Cabinet

13 October 2021

Medium Term Financial Plan(12), 2022/23 – 2025/26

Key Decision No. 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

Electoral division(s) affected:

Countywide

Purpose of the Report

1 To provide an update on the current forecast position for the 2022/23 budget and the Medium Term Financial Plan (MTFP(12), 2022/23 to 2025/26, which factor in working assumptions in terms of Council Tax increases. Final budget setting and Council Tax increase proposals will be considered by Full Council on 23 February 2022.

Executive Summary

2 Local government continues to operate in a period of significant financial uncertainty brought about by a series of one-year financial settlements, significant budget pressures in social care, special educational needs, disability services and other unfunded pressures arising from demographic and pay and price inflation. Forecasting the likely ongoing impact of COViD-19 upon the council's expenditure, income and government funding levels adds a further layer of complexity and uncertainty.

3 Unless additional government funding is provided in the upcoming Comprehensive Spending Review (CSR), the financial outlook for the sector will continue to be extremely challenging for the foreseeable future, even more so in County Durham due to the inequities of the

Council Tax system which make self-funding local service delivery pressures from council tax revenues generated alone impossible.

4 There continues to be significant uncertainty in terms of the financial settlement for local government and how the available funding will be shared between local authorities through the funding formula from next year. The government has announced that the upcoming CSR will be published on 27 October 2021 and that the CSR will cover the three-year period 2022/23 to 2024/25. Government is already indicating that there will be tough choices in relation to investment in public services, particularly in light of the huge budget deficit forecast the country faces as a result of COViD-19 and the ongoing impact of Brexit upon the economy.

5 It is expected that the outcome of the Fair Funding Review (FFR), including the move to 75% Business Rate Retention will be delayed with no expectation of implementation until at least 2023/24. This adds a further layer of uncertainty and complexity to our medium term financial planning.

6 A significant added uncertainty at this stage is the impact of the introduction of the Health and Social Care levy and the upcoming Social Care White Paper. This will have a significant impact upon government grant, council expenditure and council income. It is hoped that the CSR will provide clarity in this regard but the impact upon the council will be significant, with a risk of the council facing additional financial pressures arising from these reforms. It is uncertain at this stage whether these reforms will include additional Council Tax raising powers through further Adult Social Care precept raising powers beyond the flexibility provided in 2021/22 and 2022/23.

7 The lack of clarity in relation to the CSR, the FFR and social care at this stage is exacerbated by uncertainties in relation to future council tax referendum levels, future funding of the Improved Better Care Fund, short term funding provided to local authorities in 2021/22 for adult and children social care pressures, funding for the High Needs Special Educational Needs Dedicated Schools Grant and the ongoing impact of the pandemic upon council expenditure and income.

8 This level of uncertainty is making financial planning extremely difficult and requires the council to be flexible and adaptable as it considers setting the 2022/23 budget and the medium term financial plan 2022/23 to 2025/26. Financial planning within the council will ensure that the council is well placed to react effectively to any outcome, however planning with this level of uncertainty is not conducive to effective long-term decision making.

9 Planning at this stage remains on the basis that the council will lose a further £16 million of government funding over a five-year transition period as a result of the outcome of the CSR and the forecast FFR implementation in 2023/24. This position primarily reflects ongoing concerns regarding the expected utilisation of the Advisory Council for Resource Allocation (ACRA) methodology for apportioning Public Health Grant which would result in a loss of £18 million of funding. It has been assumed that the £17.6 million of one-off funding received in 2021/22 for Adult and Children's social care pressures will continue a recurrent basis.

10 At this stage no assumption has been made in relation to the financial impact upon the council of the Health and Social Care levy and the attendant Social Care Command Paper. The impact will need to be fully assessed once the CSR is published and the detail of the white paper are known. The cost of the increases to employer's national insurance for the council have however been factored into the forecasts, offset by receipt of Government grant, in line with the announcements made on 7 September 2021.

11 The forecasts still factor in an assumed annual increase in Council Tax of 1.99% and that in 2022/23 a further 2% Adult Social Care precept will be applied, taking up the balance of the 3% tax raising capacity through this precept that was provided across 2021/22 and 2022/23. Final proposals on council tax increases for 2023/23 will need to be considered and approved at Full Council on 23 February 2022. The forecast increases factored into the MTFP12 model at this stage are in line with Government expectations and are key components of the Governments spending power calculations.

12 No long-term financial impacts from COViD-19, other than a short-term depression in tax base increases, has yet to be factored into our forecasts. This applies to both any increased cost pressures (we continue to experience budget pressures in waste management because of waste tonnages collected not yet returning to pre-covid levels for example) and loss of income (we continue to face reduced income from use of leisure and cultural assets for instance). This position will be kept under continual review and assumptions will be amended if it becomes apparent that there will be a financial impact in 2022/23.

13 In line with previous practice and further to the initial update report provided in July, the MTFP financial forecasts have been reviewed. The updated position includes a range of budget pressures that were not factored into the previous report and revised assumptions on the

council's resource base. The updated forecasts contained in this report indicate that savings of £47.156 million will be now be needed to balance the budget over the 2022/23 to 2025/26 period – this is a net increase of circa £2 million compared to the position reported previously. Savings are forecast to be required in all years of MTFP(12) as unavoidable budget pressures and the impact of funding reductions continue to outstrip the council's ability to generate additional income from business rates and council tax.

14 The council suffers from low house values and therefore a low tax base and low tax raising capacity as a result. Annual pay and price inflation alone outstrips the additional revenues that can be generated from annual council tax increases in line with the referendum limits imposed by government.

15 The achievement of an additional £47.156 million of savings over the next four years will undoubtedly be extremely challenging – more so given the level of savings already made. The emphasis since 2011/12 has been to minimise savings from front line services by protecting them wherever possible whilst maximising savings in management and support functions and by generating additional income. The opportunity for further savings in these areas is becoming much more difficult after the delivery of £247 million of savings up to 31 March 2022.

16 The total savings required at this stage for 2022/23 to balance the budget amount to £7.344 million. A sum of £1.502 million of savings already agreed in MTFP(11) are available in 2022/23. This leaves a savings shortfall at this stage of £5.842 million to balance the budget next year and £45.654 million in total across the next four years.

17 Additional savings plans are being developed to enable the council to be able to react to the outcome of the 2022/23 local government finance settlement, which is expected to be announced in December 2021 being very much influenced by the CSR to be published later this month. If required, the council can utilise the Budget Support Reserve (BSR) to assist in balancing the budget in 2022/23. The current balance on the BSR, after utilising £3.778 million to balance the 2021/22 budget, is £12.6 million.

18 To enable the council to be able to set a balanced budget for 2022/23, a range of options will need to be considered including additional savings and utilisation of the BSR. The level of savings shortfall will be influenced by the local government settlement and the ongoing impact of emerging base budget pressures. Careful consideration of any ongoing financial impacts for the pandemic will need to be considered further in future reports.

19 A base budget review across Adult and Health Services (AHS) and Children and Young People's Services (CYPS) has been concluded, with proposals outlined in the report to permanently transfer £4.5 million of budget from AHS to CYPS to help offset spending pressures in the children's looked after placement budgets and alleviate the need for further growth to be included in the MTFP forecasts next year.

20 Based on the best practice that has developed over previous consultations, we will consult using our existing County Durham Partnership networks during October and November. The primary focus of the consultation will on the 14 AAP Boards who will be asked to comment on the overall approach set out in this report.

Recommendation(s)

21 Cabinet is recommended to:

(a) agree to the in-year transfer of £4.5 million of revenue budget from Adult and Health Services to Children and Young Peoples Services, with this transfer being built into the base budget for 2021/22 onwards;

(b) note that at this stage no long-term financial impact from the pandemic have been factored into the financial forecasts, but that this position will be kept under review;

(c) note the requirement to for savings of £47.156 million for the period 2022/23 to 2025/26;

(d) note the £1.502 million of savings for 2022/23 previously agreed in MTFP(11);

(e) note that there is a forecast £45.654 million savings shortfall across MTFP(12), although this forecast could change significantly based upon outcomes of the Comprehensive Spending Review, the local government finance settlement and after addressing future base budget pressures being faced by the council especially resulting from COViD-19;

(f) note the additional uncertainty introduced by government announcements in relation to the Health and Social Care levy and the upcoming Social Care white paper;

(g) note that in addition to the already agreed £1.502 million of savings further savings of £5.842 million are forecast to be required to balance the 2022/23 budget; and

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

Background

22 The MTFP(12) report presented to Cabinet on 7 July 2021 provided an initial update on the development of the 2021/22 revenue budget and the forecast medium term position for the council over the period 2022/23 to 2025/26, which factored in working assumptions in terms of Council Tax increases. This report builds on those forecasts, provides a further update, and considers recent government announcements. Final budget setting and Council Tax increase proposals will be considered by Full Council on 23 February 2022.

Review of MTFP Forecasts

23 The financial outlook for the council continues to be extremely challenging. The national finances are in a highly uncertain position due to COViD-19 and the impact of the UK exist from the European Union.

24 The government are indicating that unprotected government departments could face further funding reductions with announcements expected in the CSR, which it has been announced will be published on 27 October 2021 and following local government finance settlement which is expected to be published in early December.

25 It is still forecast therefore that future settlements for local government will result in a loss of £6 million of government funding alongside a £10 million funding reduction as a result of the FFR which is expected to be implemented from 2023/24 at the earliest.

26 The council will need to continually review the MTFP(12) projections and savings requirements over the coming months in light of the volatility of the current financial position for local government.

27 In line with previous years, a thorough review of the Council's budget has taken place subsequent to the 7 July 2021 Cabinet MTFP(12) report and considering the quarter one forecast of outturn 2021/22 presented to Cabinet last month. This has resulted in several changes to the assumptions for 2022/23 and future years. The key adjustments and major areas for consideration are detailed below:

(a) **National Insurance – impact of Health and Social Care levy**

The government has announced a 1.25% increase in employers' national insurance from 1 April 2022. The forecast cost to the council of this policy is £2 million. The government announcement however also indicated that the impact of this upon the public sector would be funded. Intimation from the Ministry of Housing, Communities and Local Government (MHCLG) is that local authorities will receive a monthly Section 31 grant based upon the national insurance paid across to HMRC the previous month. This is therefore assumed to be cost neutral to the council.

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

Government is presently carrying out a review into NHB. In recent years reductions in NHB have been utilised to finance new funding streams across local government. Recent indications from MHCLG are that some form of NHB could continue in the future although at this stage is it not clear what the impact upon the council may be. The council has previously taken a pessimistic view on the outcome of the NHB review, building in an assumption that all funding would be lost.

Based upon the possibility of a continuation of some form of scheme the updated MTFP forecasts assumes 50% of the NHB will be lost over the next two years rather than 100%. The impact of these revised assumptions is that the Council will retain £2.185 million of funding that the previous forecasts assumed we would lose.

(c) **Section 31 Grants**

A reconciliation of S31 grants has highlighted that additional grants are being received in 2021/22 than were originally forecast and these are expected to continue into 2022/23.

In addition, the consumer price index (CPI) is presently higher than previously forecast. The CPI rate at the end of September each year is utilised to uplift business rates and the Top Up grant.

In the 7 July 2021 MTFP Cabinet report, it was forecast that CPI would be 1% at the end of September. The rate of CPI at the end of August 2021 has increased to 3.2%. Inflation rates are volatile at this time, but a CPI forecast of 3% is now included in the MTFP(12) model. Overall, these changes have increased the income expectations for section 31 grants by £4.0 million.

(d) **Housing Benefit Admin Grant Reductions**

Up to 2019/20 the government were reducing grants payable to local authorities for administering housing benefit. In the last two years however the grant allocations have been broadly cash flat. On that basis the forecast annual loss of housing benefit admin grants of £0.1 million have been removed from the MTFP(12) model.

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

Regular reviews are carried out in relation to both council tax and business rate taxbase forecasts. The council tax taxbase is impacted by new builds, the incidence of uptake of discounts and exemptions, with a further major variable being the impact of the local council tax reduction scheme. The business rate taxbase is impacted by new builds, business expansions, demolitions and business failures.

The forecast tax base growth position as at 7 July 2021 assumed a £1.5 million increase for 2022/23. This position continues to be reviewed as 2021/22 progresses, especially in relation to the impact of COViD-19 both upon future levels of house building and business growth but also on the incidence of local council tax reduction claims.

Based upon current forecasts the taxbase growth for 2022/23 will be £2.5 million, enabling additional support to be provided to the 2022/23 budget. The tax base forecasts across the remaining years have also been updated. These future years forecasts are considered prudent and will be updated on an annual basis. The additional council tax base growth factored into the latest forecasts across the four years is and additional £1.0 million of tax base growth.

(f) **National Living Wage (NLW)**

These budget pressures are based upon the Low Pay Commission's November 2020, report with an agreed rate for 2021/22 of £8.91 per hour being the base. Indications at that time were that the intention was for the NLW to move towards 66% of median wages by 2024/25.

Over recent months national wage increases have been higher than forecast and it is expected that NLW increases in excess of 5% will be required over the next three years to achieve the 2024/25 target.

The forecast cost of NLW increases upon the council has increased from £4.4 million to £5.3 million. The vast majority of this requirement (£5.0 million) is required to pay increased fee costs to private sector providers of adult social care where the majority of staff are paid at or close to the NLW.

(g) **Energy Prices**

Energy markets are in a very volatile position at the present time, with significant increases in energy prices and demand being higher than expected, green energies not producing at expected levels over recent months and increased international demand for gas.

All these factors are distorting the market and resulting is high price increases for both gas and electricity. The council has been protected against these increases to some extent in the current year through the forward purchasing arrangements via the North East Purchasing Organisation, though those deals only cover so much of the pressures.

At this stage it is forecast that energy prices will increase by at least 20%, with this increase impacting partially upon 2021/22 but fully upon 2022/23. The forecast additional cost for the council from a 20% increase for 2022/23 is £2.2 million. This position is so volatile at the present time that prices will need to be kept under constant review. It is assumed at this time that costs in 2023/24 and beyond can be contained within the general price inflation figures contained in the model. The volatility in this area poses a significant risk to future budgets based on current market conditions and will be monitored carefully.

(h) **Adult and Health Service (AHS) and Children and Young Peoples Services (CYPS) social care base budget pressures**

In recent months thorough reviews have been carried out into the pressures being encountered across the two service areas. In the 7 July 2021 Cabinet report a £1 million base budget pressure was included for social care demographics for AHS and £1.5 million for CYPS next year.

The review process has identified that overall activity levels in AHS are lower than the 2020/21 base budget and pre-pandemic levels. At this time, it is forecast that base budget activity levels, which assumes a return to pre-pandemic levels of occupancy in residential and nursing care and usage in terms of home care, are £4.5 million below baseline levels. This position is broadly reflected in the AHS quarter 1 forecast of outturn 2021/22. The service is underspending further, based on activity levels currently being below pre-pandemic levels, with that underspend being treated as a Covid underspend. Based on the work undertaken, the £1 million base budget pressure included in the 7 July MTFP(12) Cabinet report for 2022/23 is not required and the opportunity exists to rebase the AHS budget in the current year.

For CYPS social care however the position continues to deteriorate. Although the number of children in the care system in the county is not increasing significantly now, the complexity of cases and ongoing impact of the pandemic continues to drive up costs and prices in this budget. It is forecast that to achieve a balanced budget for 2022/23 a £5.5 million base budget uplift is required. An increase of £4 million on the sum included in the 7 July 2021 Cabinet report.

It is practical at this point to seek agreement for the £4.5 million forecast base budget capacity in AHS to be transferred in year to CYPS via a permanent budget transfer. This 2021/22 in year budget virement will then be built into the 2022/23 base budgets for AHS and CYPS going forward. This action will reduce the required base budget growth in CYPS social care from £5.5 million to £1 million next year and have the effect of reducing the in-year overspend in CYPS and the in-year underspend in AHS. The assumptions for demographic growth beyond 2022/23 remain in line with the previous forecasts.

(i) **Home to School Transport**

This budget area continues to face pressures, especially in relation the cost of transport for children with special needs to school. A new base budget pressure of £3 million is included for 2022/23 reflecting the quarter one forecast of outturn position reported to Cabinet in September. A review of this area of activity, which has seen costs increase by 100% over the last five years, is currently underway to explore options to reduce the pressures being experienced but any corrective action, if implemented, could not be introduced until September 2022 now and it is prudent to increase the budget provision at this stage in order to ensure a balanced and sustainable budget in this area.

(j) **Electrification of the vehicle fleet**

Most of the council fleet of 745 vehicles are leased.

In line with the council commitment to move to net zero by 2030, plans are being developed and implemented to replace all future vehicles with electric vehicles. Over the next two to three years all smaller vehicles coming up for renewal will be replaced with electric vehicles. Although the annual lease costs will be higher the savings achieved in reducing fuel costs will broadly offset the lease cost for these smaller vehicles.

Beyond 2025 however the council will need to consider replacing the larger vehicles in the fleet. This policy will come at a significant net revenue cost to the council, forecast to be in excess of £9 million per annum up to 2030.

The first element of this base budget pressure of £1.328 million has been included in the MTFP(12) model in 2025/26. These unfunded cost pressures present a significant risk to future years budgets, with no Government subsidies or funding currently available to offset the impacts this will have on the councils operating costs.

(k) **Low Carbon Team**

The council has approved short term revenue funding of £1.5 million for both 2020/21 and 2021/22 to put resource in place to progress the drive towards achieving net zero carbon by 2030. An element of this funding has been utilised to increase the staffing resource in the Low Carbon team. It is now vital that this staffing resource is secured and mainstreamed to enable progress to continue, supporting invest to save project delivery and secure external funding. The mainstreaming of this investment will require budget growth of £0.297 million.

(l) **Multi-Storey Car Parking**

The council will take ownership of two new multi storey car parks in 2022/23 in Durham city. The car parks will require 24/7 coverage, which is forecast to require budget growth of £0.2 million to cover the necessary maintenance and other security costs with these facilities. The income generated from these car parks has been accounted for in the financing of the capital investment in these facilities.

(m) **Corporate Property and Land Team**

Investment in additional staffing resource is required to address the increasing demands from large regeneration schemes, as well as other initiatives such as the council housing Land Release Fund and the authority’s future ambition to drive forward disposal and acquisition programme work and valuation services including capital accounting.

In addition, there are increasing demands on the team to deliver increased compliance activity to the required standards for the changing council asset estate, where a more corporate approach to managing the estate has highlighted that some buildings have not previously been included in the necessary compliance checks. Altogether it is forecast that additional staffing of £0.600 million is required.

(n) **Legal Services**

Additional staffing resource is required to offset pressures in legal services driven by the increasing numbers of looked after children and to also address increasing demand due to commercial work and support large capital programmes, including the Levelling Up agenda.

Additional funding is also required to address budget pressure due to the cost of barristers required to advise on looked after children cases. Overall, a budget pressure of £0.310 million in now included in the updated MTFP model.

(o) **Coroners Budget**

A budget pressure of £01.58 million are being faced linked to the provision of pathology services, which are now provided from Newcastle RVI but at a higher cost and with increased transport costs following a re-procurement exercise. In addition, there are increased costs of £40,000 associated with shared management costs with Police following the TUPE transfer of some coroner support officers earlier this year. Overall budget pressures in this area are £0.198 million.

(p) **Human Resources / Organisational Development Team**

The council has an ambitious workforce development strategy which will address the shortfalls in training and development across the council and help transform the council's workforce. This programme was approved by Cabinet earlier this year and will need the temporary additional staffing resource within the HR team to be made permanent to deliver on these aspirations and help transform our workforce planning arrangements. The additional growth required is £0.185 million

(q) **Brought forward council tax deficit**

As a result of the pandemic local authorities were able to carry forward any collection fund deficit generated in 2020/21 and recover this over the three years 2021/22 to 2023/24 with this cost partially offset by government grant. The net deficit carried forward by the council at 31 March 2021 was £1.284 million.

At this point, based upon the quarter one forecast of outturn position, the council is confident that the in-year collection fund position surplus position, factoring in the business rates collection fund position, will be slightly higher than the £1.284 million carried forward into 2022/23. On that basis the £1.284 million has been withdrawn from the 2022/23 but remains as a cost to be budgeted for in 2023/24. The impact of these latest forecasts is to delay the impact by one year, with this pressure dropping out in 2024/25 as originally envisaged.

28 At this stage no long-term financial impact from COViD-19 has been factored into the budgets. The council has faced significant additional costs from for example waste tonnages still exceeding pre-pandemic (and base budgeted) levels, but at this stage the MTFP forecasts assume these will dissipate over the coming months. In terms of income loss within service groupings, where we continue to face reduced income from usage of our leisure and cultural venues for example, it is assumed that income levels will be back to pre-Covid levels by April 2022. This position will be kept under constant review and future updates will include consideration of the need for any permanent or temporary budget adjustments in 2022/23 and beyond.

Health and Social Care levy

29 On 7 September 2021 the government made a range of announcements in relation to additional funding to be provided to the NHS and social care, to be financed by an increase in both employers and employee’s national insurance of 1.25% as well as a similar increase in dividend tax. Alongside these announcements the government published a command paper ‘Build Back Better. A plan for health and social care’.

30 At this stage the full detail of the changes expected to social care and the funding to be provided to local government are unclear. The total sum to be raised from the announced tax rises is forecast to be circa £12 billion per annum, with the NHS expected to receive the majority of the funding (85%) in each of the next three years to help to address the current backlogs. The expectation being that after three years the backlogs will be at a manageable level and additional funding will flow to social care.

31 It is expected therefore that a sum of £4.9 billion will be made available to local government over the next three years. The major draw over time for this additional funding will be to address the changes to charging for social care services, where the government has announced a range of changes to charging for social care. These proposals will have a profound impact upon the income that local authorities receive for providing social care services.

32 The major change will be the introduction of a cap of £86,000 that can be charged for care services, but in addition, the personal savings and asset values that is taken into account when determining whether a

person can afford to pay for their care charges is to increased from £23,500 to £100,000. Anyone with assets between £20,000 and £100,000 will be eligible for some means-tested support. Once implemented these changes will significantly reduce the income which can be raised by local authorities, with a particular impact upon more affluent areas where people have more personal wealth and currently have to contribute more towards their social care needs.

33 The changes are expected to be implemented from 1 October 2023. Little detail is available at this time in relation to how this implementation will work and the cohort of service users the changes will apply to and how e.g., will this only apply to people who begin a service after 1 October 2023? Or will it apply to all people who receive a service at and after 1 October 2023? (any costs incurred before October 2023 will not be counted as part of the cap). The impact of these changes will be significant, will not necessarily provide the council with any additional resources and will need to be the subject of further separate reports to Cabinet in due course.

34 An additional concern for local government is the announcement that in the future all self-funders for care services will be able to access local authority contract prices to purchase social care. Self-funders are people who require social care services, but their assets (property and savings) mean that they currently need to arrange and fund their own care. This will have a significant impact for local authorities including in the following areas:

(a) **Impact on care fees** – private sector providers normally charge self-funders a significantly higher fee for care than the fees paid for by local authorities. This is particularly the case where the local authority share of the market is significant and therefore the local authority rate is impacted by its influence in the market, where more advantageous rates are paid by the local authority. This tends to be the case in more deprived areas (like Durham).

If all self-funders can access council contract prices then whilst self-funders can realise a significant saving, the care providers will lose revenue and will expect local authorities to increase their care fees accordingly to recover their lost income from self-funders.

The impact on individual providers will vary and complicate further an already complex set of discussions that occur with providers over the councils contracted rates.

(b) **Impact on social care assessment –** presently most self-funders contract directly with care providers and are not supported by local authorities. In the future self-funders may require support from social workers and from financial assessment teams if they are accessing council contracts. This will place pressure on the sustainability of existing staffing resources.

35 In addition to the issues above, care providers will also be faced with the 1.25% employer’s national insurance increase from 2022/23, inflation rates are presently running at 2% but are expected to increase across the next four months. As detailed earlier in this report energy prices are rising by circa 20%, plus the pandemic continues to increase costs and there are staffing shortages in this sector. It is highly likely therefore that care providers will be expecting significant fee uplifts for 2022/23.

36 It is evident therefore that local authorities and their suppliers are likely to face significant additional budgetary pressures as a result of the government announcements and that some of these pressures are uncertain, particularly the dates at which they will manifest. It is likely that these costs will continue to escalate across the period from October 2023 as the charging regulations change. It is expected that the cost impact of these changes will be funded from the £4.9 billion available to local government over the next thtree years Officers will need to carefully consider both the phasing of any additional costs and lost income impacts alongside the phasing of the receipt of additional government funding once further detail is published.

37 A significant risk to the council in this regard however is how the £4.9 billion will be apportioned to local government. There is no guarantee that this sum will suffice for the pressures faced but there is not information available at this stage as to how the funding will be apportioned.

38 At this stage the sums built into the budget relate solely to the impact of the NLW increases and normal inflationary provisions. It is expected that greater detail on the health and social care changes will be released as part of the CSR latere this month and the local government settlement in December. It is hoped that the funding available is apportioned fairly and covers the cost of all changes and all ongoing pressures in this part of the council’s budget. If this is not the case, then additional pressures will be faced across MTFP(12) and will need to be factored into future updates.

Council Tax increases 2022/23 to 2025/26

39 In line with the planning assumptions built into the previous report, the forecasts included in this report assume the council will increase its council tax in each of the next four years. This is a planning assumption at this stage as final decisions on council tax levels for 2022/23 will need to considered and agreed by Full Council on 23 February 2022.

40 The MTFP(12) forecasts assume a 3.99% council tax increase in council tax in 2022/23, with 1.99% increases across the remainder of the MTFP(12) period.

41 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.

42 In making the announcements on NHS and social care funding on 7 September 2021, the government stated that they expect demographic and unit cost pressures to be met through Council Tax, social care precept, and long-term efficiencies with the overall level of Local Government funding, including Council Tax and social care precept, to be determined in the round at the Spending Review.

43 This is particularly challenging for Durham given our low tax base and low tax raising capacity, where the additional revenue generated from council tax increases is insufficient alone to cover basic inflationary pressures, let alone any demographic and other unfunded and unavoidable cost pressures the council faces. This is exemplified below:

	2022/23 £m	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Council Tax Increases				
- Base 1.99%	4,700	4,800	4,900	5,000
- ASC precept 2.00%	4,700	0	0	0
Total CT Revenues	**9,400**	**4,800**	**4,900**	**5,000**
Inflationary Pressures				
- Pay Inflation	4,650	4,800	4,950	5,100
- Price Inflation	3,900	4,000	4,100	4,200
- National Living Wage	4,700	4,925	5,150	550
Total Inflation	**13,250**	**13,725**	**14,200**	**9,850**
SHORTFALL	**3,850**	**8,925**	**9,300**	**4,850**

2022/23 Savings Shortfall

44 The total savings required to balance the 2022/23 budget at this point are forecast to be £7.344 million, which includes the recovery of £3.778 million of the BSR utilised in 2021/22 to balance the budget and delay the impact of savings upon front line services.

45 MTFP(11) approved savings of £1.502 million have already been approved for 2022/23, resulting in a forecast 2022/23 saving shortfall of £5.842 million.

46 This savings figure could significantly change before Full Council sets the budget in February 2022.

47 Whilst this report proposes a budget virement between AHS and CYPS to address the budget shortfall in our looked after children budgets, the continuing significant additional budget pressures in this area are a particular concern and ongoing pressures in CYPS could impact upon the savings requirements going forward. Similarly, the CSR and local government settlement will have an impact alongside the need for any adjustments in relation to the continuing impact of COViD-19 upon the council’s budget and the uncertainties surrounding the financial impact of the UK withdrawal from the European Union.

48 With this uncertainty in mind, work will continue in the coming months to identify additional savings to address any future shortfall. If there is still a shortfall in savings at the time Full Council agree the budget in February 2022, then the Budget Support Reserve (BSR) will need to be utilised. The current balance on the BSR is £12.6 million.

MTFP(12) – 2022/23 to 2025/26 Update

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

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

	Savings Requirement	Less Savings Approved	Savings Shortfall
	£m	**£m**	**£m**
2022/23	7.344	(1.502)	5.842
2023/24	17.018	0	17.018
2024/25	13.016	0	13.016
2025/26	9.778	0	9.778
TOTAL	**47.156**	**(1.502)**	**45.654**

51 The table above highlights that it is forecast that savings of £47.156 million will be required across the MTFP(12) planning period to balance the budget. Savings of £1.502 million approved in MTFP(11) are available in 2022/23, leaving a forecast saving shortfall of £45.654 million across the MTFP(12) planning period. These forecasts assume that the council applies a 3.99% council tax increase in council tax in 2022/23, with 1.99% increases each year thereafter across the remainder of the MTFP(12) period. Final budget setting and Council Tax increase proposals will be considered by Full Council on 23 February 2022.

52 Unless additional government funding is provided, there is an increasing risk that savings plans in the future will begin to impact on front line service delivery and as such will become more complex and require significant planning and consultation. It will be vital that timeframes for delivery are planned effectively to ensure the Council continues to balance the budget across the MTFP(12) period.

53 The realisation of additional £47.156 million of savings will have resulted in the Council being required to save £294 million from 2011/12. The updated MTFP(12) financial modelling is attached at **Appendix 2.**

Consultation Proposals

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

individual board members will be asked to provide comments on the content of this report.

Background papers

Medium Term Financial Plan(12), 2022/23 - 2025/26 and Review of the Local Council Tax Reduction Scheme – Report to Cabinet 7 July 2021

Forecast of Revenue and Capital Outturn 2021/22 – Period to 30 June 2021 and Update on Progress towards achieving MTFP(11) savings – Report to Cabinet 15 September 2021

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Appendix 1: Implications

Legal Implications

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

Finance

The report highlights that at this stage £7.3 44 million of savings are required to balance the 2022/23 budget. After taking into account £1.502 million of savings previously approved, this leaves a £5.842 million shortfall in 2022/23, with a shortfall across the MTFP(12) period of £45.654 million. These forecasts assume that the council apply a 3.99% council tax increase in council tax in 2022/23, with 1.99% increases each year thereafter across the remainder of the MTFP(12) period.

The forecasts included in this report could change significantly based upon outcomes of the Comprehensive Spending Review, the local government finance settlement and after addressing future base budget pressures being faced by the council especially resulting from COViD-19.

Work will continue over the coming months to identify savings to balance the budget across the MTFP(12) period.

Consultation

The approach to consultation on the 2022/23 budget and MTFP(12) is detailed in the report, which is to utilise our existing County Durham Partnership networks and our AAPs during October and November.

Equality and Diversity / Public Sector Equality Duty

Equality considerations are built into the proposed approach to developing MTFP(12) savings. No new additional savings are included in the MTFP at this stage.

Climate Change

The impact of final budget decisions will take into account climate change impacts. The updated MTFP forecasts include provision to mainstream the Low Carbon Team and makes provision for the first phases of the electrification of the vehicle fleet, which will make a positive contribution to the council’s carbon reduction targets.

Human Rights

Any human rights issues will be considered for any detailed MTFP(12) and Council Plan proposals as they are developed, and decisions made to take this forward.

Crime and Disorder

None

Staffing

Where any savings proposals in MTFP(12) impact upon employees, HR processes will be always followed. The report includes proposed investments in a number of teams to address corporate priorities and capacity issues.

Accommodation

None specific within this report.

Risk

There continues to be significant risk in terms of planning across the MTFP(12) period. The uncertainty faced by local government at the present time is unprecedented and local authorities have already delivered the vast majority of all possible efficiency savings. Any additional funding reductions or unfunded budget pressures will leave all local authority with difficult choices.

No long-term financial impacts from COViD-19, other than a short-term depression in tax base increases, has yet to be factored into our forecasts.

The financial impact upon the council of the Health and Social Care levy and the attendant Social Care Command Paper is not yet fully understood. The impact will need to be fully assessed once the CSR is published and the detail of the white paper are known.

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

Procurement

None specific within this report.

Appendix 2: Medium Term Financial Plan – MTFP(12) 2022/23 – 2025/26 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
Funding to cover cost of NI increase	-2,000	0	0	0
B Rates/S31 - S31 Adj & CPI increase (3%/1.5%/1.5%/1.5%)	-2,500	-750	-750	-750
Top Up - CPI increase (3%/1.5%/1.5%/1.5%)	-2,100	-1,050	-1,050	-1,050
New Homes Bonus (50% loss)	1,360	825	0	0
Other Funding Sources				
Council Tax Increase - 1.99%	-4,700	-4,800	-4,900	-5,000
Council Tax Increase - Adult Social Care Precept (2%)	-4,700	0	0	0
Council Tax Base increase	-2,000	-2,000	-2,000	-1,500
Business Rate Tax Base increase	-500	-500	-500	-500
Estimated Variance in Resource Base	**-15,140**	**-4,275**	**-5,200**	**-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 Adult Social Care	5,000	4,300	4,700	500

National Living Wage Other Service Areas	300	325	350	50
National Insurance Increase	2,000	0	0	0
Pension Fund Auto Enrolment costs	500	0	0	0
Energy Price Increases	2,200	0	0	0
Social Care System Licenses	0	100	0	0
Adults Service Fees and Demographic Pressures	0	1,000	1,000	1,000
Childrens Services Demographic Pressures	1,000	1,500	1,500	1,500
Home to School Transport	3,000	0	0	0
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
Low Carbon Team - mainstream staffing	213	84	0	0
Vehicle Fleet - Transfer to electric vehicles	0	0	0	1,328
Drainage Inspections - mainstream investment	250	0	0	0
Multi Storey Car Parks - 24/7 management	200	0	0	0
Corporate Property and Land - additional staffing	600	0	0	0
Legal Services - Staffing and Barristers costs	310	0	0	0
Coroners Service - Pathology Services and staffing	198	0	0	0
HR/OD Development	185	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	0	1,284	-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	**18,706**	**21,293**	**18,216**	**16,578**
Use of One Off funds				
Adjustment for use of BSR in previous year	3,778	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	**5,842**	**17,018**	**13,016**	**9,778**
	TOTAL SHORTFALL			**45,654**