

**AGENDA ITEM**

**REPORT TO CABINET**

**21 JANUARY 2021**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

**CABINET DECISION**

**Leader of the Council – Councillor Bob Cook**

**FINANCIAL UPDATE & MEDIUM TERM FINANCIAL PLAN**

**SUMMARY**

The report presents outline plans for the 2021/22 Budget and the Medium Term Financial Plan (MTFP) based on information provided in the Spending Review and Provisional Local Government Finance Settlement.

The financial position for subsequent years is extremely uncertain, and as previously outlined to Members, will be affected by a further Government Spending Review, a potential Fair Funding Review and proposals around Business Rates Retention.

Based on the assumptions in the report, and subject to decisions on Council Tax levels, it is anticipated that the Council will have a broadly balanced MTFP. The report to Cabinet and subsequently Council in February will update the position and make final recommendations regarding Council Tax.

**REASONS FOR RECOMMENDATION/DECISION**

To update Members on outline proposals for the 2021/22 Budget and MTFP on information from the Government Spending Review and the Provisional Local Government Finance Settlement.

**RECOMMENDATION**

1. That the emerging issues for the MTFP be noted.

**DETAIL**

**FINANCIAL POSITION 2020/21**

1. The report to Cabinet on 12th November 2020 set out the projected revenue position for 2020/21.
2. The position continues to be closely monitored and a further update will be presented in the next report in February.

**MEDIUM TERM FINANCIAL PLAN 2021 – 2025**

**Current Approved MTFP**

3. The current approved position in February 2020 was as follows, updated for 2024/25:

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Budget Gap (+) / Surplus (-)	517	136	(543)	(1,932)

## Funding Position

4. Members will recall that the Council are currently working within a one-year financial settlement from the Government/MHCLG. Previous reports have highlighted the significant uncertainty this brings, with no long-term settlement being in place. This is particularly the case in the context of the Coronavirus Pandemic
5. On 25 November the Government announced the Spending Review (2021/22), setting out headline funding levels for government departments, again for one year only. This outlined a headline increase in Core Spending Power (CSP) of 4.5% for local government. However, it should be noted the majority of this increase does not directly translate into additional government funding. Most of the increase is assumed to come from local council tax increases. The national breakdown of the assumed spending power increase is:
  - A 2% increase in core council tax for all councils;
  - A 3% increase in the Adult Social Care precept for all councils with social care responsibilities;
  - A £300m additional grant for social care (Children and Adults);
  - Indexation of 0.5% for Revenue Support Grant and Business Rates.

The key announcements were:

  - a. The continuation of the £1 billion Social Care Grant for adults and children's services and the addition of a further £300m;
  - b. Uprating the 2021/22 Settlement Funding Assessment in line with the small business non-domestic rating multiplier;
  - c. A core council tax referendum principle of up to 2% and the ability to levy an adult social care precept of 3% on top of the core principle. It was subsequently clarified that this 3% increase could be profiled over 2021/22 and 2022/23.
  - d. Committing to retain the top-slice of the Revenue Support Grant to fund New Homes Bonus in 2020/21 at £900 million;
  - e. Maintaining the existing improved Better Care Fund funding at 2020/21 levels
6. Alongside the core items above, the Spending Review announced some one-off financial provision to support local authorities with Covid-19 pressures in 2021/22. Nationally a sum of £3bn was allocated, broken down as follows:
  - a. £1.55bn to meet additional expenditure pressures as a result of Covid-19;
  - b. £670m to support for council tax;
  - c. £762m to compensate for 75% of irrecoverable losses of council tax and business rates revenues relating to 2020/21;
  - d. Extending the existing Sales, Fees and Charges income compensation scheme for a further three months to the end of June 2021.
7. On 17 December 2020 the MHCLG announced the Provisional Local Government Finance Settlement for 2021/22. This expanded on the key aspects from the Spending Review highlighted above and presented information at a local authority level. In particular, further detail was provided on the Council Tax Support funding, the funding to compensate for irrecoverable

losses of Council Tax and Business Rates and the extension to the Sales, Fees and Charges Compensation Scheme.

8. The impact of the Spending Review and Provisional Local government Finance Settlement on levels of funding have been factored into the position set out in this report.
9. The one-year spending review and financial settlement leaves uncertainty regarding the position from 2022 onwards. This makes financial planning across the duration of the MTFP very challenging. The future of the review of local government finance (Fair Funding Review and further Business Rates Retention) is also in question and adds to the future uncertainty.

### **Changes to current expenditure plans**

10. There are a number of emerging issues which will need to be factored into the 2021/22 budget and considered in the MTFP going forward and these are outlined below.

Recently announced increases in the National Living Wage, will impact upon organisations, principally adult social care providers, who are contracted to carry out functions on behalf of the Council. Information was provided as part of the Spending Review about the level of the National Living Wage proposed for 2021/22. This has been factored into projections of care fee levels for 2021/22 and future years, together with the projected impact of the current review of residential care fee rates. As with future pay awards there is a level of uncertainty around the future trajectory of the National Living Wage and whether Government will maintain their manifesto commitment to increase this to the levels previously announced. This will require to be kept under review. Adult Social Care is understandably seeing an increase in the number of new referrals it is receiving and it is anticipated that this increase in demand will continue as time progresses due to an increase in caring responsibilities, alongside a loss in social contact, an increase in Mental Health Act assessments and an increase in requests for support around mental health generally. Overall the acuity of people is increasing. The service has been required to operate differently during the Pandemic in a number of areas and it is currently unclear how long these changes will last for.

Children in our Care and Pressures in Children's Services – Recent reports have highlighted the considerable ongoing pressures on Children's Social Care, particularly relating to the costs of Children in Our Care, which is an issue facing the majority of Local Authorities. Although the number of children in care has stabilised in 2020, due to the difficulties in recruiting new foster carers, and the issues face by some foster carers in being able to accommodate children due to the pandemic, it has been necessary to place more children in residential care at additional cost. Additional agency staff have also been required to ensure there is sufficient capacity to respond to the additional issues associated with the increased isolation and neglect of a number of vulnerable children and young people. As previously reported, significant work is ongoing around reducing costs of children in our care but this has been delayed due to the impact of the pandemic. The ongoing financial impact of these pressures has been re-assessed and incorporated into the MTFP.

Building Maintenance – Members will be aware of the strategy to improve our office accommodation which was approved in February 2020 and included in the MTFP. We do however operate a significant number of other buildings including libraries, social care facilities and children's homes. The maintenance of these buildings has been supported by a reserve over the last few years and this is nearing depletion. It is suggested that the core budget is increased to ensure that we maintain the spending levels. This will include undertaking detailed condition surveys to inform future asset plans.

Waste and Recycling pressures – A number of significant financial pressures relating to waste collection and disposal have been identified. These include:

- Increased collection costs due to increasing housing numbers

- Increased tonnages and inflationary increases
- Reduced income from recycling

The current pandemic is certainly having an impact on the position and whilst there could be a change in the future many of these costs are anticipated to continue.

Grounds Maintenance/Street Cleansing – As part of the Council’s savings programme in recent years significant savings were made in these front-line services leading to service reductions. Temporary funding was allocated two years ago to support targeted interventions to mitigate the impact, which has proved successful and funding is required to ensure this continues.

Facilities Management/HVE – These services have been impacted in recent years by the changing environment for traded services. In the case of HVE the service has also been impacted by rising demand for facilities management services, particularly reactive maintenance. The Service is undertaking a fundamental review and savings have been identified to mitigate some of the pressures, however further funding is required.

The Insurance Fund will require to be replenished in 2024/25.

### Collection Fund Issues (Council Tax and Business Rates)

11. As reported previously, the economic impact of the pandemic is causing pressures on receipts of Council Tax and Business Rates. This will result in a deficit position on the Collection Fund in 2020/21. The Council is required to budget to repay this deficit and the new regulations stipulate that this is repaid in three equal instalments, starting in 2021/22. The Government will part-fund this deficit but only where losses are deemed “irrecoverable”. Given that this is directly related to Covid it is suggested that the residual balance, after applying the government funding, be addressed from the Covid Support Grant for 2021/22 (i.e. part of the £5.623m highlighted at paragraph 25).

Council Tax – The tax base has increased by a lower amount than included in the current MTFP.

Business Rates – Projections of business rates income are being updated and the impact brought into the MTFP. The figures underpinning this report will be kept under review prior to the final budget report in February.

12. The changes to current expenditure plans can be summarised as follows:

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
<b>Minor Adjustments</b>				
Minor Pressures & Savings	(97)	(133)	(21)	(222)
<b>Pressures identified</b>				
Adults Social Care	2,233	3,733	5,233	6,733
Children's Social Care	3,900	3,825	2,875	3,120
Planned Maintenance/Condition Surveys	400	450	450	450
Waste & Recycling	1,000	1,250	1,500	1,750
Grounds Maintenance & Street Cleansing	250	250	250	250
FM, HVE & Lighting	600	600	600	600
Insurance Fund	0	0	0	1,350
Council Tax - Tax Base Changes	927	1,023	1,074	1,129
<b>Pressures</b>	<b>9,213</b>	<b>10,998</b>	<b>11,961</b>	<b>15,160</b>

### Income and Resources

13. Given the lack of clarity around government funding at the time of the 2020/21 Budget Report, the current agreed MTFP was based on the working assumption that the additional government

funding allocated in 2020/21 would be retained at only 50% in 2021/22 and future years. The Spending Review and Provisional Settlement have confirmed that funding will actually be retained at 100% of the 2020/21 level in most cases.

Social Care Grant (Adults and Children’s) – The continuation of the 2020/21 grant into 2021/22 has been confirmed, together with announcement of a new grant of £300m nationally for 2021/22 (£898,000 for Stockton).

Revenue Support Grant (RSG) – Levels have been maintained at 2021/22 levels.

New Homes Bonus – The future of this significant funding stream has been under review for some time and it is anticipated that this source of income will cease altogether with effect from 2023/24. Government have indicated that this will be recycled back to local government but no further details are available. In 2021/22 an additional grant (Lower Tier Grant) was funded from New Homes Bonus and we are assuming that this continues in the future.

Increases in the Better Care Fund and allocations of Winter Pressures funding have been maintained at 2020/21 levels and uplifted for inflation.

Public Health Grant – The additional inflationary uplift will be added to the resources available to Adults and Public Health in 2021/22 and are largely committed.

14. In addition to Government funding, the following changes can be made:

Treasury Management (AMRA) – The Council’s income from investments and costs of borrowing have been reassessed and the impact applied to the MTFP.

Funding was identified in the current MTFP for the projected cost implications of a review of the Local Council Tax Support Scheme (LCTS). A scrutiny review was undertaken and made recommendations to Cabinet that this review be deferred due to the impact of Covid. Any changes will not now be implemented until 2022/23 and the resources of £1m identified for 2021/22 will not therefore be required. It was however recommended that a sum of £200,000 be retained to be used to provide additional support to those in most need.

15. Government funding allocations 2022/23 onwards – As highlighted above, there is considerable uncertainty regarding government funding from 2022/23. For the purposes of this report a working hypothesis is put forward that the additional funding to be received in the one-year settlement for 2021/22 continues into 2022/23 and beyond (with the exception of the new Lower Tier Grant). This assumption is made based on the fact that income has stayed at this level for a number of years and so we would expect that this is the base level of funding considered as part of any spending review.

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
<b>Savings Identified</b>				
Treasury Management (AMRA) - Lower Interest Payments	(592)	(352)	(353)	(353)
Council Tax Support Scheme Review Delayed to 22-23	(800)			
<b>Government Funding Assumptions</b>				
Revenue Support Grant	(1,206)	(2,009)	(2,828)	(3,846)
New Homes Bonus	677	1,504	2,649	2,649
Lower Tier Services Grant / New Homes Bonus replacement	(272)	(600)	(1,000)	(1,000)
Improved Better Care Fund	(1,019)	(1,019)	(1,019)	(1,019)
Social Care Grant 20-21	(2,434)	(2,434)	(2,434)	(2,434)
Social Care Grant 21-22	(898)	(898)	(898)	(898)
Public Health Grant Additional Allocation	(783)	(783)	(783)	(783)
<b>Total</b>	<b>(7,327)</b>	<b>(6,591)</b>	<b>(6,666)</b>	<b>(7,684)</b>

## Summary Position

16. A summary of the budget position is outlined below:

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Approved Budget Position	517	136	(543)	(1,932)
Expenditure Pressures	9,213	10,998	11,961	15,160
Additional Income and Resources	(7,327)	(6,591)	(6,666)	(7,684)
<b>Budget Gap (+) / Surplus (-)</b>	<b>2,403</b>	<b>4,543</b>	<b>4,752</b>	<b>5,544</b>

17. The above table demonstrates that there is an ongoing pressure of around £5m over the medium term. There are however risks with the plan given the level of funding uncertainty from 2022/23 onwards. The current plan assumes a Council Tax increase of 1.9% in 2021/22. This will be formally considered further as part the budget report in February. Members are reminded that any change in the level of council tax will impact on the previously approved position i.e. 1% represents approximately £0.9m.

In calculating the funding available to local government to deliver services, the Government has assumed that all councils will increase core council tax by 2% and apply an additional 3% as Adult Social Care Precept.

18. The Provisional Local Government Finance Settlement MHCLG proposes that an Adult Social Care Precept of up to 3% will be available in 2021/22. This can be phased over two years. Should this be taken up, the impact is as shown in the table below.

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
<b>Revised Budget Gap (+) / Surplus (-)</b>				
CT Social Care Precept 1.5% 21/22 & 1.5% 22/23	990	1,605	1,719	2,413
CT Social Care Precept 3% 21/22	(424)	1,626	1,741	2,436

If the additional Social Care Precept were implemented, this would mitigate a substantial element of the forecast future pressure in the Medium Term Financial Plan and the inclusion of this in our base funding would mean we are better placed to deal with any future changes in funding. If we were to also replicate a scheme to support LCTS clients, using the funding identified in paragraph 24, it would mean approximately 12,000 taxpayers on low incomes would be supported to mitigate the impact.

If we were to decide not to implement this change, there is a strong likelihood that we would need to look for savings to balance our future budget position.

## Potential Capital and One-Off Costs

19. There are also potentially a number of one-off items of expenditure that may require to be funded. These are currently being considered and will be included within the report in February if required.

20. Members will be aware of our ambitions for all of our town centres. The Council has put forward a bid for Future High Streets Funding for Stockton Town Centre for £23.9m. It has recently been announced that the actual allocation will be £16.5m. Options are currently being assessed to

address this shortfall, however in order to meet the Council's ambitions there may be a need for additional funding to be identified.

21. Members are also aware that the Council is currently supporting plans to develop the Town Deal for Thornaby. It is likely that in order to meet the ambitions of the Town Deal, match funding to some degree will be required from the Council.
22. The Council is also exploring opportunities for intervention in Billingham Town Centre which may also require resources.
23. A report in respect of Town Centres will be presented to Cabinet in February and any financial aspects considered as part of the MTFP Report.

### **Covid-19 Impact**

24. The Government have allocated a Covid Council Tax Support Grant to councils for 2021/22. For Stockton this amounts to £2.749m. At present the guidance on use of this funding is a little unclear but potentially it could be used either to address pressures on the MTFP caused by increased eligibility for the LCTS Scheme and/or to develop a scheme to support the most vulnerable council taxpayers similar to that operated in 2020/21.
25. It should also be recognised that there will be a continuing effect of Covid-19 and recovery in 2021/22, with associated expenditure pressures. As highlighted earlier, the Provisional Local Government Finance Settlement has identified one-off funding of £5.623m for Covid-19 support in 2021/22. This Covid-19 funding will be required to address the impact across Council services including Adult Social Care, support to Tees Active and to address ongoing income shortfalls such as for the Collection Fund (Council Tax and Business Rates).

### **CAPITAL PROGRAMME**

26. The Capital Programme will be updated in the report to Cabinet and Council in February.

### **COMMUNITY IMPACT IMPLICATIONS**

27. As part of the process of making changes to policy or delivery of services, we consider the impact on our communities. No changes to policy or service delivery are proposed as part of this report.

### **CORPORATE PARENTING IMPLICATIONS**

28. None

### **FINANCIAL IMPLICATIONS**

29. The report updates Members on the MTFP and Capital Programme.

### **LEGAL IMPLICATIONS**

30. None

### **RISK ASSESSMENT**

31. This MTFP Update Report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

**WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS**

32. N/A

**BACKGROUND PAPERS**

33. None

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