

AGENDA ITEM

**REPORT TO EXECUTIVE
SCRUTINY**

25 OCTOBER 2022

**REPORT OF CORPORATE
MANAGEMENT TEAM**

FINANCIAL UPDATE AND MEDIUM TERM FINANCIAL PLAN (2022/23 QUARTER 1)

SUMMARY

This report summarises the Council's financial performance and position at the end of the first quarter of the 2022/23 financial year.

The financial position for the Council's for the first quarter of the financial year (to 30th June 2022) highlights a projected overall overspend of £4.3m. Details are included in the body of the report with the main reasons being energy costs, the pay offer and continuing pressures in Children's Services.

Members will recall from the out turn report presented in July 2022 there were additional surplus balances carried forward of £1,413,000. The impact of the overspend would mean that there would be no longer resources available, instead, the balances would be around £2,900,000 below the recommended level at the end of the financial year and should this be the case they would need to be replenished in 2023/24.

The position will continue to be closely monitored and managed throughout the remainder of the financial year, however if the pressures materialise as expected, we will need to identify savings in year to avoid utilising general fund balances. Work is underway exploring options such as holding vacant posts, considering any non-essential spending and a further report will be presented to Cabinet.

The Report highlights the significant financial challenges presented by the current inflationary environment in both the current year and into the medium term. Whilst we are still awaiting details of the financial settlement for next year it is inevitable that there will be significant pressures. Again work is underway assessing the position and options for resolving the pressures on future years and this will also be considered in future reports.

The report also presents an update on the Capital Programme.

RECOMMENDATIONS

1. That the update to the Medium Term Financial Plan and the current level of General Fund balances be noted.
2. That the revised Capital Programme at **Appendix A** be noted.

DETAIL

FINANCIAL POSITION AS AT 30 JUNE 2022

GENERAL FUND

1. The following table details the projected budget outturn position for each Directorate in 2022/23, based on information to 30th June 2022. Directorate budgets have been reconfigured to reflect the changes in responsibilities following the recent Senior Management Review. The position includes the emerging impact of inflationary pressures and details of the key variances are described in subsequent paragraphs of the report.

Directorate	Annual Budget	Projected Outturn	Projected Variance Q1 Over/(Under)
	£'000	£'000	£'000
Adults & Health	80,014	78,420	(1,594)
Children's Services	43,417	46,545	3,128
Community Services, Environment & Culture	49,433	50,349	916
Finance, Development & Regeneration	13,455	13,281	(174)
Corporate Services	11,353	11,353	0
Corporate Items	9,069	8,022	(1,047)
Total	206,741	207,970	1,229

Pay Offer Pressure	3,077
Revised Pressure	4,306

2. The projected position indicates a significant financial pressure for the current financial year, largely as a result of inflationary pressures, the pay award offer and pressures on placements for children. The position will be kept under close review for the remainder of the year, with actions to be identified to mitigate the position.

Adults and Health

3. Projected savings from lower than projected activity on residential placements, domiciliary care and day care amount to (£1,884,000). These will be partly offset by increased costs and activity on direct payments of £743,000.
4. The impact of staff vacancies in the early months of the financial year is projected to lead to an underspend against budget of (£480,000).
5. The budget position is being re-assessed however the future position is extremely uncertain due to the Adult Social Care reforms and also the potential for inflationary pressures in respect of commissioned services. The level of uncertainty is such that the Local Government Association (LGA) have recently asked that the timetable for reform be reviewed, with a request that significant elements be deferred, because of the impact on local authorities across the country.

Children's Services

6. Members will be aware from the report to Cabinet in July of the significant overspend in the costs of children in care. Significant additional resources were allocated as part of the 2022/23 budget in February but the pressures are exceeding those additional resources. There are proportionately fewer of our children in care in residential care than in England (13% compared to 16%), and a greater number are cared for in the Borough than nationally (65% compared to 58%); and a lower proportion in private provision (22% compared to 37%) The number of children and young people in external placements has also not increased significantly over the last 6 months. However, the average cost of placements is increasing especially for placements for children and young people with the most complex needs. There has also been an increased use of supported accommodation for 16-17 year olds as a result of them becoming homeless

due to family breakdown, and as a result of an increased number of young people arriving as Unaccompanied Asylum Seekers. Nationally this care market has been subject to an examination by the Competition and Markets Authority, with their findings highlighting a number of problems with how the care placement market is functioning, as well as the national Independent Review of Children's Social Care which called for more action to be taken to tackle excessive profits in this market.

Community Services, Environment and Culture

7. In recognition of the then emerging pressures relating to energy and fuel cost, the agreed budget for these areas was increased by £2,650,000 for 2022/23. Current projections exceed this sum by around £1,600,000 across building utilities, street lighting and fuel (including utility costs for Tees Active Limited). This is partly mitigated by additional income for Facilities Management services from external organisations. It should be highlighted that utility and fuel costs remain highly volatile and there is a strong likelihood that these pressures will increase further as the year progresses.
8. The Council procures energy through the North East Purchasing Organisation (NEPO) and they aim to minimise cost increases by purchasing in advance where it is beneficial to do so. Despite this Councils are still facing significant cost increases and uncertainty. The position will be kept under regular review throughout the remainder of the financial year and when looking forward at the MTFP.
9. The costs of providing concessionary transport is expected to be lower than budgeted by (£600,000). This will be partly offset by lower car parking income of £230,000.
10. The market for sale of recyclable materials has improved significantly, due in part to the quality of our separated recyclable waste, which has resulted in an overall saving on the waste disposal budget of (£530,000).
11. Savings on employee costs for Grounds Maintenance (£128,000).
12. Catering income is projected to exceed budget by (£227,000), with the largest element (£154,000) relating to Café Tees (Preston Park Café) and Other Catering.
13. The Service are experiencing cost pressures relating to Community Transport Services of £286,000. This is driven partly by increased fuel costs and partly by an increase in the volume of services required to be delivered.

Finance, Development and Regeneration

14. Planning fee income is projected to exceed budget by (£388,000) due to a number of major planning applications received.

Corporate Services Directorate

15. There is no projected variance to the overall budget.

Corporate Areas

16. An inflationary uplift will result in additional income from the Better Care Fund (£431,000).
17. Under the joint venture arrangement for development of the Victoria Estate, interest of (£155,000) has been received.
18. Treasury Management costs (AMRA) are expected to be lower than budget (£641,000). The Council is currently benefiting from an improved cash flow position meaning that external

borrowing will not be required as soon as originally anticipated. The recent increases in interest rates also result in significantly higher than projected income from external investments.

19. Lower than expected income from business rates is projected to amount to £188,000.

Pay Offer 2022/23

20. The National Local Government Employers organisation have offered a pay award to local government employees of a flat rate £1,925 per annum plus an additional day of annual leave. The impact of this is to increase employee costs by around 6.4% in 2022/23. Members will recall that the Budget for 2022/23 was set including a provision for a pay award of 3%. The additional cost should the offer be accepted is projected at £3,077,000. It should be noted that this additional cost will also carry forward in future years.

21. We are also experiencing significant recruitment and retention issues across the Council. Whilst this does support the MTFP and reduce the overall pressures outlined above, with known vacancies included as financial savings, this is starting to impact on service delivery in a number of areas. Work is ongoing to consider this issue and a further report will be presented in due course.

General Fund Balances

22. The Council aims to retain General Fund Balances at a prudent level, currently £8,000,000, and Members will recall that the position at year-end 2021/22 was that balances were at £9,412,000 meaning that £1,413,000 would be available for consideration in future years.

23. Should the position summarised in the paragraphs above materialise at year end and reductions in spending are not identified, then the balances available at the end of the financial year would be £5,107,000. This would be below the £8m threshold by £2,893,000 and then those balances would require to be replenished in 2023/24. However paragraph 2 above highlights that the position will be closely monitored and actions identified to mitigate the projected position.

MEDIUM TERM FINANCIAL PLAN

24. There continues to be a high level of uncertainty in terms of future funding for local government:

- The local government funding review is further delayed and is now not expected until at least 2025 and indeed there is considerable uncertainty over even that date.
- The previous Minister had indicated that a two year local government finance settlement was likely to be implemented to cover 2023/24 and 2024/25. However this remains to be confirmed.
- The Local Government Finance Settlement is unlikely to be announced until mid/end December.

25. This funding uncertainty coincides with significant volatility and uncertainty on expenditure and income pressures. Inflation will continue to impact on future position and the pay award for 2023/24 is uncertain. The position is being assessed and it is extremely likely that further savings will be required for 2023/24 and subsequent years and further reports will be presented to Cabinet.

CAPITAL

26. As with revenue expenditure and income, the public sector and local authorities are now experiencing significant pressures relating to capital schemes and construction contracts. The position will be closely monitored and any impact on the Capital Programme identified.

27. The Capital Programme for 2013/23 is shown at **Appendix A** and summarised in the table below:

CAPITAL PROGRAMME Up to 2024	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000
School Investment Programme & Childrens Services	44,101	92	44,193
Housing Regeneration Development & Growth	36,804	1,935	38,739
Town Centres	96,174	22,705	118,879
Transportation	25,471	2,540	28,010
Community & Environment, Culture & Leisure	9,158	0	9,158
Adults & Public Health	352	0	352
Total Approved Capital MTFP	212,060	27,272	239,331

Reasons for movements over £100,000

New schemes

28. None

Additional funding

Housing Regeneration Development and Growth

29. Following a DLUCH announcement in May 2022, £1,804,655 of annual DFG capital grant for 2022/23 has been added to the capital programme.

Town Centres

30. In 2019 Thornaby was announced as one of the towns provisionally allocated £24m Towns Fund grant. In April 2022 an update on Thornaby Town Deal was presented to Cabinet detailing the delivery of facilities and infrastructure as part of the Town Deal Programme. Following confirmation in June 2022 that the Business Care has passed DLUC internal review the remaining £22,705,000 Towns Fund capital grant has been added to the programme.

Programme Revisions

Transportation

31. £410,332 Homes England Highways Infrastructure Funding has replenished the LTP.

32. Due to inflationary price increases and current market volatility an additional £1,986,007 has been added into the Capital programme in respect of West Stockton Strategic Urban Expansion fully funded via Developer Contributions.

FINANCIAL IMPLICATIONS

33. The report summarises the financial position for 2022/23 based on information for the first quarter of the financial year.

LEGAL IMPLICATIONS

34. None

RISK ASSESSMENT

35. This update to the MTFP is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

COUNCIL PLAN THEMES

The Report updates on progress with the Council's Medium Term Financial Plan. This therefore links to all Council Plan themes.

CONSULTATION INCLUDING WARD/COUNCILLORS

Consultation not required.

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Background Papers

Medium Term Financial Plan Update and Strategy – Council 23 February 2022.
Financial Outturn Report – Cabinet July 2022

Ward(s) and Ward Councillors:

Property

The Report provides an update on the Council's Capital Programme.