

AGENDA ITEM

**REPORT TO EXECUTIVE
SCRUTINY**

7 NOVEMBER 2023

**REPORT OF CORPORATE
MANAGEMENT TEAM**

FINANCIAL UPDATE AND MEDIUM TERM FINANCIAL PLAN (2023/24 QUARTER 1)

SUMMARY

This report summarises the Council's financial performance and position at the end of the first quarter of the 2023/24 financial year.

The financial position for the Council for the first quarter of the financial year (to 30th June 2023) highlights a projected overall overspend of £3.7m. The biggest pressures continue to be pay award and Children's Services and more details are provided in the body of the report. 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 review earmarked reserves to identify where the shortfall can be funded from in order to avoid using general fund balances.

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 challenges in the future. These challenges are not unique to Stockton and are being faced by many Councils across the Country, many of which are in a more difficult financial position. Whilst we are able to re-direct earmarked reserves to resolve immediate pressures this is not sustainable over the medium to long term and the position needs to be addressed.

Members will be aware of the commitment to commence a transformation programme and this is underway with Children's Services a key area of focus. Work is underway to look at areas where savings can be materialised sooner as well as areas where spend can be reduced, through the transformation work.

The report also presents an update on the Capital Programme.

REASON FOR RECOMMENDATIONS/DECISIONS

To update Members on the Council's financial performance and the Medium Term Financial Plan.

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 2023**GENERAL FUND**

1. The following table details the projected budget outturn position for each Directorate in 2023/24, based on information to 30th June 2023. 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 & Wellbeing	86,453	86,453	0
Children's Services	48,754	53,754	5,000
Community Services, Environment & Culture	52,407	52,641	234
Finance, Development & Regeneration	13,246	13,101	(145)
Corporate Services	11,677	11,465	(212)
Corporate Items	9,747	7,070	(2,677)
Total	222,284	224,484	2,200
Pay Offer Pressure		1,500	1,500
Revised Total	222,284	225,984	3,700

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.

Reasons for Variances over £100,000**Adults, Health and Wellbeing**

3. We are seeing some early indications of financial pressures caused by an increase in number and costs of residential placements. Work is underway to mitigate these pressures which includes a continued focus on supporting people to live independently and given it is early in the year, it is currently envisaged that these actions will mitigate the pressures.
4. Inflationary uplift on Public Health contracts is increasing costs by £130,000. This is being funded by inflation on the Public Health grant which was announced recently.

Children's Services

5. Members will be aware of the ongoing financial pressures we are experiencing in relation to children in our care. The MTFP outturn report in July outlined another significant overspend against budget, and additional resources were allocated as part of the 2023/24 budget in February, however pressures are exceeding those additional resources. The costs of Children in our Care continue to be the main element of the pressure.
6. The transformation programme is now underway and there is a key focus on placement sufficiency and how we provide care for our looked after children. The work is wide ranging, linked to the overall Children's Services improvement journey and will focus on outcomes for children as well as cost but at this point in time it is difficult to predict financial savings. There were also assumptions on savings from initiatives incorporated into the budget however the activity to generate the savings has been delayed. These activities are being reviewed and incorporated into the transformation programme, which together with a robust programme management approach should ensure plans are implemented.

7. The service area is also experiencing higher staffing costs due to agency staff covering vacancies and this means that the turnover target agreed at budget setting is not being achieved and this is adding to the service pressure. Again, this is an area of focus of the transformation programme.

Community Services, Environment and Culture

8. Members will recall that additional resources have been allocated towards inflation costs, specifically energy and fuel. 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. NEPO have purchased the majority of our energy for the current year in advance, in order to minimise any potential risks of supply shortage and higher prices. The result of this is that the lower energy prices will start to materialise in future years. The energy market continues to remain volatile and it is an area that we are keeping under constant review.
9. The costs of providing concessionary transport is expected to be lower than budgeted by (£400,000). This will be partly offset by lower car parking income of £230,000.
10. Income generated through the sale of recyclable materials is higher than budgeted due to a positive market value for these items currently being experienced (£120,000).
11. There is an anticipated overspend on grounds maintenance costs of £230,000 due to additional activity including at grass verges adjacent to highways.
12. The Service are experiencing cost pressures relating to Community Transport Services of £264,000 due to an increase in the volume of services required to be delivered.

Finance, Development and Regeneration

13. A small percentage of local housing rent allowances are not eligible for subsidy creating a pressure of £220,000.
14. These are offset by employee savings of (£540,000).

Corporate Services Directorate

15. Employee savings due to staff turnover are forecast to be (£300,000).

Corporate Areas

16. Treasury Management costs (AMRA) are expected to be lower than budget (£1,000,000). 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.
17. The Council receives grants from Government for business rate reliefs and our business rate 'top up' that we receive as part of the overall Local Government Finance system. These grants have benefited from inflationary uplift which has been higher due to the higher rates of inflation and income is anticipated to be (£1,800,000) higher than budget.

Pay Offer 2023/24

18. The National Local Government Employers organisation have offered a pay award to local government employees of a flat rate £1,925 per annum. The unions have rejected this offer and are balloting its members on potential industrial action. If this offer were implemented, employee costs would increase by around 5.9% in 2023/24. Members will recall that the Budget for 2023/24 was set including a provision for a pay award of 4%. The additional cost should the offer be accepted is projected at £1,500,000. It should be noted that this additional cost will also carry forward in future years.

Employee Turnover

19. Members will recall in the budget report to Council in February 2023, we introduced an employee turnover provision in staff budgets. This is a budgeted saving of £2,500,000 across all staff budgets reflecting financial savings that arise naturally through staff turnover and vacancies during recruitment periods. The projected performance against this saving is included in the numbers above by directorate, but the overall total is a shortfall of £300,000 mainly due to the agency costs outlined in Children's Services.

General Fund Balances & Reserves

20. The Council aims to retain General Fund Balances at a prudent level, currently at £8,000,000. There are no additional balances available to fund the overspend.

21. 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 £4,300,000. This would be below the £8m threshold by £3,700,000 and then those balances would require to be replenished in 2024/25.

22. In addition to the £8m General Fund balances the Council holds a number of earmarked reserves. This is funding earmarked for specific reasons such as insurance fund, fleet renewal fund, Public Health and Adults Integration reserves but could be re-directed to fund core expenditure. If savings do not materialise to fund the overspend, in order to replenish the general fund reserves, we would need to look at redirecting funds from these reserves.

23. Members will recall from the MTFP report in July that the overspend last year was funded by surplus balances of £1.4m as well as releasing earmarked reserves of £2.3m. The use of reserves to fund overspends is not sustainable and it is a key area that we must work to avoid as part of the transformation programme.

MEDIUM TERM FINANCIAL PLAN

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

- There is limited information available for indicative national funding totals for 2024/25, however there is no further information available for future years.
- 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 and interest rates will continue to impact on future position and the pay award for 2023/24 is uncertain.

26. Members will recall that savings were built into the budget in February 2023 alongside the introduction of the Council's transformation programme. This will be intrinsically linked to the MTFP and update reports will be presented to Cabinet.

CAPITAL

27. 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.

28. The Capital Programme is shown at **Appendix A** and summarised in the table below:

CAPITAL PROGRAMME Up to 2026	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000
School Investment Programme & Childrens Services	46,630	1,217	47,847
Housing Regeneration Development & Growth	35,754	1,819	37,573
Town Centres	118,524	1,002	119,526
Transportation	43,239	661	43,900
Community & Environment, Culture & Leisure	17,743	1,765	19,508
Adults & Public Health	447	170	617
Total Approved Capital MTFP	262,337	6,634	268,971

Reasons for movements over £100,000

New schemes

Transportation

29. A S278 contribution totalling £120k in respect of Green Lane/Yarm housing developments, funding via the developer has been added to the programme.

30. Grant funding from TVCA for £660k for road widening works on the A19 / A689 has been added to the programme

Community & Environment, Culture & Leisure

31. Improvements to the play provision at Redbrook Park has been included, £110k funded from developer agreements.

32. Habitat restoration scheme at Billingham Beck has been included, £120k funded from developer agreements.

Other

33. Works at Whitton Landfill site have been included, £170k funded from RCCO.

Additional funding

Schools Investment Programme

34. Grant funding for Schools Capital Maintenance for 2023/24 has been added to the programme, £1,162k.

Transportation

35. National Highways funding has been agreed for West Stockton, £150k.

36. A contribution for £270k has been agreed with Middlesbrough Borough Council for works at Newport Bridge, along with £150k allocated from the City Region Sustainable Transport grant.

Community & Environment, Culture & Leisure

37. Building planned maintenance programme has been added to the programme, £1,222k funded from RCCO.

38. £197.9k has been added to the capital programme to deliver improvements at Wynyard Woodland Park, funded from developer agreements.

Housing

39. Grant funding for Disabled Facilities for 2023/24 has been included in the programme, £1,804.6k.

Town Centres Investment

40. The Capital Programme has been revised to reflect the match funding element for Yarm LUF, £1,952k which includes additional funding of £323.6k from external contributions and RCCO.

COMMUNITY IMPACT IMPLICATIONS

41. 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

42. No direct implications.

FINANCIAL IMPLICATIONS

43. The report summarises the financial position for 2023/24 based on information for the first quarter of the financial year.

LEGAL IMPLICATIONS

44. None

RISK ASSESSMENT

45. 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.

WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS

46. Not applicable.

BACKGROUND PAPERS

Medium Term Financial Plan Update and Strategy – Council 22 February 2023.
Financial Outturn Report – Cabinet 13 July 2023

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