

AGENDA ITEM

REPORT TO EXECUTIVE SCRUTINY COMMITTEE

15 JANUARY 2019

REPORT OF SENIOR MANAGEMENT TEAM

FINANCIAL UPDATE & MEDIUM TERM FINANCIAL PLAN

SUMMARY

This report presents the financial performance and position at the end of the second quarter of the 2018/19 financial year and updates the Medium Term Financial Plan accordingly.

RECOMMENDATIONS

1. That the Medium Term Financial Plan (MTFP) and the current level of General Fund balances be noted.
2. That the recently announced Winter Pressures Funding for 2018/19 be used to support investments in Adult Social Care to support the management and prevention of pressures associated with winter.
3. That Members support in principle the prudential borrowing required to fund additional costs associated with The Globe, with this being formally recommended for approval in the February report.
4. That the position on the High Needs Block of the Dedicated Schools Grant is noted
5. That the emerging issues for the MTFP are noted.
6. That the revised Capital Programme attached at **Appendix B** be noted.

DETAIL

FINANCIAL POSITION TO 30 SEPTEMBER 2018

GENERAL FUND

1. The following table details the projected budget outturn position for each directorate in 2018/19, based on information to 30 September 2018. The reasons for any significant movement in variances from the last reported position (in excess of £100,000) are set out for each directorate below.

Directorate	Annual Budget (Q2) £'000	Projected Outturn at Q2 £'000	Projected Variance at Q2 Over/(Under) £'000	Projected Variance at Q1 Over/(Under) £'000	Movement between Q1 and Q2 £'000
Children's Services	37,285	38,304	1,019	1,393	(374)
Adults and Health	71,387	71,287	(100)	0	(100)
Community Services	32,415	32,180	(235)	(351)	116
Economic Growth & Development	8,016	8,029	13	113	(100)
Culture, Leisure and Events	8,714	8,669	(45)	65	(110)
Finance & Business Services	8,122	8,176	54	(88)	142
HR, Legal and Communications	4,882	5,107	225	336	(111)
Corporate Areas	902	817	(85)	(15)	(70)
Admin/Democratic Services & Xentrall	6,761	6,691	(70)	(70)	0
Total	178,484	179,260	776	1,383	(607)

Children's Services

- Evidence from the first two quarters of the financial year suggests that pressures continue to be experienced arising from increasing complexity of cases and rising numbers of looked after children, which are now above 500. In common with many other local authorities, this is placing additional demands on both placement and staffing budgets. If current trends continue there could be a pressure of £1m in this area by the end of the financial year. Although still a significant projected overspend, this is an improvement on the position reported for the first quarter, with early indications that the actions outlined in the September report are starting to impact positively on the numbers.
- There is a considerable amount of research being undertaken at a national level and this suggests there is an overall deficit of c£2bn in Children's Services budget, with the impact felt most in areas of disadvantage. This is one particular area which will feature in the Fair Funding review which is underway.

Adults and Health

- The budget for the Directorate was set on the basis that the financial impact of projected growth would be offset by an equivalent level of savings. Based on information for the two quarters of the financial year it is expected that an overall balanced position will be achieved.
- In early October 2018 the Health and Social Care Secretary announced an additional Winter Pressures Grant of £240m nationally in 2018/19 and 2019/20. The share allocated to Stockton is £845,000 per annum. We are already working collaboratively with Health colleagues to consider the impact of winter pressures and consider areas of investment to manage and prevent pressures on our services, and this funding will be used to support this investment.

Community Services

- An increase in the costs of vehicle hire and maintenance and building cleaning are partly offset by increased income generated by the Heating, Ventilation and Electrical (HVE) Service.

Economic Growth and Development

- The position has improved (£100,000) due to an increased level of planning fee income being generated.

Culture, Leisure and Events

8. Savings on employee costs due to staff vacancies in advance of a review of the Service are projected to amount to £110,000.

Finance & Business Services

9. The budget for Housing Benefits has been reassessed and based on the current claims and subsidy levels the net income should be £142,000 lower than budgeted. This is a small percentage of the £70m budget.

HR, Legal and Communications

10. Although pressures relating to the complexity and volume of children's legal cases remain, the overall position has improved because the level of expenditure on cases associated with the Deprivation of Liberties Safeguards (DOLS) legislation is lower than anticipated in 2018/19.

Corporate Areas

11. No significant variances from the previously reported position.

Administration, Democratic Services and Xentrall

12. No significant variances from the previously reported position.

Overall Revenue Position/General Fund Balances

13. The Council aims to retain General Fund balances at a recommended level, currently £7,400,000. As reported to Cabinet previously the level of balances, and unutilised managed surpluses, currently exceeds the recommended level by £515,000. This sum of £515,000 is therefore available to support the MTFP, including to offset the projected pressures summarised in paragraph 1 should these materialise at year end. The position will be kept under review throughout the remainder of the financial year and will be considered again as part of the next report in February.

Education - High Needs (Dedicated Schools Grant)

14. Nationally, there is a real and significant issue of pressures 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 ringfenced schools funding and does not affect our MTFP, the pressure in Stockton is projected to be £2.327m as at 31 March 2019. The Council is working with the Schools Forum to address the issue.

MEDIUM TERM FINANCIAL PLAN 2018 – 2023

Current Approved MTFP

15. The current approved position in March 2018 was as follows.

	2019/20	2020/21	2021/22
	£'000	£'000	£'000
Budget Gap	1,476	4,757	3,078

Funding Position

16. Members will recall that the Council are approaching the end of a 4 year financial settlement from the Government which ends in 2019/20 to coincide with the original parliamentary cycle.
17. There are a number of funding streams outside of this settlement, notably New Homes Bonus, Public Health Funding and the Better Care Fund and we are currently assuming there are no changes to the allocations for 2019/20. We are however still awaiting the Local Government Finance Settlement and it is possible further changes could be introduced, particularly relating to New Homes Bonus.
18. Funding for Children's and Adults Social Care – A large body of evidence exists highlighting the immediate and long term pressures local authorities are facing in relation to Children's and Adults Social Care. The Budget in Autumn 2018 announced a limited level of funding to fund short term pressures in 2018/19 and 2019/20 but did not address the long term issues.
19. A key issue facing all Local Authorities is the lack of certainty in funding post 2020 and there are a number of key issues which come together at that time to make planning extremely difficult:
 - Spending Review – A Spending Review is scheduled for Spring/Summer 2019. This will inform the quantum of resources available to Local Government and to other Government Departments. It is not currently possible to know whether there will be any changes to the quantum level and what this will mean.
 - Retention of Business Rates – As reported previously, the Government is now working towards business rates retention at a level of 75%, with a target introduction date of April 2020. Despite a significant amount of national work it is still unclear how this system will work and therefore the impact on Stockton. A national consultation is awaited.
 - Fair Funding Review – As reported previously, the Government are conducting a review of the formula used to calculate the base level of funding for each Council which is used to redistribute elements of business rates through tariff and top ups. This is an extremely complex area and will result in winners and losers and it is still unclear how this will be introduced. As part of the analysis and lobbying, a paper outlining the impact of funding reductions has been prepared on behalf of the Tees Valley. This is shown at **Appendix A** for information.
 - The Council will continue to monitor the situation on all these matters extremely closely and participate in working groups and consultation exercises to try and understand the position but all of these things together make planning post 2020 extremely difficult. We do however need to continue to plan ahead and we have rolled forward the plan assuming allocations remain as they are in 2019/20.
20. The Government announced as part of the budget additional funding to support Highways work including that associated with pot holes, Stockton will benefit by £1.1m and plans are being developed on how this will be spent to deliver improvements across the Borough.

Changes to current expenditure plans

21. There are a number of emerging issues which will need to be considered in the MTFP going forward and these are outlined below:

- Legal Costs – Children’s Services – The volume and complexity of Children’s Social Care activity is driving increased pressures on budgets for legal support to complex care cases. This will mean a pressure for the duration of the MTFP of £500,000 in 2019/20 with this expected to reduce over the course of the MTFP.
- Adult Social Care savings target - Members will be aware from previous reports that the MTFP incorporates a saving on Adult Social Care Management. The service review has commenced with a reorganisation of senior management and further detailed reviews will be undertaken in the new-year with a focus on delivering the savings required. There will however, be a delay in delivering the savings so there will be a pressure of £500,000 in 2019/20.
- Adult Deprivation of Liberties Safeguards (DOLS) – The introduction of this legislation has led to a significant financial impact which has extended beyond that originally anticipated. The pressure is expected to be £400,000 in 2019/20 and despite all best efforts this is expected to remain at £200,000 into the future.
- Members will be aware that the work on the Globe Theatre identified problems that were much worse than expected with unsupported walls, badly compacted drainage systems and weaknesses in the roof structure among some of the issues. A project redesign has found solutions to the problems and has recently been announced that the Theatre will open in spring 2020. There will however be costs associated with these works of £2.5m which will require an additional £135,000 per year Prudential Borrowing.
- Complementing investment in the Globe, Stockton’s Cultural Quarter is experiencing considerable growth with new bars and restaurants supported by the strong music programme in the Georgian Theatre, run by Tees Music Alliance (TMA). TMA are central to efforts to provide support to the local music sector and contribute to capacity building in advance of our bid to secure UK City of Culture status in 2025. To assist TMA in their music development agency role, with a prospect of future matching revenue funding from Arts Council England, there is a need for a further revenue allocation of £60,000 per annum.
- Increases in the cost of energy require to be incorporated into the MTFP.

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

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Legal Costs – Children’s Social Care	500	400	300	300
Adult Social Care	500			
Adult DOLS	400	200	200	200
Globe Theatre	68	135	135	135
Tees Music Alliance	60	60	60	60
Energy Costs	250	250	250	250
Pressures	1,778	1,045	945	945

Income and Resources

23. There are some areas of additional income which can be brought into the plan.

- Business Rates – When the rate of inflation, as measured by RPI, exceeds that of CPI (September) the Council is currently compensated for the difference in terms of its impact on Business Rates income. This will be received in the form of a Section 31 grant.
- New Homes Bonus – The Government has indicated that it will review how New Homes Bonus operates. With the exception of a change to the “deadweight” percentages, significant changes are not anticipated for 2019/20, but could be implemented from 2020/21 to coincide with the implementation of the Fairer Funding Review and increased retention of Business Rates. In the short term, the Council is expecting additional income in 2019/20 relating to the level of new homes in 2018/19, although the precise level will be dependent on announcements in the Local Government Finance Settlement.
- Adult and Children’s Social Care Grant – The Chancellor also announced in the 2018 Budget a new grant for Adults and Children’s Social Care for one year only (2019/20). The allocation to Stockton is £1,443,949. It is proposed that this grant be utilised to offset the 2019/20 pressures in Children’s and Adults Social Care set out in paragraph 21 above.

24. Review of Reserves – The Council keeps the level of its financial reserves under regular review.

a) Fleet Renewal Fund (£0.9m). The Council sets aside a sum each year to fund future fleet vehicle replacements. The level of funding in the reserve has been re-assessed and now exceeds projected future requirements, meaning that there is a reduced requirement to fund the reserve in the short term. A total of £0.9m can be freed up to support the MTFP.

b) A review of grant income (largely European grants) received but not spent, which is currently held in reserves, has identified an element with no current commitments identified (£0.438m).

This will be used to balance the 2019/20 position with any remaining funding used to support the pressure in 2020/21.

25. Council Tax - The current plan assumes a Council Tax increase of 2.9% in 2019/20. This will be 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 £0.8m

25. This would mean that the resources outlined below are available:

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Business Rates – increase S31 Grant to reflect RPI increase and threshold changes.	(496)	(505)	(515)	(526)
New Homes Bonus	(407)			
Adults and Children’s Social Care Grant	(1,444)			
Review of Reserves	(907)	(431)		
Total	(3,254)	(936)	(515)	(526)

Summary Position

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

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Approved Budget Position	1,476	4,757	3,078	3,217
Expenditure Pressures	1,778	1,045	945	945
Income and Resources	(3,254)	(936)	(515)	(526)
Budget Gap				
Updated Gap	(0)	4,866	3,508	3,636

This shows that a balanced budget can be achieved in 2019/20. There remains a pressure of £4.9m in 2020/21, £3.5m in 2021/22 and £3.6m in 2022/23.

27. Paragraphs 16 - 20 identify the significant level of uncertainty around funding from 2020 onwards and any long term plans on further reductions could change significantly following further clarity on these issues. Once there is further clarity around the funding position, we will revise the plan for future years and report to Cabinet and Council accordingly.

CURRENT CAPITAL PROGRAMME

28. The current Capital Programme is set out at **Appendix A** and summarised in the table below.

Capital Programme September 2018

CAPITAL PROGRAMME up to 2021	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000
Schools Capital	50,347	0	50,347
Housing Regeneration & Town Centres Schemes	42,223	584	42,807
Transportation	7,397	4,908	12,305
Other Schemes	27,985	309	28,294
Total Approved Capital MTFP	127,952	5,801	133,753

Reasons for Movements over £100,000

New Schemes

- £583,567 has been added to the capital programme to support the full demolition of Elm House, fully funded by Thirteen.
- An additional £186,517 grant contribution for Phase 4 of the England Coastal Path has been added to the capital programme.

Additional Funding

- A £333,872 contribution from TVCA development funding has been added into the capital programme to fund feasibility works A689 Wynyard scheme, including a £117,549 repayment to LTP towards previous years costs.
- The plan has been updated to include the funding for highways maintenance (including potholes) and detailed plans are currently being developed.
- The Department for Transport has confirmed £3,307,000 LTP Grant for 2019/20.

Programme Revisions

- A contribution from LTP Integrated Transport totalling £177,158 to fund NPIF 17/18 A689 Wolviston and Wynyard Roundabout signalisation works.

COMMUNITY IMPACT IMPLICATIONS

29. 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.

FINANCIAL IMPLICATIONS

30. To summarise the projected financial position for 2018/19 and to update the MTFP accordingly. Also to set out the key issues arising from the Autumn Budget and Provisional Local Government Finance Settlement as they may impact on the MTFP.

LEGAL IMPLICATIONS

31. None

RISK ASSESSMENT

32. The update of the MTFP is categorised as low to medium risk and is covered by existing management arrangements.

COUNCIL PLAN POLICY PRINCIPLES AND PRIORITIES

33. The report addresses all four Policy Principles in the Council Plan.

CORPORATE PARENTING IMPLICATIONS

34. Not applicable

CONSULTATION INCLUDING WARD/COUNCILLORS

35. Members can provide comments to the email address below.

Name of Contact Officer: Garry Cummings, Director of Finance and Business Services
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Fair Funding Review

Briefing paper

Summary:

1. The impact of austerity cuts has meant a direct increase in deprivation in the population, coupled with a severe decrease in funding and new demands on services emerging, in particular in children's services; and this has had a disproportionate effect on the people of the Tees Valley compared to more affluent areas.
2. Despite the impact of funding reductions, Tees Valley authorities have continued to promote economic growth in their areas and to transform their delivery models to innovate so that they can continue to deliver for the most vulnerable in society. Gross Value Added across the Tees Valley has increased substantially since 2010. Had the funding regime since 2010 been fairer to the increased needs of Tees Valley authorities – and even if the cuts to local government budgets had been shared more equitably – there would have been much more potential to grow the area further.

Tees Valley Picture – funding levels and impact of austerity on the population

3. The LGA has said there is a £3.9bn funding gap across the sector to fund existing services which rises to £7.8bn by 2024-25.
4. Figures obtained from the National Audit Office via Freedom of Information suggest that there has been a clearly disproportionate effect of the austerity cuts on local authorities in deprived areas such as the North East compared to national averages and to more affluent areas such as Surrey and Berkshire. Some comparators are set out below.

Authority	Budget change in real terms since 2010-11
National	-29%
Darlington	-28%
Hartlepool	-37%
Middlesbrough	-36%
Redcar and Cleveland	-35%
Stockton	-31%
Surrey	-15%
Wokingham	-16%

5. The impact of austerity has also led to a direct impact on the population of the Tees Valley through an increase in the levels of deprivation. More people are now in receipt of welfare benefits; and more people have fallen below the poverty level. This is true in both absolute terms and in relative terms for the Tees Valley compared to elsewhere in the country.
6. Three of the Tees Valley authorities have moved negatively in relative poverty as measured by the index of multiple deprivation since 2010. Middlesbrough is now the 6th most deprived local authority area overall and Hartlepool is now the 18th most deprived local authority area.
7. While funding has been cut disproportionately, the demand for services has also increased disproportionately in the North East as a whole and in the Tees Valley in particular. There has been a 50% increase in the rate of Looked after Children from **61** per 10,000 children in 2010 to **92** per 10,000 children in 2017 (which is now the highest rate of any region). The North East has seen a 50% increase in numbers of looked after children in the last 8 years at a time when

the national increase has been less than 15%. In both Stockton and Redcar the proportionate increase is over 80%. Middlesbrough and Hartlepool have some of the very highest rates of looked after children nationally.

8. The growing gap between funding and demand is disproportionately impacting on the most deprived areas of the country such as the North-East. Some cuts have inevitably therefore had to be made in the region in non-statutory areas of the children's social care budget and heavy cuts elsewhere in council budgets.

Impact on police

9. Cleveland Police funding has decreased by £39m in real terms since 2010-11, a reduction of 36%, while demand has risen.
10. Cleveland Police is the area with the 5th highest level of victim-based crime in the country (out of 43) and the 9th largest reduction in funding in the country in percentage cash terms. Similarly, Durham Police has the 6th highest victim-based crime rate in the country and the 5th largest reduction in funding in the country. Some examples of relative reductions and link to victim-based crime are set out below:

Force	Victim based crime per 1000	Rank victim based crime	Cash cut since 2010	Rank Cash Cut since 2010
Cleveland	98	5	-10%	9=
Durham	96	6	-12%	5=
Metropolitan	92	7	-19%	1
Greater Manchester	121	1	-12%	5=
Northumbria	103	4	-15%	2=
North Yorkshire	47	43	-3%	33=
Surrey	62	33=	+1%	43

Impact on NHS

11. The South Tees CCG has seen an approximate 8.3% increase in spend per capita between 2013/14 and 2017/18 taking its total expenditure from £397.482m to £437.017m. Much of this is demand-led and reflects the increase in demand across a range of health services from the population, which again is a potential effect of austerity.
12. Expenditure on mental health services has increased much more quickly than that, increasing by 19.7%, which may reflect a greater need from the population to access these services in times of austerity.
13. The South Tees CCG is now in special measures. In the face of a recent projected £17.3m overspend in 2018-19 (including an agreed £5m deficit) it is planning to deliver £22m of savings in 2018-19 across a range of areas.

Impact on outcomes

14. This has had an impact across a wide range of key measures given the link between deprivation; reductions in funding and outcomes. For example:
 - a. Child poverty in the Tees Valley area has increased from 28.7% in 2013 to 31.3% in 2017 and the gap against the national average has widened by 3.3%; and
 - b. Between 2009 and 2015 the gap in healthy life expectancy between the national average for men and the worst performing local authority area in the Tees Valley effectively doubled to 12.4 years; and for females it more than trebled to 14.9 years.

Economic Growth in the Tees Valley

15. Despite the clear impact of austerity on the people and the local authorities and other public authorities of the Tees Valley, local authorities have continued to promote economic growth successfully. According to the Office for National Statistics, Gross Value Added in Darlington per head of the population increased by 20% between 2009 and 2015 and increased substantially in all other areas.
16. Authorities are delivering housing growth in the Tees Valley with ambitious plans in each authority area. In the past five years, 8650 homes have been built across the Tees Valley and the annual rate of build is planned to rise from an average of 1730 to 2160.
17. And there are some fantastic examples of transformative economic projects in the Tees Valley:
 - a. Central Park, Darlington is being regenerated as a strategic mixed use site including housing, jobs, education and innovation;
 - b. Queen's Meadow Business Park in Hartlepool has been successfully developed as part of the Tees Valley Enterprise Zone;
 - c. Middlesbrough has worked with Tees Valley Combined Authority and invested in the Tees Advanced Manufacturing Park which will regenerate the area, bring up to 1000 new jobs and make a commercial return;
 - d. Kirkleatham, Redcar and Cleveland is being developed as an inspirational place with a walled garden and catering and horticultural academy; and
 - e. Stockton has remediated the North Shore site including the development of the iconic Infinity Bridge and enhanced connectivity via major highway improvements.

Conclusion

18. These levels of economic growth have occurred despite the pressures caused by funding reductions in local authorities, the impact of economic shocks such as the closure of SSI and the impact of austerity on the wider population. It is clear that had these pressures not constrained the efforts of local authorities then economic growth would have been even better.
19. Our case to the fair funding review is therefore that if we get the necessary radical overhaul of the funding regime which properly reflects need in the Tees Valley we will be able to deliver even more benefit to the people of the Tees Valley and support the economic growth of the country as a whole.

Appendix B

CAPITAL PROGRAMME Up to 2021	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure April 2013 - September 2018
SCHOOL CAPITAL				
School Investment Programme	50,346,646	0	50,346,646	6,514,990
SCHOOLS CAPITAL	50,346,646	0	50,346,646	6,514,990
HOUSING REGENERATION & TOWN CENTRES SCHEMES				
Housing Regeneration	2,233,491	583,567	2,817,058	48,015
Stockton Town Centre Schemes	35,863,317	0	35,863,317	14,576,379
Infrastructure Enhancements & Property Acquisitions	4,126,275	0	4,126,275	1,988,068
HOUSING REGENERATION & TOWN CENTRES SCHEMES	42,223,083	583,567	42,806,650	16,612,462
TRANSPORTATION				
Local Transport Plans	4,297,223	4,434,391	8,731,614	2,685,629
Other Transport Schemes	1,643,611	393,481	2,037,092	1,229,003
Developer Agreements	1,455,812	80,000	1,535,812	1,269,819
TRANSPORTATION	7,396,646	4,907,872	12,304,518	5,184,451
OTHER SCHEMES				
Private Sector Housing	2,185,618	9,502	2,195,120	738,960
Building Management & Asset Review	794,051	0	794,051	343,368
Parks, Museums & Cemeteries	8,021,414	266,530	8,287,944	1,102,812
Energy Efficiency Schemes	340,000	0	340,000	0
Leisure Facility Ingleby Barwick	13,300,000	0	13,300,000	1,123,789
Other Schemes	3,344,159	33,000	3,377,159	366,011
OTHER SCHEMES	27,985,242	309,032	28,294,274	3,674,940
Total Approved Capital MTFP	127,951,617	5,800,471	133,752,088	31,986,843