

**AGENDA ITEM**

**REPORT TO CABINET**

**8 DECEMBER 2022**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

**CABINET DECISION**

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

**FINANCIAL UPDATE & MEDIUM TERM FINANCIAL PLAN**

**SUMMARY**

The report reviews the financial position in the current year (2022/23) and presents outline plans for the 2023/24 Budget and the Medium Term Financial Plan (MTFP). The recent Autumn Statement set out headline funding announcements for years 2023/24 and 2024/25. However the position from 2025/26 onwards is exceptionally uncertain and therefore figures should be treated with some caution.

Members will note that the despite significant efforts around savings, inflationary pressures have continued and the projected position for 2022/23 is a gap of around £4m. Efforts will continue and if this gap materialises it will need to be funded from Reserves.

The report also outlines the indicative MTFP for future years. There were funding announcements as part of the Autumn statement and we have estimated the level of funding that we will receive. This will only be confirmed upon receipt of the Provisional Local Government Finance Settlement which is expected week commencing 19<sup>th</sup> December. The pressures around inflation, Children's Services and pay awards experienced in the current year have been projected forward based on estimates and the overall position is an estimated Budget Gap of around £7m.

As part of the Autumn Statement, the referendum limit has been increased to allow Council Tax and the Adult Social Care levy to be increased by an additional 1% for each, in 2023/2024 and with indications that this will continue beyond that. The Budget Report in February will consider the Council Tax levels and the approach to identifying the savings required.

**REASON FOR RECOMMENDATIONS/DECISIONS**

To update Members on financial performance in 2022/23 and to outline proposals for the 2023/24 Budget and MTFP based on latest available information.

**RECOMMENDATIONS**

1. That the updated financial position for 2022/23 be noted.
2. That the revised Capital Programme at **Appendix A** be noted.
3. That the emerging issues for the MTFP be noted.

**DETAIL**

**FINANCIAL POSITION 2022/23**

**FINANCIAL POSITION AS AT 30 SEPTEMBER 2022**

## GENERAL FUND

- Members will be aware that the report to Cabinet in September, which covered the first quarter of the financial year, reported a pressure of £4.3m caused by inflationary pressures, the main ones being energy increases and the 2022/23 pay award, as well as increased pressure on Children's Services. Similar pressures are being faced by Authorities across the Country.
- The report explained that officers would be exploring opportunities for in year savings to mitigate use of Reserves.
- The following table details the projected budget outturn position for each Directorate in 2022/23, based on information to 30 September 2022. The table shows that despite identifying significant in year savings, the position has deteriorated due to further pressures.

Directorate	Annual Budget £'000	Projected Outturn £'000	Projected Variance Q2 Over/(Under) £'000	Forecast Variance at Q1 Over/(Under) £'000	Movement from Q2 £'000
Adults & Health	79,986	78,037	(1,949)	(1,594)	(355)
Children's Services	43,381	49,114	5,733	3,128	2,605
Community Services, Environment & Culture	49,355	50,683	1,328	916	412
Finance, Development & Regeneration	13,799	13,378	(421)	(174)	(247)
Corporate Services	11,475	10,619	(856)	0	(856)
Corporate Items	8,744	7,688	(1,056)	(1,047)	(9)
<b>Total</b>	<b>206,740</b>	<b>209,519</b>	<b>2,779</b>	<b>1,229</b>	<b>1,550</b>
Pay Offer Pressure			2,827	3,077	(250)
<b>Revised Total</b>			<b>5,606</b>	<b>4,306</b>	<b>1,300</b>
Excess General Fund Balances b/f from 2021/22			(1,413)	(1,413)	0
<b>Revised Balance</b>			<b>4,193</b>	<b>2,893</b>	<b>1,300</b>

### Adults and Health

- The service has been and will continue to manage vacancies and this will result in a further saving meaning additional underspend.

### Children's Services

- The significant financial pressures highlighted in the previous report have increased in the second quarter, particularly relating to very high costs of a number of specific placements.
- As set out in the Report elsewhere on this agenda there are a number of key challenges for the Council in meeting its statutory duty to secure, as far as is possible, sufficient provision for children in care based on our own experience:
  - Demand for places currently significantly outstrips supply
  - The market is currently provider led
  - The market is increasingly becoming dominated by similar types of provision, driven by financial considerations and the impact of regulation
  - Securing the right provision for the right price
  - There are emerging challenges for both public and private sectors around finding sufficiency quality staff to support provision
  - Community opposition to new development
- In addition, the Competition and Markets Authority (CMA) have completed a market study into children's social care provision. The CMA final report, published in March 2022, highlighted significant problems in how this market is functioning, particularly:

- a. a lack of placements of the right kind, in the right places, means that children are not consistently getting access to care and accommodation that meets their needs
  - b. the largest private providers of placements are making materially higher profits, and charging materially higher prices, than we would expect if this market were functioning effectively
  - c. some of the largest private providers are carrying very high levels of debt, creating a risk that disorderly failure of highly leveraged firms could disrupt the placements of children in care
  - d. The CMA concluded that the children's social care provision market is not working well and that it will not improve without focused policy reform as part of large-scale national policy programmes, and made recommendations to all 3 national governments to improve commissioning, reduce barriers to providers creating and maintaining provision, and reduce the risk of children experiencing negative effects from children's home providers exiting the market in a disorderly way
8. The impact of these issues is that there are still considerable ongoing pressures on Children's Services, particularly relating to the costs of children in our care which is an issue facing the majority of local authorities. It has been necessary to place more children in external residential care (from 62 to 82 over the past 12 months, though this does include placements in the Spark of Genius joint venture), and such placements are now considerably more expensive due to the various factors outlined above. However, the number of children in care has reduced slightly (from 569 to 559 over the last 12 months), and it should be noted that we now have 22 unaccompanied asylum seeking children in our care and that there would have been a more significant reduction in the overall numbers of children in our care without this more recent issue. This is all leading to greater financial strain on the Council's Medium Term Financial Plan (MTFP).

### **Community Services, Environment and Culture**

9. Costs associated with Waste Collection and Recycling have increased by £286,000 since the previous quarter as a result of lower prices being received for recycled materials and inflation related increased costs of the Household Waste Recycling Centre. Inflationary pressures are also being experienced relating to Home to School Transport (an additional £151,000).

### **Finance, Development and Regeneration**

10. The projected position has improved by £247,000, largely as a result of savings through managing vacancies across the Directorate.

### **Corporate Services**

11. The projected position has improved by £856,000, largely due to savings arising from management of staff vacancies, and a reduction in the overspend on external legal costs.

### **Corporate Areas**

12. The projected pressure relating to pay has been reduced (£250,000) to reflect the abolition of the National Insurance increase (part year effect).

### **Actions to Date**

13. The Movement of £1.3m from Quarter 1 largely relates to increased pressures in Children's Services, partly offset by increased savings across other directorates. Despite the worsening position, a number of mitigating actions have already been taken and are accounted for within these Quarter 2 projections. Actions that have been taken include;
- Holding vacant posts where possible
  - Retention of one-off funding e.g. Concessionary fares funding

- Reduced expenditure on Supplies and Services

### General Fund Balances

14. The Council aims to retain General Fund Balances at a prudent level, currently £8,000,000 and Members will recall that the position at year-end 2021/22 exceeded this sum by £1,413,000.

15. As described in para 3 above, should the projected position for the current financial year 2022/23 materialise at year end, then the position for General Fund balances would be:

	£m
Brought forward as at 31 <sup>st</sup> March 2022	9.413
Less projected overspend in year	<u>(5.606)</u>
Balance	3.807
Required Level	<u>8.000</u>
Projected Shortfall	(4.193)

16. The projected shortfall of £4.193m would require to be either replenished at year end or funded through use of earmarked reserves. These earmarked reserves have commitments and plans for their use, however given the current financial position we are reviewing each of these commitments to identify for potential release sums sufficient to cover the projected year end deficit.

### MEDIUM TERM FINANCIAL PLAN 2023 – 2027

17. The projected position across the medium term has been reviewed:

#### Current Approved MTFP

18. The current approved position in February 2022 was as follows:

	2023/24	2024/25	2025/26
	£'000	£'000	£'000
Budget Gap (+) / Surplus (-)	816	1,473	2,594

### Outlook

19. Members will recall that the Council are currently working within a one-year financial settlement from the Government/DLUHC. Previous reports have highlighted the significant uncertainty this brings, with no long-term settlement being in place.

20. On 17<sup>th</sup> November 2022 the Government announced the Autumn Statement 2022, setting out headline funding levels for government departments across the next two financial years to March 2025.

The key announcements which have an impact on local government funding (some subject to ratification or further detail in the forthcoming Local Government Finance Settlement) were:

- Council Tax Referendum Limits – The referendum limit for core council tax will increase from 2% to 3% from 2023/24. In addition the limit for the Adult Social Care precept will rise from 1% to 2%.
- Significant announcements were made in relation to social care funding:
  - £1bn of new grant funding in 2023/24 and £1.7bn in 2024/25 will be allocated to support adult social care and discharges from hospital. Of this, £600m in 2023/24 (£1bn in 2024/25) will be distributed through the Better Care Fund, with the intention of getting people out of hospital on time and into care settings, freeing up NHS beds. £400m in

2023/24 and £680m in 2024/25 will be distributed through a grant ring-fenced to adult social care, which is also intended to support discharge.

- £1.3bn in 2023/24 and £1.9bn in 2024/25 will be distributed to local authorities through the Social Care grant for adults and children's social care. This funding has been re-directed from funding allocated to support the introduction of adult social care reforms. The Autumn Statement indicated that those reforms have been delayed for two years, however we are awaiting further clarity.
- The presumed increase in the Adult Social Care Council Tax Precept was factored into the Chancellor's forecasts of funding available to support adult social care.
- From 1<sup>st</sup> April 2023 business rates bills in England will be updated to reflect changes in property valuation since the last revaluation in 2018. A package of targeted support worth £13.6bn over the next 5 years is intended to support businesses as they transition to the new bills. It was stated that local authorities will be fully compensated for the loss of income as a result of these business rates measures.

21. It is currently unclear whether there will be a further one- year settlement for local government or one covering multiple years. The Provisional local Government Finance Settlement is now expected to be announced week commencing 19<sup>th</sup> December.

22. The projected impact of the Autumn Statement has been factored into the updated position set out in this report. It must be stressed however that these are very much estimates and details will not be known until the Provisional Settlement is received.

23. The future of the review of local government finance was not addressed in the Autumn Statement.

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

24. Since the report to Cabinet in February 2022, there are a number of changes which will require the MTFP to be updated. The additional pressures encountered in the current year which were largely unknown at the time the budget for 2022/23 was set, will need to be incorporated into the plan.

25. It is expected that the significant energy cost pressures experienced in the current year will remain into 2023/24 and beyond. There is currently uncertainty on whether or not the Energy Price Cap will continue for local authorities beyond March 2023. For planning purposes it has been assumed that the cap continues, but at a lower level of government support. This assumption will need to be regularly reviewed. Similar scale energy price increases are also being experienced by TAL and the impact is incorporated into the overall pressure. The Financial support to TAL in the current financial year in respect of energy costs is £800,000. Despite TAL undertaking numerous cost saving exercises, the pressure in 2023/24 is expected to increase by around £500,000.

26. As set out in paras 5 to 8 above there are still 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. These costs have been considered moving forward and need to be incorporated into the plan. A report is included on the agenda outlining the pressures and the numerous projects underway to manage and mitigate pressures in this area, initially to mitigate against further growth and then support the overall MTFP position.

27. The existing MTFP includes an uplift in 2022/23 of £1.9m in respect of the impact of NLW and inflation increases on Adult Care Fees and £1.5m thereafter. Whilst there are savings in the current financial year latest projections indicate that additional sums will need to be allocated from 23/24 onwards in recognition of the increased living wage and inflation.

28. The financial impact of the agreed pay award for 2022/23 will continue into following years. An assumption has also been made on the potential level of the pay award in 2023/24 and 2024/25 and incorporated into the table below.
29. A triennial review of the Teesside Pension Fund has been undertaken by independent Actuaries and is expected to result in an increase in the level of employer contributions to the Fund starting in 24/25 (an additional 0.5% each of the two years).
30. The inflationary environment is impacting on the costs of waste collection and disposal, particularly as the gate fees are linked to RPI uplifts.
31. A national procurement exercise for local authority external audit has resulted in significant cost increases, expected to be £150,000 per annum for Stockton.
32. Costs of community transport are also affected by inflation and are increasing as a result of fuel costs and retendering of contracts.
33. The Chancellor recently announced that the increase in employers National Insurance contributions of 1.25% would be reversed from November 2022. This has been factored into the projections.
34. The Bank of England base rate and gilt rates have increased significantly over the past few months. Whilst we manage our cash flows carefully and we will only borrow when necessary, this could create an additional pressure through increased costs of borrowing.
35. The projected expenditure pressures are summarised in the table below:

	2023/24 £'000	2024/25 £'000	2025/26 £'000
<b>Pressures identified</b>			
Inflation - Energy & Fuel	3,000	3,000	3,000
Children In Our Care	6,300	6,200	6,200
Adult Social Care Inflation on fees	500	750	1,000
Pay Award 22/23 (6.4%)	3,700	4,000	4,300
Pay Award 23/24 (4%)	2,000	3,000	3,000
Pension Fund Contribution Increase	0	450	930
Waste & Recycling	800	1,200	1,600
Audit Fee Increase	150	150	150
Community Transport	400	400	400
NI Reduction	(1,020)	(1,020)	(1,020)
Interest Rate Risk Contingency	0	500	1,000
<b>Pressures</b>	<b>15,830</b>	<b>18,630</b>	<b>20,560</b>

### Income and Resources

36. The Autumn Statement indicated that departmental funding levels would remain for 2023/24 and 2024/25. The exact levels of funding to be received by the Council will be confirmed when the Local Government Finance Settlement is announced in late December. Beyond 2024/25 the position remains extremely uncertain and will be subject to a further government spending review.
37. Council Tax and Business Rates – projections of council tax and business rates income are being updated and the figures underpinning this report will be kept under review prior to the final budget report in February. At this point the updated MTFP includes the latest position on Council Tax Base and Business Rates income, including projections of growth in the Council Tax Base and assumptions regarding the impact of inflation on the business rates multiplier.

38. There will also be significant changes to Business Rates for 2023/24 including a full revaluation. These are currently projected to be budget neutral, although this assumption will need to be kept under review as further information becomes available.

39. As highlighted in para 20 above, significant announcements relating to social care funding were made in the Autumn Statement. Those that relate directly to the MTFP are summarised in the table below.

40. These changes to resources and income are summarised in the table below:

	2023/24 £'000	2024/25 £'000	2025/26 £'000
<b>Additional Resources / Savings Identified</b>			
Business Rates	(3,100)	(4,200)	(4,300)
Adult Social Care Grant	(1,400)	(2,400)	(2,400)
Social Care Grant - Adult & Children	(4,500)	(6,700)	(6,700)
Taxbase increase	(527)	(542)	(557)
<b>Total</b>	<b>(9,527)</b>	<b>(13,842)</b>	<b>(13,957)</b>

### Summary Position

41. A summary of the projected budget position over the MTFP is outlined below:

	2023/24 £'000	2024/25 £'000	2025/26 £'000
Approved Budget Position	816	1,473	2,594
Expenditure Pressures	15,830	18,630	20,560
Additional Income and Resources	(9,527)	(13,842)	(13,957)
<b>Budget Gap (+) / Surplus (-)</b>	<b>7,119</b>	<b>6,261</b>	<b>9,197</b>

42. The above table demonstrates that there is a significant projected budget gap over each year of the medium term plan. The projections for years 2025/26 onwards are even more uncertain as they fall outside of current government spending review periods.

43. In order to set a balanced budget for 2023/24 and to have a sustainable medium term financial plan the Council needs to identify and agree a robust plan to address the financial gap.

44. The Report to Cabinet and Council in February 2022 and the Quarter 1 Report for 2022/23 both highlighted that the emerging financial position may mean that further savings will be required into the medium term. As illustrated in the table above at para 41 significant savings of c£7m per annum will require to be identified for 2023/24 and beyond in order to achieve a balanced position.

### Council Tax

45. The current plan assumes a Council Tax increase of 2.9% in each year (1.9% core council tax and 1% Adult Social Care levy). Paragraph 20 above sets out that the Government will increase the referendum limit to 5% in 2023/24, with indications that this may continue through to 2028 (and assuming in the published information outlining resources available to Local Government that this is enacted.) A 1% increase in Council Tax would mean an increase of 34p per week for a Band D property (23p for Band A). The potential additional resources available should either of the elements be increase would be:

- Core Council Tax £1m per year

- Adult Social Care Precept £1m per year

The position around Council Tax will be formally considered further as part the budget report in February

### **Resolving the Budget Gap**

46. The meeting of Council in February will need to consider how to resolve the Budget Gap, which is currently estimated at around £7m. This could be from a combination of Council Tax increase and reductions in service spending. i.e.

- An additional 2% Council increase (1% Core and 1% ASC Levy) will generate around £2m and require £5m of savings
- An additional 1% Council Tax increase will generate around £1m and require savings of £6m.
- No additional Council Tax increase will require savings of £7m.

47. The formal council tax decisions will be made by Council in February 2023. Notwithstanding the approach to council tax levels, there will remain a significant budget gap. In order to address this, consideration will need to be given to options including the development of a savings programme. Further details will be brought back to Cabinet in February 2023.

### **Risks**

48. It should be recognised that there are risks remain which may impact on the position set out above and across the MTFP. These include:

- Future levels of Government Funding (The position regarding government funding should be clearer in late December, at least for financial year 2023/24).
- Level of Pay Awards in 2023/24 and future years
- Inflation/Energy
- Funding uncertainty beyond 24/25

49. If the additional risks materialise and create further financial pressures across the duration of the MTFP then further savings would be required to be identified to balance the position over the medium term.

### **Potential Capital Costs/Cost Pressures**

50. Inflationary pressures are also driving up construction costs alongside other supplies and services which is having a significant impact on the capital programme budgets and deliverability. Whilst many of our major projects are at the design stage which means inflation can be managed within the funding envelope, there is a significant risk that for some schemes this will not be the case. This is being considered and again will be included in the budget report.



## **CAPITAL PROGRAMME**

51. The updated Capital Programme is set out at **Appendix A** and summarised in the table below:

<b>CAPITAL PROGRAMME Up to 2024</b>	<b>Current Approved Programme £'000</b>	<b>Programme Revisions £'000</b>	<b>Revised Programme £'000</b>
School Investment Programme & Childrens Services	44,193	0	44,193
Housing Regeneration Development & Growth	38,739	13	38,752
Town Centres	118,879	29	118,909
Transportation	28,010	616	28,627
Community & Environment, Culture & Leisure	9,158	992	10,150
Adults & Public Health	352	0	352
<b>Total Approved Capital MTFP</b>	<b>239,331</b>	<b>1,650</b>	<b>240,983</b>

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

### **Reasons for movements over £100,000**

#### New schemes

##### Transportation

- A S278 contribution totalling £187,500 in respect of works associated with a protected right turn junction on Billingham Road in respect of the Lidl Development funded via the developer has been added to the programme.

#### Programme Revisions

##### Transportation

- £242,412 contribution from CRST (Bridges block) has been made to support the New Footbridge at Bishopton Road West, bringing the total cost of the works to £752,000.
- An additional £380,313 S278 Developer Contribution to progress Highway Works amending the A1044 (Low Lane ) junction alignment associated with the proposed new High Leven Park Housing Development has been added to the programme.

#### Other schemes

- Due to increased vehicle costs and significant increase in lead in ordering times a total £903,259 has been added to the capital programme, funded RCCO and vehicle sales receipts, bringing the total planned investment in replacement Vehicles 2022/23 £2,920,532 and £1,606,476 in 2023/24.

## **COMMUNITY IMPACT IMPLICATIONS**

53. 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**

54. None

## **FINANCIAL IMPLICATIONS**

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

## **LEGAL IMPLICATIONS**

56. None

## **RISK ASSESSMENT**

57. This MTFP Update Report is categorised as medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk. Understanding cost pressures and future government funding over the coming weeks/months will be key to understanding and mitigating this risk.

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

58. N/A

## **BACKGROUND PAPERS**

59. None

**Name of Contact Officer: Garry Cummings**

**Post Title: Director of Finance Development and Regeneration and Deputy Managing Director**

**Telephone No. 01642 527011**

**Email Address: [garry.cummings@stockton.gov.uk](mailto:garry.cummings@stockton.gov.uk)**

<b>CAPITAL PROGRAMME Up to 2024</b>	<b>Current Approved Programme</b>	<b>Programme Revisions</b>	<b>Revised Programme</b>	<b>Expenditure Apr 2017 - Sept 2022</b>
<b>SCHOOL INVESTMENT PROGRAMME &amp; CHILDRENS SERVICES</b>				
School Investment Programme	37,256,528	0	37,256,528	6,292,955
Children Investment	6,936,914	0	6,936,914	4,752
<b>SCHOOL INVESTMENT PROGRAMME &amp; CHILDRENS SERVICES</b>	<b>44,193,442</b>	<b>0</b>	<b>44,193,442</b>	<b>6,292,955</b>
<b>HOUSING REGENERATION, DEVELOPMENT &amp; GROWTH</b>				
Housing Regeneration	1,570,834	0	1,570,834	31,734
Inclusive Growth & Development	7,726,642	0	7,726,642	785,976
Private Sector Housing	2,361,292	12,764	2,374,056	1,232,737
Office Accommodation	27,080,721	0	27,080,721	236,279
<b>HOUSING REGENERATION DEVELOPMENT &amp; GROWTH</b>	<b>38,739,489</b>	<b>12,764</b>	<b>38,752,253</b>	<b>2,286,726</b>
<b>TOWN CENTRES</b>				
Stockton Town Centre Schemes	2,816,686	29,489	2,846,175	394,147
Reshaping Town Centres	20,807,204	0	20,807,204	538,230
Thornaby Town Centre	29,800,440	0	29,800,440	1,069,955
Re-Development of Castlegate Site	43,543,812	0	43,543,812	5,811,066
Yarm & Eaglescliffe LUF	20,000,000	0	20,000,000	327,308
Infrastructure Enhancements, Regeneration & Property Acquisitions	1,911,070	0	1,911,070	540,226
<b>TOWN CENTRES</b>	<b>118,879,212</b>	<b>29,489</b>	<b>118,908,701</b>	<b>8,680,932</b>
<b>TRANSPORTATION</b>				
Local Transport Plans/ City Regional Sustainable Transport	5,299,920	(12,411)	5,287,509	616,283
Other Transport Schemes	19,783,270	0	19,783,270	6,053,813
Developer Agreements	2,927,061	628,813	3,555,874	1,072,489
<b>TRANSPORTATION</b>	<b>28,010,251</b>	<b>616,402</b>	<b>28,626,653</b>	<b>7,742,585</b>
<b>COMMUNITY &amp; ENVIRONMENT AND CULTURE &amp; LEISURE</b>				
Energy Efficiency Schemes	1,332,922	(28,818)	1,304,104	1,253,953
Environment and Green Infrastructure	1,648,166	74,933	1,723,099	1,195,830
Building Management	2,353,636		2,353,636	160,714
Vehicle Replacement	3,823,749	945,424	4,769,173	518,096
<b>COMMUNITY &amp; ENVIRONMENT AND CULTURE &amp; LEISURE</b>	<b>9,158,473</b>	<b>991,539</b>	<b>10,150,012</b>	<b>3,128,593</b>
<b>ADULTS &amp; HEALTH</b>				
Adults & Public Health Investment	352,177	0	352,177	0
<b>ADULTS &amp; HEALTH</b>	<b>352,177</b>	<b>0</b>	<b>352,177</b>	<b>0</b>
<b>Total Approved Capital MTFP</b>	<b>239,333,044</b>	<b>1,650,194</b>	<b>240,983,238</b>	<b>28,136,543</b>