

**Cabinet**

**14 October 2020**

**Medium Term Financial Plan(11),  
2021/22 – 2024/25**



**Key Decision No. CORP/R/20/02**

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## **Report of Corporate Management Team**

**John Hewitt, Corporate Director of Resources**

**Councillor Alan Napier, Cabinet Portfolio Holder for Finance**

**Councillor Simon Henig, Leader of the Council**

### **Electoral division(s) affected:**

Countywide

### **Purpose of the Report**

- 1 To provide an update on the development of the 2021/22 budget and the Medium Term Financial Plan (MTFP(11)).

### **Executive Summary**

- 2 Local government is operating in a period of significant financial uncertainty brought about by ongoing austerity, significant budget pressures in social care, special educational needs, disability services and other unfunded pressures arising from demographic and pay and price inflation. Forecasting the likely ongoing impact of COVID-19 upon the council's expenditure, income and government funding levels adds a further layer of complexity and uncertainty. Unless additional government funding is provided in the spending review, the financial outlook for the Council will continue to be extremely challenging for the foreseeable future.
- 3 There continues to be significant uncertainty in terms of the financial settlement for local government and how the available funding will be shared between local authorities through the funding formula. The government was previously expected to publish a Comprehensive Spending Review (CSR) in summer 2019 covering a three year period. The CSR is now expected to be published in November 2020.

Government are already indicating that there will be tough choices in relation to investment in public services, particularly in light of the huge budget deficit forecast the country faces as a result of COVID-19. There is also the added complication of the UK exit from the European Union and the impact this may have on public finances also.

- 4 It was also expected that the outcome of the Fair Funding Review (FFR), including the move to 75% Business Rate Retention, would be implemented in 2021/22. In line with the delay in the CSR it is now expected that the outcome of the FFR will not be implemented until 2022/23 at the earliest. This adds a further uncertainty and complexity to medium term financial planning.
- 5 The lack of clarity in relation to the CSR and FFR is exacerbated by uncertainties in relation to future council tax referendum levels, future funding of the Improved Better Care Fund, delays in the publication of the Social Care Green Paper, short term funding provided to local authorities in 2020/21 for adult and children social care pressures and funding for the High Needs Dedicated Schools Grant. This level of uncertainty is making financial planning extremely difficult and requires the council to be flexible and adaptable as it considers setting the 2021/22 budget and the medium term financial plan. Financial planning within the council will ensure that the council is well placed to react effectively to any outcome, however planning with this level of uncertainty is not conducive to effective long term decision making.
- 6 Planning at this stage is on the basis that the council will lose a further £15 million of government funding over a five year transition period as a result of the outcome of the CSR and the FFR implementation in 2022/23. This position primarily reflects ongoing concerns regarding 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. It has been assumed that the £17.6 million of one off funding received in 2020/21 for Adult and Children's social care pressures will continue on a recurrent basis.
- 7 At this stage it has been assumed that there are no net long term financial impacts from COVID-19 other than a short term depression in tax base increases. This applies to both increased cost pressures and loss of income. As the budget is refined, consideration will need to be given to the risk of reduced income and the extent to which this may be covered through the government's Income Guarantee Scheme going forward and the extent of COVID-19 expenditure pressures and future government support that may be available. This position will be kept under review and assumptions will be amended if it becomes apparent that there will be a financial impact in 2021/22 and across the MTFP.

- 8 In line with previous practice the MTFP financial forecasts have been reviewed. Additional savings of £42.7 million are currently forecast to balance the budget over the 2021/22 to 2024/25 period. Savings are forecast to be required in all years of MTFP(11) as budget pressures and the impact of funding reductions outstrip the council's ability to generate additional income from business rates and council tax.
- 9 The achievement of an additional £42.7 million of savings over the next four years will undoubtedly be extremely challenging – more so given the level of savings already made. 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 generating additional income. The opportunity for further savings in these areas is becoming much more difficult following ten years of austerity and the delivery of £244 million of savings up to 31 March 2021.
- 10 The total savings required at this stage for 2021/22 to balance the budget amount to £12.8 million. A sum of £3.3 million of the savings already agreed in MTFP(10) are available in 2021/22. This leaves a savings shortfall at this stage of £9.5 million to balance the budget next year. Additional savings plans are being developed to enable the council to be able to react to the outcome of the 2021/22 local government finance settlement which is expected to be announced in December 2020, although this will very much be influenced by the publication date of the CSR. If required, the council is able to utilise the Budget Support Reserve (BSR) to assist in balancing the budget in 2021/22. The current balance on the BSR, as reported to Council on 26 February 2020 is £16.4 million.
- 11 To enable the council to be able to set a balanced budget for 2021/22, a range of options will need to be considered including additional savings and utilisation of the BSR. The level of savings shortfall will be influenced by the local government settlement and the ongoing impact of budget pressures resulting for COVID-19.

### **Recommendation(s)**

- 12 Cabinet is recommended to:
  - (a) note the assumptions made in relation to COVID-19 at this stage of preparing MTFP 11 (paragraph 7) and that these assumptions will be reviewed as the MTFP is refined and when further information is received in relation to the council's financial settlement.
  - (b) note the requirement to for savings of £49.0 million for the period 2021/22 to 2024/25;

- (c) note the £6.337 million of savings for the period 2021/22 to 2024/25 were previously agreed in MTFP(9) and (10);
- (d) note this leaves a forecast £42.7 million savings shortfall across MTFP(11) although this forecast could change significantly based upon outcomes of the Comprehensive Spending Review, the Fair Funding Review and after addressing future base budget pressures being faced by the council especially resulting from COVID-19
- (e) note that at this stage additional savings of £9.5 million are forecast to be required to balance the 2021/22 budget;
- (f) agree the high level MTFP(11) timetable as set out in the report;
- (g) agree the approach outlined for consultation;
- (h) agree the proposals to build equalities considerations into decision making;

## **Background**

- 13 To ensure MTFP(11) can be developed effectively and savings targets delivered in time to produce a balanced budget, it is important that a robust plan and timetable is agreed and followed.
- 14 The current MTFP(10) forecast that the Council agreed on 26 February 2020 covers the four year period 2020/21 to 2023/24. It is recommended at this stage that MTFP(11) covers a four year period 2021/22 to 2024/25. Although the Comprehensive Spending Review (CSR) is expected to cover a three year period, it is felt prudent for the council to continue to plan across a four year timeframe.
- 15 During this period the council will continue to face significant budget pressures, especially relating to the National Living Wage and Social Care whilst facing uncertainty over the impact of the FFR and any ongoing impact from COVID-19. There is also the added complication of the impact of the UK exit from the European Union and the impact this may have on public finances also. Planning across the medium term ensures that decisions can be made in the knowledge of the likely financial position of the council and provides a basis for effective decision making taking account of the best estimates of income and expenditure.
- 16 At this stage of the planning cycle for MTFP(11) the following areas are presented for consideration by Cabinet:
  - (a) an update on the development of the 2021/22 budget since the Council agreed its MTFP(10) strategy on 26 February 2020;

- (b) an update on the MTFP(11) savings forecast for the period 2021/22 to 2024/25;
- (c) a draft MTFP(11) decision making timetable;
- (d) proposed approach for consultation of MTFP(11);
- (e) workforce implications;
- (f) equality considerations;

## **Review of MTFP Model**

- 17 The financial outlook for the council continues to be extremely challenging. The national finances are in a highly uncertain position due to COVID-19 and the impact of the UK exit from the European Union. The government are indicating that tax rises are being considered but that unprotected government departments could face further funding reductions. It is forecast therefore that future settlements for local government will result in a loss of £5 million of government funding alongside a £10 million funding reduction as a result of the FFR - which is now expected to be implemented in 2022/23. Funding reductions are assumed to apply from 2022/23 and transitioned over a five year period i.e. a forecast £3 million loss of funding per annum. It has been assumed that the council will have a 'cash flat' government settlement for 2021/22.
- 18 The council will need to continually review the MTFP(11) projections and savings requirements over the coming months in light of future announcements.
- 19 In line with previous years, a thorough review of the Council's budget has taken place subsequent to the approval of MTFP (10) by the Council on 26 February 2020. This has resulted in a number of changes to the assumptions for 2021/22 and future years. The key adjustments and major areas for consideration are detailed below:

### **(a) Revenue Support Grant (RSG) / Fair Funding Review**

It is presently forecast that there will be a cash flat settlement for 2021/22 with the FFR delayed until at least 2022/23. For later years the following is assumed:

- (i) that there will be a £5 million loss of Revenue Support Grant (RSG) from 2022/23 transitioned over five years as part of the CSR process;
- (ii) that the council will lose a further £10 million of funding as a result of the FFR and that the impact of this loss will be transitioned over a five year period from 2022/23;

- (iii) that the additional funding the council received in 2020/21 of £17.6 million for adult and children's social care will become recurrent;
- (iv) that there will be no increase or reduction in the Better Care Fund;
- (v) that the council tax referendum level will be 2% over the MTFP(11) period and that additional Adult Social Care Precepts will not be applicable. It has been assumed that council tax increases will be in line with the referendum level in each of the next four years.

At this stage any of the assumptions made could be subject to change as a result of the CSR, the FFR and the publication of the provisional local government finance settlement, which is expected in December 2020.

In terms of the FFR, the major concern for the council continues to be public health funding. Consultations to date on the FFR continue to advocate that public health grant will transfer into the Business Rate Retention (BRR) process as part of the move to 75% retention from 50%. As part of this transfer, the intention is to utilise the revised Advisory Committee on Resource Allocation (ACRA) methodology to allocate public health funding. It is forecast that this will result in a loss of £18 million (38%) of the council's public health funding. It is forecast that the council may benefit from other elements of the FFR resulting in the current £10 million forecast loss built into the MTFP. Clearly, the council will continue to lobby throughout the review process and this position will need to continue to be reviewed across the MTFP(10) period.

**(b) New Homes Bonus (NHB)**

In MTFP(10) it was forecast that the NHB would begin to be withdrawn from 2021/22 onwards. It is now forecast that this withdrawal will not begin until 2022/23. Current activity is indicating that house building sales are at a much lower level than in previous years mainly as a result of COVID-19. On that basis it is presently forecast that there will be a £0.7 million reduction in NHB in 2021/22.

(c) **Council Tax / Business Rate Tax Base Increases**

Regular reviews are carried out in relation to tax base forecasts. The tax base is impacted by new builds, the incidence of uptake of discounts and exemptions, with a further major variable being the impact of the local council tax reduction scheme. At this stage it is considered prudent to assume a standstill position for 2021/22 but to continue to forecast tax base growth from new developments over the remainder of the MTFP(11) period. However, the forecast of tax base growth has been reduced from MTFP(10) forecasts mainly resulting from an assessment of the impact of COVID-19 both upon future levels of house building and business growth but also on the incidence of local council tax reduction claims.

The standstill forecast for the tax base for 2021/22 will be closely monitored in the coming weeks in what is a very volatile area. The tax base growth figures included in MTFP(11) at this stage are as follows. This will be kept under regular review:

	<b>£m</b>
2021/22	0.0
2022/23	3.0
2023/24	2.0
2024/25	1.5

(d) **National Living Wage (NLW)**

Assumptions are based upon the Low Pay Commission's November 2020 report with an agreed rate for 2020/21 of £8.72 per hour. Indications at that time were that the intention was for the NLW to move towards 66% of median wages by 2022/23. It is forecast that the NLW would need to increase by 5% as detailed below then increasing along with median wages in future years;

	<b>£ per hour</b>	<b>% increase</b>
2020/21	8.72	
2021/22	9.15	5.00%
2022/23	9.60	5.00%
2023/24	10.08	5.00%
2024/25	10.30	2.60%

There has been no indication at this stage of what the impact of COVID-19 may be on the setting of the 2021/22 NLW. Until further information is provided it is felt prudent at this stage to retain the 5% uplift previously forecast.

Base budget pressures have been included across the MTFP(11) period for the impact of the NLW based upon the above position.

This impact in the main relates to price increases the council will be required to pay to private sector providers to take account of their increased costs across the MTFP(11) period. A 1.5% annual price inflation allowance is included across the MTFP(11) period but this is unlikely to suffice when private sector provider employee costs can be increasing due to 5% increases in the NLW. The major impact here relates to private sector social care providers.

**(e) Employer Pension Contributions**

The next triennial review of the Pension Fund will be applied to the 2023/24 contribution rates and deficit recovery levels. At this stage an increase in the council's contribution of £5 million is assumed. This level of increase is included due to the possible impact of COVID-19 and any future depression within stock markets upon the value of assets upon the Pension Fund. The forecast funding position will be kept under review.

**(f) Adult Services Fees and Demographic Pressures**

The forecast cost has increased from £1 million to £3 million to reflect the increase in the forecast annual fee uplift for 2020/21 to care providers to reflect ongoing COVID-19 costs, which was in excess of the 2020/21 budget provision, as well as reflecting ongoing demographic pressure.

**(g) Children Services Demographic Pressures**

A forecast of £1 million was included in MTFP(10) planning for Children's Services Demographic pressures. The Quarter 1 forecast of outturn report presented to Cabinet on 8 July 2020 however highlighted the ongoing pressures in this budget area in terms of both additional volume and complexity of demand. MTFP(11) planning for 2021/22 therefore includes a £5 million forecast budget pressure in this area

**(h) Home to School Transport**

This budget area continues to face pressure especially in relation to costs relating to the transport of children with special needs to school. A base budget pressure of £1.640 million is included for 2021/22

(i) **Short Term Investment**

In line with the planning assumption in MTFP(10) it is assumed that £10 million of the short term investments included in the 2020/21 budget continue into 2021/22.

- 20 It is important to note that at this stage it is assumed that other than a lower than forecast increase in tax base for 2021/22 that there is no net long term financial impact from COVID-19. The council has faced significant additional costs but at this stage it is expected that these will dissipate over the coming months. In terms of income loss within service groupings it is assumed that income levels will be back to pre COVID levels by April 2021. This position will be refined kept under review and is dependent on how coronavirus develops over the coming months, the impact this has on the council's income based services and the extent to which government provide ongoing support through the Income Guarantee Scheme and COVID-19 grants.
- 21 This position will be kept under continual review in the coming months. If it is found that there will be an ongoing impact, then this will need to be reflected in MTFP(11) planning

**2021/22 Savings Forecast**

- 22 Based upon the revised assumptions detailed in this report, the savings requirement for 2021/22 is forecast to be £12.8 million, this includes recovery of £2.733 million of the BSR utilised in 2020/21 to balance the budget and delay the impact of savings upon front line services.
- 23 In MTFP(9) and (10) savings of £4.686 million were approved for 2021/22, however, a saving of £1.4 million linked to an invest to save arrangement included in MTFP(10) has been paused. Removing this saving from the 2021/22 approved savings plans in MTFP(9) and (10) leaves previously agreed savings of £3.285 million which help to reduce the savings shortfall in 2021/22 from £12.8 million to £9.5 million.
- 24 It is recognised that this savings figure could significantly change before Full Council sets the budget on 24 February 2021. The council continues to face significant additional budget pressures at the present time particularly in CYPS which could impact upon the savings requirement. Similarly, the local government settlement will have an impact alongside the continuing impact of COVID-19 upon the council's budget and the uncertainties surrounding the financial impact of the UK withdrawal from the European Union.
- 25 With this uncertainty in mind, work will continue in the coming months to identify additional savings to address any future shortfall. If there is still

a shortfall in savings at the time Full Council agree the budget in February 2020, then the Budget Support Reserve (BSR) will need to be utilised. The current balance on the BSR is £16.4 million.

### MTFP(11) – 2021/22 to 2024/25 Update

26 The adjustments to previous MTFP(10) planning assumptions detailed in this report have impacted upon the forecast savings requirements for the MTFP(11) planning period - 2021/22 to 2024/25.

27 The current forecast of savings required for the period 2021/22 to 2024/25 are detailed below:

	<b>Savings Requirement</b>	<b>Less Savings Approved</b>	<b>Savings Shortfall</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
2021/22	12.807	(3.285)	9.522
2022/23	4.500	(2.252)	2.248
2023/24	20.400	(0.800)	19.600
2024/25	11.350	0	11.350
<b>TOTAL</b>	<b>49.057</b>	<b>(6.337)</b>	<b>42.720</b>

28 The table above highlights that it is forecast that additional savings of £42.720 million will be required across MTFP(11) to balance the budget.

29 Unless additional government funding is provided, there is an increasing risk that savings plans in the future will begin to impact on front line service delivery and as such will become more complex and require significant planning and consultation. It will be vital that timeframes for delivery are planned effectively to ensure the Council continues to balance the budget across the MTFP(11) period.

30 The realisation of additional £42.7 million of savings will have resulted in the Council being required to save £293 million from 2011/12. The MTFP(11) Model is attached at **Appendix 2**.

### MTFP(11) Timetable

31 A high level timetable up to Budget setting is detailed overleaf:

Date	Action
14 October	MTFP report to Cabinet
29 October	Corporate Overview and Scrutiny Management Board consider 14 October Cabinet Report
16 December	MTFP report to Cabinet – outcome of Comprehensive Spending Review and Autumn Statement
17 December	Corporate Overview and Scrutiny Management Board consider 16 December Cabinet Report
13 January	MTFP report to Cabinet – analysis of provisional local government settlement
TBC	Corporate Overview and Scrutiny Management Board consider 13 January Cabinet Report
10 February	Budget Report to Cabinet
TBC	Corporate Overview and Scrutiny Management Board consider 10 February Cabinet Report
24 February	Council Budget and MTFP report

## Proposed Consultation Programme

- 32 Based on the best practice that has developed over previous consultations, we will consult using our existing County Durham Partnership networks during October and November. The primary focus of the consultation will be on the 14 AAP Boards who will be asked to comment on the overall approach set out in this report. The AAP Boards are now meeting virtually on a regular basis, and for those boards where a meeting does not fall within the time period of the consultation, the individual board members will be asked to provide comments on the content of this report.

## Workforce Implications

- 33 It is forecast that the number of post reductions will increase over the coming years as savings plans are developed and agreed to achieve the MTFP(11) required saving of £48 million.
- 34 The council will continue to take all possible steps to avoid compulsory redundancies and minimise the impact upon the workforce. This will require a continued focus on forward planning, careful monitoring of

employee turnover, only undertaking recruitment where absolutely necessary and retaining vacant posts in anticipation of any required service changes, seeking volunteers for early retirement and/or voluntary redundancy and maximising redeployment opportunities for the workforce wherever possible. This will however become increasingly difficult now that government has confirmed its intention to implement the public sector exit cap arrangements that place a limit on the exit payments that can be paid to employees and is likely restrict voluntary redundancy applications. A further report on this will be provided as details of these arrangements are finalised by government.

- 35 In addition, the way that work is organised and jobs designed will continue to be reviewed by service groupings, with the support of Human Resources, to ensure that changes that are made to maximise the use of the workforce numbers and skills and introduce flexibility into the way work is organised to maximise the capacity of the remaining workforce.
- 36 These actions will ensure that, wherever possible, service reductions continue to be planned in advance. Employees are able to consider their personal positions and volunteer for ER/VR prior to the start of the exercise should they wish to, thereby enabling, in a number of situations, the retention of sustainable employment in the County for those who wish to remain in the workplace.

### **Equality Impact Assessment of the Medium Term Financial Plan**

- 37 Consideration of equality analysis and impacts is an essential element that members must consider in their decision making. As in previous years, equality impact assessments will be key to capturing and utilising equality analysis throughout decision making processes, alongside the development of MTFP(11).
- 38 The aim of the equality impact assessment process is to:
- (a) identify any disproportionate impact on service users or staff based on the protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation;
  - (b) identify any mitigating actions which can be taken to reduce negative impact where possible;
  - (c) ensure that we avoid unlawful discrimination as a result of MTFP decisions;
  - (d) ensure the effective discharge of the public sector equality duty.

- 39 As in previous years, equality analysis is considered throughout the decision-making process, alongside the development of MTFP(11). This is required to ensure MTFP decisions are both fair and lawful. The process is in line with the Equality Act 2010 which, amongst other things, makes discrimination unlawful in relation to the protected characteristics listed above and requires us to make reasonable adjustments for disabled people.
- 40 In addition, the public sector equality duty (PSED), contained at section 149 of the Equality Act, requires us to pay 'due regard' to the need to:
- (a) eliminate discrimination, harassment and victimisation and any other conduct that is prohibited under the Act;
  - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 41 A number of successful judicial reviews have reinforced the need for robust consideration of the public sector equality duty and the impact on protected characteristics in the decision making process. Members must take full account of the duty and accompanying evidence when considering the MTFP proposals.
- 42 Throughout the period of MTFP planning through to setting the MTFP (11) budget in February 2020, the equality analysis for all savings proposals will be developed alongside emerging savings proposals. Any relevant consultation activity and/or feedback will be fed into assessments. Equality analysis and impact assessments will be considered in decision-making processes and at budget setting.
- 43 In terms of the ongoing programme of budget decisions the council has taken steps to ensure that impact assessments:
- (a) are built in at the formative stages so that they form an integral part of developing proposals with sufficient time for completion ahead of decision-making;
  - (b) are based on relevant evidence, including consultation where appropriate, to provide a robust assessment;
  - (c) objectively consider any negative impacts and alternatives or mitigation actions so that they support fair and lawful decision making;
  - (d) are closely linked to the wider MTFP decision-making process;

- (e) build on previous assessments to provide an ongoing picture of cumulative impact.

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## **Appendix 1: Implications**

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### **Legal Implications**

There is a statutory requirement for the council to adopt a local council tax support scheme for the ensuing financial year by 11 March. Where the council is proposing any changes to its scheme, there is a statutory requirement to consult on these proposals in advance of making any changes.

### **Finance**

The report highlights that at this stage £12.8 million of savings are required to balance the 2021/22 budget. After taking into account £3.3 million of savings previously approved, this leaves a £9.5 million shortfall in 2021/22 with a shortfall across the MTFP(11) period of £42.7 million. Work will continue over the coming months to identify savings to balance the budget across the MTFP(11) period.

### **Consultation**

The approach to consultation on MTFP(11) is detailed in the report.

### **Equality and Diversity / Public Sector Equality Duty**

Equality considerations are built into the proposed approach to developing MTFP(11).

### **Climate Change**

The impact of final budget decisions will take into account Climate change impacts

### **Human Rights**

Any human rights issues will be considered for any detailed MTFP(11) and Council Plan proposals as they are developed and decisions made to take these forward.

### **Crime and Disorder**

None

### **Staffing**

The savings proposals in MTFP(11) will impact upon employees. HR processes will be followed at all times.

### **Accommodation**

None specific within this report.

## **Risk**

There continues to be significant risk in terms of planning across the MTFP(11) period. The uncertainty faced by local government at the present time is unprecedented and local authorities have already delivered the vast majority of all possible efficiency savings. Any additional funding reductions or unfunded budget pressures will leave all local authority with difficult choices.

The council will continue to plan effectively in this regard working up savings plans to assist in balancing future savings requirements. As required the BSR is in place to provide short term cover for budget shortfalls.

## **Procurement**

None specific within this report.