

AGENDA ITEM

REPORT TO COUNCIL

22 JULY 2020

**REPORT OF CORPORATE
MANAGEMENT TEAM**

**MEDIUM TERM FINANCIAL PLAN - OUTTURN MARCH 2020 and CURRENT YEAR UPDATE
2020/21**

SUMMARY

This report updates Members on the financial performance and position as at 31 March 2020 which shows an improvement in Revenue Balances of £332,000.

This report also summarises the Council's financial position for 2020/21 in the context of the Covid 19 situation and considers emerging implications for the Medium Term Financial Plan.

The Council is seeing a number of related financial pressures across a range of service areas in responding to the Covid pandemic. Whilst it is difficult to forecast the position due to the uncertainty of timescales for the pandemic response, the pressures are currently estimated at around £17m based on experience of the first 3 months of the year.

Government announcements indicated that Council's would receive funding to cover the financial impact of the pandemic. To date, the Council has received £11m and the Government have announced further funding on 2 July 2020 which would provide additional support. Whilst this is still being analysed, it is unlikely that it will cover the overall costs.

- Members will be aware that the Council retains revenue balances of £7.4m to deal with urgent financial pressures which could not be predicted. Given the current position reflects those circumstances and so not to de-stabilise the Council's current year's budget position, should Government funding not be received then it is suggested balances should be used. These would need to be replenished as part of the 2021/22 budget process
- The pressures associated with Council Tax and Business rates collection are being closely monitored to assess the impact for the current and future years. Any shortfall in the current year will mean a shortfall on the Collection Fund which would need to be funded in 2021/22.

The financial position is being closely monitored including work to assess impact on 2021/22 and future years. This is made more difficult given the uncertainty of Government funding and a further report will be presented as part of the 2021/22 budget process.

Whilst there is no impact on the Council's MTFP, there is a continued national pressure in respect of Dedicated Schools Grant, specifically in relation to Special Education Needs and Disabilities, and this results in a pressure of £4.4m for Stockton. Again, this is a National issue and lobbying is taking place.

RECOMMENDATIONS

1. Note the draft outturn position for the year ended 31 March 2020.
2. To approve the use of General Fund Balances of up to £6m to supplement the Government funding to resolve the financial pressures summarised in paragraph 28.

DETAIL**FINANCIAL POSITION AS AT 31 MARCH 2020****GENERAL FUND**

1. In normal circumstances local authorities are required to prepare a draft Statement of Accounts for the previous year by 31 May, with the final, audited, accounts approved by the end of July. In recognition of the extra-ordinary current circumstances, MHCLG and the professional accountancy bodies have agreed that this timetable be temporarily amended. Therefore the draft Statement of Accounts for 2019/20 is now required to be produced by 30th August, with final, audited, accounts by 30 November. For Stockton we are currently planning that draft accounts will be submitted to the Audit Committee on 27 July 2020.
2. The following table sets out the draft financial position for each Directorate as at 31 March 2020. The reasons for any significant variances from those previously reported are summarised in the paragraphs below:

Directorate	Annual Budget (Q4) £'000	Draft Outturn (Q4) £'000	Draft Variance Over/(Under) (Q4) £'000	Projected variance at Q3 Over/(Under) £'000	Movement between Q3 and Q4 £'000
Children's Services	36,540	39,552	3,012	2,732	280
Adults and Health	73,447	70,758	(2,689)	(2,230)	(459)
Community Services	29,070	29,771	701	1,328	(627)
Economic Growth & Development	8,070	8,009	(61)	(19)	(42)
Culture, Leisure and Events	9,050	9,114	64	10	54
Finance & Business Services	8,343	8,959	616	371	245
HR, Legal and Communications	5,113	5,013	(100)	(120)	20
Corporate Areas	1,224	314	(910)	(752)	(158)
Admin/Democratic Services & Xentrall	7,603	7,637	34	(40)	74
Total	178,460	179,127	667	1,280	(613)
Application of Underspend c/f from 2018/19		(485)	(485)	(485)	0
Revised Total	178,460	178,642	182	795	(613)

Children's Services

3. Cost pressures in this Directorate, particularly relating to the costs of supporting Children in Need and Children in our Care, had been identified and reported throughout the course of the financial year. The final position reflected further pressures of £202,000. This, together with other minor variances, led to an overall movement of £280,000.

Adults and Health

4. The savings in adults seen in prior periods has continued and the focussed work with the CCG have led, in this quarter, to greater numbers and value of packages being funded by Health.

Community Services

5. Overall the Directorate showed an improved position at year end largely as a result of improved trading performance in the latter part of the year.

Finance & Business Services

6. As reported during the year, the budget for Rent Allowances/Housing benefit is volatile and complex. The introduction of Universal Credit has impacted on the mechanisms to recover overpayments and this has resulted in further pressures.

Corporate Areas

7. MHCLG distributed a Business Rates Levy refund in the final quarter of the year (£133,000). In addition further income from Section 31 grants relating to retail relief for Business Rates was received in the final quarter.

Other Directorates

8. There were no significant movements between Quarter 3 and the year end in other directorates.

General Fund Balances

9. After setting the 2020/21 budget General fund Balances were at the approved level of £7.4m. The impact of the draft outturn position in the table above means that this position has improved by £0.613m.
10. Also, at the time of the setting the 2020/21 budget, we were anticipating a shortfall on the Collection Fund of £198,000. This has deteriorated slightly at year end by £281,000 which requires to be funded. There is therefore a net improvement of £332,000 which means that the level of balances is £7.732m.

Dedicated Schools Grant – High Needs Block

11. There continues to be significant pressure on the High Needs Block within the Dedicated Schools Grant. This relates to pressures on the provision of services for Children with Special Education Needs and Disabilities. Whilst this is ring-fenced schools funding and does not affect the Council's MTFP, the deficit in Stockton was £4.42m as at 31 March 2020. Although additional funding has been provided by Government in 2020/21 the position remains extremely challenging. Whilst we are working on plans to manage the position with the Schools Forum, Covid-19 has caused delay in progressing savings of £0.7m set out in the approved 2020/21 Schools Budget. Deficits in High Needs budgets is a national issue and we will continue to raise the matter through professional bodies, the LGA and raise our concerns with the Government.

CAPITAL

12. The Capital budget up to 2022 is shown at **Appendix A** and summarised in the table below:

CAPITAL PROGRAMME Up to 2022	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000	Completed Schemes 2016/17	Variiances (Completed Schemes)	Revised Programme
Schools Capital	41,147	930	42,076	(5,492)	69	36,654
Housing, Regeneration & Town Centres Schemes	93,739	(9)	93,730	(22,852)	(69)	70,809
Transportation	8,873	4,167	13,041	(5,228)	(19)	7,793
Other Schemes	27,879	3,971	31,850	(11,804)	63	20,109
Total Approved Capital MTFP	171,638	9,059	180,697	(45,376)	44	135,365

13. Members will note that the programme has been updated to reflect the approvals contained within the 2020/21 Budget Report and to reflect changes to the programme resulting from the sourcing of external funding. The changes are summarised in **Appendix B**. The Programme has also been updated to reflect schemes which have completed in 2019/20.

CURRENT YEAR - FINANCIAL YEAR 2020/21

14. As widely reported, the Covid 19 pandemic is having a significant impact on the financial position of all local authorities. This has been recognised by the government and they have responded by making a number of announcements about supporting local authorities financially, indicating that Local Authorities would be fully funded for their costs incurred. Two tranches of Covid 19 support funding have so far been received. An initial allocation of £1.6bn was allocated on the basis of the adult social care formula (£5.6m for Stockton). The second national allocation (again totalling £1.6bn) was allocated to local authorities based on population (£5.4m for Stockton). In total the Council has been allocated £11.023m in Covid 19 support funding.

The Government announced further support on 2nd July 2020 and we are awaiting allocations. This is made up of:

- A further £500m allocated to support funding pressures
- A scheme to part fund income shortfalls
- The ability to recover Collection Fund shortfalls over three years as opposed to one year

We are awaiting final details of the allocation.

Financial Pressures

15. There are a number of issues emerging and it is still early in the process to provide an accurate assessment of the overall financial pressures, particularly as the full extent and timescale of the pandemic remains unclear. Key areas and early / indicative estimates of the position for the current financial are presented below.

Adult Social Care Costs

16. In line with Government guidance, the Council is supporting the Care market through a temporary increase in fees and through supplier relief. This is currently costing the Council £450,000 per month and if the support continues to the end of the calendar year total costs could be up to £4m for the current financial year.

17. During the period of the pandemic, there has been a slight reduction in numbers of clients receiving homecare or admitted to care homes. This is however starting to change and numbers are starting to increase. Any savings generated in the early months of the year are therefore expected to fund cost increases later in the year.

18. A national allocation of Test, Track and Trace funding (£300m) was announced in June 2020. This funding has been allocated to support local authorities in meeting their costs associated with Test, Track and Trace. The allocation for Stockton is £1.310m. At the time of writing, further information and guidance was awaited and it is unclear whether additional costs will be incurred or whether any of these funds will be available to support overall pressures.

Children's Social Care Costs

19. The current MTFP assumes a savings target of £1.9m, which was based in the main around relocating children in care and changing placements. The current situation means that this is not possible and there is a delay in making these savings. There is also some emerging evidence of further increases in numbers of children in care in external placements, as well as overall increases in referrals to social care and this could cost an additional £1.6m by the end of the year.

Direct Covid Costs

20. There are a number of direct costs associated with the current situation such as the procurement of PPE equipment, costs of the Community Hub, Shielding and food supplies etc. This support is expected to cost around £800,000.

Waste Collection and Disposal Costs

21. The Council has continued to deliver a consistent refuse collection service, albeit with appropriate adjustments in methods of working. We are also seeing an increase in volumes of waste collection which in turn means increased waste disposal costs. Additional costs have been incurred to date and we are estimating that this could increase to around £1m by the end of the year.

Tees Active (TAL)

22. Leisure facilities were closed on government advice and it is still unclear when they will be able to re-open and resume operation. TAL have made significant efforts to reduce costs, including furloughing the majority of their staff and ceasing all non-essential spend. It is inevitable however that they will not be able to operate to their normal subsidy. The pressure will depend on when the centres can re-open and any restrictions on numbers and operation. Whilst TAL are constantly reviewing their position linked to Government guidelines and announcements,, the latest estimate which is based on the restricted operation which significantly impacts on income will mean a pressure of around £2m. Along with other Leisure Trusts, TAL are lobbying Government for financial support.

Reduction in income

23. The impact of the lockdown and closure of facilities and services has resulted in a loss of income across a broad range of areas, including:

- Car Parking
- Planning
- Street Works Permit Scheme.
- Private Developer income
- Building Control
- Libraries/Museums
- Licensing/Taxi Licensing
- Design and Print Services
- Trade Waste/Green Waste income
- Catering Income

- Education Services Income
- Rent – Business Units
- Land Charges

The shortfall to date is around £2.7m and overall pressure will be linked to the recovery of Council services, and in some areas economic activity, and the overall pressure could be in the region of £4m.

Capital Schemes

24. As the UK went into lockdown, inevitably the impact on the construction industry was severe having a direct impact with ongoing projects underway and the planning for those being prepared or about to be started. At that time, the Council had several key construction/demolition projects underway excluding regular maintenance activities such as resurfacing, potholes and footpath schemes, all of which stopped at the time of lockdown.
25. The projects that were live including Ingleby Barwick Leisure Facility, the Globe, Glam Post Office demolition and school work have all seen inevitable implications of a varying nature on their continuation under COVID-19, albeit far less than if they had been suspended overall, with the exception of Glam/Post Office which has continued as normal.
26. The Globe restoration project has steadily continued and immediately prior to lockdown the completion for November 2020 was very much on schedule. During lockdown, Willmott Dixon have continued on site but inevitably the number of people working on critical activities has had to reduce substantially. Social distancing measures have been operating during the period and adapted working has now been planned out until the project's completion, which will see an extended completion date into April 2021 and incurrence of additional costs as a result of work taking longer and being re-sequenced. The Council have commissioned a report from the external advisors to verify the impact of the time and financial implications. This has identified additional costs of £1.2m. We are currently in detailed discussions with Heritage Lottery around a further contribution to these costs.
27. A similar situation has occurred with Ingleby Barwick Leisure Facility where work has also continued but at much reduced levels. The contractor has been working to a revised programme due to social distancing and material shortages that have incurred a five-week delay, with a completion of the facility by mid-August 2020. The impact of the COVID related delays also have a resulting financial pressure of £500,000 and again we are in discussions with Sport England in relation to these costs.

Summary - 2020/21

28. The projected financial impact of the Covid 19 pandemic, based on experience in the first 3 months of the financial year, is summarised below:

Area	£'000
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Adult Social Care	4,000
Children's Social Care	3,500
PPE and other Direct Covid Costs	800
Tees Active	2,000
Waste	1,000
Reduction in income	4,000
Capital Scheme - Globe	1,200
Capital Scheme – Ingleby Barwick Leisure Centre	500
Total	17,000
Covid Grant	(11,023)
Net Position	5,977

The overall financial position is being regularly reviewed to assess impact across all areas and it is likely that this will identify additional pressures but also some savings.

The above table indicates that the current pressures and costs exceed the grant available and that there will be a financial pressure of around £6m.

As outlined in paragraph 14, we are anticipating further Government funding allocations to support these pressures, however it is currently unclear how much we will receive and when this will be confirmed. We are also anticipating funding from Heritage Lottery to support the costs associated with the Globe.

If the funding is not sufficient to cover the pressures, it is recommended that this is funded from general balances. Based on a worst case scenario of no additional funding, this would mean that general fund balances would reduce from £7.732m outlined in paragraph 9 to £1.732m. The level of balances would need to be replenished in the 2021/22 budget back to the £7.4m level at a cost of £5.668m

Council Tax and Business Rates

29. Income from Council Tax and Business Rates (NNDR) is accounted for within the Collection Fund. Because of the way that this works in relation to the General Fund, the financial impact of any reduction in income does not immediately affect this year's financial position, it is effectively a shortfall to be resolved next year and will need to be reflected in an updated Budget and MTFP at the appropriate time.

It is very early in the financial year but it is already clear that there are a number of issues which will result in pressures on Council Tax and Business Rates income.

- We are seeing an increase in people claiming LCTS as the economic impact of the pandemic increases the number of households eligible for LCTS support (approximately 10% to date). This will lead to a reduction in the overall amount of council tax assessed/collected compared to the level budgeted. If the increase rose to 20% by the financial year end then the impact in year is projected to be £1.3m
- Our budgeted council tax base includes assumptions on housing growth. If there is reduced growth in housing numbers, this will impact on income levels.
- Despite support for businesses through increased reliefs and grants, there remain are a significant number of businesses who do not benefit from this support. There is a risk therefore that business rates revenue reduces if businesses fail or are unable to pay

- In addition the level of outstanding council tax and business rates debt is likely to rise and the Council will need to review the potential to collect that debt.

The overall financial impact of Covid 19 on the Council Tax and Business Rates income is unlikely to be fully understood for some months and this is being closely monitored. It is normal practice that any arising deficit would need to be fully funded in 2021/22, however the recent Government funding announcement has indicated this may be relaxed and recovered over three years.

Impact on 2021/22 Budget and MTFP

30. The impact of Covid 19 on the medium to longer term financial position of the Council is very uncertain. The Fair Funding Review and implementation of 75% business rates retention will not now be implemented until 2022/23 at the earliest. The government has not yet indicated the level of funding it will allocate to councils in 2021/22 or how it will be distributed. Despite this uncertainty we have started to review the position for next financial year and for the MTFP and will report to Cabinet in due course.

There are a significant number of factors which will need to be considered including:

- Government funding. We had estimated that 50% of the funding received in 2020/21 would be received in future years. The actual funding will not be known until later in the year.
- The impact of LCTS, taxbase and collection levels need to be considered across the medium term plan
- We will need to plan to replenish balances by up to £5.668m and fund the deficit on the collection fund.
- We will need to review business rate income taking account impact of economic shock on business.

Nationally councils, the Local Government Association, and other representative bodies are not only lobbying for funds in the current financial year but raising the significant issue around the impact of tax income on Council resources.

Should Government funding be insufficient to cover the financial pressures, Council may be required to consider a savings programme to ensure a balanced budget in 2021/22.

31. Cabinet will consider the matter at its meeting to be held on 16 July 2020 and a copy of the relevant minute extract will be circulated to Members.

COMMUNITY IMPACT IMPLICATIONS

32. 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

33. None

FINANCIAL IMPLICATIONS

34. The report updates Members on the Medium Term Financial Plan and Capital Programme.

LEGAL IMPLICATIONS

35. There are no specific legal implications.

RISK ASSESSMENT

36. This Medium Term Financial Plan update report is categorised as medium risk on the expectation that government funding will be forthcoming to minimise the need to utilise reserves. This will be regularly monitored and reported through the rest of the year.

WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS

37. N/A

BACKGROUND PAPERS

38. Drivers Report - The Globe, Stockton Borough Council Covid-19 Implications.

Name of Contact Officer:

Garry Cummings, Director of Finance and Business Services

Telephone 01642 527011

Email Address: garry.cummings@stockton.gov.uk

APPENDIX A

CAPITAL PROGRAMME Up to 2022	Current Approved Programme	Programme Revisions	Revised Programme	Completed Schemes 2019/20	Variances (Completed Schemes)	Revised Programme
SCHOOL CAPITAL						
School Investment Programme	41,146,760	929,610	42,076,370	(5,492,309)	69,462	36,653,523
SCHOOLS CAPITAL	41,146,760	929,610	42,076,370	(5,492,309)	69,462	36,653,523
HOUSING REGENERATION & TOWN CENTRES SCHEMES						
Housing Regeneration	2,165,895	(9,039)	2,156,856	(293,396)	(14,131)	1,849,329
Stockton Town Centre Schemes	28,223,292	0	28,223,292	(18,639)	(55,206)	28,149,447
Reshaping Town Centres	30,000,000	0	30,000,000	(22,337,040)	0	7,662,960
Growth Fund	10,000,000	0	10,000,000	0	0	10,000,000
TVCA Investment Plan	20,000,000	0	20,000,000	0	0	20,000,000
Infrastructure Enhancements, Regeneration & Property Acquisitions	3,350,311	0	3,350,311	(203,392)	0	3,146,919
HOUSING, REGENERATION & TOWN CENTRES SCHEMES	93,739,498	(9,039)	93,730,459	(22,852,467)	(69,337)	70,808,655
TRANSPORTATION						
Local Transport Plans	5,122,697	3,884,443	9,007,140	(4,143,539)	3,233	4,866,834
Other Transport Schemes	2,432,726	35,111	2,467,837	(107,434)	(2,386)	2,358,017
Developer Agreements	1,318,036	247,554	1,565,591	(977,257)	(19,872)	568,462
TRANSPORTATION	8,873,459	4,167,108	13,040,568	(5,228,230)	(19,025)	7,793,313
OTHER SCHEMES						
Private Sector Housing	2,292,064	1,647,012	3,939,076	(2,005,117)	0	1,933,959
Building Management & Asset Review	1,240,903	0	1,240,903	(489,166)	(7,005)	744,732
Parks, Museums & Cemeteries	8,234,936	26,030	8,260,966	(8,141,425)	44,600	164,141
Energy Efficiency Schemes	340,000	0	340,000	0	0	340,000
Leisure Facility Ingleby Barwick	13,300,000	0	13,300,000	0	0	13,300,000
Other Schemes	2,471,548	2,297,785	4,769,333	(1,168,746)	25,535	3,626,122
OTHER SCHEMES	27,879,451	3,970,827	31,850,278	(11,804,454)	63,130	20,108,954
Total Approved Capital MTFP	171,639,168	9,058,506	180,697,675	(45,377,460)	44,230	135,364,445

APPENDIX B

Programme Revisions 2019/20

Schools Capital

- The Department for Education announced grant funding for 2020/21 for the Schools Maintenance Programme of £863,610.

Transportation

- The 2020/21 LTP grant allocation of £3,738,671, which includes £431,671 Incentive Funding, has been added to the Capital Programme. The 2020/21 programme of works includes £1,450,000 for Mandale Bridge and £964,406 for Carriageway Resurfacing.

Private Sector Housing

- Disabled Facilities Grant of £1,590,490 for 2020/21 has been added to the Capital Programme.

Other schemes

- The planned investment in vehicles for 2020/21 is £2.7m and the capital programme has been increased to reflect this, funded from the Fleet Renewal Fund.

Completed Schemes 2019/20

Schools Capital

- Planned Maintenance Schemes on a range of schools have been delivered in 2019/20.
- The SEN works at Northfield Academy completed in year.
- The works to create a childcare hub at Barleyfields Children's Centre, the extension to Tilery Family hub and the Early Years Capital Grants released to a range of providers have been removed from the Capital Programme.
- Construction of the new Hall at Conyers Academy has completed in year.
- The 6th Form extension at Egglecliffe School completed in year and has been removed from the Capital Programme.

Housing Regeneration & Town Centre Schemes

- Spend in respect of Victoria Regeneration has been removed from capital programme.
- The purchase of both Castlegate and Wellington Square Shopping Centres completed in year and have been removed from the capital programme along with early master-planning costs.
- The Neighbourhood Shopping Parades programme of works completed in year.

Transportation

- £4.1m has been spent delivering schemes as part of the Local Transport Plan programme.
- Local Growth Fund, Belasis Enterprise Linkages Scheme completed in year.
- S278 highways works for the Housing Development South of Kirklevington, footpath works at Crathorne interchange and Tall Trees development access all completed in year.
- The S106 funded Everingham Cycle Way completed in year.

Other schemes

- £2.0m has been spent on Disabled Adaptations in homes across the Borough.
- A number of planned maintenance schemes have been delivered across a range of Council Buildings.
- A number of parks schemes have completed in year and have been removed from the Capital Programme, including England Coastal Path Phase 5.
- Construction of the Crematorium and Gardens of Remembrance completed in year.
- Acquisition of vehicles costing (£1.02m) has been removed from the capital programme.