

AGENDA ITEM

REPORT TO CABINET

12 SEPTEMBER 2024

**REPORT OF CORPORATE
MANAGEMENT TEAM**

CABINET DECISION

Leader of the Council – Councillor Bob Cook

FINANCIAL UPDATE AND MEDIUM TERM FINANCIAL PLAN (2024/25 QUARTER 1)

SUMMARY

This report summarises the Council's financial performance and position at the end of the first quarter of the 2024/25 financial year. Members will be aware from the budget report in February 2024 that the Council had a budget gap of £1.9m in the current financial year rising to £8.1m in 2026/27, with the transformation programme being key to resolve the financial position.

The Powering our Futures programme and associated transformation reviews are well underway and members will be aware that these reviews were addressing the aforementioned budget gap. The reviews are progressing well and an update will be provided at the October Cabinet meeting.

The financial position for the Council for the first quarter of the financial year (to 30th June 2024) highlights a projected overspend of £3.9m against the budget, effectively the Council is on target to achieve the transformation savings but further pressures have created a further budget gap. Growing demand for Council services and the increased cost of delivery is putting pressure on several budget headings. Members will recall that an additional £12.5m was added to the budget in February's budget report, and this overspend is over and above that additional investment. Work is underway to look at ways to mitigate this projected overspend and the position will continue to be closely monitored and managed throughout the remainder of the financial year. Members will recall that as part of the budget process, a number of earmarked reserves were paused to allow us to manage future risks and if the pressures materialise as expected, this will need to be met from these reserves.

These challenges are not unique to Stockton and the financial pressures experienced by many councils across the country is well documented. Whilst we are able to re-direct earmarked reserves to resolve immediate pressures this is not sustainable, over the medium term and the position needs to be addressed. Future reports will provide an update to cabinet and work preparing for the 2025/26 budget and MTFP has commenced. Given the overall position, work exploring options for Phase 2 of the transformation programme will be progressed.

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 along with the intention to progress further transformation reviews.
2. That the revised Capital Programme at **Appendix A** be noted.

DETAIL

FINANCIAL POSITION AS AT 30 JUNE 2024

GENERAL FUND

1. The following table details the projected budget outturn position for each Directorate in 2024/25, based on information to 30th June 2024. 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	96,036	97,655	1,619
Children's Services	57,081	58,739	1,658
Community Services, Environment & Culture	51,694	53,131	1,437
Finance, Transformation & Performance	14,628	14,755	127
Regeneration & Inclusive Growth	(291)	80	371
Corporate Services	12,132	12,212	80
Corporate Items	12,632	12,032	(600)
Total	243,912	248,604	4,692
Pay Offer		(800)	(800)
Revised Total	243,912	247,804	3,892

2. The projected position indicates a significant financial pressure for the current financial year, largely as a result of higher costs of goods and services due to recent large inflation increases, growth in demand for council services and recruitment and retention issues. All Directorates are considering opportunities to reduce / defer spend to support the position and the position will be kept under close review for the remainder of the year, with actions underway to try to improve the position, however the challenge to do so whilst maintaining current service provision is more and more difficult in the current financial environment.

Reasons for Variances over £100,000

Adults, Health and Wellbeing

3. The demand for residential placements has increased significantly, with the numbers of clients exceeding the budgeted numbers for both older persons and mental health residential and nursing placements. There is also an increase in the amount of care clients receive, which comes at a greater cost. If numbers remain static this will result in an overspend by the end of the year of £829,000.
4. We are also experiencing similar budget pressures for residents receiving care at home. The numbers of clients as well as the amount of care per client is increasing. The income received

from clients towards the cost of their care is also anticipated to be less, although this is being reviewed. This has a predicted overspend for the year of £665,000.

5. The Council and the Integrated Care Board have a pooled budget; the Better Care Fund, which is aimed at mitigating the demands in both health and social care. Given that elements of the costs are in relation to keeping people at home and avoiding time in hospital, discussions are ongoing with ICB to identify opportunities to use this fund to mitigate the pressures described above and if this is successful it will be incorporated into future reports.
6. Recruitment of specialist posts particularly in relation to deprivation of liberties (DOLS) assessments continues to be a particular challenge. The cost of purchasing this service alongside growing volumes of assessments required is resulting in a projected overspend of £150,000.

Children's Services

7. Children's Services have experienced unprecedented budget pressures in recent years due to huge increases in the cost of residential placements as well as escalating needs, requiring greater levels of care. Members will recall the commentary on the pressures in previous reports and the large increase to the Children's Services budget for another successive year in the February budget report.
8. This includes investment in new interventions to address some of the issues experienced across Children's Services including the creation of an Edge of Care Team as well as the establishment of the Social Work academy to address recruitment and retention issues. These interventions are starting to show progress and this is mitigating some of the issues we have seen in recent years.
9. However despite these successes, external factors continue to drive serious financial challenges across Children's Services budgets. The prices for external residential placements continue to increase with a very dominant external children's home market across the country being a major factor in this. Many other Council's across the country are facing the same challenge.
10. Based on the current children in external residential placements and the current price of their packages, this budget is predicting an overspend of £1m. However members will be familiar with how volatile this area can be, with one child alone costing in excess of £1m, this position has the potential to change.
11. The number of children in foster care placements is lower than anticipated resulting in a projected underspend of (£535,000). Although this is a positive for the financial bottom line, it is unfortunately a saving in the wrong area. It is the Council's strategy to place children in a family setting rather than in residential placements, so growing our foster carer capacity is key to achieving this. This will improve the outcomes for the children and young people as well as supporting the financial position. Increasing our fostering capacity is a key area within the Children's transformation programme.
12. Members will be aware of the continued pressure to recruit social workers and linked to the Colleagues strand of the Powering our Futures Programme of the significant work ongoing to develop the recruitment, including our on academy and overseas social worker. There are however still some vacancies and this means there are still agency costs meaning an overspend of £690,000 due to recruitment and retention issues relating to key posts. Transport costs for home to school and nursery transport is a key pressure with the cost of this service continuing to rise (£160,000 overspend). There is also growth in spend on a number of other services to support children to remain at home (£220,000 overspend).

13. 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. These activities are being reviewed and incorporated into the transformation programme, which together with a robust programme management approach should ensure plans are implemented.

Community Services, Environment and Culture

14. The income received from car parking is significantly below the cost of providing and maintaining car parks within town centres. This is resulting in a £400,000 predicted budget pressure this year.
15. Members will be aware of the high inflation increases in recent years, particularly in relation to food costs. This has meant that the cost of providing our catering services has increased significantly. This is particularly true in schools where maintaining high quality and healthy meals to school pupils is a particular challenge. Income for delivering these services has not kept pace with the cost of delivery, creating a budget pressure of £350,000.
16. Similar cost drivers are also creating budget pressures for the ongoing maintenance and management of our vehicle fleet.. In order to maintain the level of service across a number of areas, the cost has increased creating a predicted overspend of £366,000.
17. The Home to School transport service has a predicted overspend of £129,000 due to higher bus and taxi prices as well as greater numbers of children being transported.
18. It is worth noting that all of the above areas are being considered as part of the transformation programme.
19. The grounds maintenance service is also predicting an overspend of £170,000 due to the higher prices for goods and services. Without a fundamental change to the operation of the service, these costs can not be avoided.
20. Members will be aware that in previous years we have earmarked resources to support TAL to manage inflationary pressures in respect of energy costs and £500k is currently included in the plan. In previous update MTFP updates, we have reported that due to the overall financial performance of TAL, this resource has not historically been required. Due to energy prices continuing to fall and usage being carefully managed it is currently anticipated that £300k of this will not be required in 2024-25.
21. Members are aware of the widening gap between the cost to maintain highways infrastructure and the available budgets. Only works in line with our Highway Safety Inspection Policy, to prevent accidents, claims or serious further deterioration of the network, are undertaken. However, as prices for materials and contractors increase this results in an anticipated pressure of £300,000.
22. The cost of operating the museums service continues to increase due to the same price increases as outlined above. Income generated through ticket admissions does not cover the cost of operating the service. Current projections indicate £127,000 overspend but the impact of capital works, including short term closures of some or all of the museum as it is connected to the new building, is likely to reduce income further.

Finance, Transformation and Performance

23. The Council's system for billing and collecting council tax and business rates is due to incur a one-off cost of £250,000 this year due to a renewed licence costs. This is significantly lower than

the first quotation and was reduced following robust negotiation and challenge. There will be an ongoing increase to annual subscription of £75,000 per annum.

24. This is partly offset by employee savings of (£123,000)

Regeneration and Inclusive Growth

25. Planning income can be difficult to predict, with the timing of planning applications often unknown. There is currently a predicted shortfall against the income target of £150,000.

26. Wellington Square is anticipated to have a shortfall on shopping centre income from car parking and vacant units of £221,000. The Council continue to work with prospective tenants on future lettings to mitigate against this.

Corporate Services Directorate

27. There are only minor variances predicted for Corporate Services at quarter 1.

Corporate Areas

28. Members will be aware of the partnership arrangement with Keepmoat Homes to deliver the redevelopment of the former Victoria Estate (The Sycamores). The project is now nearing completion with an estimated profit share to the Council of (£480,000). This is an excellent outcome as the Council in partnership has delivered a total of 143 new homes of which 60 are affordable (42 for rent and 18 for homeownership) and generated a profit. If a traditional approach to disposing of the site had been adopted, a capital receipt would have been unlikely and the Council would have had no influence over the units developed. This aligns with the principles of the Regeneration Powering our Future Mission.

29. The Council has received a one-off payment from TVCA relating to a historic ICT network arrangement of (£120,000).

Pay Offer 2024/25

30. The National Local Government Employers organisation have offered a pay award to local government employees of a flat rate £1,290 per annum. The unions have asked national employers to re-engage in talks about the offer, with some balloting its members on potential industrial action. If this offer were implemented, employee costs would increase by around 3.2% in 2024/25. Members will recall that the Budget for 2024/25 was set including a provision for a pay award of 4%. This would therefore result in an anticipated saving of £800,000. This saving would also carry forward in future years.

Powering Our Futures

31. Members will be aware from the various briefings and reports that the Powering our Futures programme is now progressing at pace and it is planned to address the budget gap at budget time. An update on progress of the programme will be presented to the October Cabinet report.

General Fund Balances & Reserves

32. 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.

33. 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.

34. 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.

CAPITAL

35. 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.

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

CAPITAL PROGRAMME Up to 2027	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000
School Investment Programme & Children's Services	30,873	1,648	32,521
Inclusive Growth	18,304	718	19,022
Regeneration	123,210	10	123,220
Transportation	38,586	4,642	43,228
Community & Environment, Culture & Leisure	18,339	1,269	19,609
Adults, Health & Wellbeing	2,023	1,974	3,997
Total Approved Capital MTFP	231,335	10,261	241,597

Reasons for movements over £100,000

New schemes

Transportation

37. £4,500,000 grant from TVCA has been added to the programme for A19/A689 Interchange improvements.

38. Road safety works to Hartburn Lane have been included, funded from City Region Sustainable Transport Grant, £665,000.

Community & Environment, Culture & Leisure

39. £142,553 has been added to the programme for improved play provision at Preston Park and works to Honeypot Wood, funded from developer agreements.

40. A food waste collection capital transition grant totalling £1,433,091 from DEFRA has been received and added in to the programme. This grant is to support the delivery of weekly food waste collections.

Other

41. The initial costs for Billingham Sports Hub have been added to the programme, £718,369 which are funded from developer agreement money and Football Foundation Grant. The

balance of the scheme will be added to the programme when all funding agreements are signed.

Additional funding

Schools Investment Programme

42. Grant funding for Schools Capital Maintenance for 2024/25 has been added to the programme, £1,003,106.

43. £678,000 contribution from St. Michaels School has been included for the all-weather pitch that will be delivered. The total cost is £1,078,000 with £400,000 funded from DfE Grant.

Community & Environment, Culture & Leisure

44. Building planned maintenance programme has been revised and £396,953 has been removed from the capital element of the programme and will be reported in revenue element of the works in line with technical accounting requirements.

Housing

45. Grant funding for Disabled Facilities for 2024/25 has been included in the programme, £1,968,428.

Town Centres Investment

46. The Capital Programme has been revised to reflect the scheme allocations for Thornaby Town Centre June 2024 Cabinet report.

COMMUNITY IMPACT IMPLICATIONS

47. 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

48. No direct implications.

FINANCIAL IMPLICATIONS

49. The report summarises the financial position for 2024/25 based on information for the first quarter of the financial year.

LEGAL IMPLICATIONS

50. None

RISK ASSESSMENT

51. 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

52. Not applicable.

BACKGROUND PAPERS

Medium Term Financial Plan Update and Strategy – Council 21 February 2024
Financial Outturn Report – Cabinet 18 July 2024

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Capital Programme June 2024 – Appendix A

CAPITAL PROGRAMME Up to 2027	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure Apr 2018 - June 2024
SCHOOL INVESTMENT PROGRAMME & CHILDRENS SERVICES				
School Investment Programme	22,774,100	1,681,106	24,455,206	8,374,392
Children Investment	8,098,773	(32,822)	8,065,951	733,406
SCHOOL INVESTMENT PROGRAMME & CHILDRENS SERVICES	30,872,873	1,648,284	32,521,157	9,107,798
INCLUSIVE GROWTH				
Inclusive Growth & Development	8,803,540	718,369	9,521,909	1,484,570
Office Accommodation	9,500,511	0	9,500,511	7,533,445
INCLUSIVE GROWTH	18,304,051	718,369	19,022,420	9,018,015
REGENERATION				
Stockton Town Centre Schemes	2,914,451	0	2,914,451	1,179,211
Reshaping Town Centres	28,912,960	9,500	28,922,460	1,613,436
Billingham Town Centre	10,000,000	0	10,000,000	245,956
Thornaby Town Centre	29,837,140	0	29,837,140	3,978,988
Re-Development of Castlegate Site	29,184,381	0	29,184,381	6,089,488
Yarm & Eaglescliffe LUF	22,070,000	0	22,070,000	6,040,262
Infrastructure Enhancements, Regeneration & Property Acquisitions	291,717	0	291,717	0
REGENERATION	123,210,649	9,500	123,220,149	19,147,341
TRANSPORTATION				
City Regional Sustainable Transport	16,092,663	138,985	16,231,648	2,952,820
Other Transport Schemes	20,693,593	4,500,000	25,193,593	16,978,992
Developer Agreements	1,800,101	2,628	1,802,729	1,323,613
TRANSPORTATION	38,586,357	4,641,613	43,227,970	21,255,425
COMMUNITY & ENVIRONMENT AND CULTURE & LEISURE				
Energy Efficiency Schemes	1,244,110	0	1,244,110	1,133,558
Environment and Green Infrastructure	12,474,219	1,575,644	14,049,863	4,122,307
Building Management	3,161,948	(374,024)	2,787,924	1,013,279
Vehicle Replacement	1,458,330	67,390	1,525,720	248,107
COMMUNITY & ENVIRONMENT AND CULTURE & LEISURE	18,338,607	1,269,010	19,607,617	6,517,250
ADULTS, HEALTH & WELLBEING				
Adults & Public Health Investment	332,421	0	332,421	161,529
Housing Regeneration	1,459,860	0	1,459,860	0
Private Sector Housing	230,624	1,974,041	2,204,665	397,534
ADULTS, HEALTH & WELLBEING	2,022,905	1,974,041	3,996,946	559,063
Total Approved Capital MTFP	231,335,442	10,260,817	241,596,259	65,604,892