



RECORD OF EXECUTIVE DECISIONS

The following is a record of the decisions taken at the meeting of **CABINET** held on **Wednesday 7 July 2021**. The decisions will come into force and may be implemented from **Monday 19 July 2021** unless the Corporate Overview and Scrutiny Management Committee or its Committees object to any such decision and call it in.

Medium Term Financial Plan(12), 2022/23 - 2025/26 and Review of the Local Council Tax Reduction Scheme [Key Decision: CORP/R/21/02]

Summary

The Cabinet considered a report of the Interim Corporate Director of Resources which provided an update on the development of the 2022/23 budget and the Medium Term Financial Plan (MTFP(12)) covering the period 2022/23 to 2025/26. The report also considered a review of the Local Council Tax Reduction Scheme for 2022/23.

The newly appointed joint administration is committed to strong financial governance and getting value for money for public money whilst ensuring that any council tax increases are justified and affordable. Having been appointed in May 2021, the new administration has embarked on a series of reviews of the programmes and projects it has inherited. It is in the process of determining its investment and disinvestment priorities for 2022/23 and beyond and is determined to ensure those priorities are based on meaningful engagement with all partners and stakeholders. The forecasts and assumptions included in this report do not yet include the financial implications arising from those reviews and priority setting processes.

Local Government is operating in a period of significant financial uncertainty brought about by a combination of the ongoing impact of the pandemic, inherent low tax raising capacity due to the low tax base and significant budget pressures in social care and waste services alongside other unfunded pressures arising from pay and price inflation. The financial outlook for the Council will continue to be extremely challenging for the foreseeable future.

There continues to be significant uncertainty in terms of financial settlements for local government in the future and how available funding will be shared between local authorities.

The government is expected to publish a Comprehensive Spending Review (CSR) in autumn 2021 covering a three year period. The uncertainty around the CSR is driven by lack of clarity on the outcome of the pandemic and the ongoing impact of Brexit upon the public finances. The forecast national deficit for 2020/21 is circa £300 million and it is forecast that this deficit will not have reduced below £100 million until at least 2025/26.

It is expected that the implementation of the findings from the Fair Funding Review (FFR), including any move to 75% Business Rate Retention, may now be delayed until at least 2023/24. There have been no further consultation documents released relating to the FFR, which indicates that it is now unlikely that this will be implemented in 2022/23. In addition, the government is presently reviewing Business Rates, the outcome of which could impact on the utilisation of business rates as a funding mechanism for local government.

The lack of clarity in relation to the CSR and FFR are exacerbated by uncertainties in relation to future council tax referendum levels, the Improved Better Care Fund, the national review of Social Care, short term funding provided to local authorities for adult and children social care pressures and the ongoing impact of the pandemic upon council services and especially council income.

This level of uncertainty is making financial planning difficult and requires the council to be flexible and adaptable in its financial planning. In this regard the strong financial position of the council will ensure that the council is well placed to react effectively to any outcome.

At this stage, the Council is prudently planning on the basis that the council will lose £16 million of funding over the next five years due to the impact of the outcome of the FFR but also from the forecast impact of further government funding reductions for local government to contribute to the recovery required to the national finances. It is forecast that the FFR will result in a loss of £10 million over a five year transition period with a £6 million loss due to austerity introduced over a three year period. The concern as regards the FFR continues to relate to the expected utilisation of the Advisory Council for Resource Allocation (ACRA) methodology for apportioning Public Health Grant which would result in a loss of £18 million of funding for the council, which is partially offset by gains the council would make due to other FFR formula changes

As the council begins to consider the budget plans for 2022/23, in line with previous practice, the MTFP Model has been reviewed and the financial forecasts for the next four years updated. The latest forecasts indicate a funding gap / savings requirement of £45.2 million will be required to balance the budget over the 2022/23 to 2025/26 period.

Savings are forecast to be required in all years of MTFP(12) as budget pressures and the impact of funding reductions outstrip the Council's ability to generate additional income from business rates and council tax. The forecasts assume the Council will apply the maximum increases in its Council Tax it is allowed to across each of the next four years, in line with government guidance.

The achievement of an additional £45.2 million of savings over the next four years will be extremely challenging – more so given the savings that the council has been required to achieve in the last ten years. The emphasis since 2011/12 has been to minimise savings from front line services by protecting them wherever possible whilst maximising savings in management and support functions. This is becoming much more difficult however, as the scope for further savings in managerial and back office efficiencies is becoming exhausted following the delivery of £247 million of savings up to 31 March 2022.

The total savings required at this stage for 2022/23 to balance the budget amount to £7.9 million, although it must be recognised that this figure could change significantly depending on the outcomes of the CSR, the 2022/23 local government finance settlement and any ongoing financial impact from the pandemic into next year.

Savings of £2.452 million for 2022/23 were approved in MTFP(11), however, this has been revised down to £1.5 million resulting in a savings shortfall of £6.4 million. The MTFP(12) forecasts assume that there will be a 3.99% council tax increase in 2022/23, in line with MTFP(11) planning and 1.99% increases per annum thereafter. The 3.99% increase next year includes an assumed 1.99% council tax referendum limit increase and 2% for the adult social care precept delayed from 2021/22. The £6.4 million savings shortfall is also based upon all short term investments included in the 2021/22 budget ending in line with MTFP(11) planning expectations.

A much more challenging position is forecast for the council in 2023/24, where the savings required to balance the budget in that year is forecast to be £17.7 million. The budget in 2022/23 is protected by the withdrawal of funding for all short term investments that were factored into the 2020/21 and 2021/22 revenue budgets. The budget position for 2023/24 is likely to be the norm in the future for all local authorities like ourselves with low tax bases, where increasing base budget pressures, especially in social care and waste, cannot be financed from increases in council tax and business rate yields.

Savings plans will need to be developed for consideration for 2022/23 but especially for 2023/24. Having plans in place will enable the council to react to the outcome of the 2022/23 local government finance settlement which is expected to be announced in December 2021.

If required, the council will be able to utilise the Budget Support Reserve (BSR) to balance the budget in 2022/23 as required. The current available balance in the BSR, as reported to Council on 24 February 2021, is £12.6 million.

The council is the only local authority now in the North East to have retained entitlement levels for Council Tax support within the Local Council Tax Reduction Scheme (LCTRS) in line with that which applied under the national Council Tax Benefit regime prior to 2013/14. This policy has protected vulnerable residents at a time when welfare reform changes have had a significant adverse impact. This report recommended that the current LCTRS is again retained and remains unaltered for a further year into 2022/23.

Decision

The Cabinet:

- (a) noted the requirement to identify additional savings of £45.2 million for the period 2022/23 to 2025/26;
- (b) noted the £1.5 million of savings (as revised) for 2022/23 which were previously agreed in MTFP(11);
- (c) noted this leaves a forecast £43.7 million savings shortfall across the MTFP(12) planning period, but also note that this forecast could change significantly based upon outcomes of the Comprehensive Spending Review, the Fair Funding Review and the ongoing impact of the pandemic upon council services and income;
- (d) noted that at this stage a forecast £6.4 million of savings are required to balance the 2022/23 budget;
- (e) agreed the high level MTFP(12) and 2022/23 budget setting timetable contained in the report;
- (f) agreed the approach outlined for consultation on the 2022/23 budget and MTFP(12);
- (g) agreed the proposals to build equalities considerations into decision making; and
- (h) agreed that Cabinet recommend to Full Council that the Local Council Tax Reduction Scheme should remain unchanged for 2022/23.

2020/21 Final Outturn for the General Fund and Collection Fund

Summary

The Cabinet considered a report of the Interim Corporate Director of Resources which provided Cabinet with information on:

- (a) the final revenue and capital outturn for the General Fund for 2020/21;
- (b) the final outturn for the Council's Council Tax and Business Rates Collection Fund for 2020/21;
- (c) the use of and contributions to earmarked, cash limit and general reserves in year and at year end together with the closing position regarding balances held at 31 March 2021; and
- (d) the achievement of Medium Term Financial Plan (MTFP) (10) savings targets in 2020/21.

Since the outbreak of the COVID-19 pandemic, the council, its partners, local businesses and local communities have been working tirelessly to respond to the pandemic and to put plans in place for the restoration and recovery of services post-pandemic. The financial impact of COVID-19 in 2020/21 is significant and complex, which, throughout the year, made forecasting the council's outturn position even more challenging than usual.

The long term impact of the pandemic on the council's finances beyond 2020/21 is still not clear, which adds to the uncertainty faced in terms of the council's longer term financial outlook, as set out in the MTFP(11) and 2021/22 to 2024/25 Budget Report to County Council on 24 February 2021 and in the updated MTFP(12) forecasts.

In the last year, the council has had to implement national support schemes at short notice such as the various Business Rates Grants Support Schemes; the Council Tax Hardship Support Schemes; Test and Trace Payments; the Winter Support Payments Scheme; Infection Control Schemes and Contain Outbreak Management schemes, as well as dealing with, and implementing, a range of supplier relief schemes. The council has also addressed increased demand for support to vulnerable households, whilst trying to accommodate new ways of working in response to the pandemic.

In 2020/21 service grouping budgets overspent by a net £24.928 million. This overspend position includes net additional expenditure and loss of income associated with the COVID-19 outbreak of £50.911 million. COVID-19 related underspends of £20.119 million were also achieved in year relating to the closure of facilities and disruption to normal activity as a result of the pandemic.

Non COVID-19 related cash limit underspends totalled £5.806 million, with a further £58,000 of non-COVID-19 related underspends against corporate budgets.

In year collection of Council Tax and Business Rates was significantly below budgeted levels in 2020/21 - through a combination of increased incidence of Council Tax Reduction and reduced payments as residents and businesses struggled to cope with the economic shocks caused by the pandemic. Formal recovery action was suspended for ten months on the year and full recovery action was not in place at all in 2020/21.

The government provided a range of specific grant funding streams in relation to the pandemic. In addition, government provided four non ringfenced tranches of funding to local authorities for additional costs incurred as a result of COVID-19. This funding was allocated based upon formulae determined by the government and the council received £45.7 million. Of this, £1.1 million was utilised to cover costs incurred in 2019/20, which left £44.6 million of funding available to be applied in 2020/21.

The council submitted returns for support under the government's Income Guarantee Scheme, which requires councils to bear the first 5% of any qualifying income loss after which the government provides a grant for 75% of subsequent losses. The council has been able to claim £8.890 million from the scheme for 2020/21, which includes the impact of the reintroduction and extension of the national lockdowns in quarter four.

In total, across the four tranches of non-ring fenced grant funding the council received for the additional costs incurred as a result of COVID-19 and claims under the Income Guarantee Scheme the council was provided with £53.490 million of grant support last year. The additional net expenditure and loss of income associated with the COVID-19 outbreak actual outturn was £50.911 million.

The government has introduced regulations so that the financial impact of any 2020/21 in year Collection Fund deficit for council tax and business rates must be spread over three years. Across the three years 2021/22 to 2023/24, the government is providing 75% grant support for the 2020/21 in year deficit position, although the assessment of loss for council tax does not provide coverage for non-collection below the council's 99% overall forecast collection rate. The COVID-19 pandemic impacted significantly on normal business as usual expenditure last year. There was delayed recruitment, savings against mileage and other costs as a result of large proportions of staff working from home and savings in operational building costs amongst other areas. In addition, care costs linked to hospital discharges during the period March 2020 to August 2020 were met by the Durham Clinical Commissioning Group under temporary national funding arrangements via NHS England.

These cases were treated as Continuing Health Care under the Discharge to Assess regime until such time as they are properly assessed so costs that would otherwise be normally met by the council are being recovered from the CCG. In reality, many of these cases continued to be funded by NHS England up to 31 March 2021.

Throughout the year it has been difficult to forecast the outturn position for 2020/21 and a wide range of assumptions had to be applied in formulating the quarterly forecast reports in relation to expenditure and income due to the uncertainty that existed regarding the impact of COVID-19 restrictions last year.

This uncertainty extends into 2021/22, where the council will face further challenges and budget pressures in relation to the continuing response to the pandemic and the restoration of services and supporting the post-pandemic recovery.

Government funding has been made available in 2021/22 to help with these challenges, but it is not certain whether this will be sufficient at this stage. There will potentially be a range of interventions required by the council and ongoing impacts post pandemic that will have an as yet unquantified financial pressure. The Cash Limit and General Reserves will potentially be required to meet any shortfalls in the funding that will be available this year.

The final revenue outturn position for 2020/21 is a net service grouping cash limit underspend of £5.806 million plus an overachievement of core government grant and underspend on all other budgets of £21.550 million, which includes COVID-19 related underspends excluded from the cash limit outturn position for service groupings of £20.119 million. The total net underspend is £27.356 million which represents 6.25% of the revised net expenditure budget of £437.355 million.

The end of year position detailed above has enabled the creation / replenishment of £19.9 million of earmarked reserves. Total general, earmarked and cash limit reserves (excluding school reserves) increased by £43.037 million in 2020/21, from £228.647 million at 31 March 2020 to £271.684 million at 31 March 2021. The end of year reserves position is significantly inflated due to the carry forward into 2021/22 of specific COVID-19 related grants received in 2020/21 but not defrayed last year, alongside the carry forward of short term investment budgets included in the 2020/21 budget but not invested due to the impact of COVID-19.

The most significant COVID-19 related grant funding carried forward in earmarked reserves is the £24.863 million Section 31 grant income the council received to cover the loss of business rate income in 2020/21. Businesses were able to access significant business rate reductions linked to COVID-19, which impacted on the councils business rates yield.

This loss of income was reimbursed to the council via a Section 31 grant. This sum however has to be carried forward as an earmarked reserve for application in the next three years in line with Collection Fund regulations.

The final capital outturn position for 2020/21 was an underspend of £20.427 million, which is 14.64% of the revised capital budget of £139.511 million agreed by Cabinet in March 2021.

The final outturn for the Council Tax Collection Fund is a deficit of £10.316 million. Durham County Council's share of the deficit is £8.707 million.

The final outturn for the Business Rates Collection Fund is a net deficit of £35.331 million of which Durham County Council's share (49%) is £17.312 million.

The council's share of the in year business rates deficit of £21.346 million, excluding the surplus brought forward from 2019/20 of £4.034 million, is offset in the General Fund by the receipt of additional Section 31 grants of £24.863 million, leaving a net in year surplus of £3.517 million at year end, mainly due to the surplus brought forward from 2019/20.

The government has indicated that the financial impact of any 2020/21 in year Collection Fund deficit for council tax and business rates must be spread over three years. Across the three years 2021/22 to 2023/24, the government will provide 75% grant support for the 2020/21 in year deficit position, although the assessment of loss for council tax does not provide coverage for non-collection below the council 99% forecast collection rate.

In 2020/21 the council has delivered MTFP(10) savings totalling £7.760 million, which was 97% of the £8.010 million target for the year. As at 31 March 2021, since 2011, the council has delivered over £241 million in savings / budget reductions to balance its budgets.

Decision

Cabinet noted:

- (a) the final revenue outturn underspend of £27.356 million which represents 6.25% of the revised net expenditure budget of £437.355 million;
- (b) the increase in the Cash Limit Reserves of £4.013 million during 2020/21, with closing Cash Limit Reserves of £15.772 million. These sums will continue to be held as Earmarked Reserves and be available for Service Groupings to manage their budgets effectively;
- (c) the closing General Reserve balance of £26.150 million;

- (d) the closing balance on General Fund Earmarked Reserves (excluding Cash Limit Reserves) is £229.762 million, which includes the creation / replenishment of £19.9 million of earmarked reserves at year end;
- (e) the closing balance on Schools Reserves is £35.298 million;
- (f) the outturn position for the Collection Funds in respect of Council Tax and Business Rates.
- (g) the amount of savings delivered during 2020/21 of the MTFP(10) period.

Cabinet approved:

- (a) that the capital budget underspend of £24.326 million be carried forward into 2021/22;
- (b) that service groupings continue to regularly review capital profiles throughout 2021/22, reporting revisions to Cabinet as necessary.

Helen Lynch
Head of Legal and Democratic Services
9 July 2021