have resulted in the necessity to make more placements outside of the framework contract at higher rates. Ongoing difficulties in recruiting foster carers have continued to cause sufficiency issues. The shortage of foster carers makes it problematic to place children in family settings, whether in-house or with external providers. This shortfall in available foster placements forces the service to opt for more expensive care options. The number of children in Care remains relatively stable and the demand pressures are being managed through high quality social work intervention and the recently established Early Help service. However, the issues with very vulnerable children with complex needs coming into care, the local care provider market and fostering recruitment has led to substantial cost pressures on the placement budget

- **Schools PFI:** The Schools' PFI (Private Finance Initiative) was set up in 2003 to improve the facilities at four schools within the city - Dorothy Stringer, COMART (now closed), Patcham High and Varndean – using private finance to fund the capital improvements. The scheme runs for 25 years and a Special Purpose Vehicle (a legal entity created to fulfil specific or temporary objectives) "Brighton & Hove City Schools Ltd" was set up as part of it. This is currently owned by SEMPERIAN. The scheme is funded partly by a DfE grant with schools paying an annual charge back to the council and partly via an annual drawdown of earmarked reserves. The annual charge is updated each March for the RPIX (RPI All Items Excluding Mortgage Interest) for the 12 months to February. Once the 25-year period is complete (~ 31st March 2028) the contract with SEMPERIAN ends and the assets will be transferred back to the council.

It is forecasted that by the end of the 2025/26 financial year the Schools' PFI contract will be overbudget by £0.265m. Despite receiving pressure funding to compensate for the reserve depletion in 23/24, it is not predicted to be sufficient to cover the higher-than-expected PFI contractor costs plus inflation. For prudence the forecasted inflation for 25/26 and beyond has been assumed in the model at 3%, despite the Office for Budget Responsibility forecasting that it will average out at 2% between 2024 and 2028.

The PFI contract finishes on the 31st March and it is expected the council will make savings as will no longer be paying out to the PFI contractor. There will be both risks and benefits involved in the completion of this contract. Ultimately it gives the Council ownership of the asset and all its associated costs but also the control of its budget. However, for this to be successful it will require the correct support from Property and the Procurement and Commissioning Teams.

Schools Budgets

At the end of the 2024/25 financial year there was a net deficit school balances position of £2.623m. This represents a worsening of the financial position of £2.904m when compared to the net surplus position of £0.281m at the end of 2023/24. Final school budget plans for 2025/26 are submitted during summer term 2025 and these will incorporate final balances from 2024/25. It is likely that due to the worsening financial position in schools, the level of required licensed deficits will increase for 2025/26. Meetings will be held with the Corporate Director - Families, Children & Wellbeing and Section 151 Officer before the end of summer term to review and agree school licensed deficit requests.

The current forecast for the 2025/26 central Dedicated Schools Grant is an in-year deficit of £1.437m. At the end of the 2024/25 there was an overspend on central DSG of £0.680m, meaning the cumulative overall deficit position at the end of 2025/26 is estimated to be £2.117m. The DSG position is described in more detail in section 5 below.

- 4.7 **Homes & Adults Social Care:** The service faces significant challenges in 2025/26 in mitigating the risks arising from increasing demands in homelessness and adult social care, managing the unit costs in temporary accommodation and the care market, and delivering all of the saving plans for 2025/26. It is to be noted that this is after applying service pressure funding of £8.391m in 2025/26 which has been used to fund budget pressures resulting from the increased unit costs and complexity.

The 2025/26 savings plan for the directorate totals £9.256m, in addition to this, pressure mitigations of £5.025m were also applied to 2025/26 service pressure funding allocated corporately. There are continued actions focussing on attempting to manage demand for, and costs of services/accommodation across Homes and Adult Social Care and making the most efficient use of available funds.

Adult services

The total financial recovery plan for Adult Social Care totals £8.860m, with £6.552m achieved to date and £1.533m reported at risk. The Adult social care and commissioning departments continue to implement a strengths-based approach across key work streams in adult social care, ensuring robust pathways are in place, developing a community reablement offer and re-designing the front door service. Currently the Health & Social Care system is under considerable pressure, and this is generating additional costs for the council due to:

- Pressures on the system due to short-term grant monies and an unresolved national, long-term funding solution;
- Significant pressures on the acute hospital resulting in increased costs to support timely discharge into residential, nursing and home care;
- Increased complexity particularly in relation to working age adults and the associated costs of service delivery.
- Continued workforce capacity challenges across adult social care services.

The funding of all care packages is scrutinised for Value for Money, ensuring that eligible needs are met in the most cost-effective manner which will not always meet people's aspirations. Established safeguards are in place to provide assurance within this process.

In respect of financial recovery and the ongoing management of Community Care Budget pressures, a monthly savings and efficiencies meeting provides rigorous monitoring and oversight of the Adult Social Care & Health savings progress. Additionally, each month the top ten spends on placements and packages of care are reviewed to ensure immediate remedial action is undertaken to look at options and, wherever possible, reduce the cost of care whilst meeting assessed need. Negotiations are also underway with Sussex partnership NHS Foundation Trust regarding addressing the current high spending commitment within the Mental Health s75 arrangements. These negotiations will be supported by a deep dive discussion at the Finance and Performance Board.

Housing Services and Temporary Accommodation (TA): The total financial recovery plan target for Temporary Accommodation is £5.421m, with £1.556m achieved to date and £2.813m being reported at risk. The current overspend is due to increased demand for temporary accommodation along with a rise in rental costs. A Temporary Accommodation (TA) Reduction Plan has been developed, setting out a range of activities to either reduce the number of households entering TA; assist households to move on from TA, or reduce the cost of the TA we are using. As a broad overview, these actions can be categorised as Prevention, Move-On's to sustainable accommodation, cost reduction measures, and increasing income through improved collection and reducing void turnaround times. The overspend relates to the following elements:

- Nightly accommodation (spot purchased) was budgeted for an average of 193 households per night for the year. However, the forecast assumes that the average units per night will be 477. The service aims to reduce the average nightly cost wherever possible, but greater demand, increased costs, and the continuous decline of Temporary Accommodation leased properties pose significant challenges. Consequently, this budget has been overspent by £5.316m. The service is implementing additional measures to reduce the number of households accommodated as part of the financial recovery plan and future budget strategy.
- Block Booked - The service is facing significant pressures on the overall costs of Block Booked accommodation. The budget is set at 303 units per night during 2025/26, but due to increased demand, the forecast assumes 414 units. Additionally, the council is experiencing substantial increases in contract prices, resulting in an overspend of £0.619m.
- Private Sector Leased TA is underspent by £0.288m. This is due mainly to HB subsidy costs being £0.132m over budget. Despite lower numbers of leased properties being used for TA as landlords withdraw their properties from the rental market, the new leases are also commanding a higher rate and shorter terms. This is part of the reason for the increased numbers of Block Booked accommodation.

- There are unbudgeted Support Accommodation costs amounting to £0.173m to secure 25 units for the next three years.

City Operations: This is a diverse directorate that delivers a wide range of services across the city and council. Costs and income are highly dependent on the activity of the general public and visitors to the city and therefore forecasting spend can mean some volatility between months.

The directorate has substantial income budgets for parking, planning and venues. All of which are dependent on visitor numbers, commercial activity and the general economy. There are challenging savings targets in-year of which most relate to efficiency savings by providing services in a different way as well as generating additional income. Of the £1.782m savings planned for the 2025/26 financial year, £1.388m is achieved or anticipated to be achieved, with the remaining £0.394m at risk. The most significant areas at risk primarily relate to income opportunities within Parking Services and City Parks, service redesigns across other service areas and efficiency savings including review of the Multi-Functional Devices across the council.

The overall position for City Operations is a net £0.874m forecast underspend at Month 2. There are pressures within the forecast which have been identified in year including the pressure of £0.485m relating to the NJC arrangements with the Royal Pavilion Museums Trust, increased costs of fleet management totalling £2.140m identified in Environmental Services, a significant pressure relating to Building Control income of £0.647m, a £0.300m cost pressure for the management of tree diseases across the city and an income pressure of £0.566m within bereavement services. Offsetting these pressures is a significant underspend in the forecast for City Infrastructure of £2.327m, surplus income of £0.510m from the Brighton Centre, commercial and green waste and underspends on staff costs across the service.

Data on income trends must continue to be carefully analysed with many income forecasts needing to be seasonally adjusted to reflect historic patterns and traditionally higher incomes over summer months (e.g. parking). Data for the early months of each financial year needs to be treated with particular caution and a key issue is that complete monthly data is often only available two to three weeks after each month end. Current trends are positive but this could quickly change and therefore financial recovery actions will be explored to potentially mitigate income pressures should they arise. This will include a combination of measures to try and boost income alongside measures to reduce the cost of services.

- 4.8 **Central Hub:** There is a forecast overspend of £2.198m for Central Hub services. The most significant element of this is a pressure of £1.994m on the Estate Management service. Within this there is a pressure of £1.230m resulting from a combination of lost rental incomes from the decanting of New England House, void costs including NNDR and fire safety waking watch. There are also pressures of £0.241m on the agricultural estate and £0.200m on Bartholomew house where rental incomes are not meeting income targets yet, however leasing of 3rd and 4th floors has achieved savings where operating costs are with tenants. There is a £0.270m pressure on Commercial Portfolio and £0.195m on Phoenix House from voids and rent free periods.

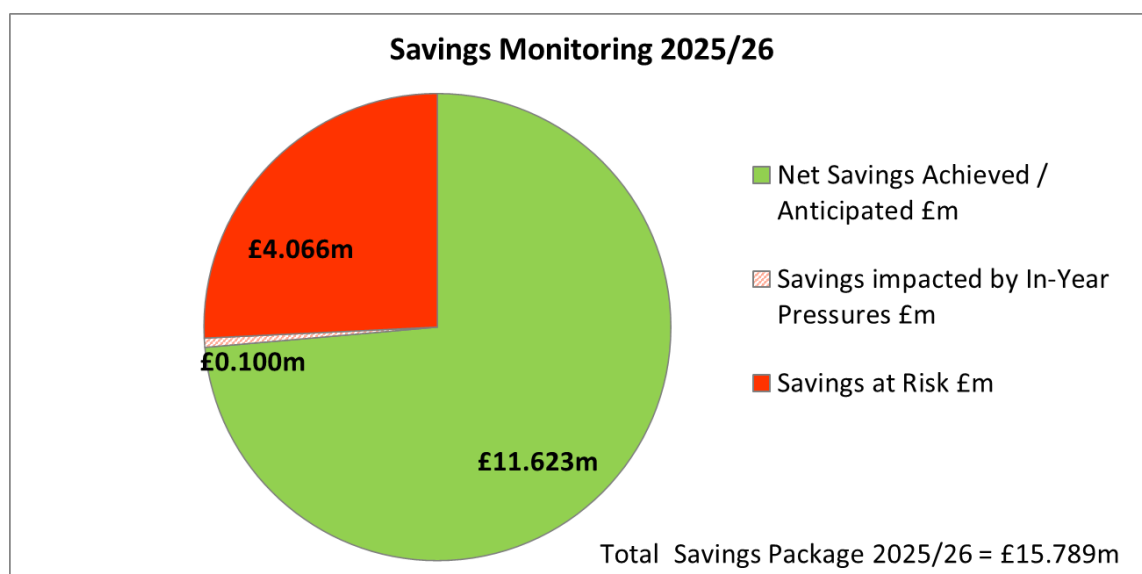
- 4.9 **Centrally-held Budgets:** There is a forecast overspend of £1.426m. Of this £0.805m relates to the estimated additional cost of the 2025/26 pay award in excess of the amount provided in the budget.

There is a forecast pressure of £0.600m on Housing benefit Subsidy. There is insufficient data to make a detailed forecast so this high level estimate is based on the 2024/25 outturn and the pressure funding provided in 2025/26.

The corporate Functional Alignment saving from 2024/25 is also held in this area. At present £0.804m of this is at risk. These pressures are offset by a £0.500m underspend in Financing Costs due to a delay in borrowing resulting from reprofiling and slippage from the 2024/25 Capital Programme.

Monitoring Savings

- 4.10 The savings package approved by full Council to support the revenue budget position in 2025/26 was £15.789m following directly on from a £23.627m savings package in 2024/25 and makes 15 years of substantial savings packages totalling over £248m since government grant reductions commenced in 2010, and which have been necessary to enable cost and demand increases to be funded alongside managing the reductions in central government grant funding.
- 4.11 Appendix 3 provides a summary of savings in each directorate and indicates in total what has been achieved, what has been offset by in year pressures and the net position of unachieved savings. Appendix 4 summarises the position across all directorates and presents the entire savings programme. The graph below provides a summary of the position as at Month 2 and shows that gross savings of £11.723m have been achieved but that inflationary pressures (exceptional price increases) have reduced this by £0.100m. Including other unachievable savings of £4.066m, this means that a total of £4.166m (26%) is forecast to be unachieved in 2025/26.



Housing Revenue Account Performance (Appendix 3)

- 4.12 The Housing Revenue Account (HRA) is a separate ring-fenced account which covers income and expenditure related to the management and

operation of the council's housing stock – and the majority of funding is from the rent and service charges paid by tenants and leaseholders. The forecast outturn is an overspend of £0.450m, this position includes variances within specific service areas, details of which are provided in Appendix 3. Any overspend in the HRA will result in a contribution from general reserves at year end (as at Month 2 the general reserves balance is £7.700m – equivalent to approximately 10% of income from rent and service charges).

HRA Risks

4.13 The HRA continues to face significant uncertainty regarding the financial position. There are major risks that need to be addressed and monitored to ensure that the position remains stable. These risks include but are not limited to:

- Health & Safety compliance
- Building Safety compliance
- Disrepair claims
- Rent arrears and collection rate

4.14 The HRA will continue to review spend to try to improve the current financial position. Any variations will be reported to future Cabinet meetings. Officers have recently joined the London Directors of Housing Group and will endeavour to work with peers in as well as the Housing leads in the LGA to explore how central government can support social landlords in investing in safety and quality improvements whilst also seeking to increase supply.

5 Dedicated Schools Grant Performance (Appendix 3)

5.1 The Dedicated Schools Grant (DSG) is a ring-fenced grant within the General Fund which can only be used to fund expenditure on the Schools' Budget. The Schools Budget includes elements for a range of services provided on an authority-wide basis including Early Years education provided by the Private, Voluntary and Independent (PVI) sector, and the Individual Schools Budget (ISB) which is divided into a budget share for each maintained school. The forecast outturn is currently an overspend of £1.437m and more details are provided in Appendix 3. Under the Schools Finance Regulations any underspend or overspend must be carried forward within the Schools' Budget in future years.

6 S75 Partnership Performance (Appendix 3)

6.1 The Section 75 Services represent those services delivered by local NHS Trusts and the Council under Section 75 Integrated Agreements. Services are managed by Sussex Partnership NHS Foundation Trust (SPFT) and the Council and include health and social care services for people whose primary support reason (PSR) is Adult Mental Health and Memory and Cognitive Support Services. The spend reflects the totality of people with a PSR of Mental Health and Memory and Cognitive Support, most of which is within the S75 arrangement, but some of which is within other assessment teams, such as the Hospital Discharge Team and Locality Teams for older adults. The forecast outturn is an overspend of £0.954m and more details are provided in Appendix 3.

7 Capital Programme Performance and Changes

- 7.1 The table below provides a summary of capital programme performance by Directorate and shows that there is an overall underspend of £0.417m which is detailed in Appendix 5.

Forecast Variance Month 0 £'000	Directorate	Reported Budget Month 2 £'000	Provisional Outturn Month 2 £'000	Provisional Variance Month 2 £'000	Provisional Variance Month 2 %
0	Families, Children & Wellbeing	18,275	18,233	(42)	-0.2%
0	Homes & Adult Social Care	11,075	11,075	0	0.0%
0	City Operations	88,976	88,976	0	0.0%
0	Central Hub	22,629	22,629	0	0.0%
0	Homes & Adult Social Care - HRA	96,008	95,633	(375)	-0.4%
0	Total Capital	236,963	236,546	(417)	-0.2%

(Note: Summary may include minor rounding differences to Appendix 5)

- 7.2 Appendix 5 shows the changes to the 2025/26 capital budget. Cabinet's approval for these changes is required under the council's Financial Regulations. The following table shows the movement in the capital budget since approval at Budget Council.

Summary of Capital Budget Movement	Reported Budget Month 2 £'000
Original 2025/26 budget approved plus outturn reprofiles/slippage and separate reports approved at Cabinet	228,717
Changes reported at other committees and already approved, to be included for Month 2	20,676
New schemes to be approved in this report (see Appendix 6)	1,167
Variations to budget (to be approved)	3,681
Reprofiling of budget (to be approved)	(17,278)
Slippage (to be approved)	0
Total Capital	236,963

- 7.3 Appendix 5 also details any slippage into next year. However, as normal, project managers have forecast that none of the capital budget will slip into the next financial year at this early stage.

8 Implications for the Medium-Term Financial Strategy (MTFS)

- 8.1 The council's MTFS sets out resource assumptions and projections over a longer term. It is periodically updated including a major annual update which is included in the annual revenue budget report to full Council. This section highlights any potential implications for the current MTFS arising from the 2025/26 financial year and details any changes to financial risks together with any impact on associated risk provisions, reserves and contingencies. Details

of Capital Receipts and Collection Fund performance are also given below because of their potential impact on future resources.

Capital Receipts Performance

- 8.2 Capital receipts are used to support the capital programme. Any changes to the level of receipts during the year will impact on future years' capital programmes and may impact on the level of future investment for corporate funds and projects such as the Strategic Investment Fund, Innovations fund, Asset Management Fund and the Information, Technology and Digital Investment Fund. The planned profile of capital receipts for 2025/26, as at Month 2, is £17.808m which includes receipts expected for a major industrial lease extension at Moulseccomb and Patcham Court Farm. There are also a number of residential and commercial properties identified for disposal as reported within the Residential Property Strategy report and Commercial Investment Property Strategy report to committee in December 2023 as well as the disposals approved by Cabinet on 27 June 2024 and within the Capital Asset Strategy approved at cabinet in April 2025. To date there have been receipts of £0.415m in relation to the sale of properties at Grand Parade Mews and New Dorset St and some minor lease extensions and loan repayments. The capital receipts performance will be monitored over the remainder of the year against capital commitments.
- 8.3 The forecast for the 'right to buy sales' in 2025/26 is that an estimated 20 homes will be sold for an estimated £2.500m. The net retained receipt is used to fund investment in the HRA capital programme, specifically the new supply of affordable housing. To date 6 homes have been sold for a total receipt of £1.006m.

Collection Fund Performance

- 8.4 The Collection Fund is a separate account for transactions in relation to council tax and business rates. Any deficit or surplus forecast on the collection fund relating to council tax is distributed between the council, Sussex Police & Crime Commissioner and East Sussex Fire Authority, whereas any forecast deficit or surplus relating to business rates is shared between the council, East Sussex Fire Authority and the government.
- 8.5 The collection fund for council tax is forecast to be in deficit by £1.149m at year end. The primary driver is a forecast 0.5% reduction in council tax income collection (+£1.184m). Other areas with variances include increased council tax reduction (CTR) claimant numbers (+£0.228m), brought forward surplus (-£0.131m) and empty property premiums (-£0.127m). The council tax service is experiencing a high level of backlog due to system issues which is adding further complexity in forecasting the underlying position. The council's share of the deficit is £0.972m and is included as a one-off shortfall to be funded as part of the 2026/27 budget.
- 8.6 The collection fund for business rates is forecasting an overall deficit position of £2.730m (£1.910m brought forward and £0.820m in-year). The cost of successful appeals against the 2017 rating list is the main reason for the overall deficit as they have been higher than forecast. At the end of May there are 26 appeals remaining against the 2017 rating list. The impact of appeals against the 2023 rating list is forecast to be within the levels set aside although it remains complex to predict the eventual outcome as further

appeals will continue to be received. One large appeal against the 2023 rating list, settled in April, had a 43% rateable value reduction backdated reducing business rates income by c£1.500m. The council's share of the deficit position, after allowing for section 31 compensation grants and contributions from the collection fund section 31 adjustment reserve, is £0.987m and is included as a one-off shortfall to be funded as part of the 2026/27 budget.

Reserves, Budget Transfers and Commitments

- 8.7 The creation or re-designation of reserves, the approval of budget transfers (virements) of over £1.000m, and agreement to new financial commitments of corporate financial significance require Cabinet approval in accordance with the council's Financial Regulations and Standard Financial Procedures. There are no items requiring approval at this stage.
- 8.8 The level of reserves held is kept under review and the table below shows the usable General Fund Reserves as at 31st March 2024 and 2025. It's imperative that the current overspend forecast is addressed by the actions outlined paragraph 1.5. Failure to sufficiently do so will risk having to draw down the whole General Fund working balance as well and a significant proportion of other usable reserves.

	Balance as at 31st March 2024 £'000	Balance as at 31st March 2025 £'000
General Fund Working Balance	5,624	7,840
Held in Working balance for specific future commitments	2,579	411
PFI Reserves	8,601	9,671
Grants Carried forward	6,152	2,574
Schools LMS Reserves	282	-2,623
Other Usable Reserves	7,926	10,163
Total General Fund Usable Reserves	31,164	28,036

9 Analysis and consideration of alternative options

- 9.1 The forecast outturn position on General Fund budgets is an overspend of £15.486m. Any overspend at year-end would either need to be carried forward or potentially met from available one-off resources.

10 Community engagement and consultation

- 10.1 No specific consultation has been undertaken in relation to this report.

11 Financial implications

- 11.1 The financial implications are covered in the main body of the report. Financial performance is kept under review on a monthly basis by the Corporate Leadership Team and Cabinet and the management and treatment of strategic financial risks is considered by the Audit, Standards & General Purposes Committee.

Finance Officer consulted: *Jeff Coates*

Date: 19/06/2025

12 Legal implications

- 12.1 Decisions taken in relation to the budget must enable the council to observe its legal duty to achieve best value by securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The council must also comply with its general fiduciary duties to its Council Tax payers by acting with financial prudence, and bear in mind the reserve powers of the Secretary of State under the Local Government Act 1999 to limit Council Tax & precepts.

Lawyer consulted: Elizabeth Culbert

Date: 19/06/2025

13 Equalities implications

- 13.1 There are no direct equalities implications arising from this report.

14 Sustainability implications

- 14.1 Although there are no direct sustainability implications arising from this report, the council's financial position is an important aspect of its ability to meet Corporate Plan and Medium Term Financial Strategy priorities. The achievement of a break-even position or better is therefore important in the context of ensuring that there are no adverse impacts on future financial years from performance in 2025/26.

15 Health and Wellbeing Implications:

- 15.1 The council's budget includes many statutory and preventative services aimed at supporting vulnerable children and adults. The budget prioritises support to these core and critical services including management of any emerging in-year pressures to minimise impacts on statutory provision.

16 Conclusion and comments of the Chief Finance Officer (Section 151 Officer)

- 16.1 The forecast overspend risk of £15.486m at Month 2 represents 5.6% of the net General Fund budget. This early forecast indicates a number of demand and cost pressures across homelessness, a pressure on the Section 75 Mental Health partnership and a number of significant income pressures across City Services. There is evidence of the continuing impacts of higher inflation and interest rates on social care and temporary accommodation costs (prices) which are coming in above budget assumptions. There are also continuing impacts on incomes such as commercial rents and planning fees due to a suppressed economy. These are also impacting the achievement of some savings programmes. The projected overspend set out in this report is unsustainable for the Council given the low level of reserves. Corrective action will have to be successful over the coming months if the Council is going to be able to balance its in-year budget and set a balanced budget for 2026/27.
- 16.2 As set out earlier in the report, understanding the level of forecast risk is important to inform decision-making and recovery actions. Given the scale of the projected overspend, urgent work is being undertaken by all Directorate Leadership Teams to develop recovery plans, alongside a cross Council

Savings Delivery Board, which will focus on the most significant areas of financial pressure across the organisation.

- 16.3 In the meantime, vacancy management and spending control processes remain in place across the council to contribute to in-year financial management and the option remains to tighten these further if interim monthly TBM reports do not indicate a downward trajectory of the forecast risk.

Supporting Documentation

Appendices

1. Financial Dashboard Summary
2. Revenue Budget Performance RAG Rating
3. Revenue Budget Performance
4. Summary of 2025/26 Savings Progress
5. Capital Programme Performance
6. New Capital Schemes

