RECORD OF EXECUTIVE DECISIONS

The following is a record of the decisions taken at the meeting of **CABINET** held on **Wednesday 12 July 2023**. The decisions will come into force and may be implemented from **Monday 24 July 2023** unless the Corporate Overview and Scrutiny Management Committee or its Committees object to any such decision and call it in.

Medium Term Financial Plan(14), 2024/25 – 2027/28, Review of the Local Council Tax Reduction Scheme and Council Tax Discretionary Discounts and Premiums Policy

Key Decision: CORP/R/23/01

Summary

The Cabinet considered a report of the Corporate Director of Resources which provided an update on the development of the 2024/25 budget and the Medium Term Financial Plan (MTFP(14)) covering the period 2024/25 to 2027/28. The report also considered a review of the Local Council Tax Reduction Scheme for 2024/25 and proposed changes to the Council Tax Discretionary Discounts and Premiums Policy.

The Council is continuing to operate in a period of significant financial uncertainty, particularly from 2025/26 onwards. This uncertainty is driven by continuing short term local government finance settlements, our inherent low tax raising capacity due to our low tax base alongside ongoing significant budget pressures in social care brought about by National Living Wage increases, enduring demographic pressures in Children's Social Care and the ongoing inflationary impact upon pay awards and service provision such as in waste and transport. The financial outlook for the Council will continue to be extremely challenging for the foreseeable future.

Future financial settlements for local government beyond 2024/25 and how available funding will be shared between local authorities is still unclear.

For a number of years local government has awaited the implementation of the outcome of the Fair Funding Review (FFR). Progress in this regard appears to have stalled, with no new consultations announced. It would appear highly unlikely that any changes will be implemented until at least

2025/26 with a 2026/27 implementation appearing much more likely. At the same time there was expectation of a business rate reset in 2023/24 as part of Business Rate Retention (BRR). This did not progress due to the delay in the implementation of the FFR and it would appear unlikely that a business rate reset will be implemented until the FFR is progressed. The council would expect to be a beneficiary of any business rate reset as business rate income growth in the county has been lower than the national average since the implementation of BRR in 2013/14.

Local authorities continue to be provided with one year financial settlements, which provide little financial certainty and security and given the timing of these announcements in late December, this provides little time to react for local authorities. Lack of clarity on the date of the next general election and the date for any future Comprehensive Spending Review further exacerbates the uncertainty experienced for a number of years now.

The 2023/24 local government finance settlement was a one year settlement but did provide indicative additional national allocations of social care and Better Care Fund grant income for 2024/25. It has been assumed that the sums announced in December 2022 will be received in 2024/25 and that the distribution methodology will be in line with that used in 2023/24.

There is however no clarity at this stage on any other additional funding for local government against the background of continuing high levels of inflation – in particular compensation for the impact of the Local Government Pay settlement, which has outstripped budget assumptions for the second year running. In addition, there is no clarity at this stage on the future of the New Homes Bonus, with our MTFP planning assumptions being that the funding will cease in 2024/25.

For future years the Chancellor of the Exchequer’s 2022 Autumn Statement announced that for the period 2025/26 to 2027/28, public sector funding will increase by 1% in real terms. This would indicate that the public sector funding will increase by 1% above inflation. On the basis it is likely that health, education and defence spending would once again be protected. This will unfortunately lead to some tough grant reductions for that period for unprotected government departments such as the Department for Levelling Up, Housing and Communities. At this stage, for modelling purposes we have assumed grant settlements for the council will be cash flat for the period 2025/26 to 2027/28. This may prove to be an optimistic assumption.

This level of uncertainty continues to make financial planning extremely challenging and requires the council to be flexible and adaptable in its financial planning. In this regard the strong financial controls in place and the councils track record in terms of managing its budgets and medium term financial planning arrangements, will ensure that the council is well placed to react effectively to any outcome.

As the council starts to consider the budget plans for 2024/25, in line with previous practice, the MTFP forecasts have been reviewed and updated covering the next four financial years - 2024/25 to 2027/28. Financial plans have been updated to for unavoidable inflationary and other demographic cost pressures the council will face. The Consumer Price Index (CPI) peaked at 11.1% in October 2022 and although this has reduced to 8.7% for the twelve months to April 2023, it is now forecast to stay higher for longer than the Chancellor set out in his budget forecasts. In addition, the Low Pay Commission are forecasting that the National Living Wage will need to increase by higher levels than previously estimated due to national median wages increasing higher than previously expected – with a 7.1% increase assumed to be implemented from April 2024 in our financial forecasts.

There are a range of unavoidable base budget pressures which have also needed to be reflected in the financial forecasts. These unavoidable base budget pressures include ongoing income pressures in 2024/25 for Leisure (£1.0 million) and Aycliffe Secure (£0.6 million), housing benefit subsidy shortfalls linked to increased costs of temporary and supported accommodation (£2.0 million) that need to be accommodated next year and forecasts of future waste disposal contract costs from 2026/27 (£3.0 million).

The updated forecasts indicate a funding gap / savings requirement of £56.014 million to balance the budget over the 2024/25 to 2027/28 period. Savings are forecast to be required in all years of the MTFP(14) planning period as a combination of unavoidable base budget pressures from inflation and other demographic changes not being offset by new government grant funding meaning that our spending pressures outstrip the Council's ability to generate additional income from business rates and council tax. The forecasts assume the Council will apply the maximum Council Tax increases allowed across each of the next four years, in line with government guidance.

The achievement of an additional £56.014 million of savings over the next four years will be extremely challenging and should not be under-estimated – 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 and by targeting increased income from charging. 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 £262 million of savings up to 31 March 2024.

The total savings required at this stage for 2024/25 to balance the budget amount to £12.135 million, although this figure could change depending on confirmation of the expected levels of increases in government grant in 2024/25 and whether the council experiences further additional financial pressures due to demand, loss of income or due to the impact of inflation. Of particular concern is whether the current 2% assumed pay award in 2024/25 will be sufficient and depending on how and whether inflation is brought more under control as the year progresses there may be a need to increase the pay award pay inflation forecast next year. Every 1% adds £2.65 million to the councils pay bill – increasing the funding gap that needs to be bridged to balance the councils budget.

Savings of £2.225 million for 2024/25, £1.873 million for 2025/26 and £1.780 million for 2026/27 were approved in MTFP(13), when the 2023/24 budget and MTFP(13) were agreed at Council on 22 February 2023. These savings are assumed to be deliverable and will contribute to meeting the forecast £56.014 million savings shortfall. The previously agreed savings are set out at Appendix 2 of the report.

The MTFP(13) forecasts assumed that there would be a 4.99% council tax increase in 2024/25, and 2.99% increases per annum thereafter. The 4.99% increase for 2024/25 includes a 2% increase for an adult social care precept in line with government expectations. The updated MTFP(14) forecasts assume the same at this stage. Decisions on council tax are ultimately matters reserved for County Council at budget setting in February 2024.

Every 1% of council tax increase generates circa £2.675 million, so if the Council ultimately chooses not to maximise its council tax increase in line with government expectations, the funding gap will increase by a further £2.675 million for every 1% it is below the expected level. Without a sustainable strategy to meet the additional challenge this would result in would not represent prudent fiscal management of the public finances.

The council continues to challenge government on the equity and effectiveness of council tax, both as a tax and as a fair method of funding local government. The council will continue to use every opportunity to raise this issue, especially as part of any consultation on the Fair Funding Review.

A challenging financial position is also forecast for the council in 2025/26, where the savings required to balance the budget in that year is forecast to be £16.157 million. The budget position for 2026/27 and beyond is also forecast to require the council to continue to seek savings where increasing base budget pressures, especially in social care and waste, cannot be financed from increases in council tax and from business rate yields. This is a symptom of our low tax raising capacity and the flaws in the current funding mechanisms for local authorities like ourselves.

Additional savings plans have been developed to assist in balancing the 2024/25 budget and help reduce the funding deficit across the next four years. Initial new savings proposals included in the report total £6.617 million for consideration and consultation across the coming months, with £3.725 million potentially available in 2024/25. The initial new savings proposals are set out at Appendix 3 of the report.

In addition to these new savings proposals for consideration and consultation, the report sets out proposals for consulting upon utilising additional council tax flexibilities for empty and second homes, which would result in a 100% premium being applied to homes that have been empty for more than twelve months rather than the current policy of applying this after twenty four months, and a 100% premium applied to second homes. The changes in relation to empty properties could be implemented from 1 April 2024, whereas the changes in relation to second homes could only be implemented from 1 April 2025. These proposals will also be subject to consultation over the coming months.

Savings plans for 2024/25 include a proposal to reduce the grant support the council provides to Town and Parish Council's linked to the implementation of Local Council Tax Reduction in 2013. The proposal is to consult with Town and Parish Councils on a 50% reduction in this grant, phased in over two years, to assist Town and Parish Councils in factoring this into their budget and medium term financial plans.

The previously agreed MTFP(13) savings plans and the new proposed MTFP(14) savings plans for consideration and consultation, together with the potential changes to the Council Tax Discretionary Discounts and Premiums Policy included in this report could reduce the savings shortfall to £6.185 million in 2024/25 and £43.519 million over the MTFP(14) planning period.

Work will continue in terms of identifying additional savings plans for 2024/25 over the coming months to enable a balanced budget to be set and limit the reliance on reserves. Although the MTFP Reserve is available to support the budget, which presently has a balance of £27 million, the size and scope of future savings shortfalls across the MTFP(14) period requires the council to seek to adopt a strategy of protecting the MTFP Reserve in 2024/25 as far as possible. The use of reserves to balance the budget is not a sustainable position and is only recommended where there is a need to smooth in more sustainable budget solutions.

The council is the only local authority 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 and more recently the pressure on household incomes from cost of living increases have had a significant adverse impact. The report recommended that the current LCTRS is again retained and remains unaltered for a further year into 2024/25. Should the Cabinet agree these proposals, the Council will need to formally adopt this policy at Full Council prior to 11 March 2024, with a report scheduled for consideration by Council in October 2023.

Decision

The Cabinet:

(a) noted the savings attached at Appendix 2 of the report which were previously approved in MTFP(13);

(b) noted and approved that consultation progresses on the new savings proposals developed for MTFP(14) as set out at Appendix 3 of the report, alongside the equality impact assessments contained at Appendix 5 of the report ;

(c) approved that consultation begins on the implementation of additional council tax flexibilities for empty and second homes as set out in the report;

(d) approved that consultation begins in relation to proposed reductions in grant support for Town and Parish Councils;

(e) noted the updated MTFP forecasts and the requirement to identify additional savings of £56.014 million for the period 2024/25 to 2027/28 but also noted that this forecast could change significantly based upon decisions on council tax, the outcome of future government funding settlements, the Fair Funding Review and the ongoing impact of demand for services and inflationary pressures upon the council;

(f) noted that at this stage it is forecast that additional savings of £12.135 million are required to balance the 2024/25 budget;

(g) agreed the high level MTFP(14) and 2024/25 budget setting timetable contained in the report;

(h) agreed the approach outlined for consultation on the 2024/25 budget and MTFP(14);

(i) agreed the proposals to build equalities considerations into decision making; and

(j) agreed that Cabinet recommend to Full Council that the Local Council Tax Reduction Scheme should remain unchanged for 2024/25.

Review of Customer Access Point Service Offer

Key Decision: CORP/R/23/06

Summary

The Cabinet considered a report of the Corporate Director of Resources which outlined proposals to consider adjustment to the face-to-face service offer in four of our least used Customer Access points (CAPs) considering reduced demand and in line with preserving channel choice.

The report sets out the consultation and equalities impact assessment (EIA) on the proposals, which are linked to the achievement of savings targets included in MTFP(13).

Changes in both working practices and customer behaviour have resulted in a reduction in demand for face-to-face customer service provision and an increase in demand across alternative customer service pathways.

Customer Services staff now use multiple channels to meet service demand including telephony, which remains the most popular channel, email, webchat, social media, and face to face. More recently, an Artificial Intelligence based “Chatbot” has been successfully introduced to complement these channels.

A demand led offer proposing the implementation of reduced opening times across four Customer Access Points (CAPs) that encounter the least footfall, to create efficiencies in the current operating model without the closure of any of our current CAP locations, was put forward as part of the medium-term financial plan (MTFP) 13 savings proposals.

The aim of this approach is to maintain channel choice for customers balanced against the need to provide an efficient, value for money service that maximises use of resource and allows reinvestment of resource into other contact channels where demand is increasing.

Estimated savings of £137k were included in MTFP13 aligned to a proposed change in service offer, with an implementation of the adjusted service offer to be achieved by 1 October 2023.

It is anticipated that the MTFP savings will be made by the reduction of four Full Time Equivalent (FTE) Customer Services Officer posts, which can be achieved by the deletion of vacant posts. There is also an ERVR expression of interest within the service at management level which can be supported.

A public consultation was carried out between 22 January 2023 and 6 March 2023 with 396 respondents, a low level of participation but reflective of our decline in footfall.

The resident feedback from this consultation and a review of demand data across the financial year 2022/23 has led to adjustments to the proposed opening days for these four CAPs, although the number of days provision proposed to be available has not been adjusted.

A full EIA was carried out and it is recognised that older age groups, over the age of 65 years and people with disabilities are more likely to access face to face provision at CAPs and this is reflected in the percentage of consultation respondents from those groups.

Although there is a potential disproportionate impact in terms of older age and disability in terms of reducing opening days at the four CAPs, provision will remain open on the days most used currently by these residents.

Appointments will remain available as will alternative customer access channels including telephone, email, social media and webchat.

Whilst most respondents wanted CAPs to be available five days a week, on balance the proposed adjustment remains the most appropriate option for our residents, the organisation, and the service.

The proposals will allow for resource to be realigned to telephony, email, social media, and webchat support, all of which have seen a substantial increase in demand since the pandemic, thus benefitting all customers accessing support via these channels.

Reasonable adjustments will continue to be made where necessary for customers with a disability, and language support for customers whose first language is not English.

Communication and engagement activity to support the changes and promote different customer service access channels will be rolled out in advance of proposals being implemented in a number of ways including but not limited to information on the DCC website, member and partner briefings, social media communications, posters in CAPs.

It is anticipated that a reduction of four Full Time Equivalent (FTE) will be managed through the deletion of vacant posts and one ER/VR therefore there is no specific equality impact and formal staff consultation is not required.

The full Equalities Impact Assessment can be found at Appendix 4 of the report.

Decision

The Cabinet:

(a) Noted the content of the report and the information contained within; and

(b) Approved the proposed demand led adjustment to service offer across Barnard Castle, Chester le Street, Consett and Stanley CAPs with effect from 1 October 2023.

Community Engagement Review

Summary

The Cabinet considered a report of the Corporate Director of Neighbourhoods and Climate Change which provided Cabinet with an update on the findings from the countywide public consultation on ERS consultant's proposals for the council's community engagement function and to agree the recommendations for a revised function.

Following agreement by Cabinet in March 2022, consultant ERS were appointed to undertake an impartial and unbiased review of the council's community engagement function i.e. primarily the work of the Area Action Partnerships (AAPs). The consultant's report makes a number of recommendations aimed at improving our focus on community development and enhancing the capacity of local communities and individuals to become more involved in improving their area.

These recommendations were the subject of a countywide consultation exercise during the period 13 March to 23 April 2023. The council consulted with staff, elected members, AAP Board and Forum members, key partners, residents and other interested parties. Responses included: 188 survey responses; multiple online consultation sessions were held and presentations delivered as agenda items at various partner and key stakeholder meetings where participants comments were noted for inclusion as consultation feedback; and 41 consultation responses were submitted via a dedicated consultation email address from a wide range of stakeholders.

Analysis of the consultation survey responses and other feedback shows that AAPs evoke a diverse range of opinions and that the review is a welcomed and timely opportunity to provide a natural progression from the existing AAP model.

In general, levels of satisfaction and support for the principles and functioning of AAPs are high. Most respondents are more supportive of incremental rather than whole scale change, with the preference to adopt some, not all the consultant's recommendations, building on the significant strengths of the current AAP model. Where the consultation analysis demonstrates broad agreement for the consultant's proposals, these have been included in the design of the new model.

The new model will deliver Local Networks which will primarily be based on the current AAP boundaries. Subject to outcomes of the Local Government Electoral Boundary Review, Local Networks will have the potential to align current AAP boundaries to the new electoral wards. Local Network boundary alignment will be reviewed following the outcomes of the Local Government Electoral Boundary Review (consultation closes 10 July 2023 and the final recommendations are due to be published 28 November 2023).

Local Networks will aim to attract involvement of a greater number, and a broader range of residents and local stakeholders through increased use and the relaunch of the current AAP Forum and its 15,000 members to form a County Durham Community Network. Opportunities will be enhanced to use new and traditional engagement tools and activities to improve local residents and partners engagement with Local Networks, and attendance at meetings and events is increased.

Local Network Panels will govern and manage the affairs of Local Networks in ways that are clear and transparent and demonstrate proper accountability to the County Council, partner organisations, stakeholders and the wider community.

Local Networks will adopt a more strategic approach to their work and outcomes through focussed Local Network meetings (reduced number per year) and the development of an individual local network plan in consultation with the County Durham Partnership and its thematic partnerships. Local network plans will help inform strategic priorities and identify opportunities for increased joined up working between Local Networks, partners and other Durham County Council (DCC) services.

Local network plans will be informed by: community views (residents and partners) facilitated by Local Network meetings and locality events; consultation and engagement with the County Durham Community Network and County Durham Partnership and its' thematic partnership sub groups; and utilising greater use of empirical data via a unique local profile (e.g. robust and detailed view on the profile and demographics of the Local Network area).

New governance including Terms of Reference (ToR) will clearly define the purpose, structure and functions of the Local Networks. It will provide in detail eligibility criteria, roles and responsibilities of Panel members and robust processes around recruitment and selection of Panel members to deliver improved assurance that Local Network Panels will be non-political.

Local decision making and transparency will be maintained with the AAP Board being replaced by a Local Network Panel and financial accountability will be improved with new funding guidelines and criteria and increased transparency on funding applications.

Application and funding processes will be streamlined to deliver improved efficiencies for applicants, elected members and Local Network staff. Improved processes and reduced formal Local Network meetings will ensure Local Networks have enhanced opportunities to carry out focussed engagement/neighbourhood planning type activities in particular with communities identified in the local network plan.

Following Cabinet agreement, the existing project group, sponsored by the Cabinet Portfolio Holder for Economy & Partnerships and led by the Corporate Director of Neighbourhoods & Climate Change, will deliver the next phase of this project to implement the new model. A detailed project and communications plan will be initiated in August 2023 with key milestones monitored against delivery.

AAPs will continue to operate as Area Action Partnerships until 31 March 2025, and on 1 April 2025 they will assume their new identity as Local Networks.

Where practically possible, and where it will cause no interruption to service delivery, improved/new processes and procedures will be implemented prior to April 2025. This will help test processes and to then embed improvements at the earliest opportunities and ensure efficiencies are realised promptly. This will also include the development and delivery of training and briefings for relevant stakeholders where necessary during the transition period, and for the April 2025 'go live', including working with the County Durham Partnership Board and thematic partnerships to design and agree their role in the development and delivery of local network plans.

A launch campaign to set in motion, raise awareness and promote the New Local Networks will commence in January 2025 with Local Networks and their elected members delivering enhanced promotional and community engagement activities to attract new participants prior to an official 'go live' in April 2025.

A programme of tailored briefing and training sessions will be delivered for relevant stakeholders where necessary during the transition period, April 2025 'go live', and the appointment of new Panel members in May 2025. This will include: working with the County Durham Partnership Board and thematic partnerships to design and agree their role in the development and delivery of local network plans; governance and ToR protocols for Panel members; funding guidelines and criteria; and process arrangements for all relevant key stakeholders.

The new Local Network model is based on the existing funding and staffing team complement and staff are currently based within their geographic AAP boundaries. Within the current council staff hybrid working arrangements staff will have greater flexibility to identify days and locations where they can temporarily be based in buildings within the community to work more closely with the specific community groups/organisations they are currently supporting etc.

An equalities impact assessment screening details the potential impact of the protected characteristic groups for the implementation of the new model. In summary the recommendations for the new community engagement model do not disproportionately impact (both negatively and positively) the protected characteristics. The model is designed to be as inclusive as possible, with reasonable adjustments made where necessary in order to ensure the participation of people with disabilities.

In consulting and listening to the voices of our current AAP members, residents, partners and elected members etc. we intend to implement a new and improved community engagement model building on strengths of the current model and opportunities presented through the review and consultation phases. The new Local Networks will help the council, with our partners, to better engage, consult with and develop our communities so we can tackle the challenges that we face more effectively and help build more resilient communities.

Decision

The Cabinet:

a) noted the outcomes from the countywide consultation exercise;

b) agreed the proposed new Local Network model as the council's main community engagement function;

c) agreed the proposed timescales for phased implementation and transitional arrangements; and

d) agreed to receive an update on delivery progress including new governance arrangements and terms of reference in September 2024.

2022/23 Final Outturn for the General Fund and Collection Fund

Summary

The Cabinet considered a report of the Corporate Director of Resources that provided Cabinet with information on the final revenue and capital outturn for the General Fund for 2022/23 and the final outturn for the Council's Council Tax and Business Rates Collection Fund for 2022/23. The report detailed 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 2023. The achievement of Medium Term Financial Plan (MTFP) (12) savings targets in 2022/23 were also reported.

During the last two financial years the council has faced unprecedented budget pressures as a consequence of the Covid-19 pandemic. Across that period the government provided significant additional funding to local authorities to ensure they were able to respond to and manage the financial challenges faced.

In County Durham, the funding received more than offset the costs incurred, net of Covid-19 related underspending, over the last two years, but no further funding is available to the council to offset any legacy impacts arising from the pandemic.

In 2022/23 the council has faced further financial challenges, mainly resulting from the impact of the Ukraine conflict. Consumer Price Index inflation (CPI) in the UK economy peaked at 11.1% during 2022/23 and this has driven significant upward pressure across a range of expenditure budgets. Some specific areas of council spending have exceeded the in year CPI level, especially in relation to energy, fuel, and external contracts where energy and fuel are a major factor, such as waste disposal and home to school transport budgets.

During 2022/23 the Government announced the Energy Bill Relief Scheme to cap energy costs for households and businesses across the winter period (October 2022 to March 2023). The North East Purchasing Organisation (NEPO) provided regular updates throughout the year on energy purchasing strategies, which sought to provide secure energy at the most cost effective price.

The impact of escalating inflation, which also impacted household incomes, was recognised during the 2021/22 final outturn. At that time a £10 million earmarked budget support reserve was created to contribute to the high inflationary costs expected during 2022/23, which had manifest after the 2022/23 budget had been set.

The price fluctuation in the energy and fuel markets has been significant and complex across the year. There have been a series of bank interest rate changes (increases) across the year as the Government has sought to curb inflation. It is not clear at this stage when the volatility being experienced will fully dissipate, though the Chancellor of the Exchequer has set out that he expects CPI to steadily fall during 2023/24.

The Local Government Employers offer of £1,925 flat rate increase to ‘Green Book’ employees (covering the vast majority of council employees) was accepted on 1 November 2022. The increase equated to a 6.6% increase in the council’s 2022/23 pay budget, with those employees on the lowest grade receiving a 10.55% increase to keep parity with the National living Wage increase that was forecast for April 2023. After taking into consideration in year vacancies, this added circa £6.5 million to council costs in 2022/23 as the pay award was greater than the 3.25% budget provision.

The change in Government policy regarding the National Insurance and the Health and Social Care Levy announced during 2022/23 equated to an in year saving of circa £0.7 million.

Throughout the year it has been difficult to accurately forecast the outturn position for 2022/23 and a wide range of assumptions (as a result of inflation uncertainty) were applied in formulating the in year quarterly forecast reports in relation to both expenditure and income.

In 2022/23 service grouping budgets overspent by £31.850 million. A sum of £7.294 million was specifically available in general contingencies to cover the forecast cost of the pay award resulting in a gross overspend across all service budgets of £24.556 million.

The inflationary pressures in relation in energy, waste disposal and transport, along with the shortfall on the pay award have been funded corporately and have been treated as outside of service cash limit budgets. The net inflationary costs covered corporately have totalled £9.530 million. In addition, other items funded as outside services cash limits or by earmarked reserves totalled a net £1.894 million, resulting in a net service year end cash limit overspend of £13.132 million for 2022/23.

The recurrent inflationary pressures impacting upon the 2022/23 budget were taken into consideration within the 2023/24 Revenue Budget and MTFP (13) approved by Council on 22 February 2023, but the position will need to be kept under review as part of the 2023/24 in year monitoring process.

The MTFP (13) report to Council on 22 February 2023 highlighted further ongoing budget concerns for the council with a forecast savings shortfall of £23.177 million over the 2023/24 to 2026/27 period, and the delivery of further savings becoming ever more challenging to achieve. A separate report sought to update those forecasts across the period 2023/24 to 2027/28.

The net service grouping cash limit overspend of £13.132 million includes an overspend within the Children and Young People’s Services of £14.252 million. This service does not have a cash limit reserve to offset this overspend, so in line with previous practice, this overspend have been financed from the General Reserve at year end.

After taking into account movement within other corporate budgets and full utilisation of the £10 million budget support reserve, the council’s budget has overspent by £5.366 million in 2022/23 representing 1.05% of the net expenditure budget of £510.986 million.

Total earmarked and cash limit reserves (excluding school reserves) reduced by a net £38.991 million in 2022/23, from £235,529 million at 31 March 2022 to £196.538 million at 31 March 2023.

At quarter three, approving transfers between earmarked and corporate reserves totalling £38.818 million to replenish a range of corporate reserves and support the council in setting balanced budgets and making savings in a timely manner.

The outturn has resulted in a general reserve balance at 31 March 2023 (prior to any transfers) of £20.532 million. In line with the Council's current reserves policy (which aims to maintain a general reserve balance of between 5% and 7.5% of the net budget requirement in the medium term), a transfer from the MTFP Support Reserve has been actioned at year end. £5.485 million has been transferred into the general reserve to replenish it to the policy minimum of £26 million as agreed by Council on 22 February 2023. This transfer has resulted in a reduction in the MTFP Support Reserve from £42.480 million to £36.995 million. £10.028 million of this reserve was utilised to set the 2023/24 budget, leaving £26.967 million available to support budget setting from 2024/25 onwards.

In terms of the capital programme, the final capital outturn position for 2022/23 is that expenditure was lower than that forecast at quarter 3, with capital expenditure totalling £143.05 million last year, £22.024 million (13%) lower than the revised capital budget of £165.074 million agreed by Cabinet in March 2023. Total capital expenditure in 2022/23 was broadly in line with the level of capital spending achieved in 2021/22 and capital spending over the last two financial years has been significantly higher than that in the years prior to 2021/22.

Performance against the various prudential indicators agreed by council in February 2022 are shown in paragraphs 144-150 of the report and show that the council has operated and continues to operate within the boundaries agreed.

The final outturn for the Council Tax Collection Fund is a deficit of £2.615 million after accounting for the deficit brought forward and the third and final instalment of the phasing of the 2020/21 deficit (£1.907 million). Durham County Council's share of this net deficit is £2.199 million. The outturn position is broadly in line with the quarter three forecast presented to Cabinet in March.

The final outturn for the Business Rates Collection Fund is an in year net deficit of £5.387 million. After taking into account the 2021/22 undeclared surplus, the cumulative deficit is £4.556 million of which Durham County Council's share (49%) is £2.238 million.

The council's share of the business rates deficit is offset in the General Fund by the receipt of additional Section 31 grants of £4.540 million.

In 2022/23 the council delivered 93.86% (£2.278 million) of the MTFP (12) savings factored into the 2022/23 budgets, which totalled £2.427 million. As at 31 March 2023, since 2011, the council has delivered over £250 million in savings / budget reductions to balance its budgets.

Decision

The Cabinet noted:

(a) the final revenue outturn overspend of £5.366 million which represents 1.05% of the revised net expenditure budget of £510.986 million;

(b) the net decrease in the cash limit reserves of £3.509 million during 2022/23 with closing cash limit reserves of £8.056 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 £26.017 million (£20.532 million prior to transfer from MTFP Support Reserve), which is within the council's general reserves policy of retaining a balance of between 5% and 7.5% of the net budget requirement (£26 to £38 million);

(d) the closing balance on earmarked reserves (excluding cash limit and schools' reserves) of £188.482 million – an in year reduction of £35.482 million;

(e) the closing balance on DSG / schools related reserves of £28.463 million – an in year reduction of £2.756 million;

(f) the outturn position for the Collection Funds in respect of Council Tax and Business Rates.

(g) the amount of savings delivered during 2022/23 of the MTFP (12) period.

(h) the inflationary pressures that have been managed within contingencies and via the Budget Support Reserve during 2022/23 and the requirement to manage via reserves and service cash limits going forward.

Cabinet approved:

(a) that the capital budget underspend of £22.024 million be carried forward into 2023/24;

(b) that service groupings continue to regularly review capital profiles throughout 2023/24, reporting any proposed revisions to Cabinet as necessary.

Council House Delivery Programme Update

Summary

The Cabinet considered a report of the Corporate Director of Regeneration, Economy and Growth which updated Cabinet on work undertaken to develop a viable council house delivery programme since initial approval was given by Cabinet in October 2020 to deliver 500 council homes by 2026. The report provided information on how the Council has responded to a number of challenges, including inflationary pressures in the construction sector, rising interest rates, and the quality and size of some of the allocated sites in Phases 1 and 2, which have presented additional challenges for the delivery of the programme.

The report provided an updated business case for the delivery of both general needs and bungalow accommodation, provided an updated business plan model and outlined new governance and delivery arrangements. The report sought Cabinet approval for the development of three sites to commence the programme.

In October 2020, the Council agreed to a council house building programme of 500 homes by March 2026. The report updated Cabinet on the work that has been progressing in a challenging economic climate and revises the business case and supporting business plan for the programme for three substantive reasons:

(a) the macro-economic environment, including the global energy crisis, since the development of the original business plan, which has resulted in high inflation and interest rates that have affected both the construction industry and the Council's own budgetary position;

(b) the original delivery approach did not support the most viable and cost-effective outcomes, especially given the complex nature of the sites included within the programme;

(c) rising costs to the Council for the provision of Temporary Accommodation, as a result of more households with complex needs becoming homeless and the failure of the market to provide affordable accommodation for them.

The October 2020 business case noted that the programme would seek to deliver affordable homes to meet identified needs and to deliver homes for older people, noting that there had been a lack of bungalow provision. The market is unable to deliver the number of affordable housing numbers required to meet the identified need of 836 affordable houses per year. In the five years between 2017/18 and 2021/22, the number of new affordable homes delivered (2,647) fell 36.7% short of the number needed (4,180). Without intervention the situation is unlikely to change. In demographic terms, the population of County Durham is ageing and over the next few decades, there will be a ‘demographic shift’ with the number (and proportion) of older people increasing.

However, the updated business case notes that the development of bungalows can present additional challenges in ensuring the cost of development remains viable. There are also some sites where the development of bungalows would not be appropriate because of the topography of the local area or lack of access to key local services. Therefore, in the early years of a fledgling HRA, whilst the programme will still deliver a proportion of bungalows, these will be delivered alongside a range of house types. As the HRA matures, the balance between bungalow and general needs accommodation can shift so that more bungalows can be provided. It remains an aspiration that, over the lifetime of the delivery programme, bungalow accommodation represents the single largest dwelling type provided. Furthermore, the updated business case notes that the provision of general needs would also provide more flexibility to provide permanent accommodation for families facing the threat of homelessness and relieve the cost of temporary accommodation on the General Fund.

Developing a portfolio of council houses as an asset within the ownership of the Council is a significant benefit that will help reduce the reliance on temporary accommodation whilst giving the Council direct control over its stock. The Council will provide services to the HRA via service level agreements providing some coverage of council overhead costs although it is recognised that whilst the number of houses is relatively low the sums involved will not be significant. As with other registered providers operating in County Durham, the HRA will contribute towards the cost of running the Council’s Allocations Scheme, whilst having its own stock can also contribute towards other corporate priorities.

The financial model has been updated based upon advice from Savills Affordable Housing Team taking account of market intelligence and current best practice. The financial modelling and revised business plan are detailed within the report.

The financial model provides assurance that the programme is both affordable and viable at an overall programme level. As the programme progresses, detailed work will be undertaken at an individual scheme level. The viability of each scheme will vary due to a range of factors, including the size and mix of the proposed development, ground conditions, rent levels and the level of grant available from Homes England.

In the context of a challenging delivery environment, with inflationary pressures and rising interest rates, it is considered appropriate to have a range of delivery approaches which can be utilised as appropriate to maximise viability and pace of delivery in different development contexts.

The Council will seek a construction partner(s) to deliver its new build programme. The delivery approach will have at its core an output specification led, 'design and build' approach to development. The use of this approach seeks to capitalise on market efficiencies including the use of established supply chains and value engineered housing products. The Council will determine the output specification to ensure that properties meet the required standards including the latest Building Regulations, the Nationally Described Space Standard (NDSS), and the M4(2) accessible and adaptable homes.

The programme will be delivered with oversight from the Council House Delivery Oversight and Approvals Board. The Council's legal and procurement services will continue to provide advice as the programme develops. Appendix 5 of the report sets out the governance approach for the programme. It is noted that Cabinet will approve sites for inclusion within the programme.

On 10 February 2021, Cabinet agreed the process for approving the viability of each individual scheme. This authority was delegated to the Council Housing Delivery Approvals Board comprising the Corporate Director of Regeneration and Economic Growth and the Corporate Director of Resources, in consultation with the Portfolio holders of Resources Investments and Assets and Finance to consider detailed reports on scheme viability and to approve schemes for full development.

There will inevitably be occasions where an individual scheme is judged to be unviable but when considered along with other schemes does not undermine the overall viability of the programme and is approved where there are sound reasons for doing so, these schemes will require additional council subsidy from the approved budget.

The report noted the role of the council house delivery programme in reducing costs associated with the provision of temporary accommodation. The Council's cost of providing temporary accommodation has increased from £10,343 in 2016/17 to £806,179 in 2022/23, which has resulted in a short term uplift for the budget for 2023/24 of £750,000. Several key factors have contributed towards this increase in cost including:

(a) the Council no longer has a property portfolio to directly deal with needs of families requiring temporary or permanent accommodation but retains a statutory duty towards people who are threatened with homelessness;

(b) the statutory duties the Council has towards families threatened with homelessness were extended in the Homelessness Reduction Act 2017;

(c) the specific policies introduced by the Government to support households and businesses during the Covid pandemic including employment support and an eviction ban have now been rescinded and since this time, there has been a significant rise in the number of evictions;

(d) people are presenting as homeless with increasingly complex needs, resulting in registered providers being unable to assist in some cases.

If unchecked, it would be reasonable to expect that homelessness will continue to rise in the light of the current cost of living crisis which is putting further pressure on family finances.

To address this and bring the Council's costs back under control, action is required in several key areas and the council house delivery programme is seen as a part of this. The programme would deliver move on accommodation for those households in costly temporary accommodation and meet housing needs.

Decision

The Cabinet:

(a) Approved the Council House Delivery Programme Business Case, encompassing strategic, economic, financial and management considerations as set out at paragraphs 21 to 72 of the report;

(b) Approved the Council House Delivery Programme as set out at paragraphs 73 to 74 of the report, which reconfirms the progression of sites contained in Phase 1 and 2 of the Programme, subject to viability considerations;

(c) Approved the Council House Delivery Programme Governance Approach as set out at paragraph 72 and Appendix 5 of the report and agreed delegated powers to:

i. the Head of Corporate Finance & Commercial Services and the Head of Planning and Housing in consultation with the Cabinet Member for Resources, Investment and Assets (acting as the Council House Delivery Operational Programme Board) to approve sites for delivery that are viable; and

ii. the Corporate Director for Regeneration and Economic Growth and the Corporate Director for Resources in consultation with the Cabinet Member for Resources, Investment and Assets (acting as the Council House Delivery Oversight and Approvals Board) to approve sites for delivery that are not viable;

(d) Approved the Council House Delivery Programme procurement strategy, as set out at paragraphs 82 to 85 of the report, to award a framework agreement following an initial restricted procurement process. The framework will have a minimum of three suppliers appointed and will have both direct award and further competition call off mechanisms permitted;

(e) Approved the Rural Delivery Framework as set out paragraphs 75 to 77 and at Appendix 6 of the report, which sets out a specific range of delivery approaches on the basis that the Council does not have suitable land holdings in the rural west of the County; and

(f) Approved the consideration of non-viable sites as long as the overall HRA remains viable in line with the governance approach set out at paragraph 81 and Appendix 5 of the report.

Digital Strategy for County Durham

Summary

The Cabinet considered a report of the Corporate Director of Resources which sought approval and adoption of a new and updated Digital Strategy for the county.

In 2019 the council adopted a digital strategy. Since that time a significant digital transformation has taken place. The council has achieved a range of successes and is continuing to deliver an ambitious programme of transformation.

The updated Digital Strategy set out in the report (the strategy) builds upon the existing strong foundations and provides the opportunity to further develop and build upon our digital principles, whilst adapting to the changing environment we work and live in and the developing needs of our communities.

The new strategy has been developed through consultation with key groups and a wide range of stakeholders across the county. The proposed strategy has also been considered and supported by Corporate Overview and Scrutiny Management Board.

The new five-year strategy is an important step forward in our commitment to connect our communities and meet our 2035 vision as a County.

The updated digital strategy is structured around five digital themes:

(a) Digital Customer;
(b) Digital Council; and
(c) Digital Community;

These themes being supported by two enabling themes:

(d) Digital Collaboration; and
(e) Digital Inclusion

The two enabling themes are critical to ensuring that we are delivering in the right way and when progressed together, which will enable us to further achieve our vision of a digital county.

The strategy will be reviewed regularly to ensure that it continues to align with the County Durham Vision and Corporate Plan.

The strategy will be supported by a delivery plan which is currently being developed and will be finalised by September 2023.

The updated strategy will be designed and published as web content, in line with best practice and accessibility legislation.

Decision

The Cabinet:

(a) Approved the adoption of the updated digital strategy; and

(b) Approved the publication of the updated digital strategy on the Council's website as an interactive document.

Council Employment Services – Future Delivery

Summary

The Cabinet considered a joint report of the Corporate Director of Children and Young People's Services and Corporate Director of Regeneration, Economy and Growth which updated Cabinet of issues surrounding the approaching project end date for Council delivered employment services funded by the European Social Fund (ESF). Specifically, the report:

(a) Highlights the anticipated reduction/shift in service provision countywide from January 2024.

(b) Identifies the scale of the financial implications as European funded employment projects come to an end including the impact upon targeted cohorts, it will also identify potential future programmes, alongside structures required to deliver best value.

(c) Identifies the proposal to increase core council funding by £1 million, to support improving progression activities, partially mitigate the impact of the end of ESF, and to ensure the Council continues to meet its statutory obligations and support for identified 15–25-year-old cohorts.

(d) Explores opportunities and funding required to continue the delivery of Employment Services alongside the new expectations attached to UKSPF (UK Shared Prosperity Funding).

The report set out the implications for employment programmes resulting from the upcoming transition from European Social Fund (ESF) to its replacement, UK Shared Prosperity Fund (UK SPF). The current ESF ends in December 2023 because of the UK's withdrawal from the European Union. This has implications for the Council, and partner organisations who provide employment services, as the new funding regime is significantly lower than ESF. The report however focuses on the impact on the Council, and the proposed response.

The Council uses this funding to directly deliver a range of employment programmes which support on average 7,000 County Durham residents each year. These programmes cover a total of over 11,000 15- and 16-year-old school pupils, 16-18 NEETs (Not in Education, Employment or Training) and 19+ unemployed and inactive adults.

These programmes make significant contributions to the reduction of youth and adult unemployment in the county and support the Council to meet its statutory duties in relation to participation. They also enable the Council to take a strategic lead in the employability sector regionally and nationally through the expertise and experience of the managers and teams. Some of these programmes are discretionary but work with those at risk of NEET and 16/17 NEETs are statutory responsibilities of the Council and as such need to be funded by the Council through revenue budgets.

The overall cost of the Council's employment support programmes is circa £11m per year, of which £8.6m funds directly employed staff, £830k funds delivery on costs, and £1.6m is used to commission or procure external delivery. In terms of funding available in 2023/24, £6.2m is available from ESF up to 31 December, £0.33m is available from other grants and there is a core budget of £0.763m for the costs of the statutory provision – leaving a budget deficit of £3.7m should the services continue as is until the year end.

Whilst the Council is ultimately the accountable body for administering the new UK SPF and can commission itself to deliver services under the funding, the expectation is that – as with ESF - the funding will be split across a range of delivery partners. Proposals for future division of the funding need to support a credible business case and meet the objectives of the County Durham Economic Partnership Plus board who oversee the allocations. Within the current proposals, the Council expect to receive £4.9m of UK SPF for employment services.

A further consequence of the fall in funding, is that the statutory services provided by the Council have benefited from the scale and infrastructure of the ESF funded programmes. In recognition of the reduced economies and service delivery challenges posed by the move from ESF to UKSPF, the council intends to invest £1 million of additional core funding into those services, to protect service delivery. This will help mitigate the impact of the changes on our directly delivered provision.

With cost of meeting the Council's core obligations from 2024/25 projected to be £1.7m and £4.9 available from UKSPF, the total budget sum available to support employability services will be £6.6m going forward. This will represent a 40% reduction in comparison to previous ESF funded levels of activity and will necessitate a restructure of the services from 1 January 2024. Earmarked reserves will be used to smooth in the new service offer and structure across QTR4 of 2023/24.

The remaining shortfall will be met through a reshaping of the current employability programmes. Although UK SPF funding levels are lower, there are greater flexibility and opportunities to realign the service offer and tailor to the changing needs of clients. This would create greater synergies and economies within the delivery of the employment programmes.

Having now established the funding envelope available from 2024/25, officers from Children's and Young People Service and Regeneration, Economy, and Growth Service, who deliver the employment programmes, will develop a restructured service offer to continue to maximise the support to residents for implementation in January 2024. However, it should be noted that the scale of the funding gap will result in the need for a reduction in permanently contracted staff working across these programmes and the HR implications are set out in detail in the body of the report.

The proposed remodelling and restructuring set out in the report will ensure that the Council's employment services can meet the demands and needs of the County within a sustainable funding model, leave the Council best placed to secure UK SPF in future funding periods when the administration of funding allocations transfers to the new mayoral combined authority in 2025/26.

Decision

The Cabinet:

(a) Supported the inclusion of a Base Budget pressure of £1m in the 2024/25 budget to provide additional core funding to the Employability Service.

(b) Noted proposals to the County Durham Economic Partnership Plus board for the council to be commissioned to deliver £4.9m of UK SPF funding to deliver employability support projects.

(c) Noted the requirement to restructure employment support services within the significantly reduced budget.

Helen Lynch
Head of Legal & Democratic Services
14 July 2023