Cabinet

7 July 2021

Medium Term Financial Plan(12), 2022/23 - 2025/26 and Review of the Local Council Tax Reduction Scheme

CORP/R/21/02

Report of Corporate Management Team

Paul Darby, Corporate Director of Resources (Interim)

Councillor Richard Bell, Deputy Leader and Portfolio Holder for Finance

Councillor Amanda Hopgood, Leader of the Council

Purpose of the Report

1 To provide an update on the development of the 2022/23 budget and the Medium Term Financial Plan (MTFP(12)) covering the period 2022/23 to 2025/26. The report also considers a review of the Local Council Tax Reduction Scheme for 2022/23.

Executive Summary

2 The newly appointed joint administration is committed to strong financial governance and getting value for money for public money whilst ensuring that any council tax increases are justified and affordable.

3 Having been appointed in May 2021, the new administration has embarked on a series of reviews of the programmes and projects it has inherited. It is in the process of determining its investment and disinvestment priorities for 2022/23 and beyond and is determined to ensure those priorities are based on meaningful engagement with all partners and stakeholders. The forecasts and assumptions included in this report do not yet include the financial implications arising from those reviews and priority setting processes.

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

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

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

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

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

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

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

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

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

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

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

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

15 Savings plans will need to be developed for consideration for 2022/23 but especially for 2023/24. Having plans in place will enable the council to react to the outcome of the 2022/23 local government finance settlement which is expected to be announced in December 2021. If required, the council will be able to utilise the Budget Support Reserve (BSR) to balance the budget in 2022/23 as required. The current available balance in the BSR, as reported to Council on 24 February 2021, is £12.6 million.

16 The council is the only local authority now in the North East to have retained entitlement levels for Council Tax support within the Local Council Tax Reduction Scheme (LCTRS) in line with that which applied under the national Council Tax Benefit regime prior to 2013/14. This policy has protected vulnerable residents at a time when welfare reform changes have had a significant adverse impact. This report recommends that the current LCTRS is again retained and remains unaltered for a further year into 2022/23. Should the Cabinet agree, the Council will need to formally adopt this policy at Full Council prior to 9 March 2022.

Recommendations

17 Cabinet is asked to:

(a) note the requirement to identify additional savings of £45.2 million for the period 2022/23 to 2025/26;

(b) note the £1.5 million of savings (as revised) for 2022/23 which were previously agreed in MTFP(11);

(c) note this leaves a forecast £43.7 million savings shortfall across the MTFP(12) planning period, but also note that this forecast could change significantly based upon outcomes of the Comprehensive Spending Review, the Fair Funding Review and the ongoing impact of the pandemic upon council services and income;

(d) note that at this stage a forecast £6.4 million of savings are required to balance the 2022/23 budget;

(e) agree the high level MTFP(12) and 2022/23 budget setting timetable contained in the report;

(f) agree the approach outlined for consultation on the 2022/23 budget and MTFP(12);

(g) agree the proposals to build equalities considerations into decision making; and

(h) agree that Cabinet recommend to Full Council that the Local Council Tax Reduction Scheme should remain unchanged for 2022/23.

Background

18 To ensure MTFP(12) can be developed effectively and savings targets delivered in time to produce a balanced budget, it is important that a robust plan and timetable is agreed and followed.

19 The newly appointed joint administration is committed to strong financial governance and getting value for money for public money whilst ensuring that any council tax increases are justified and affordable.

20 Having been elected in May 2021, the new administration has embarked on a series of reviews of the programmes and projects it has inherited. It is in the process of determining its investment and disinvestment priorities for 2022/23 and beyond and is determined to ensure those priorities are based on meaningful engagement with all partners and stakeholders. The forecasts and assumptions included in this report do not yet include the financial implications arising from those reviews and priority setting processes.

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

22 The current MTFP(11) forecast that the Council agreed on 24 February 2021 covers the four year period 2021/22 to 2024/25. This report covers the MTFP(12) four year period 2022/23 to 2025/26.

23 Although the maximum period to be covered by the CSR is expected to be three years, it is felt prudent for the council to continue to plan across a four year timeframe. During this period the Council will continue to face significant and unavoidable budget pressures, especially relating to the National Living Wage, Social Care and Waste pressures whilst facing the uncertainty over the impact of the FFR.

24 Planning across the medium term in this way ensures that decisions can be made in the knowledge of the likely financial position of the Council and provides a basis for effective decision making taking account of the best estimates of income and expenditure.

25 At this stage of the planning cycle for MTFP(12) the following areas are presented for consideration by Cabinet:

(a) an update on the development of the 2022/23 budget since the council agreed its MTFP(11) strategy on 24 February 2021;

(b) an update on the MTFP(12) savings forecast for the period 2022/23 to 2025/26;

(c) a draft MTFP(12) decision making timetable;

(d) proposed approach for consultation on the 2022/23 budget proposals and on MTFP(12);

(e) workforce implications;

(f) equality considerations;

(g) consideration of the proposed Local Council Tax Reduction Scheme (LCTRS) for 2022/23.

Review of MTFP Model

26 The financial outlook for the Council continues to be extremely challenging. Prior to the pandemic the national finances were in a reasonably healthy state for the first time in 10 years. The impact of the pandemic upon the national finances has however resulted in a forecast £300 billion budget deficit for 2020/21 with the annual deficit not expected to reduce to below £100 billion before 2025/26.

27 It is widely expected that the Budget Statement and CSR to be published in the autumn of 2021 will highlight how the government will intend to reduce the national deficit, building on the action taken in the March 2021 Budget. Initial tax rises were announced in the Chancellor of the Exchequer's budget in March 2021, with local authorities able and encouraged to increase council tax by up to 5% in 2021/22.

28 The CSR should provide an indication on whether local government, as a non-protected government department thus far, will again see reductions in core funding. Indications have been given that the NHS, Education and Defence will continue to receive future protection indicating there could be difficult years ahead still for unprotected government departments such as local government. It is forecast therefore that future settlements for local government will reduce and that the council could be faced with £6 million of further grant cut, with a further £10 million loss of funding forecast as a result of the distribution formula that will be introduced under FFR.

29 The council will need to continually review the MTFP(12) projections and savings requirements over the coming months in light of future announcements and as more information becomes available on the longer term impacts of the pandemic on the councils budgets going forward.

30 In line with previous years, a thorough review of the council's budget has taken place subsequent to the approval of MTFP (11) by the Council on 24 February 2021. This has resulted in a small number of changes to the

assumptions for 2022/23 and in future years. The key adjustments and major areas for consideration are detailed below:

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

MTFP(11) assumed that the FFR would be implemented from April 2022. It now appears more likely that the FFR will not be implemented until April 2023. On that basis the £6 million reduction in RSG, forecast to be phased in over a three year period, has been delayed until 2023/24, benefitting 2022/23. At this stage, the underlying assumptions built into MTFP(11) in relation to future local government finance settlements are unchanged. The main assumptions being as follows

(i) The funding the council received in 2021/22 of £22.9 million for adult and children's social care will become recurrent;

(ii) There will be no increase in the Better Care Fund;

(iii) The council tax referendum level will be held at 2% over the MTFP(12) period and the council will take advantage of the 2% Adult Social Care precept available in 2022/23 as a consequence of deferring the full implementation of these powers in 2021/22.

All of these financial planning assumptions could change as a result of the CSR, the implementation of the FFR and the publication of the provisional local government finance settlement for 2022/23, which is most likely to be in December 2021. It is hoped that greater clarity will be provided during the coming months.

In terms of the FFR, the major concern for the council continues to be the potential impact on public health funding. Consultations to date on the FFR continue to advocate that the public health grant will transfer into the Business Rate Retention (BRR) process as part of the move to 75% retention from the current 50% (49% for the council and 1% for County Durham and Darlington Fire and Rescue Authority).

As part of this transfer, the intention is to utilise the revised Advisory Committee on Resource Allocation (ACRA) methodology to allocate public health funding. It is forecast that this will result in a loss of £18 million (33%) of the council's current public health grant funding. It is forecast however that the council may benefit from other elements of the FFR formula, resulting in the current £10 million net forecast loss. Clearly, the Council will continue lobby throughout the review process and this position will need to be continually reviewed across the MTFP(12) period.

(b) **Waste Collection/Disposal Pressures**

A number of long term contracts across the waste service are coming up for renewal over the next two years. It is expected for a range of reasons that the cost of these renewals will significantly exceed the 1.5% price inflation allowance included across the MTFP(12) planning period. It is forecast that the additional base budget required will be £2.2 million phased as follows:

	£m
2022/23	1.2
2023/24	1.0

(c) **Employer Pension Contributions**

The results of the triennial valuation review of the Pension Fund will need to be applied from April 2023. This will set the employers pension contribution rate for the following three years, as well as determining the annual contribution to eliminate the pension fund deficit. Originally it was forecast that that the council would face an increase of £3 million per annum from 2023/24. The most recent report from the Pension Fund actuaries has indicated that at this stage the fund investments have performed above expectations, notwithstanding this, the position could change before the next revaluation. At this stage it is felt prudent to withdraw the £3 million budget pressure in 2023/24 and therefore this has been removed from the MTFP(12) model.

2022/23 Savings Forecast

31 Based upon the revised assumptions detailed in this report, the savings requirement for 2022/23 is forecast to be £7.9 million, slightly higher than the MTFP(11) forecast position of a £6.3 million budget deficit. The adjusted position reflects the forecast delay in the implementation of the FFR, offset by additional base budget pressures in Waste Disposal and a reduction in forecast savings from the Business Support Review. The 2022/23 saving figure of £7.9 million reflects the need to recover the £3.778 million of BSR utilised in 2021/22 to balance the budget and delay the impact of savings in the current year upon front line services.

32 In MTFP(11) savings of £2.4 million were approved which would be achieved in 2022/23. This forecast has now been reduced by £0.9 million to £1.5 million after reviewing capacity to achieve savings as a result of the ongoing review into Business Support Services (back office administration services) where savings of circa £2 million have been achieved over the last two years. The MTFP(11) approved savings of £1.5 million reduce the savings shortfall in 2022/23 from £7.9 million to £6.4 million.

33 Although the budget deficit of £5.9 million in 2022/23 is the latest forecast, it should be recognised that this figure could significantly change before Full

Council sets the budget on 23 February 2022. The final savings requirement will be influenced by the outcome of the CSR, announcements on the FFR and the local government finance settlement for 2022/23. Similarly the council is facing significant additional budget pressures at the present time particularly in social care and waste disposal which could impact upon the savings requirement and there may be a need to accommodate budget pressures as a result of the longer term impacts of the pandemic on the councils budgets.

34 At this stage, no budget growth or provisions have been made of any long term impacts arising from the pandemic, with budgets assumed to return to pre-pandemic levels of activity by 2022/23. Budget impacts caused by the pandemic in 2021/22 are being offset by the £15.3 million of COVID19 funding provided by the government this year.

35 The MTFP(12) forecasts also assume a 3.99% council tax increase in council tax in 2022/23 with 1.99% increases across the remainder if the MTFP(12) period. The 3.99% increase in 2022/23 utilises the 2% adult social care precept flexibility deferred from 2021/22 and is in line with government recommendations as maximum increases in line with the referendum limits are factored into the Spending Power calculations and the Chancellor of the Exchequers Red Book forecasts.

36 With this uncertainty in mind work will continue in the coming months to seek to identify additional savings to address any future shortfall. If there is still a shortfall in savings at the time Full Council agree the budget in February 2022, then the Budget Support Reserve (BSR) will need to be utilised. The current balance on the BSR, after utilising £3.778 million to balance the 2021/22 budget is £12.6 million. In utilising the BSR to balance Cabinet will need to be mindful of significant budget deficit that exists in 2022/23 and should note that it will be important to take into account the forecast £17.7 million savings shortfall for 2023/24 in planning for savings requirements over the coming months.

MTFP(12) – 2022/23 to 2025/26 Update

37 The adjustments to MTFP(12) planning detailed in this report have impacted upon the forecast savings requirements for the 2022/23 to 2025/26 period.

38 The current forecast of savings required for the period 2022/23 to 2025/26 are detailed below:

	Savings Requirement	Less Savings Already Approved	Savings Shortfall
	£m	**£m**	**£m**
2022/23	7.943	(1.502)	6.441
2023/24	17.745	0	17.745
2024/25	10.066	0	10.066
2025/26	9.400	0	9.400
TOTAL	**45.154**	**(1.502)**	**43.652**

39 As can be seen, the additional savings required to be developed to balance the budgets over the next four years is estimated to be £43.652 million. This estimate must be considered alongside the uncertainty facing local government at this time especially in relation to the outcome of the CSR, the Fair Funding review and the implementation of the next stage of BRR. The financial forecasts contained in this report are considered to be prudent but not overly pessimistic.

40 It is likely that savings plans in the future will become more complex and potentially more front line and as such will require significant planning and consultation. It will be vital that timeframes for delivery are planned effectively to ensure the Council continues to balance the budget across the MTFP(12) period

41 The realisation of additional £43.7 million of savings will have resulted in the Council being required to save £290 million from 2011/12 to 2025/26. The updated MTFP(12) Model is attached at **Appendix 2.**

MTFP(12) Timetable

42 A high level timetable up to Budget setting in February 2022 is detailed below:

Date	Action
7 July	MTFP update report to Cabinet
September	Corporate Overview and Scrutiny Management Board consider 7 July Cabinet Report
13 October	MTFP update Report to Cabinet
October/November	Corporate Overview and Scrutiny Management Board consider 13 October Cabinet Report
15 December	MTFP report to Cabinet – outcome of Comprehensive Spending Review

Date	Action
December	Corporate Overview and Scrutiny Management Board consider 15 December Cabinet Report
9 January	MTFP report to Cabinet – analysis of provisional local government settlement
January	Corporate Overview and Scrutiny Management Board consider 9 January Cabinet Report
9 February	Budget Report to Cabinet
February	Corporate Overview and Scrutiny Management Board consider 9 February Cabinet Report
23 February	Council Budget and MTFP report

Proposed Consultation Programme

43 Based on the best practice that has developed over previous consultations, it is once again proposed that we consult using our existing County Durham Partnership networks during October and November. This will include the fourteen Area Action Partnerships (AAPs) and the thematic partnerships that support the County Durham Partnership. Additional work will be undertaken with special interest groups and there will be an opportunity for residents to respond electronically via the council's website which will be promoted through the council's presence on various social media platforms.

Workforce Implications

44 The council originally estimated 1,950 reductions to full time equivalent posts by the end of 2014/15. By 31 March 2022, it is forecast that there will have been a reduction of 3,000 posts, of which circa 700 will have been via the deletion of vacant posts. It is forecast that the number of post reductions will increase over the coming years as savings plans are developed and agreed to achieve the MTFP(12) required saving of £43.7 million. The exact number will not be known until proposals are developed.

45 At 31 March 2021 the council's workforce, excluding schools based employees, consisted of 9,459 posts (6,884.5 full time equivalent employees), of which, 7,437 posts (6,373.2 full time equivalent employees) are the councils permanent workforce and 2,022 posts (511.2 full time equivalent employees) are classed as temporary or casual employees.

46 The council will continue to take all possible steps to avoid compulsory redundancies and minimise the impact upon the workforce. This will require a continued focus on forward planning, careful monitoring of employee turnover, only undertaking recruitment where absolutely necessary and retaining vacant posts in anticipation of any required service changes, seeking volunteers for early retirement and/or voluntary redundancy and maximising redeployment opportunities for the workforce wherever possible.

47 In addition, the way that work is organised and jobs designed will continue to be reviewed by service groupings, with the support of Human Resources, to ensure that changes that are made to maximise the use of the workforce numbers and skills and introduce flexibility into the way work is organised to maximise the capacity of the remaining workforce.

48 These actions will ensure that, wherever possible, service reductions continue to be planned well in advance of commencing the exercises, employees are able to consider their personal positions and volunteer for ER/VR prior to the start of the exercise should they wish to, thereby enabling, in a number of situations, the retention of sustainable employment in the County for those who wish to remain in the workplace.

Equality Impact Assessment of the Medium Term Financial Plan

44 Consideration of equality impact analysis and mitigation is an essential element that members must consider in their decision making. As in previous years, equality impact assessments will be key to capturing and utilising equality analysis throughout decision making processes, alongside the development of MTFP(12).

45 The aim of the equality impact assessment process is to:

(a) identify any disproportionate impact on service users or staff based on the protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation;

(b) identify any mitigating actions which can be taken to reduce negative impact where possible;

(c) ensure that we avoid unlawful discrimination as a result of MTFP decisions;

(d) ensure the effective discharge of the public sector equality duty.

46 As in previous years, equality analysis is considered throughout the decision-making process, alongside the development of MTFP(12). This is required to ensure MTFP decisions are both fair and lawful. The process is in line with the Equality Act 2010 which, amongst other things, makes

discrimination unlawful in relation to the protected characteristics listed above and requires us to make reasonable adjustments for disabled people.

47 In addition, the public sector equality duty (PSED), contained at section 149 of the Equality Act, requires us to pay ‘due regard’ to the need to:

(a) eliminate discrimination, harassment and victimisation and any other conduct that is prohibited under the Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

48 A number of successful judicial reviews have reinforced the need for robust consideration of the public sector equality duty and the impact on protected characteristics in the decision making process. Members must take full account of the duty and accompanying evidence when considering the MTFP proposals.

49 Throughout the period of MTFP planning through to setting of the 2022/23 budget and MTFP(12) in February 2022, the equality analysis for all savings proposals will be developed alongside emerging savings proposals. Any relevant consultation activity and/or feedback will be fed into assessments. Equality analysis and impact assessments will be considered in decision-making processes and at budget setting.

50 In terms of the ongoing programme of budget decisions the Council has taken steps to ensure that impact assessments:

(a) are built in at the formative stages so that they form an integral part of developing proposals with sufficient time for completion ahead of decision-making;

(b) are based on relevant evidence, including consultation where appropriate, to provide a robust assessment;

(c) objectively consider any negative impacts and alternatives or mitigation actions so that they support fair and lawful decision making;

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

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

Local Council Tax Reduction Scheme for 2022/23

51 Following the abolition of the national Council Tax Benefit (CTB) system on 31 March 2013, Local Authorities have been required to work with their precepting bodies to establish a Local Council Tax Reduction scheme (LCTR); reviewed on an annual basis. The LCTR provides a ‘discount’ against the council tax charge, rather than a benefit entitlement.

52 The Council Tax Reduction Scheme Grant is paid directly to the council and the major precepting bodies (Police and Fire) and forms part of the council’s formula funding arrangements.

53 As this Government grant is a fixed amount, when there is growth in the numbers of council taxpayers becoming eligible for support with their council tax, there is a resulting risk to the Local Authority; this was seen in the early months of the pandemic in April/May 2020.

54 The council’s formula grant includes an element relating to Town and Parish (T&P) Councils and whilst the council has passed the grant on to the Town and Parish Councils, there is no statutory requirement to do so.

55 Following discussions with the Town and Parish Councils’ Working Group, and in the spirit of partnership working, recognising the important role Town and Parish Councils play in providing local services to communities, it is proposed to continue to pass on the Town and Parish element of the formula grant in 2022/23.

56 As we await the outcome of the Comprehensive Spending and Fair Funding Reviews it is proposed that the Council Tax Support Grant paid to Town and Parish Councils 2022/23 is the same as 2021/22, to provide some certainty to Town and Parish Councils. Local Council Tax Support Grant payments to Town and Parish Councils are therefore forecast to be £1.332 million in 2022/23 at this stage.

57 The County Durham Association of Local Councils has, through the Town and Parish Councils’ Working Group, requested that a review of “double taxation” is undertaken to inform further discussions. Work will commence shortly on this.

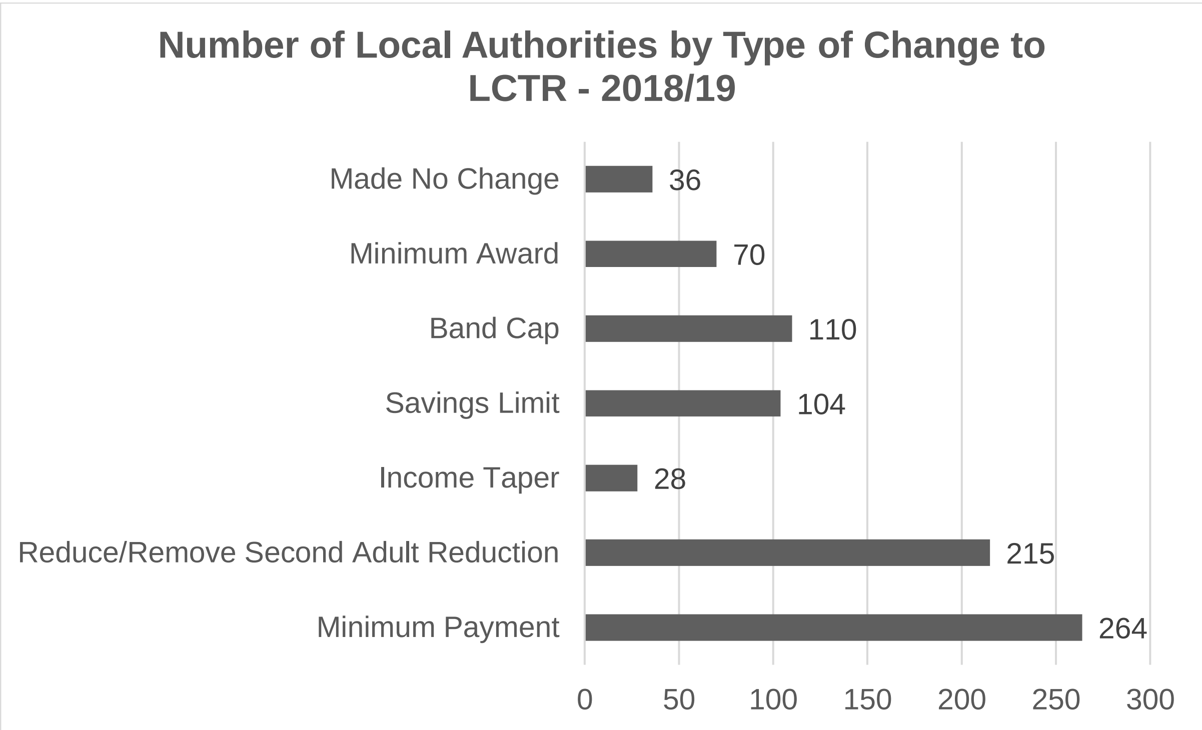
58 LCTR provides a ‘discount’ against the council tax charge, rather than crediting the account with a benefit payment and as such impacts on the council tax base and therefore the tax raising capacity of the council and its precepting bodies.

59 All local authorities are required to follow a national LCTR scheme for pension age applicants, which protects their entitlement at the same level as under the former national CTB regime. The pension age scheme can only be altered locally in ways which make it more generous to applicants.

60 There are no such restrictions on the level of support that can be given by working age LCTR schemes.

61 In the North East region, Durham are now the only authority whose scheme continues to mirror entitlement under the former CTB system, whilst the other eleven councils have schemes that cap the maximum entitlement to working age claimants.

62 The majority of councils who made changes to their schemes in the first few years of LCTR, did so to cap the overall amount that could be paid to working age households. The most recent national data was published in 2018/19 by the Joseph Rowntree Foundation. At that stage 80% of councils had made at least one change to their scheme by 2018-19. Different councils have set their schemes at very different levels across the country. Combined with different choices about other aspects of scheme design, this means that similar households are treated very differently according to where they live. More recently, local authorities have started to focus on making changes to better support applicants receiving Universal Credit (UC), while maintaining a cap on the total amount that an applicant can receive.

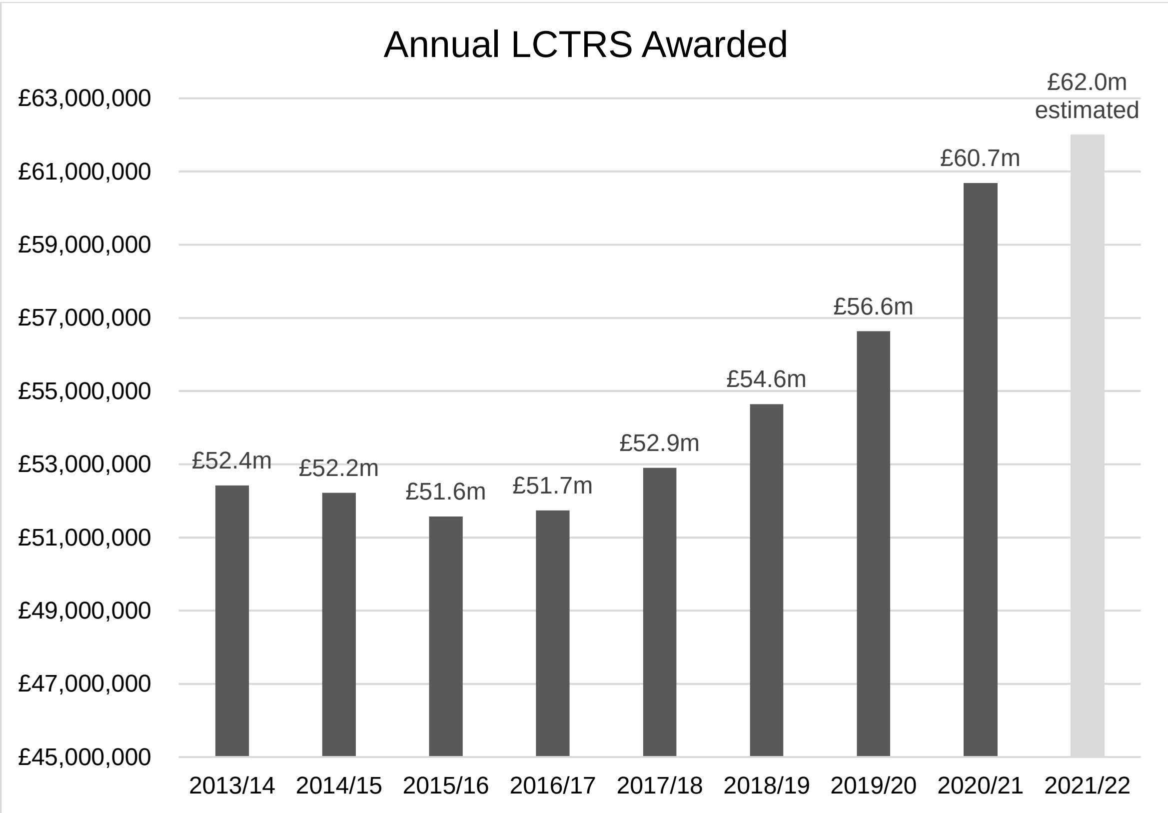


63 The roll-out of Universal Credit is currently scheduled to be completed in 2024. As at 1 June 2021, there were circa 19,300 LCTR applicants in county Durham receiving UC, around 54% of the current working age LCTR caseload.

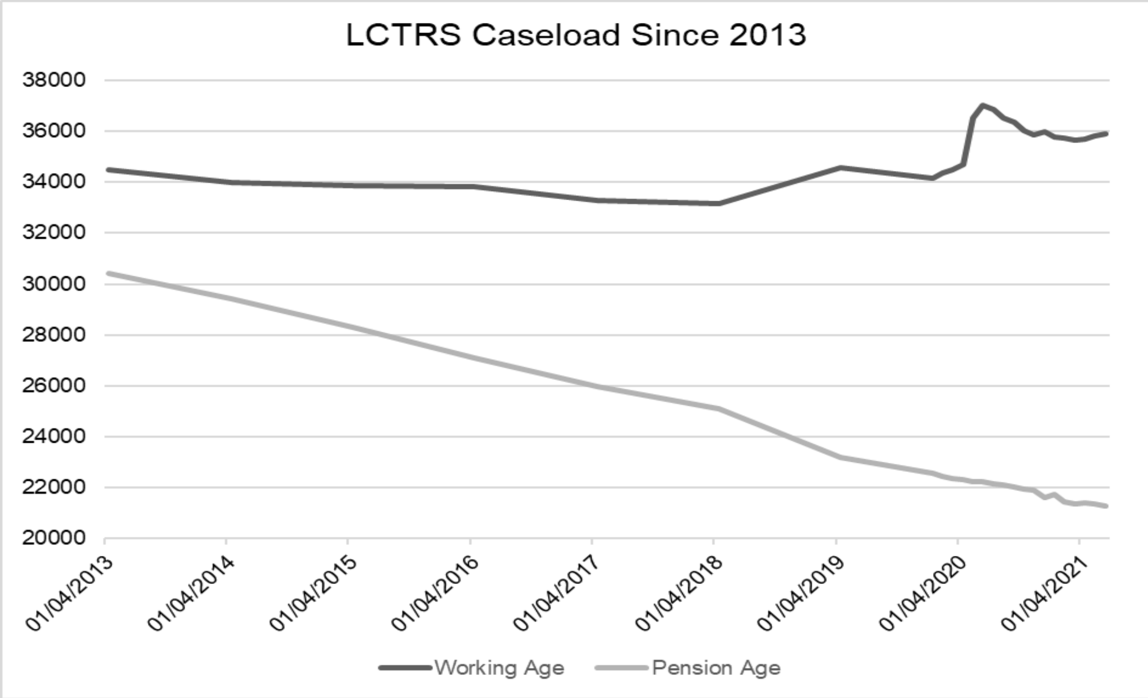
64 There are currently 57,150 LCTR applicants in County Durham, of which 21,250 (37%) are of pension age and 35,900 (63%) are of working age. Almost 80% of all working age applicants currently receive maximum LCTR, leaving them with no council tax to pay. Approximately 85% of working age

LCTR applicants live in rented accommodation and 87.5% occupy Band A properties. LCTRS support is forecast to be circa £62 million in 2021-22.

65 The table below shows the year on year differences in LCTR scheme costs over the last eight years. Whilst it is important to note that the council tax charges have increased across this period also, there was a significant increase in both caseload and costs in 2020/21 that is forecast to continue into 2021/22.

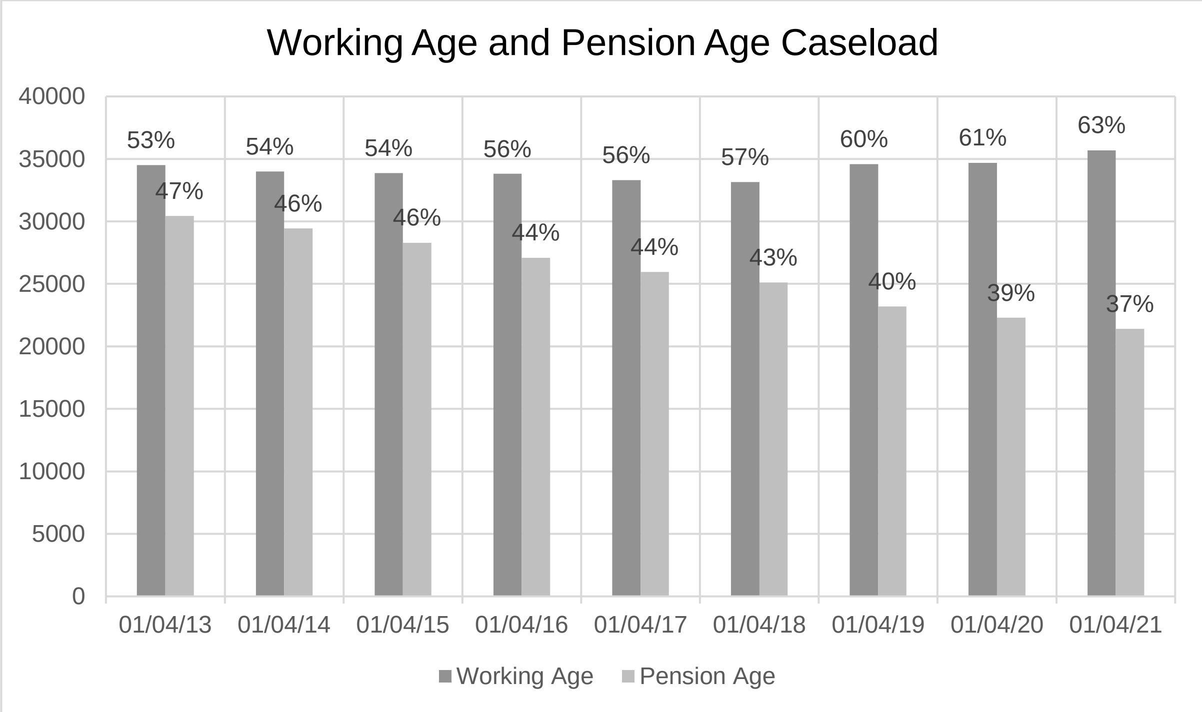


66 The council's LCTR scheme has seen a significant increase in demand as a result of the coronavirus pandemic. The pension age caseload has continued a trend of year on year reduction. The working age caseload, however, increased dramatically in the first quarter of 2020/21 as an unprecedented number of new claims were received by customers adversely affected by Covid-19. At the peak, in May 2020, the working age LCTRS caseload was almost 3,000 higher than in January of the same year. As of April 2021, the number of working age LCTR claims has remained around 4% higher than pre-pandemic levels:



67 In Durham, there are now over 3,600 LCTR claimants currently classed as working age that would have been treated as pensionable age claimants prior to 2010, when the process of moving eligibility to state pension credit age from 60 to 66 began. There will then be a further move up to 67 between 2026 and 2028, then to 68 between 2044 and 2046.

68 Over the last eight years there has been a ten percentage point increase in the proportion of working age applicants within Durham. This means a higher proportion of our caseload is coming under the part of the LCTRS scheme that the Council has control over. Working age customers carry a much greater administrative burden as they have more frequent changes in their circumstances that need to be processed, producing multiple bills across the year.



69 It is important to consider any impact on the collection rate for council tax, that changes to the LCTRS can have. The Institute for Fiscal Studies (IFS) estimate that a quarter of the additional council tax liability created by cuts to LCTR since 2013 is not being collected in year.

70 After many years of continued improvement, the councils in-year council tax collection rate reduced slightly in 2018/19 to 96.65%, and further still in 2019/20 to 96.37%, but this still represents an improved position on the in year recovery rate achieved in 2012/23 (the year prior to the introduction of the LCTR scheme). Performance in 2020/21 was impacted significantly by the pandemic with recovery action largely suspended for the whole of the year. In year recovery performance was 93.43% in 2020/21.

71 The regional picture in terms of the current schemes in operation and comparison of in-year collection rates with that which existed pre LCTRS is shown below for the position to 31 March 2020. Comparisons for the position to 31 March 2021 are skewed by the coronavirus pandemic and significant periods of inaction in terms of formal recovery action being taken last year:

Local Authority	Basis of Scheme	Minimum Payment	Second Adult Reduction Offered?	Change in in-year council tax collection rate between 2012/13 and 2019/20
Durham	CTB	No	Yes	+1.37%points
Darlington	CTB	20%	No	+0.34%points
Gateshead	CTB	8.5%	No	-0.72%points
Hartlepool	CTB	12%	No	-1.80%points
Middlesbrough	CTB	15%	No	-4.40%points

Local Authority	Basis of Scheme	Minimum Payment	Second Adult Reduction Offered?	Change in in-year council tax collection rate between 2012/13 and 2019/20
Newcastle	Income Banded	10%	No	-0.08%points
North Tyneside	CTB	15%	No	-1.90%points
Northumberland	CTB	8%	Yes	-0.06%points
Redcar and Cleveland	CTB	12.5%	No	+1.11%points
South Tyneside	CTB	30% or 15% if vulnerable	Yes	-2.07%points
Stockton	CTB	20%	No	-3.05%points
Sunderland	CTB	8.5%	No	-2.31%points
All English Unitary Authorities	N/A	N/A	N/A	-0.50%points
All English Authorities	N/A	N/A	N/A	-0.80%points

72 As Members will be aware, if any changes are made to the scheme, these must be consulted on and be subject to an equality impact assessment. Councils are required to review and approve their schemes annually and have this agreed by a Full Council meeting before 11 March each year. In reality, decisions are needed much earlier than this given the impact on tax base calculations and the need to firm up the tax base forecasts much earlier in the budget planning cycle.

73 Pensioners, have to be protected from any changes, with any reductions applied to working age claimants only.

74 Nine years after the government abolished the national CTB system the council continues to have a LCTR scheme which mirrors the previous entitlement under the CTB system for all claimants. No LCTR claimants have therefore been financially worse off in the last nine years (including the current year) than they would have been under the previous national scheme.

75 The council has been mindful of the continuing impacts of the wider welfare reforms which are having a detrimental impact on many low income households and the fact that the additional council tax liabilities for working age households could have a significant impact on affected household budgets by around £100 to £350 a year based on a scheme whereby entitlement for working age claimants is set at a maximum of 90% entitlement. This would make collection of council tax more difficult and costly to recover from these low-income households.

76 In approving the scheme for 2021/22, the council gave a commitment to review the scheme on the grounds of medium term financial plan (MTFP) affordability and on-going austerity causing further MTFP pressures.

77 The reduction in Government Grant support towards maintaining these schemes in the first year (2013/14) was £5.1 million, after which the Local Council Tax Support Grant was subsumed into general formula grant, which was and subject to annual reductions up to 2019/20. To recover the full initial £5.1 million cost by reducing the benefit awarded to working age claimants, and factoring in a prudent collection rate of 80%, would require the maximum entitlement to be reduced from 100% to 85.35% based on current caseloads.

78 Should the Council review its scheme and reduce maximum entitlement to working age claimants, depending on the forecasted council tax collection from affected low income households, there would be scope to increase Council Tax revenues by between £3.49 million (based on a scheme that awarded maximum entitlement to working age households of 90% with a prudent collection rate of 80%) and £5.1 million (based on a scheme that awarded maximum entitlement of 85.35% with a prudent collection rate of 80%). This would impact circa 35,900 working age households across County Durham, where 6,750 (18.8%) are actually in low paid jobs rather than being unemployed.

79 Following careful consideration of the current financial position of the council and in light of the continuing impact of the coronavirus pandemic and welfare reforms including the continued roll out of Universal Credit Full Service, which commenced in October 2017 in County Durham; it is proposed that Cabinet recommend to Council that the current scheme should be extended for a further year into 2022/23 and, therefore, that no additional council tax revenues or pressures are built into the MTFP projections from a review of the LCTRS at this stage.

80 The reasons for extending the current scheme are due to the current scheme remaining within existing cost parameters for the Council. In addition, whilst the full impacts of the Government's welfare reforms are complex and difficult to track, demand for Discretionary Housing Payments; Social Fund Applications and Rent Arrears statistics in County Durham compared to others across the region, would suggest that the council tax benefit protection afforded to working age claimants, in addition to the wide-ranging proactive support that has been put in place, is continuing to have a positive impact on these households.

81 The council will need to continue to review the national situation and track what is happening in local authorities that have introduced LCTR schemes that have reduced entitlement to their working age claimants in terms of impacts and performance in terms of recovery of the council tax due.

82 The council will also need to keep track of the continuing impact of the roll out of Universal Credit (UC). This presents continuing challenges for the

administration of the LCTRS as it results in a much higher number of changes in circumstances and removes the administrative economies of scale currently achieved by administering Housing Benefit and LCTR claims side by side.

83 More significantly however, UC changes results in multiple reworking and changes to LCTR entitlement throughout the year and multiple bills being issued to individual households resulting in numerous changes to their net liability and instalment plans for any council tax balance they are responsible for.

Conclusion

84 The council continues to face significant financial uncertainty for the MTFP(12) period 2022/23 to 2025/26. The uncertainty relating to future government financial settlements is exacerbated by the ongoing impact of the pandemic alongside increases in base budget pressures from inflation, national living wage, social care and wast disposal.

85 Planning will continue in relation to the identification of savings to enable future years budgets to be balanced. The BSR of £12.6 million is available to support the protection of front line services although it is recognised that this reserve could be quickly exhausted if early decisions are not made.

Background papers

- Local Government Finance Act 1992
- Welfare Reform Act 2012
- The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations (as amended)
- The Impacts of Localised Council Tax Support Schemes – Institute for Fiscal Studies Report January 2019

Other useful documents

- Medium Term Financial Plan (11), 2021/22 to 2024/25 – Report to Council 24 February 2021
- Local Council Tax Reduction Scheme 2021/22 – Report to Council 2 December 2020

Author(s)

Jeff Garfoot Tel: 03000 261946

Mary Readman	Tel: 03000 268161
Andy Palmer	Tel: 03000 268551
Gordon Elliott	Tel: 03000 263603

Appendix 1: Implications

Legal Implications

The council has a statutory responsibility to set a balanced budget for 2022/23. It also has a fiduciary duty not to waste public resources.

The Welfare Reform Act 2012 abolished the national council tax benefits system (CTB), paving the way for new Local Council Tax Reduction Schemes (LCTRS) to be introduced under the auspices of the Local Government Finance Act 1992. Section 13A of the Local Government Finance Act 1992 (“the 1992 Act”) requires each billing authority in England to make a scheme specifying the reductions which are to apply to amounts of council tax payable by persons, or classes of person, whom the authority considers are in financial need (“a council tax reduction scheme”).

The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012 (“the 2012 Regulations”) prescribe matters which must be included in such a scheme in addition to matters set out in paragraph 2 of Schedule 1A to the 1992 Act.

Each year regulations amending the 2012 Regulations are made in November/December. The majority of the amendments are to ensure consistency with changes to social security legislation and these are subsequently included in our local scheme.

The LCTRS provides a ‘discount’ against the council tax charge, rather than a benefit entitlement and as such impacts on the council’s tax base.

Regulations made under the Local Government Finance Act 1992 (The Local Authorities (Calculation of Council Tax Base) Regulations 1992 (as amended) the council to calculate a council tax base for each financial year.

The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 which came into force on 30 November 2012 and applies to the financial years beginning 1 April 2013 onwards contains the rules which require the council to calculate the Council Tax Base.

A key element of the tax base calculation is the council’s policy in terms of its LCTRS.

There is a statutory requirement for the Council to adopt a local council tax support scheme for the ensuing financial year by 11 March each year. Where the council is proposing any changes to its scheme, there is a statutory requirement to consult on these proposals in advance of making any changes. Pensioners have to be protected from any changes, with any reductions applied to working age claimants only.

Finance

The report highlights that at this stage £7.9 million of savings are required to balance the 2022/23 budget with £43.7 million across the next four years. Work will continue over the coming months to identify savings to balance the budget across the MTFP(12) period.

The funding made available to support the Local Council Tax Reduction Schemes in 2013/14 (90% of the previous funding available under the Council Tax Benefit System) now forms part of the Council's formula funding arrangements.

The Council has continued to pass on the Town and Parish element of its formula grant over the last five years but in doing so continues to apply pro-rata reductions in the Council Tax Support Grant paid to Town and Parish Councils. Local Council Tax Support Grant payments to Town and Parish Councils is forecast to be £1.322 million in 2022/23.

The County Durham Association of Local Councils has, through the Town and Parish Councils' Working Group, requested that a review of "double taxation" is undertaken to inform further discussions. Work will commence shortly on this, however, the council has made it clear that any consideration on potential double taxation payments to town or parish councils would also need to consider whether the council continues to provide Local Council Tax Support Grant payments to Town and Parish Councils at the current levels and distributed in the same way

The Council is responsible for the costs of any increase in caseload as the level of Government support is fixed (and has been subject to reductions up to 2019/20) within formula grant.

In 2020/21 there was a significant increase in the LCTRS caseload as a result of the pandemic and caseloads remain higher than pre-pandemic levels.

Prudent estimates and provisions were built into the tax base forecasts for the current year at budget setting, and whilst the Council is subject to greater financial risk now, the current scheme remains within the budget provisions.

Should the Council review its scheme and reduce maximum entitlement to working age claimants, depending on the forecasted council tax collection from affected low income households, there would be scope to increase Council Tax revenues by between £3.49 million (based on a scheme that awarded maximum entitlement to working age households of 90% with a prudent collection rate of 80%) and £5.1 million (based on a scheme that awarded maximum entitlement of 85.35% with a prudent collection rate of 80%). This would impact circa 35,900 working age households across County Durham, where 6,750 (18.8%) are actually in low paid jobs rather than being unemployed.

Consultation

Information on the MTFP(12) consultation process are contained in the report.

If any changes proposed to the LCTR scheme, these must not impact on pension age claimants, must be consulted on and be subject to an equality impact assessment. Councils are required to review and approve their schemes annually and have this agreed by a Full Council meeting before 11 March each year. In reality, decisions are needed much earlier than this given the impact on tax base calculations and the need to firm up the tax base forecasts much earlier in the budget planning cycle.

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.

Nine years after the Government abolished the national Council Tax Benefits System the council continues to have a LCTRS which mirrors the previous entitlement under the Council Tax Benefit System for all claimants. No council tax benefit claimants have therefore been financially worse off in the last eight years than they would have been under the previous national scheme and if the proposals set out in this report and ultimately agreed by Council in the autumn this will continue to be the case.

The Government EIA on the LCTRS was published in January 2012 and is relatively brief. It considered equality impacts in relation to age and disability, concluding that protection for pensioners would be a positive impact and the effects on disabled people would depend on how each local authority responded to the reduction in council tax support. No impacts were identified in relation to gender or ethnicity and no other protected characteristics were considered and it was left to individual councils to identify full local impacts, based on local implementation.

Given the proposals to extend the current LCTRS into 2022/23 thereby continuing to protect current entitlement, there will be no negative equalities impact, with the financial position of claimants protected in 2022/23.

Should the council decide against extending the current scheme into 2022/23 and elect instead to pass on reductions to working age claimants, there would be a range of potential negative equalities impacts. These include financial impact for working age claimants and possible additional impacts in relation to health and wellbeing, housing and the consequences of debt or legal action. These impacts are most likely in relation to gender, age and disability with limited impacts for race and sexual orientation and no evidence of impact on transgender status, religion or belief.

Climate Change

The council budget will be developed to provide resource to enable the council to meet the requirements set out in the council's Climate Change Emergency Response Plan.

Human Rights

Any human rights issues will be considered for all proposals agreed as part of MTFP(12).

Crime and Disorder

None

Staffing

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

At 31 March 2021 the council's workforce, excluding schools based employees, consisted of 9,459 posts (6,884.5 full time equivalent employees), of which 7,437 posts (6,373.2 full time equivalent employees) are the councils permanent workforce and 2,022 posts (511.2 full time equivalent employees) are classed as temporary or casual employees

Accommodation

None

Risk

A robust approach to Risk Assessment across the MTFP process will be followed especially in relation to any individual risk assessments of savings plans.

The report outlines a range of financial risks surrounding the LCTRS. These are being effectively managed at this time. Given that the proposal is to extend the current arrangements into 2022/23 there are no system development issues or risk associated with these proposals.

The council will need to continue to keep track of the impact of the roll out of Universal Credit (UC). This presents challenges for the administration of LCTRS as it results in a much higher number of changes in circumstances (experience is that the UC earned income element changes frequently as the person moves through the claimant commitment with their Work Coach) and removes the administrative economies of scale currently achieved by administering Housing Benefit and LCTRS claims side by side.

More significantly however, UC changes results in multiple reworking and changes to LCTRS entitlement throughout the year and multiple bills being issued to individual households resulting in numerous changes to their net liability and instalment plans for any Council Tax balance they are responsible for. After many years of continued improvement, our in-year council tax collection rate reduced slightly in 2018/19 to 96.65%, and further still in 2019/20 to 96.37%. Performance in 2020/21 was impacted significantly by the pandemic with recovery action largely suspended for the whole of the year. In year recovery performance was 93.43% in 2020/21.

Procurement

None

Appendix 2: Medium Term Financial Plan – MTFP(11) 2021/22 – 2024/25 Model

	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000
Government Funding				
Revenue Support Grant and Fair Funding Review	2,000	4,000	4,000	2,000
Reduction in Benefit Admin Grant	100	100	100	0
Bus. Rates / S31 - CPI increase (1%/1%/1.5%/1.5)	-500	-500	-750	-750
Top Up - CPI increase (1%/1%/1.5%/1.5)	-700	-700	-1,050	-1,050
New Homes Bonus	2,731	1,745	0	0
Other Funding Sources				
Council Tax Increase - 1.99% + ASC 22/23	-9,400	-4,800	-4,900	-5,000
Council Tax/Business Rate Tax Base increase	-1,500	-2,000	-3,000	-2,000
Estimated Variance in Resource Base	**-7,269**	**-2,155**	**-5,600**	**-6,800**
Pay inflation (2%)	4,650	4,800	4,950	5,100
Price Inflation (1.5%)	3,900	4,000	4,100	4,200
Base Budget Pressures				
National Living Wage	4,400	4,600	2,500	1,500
Employers Pension Contributions	0	0	0	0
Pension Fund Auto Enrolment costs	500	0	0	0
Social Care System Licenses	0	100	0	0
Adults Service Fees and Demographic Pressures	1,000	1,000	1,000	1,000
Childrens Services Demographic Pressures	1,500	1,500	1,500	1,500
Loss of School SLA Income and Sales support	100	0	0	0
Materials Recycling Facilities Contract	1,000	0	0	0
Waste Haulage Contract	200	0	0	0
Household Waste Recycling Contract	0	1,000	0	0

Net Zero Investment	0	0	0	0
Ongoing COViD impacts	0	0	0	0
Unfunded Superannuation	-100	-100	-100	-100
Prudential Borrowing	3,000	3,000	3,000	3,000
Net Collection Fund Position after 75% Grant applied	1,284	0	-1,284	0
Short Term Investments				
Investment in climate change initiatives	-1,500	0	0	0
Additional investment in highways infrastructure	-2,500	0	0	0
Investment in Housing Initiatives	-500	0	0	0
Investment in clean and green neighbourhoods	-1,000	0	0	0
Investment in reducing poverty and inequality	-1,500	0	0	0
Investment in library services	-1,000	0	0	0
Investment in Childrens services initiatives	-1,000	0	0	0
Other One Off Initiatives	-1,000	0	0	0
TOTAL PRESSURES	**11,434**	**19,900**	**15,666**	**16,200**
Use of One Off funds				
Adjustment for use of BSR in previous year	3,778	0	0	0
Use of Budget Support Reserve	0	0	0	0
Savings				
Savings Agreed in MTFP(10)	-1,252	0	0	0
MTFP(11) Savings	-250	0	0	0
SURPLUS FUNDS (-)/ SAVINGS SHORTFALL	**6,441**	**17,745**	**10,066**	**9,400**
	TOTAL SHORTFALL			**43,652**