

Cabinet

19 January 2022

**Medium Term Financial Plan 2022/23 to 2025/26
and Revenue Budget 2022/23**

Key Decision: CORP/R/21/02



Report of Corporate Management Team

Paul Darby, Corporate Director of Resources

**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 development of MTFP(12), covering the period 2022/23 to 2025/26 and on the development of the 2022/23 revenue budget in the light of the provisional local government finance settlement published on 16 December 2021. The report includes updated financial forecasts and provisional council tax strategy, subject to the outcome of further consultation, that will be presented to Cabinet and County Council in February as part of the budget setting reports.

Executive Summary

- 2 On 15 December 2021 Cabinet considered an update on the 27 October 2021 Comprehensive Spending Review (CSR) announcements. At that point the CSR was viewed as the first step towards a three year settlement for local government. It was noted however that although there had been an expectation that local government would receive a three-year finance settlement to provide much needed certainty, it was not clear that this would be forthcoming. It was also noted that there was a risk that government would only provide an indicative settlement in years two and

three, to provide flexibility to amend funding allocation methodologies in 2023/24 if the Fair Funding Review (FFR) was implemented at that time.

- 3 The CSR did announce additional core funding for local government, with a £4.8 billion base grant uplift for local government over the three-year CSR period (2022/23 to 2024/25). This funding was expected to be £1.6 billion a year, although circa £100 million per annum was expected to be allocated for specific activities within local government, leaving £1.5 billion per annum expected to be allocated to core local government funding from 2022/23 onwards.
- 4 The additional funding was viewed as recognition that as well as increased funding from council tax rises, local government also required additional core grant funding to address the significant budget pressures across the sector. This funding would need to cover the cost of the 1.25% increase in employer's national insurance costs from 2022/23.
- 5 The provisional local government settlement was published on 16 December and confirmed the additional £1.5 billion funding forthcoming to local government and the allocation methodologies. Disappointingly in line with expectations, the financial settlement was again only for one year, with confirmation that consultation on the FFR will begin in the spring of 2022 with the expected aim of implementing changes to funding allocations for the whole of local government in 2023/24. No detail on what the FFR formula would be or whether this would be linked to a Business Rate Reset, further Business Rate Retention or include consideration of the Public Health Grant was published with the draft settlement, so there remains significant uncertainty beyond 2022/23.
- 6 A proportion of the new core funding has been provided via an increase in the Social Care grant – equating to 42.4% of the additional funding made available. The council will receive £8.1 million of the £636 million provided nationally, increasing the Social Care Grant we will receive to £31 million in 2022/23.
- 7 The majority of the remaining £1.5 billion of funding is to be provided as a new 'Services Grant'. The national sum is £822 million of which the council will receive £8.8 million. It is concerning however that the Services Grant will be a one off grant i.e. there is no guarantee of this sum being received in 2023/24 or beyond. Government is expected to confirm however that this new funding stream is being provided to cover the ongoing costs of the 1.25% employer's national insurance increase which is forecast to cost the council £1.5 million per annum from 2022/23 onwards.
- 8 It is understood that this significant new grant has been notified as 'one off' to provide the government with funding flexibility to implement the FFR in 2023/24. The FFR is forecast to result in significant reallocation of funding between local authorities leading to winners and losers across the sector. Having as much as £822 million available to redistribute in 2023/24 will

enable the government to smooth in any changes either by providing transition funding to any authority who loses funding or possibly to limit losses on an ongoing basis.

- 9 In total, the council will receive additional core funding in 2022/23 of £16.9 million from these two allocations, which will be vital in ensuring significant ongoing budget pressures can be financed such as the National Living Wage 6.6% uplift, the impact of inflation upon costs, especially energy costs which are forecast to increase in 2022 by over 40% and from the continuing pressures in Children and Young Peoples Services.
- 10 The provisional settlement also included inflationary uplifts to both the Revenue Support Grant (RSG) and the Improved Better Care Fund (IBCF), which will result in additional funding to the council of £1.8 million next year. In addition, it was announced that there would be a continuation of the New Homes Bonus (NHB) for one further year with the council receiving £4.1 million. It is expected that the future of the NHB beyond 2022/23 will be decided as part of the FFR.
- 11 Finally, although announcements on several specific grant allocations are still awaited, along with details of all capital grant allocations, the provisional settlement did include the initial allocations to local authorities from the Health and Social Care levy. The CSR announced a sum of £3.6 billion would be payable over the next three years rising from £200 million in 2022/23 to £2 billion in 2024/25.
- 12 In the provisional settlement it was announced that £1.4 billion of the £3.6 billion available would be allocated as a grant for Market Sustainability and for Fair Cost of Care for adult social care. Funding of £162 million is to be provided in 2022/23 followed by £600 million in both 2023/24 and 2024/25. The allocation for the council in 2022/23 is £1.9 million with this sum expected to be utilised to support the adult social care markets and prepare for the future work to secure market sustainability and the planning to move to a fair cost of care for adult services in 2023/24 and beyond.
- 13 Overall, the provisional settlement is to be welcomed with additional funding being provided to the council next year, although circa 55% of the additional funding is one off and not certain for 2023/24 and beyond and there is no clarity on the future of the NHB.
- 14 The additional funding provided in the settlement for 2022/23 will enable the council to make decisions regarding the requirement for savings in 2022/23, whether sums could be made available for additional investment and what level of council tax increase to consider next year.
- 15 To protect front line service provision no additional savings are recommended in these areas for 2022/23. Additional corporate savings of £1.2 million to supplement the already agreed 2022/23 savings of £1.227 million are included in the 2022/23 budget.

- 16 The additional government funding provided alongside MTFP(12) savings have allowed investments to be recommended in priority front line service provision. In this regard £2.6 million of additional investments are recommended in Neighbourhood and Climate Change (NCC) and Regeneration, Economy and Growth (REG).
- 17 In NCC additional investment is recommended in relation to bin replacement, street scene, community protection, neighbourhood wardens, pest control, public rights of way, nature reserves, woodland protection, allotments and on our climate change objectives
- 18 In REG funding is provided to continue with the car parking free after two policy, pending a review of car parking delivery during 2022 to inform policy beyond next year.
- 19 Additional base budget pressures of in relation Looked After Childrens costs (c£3.4 million) and additional inflation for pay and price increases and for waste disposal contracts (c£2 million) have been factored into the updated 2022/23 budget forecasts, augmenting the sums previously reported in terms of Adult Social Care fee pressures (c£12 million); Energy Cost increases (c£3.1 million) and Home to School Transport cost pressures (£2.6 million).
- 20 Taking on board the available government funding, taxbase growth, base budget pressures, investments and MTFP(12) savings it is recommended that a 3% council tax increase be considered for 2022/23. The council is able to increase council tax by a maximum of 4.99% in 2022/23 being 1.99% for the referendum level, a 2% adult social care precept deferred from 2021/22 and a 1% adult social care precept uplift for 2022/23. Against the background of the pandemic and the cost of living crisis however the recommendation is that a lower council tax increase of 3% is considered for 2022/23. At this point it is forecast that a 3% council tax increase will result in a balanced budget position for 2022/23, with no requirement to use reserves to balance the budget. A 3% increase in council tax could be comprised of a 0 to 1.99% increase in the standard council tax precept, coupled with a 3% to 1.01% increase in the Adult Social Care precept.
- 21 In terms of later years of MTFP(12) it is expected that further savings will be required to balance the budget. The greatest risk and uncertainty faced at this point being for 2023/24 due to the expected implementation of the FFR and the short term nature of the £8.776 million Services grant receivable in 2022/23. The forecast savings shortfall for 2023/24 at this point is £16.607 million with a £29.987 million shortfall over the four year MTFP(12) period, assuming council tax increases of 2.99% in 2023/24 and 2024/25 and a 1.99% increase in 2025/26.
- 22 Planning for the council 2022/23 budget will continue over the coming weeks with the budget report to be presented to Cabinet on 9 February 2022 before being presented to Full Council on 23 February 2022.

Recommendations

23 It is recommended that Cabinet

- (a) note the content of the report detailing the provisional local government finance settlement; and
- (b) note the recommended investments within NCC and REG;
- (c) note the proposed council tax increase for 2022/23 of 3%. This position will be considered at full council on 23 February 2022;
- (d) note the forecast balanced budget position for 2022/23 and the forecast £29.987 million savings shortfall over the four year MTFP(12) period; and
- (e) note that the 2022/23 revenue and capital budget and MTFP(12) 2022/23 to 2025/26 budget report will be presented to Cabinet on 9 February 2022 and to Full Council on 23 February 2022.

Background

- 24 Previous reports have been presented to Cabinet on MTFP(12) – in July, October and December, to ensure updates are provided upon forecast budget pressures and the need to achieve savings to balance the councils budget.
- 25 This report provides an update on the provisional local government finance settlement published on 16 December 2021. It includes updated financial forecasts including a range of new investments and additional budget pressures that have been factored into the financial forecasts and provisional council tax strategy, subject to the outcome of further consultation, that will be presented to Cabinet and County Council in February as part of the budget setting reports

Provisional Local Government Finance Settlement

- 26 The provisional Local Government Finance Settlement was published on 16 December 2021 and confirmed increases in funding for local government mainly as a result of the £1.5 billion of additional core funding for local authorities announced in the Comprehensive Spending Review (CSR) on 27 October 2021. The additional funding provided nationally to local authorities is as detailed below:
- (a) **Services Grant £822 million** – a new one off grant apportioned based upon the 2013/14 local authority Settlement Funding Assessment (SFA). Utilising this methodology ensures all local authorities including district councils receive additional funding. The council will receive £8.776 million of this sum, equating to 1.07% of the national allocation;
 - (b) **Social Care Grant additional £636 million**– an increase in this funding stream from £1.1 billion to £1.7 billion. This sum is apportioned to local authorities based upon the Adults Relative Needs Formula (RNF) alongside an element of equalisation to consider that local authorities can raise differing amounts from council tax increases due to varying size of council taxbases. This funding is only payable to upper tier authorities who provide social care services. The council will receive £8.076 million of this sum, equating to 1.27% of the national allocation, increasing our social care grant to £30.955 million in 2022/23;
 - (c) **Revenue Support Grant (RSG) £72 million** – local authorities will receive an inflation uplift of 3.1% in line with the September 2021 Consumer Price Index (CPI) on their 2021/22 RSG allocations. The council will receive an additional £0.873 million of RSG funding next year, increasing RSG received to £29.1 million;

- (d) **Improved Better Care Fund (IBCF) £63 million** - local authorities will receive an inflation uplift of 3.1% in line with the September 2021 Consumer Price Index (CPI) on their 2021/22 IBCF allocations. The council will receive an additional £0.906 million of funding next year, increasing the IBCF received to £30.865 million;
- (e) **Reduction in New Homes Bonus (NHB) funding of £68 million** – it was previously forecast that the NHB may be abolished or substantially reduced from 2022/23. The government have however agreed to continue the NHB funding for one more year. The sum to be paid out in 2022/23 nationally is £68 million lower than in 2021/22 due to two years payments falling out (2018/19 and 2021/22) and only being replaced by the 2022/23 allocation. Under normal circumstances this would be paid back to local authorities as ‘Returned NHB’. This is not the case on this occasion with the NHB instead being utilised to finance inflationary uplifts in the RSG and IBCF allocations. The council is forecasting it will receive £4.082 million in NHB funding in 2022/23, a £0.394 million reduction from the current year.
- 27 Within the provisional local government finance settlement, the government have confirmed that there would be consultation with the local government sector on the implementation of the Fair Funding Review (FFR). The FFR has been delayed for a number of years and it was thought the government may postpone the implementation until 2025/26. It is apparent however that the intention is to consult on the FFR in the Spring of 2022 with an expectation that this could lead to implementation in 2023/24.
- 28 No detail on what the FFR formula would be or whether this would be linked to a Business Rate Reset, further Business Rate Retention or still include consideration of the Public Health Grant allocations was published with the provisional settlement, so there remains significant uncertainty beyond 2022/23.
- 29 The implementation of the FFR was originally expected to be introduced at the same time as the move to 75% Business Rate Retention (BRR). It is expected however that the move to 75% BRR will not occur in the current parliament. One significant element of the move to 75% was to be the integration of the Public Health grant into BRR and the implementation of the ACRA formula for the redistribution of this grant leading to a forecast £18 million reduction in the grant allocation for the council. Although the cancellation of the move does not indicate that the ACRA formula will not be introduced for a standalone Public Health grant it would certainly improve the council’s lobbying position as it would be totally transparent that this funding stream was being significantly reduced for the county.
- 30 Although the additional funding announced in the provisional local government finance settlement is welcome there are concerns for the council in the following areas:

- (a) **Services Grant** - £822 million (55%) of the additional £1.5 billion of new funding for local government announced in the CSR should be considered as one off funding. Government have stated that the 1.25% increase in employer's national insurance is to be financed from this funding stream, indicating some of the funding should be forthcoming to the council in 2023/24 though there can be no guarantee for the remainder of the funding. It is believed that the government are treating this funding as one off to provide flexibility to implement the findings of the FFR where there is expected to be significant winners and losers across the sector. The funding available could be utilised to provide transition funding for losing authorities over a number of years or to provide recurrent funding to ensure no authority loses funding. Under either of these scenarios the council could not guarantee receiving the funding it will receive through new Service Grant next year into 2023/24;
- (b) **Social Care Grant** – although the additional funding is welcome it is disappointing that only 42% of the additional £1.5 billion has been allocated via this area when it is children's and adult social care where the major recurrent budget pressures are being felt by upper tier Councils like ourselves;
- (c) **New Homes Bonus** – the council is receiving the final year of four years of recurrent funding from the 2019/20 NHB allocation in addition to a one off 2022/23 sum. In total the council will receive £4.082 million in 2022/23. This sum will not be payable however in 2023/24 and the unused £68 million of NHB nationally was used to finance inflation uplifts in RSG and IBCF in 2022/23. It is of concern that this method of utilisation could be considered in future years including being used to supplement transition funding for the FFR i.e. the council again would have no guarantee of receiving any of the NHB funds in 2023/24.

31 In addition to the funding streams detailed above the council will receive an additional £0.039 million from an uplift in the Lower Services Tier grant due to a small change in data driving the apportionment of the grant. The Lower Services Tier Grant will increase to £0.786 million in 2022/23.

32 The provisional settlement also announced the first tranche of funding from the health and social care levy. The £12 billion available nationally will be financed by the 1.25% in employers and employee's national insurance increase in April 2022 and of this sum, £3.6 billion is to be paid to local government over the 2022/23 to 2024/25 period. It is expected that this sum will be required for local authorities to cover costs and lost income associated with the following

- (a) **Adult care cost cap of £86,000** – this being expected over time to result in a loss of income to local government;

- (b) **Increase in means test asset threshold from £23,000 to £100,000** – again leading to an increase in costs to local authorities as a result of loss of income; and
- (c) **Self Funders** – government had indicated that from October 2023 self funders could ask to be accepted on council care contracts thus securing lower care costs. It was expected this would lead to increased costs to local authorities as care providers would seek increases in fees from the council to recover lost income from self funders.
- 33 The provisional settlement provided further detail in relation to the funding available to local government, with an initial allocation of £192 million being paid to local authorities in 2022/23 from a ‘Market Sustainability and Fair Cost of Care’ grant financed from the health and social care levy. The government guidance in this regard being that:
- (a) local authorities will be required to carry out a Fair Cost of Care exercise for both adult residential and domiciliary care in 2022 to seek to then implement from 2023/24 onwards to ensure care providers are paid a fair cost for provision; and
- (b) the funding would be £162 million in 2022/23 rising to £600 million in both 2023/24 and 204/25 to meet the outcome of that exercise.
- 34 The provisional settlement set out that the council will receive £1.905 million in 2022/23, representing 1.18% of the £162 million being invested nationally. Although no allocation has been advised for 2023/24 and 2024/25 it is forecast that the sums payable will increase by £5.151 million to £7.056 million in 2023/24 with this sum also payable in 2024/25 In terms of what the £3.6 billion payable to local government will be allocated, for the governments expectations are detailed below:

	Fair Cost	Cost Cap/Means Test	TOTAL
	£m	£m	£m
2022/23	162	0	162
2023/24	600	800	1,400
2024/25	600	1,400	2,000
TOTAL	1,362	2,200	3,562

- 35 The major concern for the council will be whether the sums allocated to it will be sufficient to cover the additional costs and loss of income experienced from implementing the recommended changes. The council is forecast to spend circa £180 million on purchasing adult social care in

2022/23 and as such the sums being made available for a fair cost of care exercise may not be sufficient to meet market expectations.

- 36 At this stage there are no announcements of any additional COVID support funding for local government. This position will continue to be monitored closely in the coming months. Council income in areas such as leisure, theatres, and car parking are very much linked to the outcome of the pandemic and impacts upon the budget will need to be carefully considered.

Core Spending Power (CSP)

- 37 The provisional CSP figures for the council would indicate a positive position compared to previous years. The England average is a 6.9% increase next year, whilst Durham's position is forecast to be 8.4%. A number of issues need to be considered in this regard however:
- (a) the CSP calculation forecasts that the council will increase council tax by the full 4.99% available i.e. the 1.99% referendum level plus the 2% adult social care precept deferred from 2021/22 and the new 1% adult social precept. Any 1% below the 4.99% assumed would reduce the CSP by 0.5%;
 - (b) the CSP includes the new Market Sustainability and Fair Cost of Care grant of £1.9 million which comes associated with a new burden and as such is not available to support core council service provision.
- 38 In terms of comparative CSP per dwelling positions the table below compares the council with a number of authorities and the England average. If Durham received CSP to the national average CSP of £2,155 per dwelling the council would receive an additional £39 million of funding.

Area	Core Spending Power Per Dwelling
	£
England	2,155
Durham	1,999
Middlesbrough	2,297
Newcastle	2,153
Northumberland	2,096
Richmond upon Thames	2,095
Wokingham	2,079

Review of MTFP Model

39 The MTFP(12) update report to Cabinet in October provided an update on the forecast revenue budget position for 2022/23 as well as an update for the MTFP(12) period 2022/23 to 2025/26. An ongoing review of base budget pressures and savings options has been carried out resulting in a number of amendments to the base budget pressures forecast for the MTFP(12) period. The major amendments included in the updated MTFP(12) model attached at Appendix 2 are detailed below:

(a) **Government Funding**

The model includes the government funding published in the provisional settlement on 16 December 2021. In addition, the government have announced that the School Improvement Grant will be phased out over the next two years. This £0.8 million grant provides funding to finance the School Improvement team in Children and Young People's Services (CYPS). This service is vital in supporting school improvement in the counties schools.

CYPS have advised that there will be a significant impact upon the authority's ability to support school improvement if the full £0.8 million budget was withdrawn. Government have advised that £0.4 million will be withdrawn in 2022/23 with the final £0.4 million in 2023/24. To ensure support can still be provided to schools the £0.4 million loss of income will be funded corporately via the MTFP in 2022/23 with CYPS expected to reduce costs in the service by £0.4 million in 2023/24.

(b) **Council Tax Base**

The 17 October 2021 MTFP(12) update report forecast a £2 million increase in the taxbase for 2022/23. The council tax taxbase setting report to Cabinet on 17 November 2021 however, identified a 2072.6 (1.46%) Band D equivalent increase in the taxbase for 2022/23 equating to a £3.5 million increase.

(c) **Pay Inflation**

Pay inflation was previously forecast to be 2% across the MTFP(12) period. In the light of rising inflation this has been reassessed with the forecast increased to 3% in 2022/23 and 2.5% in 2023/24 with 2% per annum provided thereafter.

(d) **Price Inflation**

Price Inflation was previously forecast to be 1.5% across the MTFP(12) period. In the light of rising inflation this has been

reassessed with the forecast increased to 3% in 2022/23 and 2% in 2023/24 with 1.5% per annum thereafter.

(e) **Adult Social Care Fees**

All costs associated with social care fee uplifts has been consolidated in the MTFP(12) model. The consolidated sum represents the forecast cost to uplift home care fees by 10% in 2022/23 and to uplift other adult social care fees in 2022/23 to cover the impact of the 6.6% increase in the national living wage, the cost of the 1.25% increase in employer's national insurance and the impact of general inflation costs.

(f) **Employers National Insurance**

The forecast impact of the 1.25% increase has been recalculated to exclude all grant funded schemes and trading areas of activity reducing the forecast cost to the General Fund to £1.5 million.

(g) **Energy Price Increase**

In October 2022 the MTFP(12) update report to Cabinet highlighted that energy prices were increasing substantially, impacting upon both 2021/22 and the base budget in 2022/23. It is now forecast that the increased costs in 2022/23 will be £3.1 million more than the 2021/22 base budget, as compared with the previous £2.2 million forecast increase.

(h) **Childrens Demographics**

The looked after children budget continues to face significant pressure mainly as a result of the complex nature of children requiring care but also due to the lack of supply of care placements which is resulting in increased costs. The budget forecast has increased from £1 million to £4.4 million to ensure a sustainable budget is in place for 2022/23.

(i) **Home To School Transport**

Growth required in this budget was previously forecast to be £3 million. Updated forecasts considering the impact of service volumes at cost from the beginning of the school year in September has enabled this sum to be reduced to £2.6 million.

(j) **Waste Haulage contract**

Significant pressure continues to be faced in waste disposal. The increase in the 2022/23 cost of the waste haulage contract is now

forecast to be £0.375 million, £0.175 million higher than the previous forecast.

(k) **Household Waste Recycling Contract**

It was previously forecast that the cost of this contract would increase by £1 million in 2023/24 when the contract was reprocured. It is apparent however that to maintain the current service against the background of the pandemic and in light of benchmarking of costs of contracts elsewhere, then a £1.8 million contract uplift will be required as we prepare to reprocure the service in 2023/24.

(l) **Waste Tonnages**

During the pandemic waste tonnages collected increased. It was previously forecast that this increase would reduce as lockdown periods were eased. This has not been the case however and tonnages at this stage require a £1 million increase in the 2022/23 base budget to ensure a balanced budget is in place next year.

40 In addition to the amended base budget pressures detailed above consideration has also be given to a range of priorities for further investment. The following investments, which build on the sums included in the October report, are recommended for inclusion in the 2022/23 budget:

(a) **Low Carbon Development and Partnership Officer - £0.1 million**

This investment will supplement the £0.297 million already included in MTFP(12) plans across 2022/23 and 2023/24. The additional £0.1 million will fund a post to take forward the climate change commitments and manage a cross-sector working arrangement to promote and deliver climate change interventions through new joint funding/commissioning initiatives. This will facilitate educational awareness, social media promotion etc.

(b) **Bin Replacement - £0.1 million**

The base budget for bin replacement and repairs is not adequate and needs to be increased to sustain service provision. This is an essential service and failure to increase the budget will either mean budgetary overspend or lack of bins next year

(c) **Street Scene Efficiency - £0.130 million**

Improvements to monitoring and intelligence gathering across all Street Scene services. Investment will include vehicle tracking on street sweepers to target limited resources where most needed. The

investment also includes two new sweepers (one for footpaths and one for roads) plus two operatives.

(d) Car Parking - £0.6 million

The "Free After 2" parking initiative was adopted in the 2021/22 after the base budget was agreed and resulted in a reduction of £600,000 in car parking income. The costs in 2021/22 are being met corporately and it is proposed that the initiative is extended into 2022/23 pending the outcome of the countywide Parking Strategy review to inform policy for 2023/24 and beyond.

(e) Community Protection Workforce Development – 2022/23 - £0.890 million, 2023/24 - £0.218 million, 2024/24 - £0.196 million and 2025/26 recovery of £0.2 million

Provision has been made for the implementation of the Community Protection Workforce Development Plan to address the current skills and expertise gap within the Community Protection service and meet the future workforce requirements of the service to ensure business continuity and the Council's statutory obligations are met. The additional investment will enable the service to recruit over the current staffing establishment. This revised establishment will then be reduced in future years as more experienced colleagues retire and posts at that time are not filled hence the recovery of budget growth from 2025/26 onwards. MTFP(13) and beyond will factor in further recovery of the time limited investment in this area as part of this plan.

(f) Neighbourhood Wardens- £0.120 million

Two new posts (Warden Manager and Warden Co-ordinator) are required to help ensure that the service is operating efficiently, improving outcomes for communities and providing management information for the service.

(g) Pest Control - £0.141 million

An increase of one investigations officer and two pest control officers plus 0.5 fte support staff has been factored into the budgets from 2022/23 onwards. This will ensure the current backlog of investigations is addressed and will return wait times to reasonable levels and will include the introduction of welfare assistance scheme for public health pests. The proposal includes an additional £10,000 income through domestic pest treatments from next year.

(h) **Woodland Protection Officer - £0.045 million**

A new post to take forward and deliver new and ongoing externally funded tree and woodland initiatives.

(i) **Local Nature Recovery Strategy Officer - £0.100 million**

A new post to produce and co-ordinate the delivery of the Local Nature Recovery Strategy. A vital component in responding to the potential ecological emergency declaration. This proposal also includes an implementation budget matched with planning gain and other funds to promote delivery.

(j) **Countryside Estates Management - £0.105 million**

Key to the implementation of the Local Nature Recovery Strategy will be the ninety two countryside sites that the Council is responsible for. Investment will enable two Nature Reserve Officers to target Local Nature Reserves and Local Wildlife Sites, engaging stakeholders and volunteers to help manage and maintain these facilities.

(k) **Allotments - £0.360 million**

An additional three engagement staff to work with the fifty associations that run sites across the county and three enforcement staff to deliver the new policy agreed by Cabinet. A maintenance and initiative budget will also be created to incentivise associations and individual sites to make improvements.

Council Tax Strategy and MTFP(12) 2022/23 to 2025/26 Update

41 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.

42 The current forecast of savings required for the period 2022/23 to 2025/26 before any increase in 2022/23 council tax or any new MTFP12 savings are factored in is detailed overleaf:

	Savings Requirement	Less Savings Already Approved	Savings Shortfall
	£m	£m	£m
2022/23	9.484	(1.227)	8.257
2023/24	16.882	(0.275)	16.607
2024/25	6.017	0	6.017
2025/26	7.708	0	7.708
TOTAL	40.091	(1.502)	38.589

43 The above table shows a forecasts £8.257 million savings shortfall in 2022/23 and a £38.589 million shortfall across the MTFP(12) period. This position is after assumed council tax increases in 2023/24 and 2024/25 of 2.99% in each year and 1.99% in 2025/26, however it does not take into account any additional MTFP(12) savings available to supplement the £1.227 million of savings previously agreed by Council or any council tax increases next year. At this stage the following three corporate savings can be considered for inclusion in the 2022/23 budget.

- (a) **Staff Turnover £1 million** – the current staff turnover percentage included in base budget setting is 3%. This assumes that as staff leave council employment it will take a period to fill posts thus generating a saving. In recent years the 3% figure has been exceeded and it is felt prudent to increase this figure to 3.5%, thus generating a £1 million saving;
- (b) **Insurance Costs £0.1 million** – the recent procurement of insurance policies has resulted in a £0.1 million reduction in cost;
- (c) **Jade Industrial Development £0.1 million** – the major capital development at Jade was forecast to be self financing with borrowing costs to be covered via rentals generated from tenancies. The development has been enormously successful and it is forecast that annual rental income will exceed the annual borrowing costs enabling a contribution of £0.1 million to MTFP(12) savings.

44 The £1.2 million MTFP(12) saving detailed above will complement the £1.227 million of MTFP(10 and 11) savings already approved for 2022/23, bringing total savings next year to £2.427 million.

45 Factoring these savings into the 2022/23 forecast reduces the savings shortfall to £7.057 million. This shortfall enables consideration to be given to reducing the council tax increase for 2022/23 from the previously modelled 3.99% to 3%. It is important to note that the council is able to increase council tax in 2022/23 by a maximum of 4.99%. The 4.99% increase comprising of the following;

- (a) a 1.99% referendum limit increase;
- (b) a 2% adult social care precept deferred from 2021/22;
- (c) a 1% 2022/23 adult social care precept utilising additional powers provided in the CSR.

46 A 3% increase would support our communities as they face other household budget pressures. A 3% increase in council tax could be comprised of a 0 to 1.99% increase in the standard council tax precept, coupled with a 3% to 1.01% increase in the Adult Social Care precept.

47 In addition to funding available from the adult social care precept the government have also provided additional funding through the Social Care Grant to invest in both adults and childrens social care. On the basis of a 3% adult social care precept increase, the funding available to support the 2022/23 budget would be as follows:

	£m
Adult Social Care Precept	7.050
Social Care Grant Increase	8.067
Market Sustainability Grant	<u>1.900</u>
TOTAL	<u>17.017</u>

48 Significant sums are identified in the attached MTFP(12) model attached at Appendix 2 for investment in both adult and children’s social care in 2022/23. The table below identifies the budget growth proposed for adult and children’s social care:

	Adults £m	Childrens £m	TOTAL £m
Pay Inflation	0.9	0.9	1.8
Price Inflation	(0.7)	0.9	0.2
National Insurance	0.2	0.2	0.4
Adult Social Care Fees	12.0	0.0	12.0
Energy	0.0	0.1	0.1
Adult Social Care Levy	0.5	0.0	0.5
Childrens Demographic	0.0	4.4	4.4
Children’s Safeguarding	<u>0.0</u>	<u>0.1</u>	<u>0.1</u>
TOTAL	<u>12.9</u>	<u>6.6</u>	<u>19.5</u>

- 49 The council is forecast to expend an additional £19.5 million in 2022/23 on adult and children’s social care, which is higher than the £17.017 million of funding and council tax that would be raised to support social care statutory social functions.
- 50 In terms of council tax increases included in later years of MTFP(12) the council will be able to increase council tax by a maximum of 2.99% in 2023/24 and 2024/25 consisting of a 1.99% referendum limit and a 1% adult social care precept. On that basis a 2.99% council tax increase is assumed for planning purposes for 2023/24 and 204/25 with a 1.99% increase assumed for 2025/26.
- 51 The inclusion of £1.2 million of MTFP(12) savings and a 3% increase in council tax has the following impact upon the MTFP(12) model which is detailed at Appendix 2:

	Savings Requirement	Less Savings Already Approved	Savings Shortfall
	£m	£m	£m
2022/23	2.427	(2.427)	0
2023/24	16.882	(0.275)	16.607
2024/25	6.017	0	6.017
2025/26	7.363	0	7.363
TOTAL	32.689	(2.702)	29.987

Conclusion

- 47 The provisional settlement is in the main positive for the council in supporting the balancing of the 2022/23 budget. The provisional settlement however does not provide long term certainty for local government with many uncertainties still in place in relation to settlements beyond 2022/23.

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.

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

Finance

The report details the impact of the provisional local government finance settlement upon the council. In total, the council will receive additional core funding in 2022/23 of £16.9 million from these two allocations, which will be vital in ensuring significant ongoing budget pressures can be financed such as the National Living Wage 6.6% uplift, the impact of inflation upon costs, especially energy costs which are forecast to increase in 2022 by over 40% and from the continuing pressures in Children and Young Peoples Services.

The provisional settlement also included inflationary uplifts to both the Revenue Support Grant (RSG) and the Improved Better Care Fund (IBCF), which will result in additional funding to the council of £1.8 million next year. In addition, it was announced that there would be a continuation of the New Homes Bonus (NHB) for one further year with the council receiving £4.1 million. It is expected that the future of the NHB beyond 2022/23 will be decided as part of the FFR.

Finally, although announcements on several specific grant allocations are still awaited, along with details of all capital grant allocations, the provisional settlement did include the initial allocations to local authorities from the Health and Social Care levy. The CSR announced a sum of £3.6 billion would be payable over the next three years rising from £200 million in 2022/23 to £2 billion in 2024/25.

The additional government funding provided alongside MTFP(12) savings outlined in the report have allowed investments to be included in priority front line service provision. In this regard £2.6 million of additional investments are recommended in Neighbourhood and Climate Change (NCC) and Regeneration, Economy and Growth (REG).

Taking on board the available government funding, taxbase growth, base budget pressures, investments and MTFP(12) savings the updated financial forecasts include a 3% council tax increase for 2022/23.

The council is able to increase council tax by a maximum of 4.99% in 2022/23 being 1.99% for the referendum level, a 2% adult social care precept deferred from 2021/22 and a 1% adult social care precept uplift for 2022/23. At this point it is forecast that a 3% council tax increase will result in a balanced budget position for 2022/23, with no requirement to use reserves to balance the budget.

In terms of later years of MTFP(12) it is expected that further savings will be required to balance the budget.

Consultation

The approach to consultation on the 2022/23 budget was set out in the October Cabinet report, and the approach will utilise our existing County Durham Partnership networks and our AAPs. The consultation process for MTFP(12) is ongoing and will influence the final budget report in February 2022.

Equality and Diversity / Public Sector Equality Duty

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

Climate Change

The budget will provide funding to reflect this priority.

Human Rights

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

Crime and Disorder

None

Staffing

None

Accommodation

None

Risk

A robust approach to Risk Assessment across the MTFP process will continue to be followed.

Local government has been operating 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. These pressures are expected to continue and potentially escalate across the MTFP(12) planning period.

The provisional local government finance settlement published on 16 December 2021 provided more funding than what the council was previously forecasting. However, a significant proportion of this additional grant is one off funding pending the outcome of consultation on the implementation of the Fair Funding Review (FFR), which has been delayed for a number of years.

It was initially thought the government may postpone the implementation until 2025/26. It is apparent however that the intention is to consult on the FFR in the Spring of 2022 with an expectation that this could lead to implementation in 2023/24.

No detail on what the FFR formula will be or whether this would be linked to a Business Rate Reset, further Business Rate Retention or still include consideration of the Public Health Grant allocations was published with the provisional settlement, so there remains significant uncertainty beyond 2022/23.

The implementation of the FFR was originally expected to be introduced at the same time as the move to 75% Business Rate Retention (BRR). It is expected however that the move to 75% BRR will not occur in the current parliament. One significant element of the move to 75% was to be the integration of the Public Health grant into BRR and the implementation of the ACRA formula for the redistribution of this grant leading to a forecast £18 million reduction in the grant allocation for the council. Although the cancellation of the move does not indicate that the ACRA formula will not be introduced for a standalone Public Health grant it would certainly improve the council's lobbying position as it would be totally transparent that this funding stream was being significantly reduced for the county.

Procurement

None

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	-873	-580	-445	-450
Services Grant	-8,776	8,776	0	0
Social Care Grant	-8,067	0	0	0
Social Care Levy Funding	-1,900	-9,500	-3,300	0
IBCF Inflation	-906	0	0	0
Lower Tier Services Grant Inflation	-39	0	0	0
B Rates/S31 - S31 Adj & RPI increase (4.9%/2%/1.5%/1.5%)	-4,985	-1,500	-1,100	-1,100
Top Up - RPI increase (4.9%/2%/1.5%/1.5%)	-3,349	-1,400	-1,050	-1,050
New Homes Bonus	394	0	0	0
Loss of School Improvement Grant	400	0	0	0
Other Funding Sources				
Council Tax Increase (3%/3%/3%/2%)	-7,050	-7,200	-7,300	-5,000
Council Tax Base increase	-3,500	-2,000	-2,000	-1,500
Business Rate Tax Base increase	-500	-500	-500	-500
Estimated Variance in Resource Base	-39,151	-13,904	-15,695	-9,600
Pay inflation (3%/2.5%/2%/2%)	7,100	6,100	5,100	5,300
Price Inflation (3%/2%/1.5%/1.5%) - excludes social care fees	2,923	1,800	1,300	1,400
Base Budget Pressures				
Social Care Fee Inflation Uplift - includes NLW, NIC and CPI	12,000	7,900	6,800	3,300

	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000
National Living Wage Other Service Areas	300	350	400	50
National Insurance Increase	1,500	0	0	0
Pension Fund Auto Enrolment costs	500	0	0	0
Pension Fund Revaluation	0	-2,000	0	0
Energy Price Increases	3,100	0	0	0
Social Care System Licenses	0	100	0	0
Adults Demographic Pressures	0	1,000	1,000	1,000
Adults - costs associated with Social Care reform (£1.9m - £1.4m)	500	9,500	3,300	0
Children's Demographic Pressures	4,400	2,000	2,000	2,000
Children's Safeguarding Staffing	110	0	0	0
Home to School Transport	2,600	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	375	0	0	0
Household Waste Recycling Contract	1,800	0	0	0
Residual Waste Tonnages	1,000	0	0	0
Tees Valley SPV Set Up Costs	200	0	0	30
Low Carbon Team - staffing & partnership development	313	84	0	0
Vehicle Fleet - Transfer to electric vehicles	0	0	0	1,328
Drainage Inspections - mainstream investment	250	0	0	0
Bin Replacement Uplift	100	0	0	0
Street Scene Efficiency, I.T. Improvements and Innovations	130	0	0	0
Free after 2 Parking Initiative	600	0	0	0
Community Protection Workforce Development	890	218	196	-200
Neighbourhood Wardens	120	0	0	0
Pest Control	141	0	0	0
Woodland Protection / Nature Reserves / Public Rights of Way	250	0	0	-145

	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000
Allotments - Engagement Officers & Maintenance	360	0	0	0
Multi Storey Car Parks - 24/7 management	200	0	0	0
Corporate Property and Land - additional staffing	600	0	0	0
REG Senior Restructure	250	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
Veterans Leisure Discounts	45	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	450	834	-1,284	0
Cessation 2021/22 Short Term Investments	-10,000	0	0	0
TOTAL PRESSURES	37,800	30,786	21,712	16,963
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)	-977	-275	0	0
Savings Agreed in MTFP(11)	-250	0	0	0
MTFP(12) Savings	-1,200	0	0	0
SAVINGS SHORTFALL	0	16,607	6,017	7,363
	TOTAL SHORTFALL			29,987