

## AGENDA ITEM

### REPORT TO EXECUTIVE SCRUTINY COMMITTEE

21 JANUARY 2020

## FINANCIAL UPDATE & MEDIUM TERM FINANCIAL PLAN

### SUMMARY

This report presents the financial performance and position at the end of the second quarter of the 2019/20 financial year and updates the Medium Term Financial Plan (MTFP) accordingly.

- The financial position has shown an overall improvement from the previous reported position. There are still pressures in Children in our Care but the early indications are that the work in this area is starting to improve the position.
- The Report presents an update on the Capital Programme and sets out a number of programme revisions.

The report also presents the outline plans for the 2020/21 budget and the MTFP. This is however, in the context of significant uncertainty around Government funding:

- The 2020/21 funding is not confirmed as we have not received a Provisional/Final Local Government Finance Settlement. The Provisional Settlement should have been in early December but has been delayed due to Purdah.
- The 2021/22 financial position is even more uncertain and as previously outlined to Members, will be affected by a Government Spending Review, a Fair Funding Review and proposals around increased 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 balanced Medium Term Financial Plan, although this will need to be reassessed once further funding announcements are made.

### REASONS FOR RECOMMENDATIONS/DECISIONS

To update Members on the financial position for 2019/20 and outline proposals for the 2020/21 budget and Medium Term Financial Plan and Capital Programme.

### RECOMMENDATIONS

1. That the Medium Term Financial Plan and the current level of General Fund balances be noted.
2. That the emerging issues for the MTFP are noted.
3. That the revised Capital Programme attached at **Appendix A** be noted.

### DETAIL

#### FINANCIAL POSITION TO 30 SEPTEMBER 2019

#### GENERAL FUND

1. The following table details the projected budget outturn position for each directorate in 2019/20, based on information to 30 September 2019. 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 (Q2) £'000	Projected Variance Over/(Under) (Q2) £'000	Projected variance at Q1 Over/(Under) £'000	Movement between Q1 and Q2 £'000
Children's Services	36,600	39,061	2,461	2,775	(314)
Adults and Health	73,466	71,684	(1,782)	(1,440)	(342)
Community Services	29,070	30,281	1,469	1,080	389
Economic Growth & Development	8,246	8,246	0	0	0
Culture, Leisure and Events	9,194	9,209	15	0	15
Finance & Business Services	8,296	8,584	288	300	(12)
HR, Legal and Communications	5,044	4,969	(75)	0	(75)
Corporate Areas	1,316	519	(797)	(962)	165
Admin/Democratic Services & Xentrall	7,631	7,606	(25)	0	(25)
<b>Total</b>	<b>178,863</b>	<b>180,159</b>	<b>1,554</b>	<b>1,753</b>	<b>(199)</b>
Application of Underspend c/f from 2018/19		(485)	(485)	(485)	0
<b>Revised Total</b>	<b>178,863</b>	<b>179,932</b>	<b>1,069</b>	<b>1,268</b>	<b>(199)</b>

### Children's Services

2. Evidence from the second quarter of the financial year confirms that the significant increase in the number of children in our care in the early months of the year has led to a large increase in projected expenditure on Children's Services, as reported at Quarter 1. A paper was appended to the Quarter 1 Report outlining the issues and challenges, together with the Council's response. Quarter 2 monitoring provides early evidence of the Council's response impacting positively on the costs of external residential placements, where the projected overspend has reduced from £1,860,000 to £1,212,000. However, this improvement is partly offset by increases in costs of placements in other settings such as Fostering (particularly Connected Persons Foster Care). Overall, the projected overspend has reduced from £2,775,000 to £2,461,000. The position will continue to be closely monitored.

### Adults and Health

3. The position evident at Quarter 1 of lower than anticipated activity and expenditure on care packages has continued into Quarter 2.
4. In 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

5. The financial impact of reducing amounts of external work and income on Heating, Ventilation and Electrical Services (HVE); on Highways Services and on Catering/Cleaning was highlighted at Quarter 1. Reviews are underway to consider how the service can be reconfigured to resolve these issues. There is also a pressure in respect of School Catering due to the increase in Academies undertaking alternative arrangements. The impact of these ongoing pressures on

the future MTFP is set out in paragraph 22 below.

6. Enhanced green space and footpath works associated with the finalisation of the Crematorium project require to be funded (£258,000).

### **Economic Growth and Development**

7. No significant variances from the position reported at Quarter 1, with no significant variances to be reported.

### **Culture, Leisure and Events**

8. No significant movements from the position reported at Quarter 1, with no significant forecast variances to be reported.

### **Finance & Business Services**

9. No significant movements have been identified from the position reported at Quarter 1.

### **HR, Legal and Communications**

10. Overall there is no significant movement from the position reported at Quarter 1.

### **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 position at year end 2018/19 exceeded the required amount by £485,000. This amount is available to be applied to partly offset the projected overspend in 2019/20.
14. Should the position highlighted in the paragraphs above materialise at the year-end then there will be a requirement to utilise balances of £1,069,000. This amount would be required to be addressed in the MTFP for 2020/21 to restore balances to the recommended level as set out in paragraph 22 below. 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.

## **MEDIUM TERM FINANCIAL PLAN 2020 – 2024**

### **Current Approved MTFP**

15. The current approved position in February 2019 was as follows.

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Budget Gap	3,695	3,706	3,828	3,126

## **Funding Position**

16. Members will recall that the Council are in the final year of a 4 year financial settlement from the Government/MHCLG. Previous reports have highlighted the significant uncertainty as we near the end of that settlement period with no replacement long term settlement in place.
17. On 4 September 2019 the Government set out the results of the 2019 Spending Round. It was announced that this would cover a one-year period (2020/21), setting out headline funding levels for government departments for that one year only. This outlined:
  - a. The continuation of £0.4 billion Social Care Grant for adults and children's services;
  - b. The announcement of £1.5 billion additional money for Social Care – this is a grant of £1 billion and an extension of the ability to increase Council Tax by an additional 2%.
  - c. Uprating the 2019/20 Settlement Funding Assessment in line with the small business non-domestic rating multiplier;
  - d. A core council tax referendum principle of up to 2%; an adult social care precept of 2% on top of the core principle and no referendum principles for parish councils and mayoral combined authorities;
  - e. Committing to retain the top-slice of the Revenue Support Grant to fund New Homes Bonus in 2020/21 at £900 million;
  - f. Maintaining the existing improved Better Care Fund funding at 2019/20 levels, as well as rolling the £240 million which was allocated as Winter Pressures Grant this year into the improved Better Care Fund;
  - g. Continuing the Rural Services Delivery grant at £81million.
18. In October 2019 MHCLG announced a Technical Consultation on the Local Government Finance Settlement 2020/21. This document set out the proposed approach that MHCLG will take to the 2020/21 Settlement and this reflected the announcement in the Spending Round.
19. The provisional local government funding settlement would normally be expected to be announced around the first week of December. The timing of the General Election now means that this will not be possible.
20. The Government stated that it remains committed to reforming local government finance and in 2020 intends to carry out a multi-year Spending Review. The government also expressed its intention to continue to work towards funding reforms, with the aim of implementing in 2021/22.
21. For planning purposes, and for this report, it is assumed that the incoming government is likely to implement a settlement in line with the content of the MHCLG Technical Consultation and we have estimated the allocations from the Spending Review announcement. The one year spending review and financial settlement leaves uncertainty regarding the position from 2021 onwards. This makes financial planning across the duration of the MTFP very challenging.

## **Changes to current expenditure plans**

22. There are a number of emerging issues which will need to be factored into the 2020/21 budget and considered in the MTFP going forward and these are outlined below:

Funding the projected 2019/20 deficit – Current projections indicate in year overspending of £1,069,000, as set out above. Actions to mitigate this position are being taken but, should this

overspending materialise at year end, it will require to be funded from general fund balances. Those balances will then require to be replenished in 2020/21.

Children in our Care – 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. As previously reported, significant work is ongoing which is starting to have a real impact on reducing costs, however given growth in numbers of Children in our Care, a pressure is still anticipated. The ongoing financial impact of these pressures has been re-assessed and incorporated into the MTFP.

Events in other towns – Cabinet is keen to support the development of events across the Borough, in particular in Thornaby, Billingham, Norton, Ingleby Barwick and Yarm. The needs and opportunities vary across the different towns and as a consequence the potential scale and costs of events will vary, however, additional resources will be required to support these new events

Funding for Town Centres – Funding of £30m was approved by Cabinet and Council in December 2018 for investment in the Borough’s town centres. Drawdown of this funding was subject to the condition that the schemes are commercial and have an ongoing income stream to cover the borrowing costs. Consultations are being carried out in respect of all six of our Town Centres and it is likely that some investment will not be self-funding. It is therefore proposed that an additional allocation of £3m be earmarked in the MTFP to support the developments.

Revenue costs for Town Centres – There is a significant amount of work involved to develop action plans and progress the work in relation to Town Centres following the consultation and it is suggested a small allocation be earmarked to build the capacity needed to support this work.

Learning & Skills – Despite a reduction in activity levels over recent years, the overhead allocations to the Learning and Skills service have not been recalculated.

Apprenticeship Programme – The Council has successfully launched an ambitious Apprenticeship Programme which has seen 40 apprentices appointed in this year. Due to the success of the programme, it is suggested that this continues and funding is required to support the ongoing investment.

Tees Active – The new state of the art facility in Ingleby Barwick is now due for completion in summer 2020. This was delayed from earlier in the year and the impact on the business plan resulted in a pressure in 2020/21. There is also a small pressure across Tees Active in future years.

Rent Allowances/Housing Benefit – Previous reports have highlighted the increasing pressures on this budget area, linked to changes including the introduction of Universal Credit.

Globe Borrowing Costs – Reports to Cabinet and Council in June 2019 approved the borrowing required to achieve completion of the Scheme. The borrowing costs require to be incorporated into the MTFP.

External income – Highways and Catering – Budget monitoring reports have highlighted the reducing levels of external income generated by these services which is causing cause a financial pressure and this has been reflected in the plan.

Adults & Health – Adults & Health have been working towards delivering a savings target already assumed in the MTFP. The service have exceeded the savings target and this can be factored into the plan.

23. A number of emerging issues for the MTFP over the longer term have also been identified:

Reform of Local Council Tax Support Scheme (LCTSS) – A scrutiny review of the Council's Scheme is being undertaken with the scheme being reviewed by the People Select Committee. Various options are being considered and should changes be introduced from 2021/22 then additional funding may be required.

Housing and Welfare Support & Housing – It had previously been anticipated that the demands on these services would reduce over time and this had been factored into the MTFP. This has not materialised however, and there is no indication that capacity can be released without a significant impact on the service provided. Additional funding would be required to continue these key services at current levels.

Smarter Working Accommodation– A recent report to Cabinet received the findings of the People Scrutiny Committee and recommended further work be undertaken to explore opportunities for improved facilities. The report identified that there are significant maintenance issues with costs of £25m over 25 years. Given the lack of capital available, in order to address the issue, it is suggested that we include £1m per year from 2021 onwards.

Transformation Funding – The Council has successfully developed and is implementing a programme of service transformation. This will continue over the next few years, notably with our Smarter Working and Digital Transformation Programme. It is suggested that the Transformation Reserve be replenished.

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

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Funding of the projected 2019/20 deficit	1,069			
Children in our Care	1,475	2,249	1,155	1,186
Events in Other Towns	300	300	300	300
Investment in Town Centres	3,000			
Town Centres (Revenue Costs)	250	250	250	250
Learning and Skills	120	120	120	120
Apprenticeship Programme	380	400	420	440
Tees Active	285	85	85	85
Rent Allowances/Housing Benefit	375	375	375	375
Smarter Working Initiatives	250	250	250	250
Borrowing Costs (the Globe)	330	330	330	330
External income – Community Services	400	400	400	400
Adult & Health Services	(200)	(200)	(200)	(200)
Reform of Local Council Tax Support Scheme		1,000	1,000	1,000
Welfare Reform/Back on Track		336	336	336
Housing Service		250	250	250
Accommodation Costs		1,000	1,000	1,000
Transformation Funding	1,000			
<b>Pressures</b>	<b>9,034</b>	<b>7,145</b>	<b>6,071</b>	<b>6,122</b>

## Income and Resources

25. As mentioned previously, future funding is extremely uncertain, however recent announcements, including those in the September 2019 Spending Round, will have an impact on the level of resources available in 2020/21. The estimated impact is set out below and will be updated when provisional allocations at a local authority level are announced by MHCLG.

Social Care Grant (Adults and Children's) – The continuation of the 2019/20 grant into 2020/21 has been confirmed, together with announcement of a new grant for 2020/21.

Revenue Support Grant (RSG) – The current approved MTFP assumes that RSG will continue on a downward trajectory when the four year funding settlement ends in March 2020. The recently announced one-year settlement for 2020/21 indicates that this decline will not now happen and that additional RSG funding is now expected.

New Homes Bonus – The future of this significant funding stream has been under review for some time. The technical consultation issued by MHCLG in September 2019 suggests that New Homes Bonus will continue for a further year in its current form but that its future remains under review in the longer term. The impact for Stockton is that the Council can now expect additional income in 2020/21, relating to the level of new homes in 2019/20.

Additional Better Care Fund (Inflationary Uplift) – A 3.4% real terms increase in the funding provided by NHS Bodies has been announced for 2020/21. The position post 2021 remains unclear.

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

Employer Pension Contributions – The draft results of the triennial actuarial review of the Teesside Local Government Pension Scheme have recently been announced. The expected impact for Stockton is a reduction in the employer contribution rate from 15.7% to 13.1% for the three years 2020/21 to 2022/23, leading to a reduction in employer contributions.

Unallocated Better Care Fund (BCF) – An element of BCF Funding is currently unallocated. It is proposed that this be utilised to support the MTFP.

Business Rates – Projections of business rates income have been updated and additional income can be brought into the MTFP.

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

27. The current plan assumes a Council Tax increase of 1.9% in 2020/21. 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. An increase in the council tax base will lead to an increase in council tax income over the period of the MTFP.

28. This would mean that the additional resources outlined below would be available:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Employer Pension Contributions	(2,119)	(2,119)	(2,119)	(2,119)
Unallocated Better Care Fund	(950)	(950)	(950)	(950)
Business Rates Income	(471)	(621)	(633)	(633)
Council Tax Base Increase	(247)	(385)	(572)	(811)
Treasury Management (AMRA)	(382)	32	(507)	(742)
Social Care Grant – Continuation of 2019/20 Grant	(1,444)			
Social Care Grant - New 2020/21	(3,424)			
Revenue Support Grant (RSG)	(793)			
New Homes Bonus	(862)			
Additional BCF Funding	(241)			
<b>Total</b>	<b>(10,933)</b>	<b>(4,043)</b>	<b>(4,781)</b>	<b>(5,255)</b>

### Summary Position

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

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Approved Budget Position	3,695	3,706	3,828	3,126
Expenditure Pressures	9,034	7,145	6,071	6,122
Income and Resources	(10,933)	(4,043)	(4,781)	(5,255)
<b>Budget Gap</b>	<b>1,796</b>	<b>6,808</b>	<b>5,118</b>	<b>3,993</b>

30. The MHCLG consultation document proposes that an Adult Social Care Precept of up to 2% will be available in 2020/21. Should this be taken up, the impact is as shown in the table below. It should be noted that Government Spending Power figures assume that this precept is applied.

31. Government funding allocations 2021/22 onwards – As highlighted in paragraphs 16 - 21 above, there is considerable uncertainty regarding government funding from 2021/22. That year will now see the introduction of the Fair Funding Review, a move to greater Business Rates Retention and a Business Rates re-set and revaluation. All of these bring a high level of uncertainty to future funding projections. For the purposes of this report a working hypothesis is put forward that 50% of the additional funding to be received in the one-year settlement for 2020/21 continues into 2021/22 and beyond.

If this were to materialise it shows that a balanced budget can be achieved in 2020/21. Paragraphs 16 - 21 identify the significant level of uncertainty around funding from 2021/22 onwards and the situation could change significantly once further clarity on these issues is received. Once we have further information on the funding position, we will revise the plan for future years and report to Cabinet and Council accordingly.

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
<b>Budget Gap</b>	<b>1,796</b>	<b>6,808</b>	<b>5,118</b>	<b>3,993</b>
Adult Social Care Precept	(1,810)	(1,867)	(1,927)	(1,988)
<b>Updated Gap</b>	<b>(14)</b>	<b>4,941</b>	<b>3,191</b>	<b>2,005</b>
Government Funding 2021/22 Onwards (Estimate)		(3,382)	(3,382)	(3,382)
<b>Total</b>	<b>(14)</b>	<b>1,559</b>	<b>(191)</b>	<b>(1,377)</b>



## **CURRENT CAPITAL PROGRAMME**

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

### **Capital Programme September 2019**

<b>CAPITAL PROGRAMME Up to 2022</b>	<b>Current Approved Programme £'000</b>	<b>Programme Revisions £'000</b>	<b>Revised Programme £'000</b>
Schools Capital	43,284	(2,138)	41,147
Housing, Regeneration & Town Centres Schemes	55,431	8,369	63,800
Transportation	7,646	273	7,919
Other Schemes	27,115	140	27,255
<b>Total Approved Capital MTFP</b>	<b>133,476</b>	<b>6,644</b>	<b>140,121</b>

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

#### **New Schemes**

- £238,000 Wynyard Footbridge feasibility costs funded by the developer have been added to the capital programme.
- Following a successful National Lottery Heritage Fund bid, an additional £1,875,800 bid has been added to the capital programme to support Townscape Heritage activities.

#### **Additional Funding**

- Stockton Town Centre Capital investment has been updated to reflect the works in respect of the Globe restoration approved by Cabinet June 2019.
- The School Capital Programme has been updated to reflect the programme approved by the July 2019 Cabinet report.

#### **Programme Revisions**

- £105,000 Building Maintenance works have been added to the 2019/20 works programme, fully funded via revenue contributions.

## **COMMUNITY IMPACT IMPLICATIONS**

33. 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**

34. None

## **FINANCIAL IMPLICATIONS**

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

## **LEGAL IMPLICATIONS**

36. None

## **RISK ASSESSMENT**

37. This Medium Term Financial Plan 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**

38. N/A

## **BACKGROUND PAPERS**

39. None

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## APPENDIX A

<b>CAPTIAL PROGRAMME Up to 2022</b>	<b>Current Approved Programme</b>	<b>Programme Revisions</b>	<b>Revised programme</b>	<b>Expenditure on Programme to date</b>
<b>SCHOOL CAPITAL</b>				
School Investment Programme	43,284,482	(2,137,723)	41,146,759	4,723,604
<b>SCHOOLS CAPITAL</b>	<b>43,284,482</b>	<b>(2,137,723)</b>	<b>41,146,759</b>	<b>4,723,604</b>
<b>HOUSING REGENERATION &amp; TOWN CENTRES SCHEMES</b>				
Housing Regeneration	1,976,162	0	1,976,162	261,895
Stockton Town Centre Schemes	19,854,207	8,369,085	28,223,292	6,214,445
Reshaping Town Centres	30,000,000	0	30,000,000	22,222,605
Infrastructure Enhancements, Regeneration & Property Acquisitions	3,600,311	0	3,600,311	263,562
<b>HOUSING, REGENERATION &amp; TOWN CENTRES SCHEMES</b>	<b>55,430,680</b>	<b>8,369,085</b>	<b>63,799,765</b>	<b>28,962,507</b>
<b>TRANSPORTATION</b>				
Local Transport Plans	5,046,430	17,267	5,063,697	1,961,309
Other Transport Schemes	2,279,276	0	2,279,276	255,302
Developer Agreements	319,953	255,577	575,530	502,708
<b>TRANSPORTATION</b>	<b>7,645,659</b>	<b>272,844</b>	<b>7,918,503</b>	<b>2,719,319</b>
<b>OTHER SCHEMES</b>				
Private Sector Housing	2,242,577	2,129	2,244,706	925,831
Building Management & Asset Review	925,903	105,000	1,030,903	285,445
Parks, Museums & Cemeteries	7,831,243	32,693	7,863,936	7,167,734
Energy Efficiency Schemes	340,000	0	340,000	0
Leisure Facility Ingleby Barwick	13,300,000	0	13,300,000	6,581,542
Other Schemes	2,475,548	0	2,475,548	678,254
<b>OTHER SCHEMES</b>	<b>27,115,271</b>	<b>139,822</b>	<b>27,255,093</b>	<b>15,638,805</b>
<b>TOTAL APPROVED CAPITAL MTFP</b>	<b>133,476,092</b>	<b>6,644,028</b>	<b>140,120,120</b>	<b>52,044,235</b>