

AGENDA ITEM

REPORT TO EXECUTIVE SCRUTINY

6 JANUARY 2022

REPORT OF CORPORATE MANAGEMENT TEAM

FINANCIAL UPDATE & MEDIUM TERM FINANCIAL PLAN

SUMMARY

The report reviews the financial position in the current year (2021/22) and presents outline plans for the 2022/23 Budget and the Medium Term Financial Plan (MTFP) based on information provided in the recent Budget and Spending Review 2021.

The financial position for subsequent years remains extremely uncertain. It is currently unclear whether there will be a one year or multi-year Local Government Finance Settlement. As previously outlined to Members, it is also unclear whether the Fair Funding Review will conclude and whether there are proposed changes around Business Rates Retention and Re-set.

REASON FOR RECOMMENDATIONS/DECISIONS

To update Members on financial performance in 2021/22 and to outline proposals for the 2022/23 Budget and MTFP on information from the Government Budget and Spending Review.

RECOMMENDATIONS

1. That the updated financial position for 2021/22 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 2021/22

FINANCIAL POSITION AS AT 30 SEPTEMBER 2021

GENERAL FUND

1. As reported previously, the Covid-19 situation brought significant uncertainty and volatility to the financial position in 2020/21. A number of those financial impacts remain evident in the current financial year. The ongoing impact of the Pandemic was recognised in the Local Government Finance Settlement for 2021/22, with the allocation of a Covid Support Grant of £5.623m, together with an extension of the Sales, Fees and Charges Income Compensation Scheme for a further quarter (to June 2021).
2. The following table details the projected budget outturn position for each Directorate in 2021/22, based on information to 30 September 2021. The position includes the ongoing impact of Covid, together with the additional income received, and details of the variances are described in subsequent paragraphs of the report.

Directorate	Annual Budget £'000	Projected Outturn £'000	Projected Variance Q2 Over/(Under) £'000	Projected Variance at Q1 Over/(Under) £'000	Movement between Q1 and Q2 £'000
Adults & Health	75,355	75,520	165	240	(75)
Children's Services	40,633	43,618	2,985	2,977	8
Community Services & Transport	38,766	39,282	516	(206)	722
Environment, Culture, Leisure & Events	9,773	10,421	648	1,584	(936)
Admin/Democratic Services & Xentrall	8,587	8,687	100	(39)	139
Finance, Development & Business Services	10,147	10,080	(67)	301	(368)
HR, Legal and Communications	5,273	5,273	0	52	(52)
Town Centre Investment	(1,267)	(564)	703	691	12
Corporate Areas	6,856	6,704	(152)	(460)	308
Capital Schemes	0	230	230	230	0
Total	194,123	199,251	5,128	5,370	(242)
Government Grants Covid-19 Support		(5,623)	(5,623)	(5,623)	0
Government Grants – Covid-19 Income Loss Compensation		(467)	(467)	(473)	6
Government Grants – Covid-19 Business Grants Admin Funding		(229)	(229)	(229)	0
Revised Total	194,123	192,932	(1,191)	(955)	(236)

Adults and Health

3. There continues to be pressures within the care sector and the estimates of the impact were incorporated into the base budget position. Overall, the position is being managed and there are no significant variances anticipated. The level of placements in residential care homes is projected to be lower than originally expected which would result in an underspend in the region of £500,000, however the costs associated the redevelopment of Rosedale are expected to exceed the original estimates.

Children's Services

4. The service continues to experience pressures in respect of children in our care and the current projection is in line with the last report to Cabinet.

Community Services and Transport

5. The previous Report highlighted that there was expected to be significant price inflation on energy costs (gas and electricity) in the current financial year and into 2022/23. In addition to this we have also seen significant rises in fuel prices, making a combined projected pressure of £400,000 in 2021/22. There is a projected pressure of £300,000 on waste collection due to COVID and growth in service demand. There is £185,000 predicted pressure on parking. As highlighted in previous reports the catering service remains very difficult to predict due to the impact of the pandemic on the service. These pressures have been partly offset by the current buoyant recycling market.

Environment, Culture, Leisure and Events

6. Members will recall from previous reports the significant impact of the pandemic on the financial position of Tees Active (TAL) and the level of support provided by the Council. The previous

report to Cabinet was anticipating support to be £1.4m in the current financial year. Since re-opening the facilities however, attendance and income levels are significantly higher than anticipated and the support needed is now expected to be £750,000 meaning a saving of £650,000.

Finance, Development and Business Services

- The projected position has improved by £368,000, as a result of the impact of staff vacancies across a number of teams and one-off income from commercial properties.

Corporate Areas

- The anticipated level of government funding to support the business rates deficit for 2020/21 will not now be received (£207,000).

Other Directorates/Areas

- No significant movements in the projected variances are reported for the remaining areas.

General Fund Balances

- The Council aims to retain General Fund Balances at a prudent level, currently £7,400,000 and Members will recall that the position at year-end 2020/21 exceeded this sum by £5,478,000 and the 2020/21 Outturn Report also outlined the intention to review General Fund Balances levels.
- Should the position summarised in the paragraphs above materialise at year end, then there will be a further sum available of £1,191,000.
- There are a number of calls on the use of these balances, these are outlined in paragraph 46 and will be considered in the final budget report in February 2022.

MEDIUM TERM FINANCIAL PLAN 2022 – 2026

Current Approved MTFP

- The current approved position in February 2021 was as follows, updated for 2025/26:

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Budget Gap (+) / Surplus (-)	764	1,304	1,342	1,083

Budget and Spending Review

- 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.
- On 27 October the Government announced the Budget and Spending Review 2021, setting out headline funding levels for government departments across the next three financial years to March 2025.

The key announcements (some subject to ratification or further detail in the forthcoming Local Government Finance Settlement) were:

- A new grant for local government amounting to £4.8bn over the next three years.

- A core council tax referendum principle of up to 2% and the ability to levy an adult social care precept of 1% on top of the core principle. These limits to apply for each of the three years covered by the Spending Revenue.
 - Announcement of headline additional funding to support Adult Social Care reform. At this stage no further detail is available.
 - Significant changes to Business Rates for 2022/23 including a nil increase in the multiplier and 50% business rates relief to businesses in the hospitality and retail sectors. It was announced that local authorities would be compensated in full for these changes.
16. It is currently unclear whether the three-year spending review will translate into a multi-year financial settlement for local authorities. This will become apparent when the Provisional Local Government Finance Settlement is announced in December.
17. The projected impact of the Spending Review has been factored into the updated position set out in this report.
18. The future of the review of local government finance (Fair Funding Review and further Business Rates Retention) was not addressed in the Spending Review and the position therefore remains extremely uncertain.

Changes to current expenditure plans

19. There are a number of emerging issues which will need to be factored into the 2022/23 budget and considered in the MTFP going forward and these are outlined below.
20. Workforce and inflationary related pressures on the Adult Social Care market are currently projected to be £400,000 higher than the £1,500,000 currently allocated for 2022/23 in the MTFP.
21. 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. Although the number of children in care has stabilised and slightly reduced in 2021, it has been necessary to place slightly more children in residential care at additional cost. The key challenge is that it is a provider led market and costs of placements continue to increase. Nationally this market is subject to an investigation by the Competition and Markets Authority. Regionally a new approach is being taken to the commissioning of placements with a small commissioning support function being established – jointly funded by the DfE and the 12 Local Authorities. This team will be hosted by the Council. Additional social care agency staff have also been required to ensure there is sufficient capacity to respond to the additional issues associated with the increased isolation and neglect of a number of vulnerable children and young people. There is significant work ongoing to explore alternative models of care, provide support to Children and families to avoid or delay care costs and consider further development of the Spark of Genius Joint Venture to reduce costs of residential placements. These initiatives should avoid further increases and could ultimately allow the pressure to be reduced in future years.
22. Members will be aware that the Council is, alongside the Tees Valley Councils, Durham and Newcastle, in the process of procuring a new waste facility which will be operational from April 2026. The current contract expires in March 2025 and the Report to Cabinet in June 2021 approved the extension of the current waste disposal contract to March 2026. The current contract is based on an extremely competitive gate fee and any new arrangements of either the new facility or the interim extension will result in a pressure on the MTFP. Based on current levels of waste, the projected additional cost for 2025/26 is £2,200,000.
23. In response to the MORI Survey, investment was made in a number of areas from one-off resources and given the priority of these savings, it is suggested additional provision is made

within the MTFP. Resources will be allocated for 2 additional years when the situation will be reviewed:

- Additional enforcement activity to improve the perceptions of safety of £410,000 for 2 years.
- Targeted work around Street Cleaning and Grounds Maintenance of £250,000 for 2 years.
- An allocation of £200,000 for each of the next 2 years to allow further work in respect of potholes.

24. Paragraph 6 above outlines the positive news around TAL in the current year. There are a number of pressures and issues facing TAL, notably fuel costs and impact of National Living Wage. In addition, the longer-term impact on the business of the pandemic is uncertain. It is therefore suggested that the MTFP needs to recognise the immediate pressures and a further report be presented to Cabinet during 2022 to consider the longer-term subsidy position once there is further clarity. This can also incorporate the potential positive impact of new facilities.
25. A specific grant supporting the resourcing of Individual Elector Registration ceased in 2021/22. If the existing levels of registration activity are to continue then additional resources of £50,000 will be required.
26. Members will be aware of the establishment of the Employment Hub as part of the Council's response to the economic impact of the pandemic and the Fairer Stockton strategy. The capital costs of the facility are funded, however there are ongoing running costs of £125,000 per year.
27. Levels of inflation have now started to increase and are starting to impact on costs for local authorities. In this context it is recommended that an inflation contingency be considered. This would cover inflation on energy as well as providing a contingency should a future pay award exceed the level currently budgeted.
28. The Chancellor recently announced that an increase in employers National Insurance contributions of 1.25% would apply from April 2022 and that this would be funded from the new grant announced for local government. The projected cost to the Council is £1,050,000 per annum.
29. The Council currently operates a successful Apprenticeship Programme. If numbers are to be maintained at current levels, then an additional £200,000 per annum will be required.
30. Funding requirements in respect of A Fairer Stockton on Tees are currently being considered and will be firmed up and presented as part of the Budget process in February.
31. The projected expenditure pressures are summarised in the table below:

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Pressures identified				
Adult Care Fee Pressures	400	400	400	400
Children In Our Care	3,000	3,000	3,000	3,000
Waste & Recycling	0	0	0	2,200
Continuation of Enforcement Activity	410	410	0	0
Continuation of Targeted CFYA Activity	250	250	0	0
Potholes	200	200	0	0
TAL Fee	500	500	500	500
Libraries security costs	100	100	100	100
Individual Electoral Reg grant ceased 21/22	50	50	50	50
Employment & Skills Hub running costs	125	125	125	125
Inflation Contingency	1,500	2,000	2,500	3,000
NI increases	1,050	1,050	1,050	1,050
Apprenticeship Programme	200	200	200	200
Pressures	7,785	8,285	7,925	10,625

Income and Resources

32. The level of government income has been reassessed following the Spending Review.
33. At this stage it is assumed that core government funding streams (RSG etc) will be maintained at 2021/22 levels.
34. The CCG contribution to the Better Care Fund has been agreed and can now be built into the MTFP (£697,000)
35. 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.
36. A major announcement in the Spending Review was an additional £4.8bn grant for local government over the next three years. Further detail on the method of allocation is expected in the Local Government Finance Settlement in December, however a working projection is that this could amount to around £5,500,000 per annum for Stockton. It has been assumed for purposes of the MTFP that this remains in the funding base for year 2025/26.
37. Public Health Grant – Additional funding relating to an inflationary uplift is anticipated that can be added to the MTFP.
38. It is expected that information on the initial levels of funding for Adult Social Care Reform will be announced alongside the Local Government Finance Settlement in December. Once these are known they will be introduced into the MTFP. This income will be offset by expenditure on reform activity.
39. These changes are summarised in the table below:

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Additional Resources / Savings Identified				
BCF - CCG 21-22 Additional Contribution	(697)	(697)	(697)	(697)
Government Funding Assumptions				
Local Govt Support Grant - Estimate	(5,500)	(5,500)	(5,500)	(5,500)
Public Health Grant 21-22 Allocation & 22-23 RTI	(400)	(400)	(400)	(400)
Total	(6,597)	(6,597)	(6,597)	(6,597)

Summary Position

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

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Approved Budget Position	764	1,302	1,342	1,083
Expenditure Pressures	7,785	8,285	7,925	10,625
Additional Income and Resources	(6,597)	(6,597)	(6,597)	(6,597)
Budget Gap (+) / Surplus (-)	1,952	2,990	2,670	5,111

41. The above table demonstrates that there is a projected budget gap over the medium term. There are however further risks with the plan given the level of funding uncertainty from 2023/24

onwards. The current plan assumes a Council Tax increase of 2.9% in 2022/23 (1.9% core council tax and 1% Adult Social Care levy carried forward from 2021/22).

42. In calculating the funding available to local government to deliver services, the Government has assumed that all councils will increase core council tax by 2% and apply an additional 1% as Adult Social Care Precept. This is effectively 1% per year more than is currently included in the plan. The impact of implementing this additional levy would be as follows:

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Budget Gap (+) / Surplus (-)	1,952	2,990	2,670	5,111
Additional 1% Social Care Precept Income	(988)	(2,053)	(3,191)	(4,405)
Revised Budget Gap (+) / Surplus (-)	964	937	(521)	706

43. The position around Council Tax will be formally considered further as part the budget report in February when there should be more clarity around Government funding.
44. The above position demonstrates that if the additional Social Care Precept were implemented in full, this would mitigate a substantial element of the forecast future pressure in the MTFP and the inclusion of this in our base funding would mean we are better placed to deal with any future changes in funding.
45. If we were to decide not to implement the precept in any year, there is a strong likelihood that we would need to look for savings to balance our future budget position.

Potential Capital and One-Off Costs

46. Paragraphs 10 and 11 identify approximately £6.7m in one-off resources potentially available to be considered as part of the budget process. There will be a number of issues to consider in distributing this funding:

- If the final position is in line with estimates in this report, we will need to allocate funding to resolve the budget gap in 2022/23.
- As outlined in the report, the financial position for 2023/24 onwards is extremely uncertain. The current estimates show additional funding will be required to support 2023/24, however this position is likely to change particularly given potential changes relating to Fair funding and any changes to Business Rates Retention. It may be prudent to retain element of one-off money to manage this risk, particularly given the timescales in respect of funding settlements.
- As part of the Outturn report, a review of general fund balances was highlighted.
- There are also a number of potential pressures and Council Plan priorities which will need resource allocated. These include:
 - Fairer Stockton development
 - Environmental Strategy and Carbon Reduction
 - Stockton – Darlington Railway celebrations are also potentially a number of one-off items of expenditure that may require to be funded
 - Maintenance of Assets
 - Childrens Services invest to save projects (including potential Spark of Genius Developments).

47. These are currently being considered and will be included within the report in February if required.

CAPITAL PROGRAMME

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

CAPITAL PROGRAMME Up to 2023	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000
Schools Capital	41,569	0	41,569
Housing Regeneration & Inclusive Growth & Development	11,711	30,953	42,664
Town Centres	99,496	2,527	102,022
Transportation	28,611	593	29,203
Other Schemes	10,351	3,470	13,821
Total Approved Capital MTFP	191,738	37,543	229,279

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

Reasons for movements over £100,000

New schemes

Inclusive Growth & Development & Town Centres

50. £650,000 to support the capital works associated with the central Employment Hub located within Wellington Square in Stockton Town Centre has been added to the capital programme, funded £500,000 Covid Recovery Funding approved by Cabinet September 2021 Financial Update and MTFP 2021/22 Quarter 1, and £150,000 Revenue Contribution.

51. £32,300,000 prudential borrowing has been added to the Capital Programme approved in July 2021 Stockton Town Centre Waterfront Development Masterplan Cabinet Report. £10,300,000 to support Accommodation Investment in Stockton and Billingham Town Centres, £20,000,000 investment in a new Leisure Facility and Customer Facing Services at Stockton Waterfront site and £2,000,000 transition and incentives to support relocation and future accommodation needs of Castlegate Centre tenants.

52. £144,244 to install digital screens to support public messaging has been added to the capital programme, fully funded by COMF grant.

Other Schemes

53. £250,000 to undertake critical drainage works at Durham Lane and Thornaby Cemeteries, fully funded via revenue contributions has been added to the capital programme.

Additional funding

Town Centres

54. Following an announcement in March 2021, Thornaby was announced as one of the towns provisionally allocated £24m Towns Fund grant. An additional £150,440 has been added to the capital programme, fully funded via grant to support the ongoing development of the Thornaby Town's Deal Business Case submission.

55. £147,000 to continue to progress detailed design works relating to A689 Hanzard Drive, Wynyard fully funded by S106 Developers contributions has been added to the capital programme.

Programme Revisions

Inclusive Growth & Development & Town Centres

56. £230,000 has been added to the Globe restoration project to cover additional contactor costs as a result of COVID as per the September 2021 MTFP report.

Transportation

57. An additional £670,412 contribution from LTP (£500,000 IT Block and £170,412 SM block) has been made to support the ongoing Mandale Bridge repair works, bringing the total cost of the works to £2,670,412.

58. September Financial Update and MTFP 2021/22 Quarter 1 Cabinet report approved an additional £400,000 to improve road surfacing funded Covid Recovery Funding, this has been added to the Capital Programme.

Other schemes

59. £114,013 has been added to 2021/22 Building Maintenance programme of works, fully funded via revenue contributions.

60. Due to increased vehicle costs and significant increase in lead in ordering times a total £2,918,177 has been added to the capital programme, funded by revenue contributions and vehicle sales receipts, bringing the total planned investment in replacement Vehicles 2021/22 £2,066,865 and £2,542,909 2022/23.

COMMUNITY IMPACT IMPLICATIONS

61. 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

62. None

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

64. None

RISK ASSESSMENT

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

WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS

66. N/A

BACKGROUND PAPERS

67. None

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APPENDIX A

CAPITAL PROGRAMME Up to 2023	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure April 2016 - Sept 2021
SCHOOL CAPITAL				
School Investment Programme	41,568,878	0	41,568,878	9,630,677
SCHOOLS CAPITAL	41,568,878	0	41,568,878	9,630,677
HOUSING REGENERATION & INCLUSIVE GROWTH & DEVELOPMENT				
Housing Regeneration	1,710,848	3,249	1,714,097	0
Inclusive Growth & Development	10,000,000	30,950,000	40,950,000	6,239,321
HOUSING REGENERATION & INCLUSIVE GROWTH & DEVELOPMENT	11,710,848	30,953,249	42,664,097	6,239,321
TOWN CENTRES				
Stockton Town Centre Schemes	29,346,329	231,901	29,578,230	26,626,976
Reshaping Town Centres	20,662,960	144,244	20,807,204	249,463
Thornaby Town Centre	5,750,000	150,440	5,900,440	110,911
Re-Development of Castlegate Site	41,543,812	2,000,000	43,543,812	1,878,433
Infrastructure Enhancements, Regeneration & Property Acquisitions	2,192,720	0	2,192,720	177,363
TOWN CENTRES	99,495,821	2,526,585	102,022,406	29,043,146
TRANSPORTATION				
Local Transport Plans	6,892,670	469,058	7,361,728	2,797,268
Other Transport Schemes	20,320,552	83,650	20,404,202	1,738,193
Developer Agreements	1,397,562	40,000	1,437,562	823,775
TRANSPORTATION	28,610,784	592,708	29,203,492	5,359,236
OTHER SCHEMES				
Private Sector Housing	2,369,312	1,866	2,371,178	606,004
Building Management & Asset Review	1,980,057	114,013	2,094,070	182,193
Parks, Museums & Cemeteries	283,054	348,486	631,540	11,746
Energy Efficiency Schemes	1,869,922	0	1,869,922	9,379
Other Schemes	3,849,124	3,005,517	6,854,641	1,378,324
OTHER SCHEMES	10,351,469	3,469,882	13,821,351	2,187,646
Total Approved Capital MTFP	191,737,800	37,542,424	229,280,224	52,460,026