Member Report

Financial Update – Quarter 1 – 2024/25

Report to: Cabinet

Report from: Managing Director

Portfolio: Resources

Report Date: 17 September 2024

Decision Type: Executive

Forward Plan Reference: RD0125

Council Priority: All

HEADLINE POSITION

1.0 Summary of report

1.1 The report provides a forecast year-end position for the Council as at Quarter 1 of the 2024/25 financial year; covering the revenue budget, the collection fund, revenue reserves, the capital investment programme, our arrangements for Treasury Management, and approval requests for debt write-offs.

1.2 This forecast financial position needs to be considered within the context of the Medium-Term Financial Strategy for 2024/25 to 2028/29, which was approved by Full Council on 29 February 2024.

1.3 The report also seeks confirmation of authority to proceed with the acquisition of properties in relation to the redevelopment of Eston Precinct, as approved in principle by the Cabinet in a report dated 11 July 2023 in relation to the Levelling Up Fund Round 2 (LUF Rd2).

Executive Summary

1.4 The 2024/25 budget report in February highlighted the need for further savings to mitigate the level of uncertainty and risk particularly inherent within demand led services like children's social care.

1.5 The first few months of this year have seen a significant increase in the number of complex high-cost children's care placements.

1.6 Whilst these pressures are common across many councils, councils like Redcar & Cleveland are particularly affected due to inequities in the local government funding system.

1.7 The regeneration of the Teesworks site offers some respite in future years through increased business rate income, though caution is needed in assumptions and forecasts.

1.8 Decisive action is required in the short term, aligned to the Council's Financial Strategy, to ensure the Council's ability to sustain itself and fulfil its statutory obligation of setting a balanced budget annually.

1.9 The initial overspend forecast for this year is £12.369 million, largely driven by increased children’s care placements and costs.

1.10 Considering the council's present financial standing and the challenging landscape facing local government in the foreseeable future, it is imperative to adopt a pragmatic approach in the short to medium-term while maintaining our commitment to achieving the objectives outlined in the council’s corporate plan and priorities. In the short-term, immediate mitigation measures through spend controls, flexible use of capital receipts and application of corporate contingencies are forecast to reduce this in year overspend to £6.385 million.

1.11 In the medium-term, a re-cast MTFS position indicates a savings requirement for next year of c£9 million. The Authority will take a collaborative approach between Cabinet, Elected Members and Senior Officers to develop these further savings for the 2025/26 Budget Proposals. To achieve this the Authority has already established a Transformation Programme which will have workstreams prioritised as follows:

- Identify and address the root causes of financial pressures,
- Implement measures to enhance operational efficiency,
- Optimise funding and revenue streams to cover service costs and align with council priorities, and
- Adjust service provision to align with available resources while upholding statutory duties and strategic priorities.

The Transformation Programme will be complemented by continuing to hold Members Budget Task and Finish Groups and Conferences.

<u>Summary</u>

1.12 The 2024/25 budget report in February highlighted that further savings and solutions would need to be identified to mitigate the level of uncertainty and risk particularly inherent within demand led services like children’s social care where the drivers causing cost pressures can be unpredictable and volatile.

1.13 The 2023/24 Outturn report in July identified that those risks had materialised in the early part of 2024/25, with a significant increase in the number of complex high-cost children’s care placements being required, that if sustained will cause a significant overspend against this year’s budget.

1.14 These pressures are common amongst many councils, particularly in the north-east, and are compounded for regions such as ours due to long standing inequities in the local government funding system. We continue to lobby government (Appendix 7) on the extremely challenging position of tight funding settlements alongside deprivation linked unfunded and unavoidable cost pressures which far outstrip our ability to raise additional income locally particularly from council tax due to the inherent inequities in the council tax system. However, with government facing challenges in repairing the national finances, we need to plan to address our own position.

1.15 The regeneration of the Teesworks site offers some respite in future years through increased business rate income. However, it should be noted that the extent of this is subject to some key assumptions in terms of the timing and status of the investment pipeline for the site and the modelling of business rates income that might yield. The updated MTFS scenario within this report assumes some increased business rates income, but assumptions will need to be kept under review and updated as appropriate.

1.16 In light of the council's present financial standing and the challenging landscape facing local government in the foreseeable future, it is imperative to adopt a pragmatic approach in the short to medium term while maintaining our commitment to achieving the objectives outlined in the council’s corporate plan and priorities.

1.17 As such the Financial Strategy on the agenda for this same Cabinet meeting is expressed in three distinct phases of Survive, Strive and Thrive. Given the immediate financial pressures and uncertain outlook, the primary focus of the Survive phase (years 1-2) is to ensure the council's ability to sustain itself and fulfil its statutory obligation of setting a balanced budget annually.

1.18 While the initial emphasis on ensuring financial sustainability may necessitate some services to exercise fiscal restraint and moderate ambitions in the short term, it also presents a necessity for other services to demonstrate ambition and creativity in improving outcomes. Indeed, enhancing outcomes for service users in some areas is integral to alleviating the council's financial pressures, such as reducing demand for statutory services like children’s social care.

1.19 At Quarter 1, the initial forecast overspend by the year end is £12.369 million. The main causes of this are explained in detail within the report, but are predominantly driven by increased children in care costs.

1.20 It is important to note that children in our care costs are forecast based on some care packages ceasing either where they are intended to be temporary, or where the child is due to turn 18 years old; estimated health care contributions where these are still to be agreed, and no further net growth in package costs is forecast during the remainder of the year. There obviously remains a risk of costs growing further.

1.21 To try to mitigate this risk the service has launched a series of initiatives aimed at trying to address the causes of children needing to be taken into care in the first instance, with a particular focus on more complex needs that often result in high-cost placements being required. They are also working closely with local suppliers to identify opportunities to enhance the provision of locally based solo and dual placements to negate the need to incur a high premium cost for these types of placements, whilst seeking to minimise the length of time these placements are required for individual children.

1.22 Given the depleted reserves position of the council, it is imperative that the initial in-year forecast overspend of £12.369 million is reduced, and a number of avenues are being pursued to achieve that. It should be noted that the majority of these solutions are anticipated to be one-off.

1.23 Spend controls have been implemented across all departments. These focus on management of pay costs through tighter control of recruitment, overtime and use of agency staff; avoidance of non-essential spend and maximisation of income sources. These controls are currently forecast to reduce in-year spend by £3.451 million.

1.24 The Council's approved policy for the flexible use of capital receipts allows expenditure that is designed to generate ongoing revenue savings or transform service delivery in a way that reduces costs or demand for services in future years, to be funded from capital receipts. Based on the capital receipts forecast to be received in 2024/25, this is anticipated to reduce the in-year revenue overspend by £1.000 million.

1.25 Finally, the application of one-off corporate contingencies will contribute a further £1.450 million, bringing the revised forecast overspend for the year down to £6.468 million. Along with the gap of £0.705 million in the approved 2024-25 budget, this would see a draw on the strategic MTFS reserves of £7.173 million this year.

1.26 An updated MTFS position is summarised below, setting out the position approved in February 2024 and then reflecting how the Quarter 1 forecasts and solutions to date impact across the 5-year period, including the impact on the level of available strategic MTFS reserves currently standing at £7.8 million.

Budget Gap / (Surplus)	**2024/25 £'m**	**2025/26 £'m**	**2026/27 £'m**	**2027/28 £'m**	**2028/29 £'m**
Total Council Funding	-324.468	-331.370	-339.715	-346.031	-352.633
Base expenditure	316.379	325.173	334.326	342.332	348.670
Service Investments	16.367	9.761	8.253	6.458	6.408
Budget Savings	-7.574	-0.607	-0.248	-0.120	-0.120
APPROVED MTFS - use of reserves	**0.705**	**2.956**	**2.617**	**2.639**	**2.324**
2024/25 Quarter 1 Updates					
(Improvement) / Worsening - b/f from previous year		6.468	-2.482	-4.903	-18.075
Initial forecast overspend 2024/25	12.369	3.000	3.000	3.000	3.000
In-year spend controls	-3.451	3.451			
Flexible use of Capital Receipts	-1.000	-1.500	1.500		
Corporate contingencies	-1.450	0.950			
Business Rates - additional income forecast		-5.851	-6.921	-16.172	
Savings Requirement		-9.000			
Funding of service infrastructure to reduce borrowing costs					6.000
(Improvement) / Worsening - for the year	6.468	-2.482	-4.903	-18.075	-9.075
Q1 UPDATED MTFS - use of reserves	**7.173**	**0.474**	**-2.286**	**-15.436**	**-6.751**

The above table shows the approved MTFS and the impact of the Quarter 1 forecasts and solutions to date across the 5 year period.

1.27 Due to prevailing pressures, the above caters for an additional £3.000 million per annum growth from 2025/26 in children's services. When added to the £1.000 million per annum in the approved MTFS, this assumes growth of £4.000 million per annum for children's services from next year. Whilst a significant increase, this is less than has been experienced in recent years and assumes that demand management initiatives and local placements development currently being undertaken starts to have some impact. If any reduction can be achieved against the current high level of complex care placements due to the significant influx in the early months of this year, then this would improve on the above position.

1.28 The other existing MTFS assumptions from next year, regarding service investments and funding levels, will be reviewed and refreshed as part of the 2025/26 Budget Proposals that Cabinet will consider in December prior to formal consultation.

1.29 In order to manage within the strategic MTFS reserves available, the assumptions in above position highlight a savings requirement next year of £9 million. This will be kept under review along with the associated assumptions.

1.30 In line with the requirement set out in the 2024/25 budget report to identify more savings after the budget was approved, an all-member budget conference was held in April 2024 to set out the various aspects of the financial position, propose an approach to meeting the financial challenge and commence a series of all member budget task and finish meetings to progress this. These task and finish meetings are proceeding with the intent of producing savings proposals for consideration.

1.31 Complimenting this, a budget transformation programme has been instigated by the Council's executive management team, with workstreams being led by assistant directors, again with the intent of identifying further savings proposals for consideration. This work will look at all key aspects of the Council's operations, to try to put our budget on a more sustainable footing. This will include reviewing our services and assets, addressing the demand for our services and maximising income and funding opportunities. Particular emphasis will be on areas where the greatest and timeliest impact can be made, in line with council priorities and statutory duties.

1.32 The work being undertaken to identifying further budget savings and solutions will be crucial in ensuring the Council remains financially sustainable and resilient. Regular progress updates will be provided through further all member budget conferences and scrutiny committees, with the output informing the 2025/26 budget proposals to Cabinet's December meeting.

2.0 Recommendation

2.1 It is recommended that Cabinet:

- Note the forecast outturn position on the revenue budget and capital investment plan.
    - In terms of capital investment variations, Cabinet are asked to recommend to Full Council to approve
        - additional Council resources of £1.312 million for additional IT expenditure, costs associated with reconfiguring Seafield House, Saltburn cliff lift, digitalisation of telecare equipment and the purchase of equipment for assisted technology.
        - Inclusion of a £1.000 million Business Transformation scheme for 2024/25 and £2.500 for 2025/26. This is following the approval of the Flexible Capital Receipts Policy by Full Council as part of the MTFS Strategy report in February 2024.
        - Transfer of £0.099 million of grant funding between the Education block and Council Investments for Highcliffe air source heating

scheme

- Approve the revised position at Quarter 1 for Prudential Indicators used to measure performance for the Council's Treasury Management arrangements (Appendix 4).
- Approve the itemised list of revenue budget virements (Appendix 5).
- Approve the itemised list of capital budget virements (Appendix 6).
- Approve the arrangements for acquisition of properties at Eston Precinct as set out in paragraph 4.34.
- Approve the proposed debt write offs detailed at paragraph 4.43.

DETAILED PROPOSALS

3.0 What are the objectives of the report and how do they link to the Council's priorities.

3.1 Strong financial governance is the foundation of the Council's ability to deliver the Corporate Plan. Effective financial management of the budget aids the delivery of the Council's key priorities and objectives as stated in the Corporate Plan.

3.2 The Council maintains a medium-term financial strategy, which informs the Council's revenue and capital budgets and drives the Treasury Management Strategy. The budget for this financial year was approved by Full Council on 29 February 2024. The Council's 2024/25 Budget was based on a 2.99% council tax increase and a 2% increase in the adult social care levy (which was approved within the national referendum limits of 3% for council tax and 2% for adult social care precept rises). The Council's available funding through council tax remains below the level the Government assesses as part of its definition of Core Spending Power in this financial year.

4.0 What options have been considered.

4.1 As at Quarter 1 2024/25, the Council is forecasting a year-end net overspend of £7.468 million. This is after taking the difficult decision to implement a range of in-year measures including a recruitment freeze (£0.978 million), non-pay review (£1.897 million) and income review (£0.576 million). Planned use of flexible capital receipts of £1.000 million further reduced the projected position to an overspend of £6.468 million.

Directorate	Revised Budget £'m	Q1 Forecast Full Year Outturn £'m	Q1 Forecast Variance £'m	In- year measures £'m	Q1 Revised Forecast £'m
Adult and Communities	49.830	50.630	0.800	(0.837)	(0.037)
Children & Families	57.228	69.432	12.204	(1.337)	10.867
Growth, Enterprise and Environment	46.041	45.815	(0.226)	(0.841)	(1.067)
Resources	2.410	2.560	0.150	(0.436)	(0.286)
Corporate Allocations	(22.990)	(23.549)	(0.559)	(1.450)	(2.009)
Total	**132.519**	**144.888**	**12.369**	**(4.901)**	**7.468**
Planned Use of Flexible Capital Receipts	**-**	**-**	**-**	**(1.000)**	**(1.000)**
Revised Total	**132.519**	**144.888**	**12.369**	**(5.901)**	**6.468**

The above table shows the projected 2024/25 Outturn forecast by Directorate at Quarter 1.

4.2 **Adult and Community Services – Forecast Underspend of £0.037 million.**

Key pressures exist in achieving 2024/25 savings targets for income generation and adults transport savings, £0.242 million, together with demand on assistive technology services, £0.280 million.

4.3 Careful management of staff levels in the service and ensuring that external grant funding is optimised to fund the delivery of adult social care services has helped minimise any overspend. As a result of the in-year measures applied the service has been able to mitigate the cost pressures to forecast a small underspend position of £0.037 million.

4.4 **Children and Families – Forecast Overspend of £10.867 million.**

The forecast variance is largely driven by children's social care placement costs, staffing pressures, legal fees and home-to-school transport. As part of the 2024/25 Budget Setting process, further additional budget allocations of £7.200 million for children's social care placements, £0.600 million for Home to School Transport, £0.800 million for social care worker staffing, £0.500 million for supporting children and their families with disabilities, and £0.300 million for additional legal costs was provided.

4.5 The Council's budget for children in our care residential placements is currently forecast to overspend by £9.166 million in 2024/25. There has been an increase in high-cost placements of circa 20 children in the last 3-4 months, the cost of these placements is at the higher end due to the nature of the needs of these children and a challenging market, which is driving a forecast overspend. The forecast assumes that targeted interventions prevent any further growth in numbers of young people and the associated cost.

4.6 The placement budget is also forecasting pressures of £0.680 million in relation to independent foster carer placements who look after children in our care.

4.7 The Directorate are still partially reliant on more expensive agency social workers to fill hard to recruit vacancies and are overspent by £0.354 million which is a significant improvement on 2024/25. Other staffing pressures relate to the inability to fully implement planned changes in the youth service (unachieved Driving change savings) and social care demand driven posts

4.8 Legal service costs associated with children in our care cases are expected to overspend by £0.434 million and are subject to a further gatekeeping process.

4.9 The budget for Home to School Transport is forecasting an overspend of £1.390 million. This is due to increasing demand for children with education health and care plans, transport to mainstream schools where local schools are at capacity and inability to meet savings targets on charging for Post 16 transport.

4.10 **Growth, Enterprise and Environment - Forecast Underspend of £1.067 million.**

The underspend of £0.948 million relates in the main to a number of key under and overspends. These include:

- Culture and Tourism is forecasting an overspend of £0.229 million with the main variances relating to income shortfalls due to the requirement to close the cliff tramway, the service also has non-pay pressures relating to unachieved Driving Change savings target and pressures on security and repairs and maintenance budgets which is partly offset with the in-year hold of recruitment to vacant posts.

- Economic Growth is forecasting an underspend position of £0.216 million relating to the in-year hold of recruitment to vacant posts and the review of non-pay budgets within the service. The potential shortfall in planning fee income is currently being offset through the use of reserves pending the potential of additional in year applications being received.

- Environment Sustainability is forecasting an underspend position of £0.237 million relating to the in-year hold of recruitment to vacant posts and the forecasted tenancy income levels in the business centres.

- Health Protection is forecasting an underspend of £0.273 million relating to the in-year hold of recruitment to vacant posts and the receipt of one-off additional grant income.

- Neighbourhoods is forecasting an underspend of £0.570 million this relates to both underspends and overspends in the service. The service is achieving pay savings relating to the in-year hold of vacant posts, in year savings from the Concessionary Fares service based on latest projections from TVCA, along with garden waste subscription income and other income variances. Fleet services are forecasting an overspend due to increased cost of parts and fleet hire along with unachieved Driving Change savings target. Waste disposal cost pressures relating to recycling contamination levels continue in 2024/25. Recent decisions regarding free parking provision will have a financial impact on budget assumptions.

4.11 **Resources Directorate Forecast Underspend of £0.286 million.**

The Directorate is forecasting to achieve an underspend mainly due to a number of posts being held vacant as part of the financial challenge to reduce the overall forecast overspend identified in year. Other identified savings include additional income from grants, SLA income and other miscellaneous income. However, some of these savings have been offset by additional software pressures, audit fees and other professional fees.

4.12 **Corporate Allocations Forecast Underspend of £2.009 million.**

The forecast underspend is caused by corporately held budgeted contingencies for demand (for example social care) and transformation of £1.120 million. These contingency budgets are to be retained corporately for the remainder of the year.

4.13 Savings of £0.571 million have also been forecast on interest payable budgets due to deferring borrowing until later in the year due to high cash balances and predicted interest rate. In addition to this, the Council is forecasting to exceed its investment income earned budget by £0.300 million due to interest rates staying comparatively higher than in recent financial years.

4.14 **Collection Fund**

The Council maintains a Collection Fund, as a statutory requirement, to separately account for the Borough's council tax and business rates income.

4.15 For council tax, the total forecast deficit as referenced in Appendix 1 is £1.458 million. The Council retains an 82.97% share of this deficit, which equates to £1.210 million. The Council's share of this deficit will need to be factored into the budget setting process for 2025/26. The estimated deficit has arisen due to a worsening outturn position for 2023/24, which was not factored into the estimated deficit to be carried forward into 2024/25, and a further estimated increase in the bad debt provision due to challenges in recovering previous years council tax debt.

4.16 For business rates, the total deficit as referenced in Appendix 1 is £3.124 million. The Council's 49% share of this net deficit is £1.531 million. The deficit has arisen due to a worsening outturn position for 2023/24, a reduction in liability and an increase in exemptions. This is offset by a reduction the resource required in the appeals provision due to some appeals being rejected in the first quarter of the financial year or settled at an amount lower than anticipated. This deficit will need to be factored in to the budget setting process for 2025/26.

4.17 The Collection Fund monitoring position for Quarter 1 of 2024/25 is attached in Appendix 1, which sets out the main items of income and expenditure for council tax and business rates. The account is produced on a regulatory basis and sets out the full Collection Fund position (not just the Council's retained share).

4.18 **Usable Reserves**

The level of revenue reserves held at the start of the financial year was £23.491 million and is summarised in the table below. The approved budget included a gap of £0.705 million which unless resolved in year will be funded from reserves. The budget also included a contribution of £0.060 million into an election reserve. This is an annual allocation to build up sufficient funding for the 2027 local elections. The other movement in year reflects reserves transferring between Directorates due to restructures.

4.19 The Table below summarises the latest reserves position of the Council as at Quarter 1 2024/25.

Reserve	Opening Balance 2024/25 (£m)	Transfers to/from Reserves Quarters 1 (£'m)	Closing Reserves Balance Quarter 1 2024/25 (£'m)
School Reserves (excluded from Total Reserves Below)	**1.881**	**-**	
Adults and Communities	2.158	(0.539)	1.619
Children and Families	0.108	-	0.108
Growth, Enterprise, and Environment	1.421	0.539	1.960
Resources and Growth	1.268	0.060	1.328
Total Directorate Reserves	**4.955**	**0.060**	**5.015**
General Reserves	6.626	-	6.626
Medium Term Financial Plan	6.804		6.804
Mutual Municipal Insurance	0.500	-	0.500
Insurance Funding	1.787	-	1.787
PFI – Schools	1.120	-	1.120
PFI – Street Lighting	0.122	-	0.122
Brexit Funding	0.036	-	0.036
Strategic Change and Resilience	1.000	-	1.000
Business Rates – Funding Reserve	0.541	-	0.541
Total Corporate Reserves	**18.536**	**-**	**18.536**
Council Total	**23.491**	**0.060**	**23.551**

The table above shows a breakdown of the reserves available at the start of the 2024/25 financial year and the latest value of reserves held by the Council as at Quarter 1 – 2024/25.

4.20 It should be noted that the total value of remaining reserves is not available for addressing budget pressures. Several reserves are held for future contractual commitments, risk assessed levels for items such as the Insurance Fund, and due to funding being received in advance of associated spend. The strategic MTFS reserves available to provide protection / contingency against adverse variations in MTFS assumptions and plans total £7.804 million (MTFP £6.804 million and Strategic Changes & Resilience £1.000 million).

4.21 The latest reserves position and updated MTFS forecasts demonstrates the urgency of ensuring in-year mitigating solutions to address the overspend are successful, that Driving Change savings agreed in the latest Medium Term Financial Strategy approved on 29 February 2024 are successfully implemented, and that further savings are developed to inform the 2025/26 Budget Proposals to ensure the Council's financial position is sustainable and resilient across the medium term.

4.22 **Driving Change**

A key element of the Council's Medium-Term Financial Strategy is to promote financial resilience and sustainability, with planned savings where required helping to support a balanced revenue budget across the medium-term.

4.23 A summary of the progress to date is set out in the table below, with more detail in Appendix 2. To address the very significant financial challenges in 2024/25, the Council had committed to deliver £7.574 million in Driving Change efficiencies in 2024/25, following by a further £0.607 million in 2025/26. In summary, for 2024/25, £4.877 million of these savings have been classified as being achieved (64%), £1.958 million remain in-progress (26%) and £0.740 million (10%) are outstanding. These forecasts are incorporated into the overall projected revenue position set out above.

Driving Change Theme 2024/25	Achieved £m	In-progress £m	Outstanding £m	Total £m
Buildings & Accommodation	0.465	0.000	0.000	**0.465**
Changing how services are provided	2.134	1.638	0.611	**4.383**
Invest to Save	0.075	-	-	**0.075**
Fees, Charges and Contractual Arrangements	0.911	0.320	0.079	**1.310**
Improving Business Efficiency	1.292	0.000	0.050	**1.342**
Total	**4.877**	**1.958**	**0.740**	**7.575**
%	**64%**	**26%**	**10%**	**100%**

The table above shows a breakdown of Driving Change savings categorised between Achieved, In-progress and Outstanding – as at Quarter 1, 2024/25.

4.24 The residual outstanding driving change savings relate to the review of youth and community centres, adult social care funding efficiencies, introducing means test for discretionary adult services, the timing of planned redesign of library services, service efficiencies within the museums service, shortfall on fees and charges and other pay and non-pay shortfalls.

4.25 **Dedicated Schools Grant**

The Council receives Dedicated Schools Grant (DSG) funding. The funding comprises a number of blocks – for our Schools, Central School Services of the Council, High Needs and Early Years. A large proportion of the Schools Block must be passed through to academies. After the passing through of funding to academies, the Council receives £46.610 million which is broken down as follows:

Block	**£'m**
Early Years	12.829
Schools	9.900
High Needs	23.071
Central Schools Services Block	0.810
Total	**46.610**

4.26 The early years and school block funding are passported to the Council's schools and local early year providers based on pre-defined formulae. The High Needs Block is used to fund children who are determined to have additional educational requirements or attend alternative education provision outside of their mainstream education placement. In recent years the demands on this funding block have been more than the High Needs Funding Block available. As a result of this, as at the end of 2023/24, the Council carried a deficit of £6.012 million which was attributable to a cumulative deficit on the High Needs Block. The DSG deficit is predicted to further increase by £4.086 million to £10.098 million by 31 March 2025.

4.27 The increasing pressure in DSG, and in particular the High Needs Block, is because alongside social care, Education Services are experiencing an increase in more complex placements requiring a place in special schools. The rise in demand outstrips the local maintained special school supply and therefore the Council meets the demand by the use of expensive independent special school places. However, there is also a significant increase in young people permanently excluded from school which contributes to the increasing deficit.

4.28 The DSG deficit is subject to a statutory override from the Government which has enabled councils who act as local education authorities to account for any cumulative DSG negative balances in a separate unusable reserve, away from the main Council usable reserves. Therefore, the Council is not required to fund this deficit from its general or earmarked reserve balances. The Government have recently extended this override period for a time-limited period from 31 March 2023 to 31 March 2026. Whilst this extension is welcome, the time-limited nature of the extension is a financial risk to the Council which requires a long-term solution from the Government and if the statutory override was not continued beyond 2026, would (based on its current level) be needed to be funded from already depleted reserves. This medium-term financial risk is not reflected in the medium-term financial plans of the Council and the Council will closely monitor the Government position on this matter. Other local education authorities have experienced similar cumulative deficits of variable scale, and the Council is benchmarking itself against the positions reported by these local authorities.

4.29 The DSG grant conditions require that local education authorities with an overall deficit on its DSG account need to present a plan to the Department of Education for managing its DSG spend in-year and future financial years. The Council reports on its High Needs deficit to Schools Forum (attended by representatives of early needs to post-16 educational establishments in the Borough) and has in previous years sought agreement to top-slice an element of the main school block to top-up the High Needs Funding available.

4.30 **Capital Investment**

The Capital Investment Plan supports the Council's corporate planning process by identifying and maximising available resources, supporting the delivery of our priorities and ensuring that all our resources are effectively invested.

4.31 The Capital Investment Plan is financed in such a way that the cost to the Council Taxpayers is spread over the life of the asset being invested in. A summary of the current 2024/25 capital programme is set out in the summary table below, with a more detailed breakdown included in Appendix 3.

4.32 The Quarter 1 forecast reflects the Capital Investment Plan approved by Full Council as part of the 2024/25 to 2028/29 Medium Term Financial Strategy on 29 February 2024 adjusted for the impact of the 2023/24 outturn. A summary is shown in the table below.

Investment Theme	Approved Capital Investment Plan - Quarter 1 (£'m)	Q1 Revised Estimate (£'m)	Full Year Variance (£'m)
Town Centre Investment	62.675	57.684	(4.991)
Visitor Attractions & Amenities	6.754	7.534	0.780
Business Infrastructure	4.127	1.041	(3.086)
Transport Infrastructure	5.486	6.304	0.818
Housing	0.702	1.404	0.702
Supported Housing	2.390	3.400	1.010
Community Capacity	0.519	0.519	-
Recycling and Waste Initiatives	0.744	0.744	-
Education	5.435	5.336	(0.099)
Council Investment	7.336	9.544	2.208
Total	**96.168**	**93.510**	**(2.658)**

The above table shows a breakdown of the latest Capital Investment forecasts by Investment theme as at Quarter 1 2024/25.

4.33 The key variances to the programme for each thematic block are due to the following reasons:

a) Town Centre Investment: The variance is showing a decrease of £4.991 million. This is due to reprofiling of budget into future years to reflect delivery timescales; transferring of funding between different schemes and allocation of additional grant to fund pressures due to the impact of inflation.
b) Visitor Attractions and Amenities: Reprofiling of budget for Eston Sports Village following a review of the spending profile and the inclusion of a new scheme for the development costs of a new sports facility in Loftus.
c) Business Infrastructure – Reprofiling of budget into 2025/26 for infrastructure works on Skippers Lane Industrial estate following a review of the spending profile and additional grant funding for ground works at Coatham on the hotel site.
d) Transport Infrastructure: Increase in budget to reflect an additional grant allocation.
e) Supported Housing: Increase in the budget for funding Disabled Facilities Grants and Aids and Adaptations and the addition of a new scheme to digitalise telecare equipment and purchase equipment for assisted technology.
f) Council Investments: Updated forecast to reflect delivery timescales for vehicle purchases, additional grant into the Business Premises scheme for library improvements, an increase in the information technology budget for improvements to IT software, adaptations to Seafield House and repairs on Saltburn cliff lift. A budget for Business Transformation is also included. This is for the capitalisation of revenue costs that will generate ongoing revenue savings or transform service delivery in a way that reduces costs or demand for services in future years and will be funded by capital receipts.

4.34 In terms of the LUF Rd2 capital funding allocated for Eston Precinct, Cabinet previously authorised the scope of redevelopment of that site, including some reference to the acquisition of 18 freehold interests to enable delivery of the scheme. Although a delegated power exists authorising acquisition of properties up to a value of £500K, the total cost of the acquisitions in this case will exceed that sum and it is not entirely clear as to whether the financial limit within the delegated power applies to individual property costs or the cumulative cost of all properties being acquired. Accordingly, for the sake of transparency and completeness in this particular case, Cabinet is asked to confirm authorisation for the Executive Director for Growth Enterprise and Environment, in consultation with the Cabinet Member for Growth and Enterprise and Finance Director, to proceed to finalise negotiations and the acquisition of the relevant properties insofar as this can be achieved at a reasonable cost within the parameters of the funding available.

4.35 The next steps with Eston Precinct include the RIBA Stage 3 design work to be completed by November 2024 with public consultation for the planning application due to go live on 16 September 2024. The planning application will be made in October 2024 and construction contractor bids will be scored in November 2024. April 2025 would be the planned demolition of the site, leading to the West side rental units starting to be built in June 25 for a completion date of May 2026.

4.36 **Treasury Management**

Current debt levels on 31 June 2024 are £198.756 million (which is a reduction on the position as at the 31 March 2024 of £205.538 million). The reduction is due to the repayment of instalments on PWLB loans and the maturity of a short-term loan. The Council has continued to maintain an under-borrowed position and where possible has opted not to borrow up to the level of the Council's Capital Financing Requirement to reduce capital financing costs.

4.37

Borrowing	**Principal £'m**	**Rate %**	**Average Life (Years)**
Public Works Loan Board	109.856	3.20	11
Market Loans – LOBO	18.500	6.16	50
Market Loans – Fixed	48.750	6.47	51
Long term local authority and pension funds	15.763	3.88	10
Short term local authority and pension funds	5.000	5.35	0
Salix Loan (which fund street light bulb replacement)	0.887	-	1
Total	**198.756**	**4.37**	**24**

The table above shows the breakdown of borrowing held by the Council as at 30 June 2024.

4.38 The Council is holding investments of £28.171 million as at 30 June 2024 which compares to an investment balance figure of £18.992 million at 31 March 2024. This position at the end of the financial year is generally reduced due to lower council tax and business rates receipt.

Investments	**Credit Ratin g**	**Principal**	**Rate**	**Average Duration**
		£m's	**%**	**(Days)**
NatWest Current	A-	0.571	3.25	1
Call Accounts	AA-	0.500	3.75	1
Money Market Funds	AA+	11.200	5.23	1
Total Instant Access		**12.271**	**5.08**	**1**
Property Funds		10.000	4.25	274
DMO		5.900	5.19	6
Total Investments		**28.171**	**4.60**	**179**

The table above shows the breakdown of Treasury Management Investments held by the Council as at 30 June 2024.

4.39 Credit rating scores are used to denote the credit worthiness of individual investment counterparties and informs the security of the investments which the Council invest.

4.40 There have been no breaches in investment counterparty limits during the financial year to date. Individual counterparties' credit quality is assessed and monitored with reference to credit ratings on an ongoing basis. The Council's minimum long-term counterparty rating is A- representing excellent credit quality and an ability for these organisations to make timely repayments of principal and interest. In addition, this information on credit ratings is supplemented via other sources of intelligence such as credit default swap prices, financial statements, information on potential government support, and reports in the quality financial press.

4.41 The interest on invested surplus cash balances and CCLA investments is expected to be around £0.870 million. The Council monitors the value of the Pooled Property Fund holdings which although have declined from the value on the 31 March 2024 there has been a slight improvement on the July valuation. The statutory override is due to expire on the 31st March 2025. If this isn't extended there will be a revenue impact in 2025/26. The current loss is £1.661 million. However, the value of dividends has remained comparable to previous financial years and continue to be paid on schedule.

4.42 As part of the integrated Treasury Management Strategy for 2024/25 a full suite of prudential indicators were approved. The Prudential Code for Capital Finance allows local authorities to make their own capital investment decisions in line with their priorities, providing they are affordable, sustainable, and prudent, and can be demonstrated, as such, using prudential indicators. The position on prudential indicators is set out in Appendix 4. To date there have been no breaches of any of the prudential indicators.

4.43 **Debt write-off requests**

Under the financial procedure rules, all debt write-off proposals for amounts above £10,000 need formal approval by Cabinet. In this report there are four debts requiring this approval relating to council tax.

4.44 For the following council tax debts, the council pursued all available methods of recovery including obtaining liability orders for the debts and bailiff visits to try to enforce collection. With the debts remaining outstanding, the council has had to apply for bankruptcy proceedings by an Order of the Court. With the debtors now declared bankrupt, no further recovery action is available.

- Council Tax 1: £16,657.80: relates to the years 2013 to 2024.
- Council Tax 2: £17,691.67: relates to years 2000 to 2024.
- Council Tax 3: £20,845.49: relates to years 2013 to 2022.
- Council Tax 4: £13,591.65: relates to years 2014 to 2022.

5.0 Impact Assessment

5.1 Climate Emergency – Various aspects of the Council's Capital Investment Plan support the aims of alleviating a climate change emergency.

5.2 Health and Safety – The budget has a secured level of funding for our Health and Safety needs.

5.3 Social Value – A key component of the procurement and investment strategies of the Council are to promote social value across the Borough.

5.4 Legal - The Chief Finance Office has responsibility to ensure that proper arrangements are made for the administration of the Council's financial affairs. The Council must set a legal and balanced budget. These responsibilities have been further enhanced by the release of the CIPFA Financial Management Code.

5.5 Financial – The financial implications are set out in detail in the main body of the report. The implications have also been reflected in the updated Medium Term Financial Strategy approved by Borough Council on 29 February 2024.

5.6 Human Resources - The report highlights the financial impact of the approved 2023/24 pay award. The Council are facing significant recruitment challenges in some crucial front-line services such as children's social care, which is resulting on occasions in the Council having to rely on more expensive agency staff.

6.0 Implementation Plan

6.1 Timetable for Implementing Decision: The Quarter 2 Finance Update will be reported to Cabinet on 10 December 2024.

6.2 Lead Officer: Phil Winstanley – Director of Finance (Section 151 Officer)

6.3 Reporting Progress –

6.4 Communications Plan -

7.0 Consultation and Engagement

The Council consults with a wide range of stakeholders as part of ongoing decisions which will need to be made to secure a balanced budget in future years.

8.0 Appendices and Background Papers

Appendix 1 – Collection Fund Financial Forecasts
Appendix 2 – Driving Change Efficiency Programme
Appendix 3 – Capital Investment Plan
Appendix 4 – Prudential Indicators
Appendix 5 – Revenue Budget Virements
Appendix 6 – Capital Budget Virements
Appendix 7 – ANEC Local Government Funding Letter

9.0 Contact Officer

9.1 Name: Phil Winstanley
9.2 Position: Assistant Director – Finance (Section 151 Officer)
9.3 Email address: Philip.Winstanley@redcar-cleveland.gov.uk

APPENDIX 1

This appendix sets out the Council's Collection Fund position for Quarter 1 2024/25, which are separate accounts held for managing the Council Tax and Business Rates collection arrangements of the Council.

Collection Fund – Quarter 1 2024/25:	**2024/25**		
	£000's	**£000's**	**£000's**
INCOME	BR	**CT**	**TOTAL**
Council Tax Receivable	0	(96,333)	(96,333)
Business Rates Receivable	(44,040)	0	(44,040)
	(44,040)	**(96,333)**	**(140,373)**
EXPENDITURE			
Apportionment of Previous Year Deficits			
Central Government	62	0	62
Billing Authority	61	(863)	(802)
Cleveland Fire Authority	1	(41)	(40)
Cleveland Police & Crime Commissioner	0	(137)	(137)
	124	**(1,041)**	**(917)**
Precepts, Demands and Shares			
Central Government	20,583	0	20,583
Billing Authority	20,171	78,803	98,974
Cleveland Fire Authority	412	3,680	4092
Cleveland Police & Crime Commissioner	0	12,493	12,493
	41,166	**94,976**	**136,142**
Charges to Collection Fund			
Less: refunds written off against the appeals provision	(92)	0	(92)
Less: Increase/(Decrease) in Bad Debt Provision	97	2,260	2,357
Less: Increase/(Decrease) in Provision for Appeals	(908)	0	(908)
Less: Interest	7	0	7
Less: Cost of Collection	165	0	165
Less: Disregarded Amounts	3,365	0	3,365
Less Transitional Protection	(1,207)	0	(1,207)
	1,427	**2,260**	**3,687**
(Surplus) / Deficit arising during the year	**(1,323)**	**(138)**	**(1,461)**
(Surplus) / Deficit b/fwd. 1st April 2024	4,447	1,596	6,043
(Surplus) / Deficit c/fwd. 31st March 2025	**3,124**	**1,458**	**4,582**

APPENDIX 2

Planned savings as per February 2024 budget report	Directorate	2024/25	Achieved	In Progress	Outstanding
Recover administration costs on specific grants where grant conditions allow	All	-50			-50
Accommodation savings from continued delivery of approved asset strategy - reducing office and service accomodation requirements through hybrid working and developing multi-use assets	RES	-465	-465	0	0
Review Library service provision	A&C	-200	0	-121	-79
Introduce a means test for discretionary adult social services currently provided free of charge.	A&C	-125	0	-72	-53
Adult Social Care funding efficiencies	A&C	-117	0	0	-117
Children in Care placement efficiencies through developing more in-house provision	C&F	-300	-300	0	0
Review of Youth and Community Centres and provision at various locations around the Borough	C&F	-197	0	-129	-68
Reduce the number of buildings used for delievering family hubs services from 12 to 8; and apply alternative funding sources to support service delivery.	C&F	-16	-9	0	-7
Review and consult on potential changes to the current policy on non-statutory SEN transport for early years children and post 16 young people.	C&F	-66	0	-66	0
Seek to reduce costs for home to school transport by reducing out of borough placement numbers and single pupil taxi routes as appropriate.	C&F	-132	0	-132	0
Climate change invest to save activities to mitigate energy costs through targeted intervention measures	GEE	-75	-75	0	0
Environmental services - additional income generation via sponsorship, grant, and increased usage	GEE		0	0	0
Savings on strategic contracts	GEE	-50	-50	0	0
Environment Service Review - non-pay savings	GEE	-125	0	0	-125
Reduce work mobile phone handset contract and identify savings in Wide Area Network provision following building reductions	RES	-100	-100	0	0
Review discretionary business rates relief top up paid to some organisations	RES	17	17	0	0

APPENDIX 2

Additional Savings Proposals	Directorate	2024/25	Achieved	In Progress	Outstanding
Corporate Wide – Council wide management of vacancies, overtime and agency spend	All	-2,000	-1,287	-666	-48
Corporate Wide – Internal service reviews to consolidate teams or services where there may be similarities or synergies in terms of function/offer	All	-520	-480	0	-40
Additional income derived from Fees and Charges proposals	All	-960	-737	-144	-79
Museums – review opportunities at Kirkleatham Museum, including considering peak times, optimising opening hours and long-term potential for exploring Trust models	A&C	-75	0	0	-75
Review offer provided by community development and health improvement service	A&C	-230	0	-230	0
Review the support provided for smoking cessation – external contract in place	A&C	-200	0	-200	0
Dunsdale Waste Recycling Centre – Optimise opening hours, reviewing peak times, booking utilisations and seasonal opening hours	GEE	-40	-40	0	0
Review of funding arrangements for the Planning, Development & Housing Strategy team	GEE	-200	-71	-129	0
Develop borough-wide Car-Parking Strategy	GEE	-150	-103	-47	0
Strategic Assets review – full review of council owned land and assets	GEE				
Change to capital financing costs by review of council's Minimum Revenue Provision policy	RES	-1,113	-1,113	0	0
Review Council wide spend on external print and design	RES	-45	-46	0	0
Explore options for Revenues and Benefits contract post May 2025 (options appraisal from May 2025 contract break option)	RES				
Review of member support	RES	-40	-18	-22	0
Grand Total		**-7,574**	**-4,877**	**-1,958**	**-740**

APPENDIX 3 – The Council's Capital Investment Plan 2024/25

Scheme	Budget Set 2024/25	Re-profiling	Quarter 1 Adjustments	Revised 2024/25	Financial Years (Projects)	Spend @ Q1	%	Variance
Town Scape Investment								
Redcar Central Station	7,020,200	1,181,500	0	8,201,700	781,938	39,613	0%	-8,162,087
East Cleveland Town Centre Revival	0	13,850	0	13,850	831,056	2,791	20%	-11,059
Saltburn Town Centre Revival	576,000	203,650	-99,950	679,700	1,561,114	238,176	35%	-441,524
Loftus Future High Street	3,048,900	1,259,850	370,900	4,679,650	8,522,506	802,974	17%	-3,876,676
Redcar Town Deal	12,755,250	2,387,950	-3,862,500	11,280,700	8,254,289	358,090	3%	-10,922,610
LUF Connecting People and Place	13,409,400	242,750	-1,984,000	11,668,150	340,072	147,106	1%	-11,521,044
LUF Eston	6,406,250	608,700	584,250	7,599,200	123,113	64,120	1%	-7,535,080
Levelling Up Partnership	4,613,750	8,576,450	0	13,190,200	186,771	4,974,637	38%	-8,215,563
Parks & Play Equipment	200,000	55,650	0	255,650	44,345	0	0%	-255,650
Levelling Up Parks Improvement	0	6,300	0	6,300	64,179	0	0%	-6,300
Kingsley Field	27,350	24,800	0	52,150	67,873	42,212	81%	-9,938
Skinningrove Coastal Protection	56,800	0	0	56,800	3,774,868	0	0%	-56,800
SUB-TOTAL EXPENDITURE	**48,113,900**	**14,561,450**	**-4,991,300**	**57,684,050**	**24,552,124**	**6,669,719**	**12%**	**-51,014,331**
Visitor Attractions & Amenities								
Cleveland Ironstone Mining Museum	0	37,100	0	37,100	2,252,083	22,354	60%	-14,746
Regent Cinema Development	0	7,000	4,200	11,200	9,501,704	2,246	20%	-8,954
Guisborough Town Hall Gateway Project	153,150	299,650	0	452,800	2,338,778	271,091	60%	-181,709
Eston Sports Village	6,422,250	-393,800	621,250	6,649,700	3,978,421	325,176	5%	-6,324,524
Loftus MFCF Sports Project	0	0	155,000	155,000	0	12,914	8%	-142,086
Kirkleatham Future Development	228,250	0	0	228,250	0	0	0%	-228,250
SUB-TOTAL EXPENDITURE	**6,803,650**	**-50,050**	**780,450**	**7,534,050**	**18,070,987**	**633,781**	**8%**	**-6,900,269**
Business Infrastructure								
Coatham Leisure - Phase 1	0	327,350	63,050	390,400	3,935,511	191,321	49%	-199,079
Industrial Estates Programme	3,502,950	296,550	-3,149,500	650,000	824,518	394,368	61%	-255,632
SUB-TOTAL EXPENDITURE	**3,502,950**	**623,900**	**-3,086,450**	**1,040,400**	**4,760,029**	**585,688**	**56%**	**-454,712**
Transport Infrastructure								
Highways Block Allocation - City Regional Sustainable Transport Settlement Allocation	3,311,850	-31,950	818,550	4,098,450	N/A	462,198	11%	-3,636,252
Walking & Cycling Routes		0	0	0	0	1,560	#DIV/0!	1,560
Environmental Assets	2,207,500	-42,850	0	2,164,650	782,679	-14,568	-1%	-2,179,218
Eston to South Bank Cycleway	0	41,250	0	41,250	708,747	0	0%	-41,250
SUB-TOTAL EXPENDITURE	**5,519,350**	**-33,550**	**818,550**	**6,304,350**	**1,491,425**	**449,191**	**7%**	**-5,855,159**

APPENDIX 3 – The Council's Capital Investment Plan 2024/25

Scheme	Budget Set 2024/25	Re-profiling	Quarter 1 Adjustments	Revised 2024/25	Financial Years (Projects)	Spend @ Q1	%	Variance
Housing								
Local Authority Housing Fund	0	702,000	702,000	1,404,000	0	702,000	50%	-702,000
SUB-TOTAL EXPENDITURE	**0**	**702,000**	**702,000**	**1,404,000**	**0**	**702,000**	**50%**	**-702,000**
Supported Housing								
CSDP Adaptations	140,000	0	0	140,000	N/A	26,924	19%	-113,076
Aids & Adaptations	600,000	0	100,000	700,000	N/A	0	0%	-700,000
Community Capacity	0	0	0	0	N/A	816	#DIV/0!	816
Digitalisation of Telecare	0	0	415,000	415,000	0	0	0%	-415,000
Assisted Technology	0	0	250,000	250,000	0	0	0%	-250,000
Disabled Facilities Grant	1,650,000	0	244,900	1,894,900	N/A	255,282	13%	-1,639,618
SUB-TOTAL EXPENDITURE	**2,390,000**	**0**	**1,009,900**	**3,399,900**	**0**	**283,022**	**8%**	**-3,116,878**
Community Capacity								
Grassroots Sport	450,000	50,000	0	500,000	0	0	0%	-500,000
Investment in Leisure Centres	18,350	550	0	18,900	5,686,185	0	0%	-18,900
SUB-TOTAL EXPENDITURE	**468,350**	**50,550**	**0**	**518,900**	**5,686,185**	**0**	**0%**	**-518,900**
Recycling & Waste Initiatives								
Recycling Initiatives	195,000	104,650	0	299,650	200,371	0	0%	-299,650
Purchase of Refuse Bins	100,000	0	0	100,000	N/A	3,200	3%	-96,800
Procurement of Waste Facility	0	0	0	0	767,303	0	#DIV/0!	0
Food Waste	0	0	0	0	0	0	#DIV/0!	0
Waste Management Infrastructure	350,000	-6,100	0	343,900	6,100	0	0%	-343,900
SUB-TOTAL EXPENDITURE	**645,000**	**98,550**	**0**	**743,550**	**973,774**	**3,200**	**0%**	**-740,350**
Education								
School Estate Investment	4,654,100	355,850	-98,800	4,911,150	N/A	-679,255	-14%	-5,590,405
Devolved Formula Capital at LEA Level	64,500	-17,100	0	47,400	N/A	1,264	3%	-46,136
Kirkleatham School Expansion	0	63,700	0	63,700	2,874,450	-31,608	-50%	-95,308
A Special Free School for the Tees Valley in Grangetown	245,000	-14,250	0	230,750	17,723	0	0%	-230,750
The Ridings - Renovation	0	83,550	0	83,550	380,443	50,454	60%	-33,096
SUB-TOTAL EXPENDITURE	**4,963,600**	**471,750**	**-98,800**	**5,336,550**	**3,272,616**	**-659,146**	**-12%**	**-5,995,696**
Council Investments								
Business Premises Improvements	376,000	11,000	391,050	778,050	N/A	2,422	0%	-775,628
Purchase of Vehicles (Fleet Replacement)	3,028,250	212,850	286,350	3,527,450	N/A	485,553	14%	-3,041,897
Climate Strategy	422,250	173,400	-16,550	579,100	N/A	1,235	0%	-577,865
Tree Safety Strategy	250,000	0	0	250,000	N/A	110,309	44%	-139,691
Information Technology Improvement Projects	1,000,000	367,400	307,000	1,674,400	N/A	259,920	16%	-1,414,480
PFI Lifecycle Costs	753,750	0	0	753,750	N/A	0	0%	-753,750
Business Transformation	0	0	1,000,000	1,000,000	N/A	0	0%	-1,000,000
Changing Places	0	28,200	0	28,200	431,804	255	1%	-27,945
Asset Management - Capitalised Repairs	524,250	188,950	240,000	953,200	N/A	29,148	3%	-924,052
SUB-TOTAL EXPENDITURE	**6,354,500**	**981,800**	**2,207,850**	**9,544,150**	**431,804**	**888,842**	**9%**	**-8,655,308**
TOTAL EXPENDITURE	**78,761,300**	**17,406,400**	**-2,657,800**	**93,509,900**	**59,238,944**	**9,556,297**	**10%**	**-83,953,603**

APPENDIX 4

This table sets out the Council's performance indicators for Treasury Management Arrangements
Prudential and Treasury Indicators 2024/25

Prudential Indicator	**2024/25** **Budget Set** **£'000**	**2024/25** **Quarter 1** **£'000**
Capital Expenditure		
Estimates of Capital Expenditure	78,761	94,557
Estimates of Capital Financing Requirement	274,575	270,934
External Debt		
Authorised Limit	299,575	295,934
Operational Boundary	274,575	270,934
Estimated External Debt (including Long Term Liabilities)	256,585	253,990
Gross Debt and the Capital Financing Requirement	-17,990	-16,944
Gross Debt and the Capital Financing Requirement (as %)	93%	94%
Affordability and Prudential indicators		
Estimates of Financing Costs to Net Revenue Stream (incl. PFI's)	16%	15%
Estimates of Financing Costs to Net Revenue Stream (excluding PFI's)	10%	10%

APPENDIX 5

This table sets out an itemised list of revenue budget transfers between Directorates during Quarter 1.

REVENUE VARIATIONS	CHILDREN AND FAMILIES	ADULTS AND COMMUNITIES	GEE	RESOURCES	CORPORATE ALLOCATIONS	TOTAL MTFP
	£	£	£	£	£	£
Approved Budget	**47,512,850**	**41,260,450**	**28,466,200**	**12,344,800**	**2,934,250**	**132,518,550**
Central Support and other Recharges	4,433,350	6,554,850	606,150	- 11,057,350	- 537,000	-
Capital Charges	5,495,800	3,810,950	14,876,600	1,122,850	- 25,306,200	-
Correct Budget Load for Grounds Maintenance service and Trade Waste service recharges	- 196,100	- 116,000	312,100	-	-	-
Realign budget for post moving from Childrens data team to Adult System Team	- 20,000	20,000	-	-	-	-
Drawdown of Youth Employment Project re: Capita - Technical Support	1,450	-	-	-	- 1,450	-
Budget for New Service Manager Post	-	79,600	-	-	- 79,600	-
Culture and Tourism Service moving between Directores	-	- 1,294,650	1,294,650	-	-	-
Sports Development moving between Directorates	-	- 470,500	470,500	-	-	-
Transfer of salary budget following restructure	-	- 15,100	15,100	-	-	-
	57,227,350	**49,829,600**	**46,041,300**	**2,410,300**	**- 22,990,000**	**132,518,550**

APPENDIX 6

This table sets out an itemised list of capital budget transfers between Directorates during Quarter 1.

Scheme	2024/25 £	2025/26 £	2026/27 £	Future Years £	Total £	Funding	Narrative
Schemes requiring re-profiling across financial years							
Redcar Town Deal	-3,935,200	3,935,200	0	0	0	Grant	Realignmnet of budget to reflect updated delivery timescales
LUF Connecting People and Place	-1,984,000	1,984,000	0	0	0	Grant	Realignment of spending profile for the South Middlesbrough Accessibility scheme.
LUF Eston	584,700	-584,700	0	0	0	Grant	Realignmnet of budget to reflect updated delivery timescales
Eston Sports Village	621,650	-621,650	0	0	0	PB	Realignmnet of budget to reflect updated delivery timescales
Industrial Estates Programme	-3,149,500	3,149,500	0	0	0	Grant	Realignmnet of budget to reflect updated delivery timescales
Purchase of Vehicles (Fleet Replacement)	286,350	-545,000	-405,000	663,650	0	PB	Reprofiling of budget over the medium term to reflect lead in time and new vehicle replacement requirements.
Climate Strategy	-90,400	90,400	0	0	0	PB	Delay on delivery of energy saving schemes
Total	**-7,666,400**	**7,407,750**	**-405,000**	**663,650**	**0**		
Changes to budgets - Existing Schemes							
Satburn Town Centre Revival	-99,950	0	0	0	-99,950	Grant	Transfer of Welcome To funding to cover shortfall in Loftus schemes.
Loftus Future High Street	370,900	0	0	0	370,900	Grant	Utilisation of contingency allowance and underspends on some projects to fund pressures. These are due to higher than expected tender returns due to rising inflation and bidders allowing for increased risk in returns as well as increases in on-site construction costs due to site specific issues.
LUF Eston	-450	0	0	0	-450	Grant	Correction to funding allocation
Aids & Adaptations	100,000	0	0	0	100,000	PB	Increase in budget to reflect the cost of providing the equipment.
Redcar Town Deal	72,700	0	0	0	72,700	Grant	Projected overspend on the Redcar Coatham Lesiure Quarter to be funded from Redcar Growth Zone funding
Regent Cinema Development	4,200	0	0	0	4,200	Grant	Corection of funding
Eston Sports Village	-400	119,750	0	0	119,350	PB	Budget increased to reflect approved Cabinet report
Coatham Leisure - Phase 1	63,050	0	0	0	63,050	Grant	Increase in budget to facilitate ground works in advance of hotel development
Highways Block Allocation - City Regional Sustainable Transport Settlement Allocation	818,550	0	0	0	818,550	Grant	Budget increased to reflect additional maintenenance grant and highways incentice scheme.
Local Authority Housing Fund	702,000	0	0	0	702,000	Grant	Additional grant funding received.
Disabled Facilities Grant	244,900	0	0	0	244,900	Grant	Budget increased to reflect demand on the service
Business Premises Improvements	391,050	0	0	0	391,050	Grant	Grant awarded to improve library
School Estate Investment	-98,800	0	0	0	-98,800	Grant	Transfer of funding to Climate Strategy for the match funding element of Highcliffe air source heating scheme.
Climate Strategy	73,850	0	0	0	73,850	Grant	Transfer of funding from school block for match funding element of Highcliffe air source heating scheme and reduction to Salix funding.
Information Technology Improvement Projects	307,000	0	0	0	307,000	PB	Additional funding required for IT projects
Asset Management	240,000	0	0	0	240,000	PB	Costs to reconfigure Seafield House to accommodate Social Care and IT teams and work required to Saltburn cliff lift
Total	**3,188,600**	**119,750**	**0**	**0**	**3,308,350**		
New Schemes							
Loftus MFCF Sports Project	155,000	0	0	0	155,000	Grant	Development costs for a new sports facility at Loftus funded through grant
Digitalisation of Telecare	415,000	0	0	0	415,000	Grant	New scheme to convert the telecare system to digital
Assisted Technology	250,000	0	0	0	250,000	PB	Purchase of equipment
Business Transformation	1,000,000	2,500,000	0	0	3,500,000	Receipts	New budget for the capitalisation of transformation costs
Food Waste	0	1,040,350	0	0	1,040,350	Grant	Award to grant to purchase vehicles and eqipment for food waste collection.
Total	**1,820,000**	**3,540,350**	**0**	**0**	**5,360,350**		
TOTAL EXPENDITURE	**-2,657,800**	**11,067,850**	**-405,000**	**663,650**	**8,668,700**		

ASSOCIATION OF NORTH EAST COUNCILS

The Rt Hon Angela Rayner, MP
Deputy Prime Minister and Secretary of State for
Housing, Communities and Local Government
2 Marsham Street
LONDON
SW1P 4DF

1 August 2024

Dear Deputy Prime Minister

Association of North East Councils (ANEC): Local Government Funding

Firstly, can we congratulate you on your electoral success and your appointment as Deputy Prime Minister and Secretary of State for Housing, Communities and Local Government.

All Council Leaders read with interest your letter dated 16 July 2024 in which you called for a fundamental reset in the relationship between local and central government, ending the politics that has seen Westminster hoard power, holding back towns, cities, and villages across the country from achieving their true potential. We couldn't agree more.

We write to you on behalf of the 12 Councils in the North East of England to identify areas of opportunity where the Government can implement changes in local government funding to help local authorities and the system in which they operate.

As you will be aware, the funding position for local government has changed significantly over the last 14 years because of Government funding reductions and restrictions on investment into local services. The last 14 years have been extremely challenging as a result of actual / real terms grant reductions and unfunded and unavoidable cost pressures which councils have had to accommodate.

Councils in our region have faced higher than average grant funding reductions over the last 14 years, which has resulted in 10 of the 12 councils in the North East having a Core Spending Power (CSP) change, between 2010/11 and 2024/25, that is lower than the England average – despite the significant challenges faced by all councils in our region as a result of our relative levels of deprivation and low tax bases..

Continued//

Using the Government's own figures, the average increase in CSP since 2010/11 in cash terms for local government is a 10.45% increase, during which time demand for council services has increased significantly (particularly in social care) and there have been periods of very high inflation. CPI increases across this period were 48.4%, 38% points higher than the CSP increase in cash terms.

There are significant variations between individual local authorities in the movement in CSP over the past 15 years, but one thing that is undeniable is a clear deprivation correlation. The increase in CSP between 2010/11 and 2024/25 has failed to keep pace in our area, with the English average increase in Core Spending Power. Indeed, in five North East authorities there has been a decrease in Core Spending Power across this time-period. This is a concerning lag, given the relative need and cost drivers linked to our relative deprivation levels and low tax raising capacity.
Using the Government's own figures on CSP per dwelling, if councils in the North East were funded at the national average we would be receiving an additional £221.6 million in core grant funding per annum than we currently do.

Councils in the North East and the wider sector continue to face immense financial pressure and are under strain, with reserves depleting and some very difficult choices ahead. Budget pressures faced by local authorities like ourselves continue to far outstrip the ability to raise additional income particularly from Council Tax (and from Business Rates) due to the inherent inequities in the Council Tax system.

Whilst the pressures we have faced in respect of our Adult Social Care budgets have been supported through a combination of Better Care Fund, Social Care and Market Sustainability Grant and the Adult Social Care Precepts; ongoing additional funding is still required to support continuing cost rises from demand and inflationary increases from care providers beyond the funding provided by the previous Government. The pressures faced in Children's Social Care are far more acute in regions such as ours and the previous Government failed to adequately support them through more funding. The additional demands from all areas of children's services, such as Children Looked After placements, home to school transport and in High Needs Dedicated Schools Grant / services for children with special needs far exceed the funding available. Indeed, these areas in particular have gone unrecognised in successive Local Government Finance Settlements over the last 10 years – a symptom of the lack of focus on deprivation linked funding allocations.

The budget pressures faced by our councils and the wider sector clearly demonstrate that increases in Council Tax, particularly in regions such as ours that have low property prices and a consequential low tax base and low tax raising capacity, will not cover the sums required.

Collectively, we have a strong track record of prudent financial management. We have risen to the challenges over the last 14 years and sought to protect front line service delivery to vulnerable people wherever we can.

Continued//

We are no longer able to achieve the level of savings required through service efficiencies and also face challenges in raising additional fees and charges income due to the lower earnings and prevailing local economic circumstances in our region. Councils in the North East simply could not cope with a return to any form of austerity and urgently need help to avoid further, deeper cuts to front line services going forward.

We will of course continue to seek efficiencies wherever possible, however, our Medium Term Financial Planning forecasts show significant budget shortfalls over the 2025/26 - 2028/29 planning period. These estimates already bake in the additional revenues from an assumed 2.99% to 4.99% per annum increase in Council Tax across the next four years, with the budget pressures in Childrens Services accounting for a significant proportion of the financial challenges we forecast we will face in order to balance our budget.

We acknowledge the new Government’s commitment to providing multi-year settlements for local government in order to provide greater certainty and financial planning. Whilst this is welcomed, and can’t come soon enough, it is imperative that any future Comprehensive Spending Review and Local Government Settlements are underpinned by proper fair funding provision and fundamental changes to the formula to distribute funding on a more equitable basis between authorities – with deprivation being a more prominent consideration.

In approaching the Spending Review we ask the Government to:

- fully recognise the financial pressures faced by local authorities – particularly those impacted by low tax raising capacity and deprivation-led financial challenges;
- take the opportunity to redistribute a range of current funding streams particularly towards more deprived areas, in conjunction with a review of Business Rates retention and resets; and
- address the unfairness of the housing benefit regime linked to temporary and supported accommodation.

In simple terms, to reverse some of the inequities that were manifest in the previous Government’s approach since 2013.

In recent years, a range of new grants and Government funding support has been introduced to target funding to specific Government initiatives, which has distorted the overall available funding for local authorities. Some of these funding streams could be distributed in a different way without increasing Government spending overall.

The simplification of the funding landscape is opportune, and we ask that you consider the attached 10 ANEC imperatives in relation to additional funding and redistribution of current funding streams alongside longer term improvements and requirements which local government would need to provide greater financial security.

We estimate that the changes we propose would result in an additional £149 million across the 12 North East Councils – with circa £78 million of this not being new money or requiring additional investment by the Government but merely redistribution of existing funding to address inequities in the current arrangements.

Continued//

Whilst the 10 ANEC funding imperatives will not address or reverse the full impact of austerity on councils in the North East of England, these changes would enable vital local services to be protected whilst a longer term settlement and plans for a full review of local government finance is developed.

The imperatives will also not address the disproportionate CSP impacts over the last 14 years but would be the initial steps to addressing the inequity that exists as a result of the policy changes and position taken on a number of funding matters over the last decade by the previous Government.

The new Government now has the opportunity to implement changes to help local authorities and the system in which they operate. Councils are at a crisis point and urgently require both short term and long term additional funding alongside greater financial certainty.

The 12 North East councils, through the Association of North East Councils, are keen to work with the new Government to further explore the 10 funding imperatives with a view to developing solutions that respond positively to current challenges, create opportunities for new, appropriate funding arrangements and work for both local and central government.

We thank you in advance for your ongoing support for local government and for taking the time to consider the contents of this letter, and would welcome the opportunity to discuss local government funding with you in person.

Yours sincerely,

Cllr Brenda Harrison
Leader, Hartlepool Borough Council

Dame Norma Redfearn
Elected Mayor of North Tyneside

Cllr Tracey Dixon
Leader, South Tyneside Council

Cllr Rob Cooke
Leader, Stockton Borough Council

Cllr Alec Brown
Leader, Redcar and Cleveland Council

Cllr Martin Gannon
Leader, Gateshead Council

Cllr Glen Sanderson
Leader, Northumberland County Council

Cllr Amanda Hopgood
Leader, Durham County Council

Cllr Nick Kemp
Leader, Newcastle City Council

Cllr Stephen Harker
Leader, Darlington Council

Cllr Chris Cooke
Elected Mayor, Middlesbrough Borough Council

Cllr Michael Mordey
Leader, Sunderland City Council

c.c. Jim McMahon – MP – Minister of State for Department for levelling Up, Housing and Communities

Association of North East Councils
Local Government Funding Imperatives for the new Government
July 2024

1. Additional Social Care Grant Funding Ask 2025/26:

A greater focus is required on the pressures within Children Social Care services, alongside the pressures facing Adult Social Care. Pressures relating to Children's Social Care are not universal, at least not the extreme financial pressure caused by the escalating Looked After Children's numbers and placement costs (which correlate to councils with higher levels of deprivation), and have gone unrecognised in successive funding settlements. This must be addressed going forward**.**

In the short term, a minimum of an additional £1 billion of Social Care Grant should be provided in the 2025/26 Local Government Finance settlement. In lieu of a more fundamental review of the formula, **if this additional funding was apportioned in line with the previous methodology of utilising the Adult RNF the additional funding available to the 12 North East Councils would be circa £62 million**.

Whilst this would only be a sticking plaster, it would be a step in the right direction whilst a more fundamental review of the required level of funding and the formula to more fairly distribute that funding based on need is undertaken. A proper Fair Funding Review, not the proposals that were consulted on by the previous Government, which sought to bake in the inequities of focusing too much of the formula on a standard amount per head of population and largely ignored Children's Social care pressures and downplayed deprivation linked funding, is desperately needed.

The ANEC authorities very much welcome the aim of the Children's Wellbeing Bill to strengthen multi-agency child protection and safeguarding arrangements. In trying to address these issues, particularly in areas of higher deprivation, it is essential that there is whole system alignment with collective responsibilities for early intervention and prevention, as well as for the funding of respective needs.

2. Implement the delayed Business Rates Reset

The Business Rates reset was expected five years after the introduction of Business Rates Retention (BRR) in 2013/14, however implementation is still awaited. In part due to the delay in implementing the planned "Fair" Funding Review of the formula.

Local authorities significantly benefitting from BRR have received this additional funding for ten years now and have continued to benefit from the delay in the reset for the last five years. Furthermore, this additional income is excluded from the CSP, which understates the gap between low need / high resource areas and high need / low resource areas such as the North East. There can be no reasoned argument against implementing the overdue Business Rates reset in 2025/26.

Whilst some authorities, particularly district councils, will be negatively impacted by this, it has been understood by all that the reset would occur.

Forecasts indicate that a Business Rates reset would result in a net benefit across the 12 North East Councils of circa £54 million.

Amongst the North East Councils some will benefit and some will lose from this reset, with large swings in both directions evident at local authority level. This is an indication of the scale of unfairness with the current Business Rates funding methodology. We call for an urgent review of this, including a reset that is long overdue, alongside the fair funding review to ensure funding is allocated based on need, rather than historic allocations.

This could be implemented without costing the Government anything and would more fairly and equitably share the current funding available.

Should government not consider it possible to reset Business Rates in conjunction with a fair funding review for 2025/26, additional “bridging” grant should be provided to those councils that would gain under a reset and are currently losing out.

3. Abolish the New Homes Bonus and redistribute via Revenue Support Grant or Social Care Grant Formula

The New Homes Bonus (NHB) regime has failed to deliver new house building, conversions and empty properties brought back into use on the scale required to meet the country’s housing needs. There has been a “postcode lottery” in terms of the authorities that have benefitted from this regime, with the NHB impacting more significantly (as a proportion) on district councils in two-tier areas.

Local authorities benefit from growth in their Council Tax base which provides an incentive to grow the number of houses being built or properties brought back into use in an area. With this in mind, ANEC recommends that the NHB regime is brought to a close and abolished, with the residual funding in the 2024/25 Local Government Finance Settlement redistributed via SFA in 2025/26. **This would result in a net benefit across the 12 North East Councils of circa £8.1 million.**

Should this scheme continue, it should be separately funded and not “top-sliced” from core local authority funding as has been the case as this is, and always has been, wholly unfair and has directed yet more resource to areas with relative higher levels of affluence.

4. Unwind ”damping” as originally envisaged and withdraw the Funding Guarantee and redistribute this funding via RSG or Social Care Grant

Damping in the previous local authority funding system was ‘locked’ into settlements from 2013/14 onwards and has not been unwound since then. Previous practice in terms of major formula changes, prior to 2013/24 was for the transitional protection to be unwound over a period of up to five years.

The current system results in a number of authorities receiving significantly more Government funding then they should and would have under the long standing previous arrangements for transitioning in formulae changes. Whilst other authorities have been receiving less for a considerable period of time as the sums they should be receiving has not been forthcoming.

Councils in our region would have been receiving additional grant of up to £18.4 million every year since 2018/19 had the damping in the system been allowed to unwind over a five year period from 2013/14.

The ‘at least 4%’ Funding Guarantee which ensures that all councils will see at least a 4% increase in their core spending power before local Council Tax decisions should also be withdrawn with the funding allocated based on need and redistributed via RSG or Social Care grant.

5. Abolish negative RSG protection and redistribute this funding via RSG or Social Care Grant

The latest published figures, from 2020/21, set out that £85.1 million of additional financial support is being provided to a range of upper tier authorities.

This support is being provided to those authorities with the highest levels of Council Tax and retained Business Rates yields, regardless of the fact that the Business Rates reset and the local government funding formula identifies that these authorities have no underlying funding requirement.

This approach is unfair on those authorities with a greater need for that funding and who have had to bear the brunt of austerity and funding reductions.

With this in mind, ANEC proposes that this support is withdrawn with any available funding redistributed via the Social Care Grant. **This would result in a net benefit across the 12 North East Councils of circa £5.3 million.**

6. Retain the Services Grant but subsume within the Core Funding Formula

This funding must be retained by local government, and it is therefore recommended that it is subsumed into core funding and redistributed via SFA going forward.

The combined redistribution of the above funding streams set out in points 3 to 5 would enable a net circa £24.2 million additional funding to North East Councils and would not cost the Government anything in terms of additional expenditure.

7. Close the Housing Benefit Subsidy loophole:

Local authorities are currently unable to recover all of the costs of Housing Benefit payments for supported and temporary accommodation made on behalf of the Department for Work and Pensions (DWP).

The National Audit Office report “Investigation into Supported Housing” published in May 2023 highlights this issue.

Full reimbursement of the benefit payments being made via subsidy (grant) claimable from the DWP, would provide additional funding of £9.3 million across the 12 North East Councils based on the 2023/24 financial year.

8. **Reduce / relax specific grant conditions relating to the Hospital Discharge Fund:**

The funding associated with hospital discharges has specific grant conditions attached, with local government and the National Health Service pooling budgets to improve the discharge of patients from hospital.

The local government element of the grant could be absorbed into the Social Care Grant and made non ring-fenced to enable areas which do not have a major discharge issue and which have pre-existing strong partnership arrangements in place with health to invest this funding more wisely in support of other unfunded budget pressures they might face.

9. Address in underlying legislation and/or adequately fund High Need Special Education Needs and Disabilities (SEND):

There is an urgent need to adequately fund SEND provision and address the underlying legislation and funding position that is driving these deficits.

Significant deficits have been accumulated and continue to increase each year due to a widening gap between SEND demand and funding. The Delivering Better Value (DBV) programme has provided a relatively small amount of grant funding to support councils in closing the widening gap between statutory spend to meet need and funding provided, however there remains a significant and widening gap.

A common theme that has emerged from the DBV programme to reduce spend on SEND is the need to improve school inclusion. However, this is increasingly difficult to achieve with school performance being dominated by academic grades and Ofsted ratings. Greater system alignment is needed as part of the solution to address this problem. The combined cumulative deficit position across the 12 North East councils at 31 March 2024 was circa £75 million and is forecast to increase to circa £313 million by 31 March 2028 unless urgent action is taken.

The exceptional accounting override that allows councils to exclude such deficits from their main council general revenue funding position is due to end in 2025/26, at which point the deficit may need to be funded by council resources.

This would result in many councils failing and is not a sustainable solution. The writing off of accumulated deficits must be funded by Government if and when they crystalise and the Government must address the underlying position through a combination of legislative changes and adequate / fair funding arrangements.

10. Flexibility over the Apprenticeship Levy:

Increasing the flexibility of the Apprenticeship Levy to fund salary and training costs would allow local authorities to target greater opportunities for school leavers, armed forces leavers and other return to work / retraining schemes.

Under the current regime, Levy funds have an expiry timeframe of 24 months after they enter the digital account, after which they are returned to the Government. Expanding the scope for use of the Levy funding will provide additional funding to local authorities and strengthen financial planning across the system.