County Council

24 February 2021

Medium Term Financial Plan 2021/22 to 2024/25 and Revenue and Capital Budget 2021/22

Report of Cabinet

Electoral division(s) affected:

Countywide

Purpose of the Report

1 To provide comprehensive financial information to enable Council to agree the 2021/22 balanced revenue budget, details of significant investments in key front line services, an outline Medium Term Financial Plan MTFP(11) 2021/22 to 2024/25 and a fully funded capital programme.

Executive Summary

The Spending Round

2 The background and context to the 2021/22 budget and MTFP is important in setting out the approach to the planning assumptions that have been made in this report. Local government operated in a period of austerity between 2010/11 and 2019/20, during which time a combination of government funding cuts and unfunded increased cost pressures resulted in very difficult decisions being required year on year to set a balanced budget. The cumulative impacts of these issues have made it harder and harder to continue to protect front line service delivery.

3 Since that time, although limited additional funding has been provided, unfunded budget pressures continue to intensify. More importantly however, there is significant uncertainty over future funding settlements due to the further delays in the Comprehensive Spending Review and over the implementation of the Fair Funding Review, alongside the unquantified impact of the UK exit from the European Union.

4 During 2020 the council has also faced the significant financial impact of the coronavirus pandemic. The immediate impact during 2020/21 has been substantial, whilst the longer-term impact is more difficult to gauge at this time – however the pandemic adds further uncertainty to the council's financial position over the medium term.

5 Originally, the Government had planned to have a multi-year settlement for local government and to implement the fair funding review from 2020/21. This however was delayed by Brexit and the 2019 General Election which resulted in a one year settlement being received in the current year, with a multi year settlement and the introduction of the fair funding review expected for 2021/22. The impact of the coronavirus pandemic however has resulted in a further one-year Spending Round and a subsequent further delay to the Comprehensive Spending Review and the Fair Funding Review implementation. This ongoing delay makes future planning extremely uncertain and it is important that the cabinet and council are aware of this uncertainty when making budget decisions.

6 The Chancellor of the Exchequer faces significant challenges to seek to ensure the country's finances recover from the impact of the pandemic. It is presently forecast that the national deficit in 2020/21 will be £390 billion. The Chancellors Red Book forecasts, published as part of the one-year Spending Round in late 2020, identified that the country will still have a national deficit of £100 billion in 2024/25. As a comparison, at the peak of the 2008 financial crisis, the national annual deficit peaked at £170 billion, which resulted in a number of years of public spending restraint and ten years of austerity for local government.

7 Given the uncertainty over the Spending Review and in light of the level of national debt, there is significant concern that local government funding could continue to be reduced from 2022/23 onwards. This risk is further heightened when consideration is given to the additional funding increases and protections provided to Health, Education and Defence in future years – as set out in the Government's Red Book.

8 In light of this, MTFP(11) forecasts therefore assume a prudent assessment of further reductions in local government funding from 2022/23 onwards.

9 For 2021/22, the local government settlement has provided some time limited additional financial resources for core budget pressures - albeit there is no certainty of future funding levels beyond 2021/22.

10 The government's own analysis of the Spending Round announcements highlights that the majority of the £2.2 billion or 4.6% national increase in Core Spending Power for local authorities is expected to be generated by a 4.99% increase in council tax in 2021/22 for upper tier councils.

11 The assumed 4.99% council tax increase includes a 1.99% Referendum Limit increase for council tax and a 3% increase for Adult Social Care precept. Local authorities can however phase the increase in the 3% Adult Social Care precept over the 2021/22 and 2022/23 financial years. It is unlikely therefore, that there will actually be a 4.6% increase in Core Spending Power for local government in 2021/22 as not all authorities will take advantage of the full 4.99% council tax flexibility next financial year.

12 After taking into account inflationary increases in business rates and Top Up grants, the net increase in core government funding to local government nationally is £130 million, which represents only a 0.3% increase in national Core Spending Power for local government.

13 The council has long argued that additional government funding should be provided nationally which enables service need and deprivation alongside tax raising capacity to be taken properly into account when apportioning funding. Funding a higher proportion of local government spending through council tax increases results in disproportionate and unfair increases in resources and spending power in one area compared to the next. Councils in more affluent areas receive higher than average Core Spending Power increases whilst those councils in more deprived areas receive a lower than average increase in their Core Spending Power, with need and spending pressures often being the opposite.

14 The government has also published details of spending power ‘per dwelling’ for all local authorities, which shows that Durham is now £180 (c9%) less than the England average. If Durham’s Core Spending Power was brought up to the England authority average of £2,068 per dwelling, the council would annually receive additional government grant of £45 million.

15 As part of the local government finance settlement the council will receive an additional £15.6 million grant to support ongoing costs associated with the pandemic next year. The current Income Guarantee Scheme will also continue for three further months from April to June 2021. It is not possible at this stage however to determine whether the short-term funding that has been provided will be enough as this is ultimately dependent on the duration of the pandemic and the consequential impact on the council’s income and expenditure. This adds to the uncertainty across the MTFP(11) planning period.

16 The council will also receive a one off £7 million Local Council Tax support grant in 2021/22. It is proposed to continue with the £300 council tax hardship support scheme the council introduced for 2020/21 for a further year, at a forecast cost of circa £5.5 million. It is also proposed that the residual £1.5 million is invested in welfare support schemes, with a significant proportion of this (c£1.4 million) being allocated to Area Action Partnerships (£100,000 per AAP) to implement local schemes to complement and enhance actions being taken as part of the Poverty Action Plan.

Additional Investments

17 The council has managed its finances extremely effectively since 2010 and as a result remains in a position to continue the short term investment programme that was agreed for 2020/21 into the 2021/22 financial year.

18 The proposed budget includes the continuation of £10 million of additional short-term investments across a number of key front line service areas, as

summarised below, bringing the additional investment committed in these areas to £20 million over 2020/21 and 2021/22, with any underspending in 2020/21 due to the impact of the pandemic being carried forward to augment the 2021/22 budget allocation. The 2021/22 budget will include the following investments:

(a) £2.5 million of investment in highways – including additional investment in street lighting, measures to tackle backlog maintenance and pothole repairs, additional gully cleansing and drainage inspections and further investment in improving road markings;

(b) £0.5 million of investment to support the development of new social housing;

(c) £2.0 million of additional investment in Clean and Green and other Neighbourhood Initiatives. This investment will include Neighbourhood “Find and Fix” environmental teams, complementing “Operation Spruce Up” and responding rapidly to neighbourhood blight and environmental concerns;

(d) £1.5 million of additional investment to support the council’s approach to tackling climate change, which will assist in leveraging in additional national funding and will provide a platform for attracting further local investment from partners and other agencies. This additional funding builds on the council’s ongoing resource commitments that are set out in the climate change plans that have been considered by cabinet and council;

(e) £1.5 million of additional investment in Welfare Assistance and Discretionary Housing Payments in support of the Poverty Action Plan - which those most in need rely on, whilst also investing in support for the long term unemployed to help them into work. Further investment will also be made in supporting activities with food during school holidays and supporting investment in foodbanks where this is required;

(f) £1.0 million of additional investment in library and leisure services, to improve access and the digital offer in particular within these services;

(g) £1.0 million of additional investment in Children and Young People’s Services, funding a range of initiatives to support engagement and partnership working with young people and to improve quality.

Additional Investment – Town and Villages

19 The 2021/22 budget also commits an additional £5 million for Towns and Villages investment, which brings the total value of funding committed for this local investment to £25 million, of which £4.2 million (£300,000 each) will be allocated to local Area Action Partnerships in support of local

schemes to enhance Towns and Villages across the county based on local priorities.

20 This will complement the existing range of investments under this ambitious programme of interventions.

Local Government Finance Settlement

21 The financial outlook for the council will continue to be extremely uncertain until the Comprehensive Spending Review and the Fair Funding Review are concluded and the long term impact of the pandemic and of the UK exit from the European Union and associated impacts arising from the Trade Deal are fully understood.

22 It is unlikely however that there will be clarity in any of these areas until well into 2021/22, most likely the autumn of 2021 at the earliest. This continues to make accurate medium term financial planning extremely difficult.

23 The Fair Funding Review, which was originally scheduled for implementation from April 2020 alongside a move to 75% Business Rates Retention (BRR) has been delayed until at least 2022/23.

24 There is currently no certainty in terms of the quantum of funding available to local government from 2022/23 onwards, nor how this funding will be apportioned between authorities. It is clear however that there are significant risks to the council's funding depending on the principles that are ultimately agreed for fair funding distribution and how any move to 75% BRR is implemented.

25 The council is also likely to face further cost pressures in the future which historically have not been fully funded by government in areas such as children's social care.

26 Indications from the ongoing Fair Funding Review discussions are that the government is still considering the adoption of the Advisory Council for Resource Allocation (ACRA) methodology for apportioning Public Health Grant. This is a significant financial risk that members will be aware of from previous reports, with the council forecast to lose more Public Health funding than any other authority in the country - a forecast loss of £18 million (circa 35%). The ACRA formula results in a significant shift in Public Health funding from deprived areas to more affluent areas and does not recognise the fact that this investment was based on local funding decisions by the former Primary Care Trusts based on specific public health needs within County Durham.

27 The impact of the coronavirus pandemic has further illustrated the enormous health inequalities across the country. Any reduction in Public Health funding for the county at this point would be counter to the demands, pressures and issues we face in terms of closing these inequality gaps.

28 It is considered likely at this stage that any variance in government grant allocations arising from the long-term Comprehensive Spending Review will be fully implemented across the last three years of the current parliament. It has also been assumed that the impact of the Fair Funding Review will be implemented across a five-year transition period, running into the next parliament, although this will not be clarified until final decisions are made on the implementation of the review outcomes.

29 Given the extent of risk associated with the loss of public health funding and assumed losses of government funding arising from the Fair Funding Review, government funding reductions are included in MTFP(11) planning from 2022/23 onwards.

30 The final Local Government Finance Settlement published on 4 February 2021 has confirmed an increase in the Social Care Grant for 2021/22 of £5.2 million from £17.7 million to £22.9 million. It is assumed in MTFP(11) planning that this funding is recurrent.

31 Unfortunately, the £300 million national increase in the Social Care Grant has been part financed by a £150 million reduction in the New Homes Bonus. It is apparent therefore that the additional £300 million is not all new money, with the council losing £3.1 million of New Homes Bonus in 2021/22 as this funding regime is drawn to a close.

32 The government has also utilised a reduction of £285 million nationally in the New Homes Bonus to create a new ‘Lower Services Tier Grant’ of £111 million. The council will receive £0.7 million from this new grant. This grant includes a ‘floor’ element which ensures that no authority has a negative Core Spending Power position for 2021/22. This has resulted in a top slice from this grant of £25 million and all of the £25 million has been distributed to district councils who were the major beneficiaries from New Homes Bonus and all of whom have been significantly impacted by its reduction.

33 The government has recognised the significant budget pressures local authorities are facing in the High Needs Dedicated Schools Grant (HNDSG) budget which provides support to children with special needs. Additional funding of £8.5 million has been provided for 2021/22, which will help to meet current overspend in this budget area. This funding was announced last year and the Government have honoured that previous commitment.

34 The settlement has confirmed that the government continues to reimburse authorities who would otherwise experience negative Revenue Support Grant (RSG). The total national reimbursement is £153 million. Negative RSG occurs where government funding cuts reach a point where some local authorities, who have relatively high tax bases, no longer receive any RSG. Ordinarily these authorities would have their business rate tariff increased which ensures all authorities experience a similar reduction or increase in Core Spending Power (CSP).

35 Whilst the financial settlement for the council has slightly improved for 2021/22, a clear focus remains to realise improvements in efficiency and to deliver value for money savings.

36 Savings of £5.4 million approved in MTFP(10) continue across the MTFP(11) period alongside an additional £2.4 million of new savings proposals that have been identified for inclusion in MTFP(11). This provides £7.8 million of budget support across MTFP(11) with £5.3 million of this sum available in 2021/22.

37 Although additional funding is available for 2021/22 the council still expects to face significant budget pressures across the MTFP(11) period, particularly in social care services. At this stage, taking account of the risks associated with the Fair Funding Review and the Comprehensive Spending Review, it is forecast that savings of £36 million in addition to those detailed in this report will be required across MTFP(11) with increases in business rates and council tax not expected to keep up with the scale of budget pressures faced.

38 The council will continue to plan on the basis of a requirement to identify future savings to ensure future years' budgets can be balanced.

39 In total, the £7.8 million of savings proposed for MTFP(11) period results in the council having saved £250 million since 2011/12, with £242 million being delivered by 31 March 2021. The forecast £36 million shortfall across the MTFP(11) period would result in total savings up to 2024/25 of £286 million having to be realised.

Capital Investment

40 During the period of austerity, the council has continued to prioritise investment in its assets through an ambitious and extensive capital programme. MTFP(11) contains further significant investment in the capital programme, with additional schemes totalling £88 million included, taking the forecast investment from 2020/21 to 2024/25 to £484 million.

41 The main additional investments in MTFP(11) relate to a further £13.1 million investment for Leisure taking total planned investment to date to £39.1 million. There is an initial £8 million investment in a forecast £34 million scheme to rebuild both Belmont Community Arts College and Belmont CE Primary on a shared campus. The MTFP(11) capital bids also include a further £5.8 million investment in the £13.1 million new build primary School in Spennymoor and the initial £4.5 million investment in new council housing, which is part of a forecast £12.5 million council investment to enable the construction of 500 new council houses over the next five years as part of the council's new Housing Revenue Account.

MTFP Savings and Council Tax

42 The council's MTFP strategy since 2010/11 has been to protect front line services as far as possible and the 2021/22 proposals are in line with this strategy both in terms of savings being realised and additional investments proposed. This report summarises how the main proposals are in line with the council's overall strategy and have been shaped by residents' and stakeholders' views with a high-level analysis of the equalities impact.

43 Detailed savings proposals are included in the report for the MTFP(11) period and are shown at Appendix 3

44 In the setting of council tax levels for 2021/22, careful consideration has been given to the significant future financial pressures facing the Council and the lack of information in relation to future financial settlements. Consideration has also been given to the Governments expectations and to the impact of increases in Council Tax on residents who themselves may be facing difficult circumstances.

45 The government has confirmed that the Council Tax referendum limit for 2021/22 will be 2%. The council also has the option to increase Council Tax by an additional 3% for an adult social care precept, which can be phased across 2021/22 and 2022/23, with the government-published Core Spending Power figures assuming all authorities utilise the ability to increase council tax by the maximum possible sum in 2021/22.

46 After considering the impact on the council's budget and on local Council Tax payers, the most financially vulnerable of which continue to be fully protected by our Local Council Tax Support Scheme, this report recommends a 1.99% increase in the Council's Band D Council Tax in 2021/22, which is below the 2% referendum limit. In addition, the report recommends a 1% increase to the Adult Social Care precept in 2021/22. The total increase will generate additional Council Tax income of around £7 million per annum. The total increase would result in a Band D increase of 95 pence a week and an increase of 63 pence a week for the majority of Council Tax payers in County Durham, who live in the lowest value properties (Band A).

47 Despite this very challenging financial period, the scale and sustained level of government spending cuts and the impact on the council's finances, this report includes some very positive outcomes for the people of County Durham including:

(a) significant short term investment in a broad range of priority front line services – including significant local investment via the Area Action Partnerships who will each receive an additional £400,000 of grant to support local welfare / anti-poverty measures (£100,000) and investment in towns and villages (£300,000) based on local priorities;

(b) continued support to protect working age households in receipt of low incomes through the continuation of the existing Council Tax

Reduction Scheme where they will continue to be entitled to up to 100% relief against their Council Tax payments and where those left with a bill will receive up to £300 of additional support next year;

(c) ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people through the services we provide;

(d) significant investment in capital expenditure including investment in leisure provision, in our town centres and infrastructure, including new transport schemes and maintenance of our highways and pavements. In total, additional capital investment of £88 million is recommended in this report.

48 As outlined in previous MTFP reports, equality impact assessments are also summarised to inform the consultation and subsequent decision making. Workforce implications arising from proposals for 2021/22 savings have been analysed.

Recommendations

49 Detailed below are the recommendations being made by Cabinet to Full Council for approval:

(a) 2021/22 Revenue Budget

(i) approve the identified base budget pressures included in Table 5 at paragraph 102;

(ii) approve the short term investments included in Table 6 at paragraph 114;

(iii) approve the savings plans detailed in Appendix 3;

(iv) note the governance arrangements in place to invest £0.3 million in each AAP from the Town and Villages reserve and approve the criteria for that investment;

(v) note the collection fund position for 2020/21 and approve that the 2020/21 £1.514 million net collection fund surplus and the £0.514 million 2021/22 Local Tax Income Guarantee grant are utilised to support the MTFP(11) capital programme;

(vi) approve a 1.99% 2021/22 Council Tax increase and a further 1% increase which relates to the Adult Social Care precept, making the total increase in Council Tax 2.99% next year;

(vii) approve the 2021/22 Net Budget Requirement of £441.131 million, as detailed in Table 8 at paragraph 131;

(viii) note the additional one-off funding support provided to finance the ongoing financial impact of the coronavirus pandemic and the need to monitor this position closely in 2021/22.

(b) MTFP(11)

(i) agree the forecast MTFP(11) financial position set out at Appendix 6;

(ii) set aside sufficient sums in Earmarked Reserves as is considered prudent and agree that the Corporate Director of Resources should continue to be authorised to establish such reserves as required and to review them for both adequacy and purpose on a regular basis, reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet;

(iii) aim to maintain General Reserve in the medium term between 5% and 7.5% of the Net Budget Requirement which in cash terms is up to £33 million;

(iv) note the transfer of £5 million of earmarked reserves into the Town and Villages Reserve.

(c) Capital Budget

(i) approve the revised 2020/21 Capital Budget of £139.511 million and the 2021/22 Capital Budget of £183.970 million;

(ii) approve the Capital Strategy at Appendix 8;

(iii) approve the additional capital schemes detailed at Appendix 9. These schemes will be financed from additional capital grants, from one off revenue funding and from prudential borrowing;

(iv) note the option for the council to utilise capital receipts to finance severance costs utilising available flexibilities in this regard. The utilisation of such flexibility would require the approval of Cabinet;

(v) approve the MTFP(11) Capital Budget of £484.464 million for 2020/21 to 2023/24 as detailed in Table 15.

(d) Savings Proposals

(i) note the approach taken by service groupings to achieve the required savings.

(e) Equality Impact Assessment

(i) note the key equality impact analysis as set out in Appendix 3 and summarised in this report and to consider impacts of proposed savings on staff and residents.

(f) Pay Policy

(i) approve the Pay Policy Statement at Appendix 10.

(g) Risk Assessment

(i) note the risks to be managed over the MTFP(11) period.

(h) Dedicated Schools Grant

(i) note the position on the Dedicated Schools Grant;

(ii) approve the local formula for schools set out in Table 17 and authorise the Corporate Director of Resources to approve any amendments required following review by the DfE.

(i) Local Council Tax Support Grant

(i) note the continuation of the current £300 Local Council Tax Support top up scheme in 2021/22 funded by the Local Council Tax Support Grant in 2021/22;

(ii) note and approve the allocation of £1.4 million to AAP's from the Local Council Tax Support Grant in 2021/22 to invest in local anti-poverty and coronavirus response initiatives.

(j) Prudential Code, Treasury Management and Property Investment

(i) agree the Prudential Indications and Limits for 2021/22 – 2024/25 contained within Appendix 12 of the report, including the Authorised Limit Prudential Indicator;

(ii) agree the Minimum Revenue Provision (MRP) Statement contained within Appendix 12 which sets out the council's policy on MRP;

(iii) agree the Treasury Management Strategy and the Treasury Prudential Indicators contained within Appendix 12;

(iv) agree the Cash Investment Strategy 2021/2 contained in the Treasury Management Strategy (Appendix 12 including the detailed criteria);

(v) approve the Property Investment Strategy at Appendix 13.

Background

50 The council's budget and MTFP(11) is aligned to the council plan, which was agreed by County Council on 21 October 2020 setting out the council's strategic service priorities. The MTFP provides resources to allow the council to deliver its priorities and to respond to and recover from the impacts of the coronavirus pandemic.

51 Looking back to MTFP(1), the following drivers for the council's financial strategy were agreed by Cabinet on 28 June 2010, which still underpin the council's strategy in MTFP(11):

(a) to set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in Council Tax;

(b) to fund agreed priorities, ensuring that service and financial planning is fully aligned with council plans;

(c) to deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum. This approach is in line with the Transformation Programme;

(d) to strengthen the council's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery outcomes;

(e) to ensure the council can continue to demonstrate value for money in the delivery of its priorities.

Local Government Finance Settlement

52 The Local Government Finance Settlement was published on 17 December 2020 with the Final Settlement published on 4 February 2021. The final settlement confirmed the figures published in the draft settlement.

53 The council tax referendum limit for 2021/22 is 2%. The government has also confirmed that upper tier authorities can increase council tax by an additional 3% for an Adult Social Care precept in 2021/22. In total therefore council tax can be increased in 2021/22 by 5%, though the government have provided the flexibility locally for local authorities to phase the 3% Adult Social Care precept over 2021/22 and 2022/23.

54 The settlement includes details of core grants including RSG and Business Rates 'Top Up' Grant. The table below highlights the 2021/22 Settlement Funding Assessment (SFA), with comparisons given against the current year. It is important to note that the Business Rates figure below is a 'notional' figure published by the government.

Table 1 – 2021/22 Settlement Funding Assessment

Funding Stream	2020/21	2021/22	Variance	
	£m	£m	£m	%
Revenue Support Grant	28.071	28.226	0.155	0.55%
Retained Business Rates	54.521	54.521	0.000	0.00%
Top Up Grant	72.780	72.780	0.000	0.00%
SFA	**155.372**	**155.527**	**0.155**	**0.10%**

55 The council's SFA has increased by only 0.1% in 2021/22. Revenue Support Grant (RSG) has increased in line with the annual increase in the Consumer Price Index as at September 2020. The government has frozen any increase in business rates for 2021/22 and will reimburse councils for any consequential loss of business rates income. The council will receive the 0.55% Consumer Price Index increase which should have been receivable from business rates and Top Up Grant via Section 31 grants, which fall outside of the SFA set out above.

56 The council still awaits confirmation of the 2021/22 allocations for a number of specific grants, with specific grants totalling in excess of £130 million.

Analysis of Settlement

57 The final settlement, which included confirmation of additional funding for the High Needs Dedicated Schools Grant that was announced last year, is broadly in line with the forecasts the Council had built into the MTFP(11) model that was reported to Cabinet in October 2020. The main announcements are as exemplified below.

New Homes Bonus

58 The government announced in the 2019/20 local government finance settlement that the New Homes Bonus (NHB) was to be replaced with a revised approach to incentivising house building. At this stage there is no indication as to what this revised approach will be. To enable the withdrawal of NHB it was been announced that:

(a) the additional NHB allocation the council receives for 2020/21 would be received in 2020/21 only i.e. it will not be payable over a four-year period in line with previous allocations;

(b) 2020/21 would be the last year for new NHB payments;

(c) the previous year's NHB allocations will continue to be payable in line with their four-year cycle after which NHB will no longer be payable.

59 As part of the 2021/22 local government finance settlement the government has announced that there will be a further one-year payment of NHB for 2021/22. This payment will be for one year only. The forecast NHB payments for the council will therefore be as detailed in Table 2. The MTFP(11) model assumes that the sums detailed in Table 2 are received but at this stage no forecast is included for any possible replacement until such a time as the announcements in this regard are made.

Table 2 – New Homes Bonus Payments

Year	Amount	Year of Year Impact on Budget
	£m	**£m**
2021/22	4.476	(3.087)
2022/23	1.745	(2.731)
2023/24	0	(1.745)

Revenue Support Grant (RSG)

60 RSG has been increased in 2021/22 by 0.55%, in line with CPI. This increase of £0.155 million is only the second increase in RSG since 2009/10. The future of RSG will be dependent upon the outcome of the Fair Funding Review and the possible move to 75% Business Rate Retention from 2022/23.

Social Care Grant

61 The council received a £17.650 million grant in 2020/21 to assist with social care pressures. In terms of long term planning it was assumed that this funding would be retained recurrently and the grant has increased in 2021/22 to £22.888 million, an increase of £5.238 million year on year. The government has indicated this funding will be in place across the MTFP(11) period although no guarantee could be given in terms of apportionment beyond 2021/22.

High Needs Dedicated Schools Grant

62 The council will receive a significant increase in the HNDSG for 2021/22 of £8.455 million, a 14.8% year on year increase. This increase in funding is essential for this service area where a £1.913 million overspend was reported in the Quarter 2 Forecast of Outturn Report to Cabinet on 11 November 2020. Although the increase is greater than the forecast 2020/21 overspend, this budget area continues to face significant demand and cost pressures and will continue to be monitored closely. There is also a need to recover the accumulated deficit in terms of historic underfunding of HNDSG in previous years that resulted in overspending on High Needs, where the accumulated deficit is forecast to be £7.639 million at 31 March 2021.

63 The government have previously announced that the General Fund is no longer able to support the HNDSG, therefore it is imperative that this budget area is managed within the grant made available and that includes recovery of the deficit that has been accumulated in previous years.

One Off Coronavirus Funding

64 The government has identified additional one off funding streams for local government to support in addressing the financial impact of the coronavirus pandemic into next year. The following were announced as part of the settlement:

(a) additional funding of £15.6 million to cover the costs the council will be required to continue to incur in 2021/22;

(b) the Income Guarantee Scheme for sales, fees and charges income will continue for the first three months of 2021/22. In this scheme the council must cover the first 5% of all income loss with the government then funding 75% of the residual lost income;

(c) funding via a Local Tax Income Guarantee scheme will be provided to cover 75% of 2020/21 council tax and business rate losses. The method of calculation of the grant will not result in 75% of actual losses being recovered as there is still an assumption on council tax that 99% of all council tax will be recovered which is unlikely. This grant will be applied over the next three years in line with the spreading of the 2020/21 in year collection fund deficit over the same period as fully detailed later in the report.

Negative RSG

65 The settlement confirmed the continuation of the negative RSG adjustment which was paid to some authorities in 2019/20 and again in 2020/21. Many beneficiaries of the Negative RSG adjustment are district councils, though there are a number of county councils who also benefit from these payments. The government has confirmed that £153 million will again be invested in 2021/22 to ensure there is no negative RSG for those limited number of authorities. Durham County Council will not receive any funding from this adjustment. The major beneficiaries are as follows:

Table 3 – Beneficiaries from Negative RSG in 2021/22

Authority	2021/22 Allocation
	£m
Surrey	17.3
Buckinghamshire	10.9
Dorset	10.8
Wokingham	7.1
Durham	0.0

66 This funding adjustment should only be made for 2021/22 financial year as the outcome of the Fair Funding Review is expected to be introduced from 2022/23.

Core Spending Power (CSP)

67 Upper tier authorities who receive a share of the additional social care grant funding and who are able to utilise the 3% Adult Social Care precept generally receive a higher than average CSP increase compared to district councils. The England average CSP increase for 2021/22 is 4.6% with district councils generally receiving less than this average as they do not benefit from the additional social care grant funding or the ability to levy an Adult Social Care precept. Equally, they do not face the significant upward cost pressures in these areas.

68 The government forecast CSP increase for Durham County Council in 2021/22 is 4.4%. In determining the forecast CSP increases for all councils the government have assumed that each local authority will increase their Council Tax by the maximum permissible next year.

69 High tax base authorities i.e. those in more affluent areas will receive a higher than average forecast CSP increase due to the sums that could be raised from a 5% council tax increase. Surrey County Council’s forecast CSP increase is 5.1% whilst Wokingham Borough Council has a 5% forecast CSP increase.

70 The 4.4% forecast CSP increase for Durham assumes the council will increase council tax in 2021/22 by 5% and assumes a government forecast 1.5% increase in the council tax taxbase. The government forecast 4.4% CSP increase is therefore significantly higher than the true position as the council is only recommending a 2.99% increase in council tax rather than a 5% increase next year and the council tax taxbase setting report to Cabinet on 13 November 2020 reported a 0.1% reduction in the tax base for council tax in 2021/22 rather than a 1.5% increase.

71 Based upon the budget proposals and the true position, the council’s actual CSP increase in 2021/22 will be 2.5% and not 4.4%. In total 60% of the councils 2.5% CSP increase comes from increases in council tax and 40% comes from government grant net increases. The grant increases mainly

relate to a £5.2 million increase in the Social Care Grant less a £3.1 million reduction in the NHB.

72 The government has also published details of spending power 'per dwelling' for all local authorities. Areas of deprivation naturally require and have always received relatively higher funding levels than more affluent areas. This higher level of funding in deprived areas is required for a range of reasons including:

(a) in affluent areas, significant numbers of service users, especially in adult social care, can afford to contribute to the cost of their service provision. This is especially the case for residential care and home care services for the elderly. In these circumstances, the budget required to provide services in deprived areas is much higher than in affluent areas; and

(b) demand for services such as Children's Social Care in deprived areas is significantly higher than more affluent areas, resulting in deprived areas requiring higher budgets.

73 Regardless of this, the spending power per dwelling data published by the government highlights how significantly the funding of an area such as Durham has declined over recent years. The following table highlights the 2021/2 CSP per dwelling for a range of local authorities.

Table 4 – 2021/22 Core Spending Power per Dwelling

Area	**Core Spending Power Per Dwelling**
	£
England	2,068
Durham	1,888
Northumberland	2,005
Wokingham	2,016
Newcastle	2,056
Middlesbrough	2,153
Surrey (county and districts)	2,197

74 Considering the levels of deprivation in County Durham, it is concerning that the government's CSP per dwelling calculation for Durham is £180 (c9%) less than the England average. The Index of Multiple Deprivation (IMD) highlights that Durham is the 48th most deprived local authority area in the country out of 151 upper tier authorities, yet the council's CSP is significantly lower than the national average.

75 By way of a practical example: a relatively deprived area like Durham now has a lower spending power per dwelling than a more affluent area such as the county of Surrey – which, if their district councils' CSP were included and fire responsibilities taken into account, would have a 10% higher

spending power per dwelling than Durham in 2021/22. Representations continue to be made to government in relation to this unfairness and will continue to be made during the Fair Funding Review process.

76 If Durham's CSP was brought up to the England authority average of £2,068 per dwelling, the council would annually receive additional government grant of £45 million.

Comprehensive Spending Review (CSR) and the Fair Funding Review

77 Originally, the Government had planned to have a multi-year settlement for local government and to implement the Fair Funding Review from 2020/21. This however was delayed by Brexit and the 2019 General Election which resulted in a one year settlement being received in the current year, with a multi year settlement and the introduction of the fair funding review expected for 2021/22. The impact of the coronavirus pandemic however has resulted in a further one-year Spending Round and a subsequent further delay to the Comprehensive Spending Review and the Fair Funding Review implementation.

78 It is now expected that the government will publish a CSR in the Autumn of 2021, although the content and period covered will be very much dependent upon the prevalence of the pandemic at that time and the governments approach to redressing the public finances. A longer-term CSR would be expected to cover the period 2022/23 to 2024/25 which would cover the period up to the next general election.

79 A longer-term CSR would be of fundamental importance in setting the quantum of funding to be available for local government across the three-year period. In addition, it is hoped that the CSR will provide clarity in relation to the Better Care Fund and the social care grant funding presently received by the council. Additional funding is paramount for local government to ensure investments can continue to be made in our communities and in key service areas.

80 As part of the November 2020 Spending Round an announcement was made that the implementation of the Fair Funding Review would be delayed until at least 2022/23. At this stage no further information has been forthcoming in relation to the timing of any future consultation papers. To ensure the council is able to respond accordingly it is hoped that any consultation papers are published as early as possible to enable considered responses to be made.

81 The interaction between the funding announcements in the CSR and the resultant apportionment of funding as part of the FFR will be vital in securing the financial future of the council. The outcome into the review into social care will also be of fundamental importance.

82 At this stage in terms of future assumptions for the CSR and FFR it is assumed that:

(a) the social care grant funding will continue to be received over the next three years;

(b) the core BCF funding will continue to be received;

(c) the council loses £10 million of funding as a result of the FFR transitioned over a five-year period i.e. a £2 million loss per annum. The estimated reduction is mainly due to the forecast implementation of the Advisory Committee of Resource Allocation (ACRA) formula for the allocation of Public Health grant/funding in the future, a reduction in the share of funding for Younger Adults, a reduction is the share of national population offset by a funding increase resulting from a business rate baseline reset and the eradication of current damping arrangements;

(d) the council loses £6 million of funding due to future austerity with local government forecast to face future funding reductions to assist in the national deficit recovery programme. This £6 million loss being transitioned over a three year period i.e. £2 million per annum.

Consultation

83 The significant level of uncertainty associated with the 2021/22 budget setting process resulted in the focus of consultation on MTFP(11) being via seeking views from Area Action Partnerships on the approach being taken by the council in planning for the 2021/22 budget process.

84 Presentations were made to 14 Area Action Partnership Boards between 14 October 2020 and 25 November 2020 providing a 2021/22 Budget and Medium-Term Financial Plan consultation and budget update. This presentation in summary covered;

(a) 2020/21 Council Budget overview;

(b) current uncertainties that make it difficult to plan effectively for the future, including the one-year Comprehensive Spending Review and impact of Brexit upon national finance;

(c) 2020/21 Covid-19 impact, whereby the council has faced significant additional costs and loss of income resulting from the pandemic;

(d) 2021/22 Budget pressures forecast including adult social care, pay awards, inflation and national living wage;

(e) 2021/22 Budget setting arrangements, outlining how the council prudently invested £20 million on a short-term basis in 2020/21 of which £10 million will be withdrawn in 2021/22 assisting in offsetting budget pressures. However, a shortfall is still forecast, which at the time of the presentations was estimated to be £9 million; and

(f) the council timetable for the budget for approval.

AAP Feedback

85 Views were sought from each AAP on the following:

(a) is the AAP comfortable with the council's approach in terms of identifying savings to balance the budget but considering the utilisation of the Budget Support Reserve to balance the budget due to the significant uncertainty faced and the tight timeframes?; and

(b) The Local Government Settlement will be confirmed in December 2020. Following this announcement, the Council may be a need to carry out further consultation early in 2021, if the shortfall is larger than anticipated, meaning there may be a necessity to make front line savings. If this is the case the Council proposes to conduct this short notice consultation with AAPs via email. Are the AAPs in favour of this?

86 Overall, all 14 AAP Boards confirmed they were in agreement with the Council's approach and happy to take part in further consultation if needed in early 2021. A summary of responses in relation to the AAP's feedback is themed as follows:

(a) **Overwhelming agreement and support**: All 14 AAPs supported the approach to budget planning as outlined in the presentation;

(b) **Appreciation and commendation:** It was felt the council has shown exceptional financial management over the last 10 years and should be commended. There is a level of comfort in that the Council's financial management is well measured and reasonable;

(c) **Public awareness, communication and education:** It was suggested that the Council consider undertaking activities in educating the public further around the scale of the challenge faced regarding ongoing uncertainties linked to financial planning and to provide a better understanding of how budgets are allocated, balanced, and where money is spent;

(d) **Celebration of achievements:** The work and activities carried out by the council in supporting our communities should be celebrated and promoted. An example was given regarding the Free School Meal voucher scheme that the Council launched to support local families in need. This scheme had been a great success and supported more than 10,000 children;

(e) **Welcoming of further consultation**: If further consultation is needed on saving options in early 2021 this was welcomed by the AAPs. Although understanding of the times constraints for this there was a suggestion that if at all possible, this consultation should not rely totally on email responses and the potential for it to be considered at Board meetings should be explored; and

(f) **Support for further lobbying:** As part of the presentation, it was explained that the Council will continue to lobby for additional financial support. There was support for this from the AAPs.

87 In addition to the above, several questions and comments were put to council officers during the MTFP presentations. They were responded to during or following the meeting. Details of these are contained in Appendix 2.

Scrutiny Committee Feedback

88 Detailed scrutiny of the MTFP continues to be undertaken by Corporate Overview and Scrutiny Management Board, as per the terms of reference of that committee. The ability to scrutinise MTFP(11) has been somewhat inhibited by the late publication of the financial settlement for 2021/22, which was not published until 17 December 2020.

89 The Board has held two main scrutiny meetings to consider the MTFP(11). The first on 29 October 2020, where Members considered the 14 October MTFP Cabinet report, and the second on 11 February 2021 when they considered the 10 February 2021 MTFP Cabinet report. Corporate Overview and Scrutiny Committee at its meeting on 11 February raised the following points for consideration by Council as part of its budget discussion, building on considerations at their October meeting:

(a) the Committee reflected on the significant degree of financial uncertainty in the medium term financial outlook for the Council, given the further delays to the Comprehensive Spending Review and Fair Funding Review. There was ongoing concern that the Council may lose significant public health funding as a consequence of the fair funding review, and the potential impact this could have on ability to fund services such as those supporting people with drug and alcohol problems;

(b) the Committee considered the forward context in terms of the large national deficit forecast as a consequence of coronavirus pandemic, and the potential further austerity for local government as a result. Given this context, members supported the approach taken by Cabinet in terms of medium term financial planning assumptions which assume further austerity measures, especially given the impact of Brexit which is yet to be fully seen;

(c) the need for a fairer and longer term funding settlement from Government, received in good time, was highlighted as essential by members of the committee. Members highlighted the need to lobby government further on the Council’s funding position, in particular in relation to core spending power per dwelling being less than the England average;

(d) base budget pressures in relation to adults and children's social care, and their funding, were reviewed, with concern expressed with regard to the level of pressure on children and young people's services due to growth in demand and whether funding from government was covering this adequately, and whether funding received for adult social care was being invested in this area;

(e) school maintenance was highlighted as a priority, and although members recognised that the central government grant allocation of £5.4 million would be invested, some felt that additional local funding should be made available, in addition to investing in new schools, for ongoing maintenance;

(f) the Committee highlighted the importance of maintaining a healthy financial position and level of reserves, but with some debate about where the right balance lies between use of reserves versus Council Tax rises;

(g) assurances were sought that reallocation of surplus service cash limit reserves to support additional investment in areas such as Lumiere and the Towns and Villages programme were not putting service groupings under additional pressure unintentionally;

(h) Members were concerned that once more we have seen delays in government announcements on funding, and that short term and late settlements are a significant challenge in funding services;

(i) there was also a concern regarding the timing of this scrutiny meeting and the ability for scrutiny to feed in and influence plans ahead of the Cabinet meeting in future years;

(j) the additional investment plans within the MTFP report were welcomed, including those in relation to libraries, welfare assistance and towns and villages;

(k) in relation to the £5 million additional investment in towns and village, members commented that this needs to be invested according to need, but also that it is important that every community has a chance to bid, including a suggestion of consulting with electoral divisions on the opportunity to bring projects forward. The towns and villages programme is planned as a future agenda item for consideration at the Economy and Enterprise Scrutiny Committee;

(l) in planning for local elections, members recognised extra investment was essential to ensure local elections are conducted safely and are COVID secure, and sought assurance that adequate Government funding would be provided to achieve this;

(m) the Chair and Members of the Committee thanked officers, members and the Cabinet for their hard work, dedication and commitment in producing report. There was particular thanks to Councillor Napier for his management of finances over the years.

Medium Term Financial Plan Strategy

90 The strategy the council has deployed to date has been to prioritise savings from management, support services, efficiencies and, where possible, increased income from fees and charges to minimise the impact of reductions on frontline services as far as possible.

91 Throughout the period covered by the MTFP(1) 2011/12 through to end of the MTFP(11) planning period (2024/25), the cumulative savings required have risen from an originally forecast £123 million to a revised and updated forecast of £286 million now. Given the continuing requirement to make significant savings, it will become increasingly difficult to protect frontline services going forward.

92 To date the council has implemented the agreed strategy very effectively:

(a) £242 million of savings will have been delivered by 31 March 2021;

(b) in the vast majority of cases, savings have been delivered on time and in some areas ahead of time. This has been critically important, as non-delivery would place additional pressure upon the revenue budget;

(c) it was originally forecast in MTFP(1) that there would be a reduction in posts of 1,950 by the end of 2014/15 due to austerity measures. It is currently forecast that by the end of 2021/22 the reduction in posts will be circa 3,000 of which circa 700 will have been via the deletion of vacant posts;

(d) following the abolition of the national council tax benefit system in 2013, and despite government funding reductions for the Local Council Tax Reduction Scheme which replaced it, the council has been able to maintain a scheme that protects all working age households in line with the support they would have previously received under the Council Tax Benefit system. This is a significant achievement and the council is one of a small number of local authorities nationally and the only authority in our region that have been able to maintain this support at a time when working age households are suffering from continued impacts of the government's welfare reforms. This has only been possible through prudent financial planning;

(e) the council has also been able to protect those services prioritised by the public such as winter maintenance whilst also continuing to support a fully funded capital programme.

93 The benefits of strong financial governance arrangements, maintaining adequate reserves and delivering savings early, if practical to do so, cannot be over emphasised. The utilisation of reserves has been essential in ensuring the smooth delivery of savings and enabled a managed implementation of proposals across financial years.

94 In general, the council has been accurate in forecasting the level of savings required, which has allowed the development of robust plans and has enabled the council to effectively manage the implementation and delivery on time, including meeting extensive consultation and communication requirements. This has put the council in as strong a position as possible to meet the ongoing financial challenges across this MTFP and beyond. Savings proposals are becoming more complex and difficult to deliver and will inevitably require increased utilisation of reserves to offset any delays and 'smooth in' reductions across financial years.

95 The council's existing MTFP strategy aligns well with the priorities identified by the public. For example:

(a) **protecting basic needs and support services for vulnerable people:** Although the scale of government spending reductions has been significant having unavoidable impacts upon vulnerable people, the council works hard with partners to minimise this impact as far as possible. In MTFP(11), support has been continued to protect working age people on low incomes through the continuation of the existing Council Tax Reduction Scheme. This has been enhanced with the proposals to continue with an up to £300 top up payment to working age claimants who are left with a bill to pay next year. Work with health partners continues to help ensure that health and social care funds are maximised and every proposal with the potential to impact on vulnerable people is subject to an assessment to identify likely impacts and mitigate these as far as possible;

(b) **avoid waste and increase efficiency:** The council has a good track record of delivering cashable efficiency savings since local government reorganisation. This includes rationalisation of council buildings and IT systems and investment in digitisation of services. All employees have the ability to suggest ideas that could reduce waste and improve efficiency. The council benchmarks itself against other organisations in order to identify areas for improvement and demonstrate value for money;

(c) **work with the community:** The council is a trailblazer in asset transfer, having successfully transferred a number of leisure centres, a golf course, community buildings and children's centres to date. The council has recognised the need for investment in resources to work with the community to achieve successful outcomes in this area and shares the public's view that there is scope to continue this in the future;

(d) **fees and charges:** The council has addressed some of its financial challenges through increasing fees and charges. Such decisions are carefully considered, and it is acknowledged that it is not appropriate to aim for the highest charges possible, given the income levels of most residents and service users in County Durham.

96 Savings are forecast to be required over the next four years as core funding is forecast to reduce on the back of the FFR and possible reintroduction of future austerity to assist in reducing the national deficit resulting from the pandemic. In addition, it is forecast that the council will continue to face significant budget pressures especially in relation to children's social care, waste disposal and in meeting investment requirements to continue to address climate change priorities. These pressures are not forecast to be able to be accommodated from income generated locally through council tax and retained businesses rates.

97 The fact that future year's savings requirements will be on top of those of previous years leads to a forecasted, cumulative total of £286 million of required savings across the period 2011/12 up to 2024/25. This means that the council continues to face a very considerable financial challenge to balance budgets whilst providing a good level of service.

98 In addition, local government generally is absorbing more financial risks from central government.

99 Increased risk is arising from several sources:

(a) under the Local Council Tax Reduction Scheme, previous national risk arising from any increased numbers of benefits claimants has been transferred to local authorities since 2013/14. The risk is greater for authorities like Durham that serve relatively more deprived areas and have relatively weaker economic performance than the national average. The impact of the pandemic upon the council tax taxbase highlights this risk;

(b) Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration by being able to retain 49% of business rates raised locally. Economic regeneration has always been the top priority for the council. Unfortunately, the practical consequences of these changes shift risks once managed nationally, to local authorities should there be a downturn in the local economy and local business rate yield reduces. In addition, the council also now carries a share in the risk arising from successful rating appeals against the rateable value assigned to a business by the Valuation Office, part of HM Revenues and Customs which can go back many years. Again, the impact of the pandemic upon the business rate taxbase highlights this risk;

(c) Fair Funding consultations have confirmed the government's aspiration that local authorities will be able to retain 75% of business rates collected locally in 2022/23. This could result in significant changes to the funding received by the council;

(d) the government's ongoing Welfare Reforms, including the roll out of Universal Credit Full Service and the managed migration of all legacy benefit claimants to this regime in the coming years, carry increased financial risk to the council in areas such as the Benefits Service, Welfare Rights, homelessness and housing services. Similarly, council tax may become more difficult to collect, creating increased financial pressure;

(e) risks such as future price and pay inflation and demographic pressures in social care services in particular will still apply and are not currently fully recognised in government funding allocations, increasing the real terms cuts required to set a balanced budget;

(f) future settlements are dependent upon the national finances. Uncertainties in relation to Brexit and the recovery from the pandemic will impact upon the national finances and as such could also impact upon future settlements for local government;

(g) it is unclear at this point what the impact in the short and long term will be upon the council of the coronavirus pandemic. There could continue to be increased costs and loss of income.

100 Detailed savings plans have been developed for MTFP(11) with work ongoing to develop savings plans for future years and beyond. It is recognised that the likely impact of the CSR and FFR will not become clear until at least autumn 2021. On that basis the council will need to be flexible in terms of planning for future years savings.

Revenue Budget for 2021/22

101 Cabinet received an update report on MTFP(11) on 14 October 2020 which provided details of forecast base budget pressures at that time. The late publication of the provisional local government settlement delayed further updates on the development of MTFP(11) until a report was presented to Cabinet on 10 February 2021.

Base Budget Pressures in 2021/22

102 Base budget pressures have been reviewed over the last year. Table 5 provides detail of the final position on the 2021/22 Base Budget pressures.

Table 5 – 2021/22 Base Budget Pressures

Pressure	Amount £m
Pay Inflation	5.100
Price Inflation	3.800
Costs associated with the National Living Wage	0.850
Adult Demographic Pressures	4.000
Children's Demographic Pressures	5.000
Children's Home to School Transport	1.640
Children's SEND and Social Care Staffing	1.200
Leisure Budget Pressures	0.850
Winter Maintenance	1.000
Neighbourhoods Staffing and Base Budget Pressures	1.000
Prudential Borrowing	1.000
Other Budget Pressures	1.547
TOTAL	**26.987**

103 Additional budget provision is required for price inflation and the forecast cost of the 2021/22 pay award. The 2020/21 pay award was 2.75%, compared to the 2.5% built into the 2020/21 base budget, therefore additional budget provision of £0.550 million is required to cover the 0.25% shortfall in 2021/22. In terms of the 2021/22 pay award forecast, 2% provision has been retained. Although the Chancellor of the Exchequer has called for pay restraint in the public sector confirmation has been received that the health service employees will receive a 2021/22 pay increase. Local government has an independent pay body which is likely to come under pressure from trade unions to match any pay award payable to the health service. Retaining a 2% assumption is considered prudent in terms of the budget planning for next year.

104 The council faces a budget pressure in relation to the impact of the 2021/22 National Living Wage (NLW) increase. At 2.2%, the increase is lower than previously forecast , but this is still higher than the 1.5% price inflation included in the MTFP(11) model for 2021/22. Contractual arrangements, particularly relating to adult social care services include annual uplifts in contract prices which are linked to the NLW. A base budget pressure of £0.850 million is included in 2021/22 in relation to these requirements, together with an additional £4 million provision for Adults Demographics.

105 The council continues to face significant unavoidable budget pressures in Children and Young People's Services particularly in relation to Children's Social Care placements and Home to School Transport, with budget uplifts provided to offset current shortfalls in these areas. Similarly, additional provision has been made to increase the base budgets in Leisure Facilities and within the Neighbourhoods staffing teams. Additional investment has

also been factored into the Winter Maintenance service to reflect increased operating costs and ensure the budget is adequate to meet a standard winter.

106 The council continues to prioritise capital investment and this budget includes a fully funded capital programme. A key priority of the capital programme continues to be regeneration and job creation within the local economy.

Additional County Durham Investments

107 The council has managed its finances extremely effectively since 2010 and because of this remains in a position to continue the investment programme that was agreed for 2020/21 into the 2021/22 financial year.

108 The proposed budget includes a further £10 million of continued short-term investments across a number of key front line service areas, bringing the additional investment committed in these areas to £20 million over 2020/21 and 2021/22, with any underspending in 2020/21 due to the impact of the pandemic being carried forward to augment the 2021/22 budget allocation. The 2021/22 budget will include the following investments:

(a) £2.5 million of investment in highways – including additional investment in street lighting, measures to tackle backlog maintenance and pothole repairs, additional gully cleansing and drainage inspections and further investment in improving road markings;

(b) £0.5 million of investment to support the development of new social housing;

(c) £2.0 million of additional investment in Clean and Green and other Neighbourhood Initiatives. This investment will include Neighbourhood “Find and Fix” environmental teams, complementing “Operation Spruce Up” and responding rapidly to neighbourhood blight and environmental concerns;

(d) £1.5 million of additional investment to support the council’s approach to tackling climate change, which will assist in leveraging in additional national funding and will provide a platform for attracting further local investment from partners and other agencies. This additional funding builds on the council’s ongoing resource commitments that are set out in the climate change plans that have been considered by Cabinet and Council;

(e) £1.5 million of additional investment in Welfare Assistance and Discretionary Housing Payments in support of the Poverty Action Plan - which those most in need rely on, whilst also investing in support for the long term unemployed to help them into work. Further investment will also be made in supporting activities with food during school holidays and supporting investment in foodbanks where this is required;

(f) £1.0 million of additional investment in library and leisure services, to improve access and the digital offer in particular within these services;

(g) £1.0 million of additional investment in Children and Young People's Services, funding a range of initiatives to support engagement and partnership working with young people and to improve quality;

(h) the 2021/22 budget also commits an additional £5 million for Towns and Village investment, which brings the total value of funding committed for this local investment to £25 million, of which £4.2 million (£300,000 each) will be allocated to local Area Action Partnerships in support of local schemes to enhance Towns and Villages across the county based on local priorities;

(i) the broad criteria and governance arrangements for the AAP £4.2 million investment will be as follows.

General Principles – AAP Towns and Villages Fund Investment

109 The general principles are:

(a) the funding can be used for both capital and revenue;

(b) schemes funded should have a clear exit plan and not create an ongoing expectation of support longer term;

(c) although the funding is allocated next financial year, there is no need for AAPs to have it all allocated or spent next year and they are free to profile this as they see fit;

(d) AAPs will have the flexibility to innovate so there will be some flexibility but within criteria established for these allocations (see below);

(e) application of the funding will be collated alongside the schemes overseen by the Towns and Villages Co-ordination Group;

(f) given the level of interest in this subject at the recent Autumn AAP consultation events, it is anticipated there may be a need for some further engagement with communities as to how it could be best used in an AAP area based on the areas it can be applied to;

(g) the over-riding aim of the funding is to have a meaningful impact, and in order to ensure the public see a real difference, AAP Boards therefore should cap any spend on feasibility studies to a maximum of £30,000. In addition, given the availability of this funding offers a significant opportunity for AAPs, it is proposed that unless there are exceptional circumstances, projects supported should have a minimum contribution from this fund of £10,000 and that they seek to achieve a match funding rate of at least 30%.

Priorities for investment – AAP Towns and Villages Fund Investment

110 AAPs will be free to develop a programme of works that meet the particular needs and priorities of their areas, and in common with the approach taken to use of their Area Budget, they will be provided with the scope to innovate. However, the investment of this funding will be within the criteria that is signed off and agreed by Cabinet. As a steer for the utilisation of this funding AAPs will be encouraged to consider investment in the following potential initiatives (note that the decision to go ahead with any local scheme will be shaped by the need to avoid duplication with other schemes):

(a) localised environmental maintenance / enhancements;

(b) enhancing community resilience;

(c) time-limited financial support for current town and village centre businesses to maintain their presence in a locality;

(d) time-limited support to assist with attracting new users/businesses to a centre;

(e) projects that build on a centre's ability to attract new users to a location e.g. through the improvement of a visitor experience or development of an area's tourism potential;

(f) accessibility improvements in order that more people can travel to (e.g. public transport/parking), and within (e.g. disabled access enhancements) a centre;

(g) improvements to connectivity (walking and cycling);

(h) improved IT connectivity for businesses and visitors;

(i) public realm improvements, including addressing 'grot spots' and parking issues on estates that impact on their open space areas;

(j) initiatives to improve public safety in order that people feel more secure when living in or visiting a location; or

(k) the creation of a vibrant community hub within a town or village centre.

Funding allocation and Integration

111 Bids for funding will be made through the established AAP funding process. The principal AAP Coordinators will oversee any funding bids and will join

the Towns and Villages Co-ordination group to ensure that AAP generated projects compliment and are aligned to wider investment programmes.

112 Given the scope of the Towns and Villages programme and the established process of local priority setting and resourcing, higher value projects may be developed drawing together existing AAP allocations and the uplifted Towns and Villages element.

Engagement & Governance

113 An important element of the Towns and Villages programme is the ongoing commitment to regular engagement with each AAP to demonstrate the local delivery of Towns and villages and aligned schemes and to identify larger scale regeneration needs and opportunities outside of the scope of the AAP allocations. These sessions (six monthly) as well as participation in AAP priority theme group meetings which align with the core Towns and Villages themes will enhance and embed the activity at an AAP level in line with the principles established in the Towns and Villages Cabinet reports.

114 This Town and Village investment will complement the existing range of investments under this ambitious programme of interventions. Table 6 provides a summary of the additional short-term investments recommended which are in addition to the £20 million of other Town and Villages investments:

Table 6 – 2021/22 Additional County Durham Investments

Additional County Durham Investments	Amount £m
Climate Change	1.500
Highways	2.500
Clean and Safe Neighbourhoods	2.000
Reducing Poverty and Inequality	1.500
Housing Initiatives	0.500
Library Investment	1.000
Children’s Services	1.000
Towns and Villages	5.000
TOTAL	**15.000**

115 The investment of £15 million detailed above, will require a contribution from the Budget Support Reserve (BSR) in 2021/22 of £3.778 million and utilisation of £5 million of earmarked reserves.

MTFP(11) Savings

116 Since the onset of austerity, the council has delivered the vast majority of savings required on schedule. Across the period 2011/12 to 2020/21 savings realised have totalled £242 million.

117 The approach to generating additional savings has a clear focus upon efficiency savings, income generation and the protection of front line services as far as is possible.

118 Savings of £5.4 million approved in MTFP(10) continue across the MTFP(11) period alongside an additional £2.4 million of new savings proposals that have been identified for inclusion in MTFP(11). This provides £7.8 million of budget support across MTFP(11) with £5.3 million of this sum available in 2021/22.

119 Table 7 below provides a summary of the MTFP(11) savings, with the individual savings plans detailed in Appendix 3.

Table 7 – MTFP(11) Savings

Year	Savings £m
2021/22	5.312
2022/23	2.452
TOTAL	**7.764**

120 The current MTFP(11) modelling forecasts that £36 million of further savings are still required to balance budgets over the medium term. Over the coming months the council will continue to develop savings plans to ensure savings options are available for consideration should they be required. Early planning will be critical in lieu of the potential outcome of the Comprehensive Spending Review and the implementation of the Fair Funding Review, where the council must also be cognisant of the possibility of base budget pressures being higher than what is currently forecast.

2020/21 Collection Fund

121 The council taxbase setting report to Cabinet on 18 November 2020 provided an update on the forecast collection fund outturn position for 2020/21, based on the quarter 2 position.

122 Under normal circumstances the council would have been declaring its forecast surplus or deficit position for the year end as part of that report and informing its principal precepting bodies (Police and Fire) of their shares of the forecast collection fund surplus or deficit position . The report to Cabinet however referenced the significant uncertainty at that point in terms of future collection rates due to the impact of the pandemic and especially the removal of the furlough. It was determined that preceptors would be advised of the 2020/21 collection fund forecast outturn position at a later date although it was recognised that preceptors must be advised of the position by 15 January 2021 to aid their budget setting processes.

123 The taxbase setting report to 18 November 2020 also referenced the government intention for the financial impact of any 2020/21 in year deficit

to be spread over the three years 2021/22, 2022/23 and 2023/24 rather than all being accounted for in 2021/22. At that point details of how this scheme would operate were not known.

124 As part of the local government finance settlement the government announced that a 75% grant would be made available to cover the in year 2020/21 collection fund losses. Guidance was subsequently provided on how the 75% grant is to be calculated for both council tax and business rate in-year collection deficits.

125 The calculation of the council tax element of the 75% grant continues to assume a 99% collection of council tax rather than allowing local authorities to recover those elements of non-collection due to any additional provision for write off of bad debts. On that basis it is unlikely that 75% of the current forecast of the collection fund deficit will be recovered as the updated forecast assumes an increase in the level of bad debt that will ultimately be subject to write off. Detailed below are the updated forecasts for the collection fund for 2020/21 along with the forecast sums recoverable via the 75% grant and the impact of three year phasing of this grant across 2021/22 to 2023/24.

126 The figures highlighted relate only to the county council share of the collection fund position. Police and Fire were informed of their shares of the forecast deficit before the statutory deadline of 15 January 2021 and the forecast of their share of the 75% grant support.

Brought Forward Position from 2019/20

	£m
Council Tax Deficit	0.722
Business Rate Surplus	(4.034)
NET SURPLUS	**(3.312)**

In Year Position 2020/21

	£m
Council Tax Deficit	4.836
Business Rate Deficit	0.558
DEFICIT	**5.394**

127 The council has a brought forward net surplus of £3.312 million from 2019/20 but an in year deficit of £5.394 million in 2020/21. Whilst the brought forward position is applied in full in 2021/22, the in year deficit for 2020/21 must be spread over three years and will be offset by the forecast grant support that will be received. Police and Fire will also receive grant support to offset their share of the in-year deficit and that funding will be paid direct to them by the Government. The impact on MTFP(11) across the period 2021/22 to 2023/24 is as follows;

2021/22 Budget Position

	£m
2019/20 Net Surplus BFWD	(3.312)
2020/21 Council Tax Share of Deficit	1.612
2020/21 Business Rate Share of Deficit	0.186
2021/22 Share of 75% Grant	(0.514)
NET FUNDS AVAILABLE FOR 2021/22	**(2.028)**

2022/23 Budget Position

	£m
2020/21 Council Tax Share of Deficit	1.612
2020/21 Business Rate Share of Deficit	0.186
2022/23 Share of 75% Grant	(0.514)
NET 2022/23 DEFICIT	**1.284**

2023/24 Budget Position

	£m
2020/21 Council Tax Share of Deficit	1.612
2020/21 Business Rate Share of Deficit	0.186
2023/24 Share of 75% Grant	(0.514)
NET 2023/24 DEFICIT	**1.284**

128 The net position for 2021/22, having taken into account the 75% grant, results in a surplus of funds available, on a one off basis of £2.028 million which must be utilised in the setting of the 2021/22 budget. In line with previous years it is recommended that the net collection fund surplus of £1.514 million plus the £0.514 million Local Income Tax Guarantee Grant of £0.514 million are utilised to support the MTFP(11) capital programme.

129 In 2022/23 however there will be a net deficit position of £1.284 million which must be included in the budget build for that financial year. Utilising the three year spreading arrangement the deficit will also be £1.284 million in 2023/24 with no ongoing impact beyond that financial year.

130 The Collection Fund outturn for 2021/22 and 2022/23 will have an impact on the actual surplus or deficit positions in 2022/23 and 2023/24, but each

year will be required to account for the net deficit position being brought forward from 2020/21.

2021/22 Net Budget Requirement and Council Tax

131 After taking into account base budget pressures and additional investment, the council's recommended Net Budget Requirement for 2021/22 is £441.131 million. The financing of the Net Budget Requirement is detailed in Table 8 below.

Table 8 – Financing of the 2021/22 Budget

Funding Stream	Amount £m
Revenue Support Grant	28.227
Business Rates – Local Share	57.304
Business Rates – Top Up Grant	72.780
Section 31 Grant	11.415
Collection Fund Surplus	1.514
Local Tax Income Guarantee	0.514
Council Tax	241.266
New Homes Bonus	4.476
Social Care Pressures Grant	22.888
Lower Tier Services Grant	0.747
NET BUDGET REQUIREMENT	**441.131**

132 The Gross and Net Expenditure Budgets for 2021/22 for each service grouping are detailed in Appendix 4. A summary of the 2021/22 budget by service expenditure type, based upon the CIPFA classification of costs is detailed in Appendix 5.

133 The government has confirmed that the maximum the council can increase Council Tax by is 2% without approval from a majority of Council Taxpayers in a public referendum to increase it further. Following the announcements in the Spending Round last year, the council also has the ability to apply an Adult Social Care precept up to a maximum of 3% which can be phased over 2021/22 and 2022/23.

134 After considering the impact upon the council's budget and, importantly upon council taxpayers, this report recommends a 1.99% council tax increase in the council's Band D council tax in 2021/22 which is below the 2% referendum limit.

135 In addition, the report recommends a 1% increase to the Adult Social Care precept. The total increase would therefore be 2.99% and will generate additional council tax income in 2021/22 of £7 million. The additional

income will enable the council to protect front line services while also covering significant base budget pressures such as the additional costs associated with the increase of the National Living Wage.

136 The MTFP(11) forecasts assume 1.99% annual increases each year for 2022/23 to 2024/25, with a 2% Adult Social Care precept factored into the MTFP(11) planning assumptions also.

137 The 2021/22 council tax base, which is the figure utilised to calculate council tax income forecasts, was approved by Cabinet on 18 November 2020 as 141,623.2 Band D equivalent, a small reduction in tax base from 2020/21 resulting from the impact of the pandemic. Based upon the council's track record in collecting council tax from council taxpayers, the collection rate for council tax setting and income generation processes has been retained at 99%.

One Off Grant Support to address coronavirus pandemic financial impact

138 The council is forecasting to have incurred costs and lost income during 2020/21 of circa £70 million due to the impact of the coronavirus pandemic. It is fully expected that the pandemic will continue to have financial impacts on the council well into 2021/22 and possible beyond. In this regard the local government finance settlement confirmed additional one off funding of £15.6 million for 2021/22 and a continuation into the first three months of 2021/22 of the Income Guarantee Scheme.

139 The 2021/22 budget does not include additional budget pressures resulting from the coronavirus pandemic. It is not possible at this stage to determine whether the short-term funding that has been provided will be enough as this is ultimately dependent on the duration of the pandemic and the consequential impact on the council's income and expenditure next year. This adds to the uncertainty across the MTFP(11) planning period and the position will be closely monitored to ensure that sufficient funding is available.

140 If it becomes apparent that the funding will not suffice then government will be lobbied extensively for additional financial support. It is unlikely that Durham would be the only local authority with financial pressures in this regard.

Recommendations

141 It is recommended that Members**:**

(a) approve the identified base budget pressures included in Table 5 at paragraph 102;

(b) approve the short-term investments included in Table 6 at paragraph 114;

(c) approve the 2021/22 savings plans detailed in Appendix 3;

(d) note the governance arrangements in place to invest £0.3 million in each AAP from the Town and Villages reserve and approve the criteria for the investment;

(e) approve the collection fund position for 2020/21 and approve that the 2020/21 £1.514 million net collection fund surplus and the £0.514 million 2021/22 Local Tax Income Guarantee grant are utilised to support the MTFP(11) capital programme;

(f) note the forecast £1.284 million collection fund deficit carried forward into both 2022/23 and 2023/24;

(g) approve a 1.99% 2021/22 council tax increase and an additional 1% increase which relates to the Adult Social Care precept, totalling 2.99%;

(h) approve the 2021/22 Net Budget Requirement of £441.131 million;

(i) note the additional one off funding support provided to finance the ongoing financial impact of the coronavirus pandemic and the need to monitor this position closely in 2021/22.

How the Medium-Term Financial Plan (MTFP(11)) 2021/22 to 2024/25 has been Developed

142 The following assumptions have been utilised in developing the MTFP(11) budget model, which is set out in Appendix 6:

(a) at this stage it is forecast that the council will face funding reductions as a result of the Fair Funding Review. This view is formed on the basis of the government's planning assumptions for the future use of the ACRA formula to distribute Public Health funding. It is forecast that this could reduce Public Health funding by circa £18 million in County Durham. Analysis by the Local Government Association has also forecast a significant reduction in Durham's national share of Younger Adults funding. The county share of national population has also reduced, which will impact upon future funding levels although the baseline reset of business rates is forecast to partially offset this impact. It is forecast that the council could lose an additional £10 million of government funding as a result of the Fair Funding Review. Assuming a five-year transition period would result in the council losing £2 million of funding per annum from 2022/23 to 2026/27;

(b) it is forecast that the council will lose £6 million of core funding as a result of the outcome of the CSR. Health, Education and Defence will continue to be protected in the future, resulting in unprotected government departments facing the likelihood of tighter financial settlements as the government seeks to redress the public finances. Until the results of the CSR are published, probably in Autumn 2021, it is difficult to forecast the actual impact upon local government but at this stage a loss of government funding of £6 million is forecast, phased across the last three years of the current parliamentary period;

(c) it has been assumed that the council will retain the additional Social Care Grant funding of £22.9 million across the MTFP(11) period, although there is a risk in this regard in relation to the future allocation methodology;

(d) it is expected that NHB will be withdrawn in full as a funding stream over the next four years. It is expected that a new housing incentive scheme will be introduced but until such time as details are provided in this regard no forecast of additional funding has been included in MTFP(11);

(e) continued reductions in the Benefit Administration grants are assumed as Universal Credit is rolled out. It is forecast that Benefit Administration grants will reduce by a further £0.1 million per annum across the MTFP(11) period;

(f) it is assumed that the current BCF allocations are retained across MTFP(11);

(g) forecast pay and price inflation levels assumptions are detailed in Table 9 below. Service groupings will be expected to manage budgets within set cash limits although some additional allowance will be recognised for major contracts.

143 The assumptions built into MTFP(11) for pay and price inflation are detailed in the table below:

Table 9 – Pay and Price Inflation Assumptions

Year	Pay Inflation	Price Inflation
	%	%
2021/22	2.0	1.5
2022/23	2.0	1.5
2023/24	2.0	1.5
2024/25	2.0	1.5

(a) forecasts have also been included in relation to the impact of the National Living Wage over and above the price inflation allowance. The government has indicated that the intention would be to increase the NLW to £10.32 per hour by 2024/25 from the 2021/22 level of £8.91 per hour which will require annual increases of circa 5%;

(b) it is assumed that £10 million of the short-term investments introduced in 2020/21 will continue into 2021/22 and will be augmented with an additional £5 million of investment in Towns and

Villages, principally via Area Action Partnerships in 2021/22 but at this stage will not continue beyond next year;

(c) continuing forecast budget pressures in relation to Children and Adults demographics;

(d) continuing to support the capital programme;

(e) it is assumed from 2022/23 that the council will increase Council Tax by 1.99% per annum with the balance of the Adult Social Care flexibility taken in 2022/23;

(f) beyond next year it is assumed that the council tax base and business rate tax bases will continue to grow although growth is forecast to be depressed still over the next couple of years, accelerating again towards the end of the MTFP(11) planning period.

144 Based upon the assumptions built into MTFP(11), the following shortfall in savings will be required to balance the budget in 2022/23 to 2024/25.

Table 10 – Savings to be Identified

Year	Savings Target £m
2022/23	6.161
2023/24	19.745
2024/25	10.066

145 In total, additional savings of £35.972 million are required to balance the budget over the 2022/23 to 2024/25 period. To support the MTFP over this period there will be a forecast residual balance in the Budget Support Reserve of £12.8 million at 31 March 2022.

146 The MTFP(11) forecasted budget model is attached at Appendix 6. This model is considered prudent taking account of the latest intelligence relating to the Comprehensive Spending Review and the Fair Funding Review, though there is significant uncertainty over these estimates. Actual outcomes will be dependent on government's decisions on the formulae for allocating future grant funding as well as the details of overall level of government funding that is available for local government from 2022/23. Of particular concern in this regard is what the strategy will be to address the deficit that has been created as the government responds to the coronavirus pandemic.

Financial Reserves

147 Reserves are held:

(a) as a working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserves;

(b) as a contingency to cushion the impact of any unexpected events or emergencies, for example, flooding and other exceptional winter weather – this also forms part of General Reserves;

(c) as a means of building up funds - 'earmarked' reserves - to meet known or predicted future liabilities.

148 The council's reserves policy is to:

(a) set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director of Resources should continue to be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis and then reporting to the Cabinet Portfolio Member for Finance and to Cabinet;

(b) aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms equates to up to £32 million.

149 Each earmarked reserve, with the exception of the Schools' reserve, is kept under review and formally reviewed on an annual basis. The Schools' reserve is the responsibility of individual schools with balances at the year-end which make up the total reserve.

150 A Local Authority Accounting Panel Bulletin published in November 2008 (LAAP77) makes a number of recommendations relating to the determination and the adequacy of Local Authority Reserves. The guidance contained in the Bulletin "represents good financial management and should be followed as a matter of course".

151 This bulletin highlights a range of factors, in addition to cash flow requirements that councils should consider in determining their reserves policy. These include the treatment of inflation, the treatment of demand led pressures, efficiency savings, partnerships and the general financial climate, including the impact on investment income. The bulletin also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If Members were to choose to use General Reserves as part of this budget process appropriate action would need to be factored into the MTFP to ensure that this is addressed over time so that the base budget is not reliant on a continued contribution from General Reserves.

152 The forecast balance on all reserves is reported to Cabinet every quarter as part of the Forecast of Outturn reports and Cabinet received the latest report on 11 November 2020 based on the position as at 30 September 2020. The quarter three forecast of outturn will be considered by Cabinet in March 2021.

153 Since that time, a review of Earmarked Reserves has identified the opportunity to increase the Town and Villages Reserve from £20 million to £25 million. This additional £5 million will provide greater investment opportunities in our local communities, where £300,000 will be allocated to each Area Action Partnership next year to invest in local priorities.

154 Between the period 2011/12 to 2021/22 it is forecast that over £100 million of reserves, including the Budget Support Reserve (BSR) and the Early Retirement/Voluntary Redundancy (ER/VR) reserve, will have been utilised to support the MTFP. It is recommended that the current Reserve Policy of maintaining the General Reserve of between 5% and 7.5% of the Net Budget Requirement is retained at this stage. This will result in a General Reserve range of up to £33 million.

155 A balanced MTFP model has been developed after taking into account the assumptions detailed in this report. The MTFP model is summarised below. It should be noted that of the £43.866 million of savings required there are plans in this report for £7.764 million leaving a shortfall over the MTFP(11) period of £35.972 million.

Table 11 – MTFP(11) Model Summary

	2021/22	2022/23	2023/24	2024/25	Total
	£m	£m	£m	£m	£m
Variance in Resource Base	(17.670)	1.771	(2.155)	(5.600)	**(23.654)**
Pressures/Investments	29.027	(1.806)	21.900	15.666	**64.787**
Previous use of one-off funds	2.733	8.778	0	0	**11.381**
Use of Reserves	(8.778)	0	0	0	**(8.648)**
Savings Required	**5.312**	**8.743**	**19.745**	**10.066**	**43.866**
Savings Identified	**(5.312)**	**(2.452)**	**0**	**0**	**(7.764)**
Savings to Shortfall	**0**	**6.291**	**19.745**	**10.066**	**36.102**

Recommendations

156 It is recommended that Members:

(a) agree the forecast MTFP(11) financial position;

(b) set aside sufficient sums in Earmarked Reserves as is considered to be prudent and agree that the Corporate Director of Resources continues to be authorised to establish such reserves as required and to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet;

(c) aim to maintain General Reserve in the medium term between 5% and 7.5% of the Net Budget Requirement which in cash terms is up to £33 million;

(d) note the transfer of £5 million of earmarked reserves into the Town and Villages Reserve.

Capital Budget 2020/21 to 2023/24

157 The capital budget was last approved by Cabinet on 11 November 2020. Since that date, capital budgets have continued to be challenged and reviewed whilst additional resources have been received, which have augmented the capital programme. After taking these adjustments into account, Table 12 details the latest revised capital budget for the period 2020/21 to 2023/24 including the details of the financing of this capital expenditure. Further details of the current capital programme can be found at Appendix 7.

Table 12 – Current Capital Budget 2020/21 to 2023/24

Service Grouping	2020/21	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m	£m
Adults and Health	0	0.338	0	0	0.338
CYPS	22.977	21.820	0.522	0	45.319
NCC	43.713	35.005	0.168	0	78.886
REG	69.211	96.010	58.274	9.761	233.256
RES	3.610	26.060	7.309	1.700	38.679
TOTAL	**139.511**	**179.233**	**66.273**	**11.461**	**396.478**
Financed by					
Grants/Contributions	55.022	49.580	12.664	0.655	117.921
Revenue/Reserves	29.901	7.506	1.372	.4.375	43.154
Capital Receipts	6.645	15.166	10.340	0	32.151
Borrowing	47.943	106.981	41.897	6.431	203.252
TOTAL	**139.511**	**179.233**	**66.273**	**11.461**	**396.478**

Capital Considerations in the MTFP(11) Process

158 The Prudential Code update of 2017 requires that local authorities produce a Capital Strategy to ensure that they can demonstrate that they are making capital expenditure and investment decisions in line with service objectives and properly take into account stewardship, prudence, sustainability and affordability. A Capital Strategy for the council is attached at Appendix 8 and this provides the framework in which the capital programme is developed.

159 As part of the development of the capital programme for MTFP(11), service groupings developed capital bid submissions during the summer 2020 alongside the development of revenue MTFP(11) proposals. Bids were submitted in the main for 2022/23 to maintain the two year rolling programme approach to the capital budget. Bids were also submitted for 2021/22 which were deemed to be priority. The Capital Member Officer Working Group (MOWG) considered the capital bid submissions taking the following into account:

(a) service grouping assessment of priority;

(b) affordability based upon the availability of capital financing. This process takes into account the impact of borrowing upon the revenue budget; and

(c) whether schemes could be self-financing i.e. capital investment would generate either revenue savings or additional income to repay the borrowing costs to fund the schemes.

160 Whilst considering capital bid proposals, the MOWG has continued to recognise the benefits of committing to a longer-term capital programme to aid effective planning and programming of investment. At the same time MOWG also recognised the need for caution in committing the council to high levels of prudential borrowing at this stage for future years.

Available Capital Financing – Capital Grants

161 Capital grants for 2022/23 are yet to be confirmed but have been assumed to be in line with the forecasts built into MTFP(10).

162 The table below provides details of the indicative 2022/23 capital grant allocations included in the plans. If the actual allocations for capital grants vary from the forecast position, then the capital budget may need to be adjusted accordingly.

Table 13 – Forecast 2022/23 Capital Grants Utilised in Support of the MTFP(11) Capital Programme

Capital Grant	2022/23
	£m
Disabled Facilities	6.158
LTP – Highways	11.556
LTP - Integrated Transport	2.726
School Maintenance/Basic Need	5.440
School Devolved Capital	1.400
TOTAL	**27.280**

Capital Receipt Forecast

163 In the majority of cases, capital receipts received are utilised to support the overall council capital programme. Capital receipts are generated in the main from land sales which arise from the council's Asset Disposal Programme.

164 In the 2015 Autumn Statement, the Chancellor of the Exchequer announced that local authorities would be given flexibility under certain circumstances to utilise capital receipts to finance one off revenue costs associated with service transformation and reform.

165 The government identified that revenue expenditure would qualify to be financed from capital receipts in the following circumstances:

(a) qualifying expenditure is expenditure on any project designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years;

(b) the key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net current expenditure;

(c) within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility – the Secretary of State believes that individual local authorities or groups of authorities are best placed to decide which projects will be most effective for their areas;

(d) set up and implementation costs of any new processes or arrangements can be counted as qualifying expenditure. However, the ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

166 The government believed that it was important that individual authorities demonstrate the highest standard of accountability and transparency in such decisions. It is required that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded, or part funded through capital receipts flexibility and that the strategy is approved by full council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full council or the equivalent at the same time as the annual budget.

167 At this stage, it is not considered that there are a large range of opportunities for the council to utilise this flexibility. Careful consideration also needs to be given to the other options of funding such expenditure as identified above e.g. from contingencies or from reserves. Notwithstanding this, it is recognised that it would not be unreasonable for the council to

consider utilising this new flexibility to finance severance costs associated with the MTFP process.

168 On that basis, to ensure that the council has this option available, it will be recommended that it be noted that capital receipts could be utilised to finance severance costs.

169 In previous years the council has set a target of £10 million of capital receipts income to support the capital programme. A target of £10 million was agreed for MTFP(8) for 2019/20. However, due to concerns regarding the council's ability to generate sufficient land sales to meet the targets in the budget at that time no new additional capital receipts target was set for MTFP(9) or MTFP(10).

170 A review of the current forecast capital receipts for the period to the end of 2022/23 has indicated that there will still only be sufficient capital receipts to hit the revised budget requirement for the current capital programme. In addition, several of the identified surplus land sites included in previous land sale forecasts are now being considered for the Leisure Review and the new council housebuilding programmes. With this in mind, it is recommended again that no additional capital receipt target for 2022/23 is included in MTFP(11).

171 During 2021/22 there may be other opportunities that manifest for the council to utilise this new capital receipts flexibility to finance service transformation and reform one-off costs. If there is a business case in this regard, Cabinet approval will be sought and the case in question included in a formal Efficiency Strategy.

One-Off Revenue Funding

172 The council continues to recognise the importance of investing in capital infrastructure and the need to boost the local economy. With this in mind it is recommended that advantage is taken of the following one-off revenue funding streams to support the capital programme:

(a) **Collection Fund Surplus** –This one-off funding benefit is required to be utilised in setting the 2021/22 budget. The forecast collection fund surplus for 2020/21 is £1.514 million. In addition, however the council is forecasting to receive £0.514 million in 2021/22 from the Local Tax Income Guarantee Scheme. This grant is to reimburse local authorities for lost council tax and business rate income during the coronavirus pandemic. It is intended to use the full £2.028 million to support the capital programme;

(b) **Earmarked Reserves** – a sum of £3.375 million is include in MTFP(11) for new capital schemes in relation to the Town and Villages Strategy. The Town and Village Reserve will be utilised to finance these schemes.

Prudential Borrowing

173 The council continues to sensibly utilise prudential borrowing to fund capital investment. The current budget available for prudential borrowing alongside additional growth across the MTFP(11) period will enable the council to fully fund the capital programme. Where capital expenditure is funded through prudential borrowing the capital financing requirements impact on the budget the following year.

Approval of Additional Capital Schemes

174 A comprehensive 2021/22 capital programme was approved as part of MTFP(10) in line with the council policy of developing a two-year rolling capital programme. The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting job creation. Additional investment will maintain and improve infrastructure across the county, help retain existing jobs, create new jobs and ensure the performance of key council services are maintained and improved.

175 After considering all factors, including the availability of capital finance, MOWG has recommended that the following additional value of schemes be approved for inclusion in the MTFP(11) capital programme. Full details of the additional schemes can be found in Appendix 9.

Table 14 – Additional Capital Schemes for 2021/22 to 2022/23

Service	2021/22	2022/23	TOTAL
	£m	£m	£m
CYPS	0.759	21.001	21.760
NCC	2.310	20.971	23.281
REG	1.168	39.157	40.235
RES	0.000	2.620	2.620
TOTAL	**4.237**	**83.749**	**87.986**

176 The new schemes detailed in Appendix 9 will ensure that the council continues to invest in priority projects and essential maintenance programmes. Examples of additional investments are detailed below:

(a) **Leisure Centre Investment (2022/23 - £13.1 million)** – the Leisure Review has recommended significant investment in the council's leisure centres, including new build and major refurbishment. Initially it was forecast that the cost of the programme would be £62.8 million although the cost forecasts are currently undergoing a full review and are forecast to be higher. In MTFP(10) an initial £26 million was included in the programme with the MTFP(11) bid of £13.1 million supplementing this sum. It is still forecast that net additional income of £1.6 million will be generated from the new and enhanced facilities which will contribute to the capital costs on a partially self-financing basis. Additional capital budgets will be required from future MTFP's;

(b) **Spennymoor Primary School replacement (2022/23 - £5.8 million)** – The current Ox Close Primary and Oxclose Nursery schools are proposed for replacement with a new nursery and primary school on a new site. The forecast capital cost is estimated at £13.1 million with an initial investment for design and other upfront costs of £1.4 million included in MTFP(10). This additional investment of £5.8 million will enable the building to begin construction in with a further bid for £5.9 million being required for MTFP(12);

(c) **Belmont Community School and Belmont C.E. Primary (2021/22 - £0.4 million and 2022/23 - £8 million) –** the total scheme is forecast to cost £34 million. The secondary school is in a poor state of repair with a substantial requirement for urgent work if it is to remain in use. It was identified in 2014 as a priority for a national bid to the Priority School Build fund which was unsuccessful as the scheme was massively oversubscribed. It is the top priority for a new build identified through the Education Review. The site of the current secondary school also creates the opportunity for a campus development incorporating Belmont C.E. Primary, also a CLASP design school on the same site. The design and siting of the new campus will enable both schools to continue to operate from their current sites during construction. The initial bid for MTFP(11) of £8.4 million will enable the finalisation of design and the beginning of construction. Additional bids of a forecast £25.6 million will be required to future MTFP's;

(d) **Highways and Infrastructure Maintenance (2022/23 - £17.6 million) -** additional funding of £5 million will be invested to supplement the LTP grant of £11.556 million alongside an additional £1 million for streetlight column replacement. Highways maintenance investment will also be supplemented by the additional £2.5 million one off revenue investment in 2021/22;

(e) **Council House Building Programme (2021/22 - £0.9 million and 2022/23 - £3.6 million) –** a report on 14 October 2020 to Cabinet approved the reopening of the Housing Revenue Account (HRA) and a commitment to build 500 new homes over a five year period to 2025/26. It is forecast that the total capital programme will be circa £70 million with £17.5 million of grant funding to be sought from Homes England. To ensure the developments are self-financing in the HRA, general fund capital support of £12.5 million will be required over the five-year period. This £4.5 million is the first tranche of this support;.

(f) **Town and Village regeneration (2022/23 - £3.375 million)** – funding will be provided to support the emerging strategy to support our town and village centres. The funding will enable consideration to be given to how the council can support the need to refocus our town and village centres.

177 After taking into account the adjustments detailed in this report and the additional schemes, the MTFP(11) capital budget and its financing will be as follows:

Table 15 – New MTFP(11) Capital Programme

Service Grouping	2020/21	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m	£m
AHS	0.000	0.338	0.000	0.000	0.338
CYPS	22.977	22.579	21.523	0.000	67.079
NCC	43.713	37.315	21.139	0.000	102.167
REG	69.211	97.178	97.431	9.761	273.581
RES	3.610	26.060	9.929	1.700	41.299
TOTAL	**139.511**	**183.470**	**150.022**	**11.461**	**484.464**
Financed by					
Grants and Contributions	55.022	49.580	39.944	0.655	145.201
Revenue and Reserves	29.901	9.535	5.174	4.375	48.984
Capital Receipts	6.645	15.166	10.340	0.000	32.151
Borrowing	47.943	109.189	94.564	6.431	258.128
TOTAL	**139.511**	**183.470**	**150.022**	**11.461**	**484.464**

Recommendations

178 It is recommended that Members:

(a) approve the revised 2020/21 capital budget of £139.511 million and the 2021/22 Capital Budget of £183.470 million;

(b) approve the Capital Strategy at Appendix 8;

(c) approve the additional capital schemes detailed at Appendix 9. These schemes will be financed from additional capital grants, one off revenue funding and from prudential borrowing;

(d) note the option for the council to utilise capital receipts to finance severance costs utilising the available flexibilities in this regard. The utilisation of such flexibility would require the approval of Cabinet;

(e) approve the MTFP(11) Capital Budget of £484.464 million for 2020/21 to 2023/34 as detailed in Table 15.

2021/22 Savings Proposals

Adult and Health Services

179 In 2021/22 savings of £0.974 million are included in the revenue budgets, consisting of a continuation of savings built into MTFP(10).

180 The service continues to be faced with a significant amount of change, including continuing demographic pressures arising from an ageing population with increasingly complex needs and support requirements, and closer partnering arrangements between health and social care.

181 MTFP savings in previous years have been implemented to ensure that services to vulnerable service users are protected whilst the budget savings are achieved. In keeping with this principle, the only AHS saving planned for 2021/22 relates to an existing MTFP saving for £0.974 million, mainly from commissioning and contract reviews.

182 AHS will however need to accommodate it share of the corporate saving to reduce car mileage costs, where budgets will be reduced by £41,075 next year.

Children and Young People's Services

183 In 2021/22 savings of £1.265 million are included in the revenue budgets.

184 The most significant element of savings, totalling £1.155 million, will be achieved in 2021/22 through the rationalisation and reshaping of structures within 'Education Support & Development' (£0.875 million), the Youth Offending Service' (£0.2 million) and within 'Early Help, Inclusion & Vulnerable Children' (£0.08 million). In anticipation of these significant savings, which primarily relate to staffing structures, detailed plans have been developed and implemented that have already delivered full year savings of £0.980 million. The remainder of these restructure savings will be realised through careful management of anticipated vacancies during the 2021/22 financial year.

185 This ongoing process of prioritisation of financial support provided to qualifying private nursery providers is planned to delivery additional savings of £0.050 million in 2021/22 and a similar figure in 2022/23.

186 The review and implementation of the services policy for payment of Special Guardianship Orders has helped the service support carers with assistance at appropriate levels at key periods to ensure the cares and children receive the financial support they need but in the process reducing the carers ongoing dependence on the allowances in the longer term. This development of the services policy and approach has improved support for carers and achieved efficiencies that will contribute a further £0.050 million in 2021/22 towards the MTFP savings targets.

187 A further £0.010 million of efficiencies will be realised during 2021/22 through the review and rationalisation of accommodation and venue costs which will be realised as the service continues to adopt and benefit from enhanced technology and more efficient new ways of working.

188 In addition, the service will also accommodate its share of the corporate saving to reduce car mileage costs, where budgets will be reduced by £119,075 across CYPS next year.

Neighbourhoods and Climate Change

189 In 2021/22 savings of £0.627 million are required. The service continues to be faced with a significant amount of change and has sought to protect front-line services as much as possible in developing its savings proposals.

190 The 2021/22 proposals include additional income from Bereavement Services (£175,000), and also income and associated savings from the introduction of a garden composting service (£100,000). The service will also generate additional fee income of £300,000 from the management of the LTP Capital Programme.

191 Areas where further efficiency reviews will be carried out in 2021/22 include a small-scale service restructure in Clean & Green (£27,0000), together with procurement efficiencies associated with the Joint Stocks Landfill Site (£25,000).

192 Beyond 2021/22 there are further savings of £104,000 planned, associated with small scale service restructures within the service.

193 Whilst every effort has been made to minimise the impact on frontline services in previous years and this remains the case in 2021/22, this is becoming increasingly difficult to sustain.

194 In addition, the service will also accommodate its share of the corporate saving to reduce car mileage costs, where budgets will be reduced by £29,750 across NCC next year

Regeneration, Economy and Growth Services

195 In 2021/22 savings of £0.800 million are included in the revenue budgets.

196 The service continues to be faced with a significant amount of change and has sought to protect front-line services as much as possible in developing its savings proposals.

197 £0.450 million of this will be achieved through restructuring activity within Development and Housing, with £0.250 million to be achieved from additional income and efficiencies in the rental of commercial business space.

198 The remaining £0.100 million of savings will be achieved by additional income from bus shelter advertising.

199 The Regeneration, Economy and Growth service grouping will also accommodate it share of the corporate saving to reduce car mileage costs, where budgets will be reduced by £32,075 next year.

Resources

200 In line with the views of the public, the council has consistently prioritised higher savings targets from back office services.

201 In 2021/22, a further £0.946 million of savings are included in the revenue budgets.

202 £0.700 million of this will be achieved through restructuring activity and non-staffing budget reductions within Legal and Democratic Services, Internal Audit and Risk, Finance and Transactional Services, Corporate Finance and Commercial Services and within Digital and Customer Service areas.

203 £0.100 million will be achieved by a review of the Financial Management System software licencing and support arrangements.

204 The remaining £0.145 million of savings will be achieved by factoring in the full year impact of the dedicated Internal Enforcement Agent Service for the collection of Council Tax, Business Rates, parking fines & fixed penalty notices, commercial rents, sundry debt and Housing Benefit overpayments and from SLA income. The Enforcement service was established part way through 2020/21 and the full year anticipated savings were spread over two financial years.

205 The Resources service grouping also manage a range of additional savings from corporate areas. In 2021/22 additional savings of £0.378 million are proposed.

206 The 2021/22 corporate savings relate to the second phase of savings linked to the unitisation and review of Business Support functions (£0.350 million) and a reduction in Car Mileage budgets (£0.250 million), which has been applied to all service areas, with £28,025 allocated to Resources.

Resources – Centrally Administered Costs

207 In 2021/22 savings of £0.100 million are included in the revenue budgets.

208 These savings involve reductions in Centrally Administered Costs across a range of budget heads, including corporate subscriptions and bank charges, which are currently underspending.

Recommendation

209 It is recommended that Members:

(a) note the approach taken by service groupings to achieve the required saving.

Equality Impact Assessment of the Medium-Term Financial Plan

210 Consideration of equality analysis and impacts is an essential element that members must consider in approving the savings plans set out at Appendix 3. This section updates Members on the outcomes of the equality analysis of the MTFP (11) savings proposals.

211 The aim of the equality analysis 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.

212 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 process 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.

213 In addition, the public sector equality duty 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.

214 Savings and investment proposals presented at Appendix 3 have been subject to equality impact analysis where necessary.

215 A number of successful judicial reviews of the actions taken by other councils has 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.

216 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;

(e) are closely linked to the wider MTFP decision-making process;

(f) build on previous assessments to provide an ongoing picture of cumulative impact;

Impact Assessments for MTFP(11) Savings Proposals

217 Savings proposals for MTFP(11) have few equality implications as they mainly involve use of income generation such as maximising charges of technical services and income from bus shelter advertising, savings on supplies such as machinery hire and mini restructures with minimal staff impact and no service delivery impact.

Adult and Health Services (AHS)

218 There is no expected equality impact of AHS savings proposals. Fair treatment of any staff affected will be ensured through agreed corporate HR change management procedures.

Children and Young People’s Services (CYPS)

219 There is no expected equality impact of CYPS savings proposals. Savings which involve mini staff restructures have minimal impact and include small reductions in staff hours and/or the deletion of vacant posts with no impact expected on service provision. Fair treatment of staff will be ensured through agreed corporate HR change management procedures.

Neighbourhoods and Climate Change (NCC)

220 There is no expected equality impact of NCC savings proposals. Savings which involve mini staff restructures have minimal impact and include small reductions in staff hours and/or the deletion of vacant posts with no impact expected on service provision. Fair treatment of staff will be ensured through agreed corporate HR change management procedures

Regeneration, Economy and Growth (REG)

221 There is no expected equality impact of REG savings proposals. Savings which involve mini staff restructures have minimal impact and include small reductions in staff hours and/or the deletion of vacant posts with no impact expected on service provision.

Resources (RES)

222 Savings in Resources are not expected to have a service user impact. Savings which involve mini staff restructures have minimal impact and include small reductions in staff hours and/or the deletion of vacant posts with no impact expected on service provision. Fair treatment of staff will be ensured through agreed corporate HR change management procedures

Corporate (COR)

223 There is no expected equality impact of COR savings proposals.

Cumulative Impacts

224 Equality impacts from proposed changes are relatively minor this year but we also consider ongoing cumulative impacts. Carrying out equality impact assessments on MTFP proposals helps us to reflect on cumulative impact across the range of protected characteristics and compare with previous years. Throughout the previous period of austerity, the approach of the Council has been to keep the impact of savings on front line services to a minimum, and this has greatly reduced equality impact on those with a protected characteristic.

225 Recent examples aimed at mitigating impact include the introduction of ‘DURHAM 4 communities’, which helps the Voluntary and Community Sector (VCS) to access funding allowing this sector to remain sustainable. Furthermore, we have been piloting a new alliance approach to procuring support from the VCS for mental health services putting them in greater control of what we pay for.

226 Where service reductions have been unavoidable, impacts generally related to loss of, or reduced access to, a particular service or venue, travel to alternative provision, increased costs or charges and service re-modelling including reductions in staff. Although changes have the potential to affect all protected characteristics, because they are more likely to affect those on low income, people without access to personal transport and

those reliant on others for support there was disproportionate impact in relation to disability, age (younger and older) and sex (male and female but more likely women due to increased care responsibilities and older populations being disproportionately female).

227 Generally, previous changes to universal services such as street lighting or bin collection are less likely to have a disproportionate impact on any one specific group. However, there are exceptions, such as reductions in contracted public bus services, changes to libraries' opening hours and changes to leisure centres. Dedicated services such as social care, day care and home to school transport sometimes have disproportionate impacts for particular groups such as people with a disability and women, and those with a caring responsibility, and we have taken steps to monitor the impact and mitigate where possible.

228 The council will also monitor and consider the direct and indirect emerging impacts of the COVID pandemic and on residents, service users and staff. Initial indications are the recent Public Health crisis exacerbates existing inequalities. However, these additional and emerging needs will be analysed and communicated through equality analysis and EIAs.

229 It should also be noted that some service remodelling can improve choice and access for some and/or increase independence such as our reablement service which promotes rehabilitation and prevention. Service redesign such as this can help mitigate against existing inequities.

Key Findings and Next Steps

230 Equality impact assessments are vital in order to understand potential outcomes for protected groups and mitigate these where possible.

231 There will be continued focus on equalities issues as we move into future years of this MTFP, with equality impacts revisited and reviewed each year as appropriate. In many cases impact assessments are initial screenings with a full impact assessment to follow at the point of decision, once all necessary stakeholder consultation has been completed.

232 Where proposals are subject to multi-stage decision making, or subject to consultation, the relevant impact assessments will be updated as further information becomes available. Final EIAs will also be considered in the final decision-making process.

Recommendations

233 It is recommended that Members:

(a) note the key equality analysis as set out n Appendix 3 and summarised in this report and to consider impacts of proposed savings on staff and residents.

Workforce Considerations

234 MTFP(1), which covered the period from 2011 to 2015, originally forecast a reduction in posts of 1,950 against a savings target of £123.5 million. Since MTFP(1) however, the savings requirements have increased significantly with the revised savings targets up to the end of the MTFP(11) planning period (2024/25) now being £286 million. It is currently forecast that by the end of 2021/22 the reduction in post numbers will be circa 3,000 of which circa 700 will have been achieved through the removal of vacant posts.

235 Further detailed planning is underway to identify the required savings for future years and recognising the principles adopted to date in workforce reduction exercises within service groupings, the council will take all possible steps to avoid compulsory redundancies and minimise the impact upon the workforce in these next stages of change.

236 The continued approach of forward planning, retaining vacant posts in anticipation of any required change, seeking volunteers for early retirement and/or voluntary redundancy and maximising redeployment opportunities for the workforce will minimise wherever possible the necessity for compulsory redundancies in the process. Furthermore, the more generic some of the workforce become, pools for redeployment will become wider enabling the organisation to facilitate workforce reductions and change easier through volunteers.

237 In addition, the way that work is organised and jobs are designed will continue to be reviewed by service groupings and this is being supported by some strategic HR initiatives such as moving more towards generic posts, smarter working practices and maximising efficiencies across the workforce through new ways of working, skills development and use of technology. This will ensure that as changes continue to be made, the council maximises the capacity of the remaining workforce.

Pay Policy

238 The Localism Act 2011 requires the council to prepare and publish a pay policy statement annually which sets out the authority's policy relating to the remuneration of its Chief Officers and how this compares with the policy on the remuneration of its lowest paid employees.

239 The first policy document was required to be approved by a resolution of the council prior to 31 March 2012 and the policy must then be updated and published by the end of March for each subsequent year, although the policy can be amended by a resolution of the council during the year.

240 The Act requires that in relation to Chief Officers the policy must set out the authority's arrangements relating to:

(a) the level and elements of remuneration for each Chief Officer;

(b) remuneration of Chief Officers on recruitment;

(c) increases and additions to remuneration for each Chief Officer;

(d) the use of performance-related pay for Chief Officers;

(e) the use of bonuses for Chief Officers;

(f) the approach to the payment of Chief Officers on their ceasing to hold office under or to be employed by the authority;

(g) the publication of and access to information relating to remuneration of Chief Officers.

241 The Pay Policy Statement, as updated, is set out at Appendix 10 which will be for council consideration and outlines the details for the authority in line with the above requirement.

Recommendations

242 It is recommended that Members:

(a) approve the Pay Policy Statement at Appendix 10

Risk Assessment

243 The council has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. The risks faced are exacerbated by the council's responsibility for business rates and council tax support. All risks will be assessed continually throughout the MTFP(11) period. Some of the key risks identified include:

(a) ensuring the achievement of a balanced budget and financial position across the MTFP(11) period;

(b) ensuring savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and employees;

(c) there is no certainty over the quantum of government funding available for local government beyond 2021/22. Given the pressures faced, particularly from social care, it is imperative that the quantum is increased and that a long-term settlement is agreed as part of the expected 2021 Comprehensive Spending Review;

(d) the outcome of the government's Fair Funding Review which is expected to be implemented in 2022/23. This review could result in significant changes to the distribution of government funding;

(e) the localisation of council tax support which passed the risk for any increase in council tax benefit claimants onto the council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers. At this stage the coronavirus pandemic has resulted in a reduction in the council tax base for the first time since the council took on responsibility for council tax support;

(f) the council retaining 49% of all business rates collected locally but also being responsible for settling all rating appeals including any liability prior to 31 March 2013. Increasing business rate reliefs and the revised ‘check and challenge’ appeals process continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon MTFP(11). The council will also be impacted by any move to 75% BRR from 50%. The coronavirus pandemic is again expected to have an impact in the medium term on business rate income, especially once furlough is withdrawn in April 2021;

(g) the impact of future increases in inflationary factors such as the National Living Wage and pay awards which will need to be closely monitored;

(h) the council continuing to experience increases in demand for social care services. Although some allowance is made for demand increases across the MTFP(11) period this issue will need to be closely monitored;

(i) the funding position for the High Needs Dedicated Schools Grant. It is hoped that the government fully recognises this pressure as part of the Comprehensive Spending Review;

(j) it is not possible to be clear at this point as to any long-term impact from the coronavirus on council costs but especially council income. This will be closely monitored in the coming months with any ongoing impact needing to be built into future MTFP plans;

(k) the impact of Brexit, which could affect future government finance settlements, business rate income, price inflation and European funding.

Recommendations

244 It is recommended that Members:

(a) note the risks to be managed over the MTFP(11) period.

Dedicated Schools Grant (DSG) and School Funding 2021/22

245 DSG is a specific earmarked grant provided by the government which provides the major source of direct funding for schools and also funding for the support provided to them by the council.

246 The DSG is split into four funding 'blocks': Schools, Central School Services, High Needs and Early Years. The schools block is ring-fenced, but local authorities retain limited flexibility to transfer up to 0.5% of their Schools Block funding into another block, with the approval of the Schools Forum. Movements from the Central School Services Block to the Schools Block or from the High Needs Block to any other block are not subject to any statutory limits and can be made in consultation with the Schools Forum. Movement from the Early Years Block can be made in compliance with the early years pass through rate conditions and in consultation with the Schools Forum.

Schools Block

247 The Schools Block funds the funding formula for mainstream primary and secondary schools in respect of the education of pupils from Reception to Year 11. Funding for these schools is currently distributed according to a local formula determined by the council, after consultation with the Schools Forum and individual schools.

248 The local formula must comply with statutory regulations and there are limitations over what factors can be applied in the local formula, which significantly limits the discretion of local authorities in determining their local formulas and currently requires that at least 80% of funding is distributed through factors related to pupil numbers and needs.

249 The local formula set by the council is consistently applied to all mainstream schools (maintained and academy) and primarily is driven by pupil numbers and profiles of those pupils. DSG funding is provided to academies on an academic year basis whereas maintained schools receive their DSG funding on a financial year basis.

250 In September 2017, the government announced that local formulas would be replaced by a National Funding Formula (NFF) from 2019/20. The replacement of local formulas has however subsequently been delayed and local authorities will continue to set local formulas for 2021/22. The DfE is expected to consult during the spring term about its plans for replacing local formulas.

251 The government has encouraged local authorities to move their local formulas towards the NFF and since 2018/19 DSG allocations to local authorities' Schools Blocks have been based on notional NFF allocations for individual schools. These notional allocations cannot be fully replicated in local formulas because the notional allocations are set in advance of the

availability of the pupil numbers and other data that are used in the actual formula.

252 For 2021/22 the basic entitlement per pupil in the NFF has been increased to replace the Teachers Pay Grant and Teachers Pensions Employer Contribution Grants. This means that the funding formerly distributed through these grants is now built into the baseline funding for future years, but the Government does not intend to provide similar grants in the future and schools and academies will have to meet the costs of future pay awards and increases in pension contributions from within their formula funding. The increases in respect of TPG/TPECG are £180 per primary pupil and £265 per secondary pupil and increase funding by £13.911 million.

253 The Schools Block allocation for Durham in 2020/21 has increased by £25.065 million:

Table 16 – Changes in Schools Block Allocation

Reason for change	£ million
Pupil numbers	1.158
Units of funding / pupil	10.385
TPG/TPECG	13.911
Premises factors	0.075
Growth	(0.464)
TOTAL	**25.065**

254 In addition to the TPG/TPECG funding added to the Schools Block, funding changes year on year because of changes to the NFF, which affect the Units of funding; the values used in the NFF have increased by 3% next year following the additional national funding for schools announced in the autumn and confirmed in the draft settlement published in December 2020. Funding for premises factors is largely based on historic funding allocations.

255 Funding is also provided to recognise that it is sometimes necessary to adjust funding to individual schools to take account of significant growth in pupil numbers at the start of the following academic year, which is not reflected in formula funding because pupil numbers are based on the School Census from the previous October.

256 Growth funding can be provided to meet basic need but cannot be used to support schools whose numbers are increasing through parental choice. The council has made an adjustment to the funding for Framwellgate Moor Primary School in respect of growth for 2021/22.

257 In response to the original timetable for the planned replacement of local formulas, the council considered its approach to setting a local formula. Prior to 2018/19 changes to the formula were relatively minor, to minimise turbulence in funding for schools from year-to-year.

258 After consultation with the Schools Forum, schools and the Children and Young People's Overview and Scrutiny Committee, Cabinet decided in December 2017 to adopt a transitional formula from 2018/19. The intention was to reduce the differences between the local formula as was and the NFF over a managed period of time so that schools do not experience a cliff-edge in respect of funding allocations when the NFF replaces local formula. In December 2018, Cabinet agreed to slow the rate of transition from the local formula to the NFF in response to delays in the replacement of local formulas, with the intention of the local formula being aligned with the NFF from 2021/22, instead of 2020/21.

259 For 2019/20, the council consulted schools and the Schools Forum about options for the local formula and also about applying for a transfer from the Schools Block to the High Needs Block (HNB), to address a shortfall in funding for the HNB, which provides funding for pupils with high cost Special Educational Needs (SEN). The council proposed a 0.5% (£1.5 million) transfer from the Schools Block to the HNB, but this proposal was rejected by the Schools Forum in December 2018. Subsequently the council made an application to the Secretary of State for Education for a 0.5% transfer however this application was not agreed.

260 For 2020/21, the council initially intended to make a further proposal for a 0.5% transfer but following the announcement of an increase in HNB funding for 2020/21 and in consultation with the Schools Forum, Cabinet agreed on 11 December 2019 not to pursue this proposal.

261 For 2020/21, Cabinet also agreed to continue with the transitional formula and, following feedback from the Schools Forum, to use a transitional rate of protection through the Minimum Funding Guarantee, which provides a minimum increase in funding per pupil for schools of 1.17%. This does not protect schools with falling rolls, who will still see a reduction in funding.

262 For 2021/22, Cabinet agreed on 18 November 2020 to continue the planned transition, so the local formula for 2021/22 is as closely aligned to the NFF as is possible within the funding allocated. This includes a Minimum Funding Guarantee of a minimum 2% increase in funding per pupil.

263 The draft formula to be applied in 2021/22, which is subject to approval from the DfE, is summarised in the table.

Table 17 – Mainstream Primary and Secondary Funding Formula 2021/22

	Element (P = Primary, S = Secondary)	2021/22 Mainstream School Funding formula			
		Pupils / eligible pupils	Factor values £	Allocation	
				£ million	
Basic funding per pupil	KS1 & 2 (P)	38,760.75	3,168.56	122.816	35.63%
	KS3 (S)	15,995.00	4,468.25	71.470	20.74%
	KS4 (S)	10,178.00	5,035.40	51.250	14.87%
Deprivation	Free School Meals (P)	11,525.76	466.71	5.379	1.56%
	Free School Meals (S)	6,493.00	466.71	3.030	0.88%
	FSM6 (P)	12,500.39	583.39	7.293	2.12%
	FSM6 (S)	8,382.07	852.25	7.144	2.07%
	IDACI Band F (P)	5,376.66	218.14	1.173	0.34%
	IDACI Band E (P)	6,478.70	263.79	1.709	0.50%
	IDACI Band D (P)	4,273.06	415.98	1.778	0.52%
	IDACI Band C (P)	3,159.35	451.49	1.426	0.41%
	IDACI Band B (P)	3,701.19	481.93	1.784	0.52%
	IDACI Band A (P)	2,377.23	629.04	1.495	0.43%
	IDACI Band F (S)	3,599.46	314.52	1.132	0.33%
	IDACI Band E (S)	4,183.93	421.05	1.762	0.51%
	IDACI Band D (S)	2,759.41	588.46	1.624	0.47%
	IDACI Band C (S)	1,976.21	639.19	1.263	0.37%
	IDACI Band B (S)	2,401.41	689.92	1.657	0.48%
	IDACI Band A (S)	1,480.84	877.62	1.300	0.38%
English as an Additional Language	Primary	613.51	558.02	0.342	0.10%
	Secondary	97.05	1,506.66	0.146	0.04%
Mobility	Primary	82.44	913.13	0.075	0.02%
	Secondary	-	1,308.82	-	-
Low Prior Attainment	Primary	11,259.57	1,110.97	12.509	3.63%
	Secondary	5,236.31	1,684.22	8.819	2.56%
Minimum per-pupil funding				0.992	0.29%
Total for pupil-led factors				309.367	89.76%
Lump sum	Primary	212.00	117,800.00	24.974	7.25%
	Secondary	31.00	117,800.00	3.652	1.06%
Sparsity				0.496	0.14%
Total for school-led factors				29.121	8.45%
Total for premises factors				6.184	**1.79%**

	Element (P = Primary, S = Secondary)	2021/22 Mainstream School Funding formula			
		Pupils / eligible pupils	Factor values £	Allocation	
				£ million	
Total funding				344.672	**100.00%**

264 Pupil numbers and the numbers of pupils who attract additional needs funding are taken from the October 2020 schools census and are provided by the DfE.

265 Further information relating to the factors included in the table above is outlined below:

(a) Free School Meals provides funding based on the number of pupils recorded as eligible for a free meal in the preceding October's school census;

(b) FSM6 is a measure of deprivation and provides funding based on the number of pupils who have been recorded as eligible for Free School Meals on any school census in the last six years;

(c) IDACI (Income Deprivation Affecting Children Index) is a subset of the Index of Multiple Deprivation. In accordance with statutory regulation there are seven bands in the formula, with Band A being for the pupils most likely to suffer deprivation and Band G being the lowest band. Regulations do not allow funding for Band G;

(d) English as an Additional Language funding is provided where pupils have been recorded as having English as an Additional Language in any of the last three years;

(e) Mobility funding is provided where schools have had significant pupil movements during the academic year, based on data from the last three years' school censuses;

(f) Low Prior Attainment funding is provided where pupils have not met the expected standard of attainment in their previous phase of education;

(g) Minimum per pupil funding provides additional funding where the total of pupil-led funding plus the lump sum and sparsity funding falls below a minimum value, which has been set at £4,180 for primary schools and £5,415 for secondary schools, These values are mandatory for all local formulas and are of concern to the council because they favour larger schools with relatively low numbers of pupils with additional needs;

(h) Sparsity funding is provided for small schools in sparsely populated areas. In Durham this only assists schools in the Dales; and

(i) Premises-led factors provide funding for rates, split-site schools, the PFI contract affordability gap, and an exceptional factor for a school that shares its sports facilities with a leisure centre.

Central School Services Block (CSSB)

266 The CSSB funds local authorities for the statutory duties that they hold for both maintained schools and academies. The CSSB brings together:

(a) funding previously allocated through the retained duties element of the Education Services Grant (ESG);

(b) funding for ongoing central functions, such as admissions, previously top-sliced from the school's block; and

(c) residual funding for historic commitments, previously top-sliced from the school's block.

267 2021/22 funding for historic commitments has reduced by a further 20% in addition to the 20% reduction applied in 2020/21. The 2021/22 reduction for Durham is £0.119 million against historic commitment funding in 2020/21 of £0.593 million. The funding was used to fund prudential borrowing costs relating to the Building Schools for the Future programme and the Team Around the School provision for secondary schools. Funding for prudential borrowing has been maintained and this is expected to continue, but funding to Team Around the School is already less than the annual cost and is likely to be reduced to nil from 2022/23. The council is considering options for the future of Team Around the School in light of the withdrawal of this funding.

High Needs Block (HNB)

268 There are enduring pressures on High Needs Block (HNB) of the Dedicated Schools Grant (DSG), which provides funding for SEND and inclusion support services for children and young people in County Durham.

269 The High Needs Block provides funding for pupils with high cost Special Educational Needs (SEN), i.e. those pupils requiring provision in specialist settings costing more than £10,000 per year or those pupils in mainstream primary and secondary schools whose provision costs more than £6,000 per year. The SEN provision that is funded from the High Needs Block is as follows:

(a) specialist placements in out-of-county settings;

(b) place based funding for special schools;

(c) targeted and top-up funding to reflect additional costs for individual pupil support in both special and mainstream schools; and

(d) SEN support services.

270 The council is currently spending £59.15 million on SEND and inclusion services, which is £1.9 million more than the funding it receives. The accumulated deficit at 31 March 2021, relating to overspending in previous years and the shortfall in the current year, is forecast to be £7.639 million.

271 In 2019/20 the council invested £5.6 million from the Budget Support Reserve to supplement HNB DSG funding, but from 2020/21, local authorities are prohibited from making contributions to supplement HNB DSG funding.

272 The HNB allocation for 2021/22 is £8.456 million higher than 2020/21, however it is still anticipated that HNB expenditure may be in excess of this and therefore savings will be required to ensure spending is kept within available budget and to repay the deficit that has been accumulated in recent years when the HNB funding levels were insufficient to meet statutory demand.

273 The council anticipates being able to recover the deficit that has been accrued by 2023/24.

Early Years

274 The Early Years Block provides funding for universal provision for three and four year old children (up to 570 hours per annum) and extended provision for children from eligible working families (up to a further 570 hours per annum). The services are delivered by maintained nursery schools, nursery units in primary schools and academies, and Private, Voluntary and Independent (PVI) sector providers.

275 On 25 November 2020 the Chancellor announced details of how an investment of £44 million of early years funding for 2021/22 will be distributed to local authorities to increase the hourly rates paid to Childcare providers for the governments free childcare entitlement offers. The rate for two-year olds will increase by 8p per hour and the rate for three and four-year olds will increase by 6p per hour. This will mean an additional £321,000 of funding for County Durham in 2021/22 when compared to the 2020/21 allocation.

276 Funding is also provided through the Early Years Block to provide free early education places for eligible two-year-olds from lower income households. The allocation is based on participation and a provisional allocation has been provided by the DfE based on census data taken in January 2020. The DfE will not announce the actual 2021/22 allocations until July 2021, which will be based on the number of eligible children participating in early education recorded in the January 2021 census.

277 Early Years Pupil Premium is also funded through the Early Years Block and a provisional allocation has been provided by the DfE, again based on the 2020/21 allocations. As with the other elements of the Early Years funding, the 2021/22 final allocation will not be announced until the

summer, based on the number of eligible children recorded in the January 2020 pupil census. The funding rate of £0.53 per hour in 2020/21 continues into 2021/22, which equates to £302.10 for each eligible child taking up the full 570 hours of state funded early education.

278 As part of the Early Years National Funding Formula, the council is required to implement a universal base rate for all providers. This is of concern to maintained nursery schools, which have higher costs than other providers, (e.g. the cost of employing a head teacher) and which currently receive additional funding through a formula; the formula includes a deprivation element, a lump sum and an allowance for rates.

279 The DfE have recognised that maintained nursery schools provide a high-quality provision, often in deprived areas and has allocated supplementary funding in addition to National Funding Formula to ensure that authorities can continue to provide funding to these schools through a formula in 2021/22.

Pupil Premium

280 Pupil Premium for pupils older than early years, is provided for a number of categories of need. For schools and academies in Durham the funding for 2020/21 is £28.088 million. Pupil Premium rates per pupil for 2021/22 will remain the same as for 2020/21 and are shown in the following table:

Table 18 – Pupil Premium Rates

	£ / eligible pupil 2021/22
Deprivation Pupil Premium – Primary	£1,345
Deprivation Pupil Premium – Secondary	£955
Looked After Children	£2,345
Children adopted from care or who have left care	£2,345
Service Children	£310

281 The numbers of pupils eligible for pupil premium for 2021/22 will be provided by the DfE later in the year (in the summer term). Pupils eligible in the current year are:

Table 19 – Pupil Premium Numbers

	Number of eligible pupils
Deprivation Pupil Premium – Primary	12,099
Deprivation Pupil Premium – Secondary	8,586

Looked After Children	702
Children adopted from care or who have left care	745
Service Children	718

Total Dedicated Schools Grant (DSG)

282 DSG and Pupil Premium funding for 2021/22 is shown in the following table.

Table 20 – DSG and Pupil Premium Funding

DSG Block	Pupils	Allocation £ million
Early Years Block (3-4 yr olds-universal)	6,997	17.748
Early Years Block (3-4 yr olds-working parents)	3,177	8.059
Early Years Block (2 yr olds)	1,796	5.487
Early Years Block (EYPP)		0.396
Early Years Block (Maintained Nursery School supplement)		1.148
Early Years Block (Disability Access Fund)		0.169
Schools Block		344.598
High Needs Block		65.690
Central School Services Block		3.027
Total DSG		**446.321**
Pupil Premium (2020/21 figure)		28.088
TOTAL		**474.409**

283 The total funded through the mainstream primary and secondary formula in the table is £344.672 million. This includes the £344.598 million shown above, plus adjustments totalling £0.74 million in respect of funding set aside in previous years for estimated non-domestic rates and growth that was not required.

284 Primary and secondary formula funding for Academies in County Durham for 2021/22 is £159.121 million. This funding is recouped by the Education and Skills Funding Agency, who then provides this funding directly to academy trusts as part of the General Annual Grant, leaving £315.288 million of DSG funding payable to the council for maintained schools, and centrally-distributed Early Years, SEND and other centrally provided services. The total recouped will be adjusted during the year for subsequent academy conversions.

Recommendation

285 It is recommended that Members:

(a) note the position on the Dedicated Schools Grant;

(b) approve the local formula for schools set out in table 17 and authorise the Corporate Director of Resources to approve any amendments required following review by the DfE.

Local Council Tax Support Grant Funding 2021/22

286 It was agreed by Cabinet on 18 November 20 that the remaining funding from the Government's Hardship Fund (Durham was allocated £6.964 million in the current year), be used to provide support to economically vulnerable people and households during the Covid-19 pandemic, in the form of providing an enhanced hardship scheme for recipients of Council Tax Reduction; would be used in order to continue to offer support during 2021/22, albeit at a lower level than what has been provided in the current year.

287 In the current year working age Local Council Tax Reduction (LCTR) recipients, who have been left with a bill to pay, have been receiving a further reduction in their 2020/21 council tax bill of up to £300.

288 For most authorities, with less generous / supportive LCTR schemes, awards of up to the £150 only have been provided, which was the support recommended by the Government when the grant was made available.

289 Benchmarking with other North East local authorities has shown that Durham is the only authority in the region to offer residents support in excess of the £150 recommended by the Government.

290 To ensure that the hardship funding was used to support the most vulnerable in our county, £1 million of the grant received was set aside to supplement the council's Welfare Assistance Scheme, anti-poverty and community resilience measures in 2020/21, leaving £5.964 million of grant to provide additional support to residents through the LCTR top up support payments.

291 The Councils benefits system automatically calculates and awards this additional support, based on the outstanding council tax liability after LCTR entitlement has been applied, for the period starting on the start date of LCTR entitlement in 2020/21 up to 31 March 2021. As new LCTR claims are assessed, new hardship payments of up to £300 are made alongside automatically. As LCTR claims are recalculated due to changes in residents' circumstances, hardship payments are automatically adjusted as required.

292 The continued impact of Covid-19 on the local economy, with the imminent withdrawal of the furlough scheme and the implementation of local restrictions in recent months brings additional pressure on employers, and risks increases in unemployment. We are expecting high volumes of claims for LCTR to continue and for the working age caseload to remain high into 2021/22.

293 Modelling undertaken at that time to enable the Council to continue to provide additional support during periods of continued economic uncertainty identified that the council was expected to have around £1.8m of the Covid-19 hardship funding allocated to LCTR top up payments unspent by the end of 2021.

294 In order to ensure full use of the hardship funding and with continuing uncertainty surrounding the economy and increased pressure on household incomes; agreement was given by Cabinet on 18 November 2020 to continue the LCTR hardship top up payments to LCTRS claimants in 2021/22 at a rate of up to £100.

295 In the local government finance settlement, the council has received a 2021/22 Local Council Tax Support grant of £7.040 million. This grant is non ring fenced but is expected to be utilised to cover local authority tax bases losses but also to provide flexibility in being able to support council tax payers during the ongoing coronavirus pandemic.

296 The council has forecast a neutral position on tax base for 2021/22 which provides flexibility in continuing with the current LCTS support. It is therefore proposed that the Council utilises the grant to continue to support financially vulnerable households and provide up to £300 of support for working age LCTR claimants for 2021/22 also. A revised Hardship Policy is attached as Appendix 11 to this report to support administration of these payments.

297 Based on our forecast of LCTR claimants for 2021/22 and taking account of the increase in Council Tax for next year, it is estimated that the cost of providing the Hardship payments will be approximately £5.5 million. Including the residual sum available from the Hardship Funding from 2020/21, this will leave £3.3 million of funding, from which it is proposed £1.4 million is allocated to the Area Action Partnerships (£100,000 each) to support local community anti-poverty and covid-19 recovery interventions, with the remaining amount allocated to the Welfare Assistance Scheme to support the Poverty Action Plan and measures to assist the most vulnerable households across the county.

Recommendation

298 It is recommended that Members:

(a) note the continuation of the current £300 Local Council Tax Support top up scheme in 2021/22 funded by the Local Council Tax Support Grant in 2021/22;

(b) note and approve the allocation of £1.4 million to AAP’s from the Local Council Tax Support Grant in 2021/22 to invest in local anti-poverty and coronavirus response initiatives

Prudential Code, Treasury Management and Property Investment

299 This section outlines the council's prudential indicators for 2021/22 to 2024/25, sets out the expected treasury operations for this period and provides details on the council's Property Investment Strategy. The content fulfils five legislative requirements:

(a) the reporting of the prudential indicators, setting out the expected capital activities as required by the CIPFA Prudential Code for Capital Finance in Local Authorities as shown at Appendix 12;

(b) the cash investment strategy which sets out the council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance and is also shown in Appendix 12;

(c) the Treasury Management Strategy statement which sets out how the council's treasury service will support the capital decisions taken above, the day-to-day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the 'Authorised Limit', the maximum amount of debt the council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by section 3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown at Appendix 12;

(d) the council's Minimum Revenue Provision (MRP) Policy, which sets out how the council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007) as shown at Appendix 12;

(e) the Property Investment Strategy seeks to ensure that the council only enters into investments which provide a reasonable level of return for the council after considering all risks as part of a robust business case and due diligence process. The Property Investment Strategy is appended at Appendix 13. A separate report included on the Cabinet Agenda sets out an update on the Councils activity in line with this strategy.

300 The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

Recommendations

301 It is recommended that Members:

(a) agree the Prudential Indications and Limits for 2021/22 – 2024/25 contained within Appendix 12 of the report, including the Authorised Limit Prudential Indicator;

(b) agree the Minimum Revenue Provision (MRP) Statement contained within Appendix 12 which sets out the council’s policy on MRP;

(c) agree the Treasury Management Strategy and the treasury Prudential Indicators contained within Appendix 12;

(d) agree the Cash Investment Strategy 2020/21 contained in the Treasury Management Strategy (Appendix 12 including the detailed criteria);

(e) approve the Property Investment Strategy at Appendix 13.

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Appendix 1: Implications

Legal Implications

The council has a statutory responsibility to set a balanced budget for 2021/22. It also has a fiduciary duty not to waste public resources.

Section 47 of the Local Government Finance Act 1988 and subsequent amending legislation provides the provisions and criteria for awarding discretionary rate relief. The Localism Act 2011 amended Section 47 Clause 69, of the Local Government Finance Act 1988 to allow local authorities to reduce the business rates of any local ratepayer (not just those who can currently be granted discretionary relief), via a local discount scheme.

Statutory guidance states that any discretionary rate relief or local discount scheme must be in the interests of the wider council taxpayer.

The proposals set out in this report seek to ensure that the council's policy is in line with legislative requirements. Any changes to the Discretionary Rate Relief and Hardship Relief Policies need to be approved by Cabinet.

Finance

The report sets out various recommendations on the 2021/22 Budget and for the MTFP(11) period 2021/22 – 2024/25.

Consultation

Full information on the MTFP(11) consultation process are contained in the report.

Equality and Diversity / Public Sector Equality Duty

Under section 149 of the Equality Act 2010 all public authorities must, in the exercise of their functions, "have due regard to the need to" eliminate conduct that is prohibited by the Act. Such conduct includes discrimination, harassment and victimisation related to protected characteristics but also requires public authorities to have due regard to the need to advance equality of opportunity and foster good relations between persons who share a "relevant protected characteristic" and persons who do not. This means consideration of equality analysis and impacts is an essential element that Members must take into account when considering these savings proposals

Climate Change

The report details an additional £1.5 million investment for 2021/22.This investment is in addition to the financial investment set out in the council's Climate Change Emergency Response Plan.

Human Rights

Any human rights issues will be considered for each of the proposals as they are developed and decisions made to take these forward. There are no human right implications from the information within the report.

Crime and Disorder

It is recognised that the changes proposed in this report could have a negative impact on crime and disorder in the county. However, the council will continue to work with the Police and others through the Safe Durham Partnership on strategic crime and disorder and to identify local problems and target resources to them.

Staffing

The impact of the MTFP upon staffing is detailed within the report.

Accommodation

The council's Corporate Asset Management Plan is aligned to the corporate priorities contained within the Council Plan. Financing for capital investment priorities is reflected in the MTFP Model.

Risk

A robust approach to Risk Assessment across the MTFP process has been followed including individual risk assessment of savings plans.

Procurement

Wherever possible procurement savings are reflected in service groupings' savings plans.

Appendix 2: Consultation

AAP	Meeting	Overview
1. Durham City	15.10.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation. • Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed. • Further discussion, comments and questions: ○ Level of comfort can be drawn from DCC's financial management and approach very reasonable.

2. Spennymoor	15.10.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation.
		• Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed.
		• Further discussion, comments and questions:
		  ○ Appreciation that DCC's approach is in line with best considerations for the community in challenging times.
		  ○ Reiterated support for DCC from AAP.

3. East Durham Rural Corridor	22.10.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation. • Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed. • Further discussion, comments and questions: ○ Question regarding contingency in the budget for the potential increasing cost of the care package in reference to current court case regarding Mencap regarding sleep-in costs.

4. 4 Together	04.11.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation.
		• Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed.
		• Further discussion, comments and questions:
		  ○ Suggestion for DCC to consider public education around the scale of the challenge faced, to provide a better understanding of how budgets are allocated and balanced, and where money is spent.
		  ○ Appreciation for DCC's approach to financial management over the last 10 years, particularly in dealing with ongoing austerity measures.
		  ○ Celebration of achievements to be recognised, with example of Free School Meal voucher scheme in supporting more than 10,000 children.

5. Stanley	11.11.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation. • Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed. • Further comments/questions: ○ Specific acknowledgement that it is a sensible approach and AAP happy to hold a specially arranged Board Meeting to solely look at the Budget and MTFP if needed.

AAP	Meeting	Overview

6. Teesdale	11.11.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation.
		• Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed.
		• Further discussion, comments and questions:
		    ○ Reiterated commitment to involvement in consultation in the future.
		    ○ Specific acknowledgement that Councils approach is especially focused on safeguarding of frontline services.
		    ○ Appreciation that DCC's approach is measured manner meaning we are better placed to face challenges.
		    ○ Question asked regarding percentage of the reserves used to cover the shortfall.

7. East Durham	11.11.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation.
		• Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed.
		• Further discussion, comments and questions:
		    ○ Appreciation for DCC's approach is to financial management.
		    ○ Comparisons to other local authorities in relation to Section 144 notices
		    ○ Appreciation for approach specifically in protecting front line as fear of cuts to services and VCS not able to breach the gap. AAP funding to lever large resources a consideration.

8. 3 Towns	12.11.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation.
		• Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed.
		• Further discussion, comments and questions:
		    ○ Question asked regarding recent report that one in five councils would be able to meet their budget needs without cutting back front-line services. It was questioned if DCC was one of those.
		    ○ Question asked regarding £5million pay award for DCC employees.
		    ○ Question asked regarding the borrowing from the capital program and whether some of these are creating capital revenue.
		    ○ Question and discussion regarding public health funding.

9. Bishop Auckland Shildon	12.11.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation.
		• Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed.
		• Further discussion, comments and questions:
		    ○ Question regarding administration of additional financial support for care homes, intake of new care homes residents regarding health and safety considerations.
		    ○ Additional information requested regarding the £20million invested last year in relation to the return and ethical or green investment.
		    ○ Discussion regarding the legal requirements of a budget reserve.
		    ○ Discussion regarding the Local Government Finance Settlement 21/22 position.

AAP	Meeting	Overview
10. Weardale	19.11.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation. • Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed. • Further discussion, comments and questions: o AAP offered thanks to DCC for the clarity of the presentation.
11. Chester Le Street	24.11.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation. • Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed. o No further comments made.

12. Great Aycliffe and Middridge	24.11.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation.
		• Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed.
		• Further discussion, comments and questions:
		  o Question asked regarding the rationale for 'prudential borrowing' of £2m, when DCC hold more in reserves.
		  o Further detail was requested on the breakdown of the expenditure/budgets highlighted for Adults Wellbeing & Health and Children & Young Peoples Services, specifically in relation to the number of children in care outside of the area and the costs associated.
		  o Suggestion made that further consultation in early 2021 could potentially warrant more thorough consultation than solely via email.

13. Mid Durham	25.11.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation.
		• Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed.
		• Further discussion, comments and questions:
		  o Concern about the economic future and the challenging times ahead with specific questions regarding prudential borrowing.
		  o Reiterated commitment to any involvement in consultation in the future.

14. Derwent Valley	25.11.2020	• Consensus gained that the AAP is in agreement to approach to budget planning as outlined in the MTFP presentation.
		• Consensus gained that the AAP is happy to participate in consultation in early 2021 if needed.
		• Further discussion, comments and questions:
		  o Special thanks to DCC for prudent approach towards managing the Council's financial position.
		  o Reference made to other local authority areas that are in financial difficulties at this time.
		  o Concern expressed that financial challenges facing the public sector is having an impact on child poverty levels with query raised as to the level of spend on addressing child poverty.

Appendix 3: MTFP11 Savings Plans

Adult and Health Services				
Savings Proposal	**Description**	**2021/22**	**2022/23**	**TOTAL**
Commissioning Efficiencies	Review of contractual and staffing arrangements across Adult and Health Services.	974,125	0	974,125
Total - Adults & Health Services		**974,125**	**0**	**974,125**
Children and Young People Services				
Savings Proposal	**Description**	**2021/22**	**2022/23**	**TOTAL**
Restructure of Education Support and Development Teams	Review and restructuring of the Education Support service to align the structure with future requirements and priorities	780,000	0	780,000
Review of support to Private and Voluntary Sector Nursery Providers	Realignment of the current budget to meet existing and anticipated future years demands. Targeting support to priority areas to maximise the impact	50,000	50,000	100,000
Restructure of Youth Offending Service	Review of the County Durham Youth Justice Service to establish a new service delivery model aligned to priorities. Rationalising the internal management structure of the service and reshaping front line delivery structures	200,000	0	200,000
Review of social care allowances budget	Savings from SGO allowances budget	50,000	0	50,000

Savings Proposal	Description	2021/22	2022/23	TOTAL
Review of employee budgets in Early help, Inclusion and Vulnerable Children Services	Savings from vacancies and reductions in hours across Early help, Inclusion and Vulnerable Children Services.	80,000	0	80,000
Cross service review of costs	Reduction in Accommodation and related costs	10,000	0	10,000
Review of employee budgets in Education and Skills	Savings from vacancies and reductions in hours	95,000	0	95,000
Total - Children & Young People Services		**1,265,000**	**50,000**	**1,315,000**
Neighbourhood and Climate Change				
Savings Proposal	**Saving Description**	**2021/22**	**2022/23**	**TOTAL**
Employee Review - Environment & Design	Review of posts and mini-restructuring / reprofiling of staffing quotas as appropriate.	0	75,000	75,000
Partnership and Community Engagement and CCU	A review of Partnership and Community Engagement and Civil Contingencies Unit	0	28,835	28,835
Increased Income - Durham Crematorium	The increased income will arise from the Crematorium Committee increasing the distributable surpluses to the constituent authorities,	175,000	0	175,000
Review of expenditure at Joint Stocks	Savings in Machinery Hire and Maintenance of Power Generation equipment at Joint Stocks	25,000	0	25,000
Review of employee costs in Clean and Green	Restructure in Clean & Green	27,000	0	27,000
Review of options for garden waste composting	Additional income and costs savings from In-House Garden Waste Composting	100,000	0	100,000

Savings Proposal	Saving Description	2021/22	2022/23	TOTAL
Review of charging of works to capital	Maximise charging of Strategic Highways Staff to LTP Capital	300,000	0	300,000
TOTAL - NCC		**627,000**	**103,835**	**730,835**
Regeneration, Economy and Growth				
Savings Proposal	**Saving Description**	**2021/22**	**2022/23**	**TOTAL**
HQ Saving	The development of the new Council HQ will generate savings in the running cost of the new building combined with the current costs incurred. The saving will be delivered in 2022/23.	0	275,000	275,000
Increased Income - bus shelter advertising	Replace external agency with an in-house team to sell advertising on bus shelters would allow the council to realise the income currently received by the agency. This team would have the potential to grow to billboard advertising, boundary sign advertising, roundabout advertising and digital advertising thereby increasing the offer to the local population.	100,000	120,000	220,000
Increased Income and efficiencies in rental of Business Space	The Council's commercial property portfolio is projected to increase rental income that would be used to support appropriate savings. Efficiencies can also be realised from the team that manage the rental of commercial property.	250,000	40,000	290,000
Review of employee costs in Development & Housing	Savings generated from a Staffing Restructure	450,000	0	450,000
TOTAL - REG		**800,000**	**435,000**	**1,235,000**

Savings Proposal	Saving Description	2021/22	2022/23	TOTAL
Resources				
Savings Proposal	**Description**	**2021/22**	**2022/23**	**TOTAL**
Staffing and Non-Staffing Budget Reductions	A restructure of Internal Audit and Risk, including a review of income budgets as the Internal Audit Service is now providing services to additional external clients.	5,828	0	5,828
Software Licencing - changes to Oracle Licensing and support arrangements	A review of Oracle licencing will enable a reduction in licence costs.	100,000	0	100,000
Supplies and Services	A review of supplies and services budgets across all teams within Digital and Customer Services	35,257	0	35,257
In House Enforcement (Bailiff) Services currently undertaken by Equita and Jacobs	This proposal involves providing an “in-house” Enforcement Agents (Bailiff) service, for the collection of appropriate Council Tax, Business Rates and Sundry Debts, which are currently outsourced to two external Enforcement Agents, to create a Durham County Council led service.	135,000	0	135,000
Strategy and Transformation Team Restructures	A further review of employee resources	0	68,051	68,051
Review of employee costs in service accounting teams	Employee savings in Service Finance Teams	26,750	0	26,750
Expansion of accounting service offer to schools and NECA	Increased income from SLAs with Schools and NECA	10,800	0	10,800
Employee review in payments teams	Restructure and downsizing of Payments, Income & Support Teams	90,759	0	90,759

Savings Proposal	Saving Description	2021/22	2022/23	TOTAL
Employee review in Assessments and Awards	Restructure of and downsizing Assessments & Awards Teams	128,644	0	128,644
Review off expenditure budgets in Finance and Transactional Services	Review / Reduction of Non-Staffing Budgets including provision for outsourced packages	235,000	0	235,000
Review of employee budgets in Strategic Finance	Employee budget saving in Systems Finance Team	28,000	0	28,000
Review off expenditure budgets in ICT	Review / Reduction of Non-Staffing Budgets	50,067	0	50,067
Review off expenditure budgets in Legal and Democratic Services	Review / Reduction of Non-Staffing Budgets	100,000	0	100,000
TOTAL - RESOURCES		**946,105**	**68,051**	**1,014,156**
Chief Executive's Office				
Savings Proposal	**Description**	**2021/22**	**2022/23**	**TOTAL**
Communication and Marketing team restructure	A further review of employee resources across the Communications and Marketing Teams.	0	95,114	95,114
TOTAL - Chief Executive's Office		**0**	**95,114**	**95,114**

Corporate Savings				
Savings Proposal	**Description**	**2021/22**	**2022/23**	**TOTAL**
Business Support Review	A new business support function has been created which will carry out a range of business process reviews to identify and deliver a range of efficiency savings in the delivery of business support. .	350,000	1,450,000	1,800,000
Review of Centrally Administered Costs	Reduction in Corporate Subscriptions and other centrally administered costs including bank transaction charges	100,000	0	100,000
Review of car mileage budgets	It is forecast that increased home working will enable a reduction in mileage also contributing to reduced carbon emissions.	250,000	250,000	500,000
TOTAL - CORPORATE		**700,000**	**1,700,000**	**2,400,000**
TOTAL COUNCIL SAVINGS FOR MTFP (11)		**5,312,230**	**2,452,000**	**7,764,230**

Appendix 4: Budget Summary by Service Grouping

2020/21 Original Budget	2020/21 Projected Outturn		2021/22 Gross Expenditure	2021/22 Gross Income	2021/22 Net Expenditure
£000	£000		£000	£000	£000
		Council Controlled Budgets			
129,627	141,827	Adult and Health Services	380,385	246,767	133,618
1,823	2,068	Chief Executive's Office	3,001	1,620	1,381
123,877	136,114	Children and Young People's Services	268,462	134,586	133,876
108,622	123,791	Neighbourhoods and Climate Change	191,418	85,687	105,731
52,770	68,916	Regeneration, Economy and Growth	155,666	106,036	49,630
25,705	30,530	Resources	119,264	97,839	21,425
4,498	4,901	Corporate Costs	11,582	7,204	4,378
8,155	1,853	Contingencies	10,337	0	10,337
455,077	**510,000**		**1,140,115**	**679,739**	**460,376**
		Non Council Controlled Budgets			
0	0	Schools	262,833	262,833	0
0	0	Benefits	116,039	116,039	0
0	**0**		**378,872**	**378,872**	**0**

2020/21 Original Budget	2020/21 Projected Outturn		2021/22		
			Gross Expenditure	Gross Income	Net Expenditure
£000	£000		£000	£000	£000
455,077	**510,000**	***NET COST OF SERVICES***	**1,518,987**	**1,058,611**	**460,376**
-65,068	-65,068	Reversal of Capital Charges			-62,797
-2,900	-2,550	Interest and investment income			-2,900
36,614	60,188	Interest payable and similar charges			38,416
		Levies			
15,462	15,466	North East Combined Authority			15,554
460	459	Environment Agency - Flood Defence			461
69	71	North East Inshore Fisheries Conservation Authority			72
439,714	**518,566**	***NET OPERATING EXPENDITURE***			**449,182**
-56,083	-56,083	Business Rates - local share			-57,304
-72,780	-72,780	Top up Grant			-72,780
-28,070	-28,070	Revenue Support Grant			-28,227
0	-17,521	COVID-19 Support Grant tranche 1-use of earmarked reserves			0
0	-27,081	COVID-19 Support Grant tranches 2 and 3			0
0	-6,000	COVID-19 Income Guarantee Grant			0
-1,740	-1,740	Estimated net Surplus on Collection Fund			-1,514
-7,564	-7,564	New Homes Bonus			-4,476
-11,713	-12,539	Section 31 Grant			-11,415
0	0	Lower Tier Services Grant			-747
0	0	Local Tax Income Guarantee			-514

2020/21 Original Budget	2020/21 Projected Outturn		2021/22		
			Gross Expenditure	Gross Income	Net Expenditure
£000	£000		£000	£000	£000
-17,652	-17,652	Adult/Childrens Pressures Grant			-22,888
-7,700	-33,905	Use of Earmarked Reserves			-7,946
-1,954	854	Use of Cash Limit Reserves			-105
0	-4,027	Use of General Reserve			
234,458	**234,458**	***AMOUNT REQUIRED FROM COUNCIL TAXPAYERS***			**241,266**

Appendix 5: Budget Summary by Expenditure and Income Type

	Original Budget 2020/21	2020/21 Projected Outturn Position	Original Budget 2021/22
	£000	£000	£000
Employees	561,387	537,905	508,917
Premises	53,923	53,013	51,301
Transport	46,738	45,265	47,514
Supplies & Services	130,374	118,236	113,654
Agency & Contracted	417,221	457,987	427,505
Transfer Payments	163,446	168,763	166,814
Central Costs	106,669	120,684	126,507
Direct Revenue Financing	2,330	2,739	3,641
Capital Charges	65,068	65,068	62,797
Contingencies	8,155	1,853	10,337
GROSS EXPENDITURE	**1,555,311**	**1,571,513**	**1,518,987**
Income			
- Specific Grants	607,033	593,687	548,157
- Other Grants & contributions	78,298	89,406	83,208
- Sales	11,349	4,052	7,235
- Fees & charges	103,391	84,983	104,257
- Rents	9,208	8,144	9,086
- Recharges	282,668	274,349	296,878
- Other	8,287	6,892	9,791
Total Income	**1,100,234**	**1,061,513**	**1,058,612**
NET COST OF SERVICES	**455,077**	**510,000**	**460,375**
Capital charges	-65,068	-65,068	-62,797
Interest and Investment income	-2,900	-2,550	-2,900
Interest payable and similar charges	36,614	60,188	38,416
Levies			
North East Combined Authority	15,462	15,466	15,554
Environment Agency - Flood Defence	460	459	461

	Original Budget 2020/21	2020/21 Projected Outturn Position	Original Budget 2021/22
	£000	**£000**	**£000**
North East Inshore Fisheries Conservation Authority	69	71	72
Net Operating Expenditure	439,714	518,566	449,181
Movement in Reserves:			
Use of Earmarked Reserves	-7,700	-33,905	-7,946
Use of Cash Limit Reserves	-1,954	854	-105
Use of General Reserve	0	-4,027	0
Net Budget Requirement	**430,060**	**481,488**	**441,130**
Financed by:			
Business Rates - local share	-56,083	-56,083	-57,304
Top up Grant	-72,780	-72,780	-72,780
Revenue Support Grant	-28,070	-28,070	-28,227
COVID-19 Support Grant tranche 1- use of earmarked reserves	0	-17,521	0
COVID-19 Support Grant tranches 2 and 3	0	-27,081	0
COVID-19 Income Guarantee Grant	0	-6,000	0
Amount required from council tax payers	-234,458	-234,458	-241,266
Estimated Net Surplus on Collection Fund	-1,740	-1,740	-1,514
New Homes Bonus	-7,564	-7,564	-4,476
Section 31 Grant	-11,713	-12,539	-11,415
Lower Tier Services Grant	0	0	-747
Local Tax Income Guarantee	0	0	-514
Adult/Childrens Pressures Grant	-17,652	-17,652	-22,888
Total Financing	**-430,060**	**-481,488**	**-441,131**

Appendix 6: MTFP(11) 2021/22 – 2024/25 Model

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Government Funding				
Revenue Support Grant and Fair Funding Review	0	4,000	4,000	4,000
Social Care Additional Funding	-5,250	0	0	0
Local Council Tax Support Grant	-7,040	7,040	0	0
Reduction in Benefit Admin Grant	0	100	100	100
Reduction in Home Office Grant - Elections	60	0	0	0
Revenue Support Grant - Inflation Uplift	-150	0	0	0
Bus. Rates / S31 - CPI increase (0.5%/1%/1%/1.5%)	-350	-500	-500	-750
Top Up - CPI increase (0.5%/1%/1%/1.5%)	-400	-700	-700	-1,050
New Homes Bonus	3,100	2,731	1,745	0
Lower Tier Services Grant	-740	0	0	0
Other Funding Sources				
Council Tax Increase - 1.99% + 1.00% ASC 21/22 & 2% 22/23	-6,900	-9,400	-4,800	-4,900
Council Tax/Business Rate Tax Base increase	0	-1,500	-2,000	-3,000
Estimated Variance in Resource Base	**-17,670**	**1,771**	**-2,155**	**-5,600**
Pay inflation (0.25% shortfall in 20/21 then 2%)	5,100	4,650	4,800	4,950
Price Inflation (1.5% - 1.5% - 1.5% - 1.5%)	3,800	3,900	4,000	4,100
Base Budget Pressures				
National Living Wage	850	4,400	4,600	2,500
Employers Pension Contributions	0	0	3,000	0
Pension Fund Auto Enrolment costs	0	500	0	0
Social Care System Licenses	100	0	100	0
Adults Service Fees and Demographic Pressures	4,000	1,000	1,000	1,000
Childrens Services Demographic Pressures	5,000	1,500	1,500	1,500
Regional Adoption Agency	50	0	0	0
Home to School Transport	1,640	0	0	0
Virtual School Expansion	226	0	0	0
CYPS SEND and Social Care Staffing	1,200	0	0	0
Former LeisureWorks related costs	500	0	0	0
1Life Insourcing	350	0	0	0
Road and Street Work Permit Scheme	91	0	0	0
Winter Maintenance	1,000	0	0	0

	2021/22	2022/23	2023/24	2024/25
	£'000	**£'000**	**£'000**	**£'000**
Neighbourhoods Regradings and Budget Pressures	1,000	0	0	0
Joint Stocks Income	350	0	0	0
Withdrawal of Police Commissioner funding for ASB	130	0	0	0
Legal Staffing	300	0	0	0
Loss of School SLA Income and Sales support	400	100	0	0
Unfunded Superannuation	-100	-100	-100	-100
Prudential Borrowing	1,000	3,000	3,000	3,000
Net Collection Fund Position after 75% Grant applied	0	1,284	0	-1,284
Short Term Investments				
Investment in climate change initiatives	0	-1,500	0	0
Additional investment in highways infrastructure	0	-2,500	0	0
Investment in Housing Initiatives	0	-500	0	0
Investment in clean and green neighbourhoods	0	-1,000	0	0
Investment in reducing poverty and inequality	0	-1,500	0	0
Investment in library services	0	-1,000	0	0
Investment in Childrens services initiatives	0	-1,000	0	0
Other One Off Initiatives	0	-1,000	0	0
Further Investment in Towns & Villages	5,000	-5,000	0	0
Local Council Tax Support and Poverty Investment	7,040	-7,040	0	0
Culture and Sport Investment	-10,000	0	0	0
TOTAL PRESSURES	**29,027**	**-1,806**	**21,900**	**15,666**
Use of One Off funds				
Adjustment for use of BSR in previous year	2,733	3,778	0	0
Use of Budget Support Reserve	-3,778	0	0	0
Use of Earmarked Reserves - Towns & Villages	-5,000	5,000	0	0
Savings				
Savings Agreed in MTFP(10)	-3,135	-2,202	0	0
MTFP(11) Savings	-2,177	-250	0	0
SURPLUS FUNDS (-)/ SAVINGS SHORTFALL	**0**	**6,291**	**19,745**	**10,066**
TOTALSHORTFALL				**36,102**

Appendix 7: Current Council Capital Programme

Scheme	2020/21	2021/22	2022/23	2023/24
	£	£	£	£
ADULT AND HEALTH SERVICES				
Drug & Alcohol Premises Upgrade	0	338,000	0	0
ADULT AND HEALTH SERVICES TOTAL	**0**	**338,000**	**0**	**0**
CHILDREN AND YOUNG PEOPLE'S SERVICES				
Bowburn New Build Primary	7,066,195	2,448,702	0	0
Building Schools for the Future	189,259	530,349	0	0
Childrens Services - Planning & Service Strategy	2,212,842	534,677	0	0
DFE School Capital Incl Basic Need	6,082,043	15,089,348	522,201	0
DFE Special Provision Capital Fund	2,386,516	0	0	0
Early Help, Inclusion & Vulnerable Children	90,000	0	0	0
Early Years Provision	630,479	0	0	0
Healthy Pupils Capital Fund	72,830	45,040	0	0
Increased Provision for Two Year Olds	10,000	0	0	0
Private Finance Initiative	39,977	0	0	0
School Devolved Capital	3,303,648	2,269,134	0	0
Secure Services	104,063	0	0	0
Support for Childrens Homes	761,050	830,171	0	0
Thirty Hours Free Childcare	27,900	72,382	0	0
CHILDREN AND YOUNG PEOPLE'S SERVICES TOTAL	**22,976,802**	**21,819,803**	**522,201**	**0**

Scheme	2020/21	2021/22	2022/23	2023/24
	£	**£**	**£**	**£**
NEIGHBOURHOODS AND CLIMATE CHANGE				
AAP Capital Budgets	618,043	336,000	0	0
AAP Initiatives	47,249	6,129	0	0
AAP Schemes – EH&CP	7,200	0	0	0
AAP Schemes – Environmental Services	133,620	56,675	0	0
Community Buildings	205,772	750,598	0	0
Consett Community Facilities	14,120	100,000	0	0
Environment & Design	2,512,202	258,686	0	0
Environmental Health & Consumer Protection	23,624	82,527	0	0
Highway Operations	1,444	0	0	0
Members Neighbourhood Fund	3,791,847	1,764,000	0	0
Nevilles Cross Community Centre	0	83,000	0	0
Sherburn Hill Community Centre	45,882	0	0	0
Strategic Highways	26,360,733	24,532,235	0	0
Strategic Highways Bridges	8,329,897	2,040,449	0	0
Street Scene	256,671	676,804	0	0
Sustainability & Climate Change	793,862	511,919	0	0
Vehicle and Plant	144,639	1,303,514	0	0
Waste Infrastructure Capital	426,439	2,501,621	167,555	0
NEIGHBOURHOODS AND CLIMATE CHANGE TOTAL	**43,713,244**	**35,004,157**	**167,555**	**0**

Scheme	2020/21	2021/22	2022/23	2023/24
	£	£	£	£
REGENERATION, ECONOMY AND GROWTH				
Beamish Capital Project	38,440	591,573	852,340	4,295,736
Capitalised Structural Maintenance	3,591,781	5,550,000	1,084,618	0
Chapter Homes	4,885,000	870,000		0
Culture and Museums	2,677,852	3,586,519	737,952	0
Disabled Facilities/Financial Assistance	4,616,287	6,735,709	2,500,000	0
Eastgate	0	0	150,000	360,830
Housing Development	832,294	839,223	2,939,000	0
Housing Renewal	3,430,464	3,526,489	625,000	200,147
Industrial Estates	6,704,332	4,300,701	2,714,525	0
Leisure Centres	356,967	13,082,026	13,122,974	0
Local Transport Plan - Integrated Transport	1,902,299	3,196,500	0	0
Minor Development & Housing Schemes	168,000	180,000	0	0
Minor Strategy Programmes & Performance Schemes	54,511	255,000	353,409	1,700,000
Minor Transport & Contracted Services	155,963	0	0	0
New Council Headquarters	21,298,365	15,695,865	1,870,524	2,158,239
North Dock Seaham	72,284	379,808	0	0
Office Accommodation	2,077,050	2,092,993	1,000,000	40,000
Outdoor Sports & Leisure Facilities	154,002	76,995	0	0
Town centres	3,596,064	10,922,779	1,905,288	0
Town & Village Centres	825,524	2,697,315	403,987	0
Transport - Major Schemes	11,773,381	21,430,820	27,314,473	1,005,817
Woodham Community Technology College	0	0	700,386	0
REGENERATION, ECONOMY AND GROWTH TOTAL	**69,210,860**	**96,010,315**	**58,274,476**	**9,760,769**

Scheme	2020/21	2021/22	2022/23	2023/24
	£	£	£	£
RESOURCES				
Applications and Development	8,519	0	0	0
Big Data	121,801	0	0	0
Broadband / Digital Durham	570,594	9,078,581	0	0
Code of Connection Compliance	160,107	270,000	0	0
Corporate Mail Fulfilment	55,015	0	0	0
Customer Relation Management System	8,000	1,778,327	0	0
Dark Fibre installations and Circuit/Microwave Upgrades	0	165,640	0	0
Durham History Centre	207,000	9,725,851	7,149,248	1,700,000
End Device Patching	152,000	0	0	0
Homeworking	91,506	700,000	0	0
ICT Business Continuity	13,392	0	0	0
ICT Performance Management	0	200,000	0	0
ICT Service Desk Replacement	60,000	240,000	0	0
ICT Technical Services	385,000	388,500	160,000	0
Integrated Customer Service Programme	55,000	165,450	0	0
Middleware Software - Enterprise Application Integration	35,000	215,000	0	0
Migration of HR/Payroll Functionality	57,290	24,515	0	0
Mobile Device Management	184,372	0	0	0
Ongoing Server Replacement	410,812	826,000	0	0
Replacement of Desktop ICT Equipment	1,007,253	2,079,400	0	0
Sharepoint Architecture	0	23,031	0	0
Switching Replacement	27,246	180,000	0	0
RESOURCES TOTAL	**3,609,907**	**26,060,295**	**7,309,248**	**1,700,000**
COUNTY COUNCIL TOTAL	**139,510,813**	**179,232,570**	**66,273,480**	**11,460,769**

Appendix 8: Capital Strategy 2021/22

Introduction

1 Capital expenditure is a strategic investment involving major expenditure on assets that provide benefits to the Council and the services it provides for more than one year. The Council works with a wide range of partners from the public, private, voluntary and community sectors, all of which have an influence over its spending priorities.

2 The Capital Strategy provides a framework to enable the Council to consider carefully how it prioritises spending to meet corporate and service aims and objectives. It also takes account of the resources which are likely to be available to the Council to fund capital investment and the effect of that investment on the Council's revenue budget.

Objectives for Capital Investment

3 The main objectives for the Capital Strategy are to:

a) Support the Council's vision and priority themes as set out in the Council Plan;

b) Support service delivery strategies;

c) Support asset management plans for Council assets;

d) Ensure that investments are affordable and sustainable;

e) Ensure use of resources and value for money is maximised;

f) Support 'Invest to Save' opportunities;

g) Encourage inward investment into County Durham.

The Council's Corporate Vision and Priorities

4 The Council Vision and priorities are developed together with partners and which are based on consultation with local people and Area Action Partnerships.

5 The County Durham Partnership has carried out a refresh of its vision for the county followed extensive consultation with partners and key stakeholders which included:

- All 14 area action partnerships

- 11 County Durham Partnership thematic partnerships and sub-groups

- 11 other groups including Cabinet Transformation Board and Corporate Overview and Scrutiny Management Board with invitation extended to all other non-executive members

6 The agreed Vision for 2035 is that County Durham is a place where there are more and better jobs, people live long and independent lives and our communities are well connected and supportive of each other.

7 The Council Plan is the primary corporate planning document for the County Council and details Durham County Council's contribution towards achieving the objectives set out in the Vision for County Durham 2035.The County Council at its meeting 21 October 2020 approved a refreshed Council Plan for 2020-23 providing Members, partners and the public a summary of our priorities for the county and informing future spending decisions in our medium-term financial plan. Both the Vision for County Durham and the Council Plan are structured around three ambitions:

<u>More and better jobs</u>

- Our young people will achieve their full potential by having access to good quality education and training to prepare them for employment. We will work together to help them find rewarding work and reduce the number of people living in poverty.

- We will help people to create more and better jobs by developing major employment sites across the county to build a strong, competitive and low carbon economy establishing the county as a premier place in the North East to do business.

- We will build on our successful tourist economy through culture-led regeneration to broaden the leisure experience for residents and visitors to the county. Our visitor experience will compete with the best offered by other comparable destinations.

<u>People live long and independent lives</u>

- Our children and young people will have the best start in life and enjoy good health and emotional wellbeing. We will work with families to make sure that children and young people with special educational needs and disabilities can achieve the best possible outcomes.

- We will design the physical environment to give people greater opportunity for exercise, and to cycle and walk more for everyday journeys. We will reduce carbon emissions and mitigate the impact of climate change on people's lives.

- We will promote positive healthy behaviours and help people to stop smoking. We will tackle the stigma and discrimination of poor mental health, build more resilient communities and promote positive mental health.

- People will be able to live independently for longer. We will further integrate the work of health and social care organisations to improve the lives of people receiving these services. We will also deliver more housing to meet the needs of older people.

- We will work to tackle health inequality across the county and close the gap in healthy life expectancy between our communities.

<u>Connected communities</u>

- We will deliver new high-quality housing in a range of house types and tenures including affordable homes that are accessible and meet the needs and aspirations of our residents.

- Properties in our communities will be well used. We will work with owners to help bring more empty homes back into use and ensure that privately rented homes are well managed.

- Our town and village centres will be well used, clean, attractive and safe.

- Our transport network will support cycling and walking and provide good access to workplaces, retail and leisure opportunities and will be relatively free from congestion. Widespread use of electric vehicles will reduce noise and improve air quality.

- We want our communities to remain welcoming, accept one another and build new relationships to support each other. Children will have a safe childhood and victims of crime will have access to the right services and support that they require.

8 The Capital Strategy will need to be aligned to the emerging Vision.

Identification and prioritisation of Capital Investment needs

9 The purpose of the capital budgeting process is to ensure that the money available for capital expenditure is prioritised in the way which best meets the Council's objectives.

10 The Council has an annual process in which it assesses and prioritises capital projects that can be funded from available resources. A key factor that is considered in the assessments is the revenue implication of capital investment.

11 The annual capital investment process begins in the summer of each year when service groupings are asked to identify capital investment proposals and prioritise them. The bids in the main should be for two years hence. This forward planning ensures that time is available after the approval of a bid to plan a scheme effectively. These are detailed on capital bid forms containing the following headings:

a) Name of Scheme;

b) Background;

c) Justification of Inclusion in the capital programme;

d) Benefits - Outputs/Outcomes;

e) Investment by Financial Year;

f) What the impact would be if the Council did not go ahead with the proposal;

g) Are there any ongoing revenue costs and, if Yes, how will these be financed?

12 When each service grouping has identified and prioritised its own capital projects, all of the bids are consolidated. The bids are then considered for prioritisation at a corporate level under which the bids are challenged and assessed.

13 In the autumn of each year capital proposals are presented at a capital budget review meeting of the Capital Member Officer Working Group (MOWG) that considers capital matters.

14 The full timetable for capital proposals proceeding into the capital programme is as follows:

June/July	Service Groupings consider options and receive Service Management Team approval.
August	Challenge sessions between Corporate Director Resources and Corporate Directors

September	Corporate Management Team (CMT) discussion on bids and agreement of bids to go onto MOWG
October / December	MOWG consider bids submitted and sign off bids to approve
February	Cabinet and County Council approval

15 There is a mechanism in place at the Council where services are encouraged to drive innovation in service provision, which delivers savings and can fully meet the revenue cost of the capital investment This invest-to-save or self-financing facility can be accessed at any time, not just during the budget setting process.

16 A good capital proposal is likely to be one which:

a) makes a significant contribution to the Council's vision and priority themes;

b) has been thoroughly researched including utilising option appraisals and whole life costing for major projects;

c) considers fully the ongoing revenue implications;

d) has been developed in conjunction with stakeholders, including Members and any other services or partners affected;

e) has identified and secured external funding;

f) has identified realistic and achievable outcomes and outputs.

Overview of the Capital Programme

17 The results of the process set out above is the Council Capital Programme which is simply a set of capital projects that the Council plans to undertake within a specific timeframe. The Capital programme being presented as part of the 2021/22 budget setting process totals £485 million, and covers the financial years 2020/21 to 2023/24. The spending is broken down by service grouping and into each financial year as follows:

Service Area	2020/21	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m	£m
Adult and Health Services	0.000	0.338	0.000	0.000	0.338
Children and Young People's Services	22.977	22.579	21.523	0.000	67.079
Neighbourhoods and Climate Change	43.713	37.315	21.139	0.000	102.167
Regeneration, Economy and Growth	69.211	97.178	97.431	9.761	273.581
Resources	3.610	26.060	9.929	1.700	41.299
Total Capital Programme	**139.511**	**183.470**	**150.022**	**11.461**	**484.464**

Managing the Capital Programme

18 The Council maintains comprehensive and robust procedures for managing and monitoring its Capital Programme. Briefly, this comprises the following:

a) The Capital Programme is managed at programme and service level as well as individual project level;

b) Each scheme has a nominated project manager who is responsible for the successful completion of the scheme against factors such as time, budget, quality, scope and benefit;

c) The Senior Leadership are responsible for ensuring delivery objectives are met for all projects, but with a particular focus on ensuring that:

- high-profile projects are delivered on time and achieve the intended outcomes;
- good progress is being made in delivering the programme generally;
- the overall use of capital and revenue funding is as close as possible to the plans set out in the current year's budget, the capital programme and the medium-term financial strategy.

d) The performance of the capital programme and implications arising from capital monitoring are brought to the attention of the Service Grouping Management team, Corporate Management Team and Cabinet;

e) Capital budget monitoring is reported to Cabinet on a quarterly basis, for consideration of slippage and budget amendments;

f) At year end, the outturn position for capital schemes is determined including accommodation for any slippage and budget carry forwards. The Council's Asset Register and Statement of Accounts are updated with new acquisitions within the year;

g) Reviews of projects are conducted once they have been completed to consider what extent the key delivery objectives – such as time, cost and quality were met. Lessons learned should be used to improve the organisation's processes for selecting, developing and delivering capital projects.

Funding of the Capital Programme

19 The sources of funding that may be available to finance the Council's capital programme include:

a) External grants and contributions;

b) Capital receipts from the disposal of fixed assets and VAT Shelter arrangements;

c) Revenue contributions.

d) Borrowing;

External Grants and Contributions

20 Grants from external sources are a valuable source of capital finance for the Council and have enabled the Council to realise a substantial number of capital developments that would otherwise have been unable to progress. Some capital projects are financed wholly or partly through external grants and contributions that are specific to projects and cannot be used for other purposes.

21 This includes specific grants from Central Government. Schools benefit from a significant amount of capital grants to fund their expansion and improvement projects. Another example is funding from the Department of Transport to fund capitalised highways maintenance and improvement works.

22 Also included in this category are statutory contributions from developers towards the cost of providing infrastructure or other public assets related to a development, e.g. such as funding a new play area when building a housing development.

Capital Receipts

23 In the main capital receipts are the proceeds from the disposal of assets, usually land and buildings. The Council's Land Disposal Strategy is expected to secure resources over the next few years through the release of surplus land and assets. The resulting capital receipts that are generated from the sale of surplus assets are an important funding source for the capital programme.

24 The Council's policy is to treat all capital receipts as a corporate resource, enabling the funds from all asset disposals to be used to support the priorities identified by the Council through the capital programme. This means that individual service groupings are not reliant on their ability to generate capital receipts. On that basis schemes are selected and progressed on a prioritised basis based upon council priorities.

Revenue and Reserves

25 Although the opportunities to fund capital expenditure directly from the base revenue budget are limited, there are occasions where service groupings fund capital expenditure through one-off revenue contributions e.g. from service grouping revenue reserves or in-year forecast underspends. Another example relates to schools, which can allocate funds from their revenue budgets to supplement the capital resources allocated to Schools improvement and expansion projects.

26 The Council also has earmarked reserves that can be used to support capital expenditure. These are on-off in nature and once used the financing is no longer available.

Borrowing

27 Local authorities are subject to a capital financing regime. This prescribes what may be classed as capital expenditure and how it may be financed. All other expenditure must be met from revenue funding. Authorities have discretion to borrow in accordance with the Prudential Code and they are required to make a prudent provision from their revenue budgets to cover their borrowing commitments. This means that the ability to borrow to finance capital expenditure is determined largely by the authority's revenue budget position.

28 The Council seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received, and ensuring that any surplus assets are sold. The Council can then decide how much to borrow to fund the capital programme. The current policy is to borrow only the amount that the Council consider to be prudent and affordable.

Overview of Funding of the Capital Programme

29 The table below shows how the capital programme is estimated to be financed and covers the financial years 2020/21 to 2023/24.

Funding Source	2020/21	2021/22	2022/23	2023/24	Total
	£000	£000	£000	£000	£000
Grants and Contributions	55.022	49.580	39.944	0.655	145.201
Revenue & Reserves	29.901	9.535	5.174	4.375	48.984
Capital Receipts	6.645	15.166	10.340	0.000	32.151
Borrowing	47.943	109.189	94.564	6.431	258.128
Total Financing	**139.511**	**183.470**	**150.022**	**11.461**	**484.464**

Conclusion

30 The arrangements set out here in the Capital Strategy provide a framework that enables the Council to allocate its capital resources to schemes that meet agreed corporate priorities. The arrangements will be subject to ongoing review to ensure they continue to meet requirements after any changes in the regulatory and financial environment.

Appendix 9: Additions to the 2021/22 – 2022/23 MTFP(11) Capital Programme

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	£	£
CYPS	**CYPS School Condition Funding & Basic Need**	This element of Capital Grant is paid by the DfE to LA's and is determined by both school condition and weighted pupil numbers (Condition need is highlighted by the ESFA Property Data Survey and not the LAs condition data). It is assumed that we will receive condition funding and basic need of £5.4 million.	0	5,439,974	**5,439,974**
CYPS	**CYPS Schools Devolved Capital**	This capital grant is allocated to individual schools to invest in school infrastructure.	0	1,400,000	**1,400,000**
CYPS	**New School Build for Spennymoor**	The solution to provide sufficient school places is to build a replacement school for an existing primary school but with additional capacity to respond to the shortfall in places. Site options appraisal has been carried out and a preferred site has been identified. The proposed new build would replace the existing Ox Close Nursery Primary and Nursery School and will have a capacity of 630 pupils and 52 FTE (full time equivalent) nursery places. A feasibility study has been produced which estimates the cost to be £13.1 million.	0	5,778,795	**5,778,795**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	**£**	**£**
CYPS	**Rebuild Belmont Community School and Belmont C.E. Primary on existing site**	Both of these schools are second on the Education Review as a high priority for change. The scheme costing £34 million in total will finance a new build campus making better use of the site and replacing the current buildings with two improved school buildings. A new innovative design has been developed to make better use of the site providing a shared campus facility. It will address the poor condition of both schools and future proof them for the projected increase in pupil numbers.	386,500	8,000,000	**8,386,500**
CYPS	**Improve WiFi Coverage within our children's home offer**	The council has a number of in-house children's homes. WiFi provided within the homes is poor and new solutions to provide improved WiFi / broadband coverage have been explored. It is proposed that new access points are installed in all children's homes across our establishment. This will ensure that Homes Managers will have greater control in place for the management of WiFi for our children and young people.	30,000	0	**30,000**
CYPS	**Capital Programme of Investment across our Children's Homes**	The Authority's children's homes which provide care for Durham children and young people. Homes require an ongoing programme of capital investment to ensure that they continue to be homely, fit for purpose, offer a good quality environment for our children and young people and meet quality standards set out by Ofsted (the regulatory body)	70,000	70,000	**140,000**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	£	£
CYPS	**Additional capital funding required to complete the development of the re-provided 3 bedded children's home in Newton Aycliffe and the development of a new edge of care service**	A capital receipt budget of £750,000 was agreed as part of the MTFP 10 for re-provision of 9 Cedar Drive an existing children's home in Newton Aycliffe. Remaining funding will be used to pay for a new 'edge of care home', which will prevent children and young people from entering looked after services, working with families on the edge of care on an out-reach and in-reach basis and providing planned respite to children and young people.	157,000	0	**157,000**
CYPS	**Aycliffe Secure - Urgent Capital Works**	Aycliffe Secure Centre was built in 2010/11 and the existing lift is no longer fit for puppose. The Centre requires replacement with a Category 2 lift (vandal resistant). Due to the location of the lift regular damage happens and regular repairs have to be undertaken.	115,000	0	**115,000**
CYPS	**Aycliffe Secure Centre, Secure Arrivals Area**	It is recommended that the building is extended to develop the secure arrivals area. The existing area is too low in height and cannot accommodate an ambulance in emergency situations. It is proposed to extend the building with a similar sized footprint with increased height.	0	312,106	**312,106**
		CYPS Sub Total	**758,500**	**21,000,875**	**21,759,375**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	£	£
NCC	**Joint Stocks Landfill - capping and surface water management works.**	This will enable the completion of capping and water management works required by the Environment Agency. We are currently working on generating a design for capping works and this needs to go through a CQA - Construction Quality Assurance process with the Agency. Once the site is "capped" it is effectively water tight which will result in any precipitation rolling off the site rather than the current position of seeping in to the site (causing the leachate issues).	0	665,000	**665,000**
NCC	**Morrison Busty Vehicle Workshop Refurbishment**	Construction of a purpose built unit to facilitate the on-site maintenance of the HGV vehicles. The current vehicle workshops have been adapted from buildings from the former colliery. Since LGR various improvements have been undertaken to faciliate the maintenance of the diverse fleet of vehicles / plant / equipment operated by the council. In recent years the profile of the fleet has changed regarding an increase in the physical size of the HGV vehicles operated within the Refuse & Re-Cycling and Highways Maintenance service areas. This is now impacting on the vehicle workshops capacity to safely undertake the maintainance of this group of vehicles at the Morrison Busty location.	1,809,695	0	**1,809,695**
NCC	**Department for Transport (DfT) - Local Transport Plan (LTP) - Adopted Highway Maintenance Grant Funding**	The LTP Adopted Highway Maintenance Grant Funding is annual capital grant funding from the Department for Transport. The grant is provided to support local authorities with their statutory responsibility to maintain the adopted highway in a safe condition.	0	11,556,000	**11,556,000**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	£	£
NCC	**Highway Maintenance**	DfT LTP Grant Funding is not sufficient for the Council to maintain the adopted highway network in an appropriate condition. Councils are expected to provide additional funding from their own resources.	0	5,000,000	**5,000,000**
NCC	**Flood Prevention**	County Durham has suffered from multiple flooding events in recent years. The frequency and severity of flooding events is predicted to increase with climate change. The Council has a significant inventory of drainage assets (highway drainage, culverts, watercourses) and riverbanks. This funding will therefore be used to maintain existing assets and for new priority schemes.	0	500,000	**500,000**
NCC	**Countryside Estate Infrastructure Improvements**	The Countryside Estate (not including Hardwick & Wharton) attracts over 3 million visits per year. The infrastructure relating to these sites is deteriorating, particularly the 75 mile of Railway Path network. Many structures relate to these including viaducts, bridges and culverts. Investment will be on interpretation & signage, structure repairs and access improvements.	250,000	0	**250,000**
NCC	**Stanley Cemetery**	Council land next to Stanley Cemetery is identified for an extension to the existing facility. Studies have been undertaken to convert the existing land to a cemetery and is required to meet the long term demands in the area. The works required include levelling off of the land, installation of roads and paths along with rafts to sit the headstones on.	100,000	150,000	**250,000**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	**£**	**£**
NCC	**Winter Mintenance - roadside forecasting and camera stations refurbishment**	The roadside forecasting and camera stations are approaching the end of their useful life and require replacement tto ensure the continued accuracy and forecasting to provide and efficient and effective winter service.	150,000	0	**150,000**
NCC	**Members Neighbourhood Budget - Capital Element**	In order to fulfil their roles as community champions and work in partnership with AAPs to address local priorities in their communities, since 2009 elected members have been allocated a Neighbourhood Budget alongside a smaller Member Initiative Fund. The capital allocation is £14,000.	0	1,764,000	**1,764,000**
NCC	**Area Action Partnerships - Capital Element**	AAPs have been set up to give people in County Durham a greater choice and voice in local affairs. The partnerships allow people to have a say on services, and give organisations the chance to speak directly with local communities. Each AAP receives a £24,000 capital allocation.	0	336,000	**336,000**
NCC	**Street Lighting Column Replacement**	The Council has a statutory responsibility to maintain the adopted highway in a safe condition. The probability of an individual column collapsing is very low but across a large inventory of columns such as the Council's where the condition is deteriorating, the frequency of column collapses is expected to progressively increase without any additional intervention. Unfortunately, columns occasionally collapse directly onto highway users and in these cases there is a high risk of serious injuries or fatalaties.	0	1,000,000	**1,000,000**
NCC		**NCC Sub Total**	**2,309,695**	**20,971,000**	**23,280,695**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	£	£
REG	**Council House Building Programme**	October 2020 Cabinet approved a report to begin a programme of building 500 Council houses over the period 2021 - 2026. The report identified a significant annual underprovision of over 800 affordable homes and looks at the current supply from existing RSL partners and house builders. The Council's Housing Strategy identifies a key objective of meeting this unmet need and the report concluded that the council directly contributing to increasing the supply should be implemented. The requirement for houisng for older people is identified (bungalows). New affordable housing cannot be deliverred without direct capital subsidy and each new home requires an average capital subsidy of £25k. Over a five year period the provision of 500 new homes therefore requires £12.5m from the Council's Capital Programme.	868,000	3,648,000	**4,516,000**
REG	**Finance Durham Investment Fund**	Finance Durham is an Investment Fund created by the Council to help deliver business growth and job creation. The fund is financed by the Council and operated on a commercial basis and as such it is intended to generate a financial return over the longer term. The fund has been designed with growing the County economy as its core function. The fund makes equity and debt investments into high growth businesses. This is the next tranche of investment as part of an overall £20 million package.	0	1,500,000	**1,500,000**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	£	£
REG	**Library Transformation**	Co-location of Spennymoor Library into Spennymoor Leisure Centre. Spennymoor Library is well-used by customers but the building is dated and requires refurbishment; Spennymoor Leisure Centre is a substantial complex which, while a very busy venue, contains some comparatively under utilised spaces. This affords an ideal opportunity to rationalise built facilities and deliver a Leisure Centre and Library co-location model for Spennymoor.	0	1,272,933	**1,272,933**
REG	**Durham - Aykley Heads Project Development**	In January 2018, the Council made the decision to proceed with the development of a Strategic Employment Site. The report recommended that the Northern Zone (Phase 1) could be developed ahead of the area currently occupied by County Hall. Additional infrastructure and improvement works are required. This will include signage, landscaping works, improvements to lighting, footpaths and cycleways providing better links through the site.	0	500,000	**500,000**
REG	**LTP - Integrated Transport**	This funding is essential to deliver the Local Transport Plan and contributes to both the County Durham Plan and the Regeneration Statement. The allocation is at the core of delivery of transport improvements across County Durham .	0	2,726,500	**2,726,500**
REG	**Disabled Facilities Grant**	Disabled Facilities Grant is a mandatory grant which provides significant support to the most vulnerable client groups across County Durham. Adaptations enable clients to remain within their own homes and to live independently. Current figures advise that most grants are awarded to the over 60 age group. Support for the grant is of significant importance as it plays a key role in increasing independence and enabling clients to live at home longer.	0	3,500,000	**3,500,000**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	£	£
REG	**Structural Capitalised Maintenance**	Capitalised Maintenance - Continuing programme of planned work, alterations and adaptations to reduce the backlog maintenance of the Councils non-schools property portfolio and to meet obligations under relevant legislation such as the Equalities Act and Fire Safety Orders.	0	5,500,000	**5,500,000**
REG	**Leisure Centre Investment**	The Council wishes to transform its leisure centre stock to make it more attractive to residents, getting inactive people active and keeping the already active mobile. The current stock is with a few exceptions old and in poor condition and provides a very traditional and outdated sports mix. Some of the facilities are 50 years old and need replacing, others need new activites which meet new audiences. This second tranche of investemt of £13.2 million supplemetns the £26 million of investment included in MTFP(10) will enable consideration to be given to both new builds and refurbishment with additional income generated being utilised to assist in financing the capital investment.	0	13,198,752	**13,198,752**
REG	**Demolition Programme**	The council is committed in rationalising assets through improvement and disposal programme. When a building is no longer fit for purpose or under performing and there is no longer a business and accommodation need from the council or partners for the premises, the next step for the Council is to declare the property surplus to requirement. The disposal process can involve the demolition of a building prior to selling it off or redeveloping the site where it sits on. The council has has a number buildings within the current demolition programme and a few more lined up to be programmed from next year.	0	250,000	**250,000**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	£	£
REG	**Non-Highways Structures**	Maintenance of Non-highways structures recently became the responsibility of Structural Capitalised Maintenance Budget. Examples include viaducts, footbridges and culverts which are not part of the the council Highways Network. A programme of inspections is in place which assesses the condition of each asset and determines priorities of work required to maintain the assets in a safe condition.	0	250,000	**250,000**
REG	**Durham - Aykley Heads - Demolition of County Hall**	In January 2018, Cabinet agreed to create a new headquarters to allow for the development of a new business park on the Aykley Heads site. The site has been designated as a Strategic Employment Site. The contract for the demolition of County Hall is currently scheduled to commence in the sumer of 2022 and it is expected that there will be salvageable material within County Hall (e.g. aluminium window frames, parquet flooring) which could impact upon the gross/net cost of demolition.	0	500,000	**500,000**
REG	**Town Centre Masterplan Priorities**	Continue to prioritise town centre and retail sector support and key strategic public realm improvements in line with Regeneration and Economic Development Service Plan , County Regeneration Statement and adopted suite of town centre Masterplans. The programme is to continue to deliver priorities set as actions within the adopted 12 Plans and request for funding is to continue to deliver a rolling programme of works across these centres.	0	1,411,000	**1,411,000**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	£	£
REG	**Junction 60 - A1(M) Bradbury Services**	There are significant congestion and safety issues at the junction, which need to be resolved. The right turn pocket issue is a significant reason related to the issues, and is on Durham's highway network, and therefore is council's responsbility to resolve. A bid has been submitted to DfT for 85% of the cost of the works which would require a 15% or £0.9 million match contribution from the council.	0	900,000	**900,000**
REG	**Equipment and Infrastructure Replacement Programme**	Recent work on life cycle costs of larger items of equipment and infrastucture repairs, which includes replacement fitness equipment and equipment in theatres. This investment will enable a rolling programme for equipment replacement and infrastucture repair.	0	125,000	**125,000**
REG	**Consett Leisure Pool**	A latent defect has been uncovered at the pool. The contractor who carried out the work Carillion no longer trades and as such the ability to recover any repair costs via the contractual arrangements is complex. In the short term the repair works are required and this investment will enable those works to be carried out. It is hoped that the full repair cost will be able to be recoverd via a due legal process.	300,000	0	**300,000**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	£	£
REG	**Towns & Villages Investment**	Capital investment in our town and village centres. Part driven by changes in shopping trends, transport and accessibility, and a greater focus on leisure opportunities, the challenges faced by our town centres in remaining thriving and vibrant economic centres are diverse and complex, further compounded by many long established high street names disappearing in recent years. Many of our town centres face the issue of having too much retail floor space given recent retailer failures, corporate portfolio rationalisation, slightly higher than average retail vacancy rates and the impact of the structural shift in consumer shopping patterns caused by the rapid growth in online retail The town centre function needs to be rebalanced to provide a diverse range of functions, including employment, commercial, leisure, community, residential, healthcare and education to meet the needs and/or wishes of local communities.	0	3,375,000	**3,375,000**
REG	**Horden Masterplan**	A masterplan is being prepared to provide a range of options for improving the numbered streets area of Horden. It is anticipated that improvements will involve large scale acquisition and demolition and will be delivered over a 10 year period. Capital funds are being requested to support the delivery of the emerging masterplan and the options within it. Whilst central government funding will be essential to enable delivery of the masterplan, the Council will require funds to take some limited action, which will be better defined once the masterplan is further developed.	0	500,000	**500,000**
		REG Sub Total	**1,168,000**	**39,157,185**	**40,325,185**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	£	£
RES	**Hosted Environment Computing and Storage**	The servers which support the authority's line of business systems are replaced on a rolling programme to ensure that they remain fit for purpose and can take advantage of technological developments and online hosting/cloud computing.	0	120,000	**120,000**
RES	**End user equipment replacement**	The end user equipment fleet (Desktops, Laptops and Tablet) currently consists of circa 8,800 items. This total has risen slightly due to requirements to support the agility program and the use of tablets in maintenance workshops to support the new working methods. This is replaced on a four-year cycle to ensure that the equipment is fit for purpose and delivers the service for the end users. To support the move from desktop to laptop a docking station will be needed. The move to laptops has now been instigated and as such the mix of the estate will change.	0	1,400,000	**1,400,000**
RES	**Corporate anti-virus solution.**	The corporate anti-virus solution is due for renewal. This provides a crucial defence against malware within the authority as well as helping to control data loss through device control.	0	200,000	**200,000**
RES	**Cyber security vault expansion**	The council is establishing a small cyber security vault with capacity for key data. This vault is likely to be the solution of last resort in the event of a successful cyber attack. As such the council needs to both enlarge the vault to encompass more of the estate, add additional services in the vault to check backups for evidence of cyber activity, and to increase the ability to test recovery in the vault.	0	300,000	**300,000**

SERVICE	SCHEME	BACKGROUND	2021/22	2022/23	TOTAL
			£	**£**	**£**
RES	**Micro segmentation**	NCSC guidance is to 'segment' infrastructure; this means any successful cyber breach cannot spread laterally easily (or at all). This reduces the effectiveness of the cyber attack, limits damages to the council and eases recovery.	0	250,000	**250,000**
RES	**Unified Communications solution**	Communications systems play a major part in new ways of working. As the workforce becomes more flexible and agile, communications systems will be key to maintaining strong collaborative relationships through contact with colleagues, customers and partners. Unified Communications will become the primary focus of telecommunications systems.	0	200,000	**200,000**
RES	**Mobile 5G**	Significant changes in the mobile telecommunications arena will occur with the impending change over to 5G networks. The council has been involved in initial talks with all main vendors and 5G Innovation Centre (5GIC) who developed the technology, to conduct a series a local trials the on the new networks. This has given the council the foresight into the emerging technology and potential applications it brings.	0	150,000	**150,000**
		RES Sub Total	**0**	**2,620,000**	**2,620,000**
		TOTAL	**4,236,195**	**83,749,060**	**87,985,255**

Appendix 10: Pay Policy

1 Introduction

This policy outlines the key principles of Durham County Council's (DCC) pay policy for 2020/21 aimed at supporting the recruitment and remuneration of the workforce in a fair and transparent way. The policy complies with government guidance issued under the Localism Act 2011 and includes commentary on:

- the approach towards the remuneration of Chief Officers;
- the remuneration of the lowest paid employee;
- the relationship between the remuneration of its Chief Officers and the remuneration of its employees who are not Chief Officers.

The Local Government Transparency Code published in February 2015 by the government also sets out key principles for local authorities in creating greater transparency through the publication of public data. As part of the code, the government recommends that local authorities should publish details of senior employee salaries. This pay policy forms part of the council's response to transparency of senior pay through the publication of a list of job titles and remuneration.

Durham County Council is mindful of its obligations under the Equality Act 2010 and is an equal opportunity employer. The overall aim of our Single Equality Scheme is to ensure that people are treated fairly and with respect. The scheme also contains a specific objective to be a diverse organisation, which includes recruiting and retaining a diverse workforce and promoting equality and diversity through working practices. This pay policy forms part of our policies to promote equality in pay practices. By ensuring transparency of senior pay and the relationship with pay of other employees, it will help ensure a fair approach which meets our equality objectives.

In setting the pay policy arrangements for the workforce, the council seeks to pay competitive salaries within the constraints of a public sector organisation.

As a result of Local Government Reorganisation in the County, the significant opportunity existed to bring together the pay and conditions arrangements of the eight previous authorities into one cohesive pay policy for the new organisation. In response, Durham County Council's approach towards the workforce pay and conditions of employment were fundamentally reviewed and a new pay structure and revised conditions of employment for the majority of the workforce were agreed during 2012, in order to ensure that the council is able to operate as a modern, fit for purpose and streamlined organisation.

A review of higher principal officer posts across the council was also undertaken during 2018 as these posts did not form part of the job evaluation/single status exercise in 2012. The review affected Strategic Manager (Tier 4 roles) and some roles below Tier 4 and involved formal job evaluation of each post. This resulted in a new pay structure for strategic managers effective from 1 December 2018.

2 Posts defined within the Act as Chief Officers

The policy in relation to Chief Officers relates to the posts of Chief Executive, five Corporate Directors, Director of Integrated Community Services, Director of Public Health and the Head of Legal and Democratic Services (who undertakes the Monitoring Officer Role for the Authority).

3 Governance Arrangements

The Chief Officer Appointments Committee is defined within the council's constitution as performing the functions under section 112 of the Local Government Act 1972 in relation to these officers. This includes the setting of the pay arrangements for these posts and in doing so the Committee takes into account:

- the prevailing market in which the organisation operates;
- the short and long-term objectives of the council;
- the council's senior structure, financial situation and foreseeable future changes to these;
- the expectations of the community and stakeholders;
- the total remuneration package;
- the links with how the wider workforce is remunerated and national negotiating frameworks;
- the cost of the policy over the short, medium and long term.

The Committee also has access to appropriate external independent expert advice on the subject where required.

4 Key Principles

- The Chief Officer Pay policy is designed to be easily understood and to be transparent to the post holders and key stakeholders. The structure and level of the pay arrangements will enable the council to attract, motivate and retain key senior talent for the authority.
- The policy is based upon spot salaries with clear differentials between levels of work/job size, within a range that is affordable now, will remain so for the

medium term, and will be subject to review to ensure it continues to remain fit for purpose. In the first instance it is intended that the Authority will market test the rates of pay when vacancies arise, as part of consideration on whether or not roles continue to be required within the context of the council's priorities and commitments at that time.

- A values and behaviours framework is established within the organisation which links to individual job descriptions, person specifications and performance and development reviews. Leaders' behaviours are clearly defined, and this ensures that the individual standards of achievement and performance are met and clearly linked to the achievement of the council's objectives and priorities, and the authority's expectations are delivered by post holders within these roles.

- These posts do not attract performance related pay, bonuses or any other additions to basic salary. This approach enables the council to assess and budget accurately in advance for the total senior pay bill over a number of years.

- The council is currently the sixth largest single tier authority in the country and in setting the pay policy for this group, a market position has been established that aims to attract and retain the best talent available at a senior level within a national recruitment context, to lead and motivate the council's workforce that is rewarded under a nationally agreed negotiating framework.

- Roles at this level have all been subject to an externally ratified job evaluation scheme that is transparent and auditable to ensure equality proofing of pay levels.

- Other terms and conditions of employment for this group are as defined within the Joint Negotiating Committee for Chief Officers of Local Authorities Conditions of Service handbook, with discretion to set actual pay levels at a local level, but within a national negotiating framework. These posts are part of the nationally defined Local Government final salary pension scheme.

5 Pay Levels

Individual elements of the remuneration package are established as follows at the point of recruitment into the posts:

Role	Salary @ 1.4.2020
Chief Executive	£201,742
Corporate Directors	£152,669
Director of Integrated Community Services	£140,362
Head of Legal and Democratic Services	£119,954
Director of Public Health	£113,246

In addition to Chief Officers, there are a range of senior roles identified as Heads of Service that are evaluated using the same principles and scheme as the Chief Officers and these roles are remunerated at three levels based on job size.

Head of Service Level	Salary @ 1.4.2020
HOS 3	£83,424
HOS 2	£105,670
HOS 1	£119,954
HOS 1*	£116,744*

Increases are made in accordance with the appropriate Joint Negotiating Committee (JNC) Pay Agreements. The JNCs for the Chief Executives and Chief Officers both agreed a pay award of 2.75% with effect from 1 April 2020.

*JNC Pay Award for Chief Officers does not apply to one Head of Service post (which is joint funded by DCC/NHS).. Currently awaiting notification to apply NHS pay award in line with agreed terms and conditions of employment relevant to this role.

This council has agreed a salary structure for its senior posts and agrees that appointment to any vacancies on this structure at the salaries referred to in this statement are permitted. The creation of any new posts paying over £100,000 should however be presented to Council for approval.

For the majority of the rest of the council's workforce, the NJC pay agreement for 2018/19 included the introduction of a new pay spine on 1 April 2019. The 2019 pay spine is mandatory. Agreements reached by the NJC are collective agreements and if they are incorporated into employee contracts of employment then the changes will take effect. The new pay spine replaced entirely the previous spine and accordingly employees assimilated across from the previous SCP to the new corresponding SCP in April 2019. The NJC produced a circular on 14 June 2018, which provided technical advice on issues relating to assimilating employees onto the new pay spine. The council has complied with the NJC guidance (i.e. one approach to be applied consistently and a maximum of five spinal column points for each grade).

The designated Returning Officer for the council also carries out the role of 'Returning Officer' or 'Counting Officer' in Parliamentary and European elections and other national referenda or electoral processes. These additional roles carry an entitlement to payment from central government at levels set by order in relation to each national poll and according to scale of fees agreed by the council in relation to Local Elections.

Set out in Annex 1 is a scale of fees for the conduct of any County Council and Parish by-elections that arise. The fees are based on the principle that the Returning Officer and nominated deputies will be remunerated in view of personal responsibilities, but at a rate below that of national elections. National rates are given for other posts such as Presiding Officers, Poll Clerks, Count Staff and postal vote sessions to ensure sufficient interest is maintained in undertaking these roles.

6 The Authority's Policy on the Remuneration of its Lowest Paid Workers

Definition of Lowest Paid Workers

In order to promote equity, former manual worker grades in the authority have been incorporated into the national framework, as outlined in the National Joint Council for Local Government Services "Agreements on Pay and Conditions of Service".

This ensures that the lowest paid workers and the wider workforce share equitable terms and conditions and access to pay and condition arrangements that are set within a national negotiating framework.

This approach ensures fairness, provides market rates in the region for jobs, graded by job size, but with a reference also to the national local government family.

Following the implementation in 1 January 2015 of the 'Durham Living Wage' the lowest paid workers now receive the minimum of Spinal Column Point 10 for all Durham County Council employees. The hourly rate from 1 April 2020 is £9.62, (and new SCP 3 replaced the old SCP 10 on the new National Pay Spine) which equates to workers (outside of apprenticeship schemes) remunerated in Durham on a minimum full time equivalent annual rate of pay of £18,562 (excluding any allowances). This is the council's definition of 'lowest paid workers'.

7 The Policy Relationship between Chief Officers Pay, the Lowest Paid Workers, and the Wider Workforce

Current Position

At the inception of the new unitary council in 2009 the authority had defined:

- the strategy for senior pay within the authority and had recruited into these posts;

- the plan for the approach towards harmonising the pay and conditions of the workforce longer term;

- taking this approach, also now enables the authority to publish and support recommendations within Will Hutton's review 2011 'Review of Fair Pay in the Public Sector' around publishing the ratio of pay of the organisation's top earner to that of a median earner and tracking this over time, taking corrective action where necessary;

In setting the relevant pay levels, a range of background factors outlined at paragraph 2.2 were taken into consideration for senior pay alongside the significant scope and scale of the authority in the national context.

For example, the scope and scale of the Chief Executive's post encompasses responsibilities commensurate with the largest authorities in the country including responsibility for:

- the provision of wide-ranging services to over 500,000 residents of County Durham;
- a gross budget of £1.1 billion for service delivery;
- undertaking the role of the Head of Paid Service to 15,199 employees Lead Policy Advisor to the council's 126 Elected Members.

For 2020/21, the ratio between the pay of the Chief Executive in Durham County Council and the lowest paid workers is 10.9, against figures published by government of an expectation to always be below 20:1 in local government.

In addition, during 2020/21 the employer will contribute 18.5% of pensionable pay to the pension fund for all employees in the Local Government Pension Scheme.

8 Long Term Planning

In line with the original long-term plan, Durham County Council has successfully completed the implementation of a new pay and conditions framework for the wider workforce. This pay scheme is based upon a nationally agreed job evaluation system and the national spinal column points of pay and will see the authority remain within the existing national pay negotiating machinery.

9 Pay Policy Objectives

This planned approach towards pay for the wider workforce, and the use of established and equality impact assessed job evaluation schemes in the exercise will ensure:

- a planned approach towards pay policy for the organisation that enables the council to establish a relationship between pay for senior officers, the low paid and the wider workforce to align to the national guidance;
- the provision of accountability, transparency and fairness in setting pay for Durham County Council;

A report detailing the council's Gender Pay Gap figures for the position as at 31 March 2019 was published on the council's website (http://www.durham.gov.uk/genderpaygap), this includes the council's long term plans for improving the pay gap.

10 Pay Policy Decisions for the Wider Workforce

The decision-making power for the implementation of the new pay arrangements is one for the full council for the Authority, ensuring that decisions in relation to workforce pay are taken by those who are directly accountable to local people.

11 The Approach towards Payment for those Officers Ceasing to Hold Office Under or be Employed by the Authority

The council has an agreed policy in relation to officers whose employment is terminated via either voluntary or compulsory redundancy. This policy provides a clear, fair and consistent approach towards handling early retirements and redundancy for the wider workforce, including Chief Officers.
In setting policy, the Authority does at this time retain its discretion to utilise the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales Regulations) 2006.

12 Policy towards the Reward of Chief Officers Previously Employed by the Authority.

The council's arrangements for payments on severance are outlined in the Early Retirement/Voluntary Redundancy policy approved by Council on 29 October 2014.

Chief Officers leaving the authority under regulations allowing for early access to pension are leaving in circumstances where there is no longer a suitable role for them, and in such circumstances, they leave the employment of the council. Immediate re-engagement in another role would negate redundancy by operation of the Redundancy Payments (Continuity of Employment in Local Government, etc.) (Modification) Order 1999.

The council would not expect such officers to be offered further remunerated employment with the council or any controlled company without such post being subject to external competition.

The administering authority for the Local Government Pension Scheme does not currently have a policy of abating pensions for former employees who are in receipt of a pension, although this is an area that is kept under review.

The council is mindful of its obligations under equality legislation and as such is limited in its ability to adopt a policy that it will not employ people of an age that has entitled them to pension access on leaving former employment in the public sector or to propose that such applicants be employed on less favourable terms than other applicants. It expects all applicants for any posts to compete and be appointed on merit.

Annex 1: Proposed Scale of Fees for Whole Area Local Elections

Set out in Annex 1 is a scale of fees for the conduct of the 2021 whole County and Parish Council elections. The fees are based on the principle that the Returning Officer and nominated deputies will be remunerated in view of personal responsibilities, but at a rate below that of national elections. National rates are set out for other posts such as Presiding Officers, Poll Clerks, Count Staff and postal vote sessions and these rates are set to ensure there is sufficient interest in undertaking these roles.

Core Election Team members will receive an 'election fee' covering time worked and additional responsibilities undertaken during the election period. Any Election Team member who is paid an 'election fee' does not receive any additional payment if undertaking a Deputy Returning Officer role or other roles.

Other support staff who are not listed in the following schedule may receive a fee covering work undertaken to support the effective conduct of the election if this was considered appropriate by the Returning Officer. The level of fee paid to be determined by the Returning Officer.

CORE STAFF	**CALCULATION OF FEE**	**FEE**	**NARRATIVE**
RETURNING OFFICER For overall responsibility	£100 per division or per contested parish council area	£14,000	The RO has agreed to cap the fee of £14,000
DEPUTY RETURNING OFFICERS	£60 per division or contested parish council area	£8,400	The fee will be capped in line with the RO fee cap. Fee dependent on role undertaken. Level of fee paid to be determined by the RO
ELECTORAL SERVICES MANAGER For advice and guidance, point of contact at count venue and declaring results	60% of RO fee	£8,400	
PRINCIPAL ELECTORAL OFFICERS X 2	65% of ESM fee	£5,460	
SENIOR ELECTORAL OFFICERS X 3	65% of PEO fee	£3,549	
ELECTORAL OFFICER X 4	65% of SEO fee	£2,306	
ELECTORAL ASSISTANT X 3	65% of EO fee	£1,500	

ADDITIONAL STAFF

POLLING STATION STAFF	CALCULATION OF FEE	FEE	NARRATIVE
PRESIDING OFFICER		£232.50	Increase in the base fee
Extra for Combined Election – this fee is paid in Parish Election is together with the Council Elections	20% of PO Fee	£45.00	Increase to reflect change in the base fee
POLL CLERK		£155.00	Increase in the base fee
Extra for Combined Election – this fee is paid in Parish Election is together with the Council Elections	20% of PC fee	£31.00	Increase to reflect change in the base fee
POLLING STATION INSPECTOR	Per polling station – plus mileage	£19.50	No change
Extra for Combined Election – this fee is paid in Parish Election is together with the Council Elections	20% of PSI Fee – per polling station	£3.90	No change

COUNT STAFF	CALCULATION OF FEE	FEE	NARRATIVE
DEPUTY RETURNING OFFICER – adjudication of doubtful ballot papers		£200	
COUNT MANAGER			Contained in PEO fee. Carried out by a member of the Core Team
COUNT SUPERVISORS – Ballot box receipt and distribution, verification and counting of ballot papers		£30 per hour (day) £40 per hour (evening)	Slight increase Fee reflects responsibilities of the position
ACCOUNTANCY TEAM		£25 per hour (day) £30 per hour (evening)	Slight increase Fee reflects responsibilities of the position
SENIOR COUNT ASSISTANTS		£25 per hour (day) £30 per	Slight increase

COUNT STAFF	CALCULATION OF FEE	FEE	NARRATIVE
		hour (evening)	Fee reflects responsibilities of the position
COUNT ASSISTANTS		£15 per hour (day) £20 per hour (evening)	Slight increase Fee reflects responsibilities of the position

POSTAL VOTE OPENING STAFF	CALCULATION OF FEE	FEE	NARRATIVE
POSTAL VOTE OPENING MANAGER			Contained in PEO fee. Carried out by a member of the Core Team
DEPUTY RETURNING OFFICER Fee for the adjudication of postal votes	Fee per opening session	£40	Fee introduced in 2016 elections to represent the responsibility associated with the adjudication of papers
SCANNER		£17.50 per hour	Slight increase Fee reflects responsibilities of the position
POSTAL VOTE OPENING ASSISTANTS		£15 per hour	Slight increase Fee reflects responsibilities of the position
POSTAL VOTE ISSUE MANAGER			Contained in PEO fee. Carried out by a member of the Core Team
QUALITY CHECK STAFF For carrying out postal vote checks at printers prior to postal vote dispatch		£250	No change

TRAINING FEES	CALCULATION OF FEE	FEE	NARRATIVE
TRAINER – Polling Station staff, postal vote opening staff, count staff			Contained in ESM/PEO fee. Carried out by a member of the Core Team
TRAINER – for training given to Verification and Count Assistants	Fee per training session	£20	No change

TRAINING FEES	CALCULATION OF FEE	FEE	NARRATIVE
by appropriate supervisor			
TRAINEE – Polling Station staff, Polling Station inspectors, postal vote opening assistants	Fee per training session	£25	No change
TRAINEE – Count Supervisors, Senior Count Assistants and DRO's	Fee per training session	£40	No change
TRAINEE – Verification and Count Assistants	Fee per training session	£10	No change

POLL CARD HAND DELIVERY	CALCULATION OF FEE	FEE	NARRATIVE
DELIVERY STAFF	Per poll card Mileage paid for collection of poll cards from County Hall	0.15p	Slight increase
MANAGEMENT AND SORTATION FEE	Per poll card	0.02p	No change

MISCELLANEOUS	CALCULATION OF FEE	FEE	NARRATIVE
CAR MILEAGE RATE	Per mile	0.45p	
CLERICAL	Per hour for time worked over and above 37 per week	At applicable hourly rate per member of staff	
PREPARATION OF ACCOUNTS			Contained in PEO fee. Carried out by a member of the Core Team

Mileage to be paid to:

Presiding Officers for -	attending training collection of ballot box polling day duties including the delivery of the ballot box to either count centre or remote pick up
Poll Clerks for -	attending training to and from the polling station

Polling Station Inspectors -	attending training mileage incurred on their rounds
Poll Card Hand Delivery -	mileage incurred to collect poll cards from County Hall
Quality Checks at Printers -	mileage incurred by core staff who provide transport for team to visit printers

Annex 2: Proposed Scale of Fees for the conduct of Individual By-Elections

Set out in Annex 2 is a scale of fees for the conduct of individual By-Elections. These fees were agreed by the former District Authorities of the County in 2007.

Election Fees – By-Elections

Returning Officer	£67.00 per 1000 electors or part thereof (per division/ward)
Polling Station:	
Presiding Officer	£232.50 (plus 20% fee for combined election)
Poll Clerk	£155.00 (plus 20% fee for combined election)
Polling Station Inspector	£ 19.50 per station
Mileage	0.45p
Postal Votes Issue:	
Postal Votes Issuing Manager	£120.00
Postal Votes Issuing Supervisor	£60.00
Postal Votes Issuing Assistant	£40.00
Postal Votes Opening:	
Postal Votes Opening Manager	£150.00
Postal Votes Opening Supervisor	£75.00
Postal Votes Opening Assistant	£60.00
Count:	
Count Manager	£260.00
Count Supervisor	£140.00
Count Assistant	£80.00
Miscellaneous:	
Elector Assistance	£17.00 per visit
Attending Training	£25.00
Providing Training	£150.00
Clerical	£89.00 per 1000 electors or part thereof
Preparation of Poll Cards	£1.90 per 100 cards or part thereof
Delivery of Poll Cards	0.15p per card
Ballot Box Preparation	£5.15
Checking of Ballot Papers	£1.60 per 1000 or part thereof

Durham County Council

Council Tax
Section 13A(1)(c) Local Government Finance Act 1992

Discretionary Council Tax Hardship Reduction (Covid–19) Policy

(Version 10: 10 February 2021)

Durham County Council

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1 Introduction and purpose of Policy Document

1.1 This policy sets out the council's approach to the awarding of a discretionary discount under Section 13A(1)(c) of the Local Government Finance Act 1992 in certain circumstances for people affected by coronavirus (Covid-19). It has been designed to ensure that all customers making an application are treated in a fair, consistent and equal manner.

1.2 This policy has been written to:

a. Set guidelines for the factors that should be considered when deciding to award or refuse an application.

b. Set out the delegated authority to award the Hardship Reduction in appropriate circumstances.

c. Establish an appeals procedure for customers dissatisfied with a decision.

d. Safeguard the interest of the local taxpayers by ensuring that funds that are allocated for the award of Hardship Reduction are used in the most effective and economic way.

2 Background

2.1 The council's Local Council Tax Reduction Scheme (LCTRS) offers means tested support in the form of reduced council tax bills. Since the national council tax benefit scheme was abolished in 2013, Durham's LCTRS is one of a small minority in England, and the only one in the North East, which offers an equivalent support to the old benefit scheme, with working age residents able to receive reductions of up to 100% of their council tax charge. As more residents' finances are affected by coronavirus (Covid-19), the scheme will assist those:

- already in receipt of LCTRS, who have a reduction in income and may qualify for an additional reduction in their council tax bill, and
- who make new claims for LCTRS as a result of a drop or disruption in their income.

2.2 The LCTRS will be an important route to deliver meaningful support to those affected by coronavirus (Covid-19) over the coming months. Before any additional support is considered through the Discretionary Reduction (Covid-19) policy, residents will be expected to investigate whether help would be available to them under LCTRS. Residents can check whether they would receive LCTRS and be given an estimated award by using the online calculator on our website at https://www.durham.gov.uk/counciltaxreduction.

2.3 The level of Support available under LCTRS is based on a household's income and savings. If a household's savings are over £16,000 or if total income is significantly above their 'appropriate amount' then no LCTRS can be awarded. The 'appropriate amount' is the minimum income which a household is deemed to need to meet their necessities, excluding housing costs and council tax. It is calculated based on factors such as the household's size, disabilities and caring responsibilities. The figures used mirror those used in national Department for Work and Pension benefits such as Universal Credit, Job Seekers Allowance and Employment and Support Allowance.

2.4 Some residents may find themselves in compromised financial situations as a result of coronavirus (Covid-19) but have no entitlement to LCTRS or to one or more of the Government's other support schemes.

2.5 In response to the challenges posed by the coronavirus (Covid-19) pandemic, the government announced a new £500 million Hardship Fund for Local Authorities to support economically vulnerable people and households struggling to meet their council tax payments.

2.6 The Government expectation was for Local Authorities to primarily use their grant allocation to reduce the council tax liability of individuals in their area. Funding has been allocated to Local Authorities based on their share of the national caseload of working age LCTRS recipients using the most recent published data.

2.6 The Government's strong expectation is that Local Authorities will provide all recipients of working age LCTRS during the financial year 2020-21 with a further reduction in their annual council tax bill of a minimum of £150, using their discretionary powers to reduce the liability of council tax payers outside of their formal LCTRS scheme design.

2.7 Where a taxpayer's liability for 2020-21 is, following the application of LCTRS, less than £150, then the Government expect their liability will be reduced to nil. Where a taxpayer's liability for 2020-21 is nil, no reduction to the council tax bill will be available.

2.8 There will be no need for any recipient of LCTRS to make a separate claim for a reduction under this scheme. The Local Authority will assess who is eligible for support from the hardship fund and automatically rebill those council taxpayers.

2.9 Having allocated grant to reduce the council tax bill of working age LCTRS recipients by a further £150, the government has stated that Local Authorities should establish their own local approach to using any remaining grant to assist those in need. This may include, but is not restricted to, providing additional relief through existing discretionary discount/hardship policies (adapted where necessary in order to capture those most likely to be affected by coronavirus (Covid-19)).

3 Council Tax Discretionary Reduction (Covid-19) Policy

3.1 Introduction

3.1.1 Councils have the power to reduce the amount of council tax a person must pay to such an extent as they see fit. This includes the power to reduce an amount to nil, and, may be exercised in relation to cases or by determining a class of property in which liability is to be reduced to an extent provided for by the determination.

3.2 Legislation

3.2.1 The ability to reduce a council tax charge is included in Section13A Local Government Finance Act 1992 as amended by Local Government Act 2003, section 76. Section 76 gives councils the authority to make a discretionary reduction in council tax in circumstances that it deems appropriate.

3.3 Durham County Council Policy

3.3.1 The Council will adopt the following policy with effect from 1 April 2020:

a. Where following the application of LCTRS a taxpayer’s liability for 2020/21 and/or 2021/22 is nil, no reduction to the council tax bill will be available.

b. Recipients of LCTRS during 2020/21 will have their liability reduced by up to £300 following the application of a Hardship Award; based on their liability after the start date of LCTRS.

c. Recipients of LCTRS during 2021/22 will have their liability reduced by up to £300 following the application of a Hardship Award; based on their liability after the start date of LCTRS

3.3.2 Some residents who find themselves experiencing severe financial hardship as a result of coronavirus (Covid-19) but who have no entitlement to LCTRS or to one or more of the Government’s other support schemes may receive help towards reducing their council tax liability by the award of a discretionary (Covid-19) discount.

3.3.3 Applications for a reduction will only be considered in individual cases where severe financial hardship as a result of coronavirus (Covid-19) can be demonstrated and all routes for existing help that the council can already provide have been explored and exhausted.

3.3.4 Where an application is successful, the reduction will be applied directly to the council tax account.

3.4 Criteria

3.4.1 Each application will be assessed on its individual merits. When assessing applications, the following considerations will be made:

Is the customer currently in receipt of LCTRS?
All existing LCTRS working age claimants in 2020/21 will receive an award of up to £300, unless their liability is nil.

All existing LCTRS working age claimants in 2021/22 will receive an award of up to £300, unless their liability is nil

If the customer is not currently in receipt of LCTRS, will they now qualify?
New claimants should be signposted to the online calculator and application form and encouraged to check their entitlement and make a new application for council tax reduction as soon as possible. Following the assessment of their claim for LCTRS the award of the additional top up support outlined in this policy will be applied.

Has the customer explored other methods of maximizing their income?
Customers should be signposted to apply for Employment and Support Allowance or Universal Credit where appropriate. Customers should also be encouraged to contact their mortgage provider or landlord and organisations to whom they owe debt, as many are now offering support and arrangements for repayment.

Do the customer’s current financial circumstances demonstrate an inability to pay their council tax or in doing so would cause extreme hardship?
In cases where entitlement to LCTRS is not applicable, customers can make an application for support under the Discretionary Hardship Reduction Policy. The customer will be required to submit a Hardship Reduction application. Officers will review the completed financial statement issued with the hardship application form to establish the level of hardship and their eligibility for support. Should this support be warranted then a discretionary award of up to £300 can be made against the council tax liability for 2020/21 and up to £300 for the council Tax liability for 2021/22, in line with the top up provided to LCTRS working age claimants.

If the circumstances are short term, would a payment arrangement / deferred instalment plan be more appropriate?
Payment arrangements / deferred instalment plans should be explored with the customer as part of the application for Hardship Reduction.

3.4.2 All applications for Hardship Reduction are only intended as short-term assistance for exceptional circumstances. Any award should not be considered as a way of reducing council tax liability indefinitely or for reducing arrears.

3.4.3 Each application will be looked at individually and considered on its own merits.

3.5 The Application

3.5.1 All applications for Hardship Reduction under this policy should be made by completing the online digital application form and financial statement.

3.5.2 It is the responsibility of the council taxpayer applying for a reduction to provide enough information and evidence to support their application. If the council taxpayer applying does not or will not provide the required evidence; the application will still be considered, but only based on the information and evidence provided.

3.5.3 Further information may be requested to support an application. Where a request for further information is made, the information must be provided within four weeks. Failure to provide information within four weeks will result in the application being considered on the information and evidence that has already been provided.

3.6 The Decision-Making Process

3.6.1 Upon receipt of an application and all supporting information a standard decision-making process will be followed:

- Applications will be considered by the Finance Team within a target of 10 days from receipt of a signed application, financial statement and all supporting information.

- The applicant will be advised in writing of the decision within a target of 10 days of receiving enough information to allow the assessment of the application and a revised council tax demand notice will be issued where applicable.

3.7 Review of Decision

3.7.1 The council will accept a request from the applicant for a re-determination of its decision.

- Re-determination of the decision will be by a Senior Officer within the Finance Team.
- Requests should be made in writing stating the reasons why it is believed that the decision should be reviewed.
- The council will consider whether the council taxpayer has provided any additional information that will justify a change to its original decision.
- The council will notify the council taxpayer of its final decision within 21 days of receiving a request for a re-determination.
- Whilst every effort will be made to meet the deadline outlined above, failure by the council to do so does not qualify the claimant for Hardship Reduction.
- If a claimant remains dissatisfied with the refusal of their application, they may appeal to the Valuation Tribunal for England (VTE). They have two months to do this from the date of our reply.

Valuation Tribunal
3rd Floor
Crossgate House
Wood Street
Doncaster
DN1 3LL
Telephone: 0300 1232035
Fax: 01302 329935
E mail: vtdoncaster@valuationtribunal.gov.uk

3.8 The Award

3.8.1 The award will be for a maximum of £300 made against the council tax liability for 2020/21 and a maximum of £300 made against the council tax liability for 2021/22.

3.8.2 Where an application is successful, an award letter will be issued as confirmation along with an amended bill showing revised instalments.

3.8.3 Where an award has been made and subsequently the council tax account goes into credit at any point during the financial year, the credit will remain on the account to be used to offset any balances which may subsequently arise. The credit will be reviewed at the end of the financial year and where appropriate transferred to the following financial year to reduce the balance.

3.8.4 Where an award has been made and a council tax account goes into credit up to the amount of any payments that have been made during the financial year, the credit will be reviewed at the end of the financial year and a refund may be issued where appropriate.

3.8.5 Where a customer requests a refund before the end of the financial year, we will consider these requests only where the credit has arisen due to payments made by the customer and each case will be looked at individually and treated on its own merit

Appendix 12: Durham County Council Annual Treasury Management Strategy 2021/22

Purpose

1 In accordance with statutory guidance and the Council's Financial Procedure rules, this report presents the 2021/22 position for the proposed Treasury Management Strategy, the Annual Cash Investment Strategy, Prudential Indicators, Minimum Revenue Provision (MRP) Policy and Treasury Management Policy Statement and Practices (which are detailed at Annex 1).

Background

2 Treasury management is defined as 'the management of the local authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks'.

3 The Council operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, with the main aims of providing sufficient liquidity and security, with the achievement of the best possible investment returns ranking as less important.

4 The second main function of the treasury management service is to arrange the funding of the Council's capital programme, which will support the provision of Council services. Part of the capital programme is financed through borrowing so longer-term cash flows need to be planned, to ensure capital spending requirements can be met. The management of longer-term cash may involve arranging long or short-term loans, utilising longer term cash flow surpluses and, occasionally, restructuring debt to meet Council risk or cost objectives.

5 The Council adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice to ensure there is adequate monitoring of the Council's capital expenditure plans and its Prudential Indicators (PIs). It is recommended in the Code that Members are appraised of the Councils Treasury Management activity through regular reports, that include the following as a minimum:

(a) An annual Treasury Management Strategy in advance of the year (this report);

(b) A mid-year Treasury Management Review report, covering the first six months of the financial year (the 2020/21 mid-year review was reported to Council on 2 December 2020);

(c) An annual review following the end of the year describing the activity compared to the strategy (the 2019/20 outturn was reported to the Council on 21 October 2020);

6 This report provides a summary of the following for 2021/22:

(a) Summary Treasury Position;

(b) Borrowing Strategy;

(c) Other Debt and Long-Term Liability Plans

(d) Cash Investment Strategy;

(e) Non-Treasury Investments

(f) Treasury Management Indicators;

(g) Prudential Indicators;

(h) MRP Policy Statement;

(i) Other Matters.

7 This covers the requirements of the various laws, codes and guidance that cover the Treasury Management activity, including the Local Government Act 2003, the CIPFA Prudential Code, Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and Communities and Local Government Investment Guidance.

(a) Summary Treasury Position

The Council's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities.

8 The following table shows the Council's treasury position (excluding borrowing through leasing and the Private Finance Initiative [PFI]) as at 31 December 2020 alongside the position for 31 March 2020:

	Actual 31.3.20 £ Million	Interest Rate	Actual 31.12.20 £ Million	Interest Rate
Borrowing	358.580	3.42%	348.522	3.43%
Investments	232.250	1.05%	273.689	0.46%
Net Debt	**126.330**		**74.833**	

9 Under a forward borrowing agreement with Phoenix Life, the council is committed to borrow £15 million on 15 February 2021, which will increase the

net debt. It is expected that the investment balance will reduce by 31st March 2021, further increasing the net debt at year end.

(b) Borrowing Strategy

10 The Council held £358.580 million of loans at 31 March 2020. The balance had moved to £348.522 at 31 December 2020 and is expected to be £363.412 at 31 March 2021, as detailed below:

	31.3.20 Actual Balance £ million	2020/21 Estimated Movement £ million	31.3.21 Estimated Balance £ million	Average Interest Rate %	31.3.21 Average Life Years
Public Works Loan Board (PWLB)	288.975	(10.003)	278.972	3.32%	19.9
Private Sector	69.420	14.851	84.271	3.86%	32.8
Pension Fund	0.185	(0.016)	0.169	8.09%	7.1
Total borrowing	**358.580**	**4.832**	**363.412**	**3.43%**	**22.4**

11 The Council's chief objective when borrowing has been to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

12 The difference between the council's borrowing requirement and the actual borrowing undertaken is called under borrowing. This represents the ability of the council to use its balance sheet reserves to delay the date that loans are taken out. The strength of the Council's balance sheet means it has no immediate need to borrow to fund its capital outlays and this means that using internal balances is generally the most cost-effective option. However, in the medium term the Council will need to borrow to fund its capital programme.

13 A major source of the Council's borrowing is the Public Works Loans Board (PWLB), which is a lending facility operated by the UK Debt Management Office on behalf of HM Treasury. Following a consultation period HM Treasury issued new guidance on PWLB lending, to apply from 26 November 2020. In summary, PWLB rates were reduced by 1%, but councils can only borrow if they are not buying investment assets primarily for yield and they are not borrowing in advance of need, with the aim of making a profit from the sums borrowed.

14 The council meets the borrowing criteria so taking out PWLB loans is an available option. Loan rates are fluid (PWLB rates change twice daily) and the Council will continue to work with its Treasury Management advisors, Link Asset Services, to monitor rates and cash flow requirements to determine whether taking out further loans is appropriate.

Municipal Bond Agency

15 Following the 1% reduction in PWLB rates, borrowing through bonds issued by the Municipal Bond Agency is less competitive. However as shown through previous significant unexpected increases in PWLB rates the comparative advantage of different sources of finance can change quickly. Therefore, the Council may consider this source of borrowing as and when appropriate, after a full options appraisal.

Policy on Borrowing in Advance of Need

16 The Council will not borrow more than, or in advance of, its needs, purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be made within approved Capital Financing Requirement (CFR) estimates and following careful consideration, in order to demonstrate value for money and ensure the security of such funds.

17 Any risks associated with activity to borrow in advance will be subject to prior appraisal and will be subsequently accounted for in the Treasury Management report that follows.

Debt Rescheduling

18 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. Advantages of debt rescheduling would include:

- generating cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile and/ or the balance of volatility).

19 However, these savings will need to be considered in light of the current treasury position and the cost of debt repayments (i.e. premiums).

20 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

(c) Other Debt and Long-Term Liabilities Plans

21 Although not classed as borrowing, the Council has capital finance liabilities (i.e. commitments to make payments) in the form of finance leases, for replacement fleet vehicles and equipment, and PFI projects. The leasing liabilities will continue to grow as a programme to replace capital funded fleet

vehicles is implemented. The cost effectiveness of leasing arrangements will continue to be monitored to ensure they are the best financing option.

22 I have previously advised on the effects arising from the application of a new accounting standard - International Financial Reporting Standard (IFRS) 16 – Leases, which will increase the Council's reported liabilities.

The changes were due to apply for the 2020/21 financial year. However, in response to pressures on council finance teams as a result of the Covid-19 pandemic, the CIPFA LASAAC Local Authority Accounting Code Board, which agrees the details of all local authority accounting arrangements, has agreed to defer the implementation until the 2022/23 financial year. From this time assets held under operating leases (which differ from finance leases as the assets retain a significant part of their value and revert to the owner at the end of the lease period) will be accounted for in the same way as finance leases. The changes mean that for the first time, the Council will hold fixed assets used under operating leases on its balance sheet. It will also hold the associated financial liabilities. Work is continuing to ensure the council is well prepared when the new arrangements are introduced.

(d) Cash Investment Strategy

23 The Council holds a significant cash surplus from reserves and provisions in its balance sheet and from funds received before related expenditure is incurred. A strategy for the investment of these funds is required.

24 The Council's cash investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) guidance. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security, liquidity and rate of return, or yield, of its investments. Of these three criteria the first two, security and liquidity, are most important, ahead of achieving the highest yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

25 In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council will apply minimum acceptable credit criteria in order to generate a list of creditworthy counterparties, with investment limits set so that investments are diversified. Credit ratings agencies will be used but will not be the sole determinant of investment quality and the assessments will also take account of other information that reflects the opinion of the markets. To this end the Council will engage with its advisers to maintain a monitor on market pricing (e.g. "credit default swaps") and overlay that information on top of the credit ratings. Information in the financial press, share price and other banking sector information will also be used as appropriate.

26 There are a wide range of Investment instruments which are available for the Council to consider. These can be classified as either Specified or Non-Specified Investments and are listed below:

Specified Investments

27 These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered to be low risk assets where the possibility of loss of principal or investment income is small and are not defined as capital expenditure. These would include the following sterling investments:

- Deposit with the UK Government – e.g. the Debt Management Office deposit facility, UK treasury bills or gilts with less than one year to maturity;
- Term deposits with a body that is considered of a high credit quality e.g. UK banks and building societies;
- Global bonds of less than one year's duration;
- Deposits with a local authority, parish council or community council;
- Certificates of Deposit;
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

Non-Specified Investments

28 These are investments which do not meet the specified criteria as outlined above. The Council is therefore required to examine non-specified investments in more detail. As well as any of the above sterling investments that are of more than one-year maturity, non-specified investments include the following sterling investments:

- gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity;
- deposits with the Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible;
- equity shareholding in businesses, which shall be not more than £30 million in total, and £15 million in any one company. This will only be after undertaking significant due diligence checks. These investments will

facilitate a more balanced approach to investing by diversifying the investment portfolio and reducing concentration risk;

- loans and shares in local businesses, in order to encourage regeneration and economic development in the area. Any new investments will only be agreed after significant due diligence checks have been carried out;

- property funds, with not more than £25 million in an individual fund and not more than £50 million in total.

Creditworthiness Policy

29 The primary principle governing the Council's investment criteria is the security of its investments; although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- it maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security and arrangements for monitoring their security; and

- it has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

30 The Corporate Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria, and submit these to full Council for approval as necessary. This criterion provides an overall pool of counterparties considered to be high quality which the Council may use, rather than defining what types of investment instruments are to be used.

31 Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weight to only one agency's ratings.

32 Typically the minimum credit ratings criteria used by the Council will be a short-term rating (Fitch or equivalents) of F1 and a Long-Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available or other topical market information to support their use.

33 All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies (Fitch, Moody's and Standard and Poor's) through its use of Link's creditworthiness service.

34 If a downgrade results in the counterparty/ investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

35 In addition to the use of credit ratings, the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

36 Sole reliance will not be placed on the use of the service provided by Link. The Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government. This additional market information, for example credit default swaps and negative rating watches/ outlooks, will be applied to compare the relative security of differing investment counterparties. The relative value of investments will be reviewed in relation to the counterparty size to ensure an appropriate ratio.

Investment Criteria

37 The criteria for providing a pool of high-quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 – good credit quality. The Council will only use banks which are:

    i. UK banks and/or

    ii. Non-UK banks domiciled in a country which has a minimum sovereign long-term rating of AA- and have, as a minimum, the following credit ratings (where rated):

	Fitch	Moody's	Standard & Poor's
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

(n.b. viability, financial strength and support ratings have been removed and will not be considered in choosing counterparties).

- Banks 2 – Part nationalised UK banks - Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or meets the ratings in Banks 1 above;

- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and time;

- Bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above;

- UK Government (including gilts and the Debt Management Account Deposit Facility [DMADF});

- Local authorities, parish councils, etc.;

- Housing Associations which meet the ratings for banks outlined above.

- Building societies. The Council will use societies which:

    i. Meet the ratings for banks outlined above; or

    ii. Have assets in excess of £1 billion;

- Money market funds;

- Ultra-Short Dated Bond Funds;

- Property Funds.

Time and Monetary Limits applying to Investments

38 The time and monetary limits for institutions on the Council's counterparty list, covering specified and non-specified investments, are as follows:

Investment Type	Long Term Rating	Money Limit	Time Limit
Banks / Building Societies*	AA-	£60m	2 years
Banks / Building Societies*	A	£40m	1 year
Banks / Building Societies*	A-	£25m	6 months
Banks – part-nationalised*	N/A	£60m	2 years
Banks– Council's banker*	A-	£30m	3 months
DMADF / Treasury Bills	AAA	unlimited	6 months
Local Authorities	N/A	£15m each	5 years
Housing Associations	A-	£10m	6 months
Building Societies	+£1 billion	£25m	6 months
Money Market Funds	AAA	£150m total	liquid
Money Market Funds CNAV	AAA	£30m each	liquid
Money Market Funds LVNAV	AAA	£30m each	liquid
Money Market Funds VNAV	AAA	£30m each	liquid
Ultra-Short Dated Bond Funds	AAA	£10m each	liquid

Investment Type	Long Term Rating	Money Limit	Time Limit
Property Funds	N/A	£50m total (£25m each)	Unlimited

*For bank subsidiaries and treasury operations the limits depend on the rating of the subsidiary / operation or of the parent providing a guarantee

The above limits have been revised for 2021/22, following consultation with the Link Asset Services, to give the council more flexibility to invest with suitable counterparties in circumstances where cash balances temporarily increase.

UK Banks – Ring Fencing

39 An additional factor must be considered when making investments with some UK banks from 1st January 2019. From this date the largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt to be included in the arrangements. Several banks are very close to the threshold already and so may come into scope in the future regardless.

40 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

41 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

(e) Non-Treasury Investments

42 Separately from treasury investments, the Council may make loans and investments in support of service priorities. Such loans and investments will be subject to the Council’s normal approval processes for revenue and capital expenditure and need not comply with this Treasury Management Strategy.

43 The Council recognises that investments such as these, taken for non-treasury management purposes, require careful consideration and that it is important

that there are agreed processes to ensure there is effective due diligence and that the investments fit with the Council's agreed risk profile. This is consistent with the Prudential Code guidance, that the investments should be proportionate to the authority's level of resources and the same robust procedures for the consideration of risk and return should be followed as for other investments

44 The Council would also follow the above processes when considering the purchase of investment assets primarily for yield. However, following the change to PWLB borrowing rules, councils with plans to buy investment assets primarily for yield cannot take advantage of the 1% reduction in borrowing costs. This applies to all of their borrowing requirements, not just the borrowing for the investment assets. This creates a financial disadvantage that means it is not likely that the council will make investments of this nature, though each potential opportunity would be considered on a case by case basis. More details are included in the council's Property Investment Strategy.

(f) Treasury Management Indicators

45 There are three debt related treasury activity limits which are designed to manage risk and reduce the impact of an adverse movement in interest rates.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principle invested is:

	Limit
Upper limit on fixed interest rate exposure	100%
Upper limit on variable interest rate exposure	70%

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk and measures the amount of projected borrowing maturing in each period expressed as a percentage of total projected borrowing at the start of the period. The upper and lower limits on the maturity structure of fixed rate borrowing are:

	Lower Limit	Upper Limit
Under 12 months	0%	20%
12 months to 2 years	0%	40%
2 years to 5 years	0%	60%
5 years to 10 years	0%	80%
10 years and above	0%	100%

In addition, the council will not agree to borrowing which will result in more than 20% of total borrowing maturing in any one financial year.

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments:

	2020/21	2021/22	2022/23
Principal sums invested > 365 days	£75m	£75m	£75m

(g) Prudential Indicators

46 The Local Government Act 2003 requires the Council to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

47 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Capital Expenditure: The table below summarises capital expenditure incurred and planned (including amounts included in this budget report) and how the expenditure was and will be financed:

	2019/20 Actual £ Million	2020/21 Estimate £ Million	2021/22 Estimate £ Million	2022/23 Estimate £ Million	2023/24 Estimate £ Million
Capital Programme	**110.128**	**139.511**	**183.470**	**150.022**	**11.461**
Financed by:					
Capital receipts	10.471	6.645	15.166	10.340	-
Capital grants	49.032	55.022	49.580	39.944	0.655
Revenue and reserves	23.753	29.901	9.534	5.174	4.375
Net borrowing financing need for the year	**26.872**	**47.943**	**109.190**	**94.564**	**6.431**

Capital Financing Requirement (CFR): The CFR is a measure of the Council's underlying borrowing need for a capital purpose. The CFR includes other long-term liabilities (e.g. PFI schemes, finance leases), though these arrangements include an integral borrowing facility, so the Council does not need to borrow separately for them:

	2019/20 Actual £ Million	2020/21 Estimate £ Million	2021/22 Estimate £ Million	2022/23 Estimate £ Million	2023/24 Estimate £ Million
Capital Financing Requirement	476.095	520.456	620.052	703.736	696.077
Movement in CFR	18.435	44.361	99.596	83.684	(7.659)
Movement in CFR represented by					
Net borrowing financing need for the year (see previous table)	26.872	47.943	109.190	94.564	6.431
Leasing and PFI financing need for the year	5.634	12.134	7.527	7.929	6.225
Less MRP/VRP and other financing movements	(14.071)	(15.716)	(17.121)	(18.809)	(20.315)
Movement in CFR	**18.435**	**44.361**	**99.596**	**83.684**	**(7.659)**

Gross Debt and the Capital Financing Requirement: In order to ensure that debt held will only be for capital purposes, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The table below shows how the Council plans to comply with this requirement, which shows gross borrowing continues to be less than the CFR:

	2019/20 Actual £ Million	2020/21 Estimate £ Million	2021/22 Estimate £ Million	2022/23 Estimate £ Million	2023/24 Estimate £ Million
Debt at 1 April	310.605	358.580	363.412	387.968	377.349
Expected change in debt	47.975	4.832	24.556	(10.619)	(20.631)
Other long-term liabilities	81.058	80.120	84.498	83.538	82.710
Expected change in other long-term liabilities	(0.938)	4.370	(0.961)	(0.828)	(2.740)
Gross Debt at 31 March	**438.700**	**447.910**	**471.506**	**460.059**	**436.688**
Capital Financing Requirement	**476.095**	**520.456**	**620.052**	**703.736**	**696.077**
Under borrowing	**37.395**	**72.546**	**148.546**	**243.677**	**259.389**

Operational Boundary: This is the limit which external borrowing is not normally expected to exceed and approximates to the CFR for a given year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2020/21 Estimate £ Million	2021/22 Estimate £ Million	2022/23 Estimate £ Million	2023/24 Estimate £ Million
Borrowing	436.000	537.000	621.000	617.000
Other long-term liabilities	83.000	84.000	83.000	80.000
Total	**519.000**	**621.000**	**704.000**	**697.000**

Authorised Limit for external borrowing: This represents a control on the maximum level of borrowing and is a statutory limit determined under section 3 (1) of the Local Government Act 2003. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

	2021/22 Estimate £ Million	2022/23 Estimate £ Million	2023/24 Estimate £ Million	2023/24 Estimate £ Million
Borrowing	486.000	587.000	671.000	667.000
Other long-term liabilities	90.000	89.000	88.000	84.000
Total	**576.000**	**676.000**	**759.000**	**751.000**

Estimates of the ratio of financing costs to net revenue stream: This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
Ratio of financing costs to net revenue stream	7.557	8.491	9.534	9.850

The estimates of financing costs include current commitments and the proposals in this budget report

(h) MRP Policy Statement

48 The CIPFA Prudential Code for Capital Finance in Local Authorities requires the full Council to agree an annual policy for the Minimum Revenue Provision (MRP).

49 The MRP is the amount that is set aside each year to provide for the repayment of debt. The regulations require the authority to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the support provided through the RSG. The guidance provides recommended options for the calculation of a prudent provision, but

local authorities have significant discretion in determining the level of MRP which they consider to be prudent.

50 The Government updated its Statutory Guidance on MRP on 2 February 2018, with some elements of the guidance taking effect from 1 April 2018.

51 The Council's annual MRP policy has been set in line with the following principles:

- In respect of the Council's supported borrowing, MRP will be provided for on a 2.5% straight-line basis, i.e. provision for the full repayment of debt over 40 years;

- MRP charges for unsupported borrowing will be applied by using the annuity method;

- MRP charges for finance leases (non PFI) will be equal to the principal element of the rental or charge that goes down to write down the balance sheet liability created from such arrangements;

- MRP charges for PFI to provide MRP on an asset life basis to match the life of the associated assets;

- The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

52 The regulations allow the Authority to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy would be kept under regular review in order to ensure that the annual provision is prudent.

(i) Other Matters

Training

53 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and training will be arranged as required. There is a further requirement that the training needs of treasury management officers are periodically reviewed.

Policy on use of external advisers

54 Link Asset Services are the Council's treasury management advisers and whilst they provide professional support to the internal treasury management team, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Council. This service is subject to regular review.

55 The range of services provided by the advisers currently includes:

- technical support on treasury matters and capital finance issues;
- economic and interest rate analysis;
- debt services which includes advice on the timing of borrowing;
- debt rescheduling advice surrounding the existing portfolio;
- generic investment advice on interest rates, timing and investment instruments;
- credit ratings/ market information service, comprising the three main credit rating agencies

56 The scope of investments within the Council’s operations now includes both conventional treasury investments, (the placing of residual cash from the Council’s functions), and more commercial type investments, such as investment properties

Annex 1: Treasury Management Policy Statement and Practices

Treasury Management Policy Statement

The Council defines its treasury management activities as:
The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Treasury Management Practices

The Council has developed a range of Treasury Management Practices to enable it to implement its Treasury Management Policies.

TMP1 Risk Management

General Statement

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation’s objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting Requirements and Management Information Arrangements*.

The arrangements for the management of identified risks are detailed overleaf.

Credit and Counterparty Risk Management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved Instruments, Methods and Techniques.* It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

Liquidity Risk Management

The Council organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Interest Rate Risk Management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting Requirements and Management Information Arrangements.*

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. Before taking action any policy or budgetary implications would be considered and approval would be sought if required.
It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

Exchange Rate Risk Management

It will manage its exposure to fluctuations in exchange rates to minimise any detrimental impact on its budgeted income/expenditure levels.

Inflation Risk Management

The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation’s inflation exposures.

Refinancing Risk Management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Legal and Regulatory Risk Management

The Council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1*Risk Management - Credit and Counterparty Risk Management,* it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Fraud, Error and Corruption, and Contingency Management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Price Risk Management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 Performance Measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

TMP3 Decision Making and Analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

TMP4 Approved Instruments, Methods and Techniques

The Council will undertake its treasury management activities within the limits and parameters defined in TMP1 *Risk Management*.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering arrangements to use such products to ensure that it fully understands those products.

TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when The Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 *Reporting Requirements and Management Information Arrangements*, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the responsible officer in respect of treasury management are set out in the Council's constitution. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

TMP6 Reporting Requirements and Management Information Arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

Full Council) will receive:

(a) an annual report on the strategy and plan to be pursued in the coming year;

(b) a mid-year review;

(c) an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The committee/board/council will receive regular monitoring reports on treasury management activities and risks.

The body responsible for scrutiny, such an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

TMP7 Budgeting, Accounting and Audit Arrangements

The responsible officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk* M*anagement*, TMP2 *Performance Measurement*, and TMP4 *Approved Instruments, Methods and Techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting Requirements and Management Information Arrangements*.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of The Council will be under the control of the responsible officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *Risk Management - Liquidity Risk Management*.

TMP9 Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained.

TMP10 Training and Qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 Use of External Service Providers

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangement’s rests with the responsible officer.

TMP12 Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This is considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICES – DETAILED SCHEDULES

The following schedules have been prepared to support the implementation of the TMPs.

TMP1 Risk Management

TMP2 Best Value and Performance Measurement

TMP3 Decision Making and Analysis

TMP4 Approved Instruments, Methods and Techniques
TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

TMP6 Reporting Requirements and Management Information Arrangements

TMP7 Budgeting, Accounting and Audit Arrangements

TMP8 Cash and Cash Flow Management
TMP9 Money Laundering

TMP10 Training and Qualifications

TMP11 Use of External Service Providers
TMP12 Corporate Governance

TMP1 Risk Management

1.1 Credit and Counterparty Risk Management

Credit and counterparty risk
The risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital or current (revenue) resources.

1.1.1 Criteria to be used for creating/managing approved counterparty lists/limits:

(a) Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be formulated and a lending list comprising time, type, sector and specific counterparty limits will be constructed. This criteria will follow the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance issued in February 2018 to cover financial years from 1 April 2018.

(b) The primary criteria used in the selection of counterparties is their credit worthiness. However the authority will also monitor latest market information and reduce the limits imposed on third parties where appropriate.

(c) The Authority's Treasury Management Advisors provide a regular update of all the ratings relevant to the authority as well as any changes to the counterparty credit ratings. This information is also available via their website.

(d) Credit ratings will be used as supplied from one or more of the following credit rating agencies: -

- Fitch Ratings
- Moody's Investors Services
- Standard and Poor's

(e) Counterparty limits will be as set within the annual Treasury Management Strategy reported to Council.

1.1.2 Credit ratings for individual counterparties can change at any time. The Corporate Director of Resources is responsible for applying the stated credit rating criteria in 1.1.1 for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers. This is delegated on a daily basis to the Treasury Management team.

1.1.3 When there is a change in the credit ratings of individual counterparties or in banking structures (e.g. on mergers or takeovers in accordance with the criteria in 1.1.1) the Corporate Director of Resources will also adjust lending limits and periods This is delegated on a daily basis to the Treasury Management team

1.2 Liquidity Risk Management

Liquidity Risk
The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.

1.2.1 **Cash Flow**
The treasury management section will maintain, on a daily basis, a cash flow projection showing:

(a) all known income and expenditure
(b) all anticipated income and expenditure.

This record will be maintained for a minimum period of 12 months ahead of current date.

1.2.2 **Amounts of approved minimum cash balances and short-term investments**
The Treasury Management team shall seek to ensure that the balance held in the Council's main bank accounts at the close of each working day is held at a level in order to maximize the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim.

The target is to achieve a net overall pooled bank balance of nil within the Council's current bank accounts on a daily basis. The performance will be monitored on a daily basis by the Council's Treasury Management team

1.2.3 **Short-term borrowing facilities**
The Council can access temporary loans through approved brokers on the London money market.

1.2.4 **Closure of Council Offices**
When the Council offices are closed on a banking day, then provision will be made for expected clearances and receipts. The actual strategy to be adopted will depend on overall liquidity and market conditions at the time and available staff resources. At such times the Treasury Management team undertakes transfers, anticipating cash flow within the Council's accounts.

1.3 Interest Rate Risk Management

Interest rate risk
The risk that fluctuations in the levels of interest rates creates an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

1.3.1 **Details of approved interest rate exposure limits**
This risk is considered as part of the Treasury Management Strategy Statement approved by Council in February/March each year. The Strategy sets interest rate exposure limits in accordance with the requirements of the CIPFA Prudential Code. A variety of Prudential indicators is required to be approved and monitored by Council. The Council will have regard to potential fluctuations in interest rates when borrowing or lending surplus cash. Advice will be sought from the Council's Treasury Management advisors before any non-routine transaction is made.

1.3.2 **Maximum proportion of variable rate debt/interest**
The requirement to set out a series of Prudential Indicators includes a requirement to set upper limits for exposure to fixed interest rates and variable interest rates.

1.4 Exchange Rate Risk Management

Exchange rate risk
The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

1.4.1 **Approved criteria for managing changes in exchange rate levels**
Durham County Council rarely deals with foreign currency so an exposure to exchange rate risk will be minimal. However, as a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Where appropriate the Council will adopt a hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Council will minimize all foreign exchange exposures as soon as they are identified.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency may be held on deposit to meet this expenditure commitment, depending on the expected timing of transactions.

1.5 Inflation Risk Management

Inflation risk
The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

1.5.1 **Details of approved inflation exposure limits for cash investments/debt**
During the current period of low and stable worldwide inflation there is little requirement for an active consideration of the impact of inflation. The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within TMP 1 *Risk Management.*

1.5.2 **Approved criteria for managing changes in inflation levels**
Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations.

1.6 Refinancing Risk Management

Refinancing risk
The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the Council for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

1.6.1 **Debt/other capital financing maturity profiling, policies and practices**
The maturity profile of debt will be monitored and used to minimize any refinancing risk in consultation with the Council's treasury advisors. Any debt rescheduling is likely to take place when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored. The reasons for any rescheduling to take place will include:

(a) The generation of cash savings at minimum risk;
(b) To reduce the average interest rate;
(c) To enhance the balance of the long term portfolio (amend the maturity profile and /or the balance of volatility)

1.6.2 **Projected capital investment requirements**
The Council will prepare forecasts of capital investment needs and resources covering at least a three-year period within the Medium Term Financial Plan (MTFP). This will identify capital financing requirements and therefore the need

to borrow to finance the capital programme. The MTFP provides details of the Council's financial plans covering a three-period and is updated on an annual basis.

1.6.3 **Policy concerning limits on revenue consequences of capital financings**
As part of compliance with the CIPFA Prudential Code, the Council will consider the revenue consequences of any capital scheme to ensure it is affordable, prudent and sustainable.

1.7 Legal and Regulatory Risk Management

Legal and regulatory risk
The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

1.7.1 **References to relevant statutes and regulations**
The treasury management activities of the Council shall comply with legal statute and the regulations of the Council.

1.7.2 **Procedures for evidencing the Council's powers/authorities to counterparties**
The Council will prepare, adopt and maintain, as the cornerstones for effective treasury management:-

(a) A Treasury Management Policy Statement, stating the overriding principles and objectives of its Treasury Management activities.

(b) Treasury Management Practices, setting out the manner in which the Council will achieve those principles and objectives, and prescribing how it will manage and control those activities.

1.7.3 **Required information from counterparties concerning their powers/authorities**
Lending shall only be made to counterparties on the authorised list and borrowings will only be undertaken from recognized and reputable counterparties to comply with TMP 9 *Money Laundering*.

Durham County Council hold letters verifying that the approved brokers are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000.

1.7.4 **Statement on the Council's political risks and their management**

The Authority recognises that future political, legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the authority.

1.8 <u>Fraud, Error and Corruption, Business Continuity and Contingency Management Arrangements</u>

Fraud, error and corruption, business continuity and contingency risk

The risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures to maintain effective business continuity and contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

1.8.1 **Details of systems and procedures to be followed, including internet services**

The Treasury Management function is subject to a regular review by the Council's Internal Audit Service. The systems and procedures followed are described overleaf:

Authority:

- The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by the Corporate Director of Resources or authorized persons.

Occurrence:

- Detailed register of loans and investments is maintained.
- Adequate and effective cash flow forecasting records are maintained to support the decision to lend or borrow.
- Written confirmation is received from the lending or borrowing institution
- All transactions placed through the brokers are confirmed by a broker note, showing details of the loan arranged.

Completeness:

- The loans register is updated to record all lending and borrowing. This includes the date of the transaction and interest rates and covers both Treasury Management loans and others to third parties that are not part of the routine Treasury Management activity.

Measurement:

- The Treasury Management team checks the calculation of repayment of principal and interest notified by the lender or borrower for accuracy.
- The Treasury Management team calculates periodic interest payments of PWLB and other long-term loans. This is used to check the amount paid to these lenders.

Timeliness:

- The Treasury Management team maintains an up to date diary and register that clearly identifies when money borrowed or lent is due to be repaid.

Regularity:

- Lending is only made to institutions on the Approved List or as specifically approved by Cabinet for loans that are outside the usual Treasury Management activity.
- All loans raised and repayments made go directly to and from the institutions bank account.
- Authorisation limits are set for every institution (see 1.1.1).
- A list of named officials authorised to perform loan transactions is maintained.
- There is adequate Fidelity Guarantee insurance cover for employees involved in loans management and accounting.

1.8.2 **Contingency planning and business continuity management arrangements**

If the Electronic Banking System fails, there is a contingency arrangement in place with the Bank whereby cash balances can be obtained from Lloyds Bank, and the Council can make CHAP payment instructions (which are normally input directly into the electronic payment system) to Lloyds, via telephone and/or e-mail.

In the event of a business continuity problem, which prevents access to the electronic payment system, the present contingency management arrangements will be invoked.

1.8.3 **Insurance cover details**
The officers concerned in the treasury management function are covered by appropriate fidelity guarantee insurance.

1.9 Market Risk Management

Market risk
The risk that, through adverse market fluctuations in the value of the principal sums invested, the Council's stated treasury management policies and objectives are compromised, so it has not protected itself adequately against the effects of the fluctuations.

1.9.1 **Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs, etc.)**
The Council does not normally make investments where the capital value may fluctuate. Investment instruments used by external fund managers are subject to fluctuations in capital and exposure to interest rate risk. The Council does not currently use external fund managers but will keep the situation under review. In order to minimise the risk of fluctuations in capital value of investments, capital preservation is set as the primary objective.

TMP2 Best Value and Performance Measurement

2.1 <u>Methodology To Be Applied For Evaluating The Impact Of Treasury Management Decisions</u>

The Council's Treasury Management consultants are required to carry out a health check of our Treasury Management function.

2.2 <u>Policy Concerning Methods For Testing Best Value In Treasury Management</u>

2.2.1 **Frequency and processes for tendering**

Tenders are awarded for a minimum of two years, with an option to extend for up to a further two years. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.2.2 **Banking services**

Banking services will be reviewed every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.3 **Money-broking services**

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both prices and quality of services. The Corporate Director of Resources may add brokers to the list during the year, providing they meet the council's standards and requirements.

2.2.4 **Consultants'/advisers' services**

This Council's policy is to separately appoint professional treasury management consultants and leasing advisory consultants.

2.2.5 **Policy on External Managers (Other than relating to Superannuation Funds)**

The Council's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

2.3 Methods To Be Employed For Measuring The Performance Of The Council's Treasury Management Activities

Performance of the Treasury Management function will be measured against annual Treasury Management Strategy Statement targets and in compliance with the CIPFA Code of Treasury Practice.

Performance will be monitored against approved budgets and internally agreed targets.

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TMP3 Decision-Making And Analysis

3.1 Funding, Borrowing, Lending, And New Instruments /Techniques:

3.1.1 Records to be kept

(a) Daily cash projections.
(b) Telephone / e-mail rates.
(c) Dealing ticket for all money market transactions.
(d) PWLB loan schedules.
(e) Local bond certificates (if used).
(f) Market bond certificates (if used).
(g) Temporary loan receipts (if used).
(h) Brokers confirmations for deposits/investments.
(i) Contract notes received from fund managers (if used).
(j) Fund managers valuation statements (if used).
(k) Confirmation notes from borrowers.

3.1.2 Processes to be pursued

(a) Cash flow analysis.
(b) Maturity analysis.
(c) Ledger reconciliations
(d) Review of borrowing requirement.
(e) Monitoring of projected loan charges and interest and expenses costs.
(f) Review of opportunities for debt rescheduling.
(g) Collation of performance information.

3.1.3 Issues to be addressed.

3.1.3.1 ***In respect of every decision made the Council will:***

(a) Above all be clear about the nature and extent of the risks to which the Council may become exposed.

(b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.

(c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping

(d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded

(e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 ***In respect of borrowing and other funding decisions, the Council will:***

(a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.

(b) Consider the merits of alternative forms of funding, including (but not exclusively) funding from revenue, leasing and private partnerships

(c) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use

(d) Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.

3.1.3.3 ***In respect of investment decisions, the Council will:***

(a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.

(b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

TMP4 Approved Instruments, Methods And Techniques

4.1 Approved Activities Of The Treasury Management Operation

(a) Borrowing;
(b) Lending;
(c) Debt repayment and rescheduling;
(d) Consideration, approval and use of new financial instruments and treasury management techniques;
(e) Managing the underlying risk associated with the Council's capital financing and surplus funds activities;
(f) Managing cash flow;
(g) Banking activities;
(h) Leasing.

4.2 Approved Instruments For Investments

All investments will comply with the Council's Annual Investment Strategy (which takes into account guidance issued by the Secretary of State concerning Local Authority investments). The instruments used will be:

(a) Term deposits with banks and building societies
(b) Term deposits with non-rated subsidiaries of an institution meeting the basic credit criteria
(c) Debt Management Office
(d) Treasury Bills
(e) Term deposits with other Local Authorities and Parish Councils
(f) Money market funds that meet the criteria set in the investment policy
(g) Ultra-Short dated Bond Funds
(h) Property Funds

4.3 Approved Methods And Sources Of Raising Capital Finance

Finance will only be raised in accordance with the Local Government and Housing Act 1989, and within this limit the council has a number of approved methods and sources of raising capital finance.

Borrowing will only be undertaken in keeping with the contents of the Prudential Code and within the limits determined through the approved Prudential Indicators and Treasury Management Strategy and, in respect of any long term borrowings, following consultation with the Corporate Director of Resources.

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Corporate Director of Resources has delegated powers through this policy and the strategy to take the most appropriate form of borrowing from the approved sources.

TMP5 Organisation, Clarity And Segregation Of Responsibilities, and Dealing Arrangements

Index Of Schedules:

5.1 Limits to responsibilities/discretion at Council/Director levels

5.2 Principles and practices concerning segregation of duties

5.3 Treasury management organisation chart

5.4 Statement of duties/responsibilities of each Treasury post and other officers involved with Treasury Management

5.5 Absence cover arrangements

5.6 Investment Dealing Limits

5.7 List of approved brokers

5.8 Policy on brokers' services

5.9 Policy on recording of conversations

5.10 Direct dealing practices

5.11 Settlement transmission procedures

5.12 Documentation requirements

5.13 Arrangements concerning the management of third-party funds.

5.1 Limits To Responsibilities/Discretion At Council/Director Levels

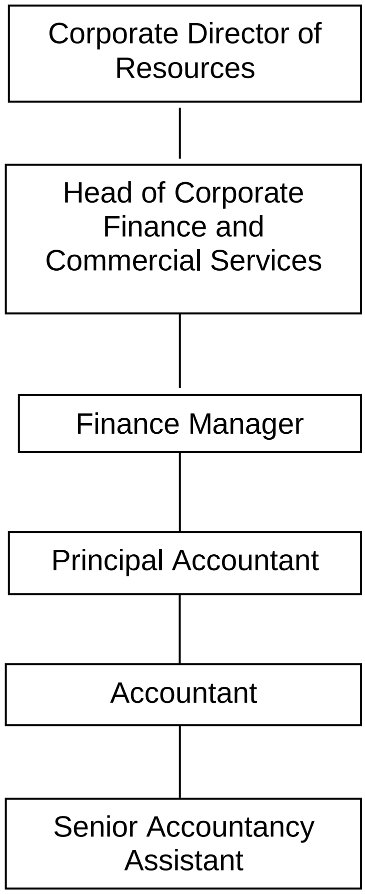
(a) Council will receive and review reports on treasury management policies, practices and activities, and the annual treasury management strategy.

(b) The Corporate Director of Resources will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.

5.2 Principles And Practices Concerning Segregation Of Duties

The Corporate Director of Resources will ensure there is always adequate segregation of duties in all transactions.

5.3 Treasury Management Organisation Chart



5.4 Statement Of Duties/Responsibilities Of Each Treasury Post And Other Officers Involved With Treasury Management

5.4.1 Corporate Director of Resources

(a) The Corporate Director of Resources will:

- Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly and monitor compliance
- Submit Treasury Management reports to Council
- Authorise and maintain TMPs and Schedules
- Set, submit and monitor budgets
- Review the performance of the treasury management function.
- Ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function
- Ensure the adequacy of internal audit and liaise with external audit
- Recommend the appointment of external service providers and brokers where appropriate.
- Approve and authorise investment deals (within dealing limits – see 5.6)

(b) The Corporate Director of Resources has delegated powers to take the most appropriate form of borrowing from the approved sources and to take the most appropriate form of investments in approved instruments.

(c) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of The Corporate Director of Resources to be satisfied, by reference to legal and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

(d) The Corporate Director of Resources may delegate power to borrow and invest to members of staff to conduct all dealing transactions. All transactions must be processed by at least two specified named officers. Alternatively staff can be authorised to act as temporary cover for leave/sickness.

5.4.2 **Head of Corporate Finance and Commercial Services**

The treasury responsibilities of this post will be to assist the Corporate Director of Resources to:

(a) Formulate the Treasury Management Strategy.
(b) Identify and recommend opportunities for improved practices
(c) Supervise Treasury Management staff
(d) Monitor performance
(e) Review the performance of treasury management functions

5.4.3 Finance Manager

The treasury responsibilities of this post will be to assist the Corporate Director of Resources and the Head of Corporate Finance and Commercial Services to:

(a) Formulate the Treasury Strategy
(b) Produce the Treasury Management reports to Council
(c) Identify and recommend opportunities for improved practices
(d) Supervise Treasury Management staff
(e) Monitor performance
(f) Review the performance of treasury management functions
(g) Implement Treasury Management Strategy
(h) Approve and authorise investment deals (within dealing limits – see 5.6)
(i) Approve CHAPS payments/Faster Payments according to the limits in the Table of Payment Approval Responsibilities below
(j) Arrange rescheduling or premature repayment of existing borrowings.

5.4.4 **Principal Accountant**

This post responsibilities to assist the Finance Manager – Commercial Capital Treasury to:

(a) Formulate the Treasury Strategy.
(b) Identify and recommend opportunities for improved practices
(c) Supervise Treasury Management staff
(d) Monitor performance

(e) Review the performance of treasury management functions
(f) Implement Treasury Management Strategy
(g) Approve and authorise investment deals (within dealing limits – see 5.6)
(h) Approve CHAPS payments/Faster Payments according to the limits in the Table of Payment Approval Responsibilities below

5.4.5 Accountant
This post has responsibilities to:

(a) Calculate daily cash balances
(b) Monitor performance and market conditions on a day to day basis and recommend investments
(c) Adhere to agreed policies and procedures on a day to day basis
(d) Enter transmission of monies via Lloyds Banking system
(e) Approve CHAPS payments/Faster Payments according to the limits in the Table of Payment Approval Responsibilities below
(f) Select Brokers from approved list
(g) Adhere to agreed policies and practices on a day to day basis
(h) Submit management information reports
(i) Maintain cash flow projections
(j) Record investment deals and obtain third party loan confirmation
(k) Identify and maintain relationships with 3rd parties and external partners
(l) Ensure counter party limits are not exceeded

5.4.6 Senior Accountancy Assistant/Principal Accountancy Assistant
This post has responsibilities to:

(a) Calculate daily cash balances
(b) Enter transmission of monies via Lloyds Banking system
(c) Select Brokers from approved list
(d) Adhere to agreed policies and practices on a day to day basis
(e) Submit management information reports
(f) Maintain cash flow projections
(g) Obtain third party loan confirmation
(h) Ensure counter party limits are not exceeded

<u>Table of Payment Approval Responsibilities</u>

Monetary Limit per Investment	Number of Approvers	Level of Approver Required
Up to £100,000	1	Any one of Accountant/Principal Accountant/Finance Manager
£100,000 to £20,000,000	2	Any two of Accountant/Principal Accountant/Finance Manager
£20,000,000 to £30,000,000	2	Any two of Principal Accountant/Finance Manager

5.5 Absence Cover Arrangements

The Corporate Director of Resources is responsible for ensuring that adequate arrangements are in place to cover staff absences.

5.6 Investment Dealing Limits

Dealings can be carried out providing that transactions are within limits determined by the council and the Corporate Director of Resources as detailed in the table below:

Officers	Limits
Corporate Director of Resources and Head of Corporate Finance and Commercial Services	As per limits set within the Treasury Management Strategy
Finance Manager & Principal Accountant	As per limits set within the Treasury Management Strategy for dealings of up to 12 months
Accountant	As per limits set within the Treasury Management Strategy for dealings of up to 12 months, in consultation with Finance Manager or Principal Accountant

5.7 List Of Approved Brokers

A list of approved brokers is maintained within the Treasury Management section and a record of all transactions recorded against them.

5.8 Policy On Brokers' Services

It is the council's policy to divide business between brokers.

5.9 Policy On Recording Of Conversations

It is not Council Policy to record broker's conversations

5.10 Direct Dealing Practices

It is an acceptable practice for the council to make direct dealings with suitable counterparties if the use of Brokers does not provide a satisfactory financial arrangement at any time.

5.11 Settlement Transmission Procedures

All payments and repayments resulting from the treasury management function will be made via the authority's bank account using the electronic payment facility (with Lloyds Banking system). Only authorised officers can transmit, approve or release payments, protected by appropriate passwords and a card operated security arrangements. A manual back up facility, agreed with Lloyds Bank, is in place to cover system failure.

5.12 Documentation Requirements

For each deal undertaken a record should be prepared giving details of amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

5.13 Arrangements Concerning The Management Of Third-Party Funds

The authority manages funds under delegated powers for the Office of the Durham Police, Crime and Victims' Commissioner, the Durham County Council Pension Fund and the North East Combined Authority.

TMP6 Reporting Requirements And Management Information Arrangements

6.1 Annual Treasury Management Strategy

The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial. This strategy will be submitted to Council for approval before the commencement of each financial year.

The formulation of the annual treasury management strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates.

The Treasury management statement is concerned with the following elements:

(a) Summary Treasury Position;
(b) Borrowing Strategy;
(c) Other Debt and Long Term Liability Plans
(d) Cash Investment Strategy;
(e) Non-Treasury Investments
(f) Treasury Management Indicators;
(g) Prudential Indicators;
(h) MRP Policy Statement;
(i) Other Matters

6.2 Mid-Year Review Of Annual Treasury Management Activity

A report will be presented to the Council detailing performance for the six months to 30th September against the items reported in the annual strategy. The report will be presented to Council at the earliest practicable meeting after the mid-year point.

6.3 Annual Performance Report

An annual report will be presented to the Council at the earliest practicable meeting after the end of the financial year, but in any case, by the end of September. This report will include the following:

(a) Summary Treasury Position;
(b) Borrowing Activity;
(c) Other Debt and Long Term Liability Activity;
(d) Investment activity;
(e) Treasury Management Indicators;
(f) Prudential Indicators;

TMP7 Budgeting, Accounting And Audit Arrangements

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognized by statute as representing proper accounting practices.

7.2 Accounting Practices And Standards

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Council adopts in full the principles set out in:

(a) the CIPFA Code of Practice on Treasury Management in the Public Services;
(b) the CIPFA Prudential Code for Capital Finance in Local Authorities;
(c) the Code of Practice on Local Authority Accounting in the United Kingdom (Statement of Recommended Practice);
(d) Statutory Guidance on Local Authority Investments;
(e) Statutory Guidance on Minimum Revenue Provision and
(f) any other mandatory guidance covering this service area.

7.3 Budgeting And Accounting Arrangements

The Finance Manager will prepare an annual budget for treasury management, which will bring together all the expenditure incurred with regard to this activity, as well as the associated income. The Finance Manager will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with section TMP6 *Reporting Requirements and Management Information Arrangements.*

All transactions for loans, repayments and interest paid and received are recorded to general ledger codes reserved for these purposes.

7.4 List Of Information Requirements Of Internal And/Or External Auditors

Durham County Council will ensure that all those charged with regulatory review, including internal and external auditors, have access to all information and papers supporting the activities of the treasury management function.

TMP8 Cash And Cash Flow Management

8.1 Arrangements For Preparing/Submitting Cash Flow Statements

The authority will monitor and complete daily cashflow forecasts for major items of income and expenditure. The annual and monthly cash flow projections are prepared from the previous year's daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. Additionally, a strategic cashflow forecast will be prepared annually and updated as necessary.

TMP9 Money Laundering

9.1 Procedures For Establishing Identity/Authenticity Of Lenders

The Authority will only accept loans from individuals where the funds are transferred through a United Kingdom domiciled bank account. All other loans are obtained from the PWLB or from authorised institutions under the Financial Services and Markets Act 2000. The Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website at https://register.fca.org.uk/

9.2 RECONCILIATION OF DEPOSITS

All deposits are identified and reconciled on a daily basis. The source of each deposit is verified so they can be allocated to the appropriate fund within the main accounting system. Staff will be kept aware of developments in money laundering regulations and will be encouraged to keep abreast of money laundering issues through specific training, publications and the Internet. The Council’s nominated Money Laundering Reporting Officer (MLRO), the Chief Internal Auditor & Corporate Fraud Manager is responsible for reporting on the Council’s Anti-Money Laundering Policy. The latest policy was approved by Audit Committee on 31 July 2018.

TMP10 Staff Training And Qualifications

10.1 Details Of Training Arrangements

The Corporate Director of Resources is committed to ensuring that staff engaged in Treasury Management activities are appropriately trained, so they can carry out their duties to the required standards.

Staff employed in the treasury management function will be qualified to the level that is appropriate to their post. All staff will be given appropriate basic training before fulfilling their treasury management duties for the first time and will be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

Training courses run by CIPFA and other training providers such as our Treasury Management advisors will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff as part of their annual appraisal. The authority will take all reasonable steps to ensure that staff are adequately trained.

CIPFA members are required to abide by CIPFA’s Ethics Standard on Professional Practice (SOPP).

TMP11 Use Of External Service Providers

11.1 Details Of Contracts With Service Providers, Including Bankers, Brokers, Consultants, Advisers

11.1.1 Banking services

(a) Name of supplier of service is Lloyds Bank plc. The branch address is:
19 Market Place
Durham
DH1 3NL

(b) Contract commenced 5th January 2015 and runs for a minimum 5 years, subject to one year's notice, such notice to expire after the minimum period

(c) Cost of service is variable depending on schedule of tariffs and volumes agreed at the beginning of the contract

11.1.2 Money-broking services

Name of suppliers of service:

(a) Martin Brokers (UK) plc
(b) Tradition (UK) Ltd
(c) King and Shaxson
(d) BGC Brokers
(e) Tullett Prebon (Europe) Limited

The Corporate Director of Resources may add brokers to the list during the year, providing they meet the council's standards and requirements. No commission is paid by the Council to any money broker.

11.1.3 Consultants/advisers services

(a) Treasury Consultancy Services

Name of supplier of service is Link Asset Services Their address is:
65 Gresham Street
London
EC2V 7NQ

(b) Leasing Consultancy Services.

Name of the supplier of the service is Link Asset Services. Their address is:
65 Gresham Street
London
EC2V 7NQ
The cost of the service is dependent upon the value of leasing drawdowns which take place throughout the year.

(c) External Fund Managers
There are none at present.

External Fund Managers and other consultancy services may be employed on short term contracts as and when required.

TMP 12 CORPORATE GOVERNANCE

12.1 <u>LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION</u>

To support the implementation of a robust corporate governance policy, the following documents are available for public inspection:

(a) Treasury Management Practices;
(b) Treasury Management Strategy;
(c) Mid-year Treasury Management Review;
(d) Annual Treasury Management Report;
(e) Annual Statement of Accounts, and
(f) Annual Budget

Appendix 13: Property Investment Strategy

Purpose

1 The purpose of the Property Investment Strategy is to set out the Council's objectives relating to investing in property. It identifies the benefits, risks and approach to acquiring property in order to support the Council's priorities.

Definition of an Investment Property

2 This strategy defines an investment property as "an asset acquired by the Council for the purposes of income generation and profit creation", in line with the definition in the Statutory Guidance issued under Section 15(1)(a) of the Local Government Act 2003. Through the acquisition there may be secondary benefits achieved, such as new jobs created or existing jobs safeguarded. However, the primary purpose of the acquisition as an investment will be to provide a source of income to the Council.

Introduction

3 Over the past five years local authority investment within the commercial property market has grown, due to the return on investment opportunities presented by this market segment. As a result of the changing nature of budgets in local government, the Council is looking towards this market to support its overall priorities.

4 To ensure that investment decisions fit with the Council's requirements, this strategy has been prepared to set out the investment framework and policy to apply to the acquisition of commercial property investments. This will ensure that any opportunities considered are evaluated against agreed criteria and the risks and returns associated with these investments are fully appraised.

5 The overall aim of the strategy is to create a framework that ensures that all relevant issues are considered when the Council analyses a property investment opportunity. The Council will need to balance commercial risks against the opportunity to delivering term, sustainable revenue streams for the Council, together with potential for capital growth from investments. Investments could also help to generate economic growth and secure or protect jobs. The objectives of this strategy will ensure acquisition, management and returns relating to investments made continue to deliver against the Council's priorities throughout their lifespan.

6 Set against key objectives the strategy will not only cover the income opportunities for the Council, but also the wider regeneration benefits that will be delivered, particularly in relation to acquisitions within the County boundary.

Objectives

7 The key objectives of the Property Investment Strategy are consider investment opportunities which achieve the following:

- delivers a sustainable revenue stream;
- contributes towards a balanced investment portfolio;
- protects existing capital value or delivers capital growth opportunities, as the market dictates;
- maximises income within the agreed acceptable risk levels;

Investment Proposal

8 The Council have already taken opportunities to invest in property located within the County, where this decision has met the wider council objectives. This consists of surplus freehold Council properties, that have been converted to successful commercial lets and leasehold properties sublet for income generation and to support regeneration.

9 Examples include the surplus Priory House now leased to Northumbria Water and the Council taking the head lease at Freemans Reach to support the retention of civil service jobs in Durham. Investment properties are defined separately for accounting purposes and will be identified as such within the asset register. Annex 1 provides a list of current properties held by the Council for investment purposes, which provide a rental income of approximately £390,000 per annum. This level of income is comparably small when compared with council gross expenditure of almost £1.1 billion.

10 This strategy forms the basis for the council investing in property on a balanced and risk assessed basis. The Council will consider acquiring investment interests in property, including the acquisition of head leases benefitting from the security of tenure the Council covenant can provide to investment institutions and developers. In addition freehold opportunities are not to be discounted, to provide the Council with flexibility should appropriate opportunities arise.

Investment Criteria

11 In order to assess whether an investment meets the objectives set out in the strategy, clear criteria have been established that forms the basis of an initial appraisal. These are set out in Table 1 below:

Table 1 - Investment Criteria

A. Location	The priority of the strategy is to invest in the geographical and administrative boundary of County Durham as this meets the key objectives and minimises risk to the Council, in addition to providing wider benefits to the County’s economy. This could also include investment opportunities that sit on the periphery of the County boundary, where it is proven that they meet the key objectives.
B. Economic Development	Opportunities in relation to economic development require consideration for any investment, in order to understand the wider benefits to the County. This should take into account relevant factors, including but not limited to inward investment potential, job creation and the quality of jobs created.
C. Sector	The consideration of sectors will be specific to each investment opportunity and will need to be appraised as such. Market performance, growth, alignment with key partners and supply and demand within sectors will need to be considered in terms of location within County Durham. To ensure an appropriate risk profile is achieved investments should be cross sector to enable diversification of risk and a spread across sectors. This will prevent over exposure in specific sectors.
D. Tenure	The acquisition of head leases will be considered and fully appraised, although freehold opportunities will also be considered, should appropriate opportunities arise. The strategy will prioritise the opportunities for return on investment balancing commercial risk and regeneration benefits against commercial risk.
E. Tenant Performance	Head lease and freehold options would result in the Council subletting in order to raise income. The initial appraisal will need to review the quality of tenants and the ability to observe rental commitments. This tenant risk profiling exercise is essential as it directly affects the risk profile of the investment. Full legal and financial due diligence will be required as part of the appraisal process. In addition, the activities undertaken by the tenant will need to be reviewed by the Council to ensure they are considered appropriate for public investment.

F. Occupier's Lease Length	The length of lease agreements is a key consideration for any investment decision and the Council will need to consider the risks associated with potential void levels and the ability to attract good quality tenants at appropriate rental levels. Shorter lease lengths and break clauses further compound this, although this should be reflected in the rental level received. In terms of risk profile the principle of the longer the lease the more secure the investment applies. However, this should consider break options that may exist in the agreement, alongside the financial status of the tenant.
G. Rental Income	Rental income will be considered alongside lease length and covenant strength as part of the appraisal. This will need to take into account cost of voids, rental levels, rent reviews and break clauses.
H. Building Quality	Consideration of the building age and specification is a deciding factor in any investment as it can determine the lifespan, condition and capital expenditure levels required to ensure it remains available for let. An initial appraisal of this will be completed to consider the quality of the building against the proposed length of the Council's tenure. In addition, any acquisition of new build will need to consider the track record of the developer and main contractor, together with the security of warranties and contractual arrangements.
I. Repairing Obligations	Leases in the market can vary in terms of the repairing responsibilities that the landlord retains. In terms of initial appraisal, lease terms that transfer the repairing obligation to the tenant are more favourable, than those that require the landlord take more responsibility.
J. Yield / Return	Yield will be considered as part of the initial appraisal and will be directly impacted by a number of the other appraisal criteria. This will inform the return anticipated on the investment, which would need to be considered acceptable in order to progress further.

Governance Arrangements

12 All investment opportunities will need to be subject to an initial appraisal. The initial appraisal will be carried out at officer level and if considered appropriate will be then progress to a full business case. The business case will set out the detailed due diligence work, risk assessment and confirm that the investment meets the key objectives in order to establish the suitability of the investment. In some cases, the appointment of an external investment advisers may be required, where additional advice is necessary.

13 The completed full business case will need to be submitted to the Head of Corporate Finance and Commercial Services who will be required to work with service, property, legal and technical experts to assess the opportunity. The current constitution requires that any decision on investment will then need to go to Cabinet for approval. However due to the fast paced nature of the investment process delegated powers may need to be utilised on occasion with full consultation with Portfolio Holders. All acquisitions will be subject to a building survey, valuation and completed business case.

Management Arrangements

14 All investment properties held by the Council will be subject to appropriate management, monitoring and review throughout the financial year. Any variation from budgeted performance will be reported as part of the quarterly forecast of outturn reports to Cabinet and Scrutiny. If performance is lower than originally forecast considerations will be given to opportunities to improve performance. Active management of the portfolio on a day to day basis will be undertaken by the council’s Corporate Property and Land and Finance Teams, in line with the proposed Corporate Landlord model.

15. If an investment is considered to be underperforming, or no longer meets the key objectives then an exit strategy will be prepared.

Annex1 – Existing Investment Properties

UPRN	Asset Name	Acquired by DCC	DCC Tenure
50621S01	Durham Wearside House (National Savings)	28/01/15	Leasehold
50658S01	Durham Freemans Reach (Passport Office)	18/03/16	Leasehold
50659S01	Durham Freemans Reach Kiosk	18/03/16	Leasehold
50660S01	Durham Freemans Reach Hydro-Turbine	28/01/15	Leasehold
3372S01	Northumbria House, Aykley Heads, Durham	Transferred to investment 01/11/14	Freehold
3230S01	Priory House, Pity Me, Durham	Transferred to investment 04/07/16	Freehold