

Cabinet

15 December 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

**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 overview of the Chancellor of the Exchequer's Comprehensive Spending Review announcements on 27 October 2021 and consider the impact upon the development of the 2022/23 budget and the Medium Term Financial Plan (MTFP(12), 2022/23 to 2025/26.
- 2 The report also provides an update on a range of budget pressures that will need to be accommodated next year, including the ongoing impact of the COVID-19 pandemic on waste budgets.

Executive Summary

- 3 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. 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.
- 4 On 27 October 2021 the Chancellor of the Exchequer published the government's Comprehensive Spending Review (CSR). This is the first step in providing local government with a longer term three-year financial settlement.

- 5 The Chancellor of the Exchequer has chosen to increase expenditure on public services, with previously 'unprotected' government departments receiving modest uplifts in government funding at a time when reductions were anticipated.
- 6 The CSR included a £4.8 billion base grant uplift for local government over the three-year CSR period (2022/23 to 2024/25). This funding is expected to be £1.6 billion a year, although circa £100 million per annum is 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.
- 7 This additional funding is viewed as recognition that as well as funding from council tax rises, local government also requires additional core funding to address the significant budget pressures across the sector.
- 8 Government have advised that the additional £1.5 billion is to be utilised to cover the 1.25% increase in employer's national insurance rates in 2022/23 as part of the health and social care levy, which is forecast to cost the council £2 million per annum from next year.
- 9 No indication has been given at this stage on how the £1.5 billion will be distributed. The allocation formula used will have a major impact on how much of this funding is forthcoming for the council.
- 10 Over recent years the government have retained a 2% council tax referendum level for council tax. In recent years however additional flexibility has been provided to increase council tax beyond the referendum limit by providing the ability for an adult social care precept.
- 11 Between 2018/19 and 2020/21 upper tier authorities could increase council tax by a total of 6% for the adult social care precept, with the government factoring this into its Core Spending Power calculations and expecting councils to apply these increases. Durham County Council increased its council tax by an additional 2% in each year in line with the government's expectations.
- 12 In 2021/22 the council was able to increase council tax for the adult social care precept by a further 3%, although the government allowed for this to be phased in over two years. The council, along with 53 other local authorities, chose to phase this increase in over two years, with 1% applied in 2021/22 and an indicative 2% built into MTFP(11) and MTFP(12) forecasts for 2022/23.
- 13 The CSR announced an additional adult social care precept of 1% would be available for 2022/23 and that an indicative 1% adult social care precept could be utilised for planning purposes for 2023/24 and 2024/25. This additional council raising capacity is in addition to the residual balance of the 3% not taken in 2021/22.

- 14 It is not expected that the new adult social care precept can be deferred into future years i.e., if the increase is not utilised in year, it will be lost. The full flexibility available to the council in 2022/23 therefore would be a circa 5% council tax increase, consisting of the 2% referendum limit, the 2% deferred adult social care precept increase from 2021/22 and the new 1% adult social care precept allowed for 2022/23.
- 15 The CSR announced a wide range of discounts on business rates in 2022/23, focussing on retail and leisure sectors. Significantly, the business rate multiplier will be frozen in 2022/23. This will result in no inflationary uplift in business rates for 2022/23, when a 3.1% increase was anticipated based on prevailing CPI interest rates. All local authorities will be fully reimbursed for this loss of income via an increase in Section 31 grants.
- 16 There were limited details on the broader elements of local authority core funding in the CSR. There is no certainty in relation to the Revenue Support Grant, New Homes Bonus (NHB), Better Care Fund and the Improved Better Care Fund or equalisation in relation to the flexibility to increase council tax for the adult social care precept. In addition, there was no announcements in terms of the Fair Funding Review (FFR), or the reset in business rates.
- 17 It is concerning that the additional growth in business rates over baseline levels since 2013/14 is £1.5 billion, which is the same sum being made available to local government over the CSR period.
- 18 It is not possible to accurately forecast what the financial settlement will be for local authorities and the council. It is hoped that the settlement will be more favourable than initially forecast but full detail is expected in December 2021 when the draft local government finance settlement is published.
- 19 There has been an expectation that local government would receive a three-year finance settlement to provide much needed certainty. It is not clear if this will be forthcoming and there is a risk that government will only provide an indicative settlement in years two and three, to provide flexibility to amend funding allocation methodologies in 2023/24 if the FFR is implemented at that time.
- 20 Although it is hoped that the local government finance settlement will provide a better than forecast grant settlement for the council consideration must also be given to the ever-increasing budget pressures the council is facing.
- 21 The CSR has forecast that inflation will average 4% across 2022, peaking at over 5%. In addition, the CSR announced a 6.6% increase in the National Living Wage, which will have a significant impact upon adult social care fees in 2022/23. The CSR also announced the lifting of the public sector pay pause, which is likely to lead to at least inflation

level pay requests from public sector trade unions for the 2022/23 pay round.

- 22 Over recent months work has been undertaken with budget managers to understand the ongoing impact of the COVID-19 pandemic into 2022/23. It is apparent that increased tonnages of household waste being collected, which are placing pressure on waste disposal budgets, are not reducing to pre pandemic levels, whilst significant pressures on energy and diesel prices continue to be of concern.
- 23 The CSR also announced the initial allocations of funding to local government from the health and social care levy. The allocation rises nationally from £200 million in 2022/23 to £2 billion in 2024/25. No detail has been provided on how this sum will be allocated to local authorities, but more detail is being provided on the new liabilities local authorities will face. The funding provided will need to cover losses of income from the introduction of a charging cap per person of £86,000 and the increase in the means test asset limit from £23,500 to £100,000.
- 24 Of more concern however is that government is indicating that self-funders who presently pay an estimated £175 per week more in adults residential care than council fee rates, may be able to access council contract rates. In addition, the government have indicated that councils will be required to pay providers a 'fair cost of care'. Both of these national policies are likely to result in care providers expecting a significant increase in fees payable. At this stage therefore the council has no indication of how much funding will be provided and as importantly no indication of the income loss and cost increase any sum received will need to cover.
- 25 At the time of preparing this report the council awaits the publication of the local government finance settlement in December. Once received and assessed an updated MTFP(12) forecast will be presented to Cabinet on 19 January 2022. That report will assess any additional funding forthcoming to the council whilst also building in the new and growing budget pressures the council faces.
- 26 Whilst the CSR announcements on 27 October 2021 are to be welcomed, the uncertainty over the way in which the new funding announced will be distributed, allied with inflationary and other additional budget pressures that need to be addressed, is making financial planning extremely difficult. This 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.
- 27 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.

Recommendation(s)

28 Cabinet is recommended to:

- (a) note the update on the 27 October 2021 Comprehensive Spending Review; and
- (b) note that an updated MTFP(12) position is expected to be reported to Cabinet on 19 January 2022, after analysis of the draft local government finance settlement in December.

Background

29 The MTFP(12) report presented to Cabinet on 13 October 2021 built on the initial forecasts considered by Cabinet in July and provided an update on the development of the 2022/23 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 provides a further update, focussing on the CSR announcements on 27 October 2021, whilst also providing a high-level update upon emerging base budget pressures.

2021 Comprehensive Spending Review (CSR)

30 The Chancellor of the Exchequer published the CSR on 27 October 2021. The document is far reaching and moves the country away from a sustained period of austerity, with the majority of areas of the public sector forecast to receive increases in funding over the three years of the CSR period 2022/23 to 2024/25, including unprotected government departments such as local government.

31 The government are implementing a strategy of increased public spending alongside increases in national and local taxation. The major beneficiary of this approach is the NHS, where additional investment over the next three years, in addition to previously announced increases of £25 billion, will be funded from the 1.25% increase in national insurance (employees and employers' national insurance) via the health and social care levy. It is forecast that the NHS share of public expenditure will increase from 27% in 1999/2000 to an estimated 44% in 2024/25. Increases of this magnitude may not be sustainable into the future and the country will face difficult choices going forward.

32 The CSR reported that the national deficit is forecast to reduce over the coming three years, reaching £50 billion in 2025/26. Against this background however the Chancellor of the Exchequer reported that he was hopeful of being able to implement tax cuts before the next general election.

33 The position for local government is more encouraging than was expected by the sector, although the full extent of the position will not become clear until the draft local government finance settlement is received, which is expected between 7 and 14 December 2021.

34 The main announcements in the CSR which are forecast to have an impact upon local government are as follows;

- (a) **Additional Core funding of a forecast £1.5 billion per annum**
The government announced £4.8 billion of additional core funding for local government over the CSR period (2022/23 to 2024/25). It is forecast that elements of this funding will be utilised for the Supporting People programme, for cyber security as detailed below:

	2022/23	2023/24	2024/25	TOTAL
	£m	£m	£m	£m
Core Funding	1,500	1,500	1,500	4,500
Supp. Families	40	70	90	200
Cyber Security	12	13	13	38
TOTAL	1,552	1,583	1,603	4,738

No indication has been given at this point as to how the funding will be apportioned between local authorities. This will have a major bearing on how much funding will be received by the council. Government have advised that the additional core funding provided will be expected to cover the increased employer's insurance 1.25% increase from April 2022 which is forecast to cost the council £2 million per annum

(b) **Health and Social Care levy**

The government had already announced a 1.25% increase in employers' national insurance from 1 April 2022. The government have advised that it is forecast that circa £12 billion will be raised from this sum per annum, with 85% going to the NHS to access the increase minimum waiting list times that have manifest due to the impact of the pandemic.

A remaining sum of £5.4 billion was to be made available to social care over the period 2022/23 to 2024/25. The CSR has announced that £1.8 billion of this funding is to be retained centrally by the NHS to invest in care sector training improvements and to improve the wider social care system, including the quality of integration and care. It is not clear at this stage how these sums will be invested locally.

The remaining £3.6 billion is to be apportioned to local government over the next three years as follows:

Year	Amount
	£m
2022/23	200
2023/24	1,400
2024/25	2,000

At this stage full detail is awaited of what additional costs and loss of income local authorities will face but they are expected to be significant.

The MTFP(12) report to Cabinet on 19 October 2021 provided detail on the new care charging lifetime cap of £86,000 and the increase in 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 increase 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.

In addition, government have indicated that self-funders at a point to be specified in the future will be able to access council contract rates. In the county the estimated average sum paid in addition to council contract rates is circa £175 per week in adult residential care. If self-funders were able to access council contract rates care providers would expect an increase in care fees from the council i.e., a saving for a self-funder but a cost to the council.

Government have also indicated that new £2 billion provided to local government by 2024/25 is expected to be invested in ensuring care providers are paid a fair cost of care. At this point no additional information has been forthcoming on how an assessment of fair cost of care will be calculated locally, regionally, or nationally.

It is apparent therefore that the financial position for the council and local government will be significantly impacted by how much of the £3.6 billion is apportioned to each council but more importantly what the loss of income and increased cost amounts to. There could be significant winners and losers in this regard across the sector.

(c) **Council Tax**

Over recent years the government have retained a 2% council tax referendum level for council tax. In recent years however additional flexibility has been provided to increase council tax beyond the referendum limit by providing the ability for an adult social care precept.

Between 2018/19 and 2020/21 upper tier authorities could increase council tax by a total of 6% for the adult social care precept, with the government factoring this into its Spending Power calculations and expecting councils to apply these increases. Durham County Council increased its council tax by an additional 2% in each year in line with the government's expectations.

In 2021/22 the council was able to increase council tax for the adult social care precept by a further 3%, although the government allowed for this to be phased in over two years. The council, along with 53 other local authorities, chose to phase this increase in over two years, with 1% applied in 2021/22 and an indicative 2% built into MTFP(11) and MTFP(12) forecasts for 2022/23.

The CSR announced an additional adult social care precept of 1% would be available for 2022/23 and that an indicative 1% adult social care precept could be utilised for planning purposes for 2023/24 and 2024/25. This additional council raising capacity is in addition to the residual balance of the 3% not taken in 2021/22.

It is not expected that the new adult social care precept can be deferred into future years i.e., if the increase is not utilised in year, it will be lost. The full flexibility available to the council in 2022/23 therefore would be a circa 5% council tax increase, consisting of the 2% referendum limit, the 2% deferred adult social care precept increase from 2021/22 and the new 1% adult social care precept allowed for 2022/23.

(d) National Living Wage (NLW)

The CSR confirmed that the NLW will increase in 2022/23 by 6.6% to £9.50. The council was previously forecasting a circa 5.3% increase in 2022/23. The increase will need to be reflected in the revised based budget forecast for the 2022/23 budget and increases cost pressures by circa £1.6 million. The NLW is expected to increase to £10.03 in 2023/24 (a 5.6% increase year on year) and to £10.50 in 2024/25 (a 4.7% increase year on year).

(e) Business Rates

The CSR announced a wide range of discounts on business rates in 2022/23, focussing on retail and leisure sectors. Significantly, the business rate multiplier will be frozen in 2022/23. This will result in no inflationary uplift in business rates for 2022/23, when a 3.1% increase was anticipated based on prevailing CPI interest rates. All local authorities will be fully reimbursed for this loss of income via an increase in Section 31 grants. The changes that were announced are summarised below:

- (i) The revaluation of business rates will be every three years from 2023/24;
- (ii) There will be a one-year extension to transitional relief and supporting small business rates relief for 2022/23;

- (iii) There will be a 50% discount for 2022/23 for retail and hospitality of up to £110,000;
- (iv) An exemption for eligible plant and machinery used in onsite renewable energy generation and storage, such as rooftop solar panels and battery storage used with renewables and electric vehicle charging points, from 2023 until 2035. A 100% relief will also be provided for eligible low-carbon heat networks that have their own rates bill. The government will set out more detail on both changes in a technical consultation later this year, with changes to take effect in 2023; and
- (v) There will be a new business rate relief whereby no payment will need to be paid in any year where a business is investing in eligible improvements to an existing property to increase the rateable value. This will support businesses to make improvements to their property such as adding more rooms to a hotel, expanding a factory, or installing CCTV or bike sheds. The government will consult on how to implement this relief, which will take effect in 2023 and be reviewed in 2028.

(f) **Shared Prosperity Fund/ Community Renewal Fund/ Levelling Up**

The CSR confirmed the following allocations to the Shared Prosperity Fund:

	£m
2022/23	400
2023/24	700
2024/25	1,500

At this stage there is no confirmation on how this funding will be allocated to individual authorities.

Government have announced the initial allocations from the forerunner to the Shared Prosperity Fund - the Community Renewal Fund. In total the government announced £127 million of grant awards under this scheme, with the council being successful with one of its bids, with £0.836 million awarded to the Emerging Markets Innovation Accelerator project.

The council also received confirmation that the initial bid to the Levelling Up fund for Bishop Auckland of £20 million had been approved and in addition £50,000 will be forthcoming to carry out further feasibility into the review of the rail network between

Darlington and Weardale. No funding was allocated to the Leamside Line reopening scheme.

- 35 It was hoped that the government would confirm that it will provide local government with a three-year settlement. Indications are however that the settlement may only provide an indicative year two and three year settlement, thus leaving options open for government to amend funding allocations in 2023/24 possibly as part of the full or part introduction on the findings from the Fair Funding Review.
- 36 In addition, and disappointingly, the government have not announced any timing for the business rate reset. To date local authorities are receiving a forecast £1.5 billion more business rates than were included in the 2013/14 business rate retention baseline. The council expects to be a beneficiary from any such reset, although it is concerning that the additional funding being provided to local government of £1.5 billion matches the sum available from additional business rates being generated.

Core Spending Power

- 37 The CSR headlines an average real terms increase (after forecast inflation) for local government of 3.4% over the next three years. This would appear to be a reasonable uplift. However this sum includes the additional funding being provided by the health and social care levy which comes with significant new liabilities and loss of income. Government have also assumed in the CSR calculation that all local authorities will increase council tax by the maximum sum possible in each of the next three years. This represents the majority of the remaining real terms increase in core spending power. The additional £1.5 billion core funding represents a forecast 0.6% real terms increase in funding.
- 38 It is expected that full detail on individual local authority finance settlements and the impact upon core spending power figure will be published as part of the local government finance settlement.

Base Budget Pressures

- 39 The MTFP (12) report to Cabinet on 19 October 2021 provided an update on additional base budget pressures being experienced by the council, building on the initial report considered by Cabinet in July 2021.
- 40 It is becoming apparent that the council is likely to face additional base budget pressures in addition to those reported to Cabinet on 19 October. It is apparent that increased tonnages of household waste being collected, which are placing pressure on waste disposal budgets, are not reducing to pre pandemic levels, whilst substantial inflationary pressures on energy and diesel prices continue to be of concern. Any change in this regard will be reported to Cabinet in January 2022 as part of the local government finance settlement.

- 41 The announcement of a 6.6% increase in the NLW will have a major impact upon the 2022/23 budget as will the forecast 4% average inflation rate over the 2022 period. The government have announced an ending to the public sector pay pause. The current budget forecasts provide for only a 2% pay uplift and 1.5% price inflation provision.
- 42 The council will also need to be cognisant of emerging recruitment issues being faced across the council. A number of teams are beginning to struggle to recruit staff to vacant posts which is a similar challenge being faced across the national and local economy.

Council Tax increases 2022/23 to 2025/26

- 43 In line with the planning assumptions built into the previous report, there is an expectation that 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 be considered and agreed by Full Council on 23 February 2022.
- 44 The MTFP(12) forecasts currently assume a 3.99% council tax increase in council tax in 2022/23, and 1.99% increases across the remainder of the MTFP(12) period.
- 45 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 Exchequer's Red Book forecasts.
- 46 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.
- 47 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.
- 48 The increased Council Tax raising powers from the 1% additional Adult Social Care precepts in 2022/23, 2023/24 and 2024/25 provide some increased flexibility in terms of the Councils Medium Term Financial Planning.

Conclusion

- 49 At this point the CSR announcements would appear to be better news than the council was previously forecasting.
- 50 The local government finance settlement is awaited however in order to provide the full detail and in addition clarity is required on what costs and loss of income local authorities will face in relation to lifetime care charge capping, self funder arrangements and fair cost of care proposals in adult care.
- 51 Alongside the ongoing assessment of base budget pressure, it is only when all information is available to the council that the budget proposals can be finalised for 2022/23.

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
- Medium Term Financial Plan(12), 2022/23 - 2025/26 – Report to Cabinet 19 October 2021
- Forecast of Revenue and Capital Outturn 2021/22 – Period to 30 September and Update on Progress towards achieving MTFP(11) savings – Report to Cabinet 17 November 2021

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Appendix 1: Implications

Legal Implications

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

Finance

The report provides a review of the content of the CSR and the likely high-level impact upon the council and local government, though confirmation of a number of matters is required as part of the Local Government Finance Settlement that will be published in December. The report also highlights a range of emerging base budget pressures that will need to be factored into the 2022/23 budget and across the MTFP(12) planning period.

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 feedback from the consultation will be factored into the planned MTFP(12) update report to Cabinet in January 2022.

Equality and Diversity / Public Sector Equality Duty

Equality considerations are built into the budget planning process and underpins the approach to developing any MTFP(12) savings requirements. No new additional savings are included in this report.

Climate Change

The impact of final budget decisions will take into account climate change impacts. The updated MTFP forecasts reported to Cabinet in October included provision to mainstream the Low Carbon Team and made 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

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.

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.

At this point the CSR announcements would appear to be better news than the council was previously forecasting.

The local government finance settlement is awaited however in order to provide the full detail and in addition clarity is required on what costs and loss of income local authorities will face in relation to lifetime care charge capping, self-funder arrangements and fair cost of care proposals in adult care.

Alongside the ongoing assessment of base budget pressure, it is only when all information is available to the council that the budget proposals can be finalised for 2022/23.

Procurement

None specific within this report

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