

AGENDA ITEM

REPORT TO CABINET

12 DECEMBER 2024

**REPORT OF CORPORATE
MANAGEMENT TEAM**

CABINET DECISION

Leader of the Council – Councillor Bob Cook

FINANCIAL UPDATE & MEDIUM TERM FINANCIAL PLAN

SUMMARY

The report provides an update on the financial position as at 30th September for the current year (2024/25) and presents outline plans for the 2025/26 Budget and the Medium Term Financial Plan (MTFP).

Members will be aware of the financial challenges facing Councils across the country, and the particular challenges faced locally within Stockton-on-Tees. Significant work is underway looking to address the financial pressures faced by the Council through the Powering our Futures Programme alongside additional mitigating actions. Members will be aware of the progress made so far on the transformation reviews, with the report to Cabinet in November outlining the first phase of savings from reviews.

The cost pressures and demand for Council services as noted in the report to Cabinet in September, continue to grow however, resulting in an updated projected overspend of £6.6m for the financial year 2024/25. If this materialises, it will need to be funded from earmarked reserves or any one-off funding.

The report also includes an update on the projected Medium Term Financial Plan. This incorporates some of the expenditure pressures we are experiencing, as well as early announcements from the Budget on 30th October 2024. There is still significant uncertainty around funding with more detail on the funding announcements is expected to follow in the Local Government Provisional Settlement expected week commencing 16th December. This will however be a one year settlement and therefore the information in respect of future years is indicative and subject to a fundamental review by the Government of Local Government Funding.

The report identifies a potential further pressure across the MTFP and highlights potential options for addressing this. This will be considered in the budget report in February.

Despite the budget challenges, we remain ambitious for Stockton-on-Tees and getting a better future for everyone who lives, works and plays here. We are confident we can work with our partners and communities to put in place new and innovative approaches which will not only save money but also reshape what we do for the better and in the best interests of our residents. We will do this through our Powering Our Future Programme.

In order to address the budget gap we need to act quickly so the first of the transformation reviews delivered through the Powering our Future programme are taking place between now and early next year.

In the meantime, all staff are being instructed to think carefully before authorising any spending and to consider how the Council can work with our partners and communities to ensure the best possible outcomes for residents, despite a reducing budget.

REASON FOR RECOMMENDATIONS/DECISIONS

To update Members on financial performance in 2024/25 and to outline proposals for the 2025/26 Budget and MTFP based on latest available information.

RECOMMENDATIONS

1. That the updated financial position for 2024/25 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 2024/25

FINANCIAL POSITION AS AT 30 SEPTEMBER 2024

GENERAL FUND

1. Members will be aware that the report to Cabinet in September, which covered the first quarter of the financial year, reported a pressure of £3.9m. Growing demand for Council services and the increased cost of delivery is putting pressure on several budget headings.
2. The following table details the projected budget outturn position for each Directorate in 2024/25, based on information to 30 September 2024.

Directorate	Annual Budget	Projected Outturn	Projected Variance Q2 Over/(Under)	Projected Variance Q1 Over/(Under)	Movement from Q1
	£'000	£'000	£'000	£'000	£'000
Adults, Health & Wellbeing	96,072	98,507	2,435	1,619	816
Children's Services	57,078	60,608	3,530	1,658	1,872
Community Services, Environment & Culture	51,750	53,169	1,419	1,437	(18)
Finance, Transformation & Performance	13,824	14,002	178	127	51
Regeneration & Inclusive Growth	498	1,223	725	371	354
Corporate Services	12,142	12,186	44	20	24
Corporate Items	12,549	11,165	(1,384)	(540)	(844)
Total	243,913	250,860	6,947	4,692	2,255
Pay Offer		(340)	(340)	(800)	460
Revised Total	243,913	250,520	6,607	3,892	2,715

3. The projected position indicates a significant financial pressure for the current financial year, largely because 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 movements since Quarter 1 over £100,000

Adults, Health and Wellbeing

4. Demand for Adult Social Care Services has continued to increase in the quarter with several young people having transitioned from Children's Services into Adults Services over recent months. These are significant high-cost packages and are projected to lead to a larger overspend in year than previous quarter. Members will be aware that the Transformation programme includes a focus on early help and prevention, supporting people to live independently and Transitions to Adulthood and these reviews will all consider ways of supporting the overall position.

Children's Services

5. Children's Services continue to experience unprecedented budget pressures. Members will recall the commentary on the pressures in previous reports, along with actions to mitigate these pressures.
6. Based on the current children in external residential placements and the current price of their packages, this budget is projecting a further overspend of £1.9m. There are 8 placements costing more than £10,000 per week, with one placement now exceeding £18,000 per week. This would equate to a total annual cost is £5.8m for these 8 children alone.
7. As previously noted, the transformation programme is now underway. This will allow us to drive forward the transformation programme, with high-cost placements for Children in our Care a key focus. A new in-house children's home is due to open early in the new year, which will improve standards of care for the children and young people as well as reducing the use of external providers, therefore reducing costs.

Community Services, Environment and Culture

8. There have been no significant movements in the projected position for the directorate

Finance, Transformation and Performance

9. There are financial pressures emerging due to an increase in payments of benefits where subsidy is not paid at the normal 100% rate. This is in relation to supported accommodation and increased provision of temporary accommodation linked to increasing pressures of homelessness. This creates an anticipated pressure of £390,000 with the housing benefits budgets.
10. This is offset by further salary savings since quarter 1 and additional funding from the administration of grants, a projected saving of (£306,000).

Regeneration and Inclusive Growth

11. Planning income continues to be a challenge to predict, recent estimates now indicate income is expected to be a further £357,000 less than budget.

Corporate Services

12. There have been no significant movements in the projected position for Corporate Services.

Corporate Areas

13. Treasury Management costs (AMRA) are expected to be lower than budget (£800,000). The Council is currently benefiting from an improved investment position in the short term, due to interest rates remaining at a higher rate.

Pay Offer 2024/25

14. We were notified on 23rd October that the pay award for 2024/25 for employees on National Joint Council terms and conditions has been agreed with the trade unions. The terms of the pay award are that all employees paid up to spinal column point 43 receives an additional sum of £1,290 and thereafter 2.5%. This was paid to employees as part of their November salary. The pay award for employees on Chief Officer grades had previously been agreed and paid. Budget requirements for each directorate have been calculated on this basis and the revised saving associated with the pay award is now reflected in the Q2 position.

Powering our Futures – Progress towards closing the budget gap

15. Members will be aware from recent reports to Cabinet on the Powering our Futures programme; aiming to improve council services alongside reducing pressure on council budgets. The Powering our Futures report to Cabinet on 17th October 2024 contained the positive progress achieved to date, which deliver savings so far of £4.644m by 2026/27. Progress is going well with all the reviews, and we are currently reviewing the profile and looking at when additional savings will be made. The expected savings from the reviews are still anticipated to be achieved, however there is potentially a delay to the delivery of some of the savings. This can be mitigated by utilising the windfall income in respect of Extended Producer Responsibility referred to in Paragraph 24.

General Fund Balances and Reserves

16. The Council aims to retain General Fund Balances at a prudent level, currently £8,000,000.
17. As described in paragraphs 3-14 above, should the projected position for the current financial year 2024/25 materialise at year end, then the sum of £6,607,000 would need to be funded from reserves.
18. In addition to the £8m General Fund balances the Council holds several 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, we would need to look at redirecting funds from these reserves. Whilst we can re-direct earmarked reserves to resolve immediate pressures this is not sustainable, over the medium term and the position needs to be addressed and we would also need to look to replenish the reserves we use to ensure that the Council are resilient moving forward. This will be considered further in the MTFP report in February.

MEDIUM TERM FINANCIAL PLAN 2025 – 2028

19. The projected position across the medium term has been reviewed:

Current Approved MTFP

20. The current approved position in February 2024 was as follows:

	2025/26	2026/27	2027/28
	£'000	£'000	£'000
Budget Gap	7,138	8,100	8,905
Powering Our Futures	(7,138)	(8,100)	(8,100)
Updated Budget Gap (+) / Surplus (-)	0	0	805

21. The table above includes rolling forward the MTFP for an additional year into 2027/28, this is based on the same assumptions as the report to Council in February 2024 and it shows that the position for 2025/26 and 2026/27 is balanced assuming savings on transformation.

Outlook

22. The Autumn Budget 2024 on 30th October announced several measures in relation to local government finance. A Policy paper issued on 28th November issued further clarification. The Key headlines:

- Additional funding for Local Government of:
 - £680m to support Adult's and Children's social care
 - £250m to support Children's Services
 - £600m new Recovery Fund allocated on a deprivation-based approach

Although the distribution of the above funds is not clear, it is included in Government spending control totals over the medium term.

- Business rates – From April 2025 the small business rates multiplier will continue to be frozen, however the standard multiplier will be updated by the September CPI rate to 55.5p. Eligible retail, hospitality and leisure (RHL) properties will receive 40% relief on their business rates liability. Local authorities will receive grant funding to compensate for the loss of income from these schemes.
- The rate of National Insurance contributions for employers will rise from 13.8% to 15% in April 2025, along with a change to the threshold at which employers pay NI contributions. There is speculation that local authorities will be compensated for direct costs.
- £90million funding will be available to support capital investment in children's homes. The Government also announced plans for a fundamental review of the Children's Social Care market in Phase 2 of the Spending Review (expected in Spring 2025).
- Funding was identified for the expansion of government funded childcare (£1.8billion); funding for breakfast clubs (£30million); and £69million for Family Hubs.
- The core schools' budget will increase by £2.3billion, which includes £1billion for SEND provision. There will also be £6.7billion available for capital investment in schools.
- Additional Funding for Disabled Families Grants of £86 million

23. There will be a one-year settlement for local government for 2025/26, with indications of a multi-year settlement from 2026/27.

24. The Provisional Local Government Finance Settlement is now expected to be announced week commencing 16th December. This will include provisional allocations at a local authority level of the changes mentioned above. This will subsequently be confirmed in the final Local Government Finance Settlement expected in February 2025.

25. Extended Producer Responsibility - Local authorities will receive £1.1 billion of new funding in 2025-26 through the implementation of the Extended Producer Responsibility scheme. This is a new funding from income generated from charged to businesses producing plastics and recycling, effectively to compensate Local Authorities delivering waste services. Our estimated allocation is £3.5m, however this has not been finalised and it is not clear how future allocations would be calculated. It is therefore suggested that this is treated as windfall income and can be used to support the delivery of some of the savings.

Changes to current expenditure plans

26. Since the report to Cabinet in February 2024, there are several changes which will require the MTFP to be updated. The additional pressures encountered in the current year which were largely unknown at the time, will need to be incorporated into the plan.
27. The existing MTFP includes an annual uplift of £1.5m per year in respect of the impact of National Living Wage and inflation increases on Adult Care Fees. The recent announcement setting the National Living Wage level for 2025 at £12.21, was higher than anticipated. We are also seeing significant growth in the number of placements in the current financial year and it is anticipated that this will continue into future years. The current working assumption is a further increase of £5m in 25/26, plus an additional £1m growth per year thereafter.
28. Members will be aware from MTFP update reports over recent years the scale of the financial challenges we are facing within Children's Social Care, as well as the level of investment made into this area. Despite this investment, we continue to see growth in costs and demand, creating a further overspend during the current financial year as described earlier in the report.
29. These trends and demands within Children's Social Care are common across the country, with many local authorities facing the same issues. There are many external factors that are forcing prices up, creating a really devastating impact on council budgets. Work is ongoing within the transformation programme to try to mitigate the impact of some of these influences, however despite this it is estimated that a further £4m will be needed, rising by £1m per year thereafter.
30. The financial impact of the agreed pay award for 2024/25 will continue into following years. Based on more up to date information we have reviewed the pay award level required for future years. The agreed MTFP assumes 2% pay award across all years. The assumption for 2025/26 has been updated to 3%, leaving future years at 2%, and the impact of this reflected in the table below.
31. High levels of inflation over the past 2-3 years have seen increases across a lot of our services. We do not budget for inflation other than by exception, therefore in most instances services are asked to manage increased costs within existing budgets. A number of our commissioned services have been in fixed price contracts for several years, many with prices agreed before the unusually high levels of inflation. Contracts are now reaching expiry dates at varying dates, and we are experiencing a sharp rise in costs across many types of service. Procurement practices are followed with the aim to achieve the best value for money, however despite this we are still experiencing increased costs. ICT systems costs are one of these areas where we are experiencing large rises in costs, with an estimated £550,000 per year required across the MTFP.
32. Planning Income has been less than anticipated during 2024/25. There are several factors which can impact upon this, and it is often difficult to predict, however, Nutrient Neutrality issues alongside continued uncertainty over proposed planning reforms have both had a significant impact. As a result it is prudent to allow for a continuation of the reduced income level across the medium term, at £400,000 per year.
33. Grounds Maintenance is also an area where costs have risen this year due to higher supplier prices. This is predicted to continue across the medium term at £200,000 per year.
34. The cost of maintaining the Council's vehicle fleet is greater than budget, at £300,000 per year.
35. The Council's Home to School Transport budget continues to face significant financial pressures. The latest procurement process for the bus and taxi contracts, has seen an increase in costs. We are also seeing a rise in numbers of service users. Many councils are facing similar pressures

within Home to School Transport. Members will recall that Home to School Transport is a Phase 1 transformation review.

36. Additional Community Safety Officers have been previously funded from additional one-off funding. This is due to end in 24/25 and funding will be required in order to maintain the service at the current level.
37. The Colleagues mission within Powering our Futures has several strands of work it is focusing on. One of those is Getting into Work. The Council's Corporate Apprentice Programme is one of the very successful arms of this work. The number of apprentices appointed each year is positive, giving local people access to employment and training and development. In order to continue with the current level of investment, an additional £200,000 is required per annum.
38. The projected expenditure increases are summarised in the table below:

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Changes to expenditure plans			
Adult Social Care	5,000	6,000	7,000
Children's Services	4,000	5,000	6,000
Pay Award - from 2% to 3%	1,279	973	973
ICT Systems	550	550	550
Planning Income Shortfall	400	400	400
Grounds Maintenance	200	200	200
Vehicles	300	300	300
Home to School Transport	350	750	1,150
Community Safety Officers	250	250	250
Corp App Programme / Getting into Work	200	200	200
Total	12,529	14,623	17,023

Income and Resources

39. The provisional Local Government Finance Settlement is expected late December. This will contain the provisional funding allocations for 2025/26. The funding assumptions below are based on the information available, but they are subject to change.
40. The MTFP has been updated to reflect the Social Care Grant uplift for 2024/25 continuing.
41. Assumptions have been made about the New Homes Bonus continuing for a final year in 2025/26. This fund has been notoriously volatile from one year to the next and difficult to predict. The Council received £650,000 in 24/25, however modelling within the sector suggests the amount will be less in 25/26. We have assumed a sum of £580,000.
42. Paragraph 22 above outlines the funding in the Local Government Policy statement. Although final allocations will not be known until the finance settlement, an estimate of the funding has been made using the current distribution methodology. This could be in the region of £5.4m.
43. 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. At this point the updated MTFP includes projections of growth in the Council Tax Base and inflation on Business Rates.

44. These changes to resources and income are summarised in the table below:

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Potential Additional Resources			
Social Care Grant 24-25	(1,700)	(1,700)	(1,700)
New Homes Bonus	(580)	0	0
Additional Government Funding (see para 42)	(5,400)	(5,400)	(5,400)
Council Tax Base growth	(1,000)	(1,000)	(1,000)
Business Rates Inflation	(118)	(332)	(1,101)
Total	(8,798)	(8,432)	(9,201)

Summary Position

45. A summary of the projected budget position over the MTFP is outlined below:

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Updated Budget Position	0	0	805
Expenditure Pressures	12,529	14,623	17,023
Additional Income and Resources	(8,798)	(8,432)	(9,201)
Budget Gap (+) / Surplus (-)	3,731	6,191	8,627

46. The above table demonstrates that there is a projected gap over each year of the medium-term plan. This assumes the original savings from Powering our Futures are achieved, with any delay met by reserves in the short term. The information above includes several assumptions on government funding. Given the indications are that future funding will be targeted towards local authorities with greater need, there is the potential for additional resources which would impact on the projected gap above.

47. The current plan assumes a Council Tax increase of 2.9% in each year. Government have confirmed that the referendum limit in 2025/26 will stay the same as previous years at 5% increase, with indications that this may continue through to 2028. This referendum limit is made up of 2% increase for Adult Social Care Precept and 3% for core council tax. The potential additional resources available from a further 2% increase would equate to £2.4m for each year.

48. The final decision on Council tax will be taken as part of the report to Council in February, along with the approach for further savings to ensure a balanced budget is set.

CAPITAL PROGRAMME

49. The updated Capital Programme is set out 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	32,521	29	32,551
Inclusive Growth	19,022	750	19,772
Regeneration	123,219	2,500	125,720
Transportation	43,228	150	43,378
Community & Environment, Culture & Leisure	19,608	110	19,719
Adults, Health & Wellbeing	3,997	548	4,545
Xentrall ICT	0	900	900
Total Approved Capital MTFP	241,595	4,987	246,585

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

Reasons for movements over £100,000

New schemes

ICT Infrastructure

- An upgrade to the ICT network has been added in for £900,000 this is to be funded from revenue. In line with the Xentrall Shared Services partnership arrangement 40% of this funding will be met from Darlington Borough Council.

Housing

- LAHF round 3 has been added to the programme, funded via MHCLG grant for two years, £468,000

Additional Funding

Regeneration

- £3.25m has been added in for Thornaby Cycleways linked to the Town Deal programme. This is funded through City Region Sustainable Transport money and other TVCA funding.

Transport

- Additional funding from MBC for Newport Bridge works, £151,770

Revisions

Regeneration

- The Town Centre borrowing has been allocated to interventions in line with the Central Stockton and North Thornaby Blueprint Delivery report approved by Cabinet in September 2024.

COMMUNITY IMPACT IMPLICATIONS

51. 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

52. No direct implications.

FINANCIAL IMPLICATIONS

53. The report summarises the financial position for 2024/25 based on information for the second quarter of the financial year and updates Members on the MTFP and Capital Programme.

LEGAL IMPLICATIONS

54. None

RISK ASSESSMENT

55. This MTFP Update Report is categorised as medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk. Understanding cost pressures and future government funding over the coming weeks/months will be key to understanding and mitigating this risk.

WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS

56. Not applicable

BACKGROUND PAPERS

57. None

Name of Contact Officer: Garry Cummings

Post Title: Deputy Chief Executive and Director of Finance, Transformation and Performance

Telephone No. 01642 527011

Email Address: garry.cummings@stockton.gov.uk

Capital Programme September 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	24,455,206	0	24,455,206	11,944,119
Children Investment	8,065,951	29,350	8,095,301	810,151
SCHOOL INVESTMENT PROGRAMME & CHILDRENS SERVICES	32,521,157	29,350	32,550,507	12,754,270
INCLUSIVE GROWTH				
Inclusive Growth & Development	9,521,909	0	9,521,909	1,762,893
Office Accommodation	9,500,511	750,000	10,250,511	8,153,574
INCLUSIVE GROWTH	19,022,420	750,000	19,772,420	9,916,467
REGENERATION				
Stockton Town Centre Schemes	2,914,451	15,000,000	17,914,451	1,225,351
Reshaping Town Centres	28,922,460	(17,500,000)	11,422,460	1,716,200
Billingham Town Centre	10,000,000	0	10,000,000	245,956
Thornaby Town Centre	29,837,140	3,250,000	33,087,140	4,876,906
Re-Development of Castlegate Site	29,184,381	1,750,000	30,934,381	8,989,926
Yarm & Eaglescliffe LUF	22,070,000	0	22,070,000	8,342,883
Infrastructure Enhancements, Regeneration & Property Acquisitions	291,717	0	291,717	0
REGENERATION	123,220,149	2,500,000	125,720,149	25,397,222
TRANSPORTATION				
City Regional Sustainable Transport	16,231,648	104,064	16,335,712	5,324,590
Other Transport Schemes	25,193,593	0	25,193,593	17,401,003
Developer Agreements	1,802,729	45,690	1,848,419	1,335,036
TRANSPORTATION	43,227,970	149,754	43,377,724	24,060,629
COMMUNITY & ENVIRONMENT AND CULTURE & LEISURE				
Energy Efficiency Schemes	1,244,110	(11,386)	1,232,724	1,248,685
Environment and Green Infrastructure	14,049,863	121,586	14,171,449	4,508,339
Building Management	2,787,924	0	2,787,924	1,507,596
Vehicle Replacement	1,525,720	0	1,525,720	433,251
COMMUNITY & ENVIRONMENT AND CULTURE & LEISURE	19,607,617	110,200	19,717,817	7,697,871
ADULTS, HEALTH & WELLBEING				
Adults & Public Health Investment	332,421	60,000	392,421	172,278
Housing Regeneration	1,459,860	0	1,459,860	0
Private Sector Housing	2,204,665	487,844	2,692,509	1,016,282
ADULTS, HEALTH & WELLBEING	3,996,946	547,844	4,544,790	1,188,560
XENTRALL ICT				
Xentrall ICT Network	0	900,000	900,000	0
XENTRALL ICT	0	900,000	900,000	1,016,282
Total Approved Capital MTFP	241,596,260	4,987,148	246,583,408	81,015,018