

OVERVIEW AND SCRUTINY BOARD

A meeting of the Overview and Scrutiny Board was held on Wednesday 27 January 2021.

PRESENT: Councillors J Thompson (Chair), M Storey (Vice-Chair), D Coupe, L Garvey, A Hellaoui, T Higgins, S Hill, T Mawston, J McTigue, J Platt, M Saunders and Z Uddin.

PRESENT BY INVITATION: Councillor C Hobson and A Preston (The Mayor).

OFFICERS: C Breheny, Cooper, A Humble, C Lunn, J McNally, S Reynolds and I Wright.

APOLOGIES FOR ABSENCE: Councillors C Cooke and C McIntyre.

20/2 **DECLARATIONS OF INTEREST**

There were no declarations of interest received at this point in the meeting.

20/3 **BUDGET CONSULTATION**

The Director of Finance, the Head of Financial Planning and Support and the Executive Member for Finance and Governance were in attendance at the meeting to provide information in respect of the Council's current Budget Consultation exercise.

The Director of Finance delivered a presentation, which covered the following topics:

- Setting the scene of the Council's finances;
- Members' general responsibilities in setting the budget;
- The timeline for budget setting;
- The budget position;
- The efficiency savings presented to Full Council as part of the Strategic Plan;
- Changes in the Finance Settlement and subsequently to the proposed budget as a result; and
- The proposed increase in Council Tax.

It was explained that the context of the 2021/2022 budget was the austerity programme, which the Council had been part of since 2010 following the financial crisis. Since 2010, the Council had made over £100m of savings and the independent National Audit Office had calculated that the money available for the Council to spend had reduced in real terms by 36%.

It was indicated that the share allocated to Adult Social Care and Children's Social Care had increased from 40% of the total net budget in 2010/2011, to 63% in 2020/2021; Central Services' percentage share of the net budget had decreased from 31% to 18% since 2010/2011. Regarding Council Tax, in the current financial year 2020/2021, £59m or 51% of the Council's income was provided by Council Tax. In 2008, that figure was less than 25%; this was partly due to Council Tax increases and partly due to the reduction in overall expenditure, and meant that the Council was far more locally funded than it was previously.

In terms of the change in composition of the budget between 2010/2011 and 2020/2021, a graphical illustration was shown to the Board. It was noted that the net budget of services most visible to the public, e.g. street cleaning, refuse collection, regeneration and cultures, etc. had reduced following a decrease in the overall funding available, and the increased pressures for Adult Social Care and Children's Social Care due to demography and issues presented.

In terms of responsibilities for setting the budget, it was explained that the Section 151 Officer's responsibility was to propose and certify that a budget was balanced. In terms of Elected Members, responsibility was focused on working positively towards setting a balanced budget, which was a legal responsibility and not optional for the Council. It was commented that Members had contributed positively to the process this year.

Regarding the budget setting timeline, the legal cut-off point for setting the budget was 11 March 2021. At present, the consultation phase of the process was being undertaken, with consultation closing on 31 January 2021. To date, over 300 responses had been received from the public to the budget consultation and the strategic priorities consultation, which would be factored in alongside feedback from this meeting and from other Member engagements. Following consideration, the budget report would be submitted to Executive on 16 February 2021 for endorsement, and then subsequently to Council on the 24 February 2021 for approval. A holding date for a potential second Council meeting for approval of the budget had been set for 5 March 2021, if required.

Regarding the estimated budget gap, the current circumstances in which the Council operated were unprecedented. However, although the COVID-19 pandemic had left the Council in a state of uncertainty in terms of operations in 2021/2022, which was reflected in the ability to plan expenditure and recognise what a balanced budget would look like, it was felt that Central Government (the Ministry of Housing, Communities and Local Government in particular) had listened to the Council and the sector, and provided emergency funding for the Council to react to the situation during the current financial year, which was highly welcomed.

It was explained that, when setting the budget for 2021/2022, consideration needed to be given towards the potential on-going impact of COVID-19, and ensuring that sufficient provision was available. Based on an assessment of a range of factors, as detailed in the Strategic Plan report submitted to Full Council in December 2020, it was determined that additional budget savings and/or increases in Council Tax of £3.011m would be required in 2021/2022.

Details were provided in respect of the approach that would be undertaken to meet the budget gap. The additional savings requirement assumed all existing savings proposals for 2021/2022, totalling £1.568m (which included fortnightly waste collection), would be achieved. To meet the budget gap, Executive were endorsing proposed additional budget efficiency savings of £1.9m for 2021/2022 (as detailed in Appendix 1 of the submitted report). These were all considered to have minimal or no effect on frontline service delivery levels. Alongside this, it was proposed that Council Tax be increased by 3.99% for 2021/2022. This was an increase from the previous assumption of a 1.99% increase, and would produce a further £1.1m of income above that previously assumed.

The £1.9m of budget efficiency savings proposals for 2021/2022 were outlined to the Board. Amongst the proposals, £300,000 for Section 31 grant income and £700,000 for reduced budget requirement for Capital Finance were highlighted, which provided the majority of the savings. With regards to Capital Financing, historically low interest rates permitted refinancing of debt, which meant that it was less expensive for the Council to repay that debt than first assumed. The Section 31 Business Rates grant was increased grant received from Central Government to off-set reliefs provided to businesses. A further key point was that, although there were staff reductions associated with some of the savings proposals, none of those represented compulsory redundancies; vacant posts would be deleted from the structure.

It was explained that the day following submission of the proposed budget report to Full Council, the Provisional Settlement for 2021/2022 was received from Central Government, which changed the assumptions slightly. The Settlement was marginally better than the previous Medium Term Financial Plan (MTFP) assumptions, with the key changes being as follows:

- To reflect the continued direct impact of the pandemic, there was an additional COVID-19 Support General Grant allocation of £5.3m to cover the period up to 30 June 2021. The Sales, Fees and Charges scheme had also been extended to cover the same period;
- The Social Care Grant had been increased by £1.5m from the 2020/2021 figure;
- A new 'one off' Lower Tier Services Grant had been introduced for 2021/2022 only, with a value of £0.3m;
- Due to enhanced difficulties in collecting Council Tax and Business Rates, 75% support was put in place for Collection Fund deficits due to reductions in the base in 2020/2021 and a Grant for Council Tax Support of £2.6m was put in place for 2021/2022; and
- Council Tax increase limits were set at a 2% General Council Tax Limit for 2021/2022;

and a 3% Adult Social Care Precept which could be applied in either 2021/2022 or 2022/2023.

It was indicated that, for both the sector and for Middlesbrough Council, if there was a 5% increase in expenditure available to Local Government, 4% of that increase would come as a result of the Local Authority being permitted to increase Council Tax (therefore essentially raising more funds from local residents; not receiving additional funds from the Exchequer).

In terms of COVID-19 support, there would be increased costs in the new financial year; however, it was unclear at present as to what these would be. It was felt prudent to not assume that the £5.3m would leave the Council net better off. In terms of the £3m provision for the recovery period for COVID-19, this remained valid and was still required because it was concerned with the recovery period for COVID-19, irrespective of when activities to support the town, businesses and people were carried out. This positioned the Council £1.8m net better off than previously assumed in the MTFP (before receipt of the Finance Settlement from Central Government).

Details regarding the proposed changes to the 2021/2022 budget were provided to Members. It was explained that the improved funding for the period had afforded the Council increased flexibility; it was proposed that this be utilised as follows:

- The assumption was that increased COVID-19 funding would be required to meet additional costs due to the prolonged nature of the pandemic;
- Cancel the proposed move to fortnightly refuse collections, which removed a saving of £396,000;
- The saving taken from the Capital Financing Budget of £700,000 would be reduced by £500,000 to provide for adequate maintenance of Council assets and delayed/reduced Capital Receipts (reference was made to recent focus upon the Transporter Bridge in relation to this);
- There would be an increase in the minimum proposed level of General Reserves from £9.4m to £11.0m to cover additional COVID-19 risks;
- Reduce the proposed Council Tax increase from 3.99% to 2.75%. A reduction in income of £688,000, which would be made up of a 1.99% General Council Tax increase and 0.75% Adult Social Care Precept. This approach meant that the Council would retain 2.25% of Adult Social Care Precept to use in 2022/2023, if required. This had not been assumed in the MTFP, which still assumed a 1.99% increase in 2022/2023.

Members were provided with information regarding the determination of the minimum level of reserves. A review of the proposed levels had been carried out as part of the Council's budget report in February 2021, using established Chartered Institute of Public Finance Accountancy (CIPFA) criteria on the basis of several risk factors, as follows:

- Inflation;
- Demand-led pressures (mainly Adult Social Care and Children's Social Care, generally the latter in Middlesbrough);
- Efficiency savings;
- Local Government finances;
- General economic climate (half of the Business Rates paid in the current year were funded by Government grants); and
- COVID-19 continuing effect.

This activity provided a range of between £6.6m and £15.3m, with a mid-point of £11m; the Director of Finance would be recommending that the minimum level of reserves be set at £11m for 2021/2022. It was explained that this was reviewed annually, and therefore if the Council was in a more stable position next year, that money could potentially be reduced and utilised to support services.

The impact of a 2.75% Council Tax increase, by Band, was illustrated to Members. This was based on the Council element only, and excluded Parish Councils, the Cleveland Fire Authority Precept and the Cleveland Police Precept, which was set by each individually. As a supplementary note, the majority of properties in Middlesbrough were Band A; the overwhelming majority were Band A and Band B, which affected the Council's income from

Council Tax. Further, less than half of the Council Tax payers in Middlesbrough paid the full amount of Council Tax, with over half being eligible for discounts including Single Person Discount and disabled banding reduction.

Following the presentation, the Executive Member for Finance and Governance thanked the Finance Team for all of the hard work undertaken.

Members of the Board were afforded the opportunity to ask questions.

A Member referred to Adult Social Care and Children's Social Care and queried the point at which demand-led pressures and increased expenditure would become a significant issue for the Local Authority. In response, the Director of Finance indicated that if Children's Social Care in particular was to continue on the same trend as it had up to last year, problems with sustainability would present within a decade. To stop increased spending on Children's Social Care, it had been recognised that an improvement in the quality of practice and outcomes for children in Middlesbrough would automatically result in less expensive interventions. Reference was made to the Quarter Two and Quarter Three budget outturn results, where it was being seen, for the first-time, that fewer children were being looked after by Middlesbrough on a sustained basis, and that the placement costs for these children were also reducing. This was not an efficiency, but was about children not reaching the point where they required the most expensive interventions. If this trajectory could continue, it would allow for financial sustainability going forward. As at 26 January 2021, the number of children in residential placement was 65, which was reflective of the position a couple of years prior (before it had risen to 80).

A Member made reference to Council employees and queried the position in respect of redundancies. In response, the Director of Finance clarified that there may be some voluntary redundancies, but no compulsory redundancies.

A Member made reference to the determination of the minimum level of reserves and, in terms of comparability with other Local Authorities, queried whether it was standard practice to select the mid-range point. In response, the Director of Finance indicated that this was not always the case because different Local Authorities selected different approaches; some may create specific reserves for certain matters. It was explained that the mid-point was selected because it was envisaged that not all of the risk factors would occur simultaneously or within the same year; the minimum level was essentially worst-case scenario. It was a professional judgment call, to which the mid-point felt most appropriate in the current situation.

A Member made reference to Council Tax collection rates and queried Middlesbrough's current position in terms of arrears. In response, the Director of Finance advised that the figures could be obtained. It was explained that these could be quite significant as they covered a number of years, and non-payment in 2020/2021 had, to date, been higher than it ever had been previously. The Executive Member for Finance and Governance advised that, due to COVID-19, all Councils were experiencing higher levels of non-payment than in previous years, and this was not applicable solely to Middlesbrough. Reference was made to the significant work and varying initiatives being undertaken to support residents. The increase figure had been kept to the minimum that it possibly could; initially projected at 3.99%, this had been reduced down to 2.75% to help residents in all areas across the town, including Marton and Nunthorpe where, for the first time, some residents had been unable to pay.

A Member referred to the 2.75% Council Tax increase and queried whether this included the Cleveland Police Precept. In response, the Executive Member for Finance and Governance advised that this referred only to the Council Tax element; the Cleveland Police Precept and the Cleveland Fire Authority Precept would be additional.

A Member referred to additional powers afforded by the Government to collect outstanding Council Tax and requested elaboration on that point. In response, the Director of Finance clarified that the Government was providing additional support, as opposed to powers, for Council Tax collection, which meant that Government would share the burden. It was highlighted that, for the vast majority of the current financial year, the Court system had not been open to pursue Council Tax debt. In 2019/2020, 30% of Council Tax payers in Middlesbrough did not start paying until they had received a Court Summons. Collecting Council Tax in an area such as Middlesbrough was challenging and all available levers did

need to be utilised before some people would start paying. Not having those available this year had impacted significantly.

A Member commented on the number of people in the town paying full Council Tax, which would reduce further if the amounts were increased. In response, the Director of Finance advised that, in the current year, there had been an increase in working age claimants for local Council Tax support because of their circumstances. There were 2300 households in Council Tax arrears that had not been previously, and all were not eligible for benefit, etc., but were in reduced financial circumstances than they had been in previous years. There had been an impact from that, which had been factored into the budget setting for a lower Council Tax collection rate than in previous years.

A Member queried how Middlesbrough compared to neighbouring Local Authorities in terms of the amount of people claiming Council Tax support, whether that figure had increased due to the economic impact of COVID-19 and, if so, what activities were being undertaken to provide support. In response, the Director of Finance explained that the base for Middlesbrough's level of Council Tax support claimants was one of the highest in the country. Over the course of the pandemic, Middlesbrough had seen a smaller increase in claimants than in comparison to neighbouring Authorities with a lower base. Middlesbrough had seen an increase in working age claimants, but a concurrent decrease in older people claimants; the net increase in Middlesbrough was a couple of percent, whereas in core cities, for example, this could have been 10%, 12% or 15%. The national average for Local Council Tax Support claimants was circa. 8%-9%. In terms of support provision, reference was made to the Council's 'Stop the Knock' policy, which was being implemented despite the significant pressures on Revenues and Benefits staff in respect of COVID-19 support and business support. Work was on-going to ensure that people received advice and support, and accessed all eligible provisions, with mention being made of Local Council Tax Support and Free School Meals support.

A Member commented that Council Tax increases were necessary in order to fill a Government funding gap. Reference was made to the current financial position, the Local Government Finance Settlement, the removal of proposed fortnightly residual waste collections, and the Council Tax increase reduction from 3.99% to 2.75%. In response to a query regarding the decisions taken around residual waste collections and the Council Tax increase amount, the Director of Finance indicated that if the financial circumstances were significantly worse in 2022/2023, those two elements could be reviewed. The key uncertainty in the MTFP concerned the level of financial support from the Government and what this would be in future years. The assumption had been made that this would remain on a cash basis as it was for 2021/2022, but it was felt unreasonable to expect the Government to provide that information now. Therefore, prudent assumptions were being made so as to avoid any unnecessary service/budget cuts.

A Member referred to the Adult Social Care Precept and queried the flexibility of this to spend on other priorities, should it be required. In response, the Director of Finance explained that the MTFP already assumed increased costs in Adult Social Care; the big driver in Adult Social Care at present was the National Living Wage, which the Government had increased by more than inflation for a number of years. A large proportion of staff in the private care sector that the Council commissioned received the National Living Wage, and therefore if their wages increased by 5%, that would be reflected in the bills that the Council paid for domestic care, domiciliary care, etc. Those increases were assumed in the MTFP; additional costs in Adult Social Care could be attached to the precept, and therefore that could be utilised to close the budget gap in future years.

The Mayor thanked the Director of Finance and the team for all of the work undertaken. It was felt that the pandemic would last longer than expected, but the Council would be in better financial shape afterwards than first initially felt. The Chair supported this, and thanked the officers for their attendance and contributions to the meeting.

AGREED that the information provided be noted, and the agreed action be undertaken.

ANY OTHER URGENT ITEMS WHICH, IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.

Councillor McIntyre

A Member referred to Councillor McIntyre's absence and requested that the Board's well wishes be conveyed.

AGREED that the action be undertaken.

Council Finance

Following the information provided at today's meeting, a Member queried whether a total figure for the Council's current debts could be provided to the Board. The Executive Member for Finance and Governance indicated that this would be looked into.

AGREED that the action be undertaken.