

Cabinet

9 February 2022

**Medium Term Financial Plan 2022/23 to 2025/26
and Revenue and Capital 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 comprehensive financial information to enable Cabinet to agree the 2022/23 balanced revenue budget, details of significant investments in key front-line services, an outline Medium Term Financial Plan MTFP(12) 2022/23 to 2025/26 and a fully funded capital programme to be recommended to Full Council on 23 February 2022.

Executive Summary

- 2 Cabinet is committed to strong financial governance and getting value for money for public money whilst ensuring that the council sets a sustainable balanced budget with any council tax increases being justified and affordable. The first annual budget and medium term financial plan for the Cabinet post the May 2021 elections seeks to balance the need for both short term and long term investment in front line services with the need for financial prudence and reasonable council tax increases. In summary the budget proposals in this report include:
 - (a) careful consideration of the impacts of the Comprehensive Spending Review and the Provisional Local Government Finance Settlement announcements in October and December 2021 respectively, which have seen government grant allocations increase by £19.767 million next year,

although £8.776 million of this is one off funding and assumed will potentially be lost in 2023/24 as a result of the Fair Funding review outcomes and £1.9 million relates to a new burden in relation to Adult Market Sustainability;

- (b) provision for £45.1 million of unavoidable base budget pressures in 2022/23, resulting from pay and price inflation (£13.1 million – including £3.1 million in relation to energy); increased costs of children's (£4.4 million) and adults' (£12 million) social care; increased costs of Home to School Transport (£2.6 million); increased waste disposal and recycling costs (£4.375 million), increased Employers National Insurance costs (£1.5 million), prudential borrowing costs (£3 million) and £4.1 million of other pressures;
- (c) investment in front line services totalling £6.2 million, including £3 million per annum of new prudential borrowing; investments in a range of front line services in Neighbourhoods and Climate Change – including in relation to bin replacement (£100,000), street scene services (£130,000), community protection (£890,000), neighbourhood wardens (£120,000), pest control (£141,000), public rights of way, nature reserves, and woodland protection (£250,000), allotments (£360,000) and in our climate change team (£313,000);
- (d) utilisation of £10 million of earmarked reserves to invest in non-recurrent and fixed term schemes over the next three years such as feasibility studies and business case development for the remaining county Levelling Up bids (£2.840 million); investment in heritage assets in Durham City (£1.460 million), in both rural and urban footways (£750,000) and to enhance public rights of way (£1.637 million). Investment is also proposed at Hardwick Park and Pow Hill Country Park (£1.534 million) and a new loan facility is to be developed to support community associations to invest in energy efficiency schemes in community buildings (£600,000);
- (e) new capital investment totalling £109.1 million, taking the approved capital programme to £602.2 million, with new additional capital expenditure proposed for the Belmont Community Arts College and Belmont CE Primary School new build (£15 million), approximately £22 million of additional investment in highways over and above the LTP capital grant allocations, a final £6.9 million to finance the replacement primary school in Spennymoor, a £5 million budget to match fund the council's Levelling Up bids to government and an initial £5 million allocation for building investment to enable the council to meet our Net Zero targets;
- (f) new corporate savings totalling £1.2 million next year with no reductions in front line service delivery, no use of reserves to balance the budget next year, a 0% council tax increase in relation to the base council tax referendum limit but a prudent and necessary increase in the adult social care precept of 3.0% in 2022/23 to help meet the significant cost

pressures in this budget, giving a total overall increase of 3.0%, well below the 4.99% permissible and expected by government as part of their Core Spending Power calculations and assumptions.

Comprehensive Spending Review

- 3 On 27 October 2021 the Chancellor of the Exchequer published the government's Comprehensive Spending Review (CSR). The CSR provided a three year settlement for the Department for Levelling Up, Housing and Communities (DLUHC) and it was hoped this would result in a longer term three-year financial settlement for local government.
- 4 The CSR included increases in expenditure on public services, with previously 'unprotected' government departments receiving modest uplifts in government funding at a time when reductions were anticipated.
- 5 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 was expected to be £1.6 billion a year, although around £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.
- 6 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.
- 7 The CSR also announced that 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 tax raising capacity was in addition to the residual balance of the 3% not taken by any upper tier authority in 2021/22.
- 8 The CSR announced a wide range of new or extended discounts on business rates in 2022/23, focussing on the 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 the prevailing Consumer Price Index (CPI). All local authorities will be fully reimbursed for this loss of income via an increase in Section 31 grants.
- 9 The CSR announced a 6.6% increase in the National Living Wage from April 2022, which has a significant impact upon adult social care fees the council will incur in 2022/23, and the Chancellor of the Exchequer set out details of inflationary forecasts, which were estimated to hit 6% in 2022/23 although forecasters believe this could be as high as 6.8%.

- 10 The CSR announced the lifting of the public sector pay pause, which, along with prevailing inflation, is likely to lead to increased pay requests from public sector trade unions for the 2022/23 pay round.
- 11 The CSR also announced the initial allocations of funding to local government from the new health and social care levy from April 2022. The allocation rises nationally from £200 million in 2022/23 to £2 billion in 2024/25. No detail was provided on how this sum will be allocated to local authorities, but more detail was 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.
- 12 Of more concern however was that government indicated that self-funders who presently pay an estimated £175 per week more in adults residential care than council fee rates would be able to access council contract rates which is likely to lead to pressure to increase care fees. In addition, the government indicated that councils will be required to pay providers a 'fair cost of care'. These national policies are likely to result in care providers expecting a significant increase in fees payable.

Local Government Finance Settlement

- 13 The provisional local government settlement was published on 16 December 2021 and confirmed the additional £1.5 billion funding forthcoming to local government and set out the allocation methodologies. Disappointingly, but as expected, the financial settlement was again only for one year, but with confirmation that consultation on the Fair Funding Review (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.
- 14 A proportion of the new core funding has been provided via an increase in the Social Care grant – equating to 42.4% of the £1.5 billion additional of 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.
- 15 The majority of the remaining £1.5 billion of funding is to be provided as a new one off 'Services Grant'. The national sum is £822 million, of which the council will receive £8.8 million. It is particularly 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 confirmed 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, with a further £0.5 million of costs being associated with traded and grant funded services.

- 16 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 which loses funding or possibly to limit any losses on an ongoing basis.
- 17 In total, the council will receive additional core funding of £16.9 million in 2022/23 from these two allocations, which will be vital in ensuring significant unavoidable 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 People's Services and increased costs in waste disposal and recycling.
- 18 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, which represents a £0.4 million reduction on the funding currently received. It is expected that the future of the NHB beyond 2022/23 will be decided as part of the FFR, with this funding potentially also forming part of the transition funding to smooth in the FFR impacts.
- 19 The provisional settlement also announced that £1.4 billion of the £3.6 billion available from the Health and Social Care Levy 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.
- 20 The government also published details of spending power 'per dwelling' for all local authorities, which shows that Durham is now £156 (approximately 7%) less than the England average. If Durham's Core Spending Power was brought up to the England authority average of £2,155 per dwelling, the council would annually receive additional funding of £39 million.
- 21 Overall, therefore the provisional settlement is welcome, with additional funding being provided to the council next year, although around 50% of the additional funding is one off and not certain for 2023/24 and there is significant uncertainty beyond next year due to the FFR, with a lack of clarity on the future of the NHB.

Savings Plans

- 22 The council constantly strives to identify efficiency savings which can be realised without impacting upon front line service delivery. In MTFP(10) and MTFP(11) savings were agreed by Council which would result in savings being

realised in 2022/23. The value of the savings previously approved is £1.277 million.

- 23 To protect front line services additional corporate savings of £1.2 million are proposed to supplement the already agreed 2022/23 savings, resulting in £2.427 million of support to help balance the 2022/23 budget.

Additional Investments

- 24 The additional government funding provided, alongside the £2.427 million of MTFP(12) savings and prudent assumptions in terms of the impact of tax base growth, have allowed a significant range of unavoidable base budget pressures to be financed. In addition, investments are also recommended in priority front line service provision. In this regard, £3.2 million of additional investments are recommended, principally in Neighbourhood and Climate Change(NCC) and Regeneration, Economy and Growth (REG). The investments are in line with the council vision for more and better jobs, for people to live long and independent lives, and for connected communities.
- 25 In NCC additional investment is recommended in relation to bin replacement, street scene services, community protection, neighbourhood wardens, pest control, public rights of way, nature reserves, woodland protection, allotments and on our climate change objectives.
- 26 In REG, funding is provided to continue with the 'free after two' car parking policy, subject to a review of car parking delivery during 2022. In addition, base budget pressures have been funded in relation to the 24 hour management of the two new multi-storey car parks in Durham City, growth in terms of the Corporate Property and Land Team and investment in senior management with the service to improve efficiency and effectiveness of the service.
- 27 A thorough review has also been carried out of all earmarked reserves. This review has resulted in a one off £10 million being identified as available for investment in council priorities.
- 28 Funding will be made available to carry out thorough feasibility studies and business case development for the county Levelling Up bids to ensure the county has the optimum chance of securing the £20 million available for each of the five remaining parliamentary constituency areas under future bidding rounds. In addition, funding will be made available to invest in heritage assets in Durham City, in both rural and urban footways and to enhance public rights of way. Investment will also be possible at Hardwick Park and Pow Hill Country Park. Finally, the funding will enable a loan facility to be developed to support community associations to invest in energy efficiency schemes in community buildings.
- 29 During 2021 the council has also faced the continuing significant financial impact of the coronavirus pandemic. The impact during 2021/22 has been substantial although the government has provided £17.2 million of financial support. The impact of the pandemic upon waste disposal tonnages and on household recycling centres and Materials Recycling Facilities has been built

into the 2022/23 base budget but at this stage no further budget uplifts have been proposed. This position will be kept under review during 2022/23 with any permanent impact upon other budgets built into MTFP(13) plans.

Capital Investment

- 30 The council continues to prioritise investment in its assets through an ambitious and extensive capital programme. MTFP(12) contains significant additional investment in the capital programme, with new additional schemes totalling £109.1 million included, taking the forecast investment from 2021/22 to 2024/25 to £602.2 million. This is the largest capital programme the council has ever had in development.
- 31 Capital investments in MTFP(12) include an additional £15 million towards a forecast £34 million scheme to rebuild both Belmont Community Arts College and Belmont CE Primary School on a shared campus plus a further £6.9 million investment in the new build primary school in Spennymoor.
- 32 In addition, the council will supplement the estimated £14.8 million Local Transport Plan (LTP) government grant with £7 million of additional capital investment in our highways network. Although the council's main highways and footway networks are maintained at or above the national average standards, the unclassified network is below national average standards. Over the period 2022/23 to 2024/25 the council will invest a further £13.86 million in the unclassified road network to bring this element of the network up above national average standards, with approval for £8.86 million sought in MTFP(12).
- 33 Finally, a £5 million capital budget will be created to enable a 10% match funding budget to be created for the council's Levelling Up bids. It is forecast that if all Levelling Up bids are successful that a further £5 million will be required in MTFP(13).

Council Tax

- 34 In the setting of council tax levels for 2022/23, careful consideration needs to be given to the significant current and future financial pressures facing the council and the lack of information in relation to future financial settlements beyond next year. Consideration also needs to be given to the government's expectations and to the impact of increases in council tax on residents who themselves may be facing difficult circumstances.
- 35 The government has confirmed that the council tax referendum limit for 2022/23 will be 1.99%. The council also has the option to increase council tax by an additional 3% for an adult social care precept. This relates to the 2% adult social care precept deferred from 2021/22 and the additional 1% adult social care precept available for 2022/23. The government published Core Spending Power figures assume all authorities utilise the ability to increase council tax by the maximum possible sum in 2022/23.
- 36 After considering the impact on the council's budget and on local council tax payers, the most financially vulnerable of which continue to be fully protected by

our Local Council Tax Support Scheme, the top up scheme for those left with a bill to pay and support available through the council's welfare assistance programme, this report recommends that the council utilises the full 3.0% adult social care precept increase in the council's Band D Council Tax in 2022/23 but does not seek any increase in the 1.99% core referendum element of council.

- 37 Costs within adult social care and health, which are some of the largest budgets the council has, are increasing significantly in 2022/23 especially due to the 6.6% increase in the national living wage and the impact this has upon care fees. On that basis a 3% increase in the adult social care precept will ensure that the increased costs in adult social care can be financed in 2022/23.
- 38 The overall council tax increase from the Adult Social Care precept will generate additional council tax income of around £7 million per annum. The total increase would result in a Band D increase of 98 pence per week and an increase of 65 pence per week for the majority of Council Taxpayers in County Durham, 57% of who live in the lowest value properties (Band A).
- 39 Although the council has been able to set a balanced budget for 2022/23 with £2.427 million of savings it is forecast that significant savings could be required over the period 2023/24 to 2025/26 to enable budgets to be balanced in future years. The savings shortfall will be very much influenced by the outcome of the fair funding review but also by the emergence of any further inflationary and demographic base budget pressures and any long term impact of the pandemic. At this point the forecast savings shortfall for 2023/24 is £16.607 million with a £29.987 million shortfall over the four year MTFP(12) period.
- 40 Despite this very challenging financial period and the significant base budget pressures faced by the council, this report includes some very positive outcomes for the people of County Durham including:
 - (a) significant new investment of £10 million funded by earmarked reserves to enable levelling up bid feasibility studies to be fully developed and for investment in Durham City heritage assets, rural and urban footways, public rights of way and country parks;
 - (b) continued support to protect the 34,431 working age households in receipt of low incomes through the continuation of the existing Council Tax Reduction Scheme, where 80% of affected households will continue to be entitled to 100% relief against their Council Tax payments and where those left with a bill will receive up to £150 of additional support next year;
 - (c) ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people through the services we provide;
 - (d) significant investment in capital expenditure including investment in school provision, in our town centres and infrastructure, including new transport schemes and maintenance of our highways and pavements. In

total, additional capital investment of £109.2 million is recommended in this report.

- 41 As outlined in previous MTFP reports, equality impact assessments are also summarised to inform the consultation and subsequent decision making. Workforce implications arising from proposals for 2022/23 savings have been analysed.

Dedicated Schools Grant and Schools Funding Formula

- 42 The Schools Block allocation for 2022/23 takes account of changes to the way that schools and academies will pay non-domestic rates in 2022/23. From 2022/23 the DfE will pay rates directly to local authorities, bypassing the Dedicated Schools Grant, and the Schools Block allocation has been reduced by an amount equal to the rates allocation in last year's formula. Before taking account of this change, the Schools Block DSG allocation has increased by £8.410 million year on year.
- 43 The local formula to be applied in 2022/23, which is subject to approval from the DfE, is aligned to the National Funding Formula for Schools and is set out in the report.
- 44 The Central Schools block funding allocation for 2022/23, used to fund historic commitments has reduced by a further 5.4% in addition to the 40% reduction in 2020/21 to 2021/22. The 2022/23 reduction for Durham is £0.165 million against historic commitment funding in 2021/22 of £0.379 million. This funding is used to fund prudential borrowing costs relating to the Building Schools for the Future programme and the Team Around the School provision for secondary schools. Funding for prudential borrowing has been maintained and this is expected to continue, but funding to Team Around the School is already less than the annual cost and is likely to be reduced to nil from 2022/23.
- 45 The council will receive a significant increase in the High Needs DSG funding in 2022/23 of £7.652 million, a year on year increase of 11.6%. This increase in funding is essential for this service area where a £1.455 million overspend was reported in the Quarter 2 Forecast of Outturn Report to Cabinet on 17 November 2021 – increasing the retained accumulated deficit to an estimated £9.502 million at 31 March 2022.

Other Considerations

- 46 As part of the budget setting process, the council will need to consider and agree updates to the Pay Policy, the Treasury Management Policy and Strategy, including the Prudential Indicators, and the Cash Management Strategy and Reserves Policy. Revised and updated policies and strategies, which will ensure the council continues to fully comply with relevant statutory requirements are set out in the report.

Recommendations

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

(a) **2022/23 Revenue Budget**

- (i) approve the identified base budget pressures included in paragraph 104;
- (ii) approve the new investments included in paragraph 111;
- (iii) approve the savings plans detailed in Appendix 3, which total £2.427 million in 2022/23 and £275,000 in 2023/24;
- (iv) approve a 0% 2022/23 Council Tax increase and a 3% increase which relates to the Adult Social Care precept, totalling a combined 3% overall increase in council tax;
- (v) approve the 2022/23 Net Budget Requirement of £466.732 million.

(b) **MTFP(12)**

- (i) agree the forecast MTFP(12) financial position, as set out at Appendix 6;
- (ii) set aside sufficient sums in Earmarked Reserves as are considered prudent. The Corporate Director of Resources should continue to be authorised to establish such reserves as required to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet;
- (iii) aim to maintain General Reserve in the medium term between 5% and 7.5% of the Net Budget Requirement which in cash terms is between £23 million and £35 million;
- (iv) note the outcome of the review of earmarked reserves and the application of reserves to fund a range of one off time limited investments as set out in Appendix 7.

(c) **Capital Budget**

- (i) approve the revised 2021/22 Capital Budget of £158.979 million and the 2022/23 Capital Budget of £258.748 million;
- (ii) approve the Capital Strategy at Appendix 9;

- (iii) approve the additional capital schemes detailed at Appendix 10. These schemes will be financed from additional capital grants, from one off revenue funding and from prudential borrowing;
 - (iv) note the option for the council to utilise capital receipts to finance severance costs utilising available flexibilities in this regard. The utilisation of such flexibility would require the approval of Cabinet;
 - (v) approve the MTFP(12) Capital Budget of £602.242 million for 2021/22 to 2024/25 as detailed in Table 14.
- (d) **Savings Proposals**
- (i) note the approach taken by service groupings to achieve the required savings.
- (e) **Equality Impact Assessment**
- (i) note the key equality impact analysis as summarised in this report and consider impacts of proposed savings on staff and residents.
- (f) **Pay Policy**
- (i) approve the Pay Policy Statement at Appendix 11.
- (g) **Risk Assessment**
- (i) note the risks to be managed over the MTFP(12) period.
- (h) **Dedicated Schools Grant**
- (i) note the position on the Dedicated Schools Grant;
 - (ii) approve the local formula for schools set out in Table 16 and authorise the Corporate Director of Resources to approve any amendments required following review by the DfE.
- (i) **Prudential Code, Treasury Management and Property Investment**
- (i) agree the Prudential Indications and Limits for 2022/23 – 2025/26 contained within Appendix 12 of the report, including the Authorised Limit Prudential Indicator;
 - (ii) agree the Minimum Revenue Provision (MRP) Statement contained within Appendix 12 which sets out the council's policy on MRP;
 - (iii) agree the Treasury Management Strategy and the Treasury Prudential Indicators contained within Appendix 12;

- (iv) agree the Cash Investment Strategy 2022/23 contained in the Treasury Management Strategy (Appendix 12 including the detailed criteria);
- (v) approve the Property Investment Strategy at Appendix 13.

Background

- 48 The council's budget and MTFP(12) are aligned to the council plan, which was agreed by County Council on 21 October 2020 setting out the council's strategic service priorities. The council plan is being reviewed and updated and is included on the agenda for Cabinet on 6 April 2022 for approval. The MTFP provides resources to allow the council to deliver its priorities and to respond to and recover from the impacts of the coronavirus pandemic.
- 49 Looking back to MTFP(1), the following drivers for the council's financial strategy were agreed by Cabinet on 28 June 2010, which still underpin the council's strategy in MTFP(12):
- (a) to set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in council tax;
 - (b) to fund agreed priorities, ensuring that service and financial planning are fully aligned with council plans;
 - (c) to deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum;
 - (d) to strengthen the council's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery outcomes; and
 - (e) to ensure the council can continue to demonstrate value for money in the delivery of its priorities.

Local Government Finance Settlement

- 50 The provisional Local Government Finance Settlement was published on 16 December 2021 with the Final Settlement expected to be published in early February 2022. The final settlement will confirm core grant allocations for 2022/23. The provisional settlement set out 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 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 a proportion of this additional funding. The council will receive £8.776 million, equating to 1.07% of the national allocation in 2022/23;
 - (b) **Social Care Grant additional £636 million**– representing 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 in recognition that

local authorities can raise differing amounts from council tax increases due to varying council taxbases. This funding is only payable to upper tier authorities who provide social care services. The council will receive £8.076 million, 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 the 2021/22 RSG allocations. The council will receive an additional £0.873 million 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 the 2021/22 IBCF allocations. The council will receive an additional £0.906 million 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 from 2022/23. The government has 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 part finance the 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. It is expected that NNHB will be abolished in 2023/24.
- 51 Within the provisional local government finance settlement, the government also announced 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.
- 52 No detail on what the FFR formula would be or whether this would be linked to a Business Rate Reset, further Business Rate Retention (BRR) or include consideration of the inclusion of the Public Health Grant in BRR was published with the draft settlement, so there remains significant uncertainty beyond 2022/23.
- 53 The implementation of the FFR was 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 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 grant leading to a

forecast £18 million reduction in the grant 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 reallocation 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.

- 54 Although the additional funding announced in the provisional local government finance settlement is welcome and exceeds the initial financial planning assumptions, 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 is one off funding. Government has 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 thought that the government is treating this funding as one off to provide flexibility to implement the findings of the FFR where there are 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 is not guaranteed to receive any of the funding payable through the Services Grant beyond 2022/23;
 - (b) **Social Care Grant** – although the additional funding is welcome, it is disappointing that only 40% of the additional national funding of £1.5 billion has been allocated via this method when it is children's and adult social care where the major recurrent budget pressures are being felt by upper tier councils like ourselves. Pressures in children's social care are particularly acute in areas like County Durham and the formula used to allocate the Social Care Grant is the Adults Relative Needs formula, which doesn't recognise or compensate for the significant pressures being experienced in children's social care, which the grant also covers;
 - (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 2022/23 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.
- 55 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.

- 56 The provisional settlement provided details on the first tranche of funding from the health and social care levy. The £12 billion to be made available nationally will be financed by the 1.25% increase in employers and employee's national insurance rates 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** – although it will take a forecast three and a half years to reach the cap, this will result in increased costs to local government – impacting more on areas where residents have higher levels of disposable income and equity in their properties;
 - (b) **Increase in means test asset threshold from £23,500 to £100,000** – again leading to an increase in costs to local authorities; and
 - (c) **Self-funders** – government had indicated that from October 2023 self-funders could ask to be accepted onto council care contracts, thus potentially securing lower care costs. It is expected that this would lead to increased costs to local authorities as care providers seek increases in fees from the council to recover lost income from self-funders.
- 57 The provisional settlement provided further detail in relation to the funding available to local government, with an initial allocation of £162 million being paid to local authorities in 2022/23 via 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 2024/25 to meet the outcome of that exercise.
- 58 The provisional settlement detailed that the council will receive £1.905 million in 2022/23, representing 1.18% of the £162 million being provided nationally. Although no allocation has been advised for 2023/24 and 2024/25 using the same formula 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.
- 59 The remaining elements of the funding that we will receive relate to funding that will be provided to help meet the Care Cap and new Means Test impacts that will be implemented from October 2023. It is anticipated that the £3.6 billion payable to local government will be paid across the next three financial years as detailed in the table below, with actual allocations to the council to be confirmed in next year's financial settlement:

Table 1 – Annual allocations of Health and Social Care Levy Grants

	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

- 60 The major concern for the council will be whether the sums allocated will be sufficient to cover the additional costs and loss of income experienced from these changes. The council is forecast to spend around £180 million on purchasing care in 2022/23 and as such the sums being made available for a fair cost of care exercise will allow for only a modest increase in fees and may not be sufficient to meet market expectations.

Covid-19 Grant Support

- 61 At this stage there is no announcement of any additional Covid support funding for local government into 2022/23 or any extension to the Sales, Fees and Charges Income Guarantee Scheme, which came to a close on 30 June 2021.
- 62 This position will be monitored closely in the coming months. Council income in areas such as leisure, theatres, car parking and parks is very much linked to the outcome of the pandemic and impacts upon the 2022/23 budget will need to be monitored, with consideration given to budget adjustments from 2023/24 as part of the development of MTFP(13). In year impacts in 2022/23 can be accommodated from a combination of use of contingencies, cash limit and general reserves.

High Needs Dedicated Schools Grant

- 63 The council will receive a significant increase in the HNDSG for 2022/23 of £7.652 million, a 11.6% year on year increase. This increase in funding is essential for this service area where a £1.455 million overspend was reported in the Quarter 2 Forecast of Outturn Report to Cabinet on 17 November 2021. Although the increase is greater than the forecast 2021/22 overspend, this budget area continues to face significant demand and cost pressures and will continue to be monitored closely. There is also a need to recover the accumulated deficit in terms of historic underfunding of HNDSG in previous years that resulted in overspending on High Needs, where the accumulated deficit is forecast to be £9.502 million at 31 March 2022.

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

Negative RSG

- 65 The settlement confirmed the continuation of the negative RSG adjustment which was paid to some authorities in 2019/20, 2020/21 and 2021/22. Many beneficiaries of the negative RSG adjustment are district councils, though there are a number of county councils who also benefit from these payments. The government will continue these payments into 2022/23 with £153 million of additional grant funding being allocated to ensure there is no negative RSG for those limited number of authorities. Durham County Council will not receive any funding from this adjustment. The major beneficiaries are as follows:

Table 2 – Beneficiaries from Negative RSG in 2022/23

Authority	2022/23 Allocation
	£m
Surrey	17.3
Buckinghamshire	10.9
Dorset	10.8
Wokingham	7.1
Durham	0.0

Core Spending Power (CSP)

- 66 Upper tier authorities who receive a share of the additional social care grant funding and who are able to utilise the 1% Adult Social Care precept generally receive a higher than average CSP increase compared to district councils. The England average CSP increase for 2022/23 is 6.9% with district councils generally receiving less than this average as they do not benefit from the additional social care grant funding or the ability to levy an Adult Social Care precept. Equally, they do not face the significant upward cost pressures in these areas.
- 67 The provisional CSP figures for the council would indicate a positive position compared with 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. The report is recommending a 3% 2022/23 council tax increase rather than the maximum 4.99% available. This will reduce the council's core spending power increase from 8.4% to 7.4% bringing the council closer to the 6.9% national CSP increase;

- (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. This skews the CSP year on year increases. If this is excluded from the national calculations the CSP nationally reduces from 6.9% to 6.6%, with the position in Durham reducing from 8.4% to 8.0%, or 7.0% based on a 3% council tax increase next year.

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

- (a) in affluent areas, significant numbers of service users, especially in adult social care, can afford to contribute to the cost of their service provision. This is especially the case for residential care and home care services for the elderly. In these circumstances, the budget required to provide services in deprived areas is much higher than in affluent areas;
- (b) demand for services such as children’s social care in deprived areas is significantly higher than more affluent areas, resulting in deprived areas requiring higher budgets; and
- (c) in more affluent areas there is a higher proportion of properties in the higher council tax bands and those authorities have increased council tax raising capacity and can generate significantly more council tax from a 1.99% increase in their Band D council tax than authorities with a low tax base can.

69 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 had a CSP per dwelling in line with the national average CSP of £2,155 per dwelling, the council would receive an additional £39 million of funding next year.

Table 3 – 2021/22 Core Spending Power per Dwelling

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

- 70 Considering the levels of deprivation in County Durham, it is concerning that the government's CSP per dwelling calculation for Durham is £156 (approximately 7%) less than the England average. The Index of Multiple Deprivation (IMD) highlights that Durham is the 48th most deprived local authority area in the country out of 151 upper tier authorities, yet the council's CSP is significantly lower than the national average.

Comprehensive Spending Review (CSR) and the Fair Funding Review

- 71 The Chancellor of the Exchequer published the CSR on 27 October 2021. The document was far reaching and sought to move the country away from a sustained period of austerity, with the majority of areas of the public sector set 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.
- 72 The government is 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.
- 73 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.
- 74 The main announcements in the CSR which are forecast to have an impact upon local government, and which are not referenced in the provisional local government finance settlement section above are as follows:

- (a) **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, with discretion given to local authorities over how this phasing was applied. 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.

The new adult social care precept raising power cannot 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 4.99% council tax increase, consisting of the 1.99% 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.

- (b) **National Living Wage (NLW)** - the CSR confirmed that the NLW will increase by 6.6% in April 2022 to £9.50. The council was previously forecasting an increase of approximately 5.3% in 2022/23. The increase is reflected in the revised based budget forecast for the 2022/23 budget and increases cost pressures by around £1.6 million from the previous forecast. 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).
- (c) **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 also 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 and in line with legislative provisions. 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 – currently this is undertaken every five years;
 - (ii) there will be a further one-year extension to transitional relief and supporting small business rates relief for 2022/23;
 - (iii) there will be a 50% discount for retail and hospitality businesses in 2022/23 of up to £110,000;
 - (iv) there will be 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. 100% relief will also be provided for eligible low-carbon heat networks that

have their own rates assessments. 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.

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

The CSR confirmed the following allocations to the Shared Prosperity Fund over the next three years:

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

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

Government has 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 the Bishop Auckland constituency 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.

- 75 As part of the provisional local government settlement, the government announced that consultations would begin again in the Spring of 2022 on the Fair Funding Review (FFR). There has been no consultation for three years on the possible methodologies government previously developed to determine the apportionment of government funding between local authorities. It is expected therefore that the government could choose to change the approach previously taken. On that basis it is difficult to be clear on what the outcome of the FFR could be for the council.

76 The assumptions underpinning the development of MTFP(12) are as follows:

- (a) there can be no guarantee that the 'one off' Services Grant of £8.776 million received by the council in 2022/23 will be payable in 2023/24. We think the government announced this grant as being one off to provide flexibility to implement the findings of the FFR where there are expected to be significant winners and losers across the local government 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;
- (b) in previous years the council has assumed that we would be a loser from the FFR. It was previously forecast that the council would lose £10 million as a result of the FFR with this loss being transitioned over five years i.e., a forecast £2 million loss in each of five years. The assumptions built into the forecasts are that the council may lose all the £8.776 million of the one off Services Grant to support FFR transition but that it does not lose any further funding from the FFR;
- (c) the social care grant funding will continue to be received over the MTFP(12) period; and
- (d) the core BCF funding will continue to be received.

Consultation

77 The significant level of uncertainty associated with the 2022/23 budget setting process resulted in the focus of consultation on MTFP(12) being to seek views from Area Action Partnerships on the approach being taken by the council in planning for the 2022/23 budget process.

78 Presentations were made to 14 Area Action Partnership Boards between 5 January and 27 January 2022 providing a 2022/23 Budget and Medium Term Financial Plan consultation and budget update. This presentation in summary covered:

- (a) 2021/22 Council Budget overview;
- (b) current uncertainties that make it difficult to plan effectively for the future, including the one-year provisional local government finance settlement;
- (c) 2021/22 Budget pressures forecast including adult and children's social care, pay awards, inflation, and national living wage;
- (d) 2022/23 Budget setting arrangements, outlining a £7 million savings shortfall with options considered to balance the budget via council tax increases, further savings, or utilising reserves to delay the need to achieve savings;
- (e) the council timetable for the budget for approval.

AAP Feedback

- 79 During January 2022, we consulted on the proposed council budget with the Area Action Partnership Boards and Forum members in attendance. Consultation was also carried out with the County Durham Partnership and its thematic partnerships.
- 80 A presentation provided an overview of the Council Budget and Council Tax position, as well as the current position for the 2022/23 budget and the 2022/23 to 2025/26 Medium Term Financial Plan.
- 81 Views were sought from each AAP on the following:
- (a) What is the AAP view on balancing the 2022/23 forecast budget shortfall from council tax increases versus reductions in services or one off use of reserves which would increase the savings required in 2023/24?
- 82 We invited questions, suggestions and comments and the summary of responses can be found in Appendix 2. Partners in the County Durham Partnership and its thematic partnerships were also invited to comment.

Area Action Partnership Boards - Summary of Feedback

- 83 Responses have been received from all fourteen AAPs who met up to 27 January 2022. As might be expected, a range of views were received.
- 84 Three AAPs reached a consensus about a Council Tax rise. In seven AAP's, the majority of those who responded were in favour of a Council Tax rise although the board did not reach an overall consensus.
- 85 In four AAPs, no overall majority or consensus for an approach was reached, comments included a preference for more information and time to develop a response. In common with many of the AAPS, comments in these four partnerships included concern at the many financial pressures facing households and support for continuation of the Local Council Tax Reduction Scheme.
- 86 There was some understanding and recognition of the financial issues and uncertainties faced by the council. In particular, the increased demand for Adult and Social Care and the financial impact of Covid on these services.

Area Action Partnership Boards - Other suggestions and comments

Improving communications

- 87 There were a number of comments about how the council could improve its communications with the public to build a better understanding of how budgets are spent. These included:

- (a) providing information about the reserves and where service reductions would be made to enable better discussion. One board member also asked about Police precept increases, which is subject to separate consultation arrangements and outside the councils remit;
- (b) a request for better communication with residents about how budgets are allocated and managed, specifically in relation to Council Tax - there was a lack of understanding and a perception of “what do I get for my money?”;
- (c) it was enlightening that over half the expenditure goes on adult and health, and children and young people's services. There was a general surprise that this was the case and a feeling that this was not understood more generally;
- (d) the tight timescales impacted on the consultation process and more time should be provided to engage communities earlier.

Generating income and greater efficiency

88 There were a number of comments and suggestions about how the council may be able to generate additional income, do things differently or increase efficiency. Feedback will be provided to AAP's on the ideas generated as some are not possible. Options identified for future consideration included:

- (a) explore the repurposing/selling of assets due to hybrid/home working to generate income/offset costs as well as explore more income generation through services;
- (b) more measures to reduce the council's energy costs and move to more energy efficient buildings;
- (c) explore increasing income from schemes which tax landlords.
- (d) Seek to continue to improve performance in areas such as recycling through public campaigns to achieve greater efficiencies'

County Durham Partnership

PCC and Durham and Darlington Constabulary

89 The feedback from the PCC and constabulary is set out below:

- (a) it is recognised that one year funding settlements undermine effective service and workforce planning and hence the need for efficiency savings;

- (b) it is also acknowledged that the FFR is also causing further uncertainty, especially given that it could be introduced as early as 2023/24. Again, this hinders service planning;
- (c) cost pressures such as pay, inflation and national insurance are unavoidable and the report clearly articulates this issue, which acts to eat into any additional funding given;
- (d) it is positive to note that despite the above, the Council has secured savings for reinvestment in the frontline which reflects well on its leadership;
- (e) it is also recognised that there are future financial challenges ahead which will require careful management, but which will be managed well.

Scrutiny Committee Feedback

- 90 Detailed scrutiny of the MTFP continues to be undertaken by the Corporate Overview and Scrutiny Management Board (COSMB). The ability to scrutinise MTFP(12) has been somewhat affected by the timing of the financial settlement for 2022/23, which was published in late December 2021.
- 91 The COSMB has however held three scrutiny meetings to consider the MTFP (12) development. Firstly, on 2 September 2021, where Members considered the 7 July MTFP (12), 2022/23 – 2025/6 and Review of the Local Council Tax Reduction Scheme Cabinet report. The second meeting on 25 October 2021 considered the 13 October 2021 MTFP (12) 2022/23 – 2025/26 Cabinet report. The third meeting on 21 January 2022 considered Cabinet's reports on the MTFP(12) from the meetings held on 15 December 2021, which included an assessment of the CSR announcements and 19 January 2022 which included detail of the provisional local government finance settlement.
- 92 COSMB raised the following points as part of its detailed budget discussion at its meeting on 21 January 2022, building on considerations at their October meeting, which were fed back to Cabinet and taken on board as part of the preparation of the proposals contained in this report:
- (a) members of the Board reflected on the significant degree of financial uncertainty for the Council due to the one year local government financial settlement received from the government and the delay to the Fair Funding Review;
 - (b) the impact of the council's low core spending power per dwelling in comparison with other local authorities was highlighted together with the need for a fairer and longer term funding settlement from Government. Members noted that if the core spending power per dwelling was increased to the national average that would provide Durham with an additional £39 million or resources. The Board requested that that they be able to contribute to the consultation that is to be agreed by Cabinet on the implementation of the Fair Funding Review;

- (c) base budget pressures were reviewed with concern expressed on the significant continuing and unavoidable pressures, highlighting the looked after children budget, home to school transport and waste disposal budgets as a particular concern. It was noted that the looked after children's budget had increased significantly in recent years due to the complexity of cases and demand for external placements. Reference was made to the potential 'perfect storm' of budget pressures in relation to inflation costs, increases in the demand for children's services and the National Living Wage;
- (d) the Board welcomed the proposals for investment in further priorities such as pest control, woodland protection, the Local Nature Recovery Strategy, and allotments. Members were also pleased to see investment in the continuation of the free car parking after 2pm initiative in lieu of the countywide parking review;
- (e) members referred to difficulties in recruiting staff to some service areas within the council and sought reassurance over workforce planning and the sustainability of new posts. Board members reflected on the number of posts which had been lost over recent years due to financial constraints;
- (f) assurances were sought on invest to save opportunities in relation to the Climate Emergency Response Plan and Ecological Plan. It was highlighted these were potential opportunities for the Council. It was suggested additional funding could be sought for reducing energy costs in buildings;
- (g) there was a concern that the Cabinet's council tax strategy may be putting some very difficult decisions off until later years and the potential impact this might have on the delivery of services. Members highlighted the need to continue to lobby the government for additional funding and expressed concern if future additional demand for adults and children's services continued to outstrip available resources that reductions to these budgets may have to be made in the future. Members also noted that significant efficiencies had been made over recent years and sought assurance that this process would continue;
- (h) concern was further expressed about whether the Shared Prosperity Fund would replace EU Structural Funds and the impact this may have on County Durham.

93 COSMB are schedule to meet on 10 February 2022 to consider the contents of this report and their comments and observations on the final budget proposals will be factored into the report that will be presented to Full Council on 23 February 2022.

Medium Term Financial Plan Strategy

94 The strategy the council deploys has been to prepare prudent forecasts to anticipate and accurately assess the scale of the challenge in terms of

balancing its budgets over the medium term and to prioritise savings from management, support services, efficiencies and, where possible, increased income from fees and charges to minimise the impact of reductions on frontline services as far as possible.

- 95 The benefits of strong financial governance arrangements, maintaining adequate reserves and delivering savings early, if practical to do so, cannot be over emphasised. The utilisation of reserves has been essential in ensuring the smooth delivery of savings and enabled a managed implementation of proposals across financial years. Since 2010 the council has utilised £108.9 million of reserves to help balance its MTFP – consisting of £52.2 million of early access and redundancy costs and £25.1 million of Budget Support Reserve funding.
- 96 In the past the council has been accurate in forecasting the level of savings required, which has allowed the development of robust plans and has enabled the council to effectively manage the implementation and delivery on time, including meeting extensive consultation and communication requirements. This has put the council in as strong a position as possible to meet the ongoing financial challenges across this MTFP and beyond.
- 97 Savings proposals are becoming more complex and difficult to deliver and will inevitably require increased utilisation of reserves to offset any delays and ‘smooth in’ reductions across financial years.
- 98 The council’s existing MTFP strategy aligns with the council vision for 2035 which sets out our strategic direction and what we would like to achieve over the next 15 years and has three broad ambitions for the people of County Durham: More and better jobs; People live long and independent lives; and Connected communities. As well as being of key importance to local people’s long-term priorities, these ambitions remain key strategic ambitions in our response to the Covid-19 crisis, where key impacts relate to employment, health and wellbeing, and communities.
- 99 In addition, the MTFP strategy aligns well with the priorities identified by the public. For example:
- (a) **Protecting basic needs and support services for vulnerable people** - although the scale of government spending reductions between 2010 and 2019, the council works hard with partners to minimise this impact as far as possible on vulnerable people. In MTFP(12), support has been continued to protect working age people on low incomes through the continuation of the existing Council Tax Reduction Scheme. This has been also enhanced through up to £150 top up payment to working age claimants who are left with a bill to pay next year. Work with health partners continues to help ensure that health and social care funds are maximised and every proposal with the potential to impact on vulnerable people is subject to an assessment to identify likely impacts and mitigate these as far as possible;

- (b) **Avoid waste and increase efficiency** - the council has a good track record of delivering cashable efficiency savings since local government reorganisation. This includes rationalisation of council buildings and IT systems and investment in digitisation of services. All employees have the ability to suggest ideas that could reduce waste and improve efficiency. The council benchmarks itself against other organisations in order to identify areas for improvement and demonstrate value for money;
 - (c) **Fees and charges** - the council has addressed some of its financial challenges through increasing fees and charges. Such decisions are carefully considered, and it is acknowledged that it is not appropriate to aim for the highest charges possible, given the disposable income levels of most residents and service users in County Durham.
- 100 The 2022/23 budget forecasts included in the updated MTFP model show a balanced position next year, however, savings are forecast to be required over the three years 2023/24 to 2025/26 as funding from council tax increases, tax base growth and government grant does not keep up with ongoing and unavoidable spending pressures. It is forecast that the council will continue to face significant unavoidable budget pressures from pay and price inflation, the national living wage increases which drive adult social care contact increases, in children's social care, waste disposal and in meeting investment requirements to continue to address climate change priorities.
- 101 In addition, local government generally is absorbing more financial risks from central government. Increased risk is arising from several sources:
- (a) under the Local Council Tax Reduction Scheme, previous national risk arising from any increased numbers of benefits claimants has been transferred to local authorities since 2013/14. The risk is greater for authorities like Durham that serve relatively more deprived areas and have relatively weaker economic performance than the national average. The impact of the pandemic upon the council tax taxbase and the Collection Fund in 2020/21 highlights this risk;
 - (b) Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration by being able to retain 49% of business rates raised locally. Economic regeneration has always been the top priority for the council. Unfortunately, the practical consequences of these changes shift risks once managed nationally, to local authorities should there be a downturn in the local economy and local business rate yield reduces. In addition, the council also now carries a share in the risk arising from successful rating appeals against the rateable value assigned to a business by the Valuation Office, part of HM Revenues and Customs which can go back many years. Again, the impact of the pandemic upon the business rate taxbase highlights this risk;
 - (c) Fair Funding Review consultations are expected to begin again in the Spring of 2022 in terms of the formula used to allocate government

funding to individual authorities. The FFR could result in significant changes to the funding received by the council;

- (d) the employment rate is below both the national and regional averages – with youth unemployment continuing to be a particular concern within the county and levels of disposable income below both the regional and national averages – placing pressure on households across the county as they deal with increases in the cost of living due to higher inflation in the economy and supply chain disruption;
- (e) the government's ongoing Welfare Reforms carry increased financial risk to the council in areas such as the Discretionary Benefits Service, Welfare Rights, homelessness and housing services. Similarly, council tax can be more difficult to collect, creating increased financial pressure;
- (f) risks such as future price and pay inflation and demographic pressures in social care services in particular will still apply and are not currently fully recognised in government funding allocations, increasing the real terms cuts required to set a balanced budget;
- (g) the council will face significant risks from policies relating to the Health and Social Care Levy especially in relation to the need for a fair cost of care exercise for adult social care service provision and it is uncertain at this stage whether the funding provided will be sufficient and the outcome will meet market expectations;
- (h) future settlements are dependent upon the national finances. Uncertainties in relation to the recovery from the pandemic will impact upon the national finances and as such could also impact upon future settlements for local government;
- (i) it is unclear at this point what the impact in the long term will be upon the council of the coronavirus pandemic. The 2022/23 budgets make adjustment for waste collection and disposal contracts that have been impacted by changes in patterns of work. There could continue to be increased costs and loss of income in other areas that require cover from corporate contingencies or reserves next year and budget adjustments in MTFP(13).

102 Savings plans will continue to be developed to ensure options are in place to balance future years budgets. It is recognised that the likely impact of the FFR and funding and liabilities relating to the health and social care levy will not become clear until at least autumn 2022. On that basis the council will need to be flexible in terms of planning for future years savings.

Revenue Budget for 2022/23

103 Cabinet received an update report on MTFP(12) on 13 October 2021 which provided details of forecast base budget pressures at that time, building on the initial forecasts presented to Cabinet on 7 July 2021. The CSR was published on 27 October 2021; however, the late publication of the provisional local

government settlement has delayed further updates on the development of MTFP(12). The 13 October 2021 Cabinet report provided detail upon the forecast resources available, budget pressures and the savings required to balance the budget next year. This report builds on those assumptions and provides details on the final position that will form part of the budget setting reports to Cabinet and Council in February, subject to consultation outcomes.

Base Budget Pressures in 2022/23

104 Base budget pressures for inclusion in the 2022/23 base budget can be summarised as follows:

Table 4 – 2022/23 Base Budget Pressures

Pressure	Amount £m
Pay Inflation	7.100
Price Inflation	2.923
Adult Social Care Fee Inflation Uplift including NLW	12.000
1.25% Employers National Insurance Uplift	1.500
Energy Increases	3.100
Adult Demographic Pressures	0.500
Children's Demographic Pressures	4.400
Children's Home to School Transport	2.600
Waste Disposal Pressures	4.375
Additional Staffing Pressures	1.358
Prudential Borrowing	3.000
Other Budget Pressures	2.253
TOTAL	45.109

- 105 The budget provision required for pay and price inflation has been increased in the final budget proposals set out above. The 2021/22 pay award is yet to be settled. A sum of 2% was included in the 2021/22 base budget for the pay award. It is not clear if this sum will be sufficient with the employers having offered a 1.75% increase and this offer being rejected by the Trade Unions who are seeking support for industrial action.
- 106 In terms of the 2022/23 pay award provision for a 3% increase has been included in the estimates, which seeks to reflect the higher general inflation levels at the present time. Similarly, provision for general price inflation on materials, goods and services procured by the council (excluding energy contracts) has been increased from 1.5% to 3% next year.
- 107 The council faces a significant budget pressure in relation to the impact of the 2022/23 National Living Wage (NLW) increase. At 6.6%, the increase is higher than the forecast of 5% included in MTFP(12) modelling previously. Contractual arrangements, particularly relating to adult social care services include annual

uplifts in contract prices which are linked to the NLW. In addition, general inflation levels are also impacting upon adult social care providers. In this regard a £12 million base budget pressure is included in the 2022/23 budget to cover the cost of the NLW uplift, general inflation, and the 1.25% employers' national insurance uplift. The forecast £1.4 million impact of the employer's national insurance uplift on the sector has been financed from the £1.9 million funding the council has received from the Health and Social Care Levy called the Market Sustainability and Fair Cost of Care grant.

- 108 The council continues to face significant unavoidable budget pressures in Children and Young People's Services particularly in relation to Children's Social Care placements and Home to School Transport, with further budget uplifts provided to offset current shortfalls in these areas. The additional budget provision for social care placements is in addition to the £4.5 million of additional budget provided in 2021/22 via a budget transfer from Adult and Health Services. Similarly, additional provision has been made to increase the base budgets in waste disposal where tonnages have not reduced to pre pandemic levels and where re-procurement of services in terms of Materials Recycling Facilities and costs of Household Waste Disposal Centres are far outstripping inflation allowances.
- 109 The council also expects to incur double running costs during 2022/23 in relation to County Hall and the new HQ facility. Previous Cabinet reports on the development of the new HQ building recognised that double running costs would be incurred, especially as it was expected that the content of the County Archive and Records Office would need to stay in county hall until the History Centre could be occupied. Cabinet will decide in the summer whether the council will utilise the new HQ facility at the Sands. Until that decision is made it is not possible to accurately determine the full impact of the double running costs. Any costs incurred in 2022/23 will be financed from general contingencies in year.
- 110 The council continues to prioritise capital investment and this budget includes a fully funded capital programme. A key priority of the capital programme continues to be regeneration and job creation within the local economy.

Additional Front Line Service Investments

- 111 The additional government funding provided in the provisional local government finance settlement alongside modest MTFP(12) savings have allowed investments to be recommended in priority front line service provision. In this regard £3.2 million of additional investments are recommended in Neighbourhood and Climate Change(NCC) and Regeneration, Economy and Growth(REG). The following investments 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. Educational awareness, social media promotion;

- (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 will either mean budgetary overspend or lack of bins;
- (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. It also includes two new sweepers (one for footpaths and one for roads) plus two operatives;
- (d) **Car Parking - £0.6 million** - continuation of the "Free After 2" parking initiative adopted in the 2021/22. Investment will continue for 2022/23 pending the outcome of the Parking Strategy review;
- (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** - implementation of the Community Protection Workforce Development Plan for next five years 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 colleagues retire and posts at that time are not filled hence the recovery of budget from 2025/26 onwards;
- (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. This will ensure backlog of investigations undertaken will return wait times to reasonable levels and introduction of welfare assistance scheme for public health pests. The proposal includes an additional £10,000 income through domestic pest treatment;
- (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 Government's Environment Bill. 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 92 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;
- (k) **Allotments - £0.360 million** - an additional three engagement staff to work with the 50 associations that run sites and three enforcement staff to deliver the new policy. A maintenance and initiative budget would also be created to incentivise associations and sites to make improvements.

MTFP(12) Savings

- 112 The council continues to seek to identify and generate additional savings having a clear focus upon efficiency savings, income generation and the protection of front line services as far as is possible.
- 113 Savings of £1.502 million approved in MTFP(10) and MTFP(11) continue across the MTFP(12) period alongside an additional £1.2 million of new savings proposals that have been identified for inclusion in MTFP(12). This provides £2.702 million of budget support across MTFP(12) with £2.427 million of this sum available in 2021/22. Table 5 below provides a summary of the MTFP(12) savings, with the individual savings plans detailed in Appendix 3.

Table 5 – MTFP(12) Savings

Year	Savings £m
2022/23	2.427
2023/24	0.275
TOTAL	2.702

- 114 The current MTFP(12) modelling forecasts that £29.987 million of further savings are still required to balance budgets over the medium term, with £16.607 million (55%) falling in 2023/24. Over the coming months the council will continue to develop savings plans to ensure savings options are available for consideration should they be required. Early planning will be critical in lieu of the potential outcome of the Fair Funding Review in 2023/24, with the council also needing to be cognisant of the possibility of base budget pressures being higher than what is currently forecast.

2022/23 Net Budget Requirement and Council Tax

- 115 After considering base budget pressures and additional investment built into the updated forecasts, the council's recommended Net Budget Requirement for

2022/23 is £466.732 million. The financing of the Net Budget Requirement is detailed in Table 6.

Table 6 – Financing of the 2022/23 Budget

Funding Stream	Amount £m
Revenue Support Grant	29.100
Business Rates – Local Share	52.873
Business Rates – Top Up Grant	72.780
Section 31 Grant	25.026
Collection Fund Deficit	(9.788)
Council Tax	252.142
New Homes Bonus	4.082
Social Care Pressures Grant	30.955
Services Grant	8.776
Lower Tier Services Grant	0.786
NET BUDGET REQUIREMENT	466.732

- 116 The Gross and Net Expenditure Budgets for 2022/23 for each service grouping are detailed in Appendix 4. A summary of the 2022/23 budget by service expenditure type, based upon the CIPFA classification of costs is detailed in Appendix 5.
- 117 The government has confirmed that the maximum the council can increase council tax by is 1.99% without approval from a majority of council taxpayers in a public referendum to increase it further. The council also has the ability to apply an Adult Social Care precept up to a maximum of 3% in 2022/23, being the 2% flexibility deferred from 2021/22 and the new flexibility for 2022/23 of 1%. In total therefore, the council is able to increase council tax by a maximum of 4.99% in 2022/23.
- 118 After considering the impact upon the council's budget and, importantly upon council taxpayers, this report recommends a 0% council tax increase in the council's Band D council tax in 2022/23, which is below the 2% referendum limit.
- 119 The report recommends however that a 3% increase is applied to the Adult Social Care precept. The total increase next year would therefore be 3% and will generate additional council tax income in 2022/23 of £7.050 million. The additional income will enable the council to protect front line services while also covering significant base budget pressures such as the additional costs associated with the increase of the National Living Wage.
- 120 Consideration has been given in determining the 2022/23 council tax increase to the impact upon the most financially vulnerable who continue to be fully

protected by our Local Council Tax Support Scheme and who are also supported through the council's broader welfare assistance programme.

- 121 In this regard the council targets welfare investment towards key priority areas. The council is committed to addressing issues presented by poverty through a co-ordinated and multi-faceted approach. This includes delivering a range of policy interventions aimed at supporting vulnerable low-income households.
- 122 These interventions include maintaining the Local Council Tax Reduction Scheme (LCTRS) – there are currently 55,462 LCTRS claimants in County Durham, of which 21,031 (38 percent) are pensioners and 34,431 (62 percent) are working age claimants. Almost 80 percent of all working age claimants receive maximum help, leaving them with no council tax to pay, with LCTRS support forecast to be around £64.5 million in 2021/22.
- 123 In 2020/21 and 2021/22 government provided Local Council Tax Support Grant funding of £14 million to support communities during the pandemic. This funding has been utilised in the main to deliver Local Council Tax Reduction Scheme Top Up Payments which have provided up to an additional £300 of support to working age claimants in both 2020/21 and 2021/22. The council will also continue to provide up to £150 of support during 2022/23 and up to £75 of support in 2023/24.
- 124 The council also utilised £1 million of this funding to augment the Welfare Assistance Scheme and provided £1.4 million of one-off funding to Area Action Partnerships to provide additional community-based support as communities recover from the pandemic. This will result in all the £14 million of government grant support provided being spent supporting economically vulnerable people and households as they deal with and recover from the impacts of the pandemic.
- 125 The council also continues to support council tax exemption for care leavers which exempts care leavers from council tax up to the age of 25, to support those leaving care to facilitate their transition to independent living. This support will enable around £193,000 of council tax reductions in 2021/22 and this support will continue into 2022/23.
- 126 The council has a Welfare Assistance earmarked reserve of £2.4 million available to support priority welfare programmes. If required, the reserve will be utilised to supplement the Discretionary Housing Payments (DHP) scheme where needed to support eligible residents needing additional support to maintain their tenancy and £1 million of core budget will also continue to be committed to support the administration of the Welfare Assistance Scheme (WAS) - providing support to people in crisis through daily living expenses and settlement grants.
- 127 Government funding through the Household Support Fund (HSF) has enabled us to recently administer £4.7 million to vulnerable households through the provision of food/fuel vouchers; the purchase of essential items and winter clothing (including shoes and school uniforms) for children identified as most in need and to provide an additional safety net through a discretionary award

through the council's Welfare Assistance Scheme. This support has reached over 24,000 of our most vulnerable residents. This funding, to support financial interventions between October 2021 to March 2022 has been the final round of Government winter support; the previous rounds - Covid Winter Grant/Covid Local Support Grant 2020/21 and 2021/22 have provided a total allocation of £4.7 million, which the council has invested in a range of interventions to support vulnerable households.

- 128 The council has also supplemented the DfE funding to support a wider reach for the holiday activities with food programme. The initial allocation of £2.4 million to co-ordinate and deliver free holiday activities and healthy food for children eligible for free school meals during the Easter, Summer, and Christmas holiday periods in 2021 was boosted with an investment of £143,000 from the Welfare Assistance Reserve to expand the scheme which has had participation from over 20,000 children and young people.
- 129 The council will seek to continue to support the most economically vulnerable and to invest any future funding from government effectively.
- 130 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 children's social care. Based on 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>

- 131 Significant sums are required 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	Children's £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
Children's 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>

- 132 Local authorities have been provided with the flexibility to increase council tax in 2023/24 and 2024/25 by 1% for the adult social care precept in addition to any agreed council tax referendum level. The MTFP(12) forecasts therefore assume a 2.99% annual council tax increase for 2023/24 and 2024/25 based upon a 1.99% referendum limit increase and the 1% adult social care precept flexibility. A council tax increase of 1.99% is assumed for 2025/26, with no adult social care precept increases built into the MTFP(12) forecasts.
- 133 The 2022/23 council tax base, which is the figure utilised to calculate council tax income forecasts, was approved by Cabinet on 17 November 2021 as 143,695.8 Band D equivalent, a 1.2% increase from 2021/22. Based upon the council's track record in collecting council tax from council taxpayers, the collection rate for council tax setting and income generation processes has been retained at 99%. Additional council tax income of £3.5 million has been factored into the 2022/23 budgets from the year on year increase in the tax base.

Recommendations

- 134 It is recommended that Members:
- (a) approve the identified base budget pressures included in paragraph 104;
 - (b) approve the new investments included in paragraph 111;
 - (c) approve the savings plans detailed in Appendix 3, which total £2.427 million in 2022/23 and £275,000 in 2023/24;
 - (d) approve a 0% 2022/23 council tax increase but a 3% increase which relates to the Adult Social Care precept, totalling a combined 3% overall increase in council tax;
 - (e) approve the 2022/23 Net Budget Requirement of £466.732 million.

How the Medium-Term Financial Plan 2022/23 to 2025/26 (MTFP(12)) has been developed

- 135 The following financial planning assumptions have been utilised in developing the MTFP(12) budget model, which is set out in Appendix 6:
- (a) it has been assumed that the council will lose all the Services Grant funding of £8.776 million received on a one off basis in 2022/23 as a result of the implementation of the FFR outcomes. It is assumed the national sum available of £822 million will be utilised to smooth in the transition of the FFR. This sum could be utilised over a number of years to smooth the impact of losses for some local authorities or could be utilised to ensure there are no losers from the process. In either of these scenarios either no funding will be forthcoming to the council from the Services Grant or additional funding will only be received on a phased basis over a number of years;

- (b) it is forecast that the £4.082 million the council receives from NHB will continue to be received in the future although likely to be via another funding mechanism;
- (c) it is assumed that the council will not lose any further funding from the FFR or from any future reductions in government funding. The assumption taken on the Services Grant above has assumed that any local authority who loses funding as a result of the outcome of the FFR will either receive transition support or permanent support from the £822 million available nationally from the Services Grant. On that basis it would be overly prudent to assume that the council would not only lose all the Services Grant received in 2022/23 but also further government grant funding as a result of the FFR;
- (d) it has been assumed that the council will retain the additional Social Care Grant funding of £30.955 million across the MTFP(12) period, although there is a risk in this regard in relation to the future allocation methodology depending on how the FFR formula is constructed;
- (e) it is assumed that the current BCF and IBCF allocations are retained across MTFP(12) , although there is a risk in this regard in relation to the future allocation methodology depending on how the FFR formula is constructed;
- (f) forecast pay and price inflation levels assumptions are detailed in Table 7 below. Service groupings will be expected to manage budgets within set cash limits although some additional allowance is recognised for major contracts.

136 The assumptions built into MTFP(12) for pay and price inflation are detailed in the table below:

Table 7 – Pay and Price Inflation Assumptions

Year	Pay Inflation	Price Inflation
	%	%
2022/23	3.0	3.0
2023/24	2.5	2.0
2024/25	2.0	1.5
2025/26	2.0	1.5

- (a) forecasts have also been included in relation to the impact of the National Living Wage over and above the price inflation allowance. The government has indicated that the intention would be to increase the NLW from the 2022/23 agreed level of £9.50 per hour to £10.50 per hour by 2024/25 which will require annual increases of circa 5%;
- (b) continuing forecast budget pressures in relation to Children and Adults demographics;

- (c) continuing to support the capital programme – with £3 million of new prudential borrowing cost provision built into each year of the MTFP(12) planning period;
- (d) it is assumed from 2022/23 that the council will increase council tax by 2.99% per annum in 2023/24 and 2024/25 utilising the adult social care precept flexibility provided and by 1.99% in 2025/26;
- (e) beyond next year it is assumed that the council tax base and business rate tax bases will continue to grow.

137 Based upon the assumptions built into MTFP(12), the following shortfall in savings will be required to balance the budget in 2023/24 to 2025/26.

Table 8 – Savings to be Identified

Year	Savings Target £m
2023/24	16.607
2024/25	6.017
2025/26	7.363
TOTAL	29.987

138 In total, additional savings of £29.987 million are required to balance the budget over the 2023/34 to 2025/26 period. To support the MTFP over this period there will be a forecast balance in the Budget Support Reserve of £15.3 million on 31 March 2022.

139 The MTFP(12) forecasted budget model is attached at Appendix 6. This model is considered prudent taking account of the latest intelligence relating to the Fair Funding Review, though there remains significant uncertainty over these estimates beyond 2022/23. Actual outcomes will be dependent on government's decisions on the formulae for allocating future grant funding as well as the details of overall level of government funding that is available for local government from 2023/24. Of particular concern in this regard is what the strategy will be to address the deficit that has been created as the government responds to the coronavirus pandemic.

Financial Reserves

140 Reserves are held:

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

- (b) as a contingency to cushion the impact of any unexpected events or emergencies, for example, flooding and other exceptional winter weather – this also forms part of General Reserves;
 - (c) as a means of building up funds – ‘earmarked’ reserves – to meet known or predicted future liabilities.
- 141 The council’s current reserves policy is to:
- (a) set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director of Resources should continue to be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis and then reporting to the Cabinet Portfolio Member for Finance and to Cabinet;
 - (b) aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms equates to up to £33 million.
- 142 Each earmarked reserve, apart from the schools’ reserve, is kept under review and formally reviewed on an annual basis. The schools’ reserve is the responsibility of individual schools with balances at the year-end which make up the total reserve.
- 143 A Local Authority Accounting Panel Bulletin published in November 2008 (LAAP77) made a number of recommendations relating to the determination and the adequacy of Local Authority Reserves. The guidance contained in the Bulletin “represents good financial management and should be followed as a matter of course”.
- 144 This bulletin highlights a range of factors, in addition to cash flow requirements that councils should consider in determining their reserves policy. These include the treatment of inflation, the treatment of demand led pressures, efficiency savings, partnerships, and the general financial climate, including the impact on investment income. The bulletin also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If Members were to choose to use General Reserves as part of this budget process appropriate action would need to be factored into the MTFP to ensure that this is addressed over time so that the base budget is not reliant on a continued contribution from General Reserves.
- 145 The forecast balance on all reserves is reported to Cabinet every quarter as part of the Forecast of Outturn reports and Cabinet received the latest report on 17 November 2021 based on the position as of 30 September 2021. The quarter three forecast of outturn will be considered by Cabinet in March 2022.
- 146 Since that time, a review of earmarked reserves and sums set aside in the 2021/22 budget for one off investment has identified the opportunity to release £15 million from increase reserves and reprioritise where these sums can be invested. A high level summary of where the £15 million has been released from is detailed in the table below:

Table 9 – Review of earmarked reserves and one off budgets

Reserve	Sum Released
	£m
Earmarked reserves	8.612
Cash Limit reserves	5.500
Release of One Off Investment	0.800
TOTAL	14.912

147 In terms of reprioritisation consideration has been given to replenishing corporate reserves which are likely to be required across MTFP(12) such as the Budget Support Reserve, the ER/VR Reserve, the Commercial Reserve and to also replenish the Lumiere Reserve to enable another event to be held in 2025. After the replenishment of these reserves, £10 million has been reprioritised for investment in line with Cabinet priorities. The full detail of where the £10 million will be invested is detailed in Appendix 7 with £3.664 million of the investment being capital schemes which will be reflected in the MTFP(12) capital programme. The major areas of investment are detailed below:

- (a) **Levelling Up and Stronger Town Bids - £2.840 million** - this investment will enable the council to develop robust business cases for government funding bidding opportunities. Funding will only be provided where business cases can clearly show the value for money and deliverability of schemes. This investment will ensure the council has the optimum opportunity of success;
- (b) **Durham City Heritage Infrastructure - £1.460 million** - the investment will enable an upgrade of highways infrastructure in the Market Place, Silver Street, Saddler Street and North and South Bailey;
- (c) **Footway Links - £0.750 million** - this will enable prioritised investment in both rural and urban footways addressing issues highlighted by Members;
- (d) **Public Rights of Way - £1.637 million** - the investment will enable essential maintenance on the network addressing previous under investment;
- (e) **Hardwick Park - £1.365 million** - investment will be targeted to enhancing the visitor experience by improving the visitor centre layout, by improving the education hub and by developing innovative play infrastructure;
- (f) **Community Buildings Energy Efficiency Loans Fund - £0.6 million** - the loan fund will enable community centres to move away from the use of gas boilers and to utilise a range of more efficient heating and lighting systems.

- 148 It is recommended at this stage that the current Reserve Policy of maintaining the General Reserve of between 5% and 7.5% of the Net Budget Requirement is retained. This will result in a General Reserve range of between £23 million and up to £35 million in 2022/23.
- 149 A balanced MTFP model has been developed after taking into account the assumptions detailed in this report. The MTFP model is summarised below. It should be noted that of the £32.689 million of savings required there are plans in this report for £2.702 million leaving a shortfall over the MTFP(12) period of £29.987 million.

Table 10 – MTFP(12) Model Summary

	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m
Variance in Resource Base	(39.151)	(13.904)	(15.695)	(9.600)	(78.350)
Pressures/Investments	37.800	30.786	21.712	16.963	107.261
Previous use of one-off funds	3.778	0	0	0	3.778
Savings Required	2.427	16.882	6.017	7.363	32.689
Savings Identified	(2.427)	(0.275)	0	0	(2.702)
Savings Shortfall	0	16.607	6.017	7.363	29.987

Recommendations

- 150 It is recommended that Members:
- (a) agree the forecast MTFP(12) financial position, as set out at Appendix 6;
 - (b) set aside sufficient sums in Earmarked Reserves as are considered prudent. The Corporate Director of Resources should continue to be authorised to establish such reserves as required to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet;
 - (c) aim to maintain General Reserve in the medium term between 5% and 7.5% of the Net Budget Requirement which in cash terms is between £23 million and £35 million;
 - (d) note the outcome of the review of earmarked reserves and the application of reserves to fund a range of one off and time limited investments as set out in Appendix 7.

Capital Budget 2021/22 to 2024/25

- 151 The current capital budget was approved by Cabinet on 17 November 2021, factoring in a range of additions, deletions and reprofiling of capital schemes. Since that date, capital budgets have continued to be challenged and reviewed

whilst additional resources have been received, which have augmented the capital programme. After taking these adjustments into account, Table 11 details the latest revised capital budget for the period 2021/22 to 2024/25 including the details of the financing of this capital expenditure. Further details of the current capital programme can be found at Appendix 8.

Table 11 – Current Capital Budget 2021/22 to 2024/25

Service Grouping	2021/22	2022/23	2023/24	2024/25	Total
	£m	£m	£m	£m	£m
AHS	0.377	0.833	0	0	1.210
CYPS	16.893	36.452	3.214	0	56.559
NCC	45.403	49.866	0.006	0	95.275
REG	86.976	146.523	65.681	16.422	315.602
RES	9.330	11.267	0.248	0	20.845
TOTAL	158.979	244.941	69.149	16.422	489.491
Financed by					
Grants/Contributions	73.129	51.153	6.151	0.813	131.246
Revenue/Reserves	18.296	7.013	3.480	0.112	28.891
Capital Receipts	7.713	9.698	7.583	0	24.994
Borrowing	59.851	177.077	51.936	15.496	304.360
TOTAL	158.979	244.941	69.149	16.422	489.491

Capital Considerations in the MTFP(12) Process

- 152 The Prudential Code (updated in 2017) requires that local authorities produce a Capital Strategy to ensure that they can demonstrate that they are making capital expenditure and investment decisions in line with service objectives and properly consider stewardship, prudence, sustainability, and affordability. A Capital Strategy for the council is attached at Appendix 9 and this provides the framework in which the capital programme is developed.
- 153 As part of the development of the capital programme for MTFP(12), service groupings developed capital bid submissions during the summer 2021 alongside the development of revenue MTFP(12) proposals. Bids were submitted in the main for 2023/24 to maintain the two year rolling programme approach to the capital budget. Bids were also submitted for 2022/23 which were deemed to be priority. The Capital Member Officer Working Group (MOWG) considered the capital bid submissions taking the following into account:
- (a) service grouping assessment of priority;
 - (b) affordability based upon the availability of capital financing. This process considers the impact of borrowing upon the revenue budget; and

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

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

Available Capital Financing – Capital Grants

- 155 Capital grants for 2023/24 are yet to be confirmed but have been assumed to be in line with the forecasts built into MTFP(11).
- 156 The table below provides details of the indicative 2023/24 capital grant allocations included in the plans. If the actual allocations for capital grants vary from the forecast position, then the capital budget may need to be adjusted accordingly.

Table 12 – Forecast 2023/24 Capital Grants Utilised in Support of the MTFP(12) Capital Programme

Capital Grant	2023/24
	£m
Disabled Facilities	6.000
LTP – Highways	14.841
LTP - Integrated Transport	2.726
School Maintenance/Basic Need	5.500
School Devolved Capital	1.200
TOTAL	30.267

Capital Receipt Forecast

- 157 In most cases, capital receipts received are utilised to support the overall council capital programme. Capital receipts are generated in the main from land sales which arise from the council's Asset Disposal Programme.
- 158 In the 2015 Autumn Statement, the Chancellor of the Exchequer announced that local authorities would be given flexibility under certain circumstances to utilise capital receipts to finance one off revenue costs associated with service transformation and reform.
- 159 The government identified that revenue expenditure would qualify to be financed from capital receipts in the following circumstances:
- (a) qualifying expenditure is expenditure on any project designed to generate ongoing revenue savings in the delivery of public services and/or

transform service delivery to reduce costs or to improve the quality of service delivery in future years;

- (b) the key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net current expenditure;
 - (c) within this definition, it is for individual local authorities to decide whether a project qualifies for the flexibility – the Secretary of State believes that individual local authorities or groups of authorities are best placed to decide which projects will be most effective for their areas;
 - (d) set up and implementation costs of any new processes or arrangements can be counted as qualifying expenditure. However, the ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.
- 160 The government believed that it was important that individual authorities demonstrate the highest standard of accountability and transparency in such decisions. It is required that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded, or part funded through capital receipts flexibility and that the strategy is approved by full council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full council or the equivalent at the same time as the annual budget.
- 161 At this stage, it is not considered that there are a large range of opportunities for the council to utilise this flexibility. Careful consideration also needs to be given to the other options of funding such expenditure as identified above e.g., from contingencies or from reserves
- 162 On that basis, to ensure that the council has this option available, it will be recommended that it be noted that capital receipts could be utilised to finance severance costs.
- 163 A review of the current forecast capital receipts for the period to the end of 2023/24 has indicated that there will still only be sufficient capital receipts to hit the revised budget requirement for the current capital programme. It is recommended that no additional capital receipt target for 2023/24 is included in MTFP(12).

One-Off Revenue Funding

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

- (a) **Earmarked Reserves** – a sum of £3.225 million is include in MTFP(12) for new capital schemes in relation to the Town and Villages Strategy. The Town and Village Reserve will be utilised to finance these schemes. In addition, a review of earmarked reserves has identified £10 million to be invested in council priorities of which £3.665 million will be invested over the 2022/23 and 2024/25 period on capital;
- (b) **Earmarked Reserves** – the review of earmarked reserves has resulted in £10 million of earmarked reserves being reprioritised for new investments of which £3.664 million will be upon capital schemes.

Prudential Borrowing

165 The council continues to sensibly utilise prudential borrowing to fund capital investment. The current budget available for prudential borrowing alongside additional growth across the MTFP(12) period will enable the council to fully fund the capital programme. Where capital expenditure is funded through prudential borrowing the capital financing requirements impact on the budget the following year.

Approval of Additional Capital Schemes

- 166 A comprehensive 2022/23 capital programme was approved as part of MTFP(11) in line with the council policy of developing a two-year rolling capital programme. The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting job creation. Additional investment will maintain and improve infrastructure across the county, help retain existing jobs, create new jobs, and ensure the performance of key council services are maintained and improved.
- 167 After considering all factors, including the availability of capital finance, MOWG has recommended that the following additional value of schemes be approved for inclusion in the MTFP(12) capital programme. Full details of the additional schemes can be found in Appendix 10 in addition to the £3.664 million of capital schemes to be funded by reprioritised earmarked reserves.

Table 13 – Additional Capital Schemes for 2022/23 to 2024/25

Service	2022/23	2023/24	2024/25	TOTAL
	£m	£m	£m	£m
CYPS	1.350	29.816	0.000	31.166
NCC	112.357	41.231	0.700	50.624
REG	0.100	25.246	0.000	25.346
RES	0.000	1.950	0.000	1.950
TOTAL	13.807	98.243	0.700	112.750

168 The new schemes detailed in Appendix 10 will ensure that the council continues to invest in priority projects and essential maintenance programmes. Examples of additional investments are detailed below:

- (a) **Spennymoor Primary School replacement (2023/24 - £6.9 million)** – The current Ox Close Primary and Oxclose Nursery Schools are proposed for replacement with a new nursery and primary school on a new site. The forecast capital cost is estimated at £14.3 million with this being the last tranche of required funding for the scheme;
- (b) **Belmont Community School and Belmont C.E. Primary School (2023/24 - £15 million)** – the total scheme is forecast to cost £34 million. The secondary school is in a poor state of repair with a substantial requirement for urgent work if it is to remain in use. It was identified in 2014 as a priority for a national bid to the Priority School Build fund which was unsuccessful as the scheme was massively oversubscribed. It is the top priority for a new build identified through the Education Review. The site of the current secondary school also creates the opportunity for a campus development incorporating Belmont C.E. Primary School, also a CLASP design school on the same site. The design and siting of the new campus will enable both schools to continue to operate from their current sites during construction. An initial bid was approved by Council in MTFP(11) of £8.4 million. An additional final bid of £10.6 million will be made to MTFP(13) to enable the completion of the scheme;
- (c) **Highways and Infrastructure Maintenance (2023/24 - £22.8 million)** - additional funding of £7 million will be invested to supplement the LTP grant of £14.841 million alongside an additional £1 million for streetlight column replacement;
- (d) **Unclassified Road Network (2022/23 - £3.9 million and 2023/24 - £5 million)** – the condition of the unclassified road network unlike the classified road network is below national average levels. An assessment has been carried out into the level of investment required over and above the normal programme to bring the condition up to national averages. The assessment has identified that an investment over the three years 2022/23 to 2024/25 of £13.860 million will be required to bring the condition up to the national average. Approval of £8.860 million is required over the next two years with a further £5 million to be sought in MTFP(13);
- (e) **Net Zero Buildings (2022/23 - £2.5 million and 2023/24 £2.5 million)** – significant capital investment will be required to enable the council to reach its net zero carbon target by 2030 especially in relation to the heating of buildings. This £5 million initial capital investment will enable the buildings to be targeted over the next two years which emit the greatest carbon as well as providing match funding opportunities for any government funding;

- (f) **Levelling Up Match Funding (2023/24 - £5 million)** – the council can submit five further capital bids to the governments Levelling Up programme after the council’s success with our first bid for Bishop Auckland. Each bid is up to a maximum of £20 million with an expectation that each bid will be supported by 10% match funding equating to £10 million. This sum of £5 million will be supported by a further £5 million sum in MTFP(13) on the basis the council is successful in each of the five bids and the maximum us sought;
- (g) **Town and Village regeneration (2023/24 - £3.225 million)** – funding will be provided to support the emerging strategy to support our town and village centres. The funding will enable consideration to be given to how the council can support the need to refocus our town and village centres.

169 This report previously detailed that a review of earmarked reserves had resulted in £10 million of earmarked reserves being reprioritised with the individual detail of the new investment plans being attached at Appendix 7. The £10 million is to be invested in a mix of revenue and capital programmes with £2.964 million of the investments being capital.

170 After considering the adjustments detailed in this report and the additional schemes, the MTFP(12) capital budget and its financing will be as follows:

Table 14 – New MTFP(12) Capital Programme

Service Grouping	2021/22	2022/23	2023/24	2024/25	Total
	£m	£m	£m	£m	£m
AHS	0.377	0.833	0.000	0.000	1.210
CYPS	16.893	37.802	33.030	0.000	87.725
NCC	45.403	62.223	41.327	0.700	149.563
REG	86.976	146.623	90.927	16.422	340.948
RES	9.330	11.267	2.196	0	22.795
TOTAL	158.979	258.748	167.392	17.122	602.241
Financed by					
Grants and Contributions	73.129	51.153	36.418	0.813	161.513
Revenue and Reserves	18.286	9.327	7.355	0.812	35.780
Capital Receipts	7.713	9.698	7.583	0.000	24.994
Prudential Borrowing	59.851	188.570	116.037	15.496	379.954
TOTAL	158.979	258.748	167.392	17.122	602.241

Recommendations

171 It is recommended that Members:

- (a) approve the revised 2021/22 capital budget of £158.979 million and the 2022/23 Capital Budget of £258.748 million;
- (b) approve the Capital Strategy at Appendix 9;
- (c) approve the additional capital schemes detailed at Appendix 10. These schemes will be financed from additional capital grants, one off revenue funding and from prudential borrowing;
- (d) note the option for the council to utilise capital receipts to finance severance costs utilising the available flexibilities in this regard. The utilisation of such flexibility would require the approval of Cabinet;
- (e) approve the MTFP(12) Capital Budget of £602.241 million for 2021/22 to 2024/25 as detailed in Table 14.

2022/23 Savings Proposals

- 172 Council previously approved savings of £1.502 million which are forecast to be realised in 2022/23 (£1.227 million) and 2023/24 (£0.275 million). In addition, £1.2 million of new corporate savings have been identified to supplement the previously agreed savings resulting in £2.702 million of total savings being made available to support the 2022/23 budget setting process and MTFP(12).
- 173 The full savings list is detailed in Appendix 3. The main new saving has resulted in a review of the current staff turnover allowance. The current turnover allowance built into annual staffing budgets is 3% i.e., it is assumed due to the colleagues either retiring or leaving the council's employment that savings will be realised until the vacant post is filled. Over recent years the turnover figure has normally exceeded 4% and it is felt prudent to increase the turnover allowance by 0.5% to 3.5%, which will enable £1 million to be reduced from employee budgets across the council.

Recommendation

- 174 It is recommended that Members:
- (a) note the approach taken to achieve the required saving.

Equality Impact Assessment of the Medium-Term Financial Plan

- 175 Consideration of equality analysis and impacts is an essential element that Members must consider in approving the savings plans at Appendix 3. This section updates Members on the outcomes of the equality analysis of the MTFP (12) savings proposals.
- 176 The aim of the equality analysis process is to:
- (a) identify any disproportionate impact on service users or staff based on the protected characteristics of age, disability, gender reassignment,

marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation;

- (b) identify any mitigating actions which can be taken to reduce negative impact where possible;
 - (c) ensure that we avoid unlawful discrimination as a result of MTFP decisions;
 - (d) ensure the effective discharge of the public sector equality duty.
- 177 As in previous years, equality analysis is considered throughout the decision-making process, alongside the development of MTFP(12). This is required to ensure MTFP process decisions are both fair and lawful. The process is in line with the Equality Act 2010 which, amongst other things, makes discrimination unlawful in relation to the protected characteristics listed above and requires us to make reasonable adjustments for disabled people.
- 178 In addition, the public sector equality duty requires us to pay 'due regard' to the need to:
- (a) eliminate discrimination, harassment and victimisation and any other conduct that is prohibited under the Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 179 A number of successful judicial reviews have reinforced the need for robust consideration of the public sector equality duty and the impact on protected characteristics in the decision-making process. Members must take full account of the duty and accompanying evidence when considering the MTFP proposals.
- 180 In terms of the ongoing programme of budget decisions, the council has taken steps to ensure that impact assessments:
- (a) are built in at the formative stages so that they form an integral part of developing proposals with sufficient time for completion ahead of decision making;
 - (b) are based on relevant evidence, including consultation where appropriate, to provide a robust assessment;
 - (c) objectively consider any negative impacts and alternatives or mitigation actions so that they support fair and lawful decision making;
 - (d) are closely linked to the wider MTFP decision-making process;

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

Impact Assessments for 2022-23 Savings Proposals

- 181 Savings proposals for MTFP 12 have limited equality implications as they predominately involve mini restructures of back office staff with no or minimal front line service impact, realignment of budgets with demand, reduced car mileage, reduced insurance premiums and income generation, with no equality impact. Impact assessments which involve staff restructures have been carried out where relevant and a summary of this is provided below.

Adult and Health Services (AHS)

- 182 There are no AHS savings proposals.

Children and Young People's Services (CYPS)

- 183 There is no equality impacts arising from the CYPS savings proposals.

Neighbourhoods and Climate Change (NCC)

- 184 Proposals include a small review within the service which may involve small reductions in staff hours and/or the deletion of vacant posts with no expected equality impact on service provision. Fair treatment of staff will be ensured through agreed corporate HR change management procedures.

Regeneration, Economy and Growth (REG)

- 185 Proposals involve a restructure of the communications and marketing team which may involve reductions in staff and/or the deletion of vacant posts with no expected equality impact on service provision. Fair treatment of staff will be ensured through agreed corporate HR change management procedures.

Resources (RES)

- 186 Resources savings proposals are not expected to have any service user impact. Savings involve two restructures within the service which will potentially include reductions in staff and/or the deletion of vacant posts with no impact expected on service provision. Fair treatment of staff will be ensured through agreed corporate HR change management procedures.

Corporate (COR)

- 187 There is no expected equality impact of corporate savings proposals.

Cumulative Impacts

- 188 Equality impacts from proposed changes are relatively minor this year, but we also consider ongoing cumulative impacts. Carrying out equality impact assessments on MTFP proposals helps us to reflect on cumulative impact across the range of protected characteristics and compare with previous years. Throughout the previous period of austerity, the approach of the council has been to keep the impact of savings on front line services to a minimum, and this has greatly reduced equality impact on those with a protected characteristic.
- 189 Where service reductions have been unavoidable, impacts generally related to loss of, or reduced access to, a particular service or venue, travel to alternative provision, increased costs or charges and service re-modelling including reductions in staff. Although changes have the potential to affect all protected characteristics, because they are more likely to affect those on low income, people without access to personal transport and those reliant on others for support there was disproportionate impact in relation to disability, age (younger and older) and sex (male and female but more likely women due to increased care responsibilities and older populations being disproportionately female).
- 190 Generally, previous changes to universal services such as street lighting or bin collection are less likely to have a disproportionate impact on any one specific group. However, there are exceptions, such as reductions in contracted public bus services, changes to libraries' opening hours and changes to leisure centres. Dedicated services such as social care, day care and home to school transport sometimes have disproportionate impacts for groups such as people with a disability and women, and those with a caring responsibility, and we have taken steps to monitor the impact and mitigate where possible.
- 191 We will also monitor and consider the direct and indirect impacts of the coronavirus pandemic and on residents, service users and staff. Initial indications are the recent public health crisis exacerbates existing inequalities. However, these additional and emerging needs will be analysed and communicated through equality analysis and EIAs.
- 192 It should also be noted that some service remodelling can improve choice and access for some and/or increase independence such as our reablement service which promotes rehabilitation and prevention. Service redesign such as this can help mitigate against existing inequities.

Key Findings and Next Steps

- 193 Equality impact assessments are vital to understand potential outcomes for protected groups and mitigate these where possible.
- 194 There will be continued focus on equalities issues as we move into future years of this MTFP, with equality impacts revisited and reviewed each year as appropriate. In many cases impact assessments are initial screenings with a full

impact assessment to follow at the point of decision once all necessary stakeholder consultation has been completed.

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

Recommendations

- 196 Members are asked to note the key equality analysis as summarised in this report and consider impacts of proposed savings on staff and residents.

Workforce Considerations

- 197 Although the council has not been required to achieve significant employee savings in 2022/23 it is still forecast that savings of £30 million are required to balance the budget over the period 2023/24 to 2025/26.
- 198 The council will continue the approach of forward planning, retaining vacant posts where required in anticipation of any required change. If required in the future, the council will seek volunteers for early retirement and/or voluntary redundancy and maximise redeployment opportunities for the workforce wherever possible reducing the necessity for compulsory redundancies in the process
- 199 In addition, the way that work is organised, and jobs are designed will continue to be reviewed by service groupings and this is being supported by some strategic HR initiatives such as moving more towards generic posts, smarter working practices, and maximising efficiencies across the workforce through new ways of working, skills development and use of technology. This will ensure that as changes continue to be made, the council maximises the capacity of the remaining workforce especially as the council continues to adapt to the impact of the pandemic.

Pay Policy

- 200 The Localism Act 2011 requires the council to prepare and publish a pay policy statement annually which sets out the authority's policy relating to the remuneration of its Chief Officers and how this compares with the policy on the remuneration of its lowest paid employees.
- 201 The first policy document was required to be approved by a resolution of the council prior to 31 March 2012 and the policy must then be updated and published by the end of March for each subsequent year, although the policy can be amended by a resolution of the council during the year.
- 202 The Act requires that in relation to Chief Officers the policy must set out the authority's arrangements relating to:

- (a) the level and elements of remuneration for each Chief Officer;
- (b) remuneration of Chief Officers on recruitment;
- (c) increases and additions to remuneration for each Chief Officer;
- (d) the use of performance-related pay for Chief Officers;
- (e) the use of bonuses for Chief Officers;
- (f) the approach to the payment of Chief Officers on their ceasing to hold office under or to be employed by the authority;
- (g) the publication of and access to information relating to remuneration of Chief Officers.

203 The Pay Policy Statement, as updated, is set out at Appendix 11 which will be for council consideration and outlines the details for the authority in line with the above requirement.

Recommendations

204 It is recommended that Members:

- (a) approve the Pay Policy Statement at Appendix 11.

Risk Assessment

205 The council has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. The risks faced are exacerbated by the council's responsibility for business rates and council tax support. All risks will be assessed continually throughout the MTFP(12) period. Some of the key risks identified include:

- (a) ensuring the achievement of a balanced budget and financial position across the MTFP(12) period;
- (b) ensuring savings plans are risk assessed across a range of factors e.g., impact upon customers, stakeholders, partners, and employees;
- (c) the outcome of the government's Fair Funding Review which is expected to be consulted upon in the spring of 2022 and possibly implemented in 2023/24 could result in significant changes to the distribution of government funding;
- (d) the localisation of council tax support which passed the risk for any increase in council tax benefit claimants onto the council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers. At this stage the coronavirus pandemic has resulted in a reduction in the council tax base for the first time since the council took on responsibility for council tax support;

- (e) the council retaining 49% of all business rates collected locally but also being responsible for settling all rating appeals. Increasing business rate reliefs and the revised 'check and challenge' appeals process continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon MTFP(12);
- (f) the impact of future increases in inflationary factors such as the National Living Wage and pay awards which will need to be closely monitored. Of particular concern is the volatility of energy prices which will continue to be closely monitored;
- (g) the council continuing to experience increases in demand for social care services. Although some allowance is made for demand increases across the MTFP(12) period this issue will need to be closely monitored;
- (h) the funding position for the High Needs Dedicated Schools Grant. It is hoped that the government fully recognises this pressure as part of the Comprehensive Spending Review;
- (i) it is not possible to be clear at this point as to any long-term impact from the coronavirus on council costs but especially council income. This will be closely monitored in the coming months with any ongoing impact needing to be built into future MTFP plans;
- (j) the impact of requirements associated with the health and social care levy especially in relation to the expectation of a fair cost of care process and the changes to adult care charging.

Recommendations

206 It is recommended that Members:

- (a) note the risks to be managed over the MTFP(12) period.

Dedicated Schools Grant (DSG) and School Funding 2022/232

- 207 DSG is a specific earmarked grant provided by the government which provides the major source of direct funding for schools and funding for the support provided to them by the council.
- 208 The DSG is split into four 'blocks': Schools, Central School Services, High Needs and Early Years. The school's block is ring-fenced, but local authorities retain limited flexibility to transfer up to 0.5% of their Schools Block funding into another block, with the approval of the Schools Forum. Movements from the Central School Services Block to the Schools Block or from the High Needs Block to any other block are not subject to any statutory limits and can be made in consultation with the Schools Forum. Movement from the Early Years Block can be made in compliance with the early years pass through rate conditions and in consultation with the Schools Forum.

Schools Block

- 209 The Schools Block funds the funding formula for mainstream primary and secondary schools in respect of the education of pupils from Reception to Year 11. Funding for these schools is currently distributed according to a local formula determined by the council, after consultation with the Schools Forum and schools.
- 210 The local formula must comply with statutory regulations and there are limitations over what factors can be applied in the local formula, which significantly limits the discretion of local authorities in determining their local formulas and currently requires that at least 80% of funding is distributed through factors related to pupil numbers and needs.
- 211 The local formula set by the council is consistently applied to all mainstream schools (maintained and academy) and primarily is driven by their pupil numbers and profiles. DSG funding is provided to academies on an academic year basis whereas maintained schools receive their DSG funding on a financial year basis.
- 212 In September 2017, the government announced that local formulas would be replaced by a National Funding Formula (NFF) from 2019/20. The replacement of local formulas has however subsequently been delayed and local authorities will continue to set local formulas for 2022/23.
- 213 The government encourages local authorities to move their local formulas towards the NFF and since 2018/19 DSG allocations to local authorities' Schools Blocks have been based on notional NFF allocations for individual schools. These notional allocations cannot be fully replicated in local formulas because the notional allocations are set in advance of the availability of the pupil numbers and other data that are used in the actual formula.
- 214 The Schools Block allocation for Durham in 2022/23 has increased by £8.410 million:

Table 15 – Changes in Schools Block Allocation

Reason for change	£ million
Pupil numbers	(0.479)
Units of funding / pupil	9.822
Premises factors	(0.686)
Growth	(0.247)
TOTAL	8.410

- 215 In terms of funding changes because of changes to the NFF, which affect the Units of funding, the values used in the NFF increased by between 2 and 4% compared to 2021-22. Funding for premises factors is largely based on historic funding allocations.

- 216 Funding is also provided to recognise that it is sometimes necessary to adjust funding to individual schools to take account of significant growth in pupil numbers at the start of the following academic year, which is not reflected in formula funding because pupil numbers are based on the School Census from the previous October.
- 217 Growth funding can be provided to meet basic need but cannot be used to support schools whose numbers are increasing through parental choice. The council has made an adjustment to the funding for Framwellgate Moor Primary School in respect of growth for 2022/23.
- 218 In response to the original timetable for the planned replacement of local formulas, the council considered its approach to setting a local formula and after consultation with the Schools Forum, schools and the Children and Young People's Overview and Scrutiny Committee, Cabinet decided in December 2017 to adopt a transitional formula from 2018/19.
- 219 From 2019/20 to 2021/22 the council continued to set a transitional formula, with the formula being fully aligned, within the limits of affordability, from 2021/22. At its meeting on 15 December 2021, the council's Cabinet agreed to continue to align the formula as closely as possible in 2022/23.
- 220 The formula to be applied in 2022/23, which is subject to approval from the DfE, is summarised in the table below.

Table 16 – Mainstream Primary and Secondary Funding Formula 2022/23

	Element (P = Primary, S = Secondary)	2022/23 Mainstream School Funding formula			
		Pupils / eligible pupils	Factor values £	Allocation	
				£ million	
Basic funding per pupil	KS1 & 2 (P)	38,167.17	3,242.09	123,741,379	35.43%
	KS3 (S)	16,212.00	4,571.38	74,111,160	21.22%
	KS4 (S)	10,359.00	5,151.87	53,368,211	15.28%
Deprivation	Free School Meals (P)	12,254.76	473.67	5,804,658	1.66%
	Free School Meals (S)	7,370.00	473.67	3,490,915	1.00%
	FSM6 (P)	12,752.88	594.60	7,582,883	2.17%
	FSM6 (S)	8,681.00	871.75	7,567,629	2.17%
	IDACI Band F (P)	5,208.24	221.72	1,154,750	0.33%
	IDACI Band E (P)	6,347.08	272.11	1,727,077	0.49%
	IDACI Band D (P)	4,110.90	423.28	1,740,043	0.50%
	IDACI Band C (P)	3,172.96	463.59	1,470,944	0.42%
	IDACI Band B (P)	3,603.08	493.82	1,779,279	0.51%
	IDACI Band A (P)	2,446.48	644.99	1,577,956	0.45%
	IDACI Band F (S)	3,679.39	322.50	1,186,588	0.34%
	IDACI Band E (S)	4,251.43	428.31	1,820,948	0.52%
IDACI Band D (S)	2,835.88	599.64	1,700,507	0.49%	

	Element (P = Primary, S = Secondary)	2022/23 Mainstream School Funding formula			
		Pupils / eligible pupils	Factor values £	Allocation	
				£ million	
	IDACI Band C (S)	2,016.69	655.07	1,321,071	0.38%
	IDACI Band B (S)	2,431.75	705.46	1,715,499	0.49%
	IDACI Band A (S)	1,493.21	896.94	1,339,323	0.38%
English as an Additional Language	Primary	633.42	569.41	360,672	0.10%
	Secondary	107.16	1,541.93	165,228	0.05%
Mobility	Primary	173.09	932.21	161,355	0.05%
	Secondary	10.20	1,340.37	13,672	0.00%
Low Prior Attainment	Primary	10,514.36	1,138.81	11,973,894	3.43%
	Secondary	5,389.91	1,723.34	9,288,623	2.66%
Minimum per-pupil funding				910,599	0.26%
Total for pupil-led factors				317,074,863	90.78%
Lump sum	Primary			25,715,600	7.36%
	Secondary			3,723,910	1.07%
Sparsity				1,101,666	0.32%
Total for school-led factors				30,541,176	8.74%
Total for premises factors				1,645,496	0.47%
Total funding				349,261,535	100.00%

221 Pupil numbers and the numbers of pupils who attract additional needs funding are taken from the October 2021 schools census and are provided by the DfE.

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

- (a) Free School Meals provides funding based on the number of pupils recorded as eligible for a free meal in the preceding October's school census;
- (b) FSM6 is a measure of deprivation and provides funding based on the number of pupils who have been recorded as eligible for Free School Meals on any school census in the last six years;
- (c) IDACI (Income Deprivation Affecting Children Index) is a subset of the Index of Multiple Deprivation. In accordance with statutory regulation there are seven bands in the formula, with Band A being for the pupils most likely to suffer deprivation and Band G being the lowest band. Regulations do not allow funding for Band G;
- (d) English as an Additional Language funding is provided where pupils have been recorded as having English as an Additional Language in any of the last three years;

- (e) Mobility funding is provided where schools have had significant pupil movements during the academic year, based on data from the last three years' school censuses;
- (f) Low Prior Attainment funding is provided where pupils have not met the expected standard of attainment in their previous phase of education;
- (g) Minimum per pupil funding provides additional funding where the total of pupil-led funding plus the lump sum and sparsity funding falls below a minimum value, which has been set at £4,265 for primary schools and £5,525 for secondary schools. These values are mandatory for all local formulas and are of concern to the council because they favour larger schools with relatively low numbers of pupils with additional needs;
- (h) Sparsity funding is provided for small schools in sparsely populated areas; and
- (i) Premises-led factors provide funding for rates, split-site schools, the PFI contract affordability gap, and an exceptional factor for a school that shares its sports facilities with a leisure centre.

Central School Services Block (CSSB)

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

- (a) funding previously allocated through the retained duties element of the Education Services Grant (ESG);
- (b) funding for ongoing central functions, such as admissions, previously top-sliced from the school's block; and
- (c) residual funding for historic commitments, previously top-sliced from the school's block.

High Needs Block (HNB)

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

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

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

- (b) place based funding for special schools;
 - (c) targeted and top-up funding to reflect additional costs for individual pupil support in both special and mainstream schools; and
 - (d) SEN support services.
- 226 The council is currently spending £67.201 million on SEND and inclusion services, which is £1.455 million more than the funding it has received in 2021/22.
- 227 The HNB allocation for 2022/23 is £7.652 million higher than 2021/22, however it is still anticipated that HNB expenditure may be more than this and therefore savings will be required to ensure spending is kept within available budget.

Early Years

- 228 The Early Years Block provides funding for universal provision for three and four year old children (up to 570 hours per annum) and extended provision for children from eligible working families (up to a further 570 hours per annum). The services are delivered by maintained nursery schools, nursery units in primary schools and academies, and Private, Voluntary, and Independent (PVI) sector providers.
- 229 On 27 October 2021 the Chancellor, at the Spending Review, announced details of how an investment of £160 million of early years funding for 2022-23 will be distributed to local authorities to increase the hourly rates paid to Childcare providers for the governments free childcare entitlement offers. The rate for two-year olds will increase by 21p per hour and the rate for three and four-year olds will increase by 17p per hour. This will mean an additional £1.2 million of funding for County Durham in 2022/23 compared with the 2021/22 allocation.
- 230 Funding is also provided through the Early Years Block to provide free early education places for eligible two-year-olds from lower income households. The allocation is based on participation and a provisional allocation has been provided by the DfE based on census data taken in January 2021. The DfE will not announce the actual 2022/23 allocations until July 2022, which will be based on the number of eligible children participating in early education recorded in the January 2022 census.
- 231 Early Years Pupil Premium is also funded through the Early Years Block and a provisional allocation has been provided by the DfE, again based on the 2021/22 allocations. As with the other elements of the Early Years funding, the 2022/23 final allocation will not be announced until the summer, based on the number of eligible children recorded in the January 2021 pupil census. The funding rate of £0.53 per hour in 2021/22 has been increased to £0.60 per hour in 2022/23, which equates to £342 for each eligible child taking up the full 570 hours of state funded early education.

- 232 As part of the Early Years National Funding Formula, the council is required to implement a universal base rate for all providers. This is of concern to maintained nursery schools, which have higher costs than other providers, (e.g., the cost of employing a head teacher) and which currently receive additional funding through a formula; the formula includes a deprivation element, a lump sum, and an allowance for rates.
- 233 The DfE have recognised that maintained nursery schools provide a high-quality provision, often in deprived areas and has allocated supplementary funding in addition to National Funding Formula to ensure that authorities can continue to provide funding to these schools through a formula in 2022/23. Maintained nursery schools will see a 3.5% increase to the hourly supplementary rates.

Pupil Premium

- 234 Pupil Premium for pupils older than early years, is provided for a number of categories of need. For schools and academies in Durham the funding for 2021/22 is £28.742 million. Pupil Premium rates per pupil for 2022/23 have increased and are shown in the following table:

Table 17 – Pupil Premium Rates

	£ / eligible pupil, 2022/23
Deprivation Pupil Premium – Primary	£1,385
Deprivation Pupil Premium – Secondary	£985
Looked After Children	£2,410
Children adopted from care or who have left care	£2,410
Service Children	£320

- 235 The numbers of pupils eligible for pupil premium for 2022/23 will be provided by the DfE later in the year (in the summer term). Pupils eligible in the current year are:

Table 18 – Pupil Premium Numbers

	Number of eligible pupils 2021/22
Deprivation Pupil Premium – Primary	12,322
Deprivation Pupil Premium – Secondary	8,843
Looked After Children	720
Children adopted from care or who have left care	769
Service Children	750

Total Dedicated Schools Grant (DSG)

236 DSG and Pupil Premium funding for 2022/23 is shown in the following table.

Table 19 – DSG and Pupil Premium Funding

DSG Block	Pupils	Allocation £ million
Early Years Block (3-4 yr olds-universal)	6,252	16.464
Early Years Block (3-4 yr olds-working parents)	2,866	7.547
Early Years Block (2 yr olds)	1,492	4.738
Early Years Block (EYPP)		0.454
Early Years Block (Maintained Nursery School supplement)		1.022
Early Years Block (Disability Access Fund)		0.221
Schools Block		348.830
High Needs Block		73.398
Central School Services Block		2.860
Total DSG		455.534
Pupil Premium (2021/22 pupil figure)		28.742
TOTAL		484.276

237 Note that the total funded through the mainstream primary and secondary formula in table 16 above is £349.261 million. This includes the £348.830 million shown above, plus adjustments totalling £0.431 million in respect of funding set aside in previous years for estimated non-domestic rates and growth that was not required.

238 Primary and secondary formula funding for Academies in County Durham for 2022/23 is £185.869 million. This funding is recouped by the Education and Skills Funding Agency which provides this funding to academy trusts as part of the General Annual Grant, leaving £269.665 million of DSG funding payable to the council for maintained schools, and centrally-distributed Early Years, SEND and other centrally provided services. The total recouped will be adjusted during the year for subsequent academy conversions.

Recommendation(s)

239 It is recommended that Members:

- (a) note the position on the Dedicated Schools Grant;
- (b) approve the formula set out in Table 16 and authorise the Corporate Director of Resources to approve any amendments required following review by the DfE.

Prudential Code, Treasury Management and Property Investment

240 This section outlines the council's prudential indicators for 2022/23 to 2025/26, sets out the expected treasury operations for this period and provides details on the council's Property Investment Strategy. The content fulfils five legislative requirements:

- (a) the reporting of the prudential indicators, setting out the expected capital activities as required by the CIPFA Prudential Code for Capital Finance in Local Authorities as shown at Appendix 12;
- (b) the cash investment strategy which sets out the council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance and is also shown in Appendix 12;
- (c) the Treasury Management Strategy statement which sets out how the council's treasury service will support the capital decisions taken above, the day-to-day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the 'Authorised Limit', the maximum amount of debt the council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by section 3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown at Appendix 12;
- (d) the council's Minimum Revenue Provision (MRP) Policy, which sets out how the council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007) as shown at Appendix 12;
- (e) the Property Investment Strategy seeks to ensure that the council only enters into investments which provide a reasonable level of return for the council after considering all risks as part of a robust business case and due diligence process. The Property Investment Strategy is presently being reviewed with the current strategy being appended at Appendix 13. A The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

Recommendations

241 It is recommended that Members:

- (a) agree the Prudential Indications and Limits for 2022/23 – 2025/2625 contained within Appendix 12 of the report, including the Authorised Limit Prudential Indicator;

- (b) agree the Minimum Revenue Provision (MRP) Statement contained within Appendix 12 which sets out the council's policy on MRP;
- (c) agree the Treasury Management Strategy and the treasury Prudential Indicators contained within Appendix 12;
- (d) agree the Cash Investment Strategy 2022/23 contained in the Treasury Management Strategy (Appendix 12 including the detailed criteria);
- (e) approve the Property Investment Strategy at Appendix 13.

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Appendix 1: Implications

Legal Implications

The council has a statutory responsibility to set a balanced budget for 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.

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

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

Finance

The report sets out various recommendations on the 2022/23 Budget and for the MTFP(11) period 2022/23 – 2025/26.

Consultation

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

Equality and Diversity / Public Sector Equality Duty

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

Savings proposals for MTFP(12) have no or limited equality implications. Impact assessments for saving proposals which involve staff restructures have been carried out where relevant and a summary provided in the body of the report which confirms there are no equality impacts in terms of service delivery.

Climate Change

The report details additional revenue and capital investments to support the council in achieving its net zero targets. This investment is in addition to the financial investment set out in the council's Climate Change Emergency Response Plan.

Human Rights

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

Crime and Disorder

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

Staffing

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

Accommodation

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

Risk

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

Procurement

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

Appendix 2: Consultation

Overview of AAP Board responses

The following provides an overview of the responses to the AAP Boards.

Question:

What is the AAP view on balancing the 2022/23 forecast budget shortfall from council tax increases vs reductions in services or one off use of reserves which would increase the savings required in 2023/24?

AAP	Meeting	Overview
1. 4 Together	5.01.2022	<ul style="list-style-type: none"> • Consensus was not gained about a specific approach. However, a suggestion to apply a 3% increase in council tax was supported as it would be difficult to make further reductions to services. • Further discussion, comments and questions: <ul style="list-style-type: none"> ○ Appreciation for DCC's approach to financial management. ○ Increased demand for social care and pressures of reduced government funding was acknowledged ○ Knowledge of the levels of reserves (allocated and unallocated) would have been helpful. ○ Better communications with residents regarding the allocation and management of budgets would increase community understanding.
2. Teesdale Action Partnership	12.01.22	<ul style="list-style-type: none"> • Consensus was not gained about a specific approach. However, there was support for the increase of 3% as services have already been reduced and the use of reserves would defer the problem to next year. • Further discussion, comments, and questions: <ul style="list-style-type: none"> ○ Interest in how the saving achieved through LED streetlights have been used to repay the 'Spend to Save' borrowing and protect some frontline services. ○ Would a higher increase of council tax would require a referendum. ○ Concern about the impact on households affected by increased living costs, and in particular, energy costs. ○ Council need to further explore raising income either through repurposing or selling off assets or by income generation.
3. Stanley	12.01.2022	<ul style="list-style-type: none"> • Consensus was not gained about a specific approach. There was some recognition that a 3% increase in council tax would balance the shortfall and most felt that services should not be reduced further. • Further discussion, comments, and questions: <ul style="list-style-type: none"> ○ Concern about the impact on households affected by increased living costs, and in particular, energy costs.

		<ul style="list-style-type: none"> ○ The was support for the continuation of the Local Council Tax Reduction Scheme. ○ There was some interest in the use of reserves and knowledge of the levels of reserves (allocated and unallocated) would have been helpful. ○ An illustration of the impact of increased council tax on a Band A property would have been helpful.
4. East Durham	12.01.2022	<ul style="list-style-type: none"> ● Consensus was not gained about a specific approach. A council tax rise or using reserves were the most likely options as they were keen to see services maintained and impacts on communities lessened. ● Further discussion, comments, and questions: <ul style="list-style-type: none"> ○ The was support for the continuation of the Local Council Tax Reduction Scheme. ○ Suggestion to build more properties to increase revenue, however lower income levels in the county dictate the need for affordable housing. ○ More measures to reduce the council's energy costs and move to more energy efficient buildings. ○ There was some interest in the use of reserves and knowledge of the levels of reserves (allocated and unallocated) would have been helpful.
5. Weardale	13.01.2022	<ul style="list-style-type: none"> ● Consensus was gained about to support an increase of 3% on Council Tax. ● Further discussion, comments, and questions: <ul style="list-style-type: none"> ○ Concern expressed about scenarios where the Council Tax could be increased by 4.99%
6. Spennymoor	20.01.2022	<ul style="list-style-type: none"> ● Consensus was gained about to support an increase of 3% on Council Tax. ● Further discussion, comments, and questions: <ul style="list-style-type: none"> ○ Understand the need to increase to 3% but need to be conscious of the impact this will have on residents
7. Bishop Auckland & Shildon	20.01.2022	<ul style="list-style-type: none"> ● Consensus was gained about to support an increase of 3% on Council Tax. ● Further discussion, comments, and questions: <ul style="list-style-type: none"> ○ The presentation was welcomed and well received by the Board. ○ Specific comments were made from Board members who supported a 3% council tax increase. They also agreed that services should not be reduced and that reserves should not be used.
8. 3 Towns	20.02.2022	<ul style="list-style-type: none"> ● Majority of the board gave their support an increase of 3% on Council Tax. ● Further discussion, comments, and questions: <ul style="list-style-type: none"> ○ The was support for the continuation of the Local Council Tax Reduction Scheme to help families living in poverty as it currently stands. ○ Interest was shown in the Police and Crime Commissioner tax increase. ○ Increase council tax by the smallest amount needed.

		<ul style="list-style-type: none"> ○ Query whether different percentage increases could be applied to higherr and lower Band properties – this is not legally possible. ○ Council tax has risen 19% in the past four years, and we need to ensure we reduce the impact on those living in poverty.
9. Great Aycliffe and Middridge	25.01.2022	<ul style="list-style-type: none"> ● Majority of the board gave their support an increase of 3% on Council Tax. ● Further discussion, comments, and questions: <ul style="list-style-type: none"> ○ Whilst new housing can generate more revenue, it was acknowledged that it would increase expenditure. ○ Financial pressure will continue into the coming years so increasing council tax will assist to meet council shortfalls. ○ In recognition of the impact on households affected by increased living costs, could there be a combination of service reductions combined with lower council tax increase.
10. Durham City	20.01.2022	<ul style="list-style-type: none"> ● Majority of the board gave their support an increase on Council Tax. ● Further discussion, comments, and questions: <ul style="list-style-type: none"> ○ Propose the full council tax increase of 4.99% to match current inflation of 5%. ○ Recognition of the increased costs associated with Covid and Adult and Social Care and the need to continue to provide those services as part of our Duty of Care. ○ Need to preserve the reserves for use for capital projects ○ Durham County Council raises very little compared to other parts of the country. Need to look at other forms of income generation, potentially through a tax on landlords.
11. Chester Le Street	24.01.2022	<ul style="list-style-type: none"> ● The Board felt that they needed more time to digest the information and would provide following the meeting. Therefore, no further comments were submitted.
12. East Durham Rural Corridor	25.01.2022	<ul style="list-style-type: none"> ● Majority of the board gave their support an increase on Council Tax. ● Further discussion, comments, and questions: <ul style="list-style-type: none"> ○ Clarification sought about the £30 million MTFP(12) shortfall as to it being over the term of the 4 year medium term financial plan. ○ A question of how County Durham compares with other areas in accessing the government's levelling up fund. ○ Clarification sought about how the 3% would be split across Adult Social Care and other council services. ○ Concerns about the capital and revenue costs associated with having two HQ's for a period.

		<ul style="list-style-type: none"> ○ Would like to protect frontline and cultural service such as libraries. ○ What support will be available to support people in poverty and in particular, with energy costs.
13. Derwent Valley	26.02.2022	<ul style="list-style-type: none"> ● Majority of the board gave their support an increase on Council Tax and the presentation was well received ● Further discussion, comments, and questions <ul style="list-style-type: none"> ○ Need to continue to improve performance in areas such as recycling through public campaigns to achieve greater efficiencies.
14. Mid Durham	27.01.2022	<ul style="list-style-type: none"> ● Consensus was not gained about a specific approach. ● Further discussion, comments, and questions <ul style="list-style-type: none"> ○ Concerns expressed about the impact on those struggling to meet increase bills. ○ There was support for the continuation of the Local Council Tax Reduction Scheme. ○ Need to concentrate on energy conservation. ○ Use reserves ○ Better communication with the public about how the budget is spent ○ More information about the reserves would have been helpful ○ Disappointment in the tight timescales for this consultation and residents should be consulted.

Appendix 3: MTFP(12) Savings Plans

Savings Proposal	Description	2022/23 £	2023/24 £	TOTAL £
Children and Young People Services				
Review of support to Private and Voluntary Sector Nursery Providers	Realignment of the current budget to meet existing and anticipated future years demands. Targeting support to priority areas to maximise the impact	50,000	0	50,000
Total - Children & Young People Services		50,000	0	50,000
Neighbourhood and Climate Change				
Employee Review - Environment & Design	A review of budgets within Environment and Design has identified opportunities to achieve savings for supplies and services across a range of delivery areas which will achieve the MTFP target as specified	75,000	0	75,000
Partnership and Community Engagement and CCU	A review of Partnership and Community Engagement and Civil Contingencies Unit	28,835	0	28,835
Total - Neighbourhood and Climate Change		103,835	0	103,835
Regeneration, Economy and Growth				
HQ Saving	The development of the new Council HQ will generate savings in the running cost of the new building combined with the current costs incurred. The saving will be delivered in 2023/24.	0	275,000	275,000

Savings Proposal	Description	2022/23 £	2023/24 £	TOTAL £
Communication and Marketing team restructure	A further review of employee resources across the Communications and Marketing Teams.	95,114	0	95,114
Jade Development Site	The council developed the first phase of the development at Jade with the expectation that the income generated would cover the cost of annual revenue costs of borrowing the required capital. At this stage the development is close to being fully tenanted and at rentals above those forecast. This saving is the surplus income being generated.	100,000	0	100,000
Increased Income - bus shelter advertising	Replace external agency with an in-house team to sell advertising on bus shelters would allow the council to realise the income currently received by the agency. This team would have the potential to grow to billboard advertising, previously restricted to national campaigns, by offering appropriately located advertising for local businesses.	120,000	0	120,000
Increased Income and efficiencies in rental of Business Space	The council's commercial property portfolio is projected to increase rental income, including through more efficient management, that will be used to support appropriate savings	40,000	0	40,000
Total - Regeneration, Economy and Growth		355,114	275,000	630,114

Savings Proposal	Description	2022/23 £	2023/24 £	TOTAL £
Resources				
Business Support Review	Business Services encompasses a wide range of business support and administrative functions across all service groupings. These services were unitised in 2019. Business Services seeks to transform, standardise, and optimise the way in which business support and administrative services are delivered across the council. A number of service reviews and continuous improvement activities have been identified across the Service to delivery efficiency savings.	500,000	0	500,000
Strategy and Transformation Team Restructures	A further review of employee resources	68,051	0	68,051
Total - Resources		568,051	0	568,051
Corporate Savings				
Staff Turnover	An annual staff turnover allowance of 3% is included in budget build to reflect the time when posts are vacant due whilst posts are filled. Analysis of the past three years actual outturn as indicated that the 3% sum has been exceeded in every year and it is felt that the turnover rate can be prudently increased to 3.5%	1,000,000	0	1,000,000
Insurance Premiums	A recent procurement process for major insurance covers has resulted in a reduction in premium	100,000	0	100,000

Savings Proposal	Description	2022/23 £	2023/24 £	TOTAL £
Review of car mileage budgets	It is forecast that increased home working will enable a reduction in mileage also contributing to reduced carbon emissions.	250,000	0	250,000
Total - Corporate		1,350,000	0	1,350,000
TOTAL COUNCIL SAVINGS FOR MTFP (12)		2,427,000	275,000	2,702,000

Appendix 4: Budget Summary by Service Grouping

2021/22			2022/23		
Original Budget	Projected Outturn		Gross Expenditure	Gross Income	Net Expenditure
£000	£000		£000	£000	£000
		Council Controlled Budgets			
133,618	125,327	Adult and Health Services	390,616	253,875	136,741
1,381	0	Chief Executive's Office	0	0	0
133,876	150,705	Children and Young People's Services	321,909	180,023	141,886
105,731	115,376	Neighbourhoods and Climate Change	199,455	86,470	112,985
49,630	61,441	Regeneration, Economy and Growth	172,845	117,911	54,934
21,425	28,925	Resources	114,548	89,299	25,249
4,378	1,697	Corporate Costs	3,916	100	3,816
10,337	8,494	Contingencies	17,078	0	17,078
460,376	491,965		1,220,367	727,678	492,689
		Non Council Controlled Budgets			
0	0	Schools	267,955	267,955	0
0	0	Benefits	115,207	115,207	0
0	0		383,162	383,162	0
460,376	491,965	NET COST OF SERVICES	1,603,529	1,110,840	492,689
-62,797	-62,797	Reversal of Capital Charges			-61,873
-2,900	-3,056	Interest and investment income			-2,900

38,416	37,795	Interest payable and similar charges	48,780
0	-1,455	DSG deficit reserve adjustment	0
		Levies	
15,554	15,554	North East Combined Authority	15,634
461	470	Environment Agency - Flood Defence	470
72	72	North East Inshore Fisheries Conservation Authority	72
449,182	478,548	NET OPERATING EXPENDITURE	492,872
-57,304	-57,304	Business Rates - local share	-52,873
-72,780	-72,780	Top up Grant	-72,780
-28,227	-28,227	Revenue Support Grant	-29,100
-1,514	-1,514	Estimated net -Surplus/Deficit on Collection Fund	9,788
-4,476	-4,476	New Homes Bonus	-4,082
-11,415	-13,055	Section 31 Grant	-25,026
-514	-514	Local Tax Income Guarantee	0
-22,888	-22,888	Adult/Children's Pressures Grant	-30,955
0	0	Services Grant	-8,776
-747	-747	Lower Tier Services Grant	-786
-7,946	-45,031	Use of Earmarked Reserves	-25,072
-105	5,703	Use of Cash Limit Reserves	-1,068
0	3,551	Use of General Reserve	0
241,266	241,266	AMOUNT REQUIRED FROM COUNCIL TAXPAYERS	252,142

Appendix 5: Budget Summary by Expenditure and Income Type

	Original Budget 2021/22	2021/22 Projected Outturn Position	Original Budget 2022/23
	£000	£000	£000
Employees	509,033	523,838	530,451
Premises	50,677	53,353	49,218
Transport	47,496	49,225	51,131
Supplies & Services	113,643	138,758	112,850
Agency & Contracted	427,506	469,583	490,599
Transfer Payments	166,814	209,838	159,814
Central Costs	127,115	130,373	129,781
Direct Revenue Financing	3,641	5,489	734
Capital Charges	62,796	62,796	61,873
Contingencies	10,337	8,494	17,078
GROSS EXPENDITURE	1,519,058	1,651,747	1,603,529
Income			
- Specific Grants	548,132	653,673	591,183
- Other Grants & contributions	83,208	94,846	86,074
- Sales	7,235	5,328	6,779
- Fees & charges	104,257	93,047	108,833
- Rents	9,086	11,304	10,161
- Recharges	296,974	293,705	293,827
- Other	9,790	7,879	13,983

Total Income	1,058,682	1,159,782	1,110,840
NET COST OF SERVICES	460,376	491,965	492,689
Capital charges	-62,797	-62,797	-61,873
Interest and Investment income	-2,900	-3,056	-2,900
Interest payable and similar charges	38,416	37,795	48,780
DSG deficit reserve adjustment	0	-1,455	0
Levies			
North East Combined Authority	15,554	15,554	15,634
Environment Agency - Flood Defence	461	470	470
North East Inshore Fisheries Conservation Authority	72	72	72
Net Operating Expenditure	449,182	478,548	492,872
Movement in Reserves:			
Use of Earmarked Reserves	-7,946	-45,031	-25,072
Use of Cash Limit Reserves	-105	5,703	-1,068
Use of General Reserve	0	3,551	0
Net Budget Requirement	441,131	442,771	466,732
Financed by:			
Business Rates - local share	-57,304	-57,304	-52,873
Top up Grant	-72,780	-72,780	-72,780
Revenue Support Grant	-28,227	-28,227	-29,100
Amount required from council tax payers	-241,266	-241,266	-252,142
Estimated Net - Surplus/Deficit on Collection Fund	-1,514	-1,514	9,788
New Homes Bonus	-4,476	-4,476	-4,082

Section 31 Grant	-11,415	-13,055	-25,026
Adult/Children's Pressures Grant	-22,888	-22,888	-30,955
Services Grant	0	0	-8,776
Lower Tier Services Grant	-747	-747	-786
Local Tax Income Guarantee	-514	-514	0
Total Financing	-441,131	-442,771	-466,732

Appendix 6: MTFP 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 (Nil then 1.99%)	0	-4,800	-4,900	-5,000
Council Tax - Adult Social Care Precept (3% then 1%)	-7,050	-2,400	-2,400	0
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
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

	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000
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
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 Coll. 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

	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000
	TOTAL SHORTFALL			29,987

Appendix 7: Reserves Review

Investment Description	Brief Description of Investment	2022/23 £'000	2023/24 £'000	2024/25 £'000	TOTAL £'000
Business Case development of Levelling Up and Stronger Towns Bids	Costs will be incurred in enabling robust business cases for a range of schemes and for those that will be submitted.	2,840	0	0	2,840
Reinstating cobbles & Paving stones	Upgrading of highways infrastructure across the city area. Includes cobbled carriageway repair and refurbishment on North and South Bailey with additional carriageway resurfacing, Resurfacing of Claypath to accompany the pre-planned footway works scheduled for 2022.	450	450	400	1,300
Reinstating cobbles & Paving stones	Upgrading and repair of existing infrastructure on Market Place, Silver Street, Saddler Street to repair defects following public utility works, replace damaged York stone flagged footways and kerbing, removal of existing temporary tarmac repairs with heritage paving.	70	20	20	110
Reinstating cobbles & Paving stones	Highway and Environmental assets refurbishment. This includes the repainting of lighting columns, bollards, litter bins, seats. Repair of existing marble seating and planters.	40	5	5	50
Footway Links	Rural and Urban footway links - edge off existing vegetation, weed kill and repair defects. This has been highlighted as an issue by a number of elected	550	100	100	750

Investment Description	Brief Description of Investment	2022/23 £'000	2023/24 £'000	2024/25 £'000	TOTAL £'000
	members and residents. Undertaking this activity will enhance the footway network, address the red condition data, encourage walking and cycling.				
Public Rights of Way	PROW Network - this area has suffered from under investment and funding directed into this area will enhance the network, ensures that timber structures are repaired, surfaces are improved, vegetation is cut back, and signage is improved.	550	550	537	1,637
Post Covid Recycling Contamination Campaign - Staff	County wide waste contamination campaign - 8 temporary staff for 12 months. Failure to undertake this will result in contractual fines and loss of environmental opportunity.	225	0	0	225
Post Covid Recycling Contamination Campaign - Materials	County wide waste contamination campaign - leaflets and bin stickers. Failure to undertake this will result in contractual fines and loss of environmental opportunity.	50	0	0	50
Street Scene Efficiency, I.T. Improvements, and Innovations	Improvements to monitoring and intelligence gathering across all Street Scene services, for instance vehicle tracking on street sweepers to target limited resources where most needed. This relates to the one-off hardware and set-up costs and is linked to the ongoing budget growth (G9) for software support.	71	0	0	71

Investment Description	Brief Description of Investment	2022/23 £'000	2023/24 £'000	2024/25 £'000	TOTAL £'000
Pow Hill Country Park Improvements	Improvements to allow year round car parking at this popular site, vehicle access, paths, furniture, and signage, which will improve visitor facilities and access whilst maintaining and developing the site biodiversity	169	0	0	169
Hardwick Park Investment	Love Exploring development of East Park (£30k) Installation of innovative play opportunity (£400k) Development of visitor experience through change of visitor centre layout, new education hub etc (£900k) Update car park machines to facilitate card payments (£35k)	1,365	0	0	1,365
Riverside Park Development	Development of masterplan for the site and visitor monitoring improvements	30	0	0	30
Community Buildings - Energy Efficiency loans	There are over 200 community buildings across Durham owned by various groups and organisations which provide vital services to local communities but many of which are struggling to maintain their viability in the face of increasing energy costs, as well as outdated and inefficient heating systems. Whilst there are some national schemes that can provide support for energy improvements, these are only available with particular phases and are heavily oversubscribed. The loan fund would allow centres across Durham to move away from the use of gas	100	200	300	600

Investment Description	Brief Description of Investment	2022/23 £'000	2023/24 £'000	2024/25 £'000	TOTAL £'000
	<p>boilers and utilise a range of more efficient heating systems such as ground and air source heating as well as solar panels. Applications would be required to provide evidence that they can meet loan requirements through the provision of recent bank statements and/or up to date business plans. There is evidence of significant demand within the sector for support with heating enhancements in a range of facilities across the county.</p> <p>Given the scale of likely demand, it is suggested the fund will be initially focussed on council owned centres.</p>				
Bin Storage Solutions	<p>Provide suitable compound for storage of bins in various locations ensuring they are secure from pests. Locations include Council, businesses and domestic.</p>	159	0	0	159
Clearing Vennels, Footpaths and Riverbank Paths	<p>Clearing all debris, possible resurfacing, railings, and safety barriers to bring up to an adoptable standard where possible.</p>	300	0	0	300
Underpass Cleansing	<p>Full refurbishment and application of anti-graffiti paint</p>	20	0	0	20
Parks and Countryside Education / Outreach	<p>Replace / remove signage stock in wider Countryside Estate which is no longer fit for purpose (£20k for 3 years)</p> <p>1 new Volunteer Coordinator fixed for 3 years (35k)</p> <p>1 new Assistant Learning Officer fixed for 3 years (£28k)</p> <p>1 new Community Liaison</p>	108	108	108	324

Investment Description	Brief Description of Investment	2022/23 £'000	2023/24 £'000	2024/25 £'000	TOTAL £'000
	Officer fixed for 3 years (£25k)				
	TOTAL	7,097	1,433	1,470	10,000

Appendix 8: Current Capital Programme

	2021/22	2022/23	2023/24	2024/25
	£	£	£	£
ADULT AND HEALTH SERVICES				
Drug & Alcohol Premises Upgrade	336,404	0	0	0
LD Provider Services	40,919	832,608	0	0
ADULT AND HEALTH SERVICES TOTAL	377,323	832,608	0	0
CHILDREN AND YOUNG PEOPLE'S SERVICES				
Belmont School - New build	466,500	8,000,000	0	0
Bowburn New Build Primary	1,204,500	685,837	0	0
Building Schools for the Future	44,985	335,233	0	0
Children's Services - Planning & Service Strategy	1,429,659	286,600	0	0
DFE School Capital Incl Basic Need	7,910,801	12,389,498	2,668,015	0
DFE Special Provision Capital Fund	1,264,421	784,451	0	0
Early Help, Inclusion & Vulnerable Children	27,830	0	0	0
Early Years Provision	14,048	0	0	0
Healthy Pupils Capital Fund	54,720	0	0	0
High Needs Capital Provision Fund	40,743	2,314,122	0	0
Private Finance Initiative	36,110	0	0	0
School Devolved Capital	3,072,082	2,728,892	0	0
Secure Services	444,946	1,445,636	0	0
Spennymoor-New Build Primary School	592,216	6,848,996	0	0
Support for Children's Homes	237,218	620,000	545,875	0
Thirty Hours Free Childcare	51,962	13,170	0	0

	2021/22	2022/23	2023/24	2024/25
	£	£	£	£
CHILDREN AND YOUNG PEOPLE'S SERVICES TOTAL	16,892,741	36,452,435	3,213,890	0
NEIGHBOURHOODS AND CLIMATE CHANGE				
AAP Capital Budgets	267,199	695,213	0	0
AAP Initiatives	32,068	7,977	0	0
AAP Schemes – EH&CP	52,703	5,748	6,174	0
AAP Schemes – Environmental Services	297,873	67,508	0	0
Community Buildings	93,516	862,854	0	0
Consett Community Facilities	30,000	59,649	0	0
Crematorium	1,433,778	150,000	0	0
Environment & Design	2,303,198	0	0	0
Environmental Health & Consumer Protection	192,995	28,447	0	0
Highway Operations	448,659	150,000	0	0
Members Neighbourhood Fund	1,634,119	3,420,770	0	0
Strategic Highways	23,509,657	29,515,075	0	0
Strategic Highways Bridges	6,315,729	1,855,000	0	0
Street Scene	906,737	655,401	0	0
Sustainability & Climate Change	5,127,476	7,988,506	0	0
Vehicle and Plant	2,120,019	1,685,211	0	0
Waste Infrastructure Capital	637,728	2,719,128	0	0
NEIGHBOURHOODS AND CLIMATE CHANGE TOTAL	45,403,454	49,866,487	6,174	0

Scheme	2021/22	2022/23	2023/24	2024/25
	£	£	£	£
REGENERATION, ECONOMY AND GROWTH				
Beamish Capital Project	777,115	1,442,797	3,367,758	0
Capitalised Structural Maintenance	5,165,041	6,783,791	401,613	0
Chapter Homes	0	860,000	1,820,000	0
Culture and Museums	1,282,450	5,152,888	151,000	0
Disabled Facilities/Financial Assistance	6,422,329	7,150,805	250,000	0
Durham History Centre	6,812,415	8,914,468	2,723,624	152,393
Eastgate	0	0	150,000	360,830
Housing Development	913,004	6,535,875	1,915,065	0
Housing Renewal	14,754,869	2,412,075	1,144,806	75,000
Industrial Estates	5,813,457	15,787,730	25,158,412	11,818,056
Leisure Centres	2,916,925	35,296,045	4,000,000	0
Local Transport Plan - Integrated Transport	3,744,567	2,726,500	0	0
Milburngate	3,862,527	637,473	0	0
Minor Development & Housing Schemes	180,000	180,000	0	0
Minor Strategy Programmes & Performance Schemes	130,000	283,597	384,133	1,200,000
Minor Transport & Contracted Services	39,165	14,210	0	0
New Council Headquarters	15,954,999	1,870,524	779,389	0
North Dock Seaham	231,000	25,000	25,000	98,808
Office Accommodation	1,526,745	1,743,766	760,922	40,000
Outdoor Sports & Leisure Facilities	72,925	42,647	0	0
Town Centres	8,688,894	17,109,528	968,640	0
Town & Village Centres	1,540,269	3,351,317	249,053	0
Traffic and Community Engagement	774,488	150,000	0	0
Transport - Major Schemes	5,372,489	28,051,969	20,731,036	2,676,524
Woodham Community Technology College	0	0	700,386	0
REGENERATION, ECONOMY AND GROWTH TOTAL	86,975,673	146,523,005	65,680,837	16,421,611

Scheme	2021/22	2022/23	2023/24	2024/25
	£	£	£	£
RESOURCES				
Applications and Development	11,004	548,642	0	0
Big Data	53,733	2,332	0	0
Broadband / Digital Durham	5,664,889	4,266,647	0	0
Customer Relations	9,086	137,583	0	0
Design and Print	32,835	0	0	0
Digital Engagement	35,269	1,766,103	0	0
Digital Workforce - HR/Payroll System	25,470	12,000	0	0
ICT Technical Services	3,497,997	4,533,566	248,000	0
RESOURCES TOTAL	9,330,283	11,266,873	248,000	0
COUNTY COUNCIL TOTAL	158,979,474	244,941,408	69,148,901	16,421,611

Appendix 9: Capital Strategy

Introduction

- 1 Capital expenditure is a strategic investment involving major expenditure on assets that provide benefits to the council and the services it provides for more than one year. The council works with a wide range of partners from the public, private, voluntary and community sectors, all of which have an influence over its spending priorities.
- 2 The Capital Strategy provides a framework to enable the council to consider carefully how it prioritises spending to meet corporate and service aims and objectives. It also takes account of the resources which are likely to be available to the council to fund capital investment and the effect of that investment on the council's revenue budget.

Objectives for Capital Investment

- 3 The main objectives for the Capital Strategy are to:
 - (a) support the council's vision and priority themes as set out in the Council Plan;
 - (b) support service delivery strategies;
 - (c) support asset management plans for council assets;
 - (d) ensure that investments are affordable and sustainable;
 - (e) ensure use of resources and value for money is maximised;
 - (f) support 'Invest to Save' opportunities;
 - (g) encourage inward investment into County Durham.

The Council's Corporate Vision and Priorities

- 4 The Council Vision and priorities are developed together with partners and are based on extensive consultation with local people and Area Action Partnerships.
- 5 The vision for 2035 sets out our strategic direction and what we would like to achieve over the next 15 years and is written around three broad ambitions for the people of County Durham: **More and better jobs, People live long and independent lives, and Connected communities**. As well as being of key importance to local people's long-term priorities, these ambitions remain key strategic ambitions in our response to the Covid-19 crisis, where key impacts relate to employment, health and wellbeing, and communities.
- 6 The Council Plan is the primary corporate planning document for Durham County Council and details the council's contribution towards achieving the

objectives set out in the Vision for 2035. The Council Plan provides Members, partners, and the public with an overview of our priorities and informs spending decisions in our medium-term financial plan.

- 7 For the purposes of our planning, we have supplemented the countywide vision with priorities around our environment and our council.

Our Economy

- 8 We want to build our economy by creating more and better jobs by supporting businesses emerging from the pandemic back to stability and help to rebuild our economy. We are developing a pipeline of projects and investment plans; our roadmap to help stimulate economic recovery. We will create major employment sites across the county, cementing our position as a premier place in the region to do business. Employability support programmes will be developed to help people back into jobs or to start their own business.
- 9 We will ensure that children and young people receive a good education and training to equip them with the skills they need to access opportunities of today and the future.
- 10 We will support our tourism and hospitality sector to recover as a great visitor destination with a cultural offer which will help stimulate the local economy. This will include our new Durham History Centre, examining the feasibility of reopening the former DLI Museum and Art Gallery as exhibition space, building on the success of Lumiere 2021 with an exciting festival programme and further developing our bid to become City of Culture 2025.

Our Environment

- 11 The climate emergency is one of the most important issues facing humankind today. Whilst it is a global issue, there is a lot that can be done locally to respond to this challenge. Durham County Council declared a climate emergency in 2019. Our targets are to reduce carbon emissions as an organisation by 80% (from a 2008/09 baseline) by 2030 and contribute towards and work with others to achieve a carbon neutral county by 2050.
- 12 Everyone is justifiably proud of our beautiful countryside and coast. A large part of the county is of significant landscape value including the North Pennines Area of Outstanding Natural Beauty (also a designated UNESCO Global Geopark) and the Durham Heritage Coast. Some parts of our county support unique combinations of plant and animal species. Biodiversity and healthy ecosystems are critical to our population. They play an important role in providing food, energy, shelter, and medicines, sustaining water and soil quality, preventing floods, and regulating the climate. Our natural environment also contributes significantly to our wellbeing and quality of life.

Our People

- 13 We want our residents to live long and independent lives and remain in good health for many years to come. Surveillance, early identification, and outbreak management are vital in controlling the virus, the most immediate threat to the health of our residents. We want to tackle some of the mental health challenges that have been exacerbated by the pandemic. We have a strong track record of health and social care integration in Durham. We want to build on the financial and practical support we have provided to the care sector during the pandemic by ensuring we have a high-quality care market that is sustainable in the future. The council has also set out an ambitious multimillion-pound programme to transform our leisure centre venues to support health outcomes of the wider population.

Our Communities

- 14 We want our **communities to be well connected and supportive of each other**. As town and village centres reopen, we will help them to be vibrant and accessible places that are well used, clean, attractive, and safe.
- 15 We will support the most vulnerable in our communities, particularly those socially isolating, shielding, or adversely affected financially. At the start of the pandemic, the council established community hubs to fast-track applications for food and other essential services to residents who had to remain in their own home and who had no support. We want to build on what we have learned during this time through an approach to supporting communities called County Durham Together. This involves bringing a range of public sector and voluntary organisations together with communities to identify ambitions, and to develop and deliver plans as a partnership.

Our Council

- 16 We want to be regarded as an excellent council with effective governance arrangements and which has a good grip on its performance and finances.
- 17 We want a workforce that is fit for the future and to make best use of the latest technology to provide an effective service for our residents. We recognise that we could make better use of data to better serve our residents and we plan to embark on a corporate programme to become a more analytical and data driven organisation.
- 18 We also want to be known as a council that listens to the views of our residents and service users and takes them into account in our decision making.
- 19 The Capital Strategy will need to be aligned to the emerging Vision.

Identification and prioritisation of Capital Investment needs

- 20 The purpose of the capital budgeting process is to ensure that the money available for capital expenditure is prioritised in the way which best meets the council's objectives.
- 21 The council has an annual process in which it assesses and prioritises capital projects that can be funded from available resources. A key factor that is considered in the assessments is the revenue implication of capital investment.
- 22 The annual capital investment process begins in the summer of each year when service groupings are asked to identify capital investment proposals and prioritise them. The bids in the main should be for two years hence. This forward planning ensures that time is available after the approval of a bid to plan a scheme effectively. These are detailed on capital bid forms containing the following headings:
- (a) name of Scheme;
 - (b) background;
 - (c) justification of Inclusion in the capital programme;
 - (d) benefits - Outputs/Outcomes;
 - (e) investment by Financial Year;
 - (f) what the impact would be if the council did not go ahead with the proposal;
 - (g) are there any ongoing revenue costs and, if Yes, how will these be financed?
- 23 When each service grouping has identified and prioritised its own capital projects, all of the bids are consolidated. The bids are then considered for prioritisation at a corporate level under which the bids are challenged and assessed.
- 24 In the autumn of each year capital proposals are presented at a capital budget review meeting of the Capital Member Officer Working Group (MOWG) that considers capital matters.
- 25 The full timetable for capital proposals proceeding into the capital programme is as follows:

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

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

- 26 There is a mechanism in place at the council where services are encouraged to drive innovation in service provision, which delivers savings and can fully meet the revenue cost of the capital investment. This invest-to-save or self-financing facility can be accessed at any time, not just during the budget setting process.
- 27 A good capital proposal is likely to be one which:
- (a) makes a significant contribution to the council's vision and priority themes;
 - (b) has been thoroughly researched including utilising option appraisals and whole life costing for major projects;
 - (c) considers fully the ongoing revenue implications;
 - (d) has been developed in conjunction with stakeholders, including Members and any other services or partners affected;
 - (e) has identified and secured external funding;
 - (f) has identified realistic and achievable outcomes and outputs.

Overview of the Capital Programme

- 28 The result of the process set out above is the Council Capital Programme which is simply a set of capital projects that the council plans to undertake within a specific timeframe. The capital programme being presented as part of the 2022/23 budget setting process totals £602 million and covers the financial years 2021/22 to 2024/25. The spending is broken down by service grouping and into each financial year as follows:

Service Area	2021/22	2022/23	2023/24	2024/25	Total
	£m	£m	£m	£m	£m
Adult and Health Services	0.377	0.833	0.000	0.000	1.210
Children and Young People's Services	16.893	37.802	33.030	0.000	87.725
Neighbourhoods and Climate Change	45.403	62.223	41.237	0.000	149.564

Service Area	2021/22	2022/23	2023/24	2024/25	Total
	£m	£m	£m	£m	£m
Regeneration, Economy and Growth	86.976	146.623	90.927	16.422	340.948
Resources	9.330	11.267	2.198	0	22.795
Total Capital Programme	158.979	258.748	167.392	17.122	602.242

Managing the Capital Programme

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

- (a) the Capital Programme is managed at programme and service level as well as individual project level;
- (b) each scheme has a nominated project manager who is responsible for the successful completion of the scheme against factors such as time, budget, quality, scope, and benefit;
- (c) the Senior Leadership are responsible for ensuring delivery objectives are met for all projects, but with a particular focus on ensuring that:
 - (i) high-profile projects are delivered on time and achieve the intended outcomes;
 - (ii) good progress is being made in delivering the programme generally;
 - (iii) the overall use of capital and revenue funding is as close as possible to the plans set out in the current year's budget, the capital programme, and the medium-term financial strategy.
- (d) the performance of the capital programme and implications arising from capital monitoring are brought to the attention of the Service Grouping Management Teams, Corporate Management Team and Cabinet;
- (e) Capital budget monitoring is reported to Cabinet on a quarterly basis, for consideration of slippage and budget amendments;
- (f) at year end, the outturn position for capital schemes is determined including accommodation for any slippage and budget carry forwards. The Council's Asset Register and Statement of Accounts are updated with new acquisitions within the year;
- (g) reviews of projects are conducted once they have been completed to consider what extent the key delivery objectives – such as time, cost and quality were met. Lessons learned should be used to improve the

organisation's processes for selecting, developing, and delivering capital projects.

Funding of the Capital Programme

- 30 The sources of funding that may be available to finance the council's capital programme include:
- (a) external grants and contributions;
 - (b) Capital receipts from the disposal of fixed assets and VAT Shelter arrangements;
 - (c) revenue contributions;
 - (d) prudential borrowing.

External Grants and Contributions

- 31 Grants from external sources are a valuable source of capital finance for the council and have enabled the council to realise a substantial number of capital developments that would otherwise have been unable to progress. Some capital projects are financed wholly or partly through external grants and contributions that are specific to projects and cannot be used for other purposes.
- 32 This includes specific grants from Central Government. Schools benefit from a significant amount of capital grants to fund their expansion and improvement projects. Another example is funding from the Department of Transport to fund capitalised highways maintenance and improvement works.
- 33 Also included in this category are statutory contributions from developers towards the cost of providing infrastructure or other public assets related to a development, e.g., such as funding a new play area when building a housing development.

Capital Receipts

- 34 In the main capital receipts are the proceeds from the disposal of assets, usually land and buildings. The council's Land Disposal Strategy is expected to secure resources over the next few years through the release of surplus land and assets. The resulting capital receipts that are generated from the sale of surplus assets are an important funding source for the capital programme.
- 35 The council's policy is to treat all capital receipts as a corporate resource, enabling the funds from all asset disposals to be used to support the priorities identified by the council through the capital programme. This means that individual service groupings are not reliant on their ability to generate capital receipts. On that basis schemes are selected and progressed on a prioritised basis based upon council priorities.

Revenue and Reserves

- 36 Although the opportunities to fund capital expenditure directly from the base revenue budget are limited, there are occasions where service groupings fund capital expenditure through one-off revenue contributions e.g., from service grouping revenue reserves or in-year forecast underspends. Another example relates to schools, which can allocate funds from their revenue budgets to supplement the capital resources allocated to schools' improvement and expansion projects.
- 37 The council also has earmarked reserves that can be used to support capital expenditure. These are on-off in nature and once used the financing is no longer available.

Borrowing

- 38 Local authorities are subject to a capital financing regime. This prescribes what may be classed as capital expenditure and how it may be financed. All other expenditure must be met from revenue funding. Authorities have discretion to borrow in accordance with the Prudential Code and they are required to make a prudent provision from their revenue budgets to cover their borrowing commitments. This means that the ability to borrow to finance capital expenditure is determined largely by the authority's revenue budget position.
- 39 The council seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received and ensuring that any surplus assets are sold. The council can then decide how much to borrow to fund the capital programme. The current policy is to borrow only the amount that the council consider to be prudent and affordable.

Overview of Funding of the Capital Programme

- 40 The table below shows how the capital programme is estimated to be financed and covers the financial years 2021/22 to 2024/25.

Funding Source	2021/22	2022/23	2023/24	2024/25	Total
	£000	£000	£000	£000	£000
Grants and Contributions	73.129	51.153	36.418	0.813	161.513
Revenue & Reserves	18.286	9.327	7.355	0.812	35.780
Capital Receipts	7.713	9.698	7.583	0.000	24.994
Borrowing	59.851	188.570	116.037	15.496	379.954
Total Financing	158.979	258.748	167.392	17.122	602.242

Conclusion

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

Appendix 10: New Capital Schemes

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
CYPS	CYPS School Condition Funding & Basic Need	This element of Capital Grant is allocated by the DfE to LA's and is determined by both school condition and weighted pupil numbers with the level of funding dictated by the DfE's Condition Data Collection data. The £5.5 million is the estimate of the likely government grant.	0	5,500,000	5,500,000
CYPS	CYPS Schools Devolved Capital	This capital grant is allocated to individual schools to invest in school infrastructure.	0	1,200,000	1,200,000
CYPS	New School Build for Spennymoor	The solution to provide sufficient school places is to build a replacement school for an existing primary and an existing nursery school in Spennymoor, but with additional capacity to respond to the shortfall in places. Site options appraisal has been carried out and a preferred site has been identified. The proposed new build would replace the existing Ox Close Primary and Oxclose Nursery Schools and will have a capacity of 630 pupils and 52 FTE (full time equivalent) nursery places. A feasibility study has been produced which estimates the cost to be £14.3 million.	0	6,915,788	6,915,788

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
CYPS	Rebuild Belmont Community School and Belmont C.E. Primary School on existing site	Both of these schools are second on the Education Review as a high priority for change. The scheme costing £34 million in total will finance a new build campus making better use of the site and replacing the current buildings with two improved school buildings. A new innovative design has been developed to make better use of the site providing a shared campus facility. It will address the poor condition of both schools and future proof them for the projected increase in pupil numbers.	0	15,000,000	15,000,000
CYPS	Children's Home Sufficiency Strategy	Development of seven new smaller children's homes with each accommodating up to two children, who have complex behaviours and require a small setting to support appropriate matching. Purchase and adaptation of four and five bedded properties across the county that will be compliant with Ofsted requirements. It is forecast that the total capital investment required will circa £3.8 million. This initial investment of £2.2 million will allow the programme to progress.	1,100,000	1,100,000	2,200,000
CYPS	Replacement of SEND IT System	The SEND Service have used the Servelec Synergy System since 2016. It was purchased as part of the wider Synergy Education Management System in 2016. Since that time SEND systems have significantly improved and a new system will assist in providing more effective management information and improve service efficiency.	250,000	100,000	350,000
		CYPS Sub Total	1,350,000	29,815,788	31,165,788

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
NCC	Allotment Improvements	<p>Environment Scrutiny undertook a review of the allotment portfolio which was accepted by Cabinet. Recommendations include, increase the running of sites by associations, transfer to Parish/Town Councils and reviewing the sites where non allotments do not exist.</p> <p>This investment will enable improvements on sites, remove some of the buildings on sites making more land for growing and reduce the waiting list which currently stands at 800+.</p>	100,000	150,000	250,000
NCC	Cemetery drainage works	<p>Over a number of years, a growing number of cemeteries have suffered from flooding causing distress to visiting families, some of this has been attended to with temporary channels. The changing weather patterns with more extreme rainfall means this is causing problems not just in the winter but year round. The investment will enable more substantial drainage works to help attend to this ongoing problem.</p>	125,000	125,000	250,000

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
NCC	Morrison Busty Master Plan-Ph-7 - Create new access road and road changes to the waste transfer station	The current depot supplies services across many areas of the county including refuse, household waste, highways, street lighting, fleet maintenance, clean and green, plant nursery, waste transfer station, MOT test station, full circle, care and connect and neighbourhood wardens as well as a large private haulier and the general public who use the HWRC, the garden nursery and the full circle team. At the moment the depot has one road in and it currently serves all these areas but due to traffic volume concerns have been raised over its safety. The work would include for the removal of the current roundabout, create a new junction into the waste transfer station with a relocated weighbridge and wagon stacking areas so removing the risk of wagons moving around the current HWRC and creating a dedicated HGV route into the depot.	592,792	3,556,754	4,149,546
NCC	Morrison Busty Master Plan-Ph-8 - Road improvements to existing Depot Road	Notwithstanding the new access road proposal outlined in Phase 7, the widening of Morrison Road along with traffic flow and calming measures is required due to the current road arrangement not complying to the required regulations. Many of the current Health and Safety issues would be addressed by segregating operational and public vehicle movements. An effective way to achieve this is by widening Morrison Road and create traffic control measures up to the relocated HWRC.	165,191	330,383	495,574

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
NCC	Morrison Busty Master Plan-Ph-9 - Construct New HWRC 7 Bevin Buildings	The current HWRC is too small to meet requirements. As well as capacity which is around 40/50 cars per hour, the cars are stacking up at times causing delays to the general movement of the depot vehicles, the Private Haulage Company, and the highway. To address the growing inadequacies of the HWRC, Phase 9 comprises the construction of an entirely new facility on the former colliery area. On an area almost three times the size occupied by the present HWRC, the design of the new facility will allow easy public recycling of general and specialised waste, with 18 skips (currently 7) served by three access lanes, allowing 40 cars to tip at any one time, with a further 40 stacking within the centre meeting all Health and Safety and operational requirements and futureproofed for its anticipated increased demand.	0	228,000	228,000
NCC	Net Zero - Electrical Upgrades	The strategy for decarbonisation for fleet vehicles as well as heating in buildings is to utilise electricity connections for charging infrastructure and to power heat pumps. It is therefore very likely that existing agreed capacity at council sites will need to increase. The cost associated with this upgrade will vary widely from site to site. All vehicles will not be electrified overnight so there is degree of incremental increases that could be performed as the fleet requires.	0	500,000	500,000

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
NCC	Net Zero - Buildings	The decarbonisation of heat and transport are our main challenges to meet the 2030 target and would include, for example, replacing over 700 gas and oil boilers across the non-school's estate, which would mean about 100 boilers needing replacing every year up to 2030, as well as replacing virtually all fleet vehicles with non-fossil fuel alternatives. Adding in schools would increase the figure to 1,886 boilers and heaters.	2,500,000	2,500,000	5,000,000
NCC	Binchester Roman Bathhouse display repairs	Substantial modifications to the scaffolding at the bathhouse are required to make it safe.	100,000	0	100,000
NCC	Bridge Repair, Hedleyhope, Esh Winning	The unadopted bridge in council ownership provides vehicular access to service both allotments and an electricity substation has found to be in a serious condition. Whilst exploratory work is being undertaken, it may well require vehicle closure and consultation would be undertaken with Northern PowerGrid to establish if they can tolerate this for a period of time.	100,000	0	100,000

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
NCC	Climate Change Business and Community Loan Fund	The council only contributes 3% of carbon emissions in the county, yet has targets, not just for itself but also the 97% of external emissions from residents, industry , businesses, and the community sector. Businesses and communities want to play their part but are lacking the skills and capital finance to introduce energy efficiency and renewable energy . As the Business Energy Efficiency Project demonstrates (European Funded, which will end next year), as well as the council's own Invest to Save schemes, there is often a good business case and payback typically within 5-10 years. This fund will help to release that potential, and be an evergreen/renewable approach, replenishing the fund with terms that would vary between projects. It will be annually reviewed.	0	1,000,000	1,000,000
NCC	Department for Transport (DfT) - Local Transport Plan (LTP) - Adopted Highway Maintenance Grant Funding	The LTP Adopted Highway Maintenance Grant Funding is annual capital grant funding from the Department for Transport. The grant is provided to support local authorities with their statutory responsibility to maintain the adopted highway in a safe condition.	0	14,841,000	14,841,000
NCC	Highway Maintenance	DfT LTP Grant Funding is not sufficient for the council to maintain the adopted highway network in an appropriate condition. Councils are expected to provide additional funding from their own resources.	0	7,000,000	7,000,000

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
NCC	Highways Maintenance - Unclassified Roads	Investment in unclassified road maintenance in 22/23 to 24/25 to bring standards above national average by the next Election. Funded from Prudential Borrowing	3,860,000	5,000,000	8,860,000
NCC	Rural Linked Footways	There are a large number of rural footpaths that link settlements across the county. Many were previously maintained commensurate with use and received only defect repairs. During the Covid pandemic we have received unprecedented requests for rural links to be repaired to a high standard that facilitates walking and cycling. The budget we have allocated for the repair and maintenance of the highway focuses on footway links in an urban setting. The upgrading of such links will encourage increased levels of walking and cycling and contribute to the longer term health and fitness of residents.	0	250,000	250,000
NCC	Flood Prevention	County Durham has suffered from multiple flooding events in recent years. The frequency and severity of flooding events is predicted to increase with climate change. The council has a significant inventory of drainage assets (highway drainage, culverts, watercourses) and riverbanks. This funding will therefore be used to maintain existing assets and for new priority schemes.	0	1,000,000	1,000,000

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
NCC	Countryside Estate Parks and Outdoor Children's Play Areas	This budget will enable investment in priority infrastructure improvements.	0	250,000	250,000
NCC	Burnigill Bank	Urgent repairs are required to secure the site and ensure both road and rail can operate safely	2,500,000	0	2,500,000
NCC	Back office ICT system development	Currently there are two main ICT back office systems in operation within Community Protection which are also shared with Environment Services and Housing Solutions. These systems are under contract which is due to review within next 24 months and following an ongoing discovery exercise proposals for further investment or alternative systems will be identified within next 12 months for further capital investment.	0	500,000	500,000
NCC	Public rights of way	Accessibility improvements to paths linked to the railway paths, picnic sites, country parks including repair work to associated footbridges. Upgrading and repair of structures on the right of way network to provide connectivity across the county to facilities. Repair of areas subject to landslips on key routes across the county.	0	250,000	250,000
NCC	Members Neighbourhood Budget - Capital Element	To fulfil their roles as community champions and work in partnership with AAPs to address local priorities in their communities, since 2009 elected members have been allocated a Neighbourhood Budget alongside a smaller Member Initiative Fund. The capital allocation is £14,000.	0	1,764,000	1,764,000

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
NCC	Area Action Partnerships - Capital Element	AAPs have been set up to give people in County Durham a greater choice and voice in local affairs. The partnerships allow people to have a say on services and give organisations the chance to speak directly with local communities. Each AAP receives a £24,000 capital allocation.	0	336,000	336,000
NCC	Street Lighting Column Replacement	The council has a statutory responsibility to maintain the adopted highway in a safe condition. The probability of an individual column collapsing is very low but across a large inventory of columns such as the council's where the condition is deteriorating, the frequency of column collapses is expected to progressively increase without any additional intervention. Unfortunately, columns occasionally collapse directly onto highway users and in these cases, there is a high risk of serious injuries or fatalities.	0	1,000,000	1,000,000
NCC		NCC Sub Total	10,042,983	40,581,137	50,624,120
REG	LTP - Integrated Transport	This funding is essential to deliver the Local Transport Plan and contributes to both the County Durham Plan and the Regeneration Statement. The allocation is at the core of delivery of transport improvements across County Durham .	0	2,726,500	2,726,500

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
REG	Disabled Facilities Grant	<p>Disabled Facilities Grant is a mandatory grant which provides significant support to the most vulnerable client groups across County Durham. Adaptations enable clients to remain within their own homes and to live independently. Current figures advise that most grants are awarded to the over 60 age group. Support for the grant is of significant importance as it plays a key role in increasing independence and enabling clients to live at home longer.</p>	0	5,000,000	5,000,000
REG	Towns & Villages Investment	<p>Capital investment in our town and village centres. Part driven by changes in shopping trends, transport and accessibility, and a greater focus on leisure opportunities, the challenges faced by our town centres in remaining thriving and vibrant economic centres are diverse and complex, further compounded by many long established high street names disappearing in recent years. Many of our town centres face the issue of having too much retail floor space given recent retailer failures, corporate portfolio rationalisation, slightly higher than average retail vacancy rates and the impact of the structural shift in consumer shopping patterns caused by the rapid growth in online retail. The town centre function needs to be rebalanced to provide a diverse range of functions, including employment, commercial, leisure, community, residential, healthcare and education to meet the needs and/or wishes of local communities.</p>	0	3,244,929	3,244,929

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
REG	Structural Capitalised Maintenance	Capitalised Maintenance - Continuing programme of planned work, alterations, and adaptations to reduce the backlog maintenance of the council's non-school's property portfolio and to meet obligations under relevant legislation such as the Equalities Act and Fire Safety Orders.	0	5,000,000	5,000,000
REG	Levelling Up Match Funding	In the 2021 Budget, Central Government announced the new Levelling Up Fund (LUF), to provide investment in regeneration and growth in places with low productivity and poor connectivity. County Durham has been identified as one of the areas of greatest need of levelling up in the UK and has been classified as a Tier 1 area by Central Government. For County Durham, levelling up will require a blend of investments that create different outcomes for communities. This will include place-based regeneration that improves the quality of our city, towns and villages, alongside broader investments to unlock sites for housing and employment and support the labour market. Government funding. County Durham, with six parliamentary constituencies, would be in a position to be able to submit six bids up to the value of £120 million. The Government guidance suggests that a minimum of 10% match funding is recommended in support of each bid but this is not stated as a mandatory requirement. Five further Levelling Up Fund bids, following the submission of the Bishop Auckland Constituency Bid in June 2021, will be submitted.	0	5,000,000	5,000,000

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
REG	Demolition Programme	The council is committed in rationalising its assets through improvement and disposal programme. When a building is no longer fit for purpose or under performing and there is no longer a business and accommodation need from DCC or partners from the premises, the next step for the council is to declare the property surplus to the council's requirement. The disposal process can involve the demolition of a building prior to selling it off or redeveloping the site that it sits on.	0	500,000	500,000
REG	Ferryhill Rail Station - Match Funding	Minimum 15% match funding required towards construction costs, which are expected to be circa £15m, as part of the Restoring your Railways fund. This would be £2.25m. Authorities are also encouraged to provide match funding towards pre-construction development work including Full Business Cases.	100,000	1,125,000	1,225,000
REG	Grass Pitch Improvements	Project arising from Playing Pitch Strategy (PPS) Cabinet report recommendation, the project comprises initial capital improvement works (sanding, slitting, spiking, re-seeding/re-turfing) to better prepare sports pitches for new proposed on-going maintenance regime also detailed in the PPS strategy report. This investment would impact upon 49 DCC owned pitches linked to recommendations in the PPS, together with some specific drainage works identified by colleagues in NCC's Clean and Green Service.	0	250,000	250,000

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
REG	Stanley CAP	Stanley CAP has been vacant since 2016. The council has a corporate responsibility to secure the future of a Grade 2 Listed building as there has been very little interest from external parties to purchase. A subgroup has looked at options for the building and it has been agreed to look at a development around move on accommodation for ex-servicemen. Funding from T&Vs, S106, Service Budgets, Homes England, and an element of self-financing to a total of £3 million.	0	600,000	600,000
REG	Town Centre Improvements	There are a number of some schemes which are contractually committed with external partners and are highlighted as the first priority within the Town Centres programme. We will work with local partners and the business community in each individual town to support activity in the town centre, infrastructure of the town centre, interpretation of town centre assets/buildings and improved wayfinding, provide match funding for external sources and support job creation in the town centres.	0	500,000	500,000
REG	Durham City - Framwellgate	Funding is required to complete public realm works from Penny Ferry Bridge to the Riverwalk Development, extending the public realm at the Riverwalk and Milburngate developments. Works include, improved public realm and street furniture, deliver lighting improvements to the Milburngate under-bridge area and wayfinding/signing improvements to the new developments in the area. The area immediately fronting these significant developments is within council ownership and is adopted Highway.	0	500,000	500,000

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
REG	Seaham - Land at the top of North Dock	The council is in the process of purchasing land near Seaham House. The land is currently used as an informal car park and recently went on the market. The council would acquire and develop this into a formal car park in order to safeguard the current parking provision.	0	500,000	500,000
REG	Equipment and Infrastructure Replacement Programme	Recent work on life cycle costs of larger items of equipment and infrastructure repairs, which includes replacement fitness equipment and equipment in theatres. This investment will enable a rolling programme for equipment replacement and infrastructure repair.	0	300,000	300,000
		REG Sub Total	100,000	25,246,429	25,346,429
RES	Hosted Environment Computing and Storage	The servers which support the authority's line of business systems are replaced on a rolling programme to ensure that they remain fit for purpose and can take advantage of technological developments and online hosting/cloud computing.	0	700,000	700,000

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
RES	End user equipment replacement	The end user equipment fleet (Desktops, Laptops and Tablets) currently consists of around 9,000 items. This total has risen due to requirements to support hybrid working. To comply with security standards, equipment should be supportable and have updates available from the manufacturer, i.e., not obsolete. Where practical, all users now have a laptop or tablet device to facilitate agile, hybrid working. Previously, this equipment was replaced on a four-year cycle to ensure that the equipment is fit for purpose and maintainable. As equipment is more reliable and suppliers can provide longevity of support, the effective life cycle of user computing devices can be extended to over 5 years and will be replaced on a 'break/fix' and obsolescence basis, rather than every 4 years. This reduces the capital funding needed by around £480,000 against previous years.	0	920,000	920,000
RES	Vulnerability Assessment Platform	The 3 installations of vulnerability scanning tools (Tenable Nessus Professional) are used by the Digital Security Team and Endpoint Team to scan the network and digital resources for cyber-security vulnerabilities. The results of these scans are used to identify areas for work and security improvement, and form part of the PSN, PCI and the council's own internal security frameworks.	0	170,000	170,000

SERVICE	SCHEME	BACKGROUND	2022/23	2023/24	TOTAL
			£	£	£
RES	PSN PCI Security Firewalling	The council operates a 'defence in depth' security model, with layers of technology used to counter incoming threats and cyber-attacks. Firewalls form part of this set of defences and it is important that they are kept up to date and well-managed. As the rate of cyber-attacks grows, firewalls need to be upgraded to ensure that they are not overwhelmed. In 2017, the authority repelled around 1.3million attacks per week. In 2021, this has grown to over 12.5 million attacks per week. Consequently, higher capacity equipment is needed to maintain the security perimeter.	0	160,000	160,000
		RES Sub Total	0	1,950,000	1,950,000
		TOTAL	11,492,983	97,593,354	109,086,337

Appendix 11: Pay Policy

Durham County Council Pay Policy Statement 2021/22

Introduction

- 1 This policy outlines the key principles of Durham County Council's (DCC) pay policy for 2021//22 aimed at supporting the recruitment and remuneration of the workforce in a fair and transparent way. The policy complies with government guidance issued under the Localism Act 2011 and includes commentary on:
 - (a) the approach towards the remuneration of Chief Officers;
 - (b) the remuneration of the lowest paid employee;
 - (c) the relationship between the remuneration of its Chief Officers and the remuneration of its employees who are not Chief Officers.
- 2 The Local Government Transparency Code published in February 2015 by the government also sets out key principles for local authorities in creating greater transparency through the publication of public data. As part of the code, the government recommends that local authorities should publish details of senior employee salaries. This pay policy forms part of the council's response to transparency of senior pay through the publication of a list of job titles and remuneration.
- 3 Durham County Council is mindful of its obligations under the Equality Act 2010 and is an equal opportunity employer. The overall aim of our Single Equality Scheme is to ensure that people are treated fairly and with respect. The scheme also contains a specific objective to be a diverse organisation, which includes recruiting and retaining a diverse workforce and promoting equality and diversity through working practices. This pay policy forms part of our policies to promote equality in pay practices. By ensuring transparency of senior pay and the relationship with pay of other employees, it will help ensure a fair approach which meets our equality objectives.
- 4 In setting the pay policy arrangements for the workforce, the council seeks to pay competitive salaries within the constraints of a public sector organisation.
- 5 As a result of Local Government Reorganisation in the County, the significant opportunity existed to bring together the pay and conditions arrangements of the eight previous authorities into one cohesive pay policy for the new organisation. In response, Durham County Council's approach towards the

workforce pay and conditions of employment were fundamentally reviewed and a new pay structure and revised conditions of employment for the majority of the workforce were agreed during 2012, in order to ensure that the council is able to operate as a modern, fit for purpose and streamlined organisation.

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

Posts defined within the Act as Chief Officers

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

Governance Arrangements

- 8 The Chief Officer Appointments Committee is defined within the council's constitution as performing the functions under section 112 of the Local Government Act 1972 in relation to these officers. This includes the setting of the pay arrangements for these posts and in doing so the Committee takes into account:
 - (a) the prevailing market in which the organisation operates;
 - (b) the short and long-term objectives of the council;
 - (c) the council's senior structure, financial situation, and foreseeable future changes to these;
 - (d) the expectations of the community and stakeholders;
 - (e) the total remuneration package;
 - (f) the links with how the wider workforce is remunerated and national negotiating frameworks;
 - (g) the cost of the policy over the short, medium, and long term.
- 9 The Committee also has access to appropriate external independent expert advice on the subject where required.

Key Principles

- 10 The Chief Officer Pay policy is designed to be easily understood and to be transparent to the post holders and key stakeholders. The structure and level of the pay arrangements will enable the council to attract, motivate and retain key senior talent for the authority.
- 11 The policy is based upon spot salaries with clear differentials between levels of work/job size, within a range that is affordable now, will remain so for the medium term, and will be subject to review to ensure it continues to remain fit for purpose. In the first instance it is intended that the Authority will market test the rates of pay when vacancies arise, as part of consideration on whether roles continue to be required within the context of the council's priorities and commitments at that time.
- 12 A values and behaviours framework is established within the organisation which links to individual job descriptions, person specifications and performance and development reviews. Leaders' behaviours are clearly defined, and this ensures that the individual standards of achievement and performance are met and clearly linked to the achievement of the council's objectives and priorities, and the authority's expectations are delivered by post holders within these roles.
- 13 These posts do not attract performance related pay, bonuses, or any other additions to basic salary. This approach enables the council to assess and budget accurately in advance for the total senior pay bill over a number of years.
- 14 The council is currently the sixth largest single tier authority in the country and in setting the pay policy for this group, a market position has been established that aims to attract and retain the best talent available at a senior level within a national recruitment context, to lead and motivate the council's workforce that is rewarded under a nationally agreed negotiating framework.
- 15 Roles at this level have all been subject to an externally ratified job evaluation scheme that is transparent and auditable to ensure equality proofing of pay levels.
- 16 Other terms and conditions of employment for this group are as defined within the Joint Negotiating Committee for Chief Officers of Local Authorities Conditions of Service handbook, with discretion to set actual pay levels at a local level, but within a national negotiating framework. These posts are part of the nationally defined Local Government final salary pension scheme.

Pay Levels

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

Role	Salary @ 1.4.2021
Chief Executive	£201,742
Corporate Directors	£152,669
Director of Integrated Community Services	£140,362
Head of Legal and Democratic Services	£119,954
Director of Public Health	£113,246

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

Head of Service Level	Salary @ 1.4.2021
HOS 3	£83,424
HOS 2	£105,670
HOS 1	£119,954
HOS 1*	£117,946

- 19 Increases are made in accordance with the appropriate Joint Negotiating Committee (JNC) Pay Agreements. The JNCs for the Chief Executives and Chief Officers both agreed a pay award of 2.75% with effect from 1 April 2020. The Pay Awards for 2021/22 have not been agreed.
- 20 *JNC Pay Award for Chief Officers does not apply to one Head of Service post (which is joint funded by DCC/NHS).
- 21 This council has agreed a salary structure for its senior posts and agrees that appointment to any vacancies on this structure at the salaries referred to in this statement are permitted. The creation of any new posts paying over £100,000 should however be presented to Council for approval.
- 22 For the majority of the rest of the council's workforce, the NJC pay agreement for 2018/19 included the introduction of a new pay spine on 1 April 2019. The 2019 pay spine is mandatory. Agreements reached by the NJC are collective agreements and if they are incorporated into employee contracts of employment then the changes will take effect. The new pay spine replaced entirely the previous spine and accordingly employees assimilated across from the previous SCP to the new corresponding SCP in April 2019. The NJC produced a circular on 14 June 2018, which provided

technical advice on issues relating to assimilating employees onto the new pay spine. The council has complied with the NJC guidance (i.e., one approach to be applied consistently and a maximum of five spinal column points for each grade).

- 23 The designated Returning Officer for the council also carries out the role of 'Returning Officer' or 'Counting Officer' in Parliamentary and European elections and other national referenda or electoral processes. These additional roles carry an entitlement to payment from central government at levels set by order in relation to each national poll and according to scale of fees agreed by the council in relation to Local Elections.
- 24 Set out in Annex 1 is a scale of fees for the conduct of any County Council and Parish by-elections that arise. The fees are based on the principle that the Returning Officer and nominated deputies will be remunerated in view of personal responsibilities, but at a rate below that of national elections. National rates are given for other posts such as Presiding Officers, Poll Clerks, Count Staff, and postal vote sessions to ensure sufficient interest is maintained in undertaking these roles.

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

Definition of Lowest Paid Workers

- 25 In order to promote equity, former manual worker grades in the authority have been incorporated into the national framework, as outlined in the National Joint Council for Local Government Services "Agreements on Pay and Conditions of Service".
- 26 This ensures that the lowest paid workers and the wider workforce share equitable terms and conditions and access to pay and condition arrangements that are set within a national negotiating framework.
- 27 This approach ensures fairness, provides market rates in the region for jobs, graded by job size, but with a reference also to the national local government family.
- 28 Following the implementation on 1 January 2015 of the 'Durham Living Wage' the lowest paid workers now receive the minimum of Spinal Column Point 10 for all Durham County Council employees. The hourly rate from 1 April 2020 is £9.62, (and new SCP 3 replaced the old SCP 10 on the new National Pay Spine) which equates to workers (outside of apprenticeship schemes) remunerated in Durham on a minimum full time equivalent annual rate of pay of £18,562 (excluding any allowances). This is the council's definition of 'lowest paid workers'.

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

Current Position

- 29 At the inception of the new unitary council in 2009 the authority had defined:
- (a) the strategy for senior pay within the authority and had recruited into these posts;
 - (b) the plan for the approach towards harmonising the pay and conditions of the workforce longer term;
 - (c) taking this approach, also now enables the authority to publish and support recommendations within Will Hutton's review 2011 'Review of Fair Pay in the Public Sector' around publishing the ratio of pay of the organisation's top earner to that of a median earner and tracking this over time, taking corrective action where necessary.
- 30 In setting the relevant pay levels, a range of background factors outlined at paragraph 2.2 were taken into consideration for senior pay alongside the significant scope and scale of the authority in the national context.
- 31 For example, the scope and scale of the Chief Executive's post encompasses responsibilities commensurate with the largest authorities in the country including responsibility for:
- (a) the provision of wide-ranging services to over 500,000 residents of County Durham;
 - (b) a gross budget of £1.1 billion for service delivery;
 - (c) undertaking the role of the Head of Paid Service to over 15,000;
 - (d) Lead Policy Advisor to the council's 126 Elected Members.
- 32 For 2021//22, the ratio between the pay of the Chief Executive in Durham County Council and the lowest paid workers is 8.94, against figures published by government of an expectation to always be below 20:1 in local government.
- 33 In addition, during 2021/22 the employer will contribute 18.5% of pensionable pay to the pension fund for all employees in the Local Government Pension Scheme.

Long Term Planning

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

Pay Policy Objectives

- 35 This planned approach towards pay for the wider workforce, and the use of established and equality impact assessed job evaluation schemes in the exercise will ensure:
- (a) a planned approach towards pay policy for the organisation that enables the council to establish a relationship between pay for senior officers, the low paid and the wider workforce to align to the national guidance;
 - (b) the provision of accountability, transparency and fairness in setting pay for Durham County Council.
- 36 A report detailing the council's Gender Pay Gap figures for the position as at 31 March 2020 was published on the council's website (<http://www.durham.gov.uk/genderpaygap>), this includes the council's long term plans for improving the pay gap.

Pay Policy Decisions for the Wider Workforce

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

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

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

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

- 40 The council's arrangements for payments on severance are outlined in the Early Retirement/Voluntary Redundancy policy approved by Council on 29 October 2014.
- 41 Chief Officers leaving the authority under regulations allowing for early access to pension are leaving in circumstances where there is no longer a suitable role for them, and in such circumstances, they leave the employment of the council. Immediate re-engagement in another role would negate redundancy by operation of the Redundancy Payments (Continuity of Employment in Local Government, etc.) (Modification) Order 1999.
- 42 The council would not expect such officers to be offered further remunerated employment with the council or any controlled company without such post being subject to external competition.
- 43 The administering authority for the Local Government Pension Scheme does not currently have a policy of abating pensions for former employees who are in receipt of a pension, although this is an area that is kept under review.
- 44 The council is mindful of its obligations under equality legislation and as such is limited in its ability to adopt a policy that it will not employ people of an age that has entitled them to pension access on leaving former employment in the public sector or to propose that such applicants be employed on less favourable terms than other applicants. It expects all applicants for any posts to compete and be appointed on merit.

Annex 1: Proposed Scale of Fees for the conduct of individual By-Elections

Set out in Annex 1 is a scale of fees for the conduct of individual By-Elections. These fees were agreed by the former District Authorities of the County in 2007.

Election Fees – By-Elections

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

Appendix 12: Durham County Council Annual Treasury Management Strategy 2022/23

Purpose

- 1 In accordance with statutory guidance and the Council's Financial Procedure rules, this report presents the 2022/23 position for the proposed Treasury Management Strategy, the Annual Cash Investment Strategy, Prudential Indicators, Minimum Revenue Provision (MRP) Policy and Treasury Management Policy Statement and Practices (which are detailed at Annex 1).

Background

- 2 Treasury management is defined as 'the management of the local authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks'.
- 3 The Council operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, with the main aims of providing sufficient liquidity and security, with the achievement of the best possible investment returns ranking as less important.
- 4 The second main function of the treasury management service is to arrange the funding of the Council's capital programme, which will support the provision of Council services. Part of the capital programme is financed through borrowing so longer term cash flows need to be planned, to ensure capital spending requirements can be met. The management of longer term cash may involve arranging long or short term loans, utilising longer term cash flow surpluses and, occasionally, restructuring debt to meet Council risk or cost objectives.
- 5 The Council adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice to ensure there is adequate monitoring of the Council's capital expenditure plans and its Prudential Indicators (PIs). It is recommended in the Code that Members are appraised of the Councils Treasury Management activity through regular reports, that include the following as a minimum:
 - (a) an annual Treasury Management Strategy in advance of the year (this report);

- (b) a mid-year Treasury Management Review report, covering the first six months of the financial year (the 2021/22 mid-year review was reported to Council on 16 December 2021);
 - (c) an annual review following the end of the year describing the activity compared to the strategy (the 2020/21 outturn was reported to the Council on 20 October 2021);
- 6 Following two rounds of consultation revised Treasury Management and Prudential Codes were issued on 20th December 2021. CIPFA has advised that because of the late issuance of the new Codes they do not expect full compliance with the proposed changes until 2023/24.
- 7 Our initial assessment is that the main effects of the revised codes will be requirements to:
 - (a) set a proportionate approach to commercial and service capital investment;
 - (b) implement a policy to review commercial property, with a view to divest where appropriate;
 - (c) create new Investment Practices to manage risks associated with non-treasury investment, which is in place through the Property Investment Strategy. (Like the current Treasury Management Practices);
 - (d) consider Environmental, Social and Governance (ESG) issues within the treasury management risk framework;
 - (e) ensure that the knowledge and skills of individuals involved in the treasury management function are proportionate to the size and complexity of the treasury management conducted by the council;
 - (f) adopt a new debt liability benchmark indicator to support the financing risk management of the capital financing requirement;
 - (g) set out requirements for service and commercial investment, (especially where supported by borrowing) and then attribute all investments and investment income to one of Treasury Management, Service or Commercial investments.
- 8 Full guidance on implementation is not yet available and given the short timescale we have partially implemented the revised guidance in this report, through new Prudential Indicators for:
 - (a) a debt liability benchmark to support the financing risk management of the capital financing requirement;

- (b) the ratio of income from treasury management and service and commercial investments to the net revenue stream, to show the extent of the Council's exposure to the risk that this income is not achieved.
- 9 A further update will be provided as part of the 2022/23 mid-year Treasury Management Review report.
- 10 This report provides a summary of the following for 2022/23:
 - (a) Summary Treasury Position;
 - (b) Borrowing Strategy;
 - (c) Other Debt and Long Term Liability Plans
 - (d) Cash Investment Strategy;
 - (e) Non-Treasury Investments
 - (f) Treasury Management Indicators;
 - (g) Prudential Indicators;
 - (h) MRP Policy Statement;
 - (i) Other Matters.
- 11 This covers the requirements of the various laws, codes and guidance that cover the Treasury Management activity, including the Local Government Act 2003, the CIPFA Prudential Code, Department for of Levelling Up, Housing and Communities (DLUHC) MRP Guidance, the CIPFA Treasury Management Code and Communities and Local Government Investment Guidance.
 - (a) **Summary Treasury Position**
- 12 The Council's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities.
- 13 The following table shows the Council's treasury position (excluding borrowing through leasing and the Private Finance Initiative [PFI]) as at 31 December 2021 alongside the expected position for 31 March 2022:

	Actual 31.3.21 £ Million	Interest Rate	Actual 31.12.21 £ Million	Interest Rate
Borrowing	363.420	3.43%	408.233	3.26%
Investments	272.416	0.34%	345.979	0.29%
Net Debt	91.004		62.254	

- 14 Under a forward borrowing agreement with Phoenix Life, the council is committed to borrow £10 million on 15 February 2022, which will further increase the borrowing at 31 March 2022. It is expected that the investment balance will reduce by 31 March 2022, further increasing the net debt at year end.

(b) **Borrowing Strategy**

- 15 The Council held £363.420 million of loans at 31 March 2021. The balance had increased to £408.233 at 31 December 2021 and is expected to be £417.974 at 31 March 2022, as detailed below:

	31.3.21	2021/22	31.3.22	Average	31.3.22
	Actual Balance	Estimated Movement	Estimated Balance	Interest Rate	Average Life
	£ million	£ million	£ million	%	Years
Public Works Loan Board (PWLB)	278.972	29.996	308.968	3.17%	18.6
Private Sector	84.279	24.575	108.854	3.81%	41.9
Pension Fund	0.169	(0.017)	0.152	7.71%	5.9
Total borrowing	363.420	54.554	417.974	3.25%	23.7

- 16 The Council's chief objective when borrowing has been to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.
- 17 The difference between the council's borrowing requirement and the actual borrowing undertaken is met by internal borrowing. This represents the ability of the council to use its balance sheet reserves to delay the date that loans are taken out. The strength of the Council's balance sheet means it has no immediate need to borrow to fund its capital outlays and this means that using internal balances is generally the most cost-effective option. However, in the medium term the Council will need to borrow to fund its capital programme and the Council may elect to borrow earlier if available borrowing rates make this the best option.

- 18 The following sources of long-term and short-term borrowing have been identified for approval:
- (a) Public Works Loan Board (“PWLB”);
 - (b) UK local authorities;
 - (c) Any institution approved for investments (see paragraph 38);
 - (d) UK public / private sector pension funds;
 - (e) European Investment Bank; and
 - (f) Local authority special purpose vehicles created to enable local authority bond issues (for example the Municipal Bonds Agency).
- 19 A major source of the Council’s borrowing is the PWLB, which is a lending facility operated by the UK Debt Management Office on behalf of HM Treasury. To have access to PWLB loans, the current arrangements require the Council to confirm that they are not buying investment assets primarily for yield and that they are not borrowing in advance of need, with the aim of making a profit from the sums borrowed.
- 20 The Council meets the borrowing criteria so taking out PWLB loans is an available option. Loan rates are fluid (PWLB rates change twice daily), and the Council will continue to work with its Treasury Management advisors, Link Asset Services, to monitor rates and cash flow requirements to determine the timing for taking out further loans.

Policy on Borrowing in Advance of Need

- 21 The Council will not borrow more than, or in advance of, its needs, purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be made based on its estimate of borrowing need, also called its Capital Financing Requirement (CFR) and following careful consideration, to demonstrate value for money and ensure the security of funds received.
- 22 Any risks associated with activity to borrow in advance will be subject to prior appraisal and will be subsequently accounted for in the Treasury Management report that follows.

Debt Rescheduling

- 23 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. Advantages of debt rescheduling would include:
- (a) generating cash savings and / or discounted cash flow savings;
 - (b) helping to fulfil the treasury strategy;
 - (c) enhancing the balance of the portfolio (amend the maturity profile and/ or the balance of volatility).
- 24 However, these savings will need to be considered in light of the current treasury position and the cost of debt repayments (i.e. premiums).
- 25 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

(c) Other Debt and Long Term Liabilities Plans

- 26 Although not classed as borrowing, the Council has capital finance liabilities (i.e., commitments to make payments) in the form of finance leases, for replacement fleet vehicles and equipment, and PFI projects. The leasing liabilities will continue to grow as a programme to replace capital funded fleet vehicles is implemented. The cost effectiveness of leasing arrangements will continue to be monitored to ensure they are the best financing option.
- 27 Members have previously been advised on the effects arising from the application of a new accounting standard - International Financial Reporting Standard (IFRS) 16 – Leases, which will increase the Council's reported liabilities from 2022/23 onwards.
- 28 From this time assets held under operating leases (which differ from finance leases as the assets retain a significant part of their value and revert to the owner at the end of the lease period) will be accounted for in the same way as finance leases. The changes mean that for the first time, the Council will hold fixed assets used under operating leases on its balance sheet. It will also hold the associated financial liabilities. Initial estimates are that the liability element will be in the region of £130 million, largely attributable to the Milburngate development. Final arrangements will be confirmed during the 2022/23 financial year. Therefore, it is proposed that the revised values for the council's liabilities will be reported in the 2022/23 mid-year Treasury Management Review report.

(d) Cash Investment Strategy

- 29 The Council holds a significant cash surplus from reserves and provisions in its balance sheet and from funds received before related expenditure is incurred. A strategy for the investment of these funds is required.
- 30 The Council's cash investment policy is governed by Department for of Levelling Up, Housing and Communities (DLUHC) guidance. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security, liquidity and rate of return, or yield, of its investments. Of these three criteria the first two, security and liquidity, are most important, ahead of achieving the highest yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 31 In accordance with the above guidance from the DLUHC and CIPFA, and to minimise the risk to investments, the Council will apply minimum acceptable credit criteria in order to generate a list of creditworthy counterparties, with investment limits set so that investments are diversified. Credit ratings agencies will be used but will not be the sole determinant of investment quality and the assessments will also take account of other information that reflects the opinion of the markets. To this end the Council will engage with its advisers to maintain a monitor on market pricing (e.g., "credit default swaps") and overlay that information on top of the credit ratings. Information in the financial press, share price and other banking sector information will also be used as appropriate.
- 32 There are a wide range of Investment instruments which are available for the Council to consider. These can be classified as either Specified or Non-Specified Investments and are listed below:

Specified Investments

- 33 These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered to be low risk assets where the possibility of loss of principal or investment income is small and are not defined as capital expenditure. These would include the following sterling investments:
- (a) deposit with the UK Government – e.g., the Debt Management Office deposit facility, UK treasury bills or gilts with less than one year to maturity;
 - (b) term deposits with a body that is considered of a high credit quality e.g., UK banks and building societies;

- (c) global bonds of less than one year's duration;
- (d) deposits with a local authority, parish council or community council;
- (e) certificates of Deposit;
- (f) pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

Non-Specified Investments

34 These are investments which do not meet the specified criteria as outlined above. The Council is therefore required to examine non-specified investments in more detail. As well as any of the above sterling investments that are of more than one-year maturity, non-specified investments include the following sterling investments:

- (a) gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity;
- (b) deposits with the Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible;
- (c) equity shareholding in businesses, which shall be not more than £30 million in total, and £15 million in any one company. This will only be after undertaking significant due diligence checks. These investments will facilitate a more balanced approach to investing by diversifying the investment portfolio and reducing concentration risk;
- (d) loans and shares in local businesses, to encourage regeneration and economic development in the area. Any new investments will only be agreed after significant due diligence checks have been carried out;
- (e) property funds, with not more than £25 million in an individual fund and not more than £50 million in total.

Creditworthiness Policy

35 The primary principle governing the Council's investment criteria is the security of its investments; although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- (a) it maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security and arrangements for monitoring their security; and
 - (b) it has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 36 The Corporate Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit these to full Council for approval as necessary. These criteria provide an overall pool of counterparties considered to be high quality which the Council may use, rather than defining what types of investment instruments are to be used.
- 37 Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weight to only one agency's ratings.
- 38 Typically the minimum credit ratings criteria used by the Council will be a short term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available or other topical market information to support their use.
- 39 All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies (Fitch, Moody's and Standard and Poor's) through its use of Link's creditworthiness service.
- 40 If a downgrade results in the counterparty/ investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- 41 In addition to the use of credit ratings, the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.
- 42 Sole reliance will not be placed on the use of the service provided by Link. The Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government. This additional market information, for example credit default swaps and negative rating watches/ outlooks, will be applied to compare the

relative security of differing investment counterparties. The relative value of investments will be reviewed in relation to the counterparty size to ensure an appropriate ratio.

Investment Criteria

43 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

(a) Banks 1 – good credit quality. The Council will only use banks which are:

(i) UK banks and/or

(ii) Non UK banks domiciled in a country which has a minimum sovereign long term rating of AA- and have, as a minimum, the following credit ratings (where rated):

	Fitch	Moody's	Standard & Poor's
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

(n.b. viability, financial strength and support ratings have been removed and will not be considered in choosing counterparties).

(b) Banks 2 – Part nationalised UK banks - Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or meets the ratings in Banks 1 above;

(c) Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and time;

(d) bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above;

(e) UK Government (including gilts and the Debt Management Account Deposit Facility [DMADF]);

(f) Local authorities, parish councils, etc.;

(g) Housing Associations which meet the ratings for banks outlined above;

(h) Building societies. The Council will use societies which:

- (i) meet the ratings for banks outlined above; or
- (ii) have assets more than £1 billion;
- (i) Money market funds;
- (j) Ultra-Short Dated Bond Funds;
- (k) Property Funds.

Time and Monetary Limits applying to Investments

44 The time and monetary limits for institutions on the Council's counterparty list, covering specified and non-specified investments, are as follows:

Investment Type	Long Term Rating	Money Limit	Time Limit
Banks / Building Societies*	AA-	£65m	2 years
Banks / Building Societies*	A	£45m	1 year
Banks / Building Societies*	A-	£30m	6 months
Banks – part-nationalised*	N/A	£65m	2 years
Banks– Council's banker*	A-	£35m	3 months
DMADF / Treasury Bills	AAA	unlimited	6 months
Local Authorities	N/A	£20m each	5 years
Housing Associations	A-	£15m	6 months
Building Societies	+£1 billion	£30m	6 months
Money Market Funds	AAA	£175m total	liquid
Money Market Funds CNAV	AAA	£35m each	liquid
Money Market Funds LVNAV	AAA	£35m each	liquid
Money Market Funds VNAV	AAA	£35m each	liquid
Ultra-Short Dated Bond Funds	AAA	£10m each	liquid
Property Funds	N/A	£50m total (£25m each)	Unlimited

*For bank subsidiaries and treasury operations the limits depend on the rating of the subsidiary / operation or of the parent providing a guarantee
The above limits are unchanged from those used for 2021/22.

UK Banks – Ring Fencing

- 45 An additional factor must be considered when making investments with some UK banks from 1 January 2019. From this date the largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt to be included in the arrangements. Several banks are very close to the threshold already and so may come into scope in the future regardless.
- 46 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.
- 47 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

(e) Non-Treasury Investments

- 48 Separately from treasury investments, the Council may make loans and investments in support of service priorities, and this may mean they generate a commercial return.
- 49 Service delivery investments are held primarily and directly for the delivery of public services including housing, regeneration, and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- 50 Investments held for a commercial return are ones with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council’s financial capacity – i.e., that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial.

- 51 The Council recognises that investments such as these, taken for non-treasury management purposes, require careful consideration and that it is important that there are agreed processes to ensure there is effective due diligence and that the investments fit with the Council’s agreed risk profile. This is consistent with the Prudential Code guidance, that the investments should be proportionate to the authority’s level of resources and the same robust procedures for the consideration of risk and return should be followed as for other investments
- 52 The Council would also follow the above processes when considering the purchase of investment assets primarily for yield. However, following the change to PWLB borrowing rules, councils with plans to buy investment assets primarily for yield cannot take advantage of the 1% reduction in borrowing costs. This applies to all their borrowing requirements, not just the borrowing for the investment assets. This creates a financial disadvantage that means it is not likely that the council will make investments of this nature, though each potential opportunity would be considered on a case by case basis. More details are included in the council’s Property Investment Strategy.

(f) **Treasury Management Indicators**

- 53 There are three debt related treasury activity limits which are designed to manage risk and reduce the impact of an adverse movement in interest rates.

Interest Rate Exposures: This indicator is set to control the Council’s exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principle invested is:

	Limit
Upper limit on fixed interest rate exposure	100%
Upper limit on variable interest rate exposure	70%

Maturity Structure of Borrowing: This indicator is set to control the Council’s exposure to refinancing risk and measures the amount of projected borrowing maturing in each period expressed as a percentage of total projected borrowing at the start of the period. The upper and lower limits on the maturity structure of fixed rate borrowing are:

	Lower Limit	Upper Limit

Under 12 months	0%	20%
12 months to 2 years	0%	40%
2 years to 5 years	0%	60%
5 years to 10 years	0%	80%
10 years and above	0%	100%

In addition, the council will not agree to borrowing which will result in more than 20% of total borrowing maturing in any one financial year.

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments:

	2022/23	2023/24	2024/25
Principal sums invested > 365 days	£75m	£75m	£75m

(g) Prudential Indicators

- 54 The Local Government Act 2003 requires the Council to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.
- 55 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent, and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Capital Expenditure: The table below summarises capital expenditure incurred and planned (including amounts included in this budget report) and how the expenditure was and will be financed:

	2020/21 Actual £ Million	2021/22 Estimate £ Million	2022/23 Estimate £ Million	2023/24 Estimate £ Million	2024/25 Estimate £ Million
Capital Programme	119.084	158.979	258.748	167.393	17.122
Financed by:					
Capital receipts	3.988	7.713	9.698	7.583	-
Capital grants	53.420	73.129	51.153	36.418	0.813
Revenue and reserves	39.424	18.286	9.327	7.355	0.812

Net borrowing financing need for the year	22.252	59.851	188.570	116.037	15.497
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Capital Financing Requirement (CFR): The CFR is a measure of the Council's underlying borrowing need for a capital purpose. The CFR includes other long term liabilities (e.g., PFI schemes, finance leases), though these arrangements include an integral borrowing facility, so the Council does not need to borrow separately for them:

	2020/21 Actual £ Million	2021/22 Estimate £ Million	2022/23 Estimate £ Million	2023/24 Estimate £ Million	2024/25 Estimate £ Million
Capital Financing Requirement	491.718	545.723	727.940	829.055	826.661
Movement in CFR	15.622	54.005	182.217	101.115	(2.394)
Movement in CFR represented by					
Net borrowing financing need for the year (see previous table)	22.252	59.851	188.570	116.037	15.497
Leasing and PFI financing need for the year	8.195	10.464	11.922	6.159	5.048
Less MRP/VRP and other financing movements	(14.825)	(16.310)	(18.275)	(21.081)	(22.939)
Movement in CFR	15.622	54.005	182.217	101.115	(2.394)

*Values from 2022/23 onwards will be revised to account for calculated liabilities for operating lease liabilities included for first time under IFRS 16 – Leases

Gross Debt and the Capital Financing Requirement: To ensure that debt held will only be for capital purposes, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The table below shows how the Council plans to comply with this requirement, which shows gross borrowing continues to be less than the CFR:

	2020/21 Actual £ Million	2021/22 Estimate £ Million	2022/23 Estimate £ Million	2023/24 Estimate £ Million	2024/25 Estimate £ Million
Debt at 1 April	358.580	363.420	417.974	407.353	386.721

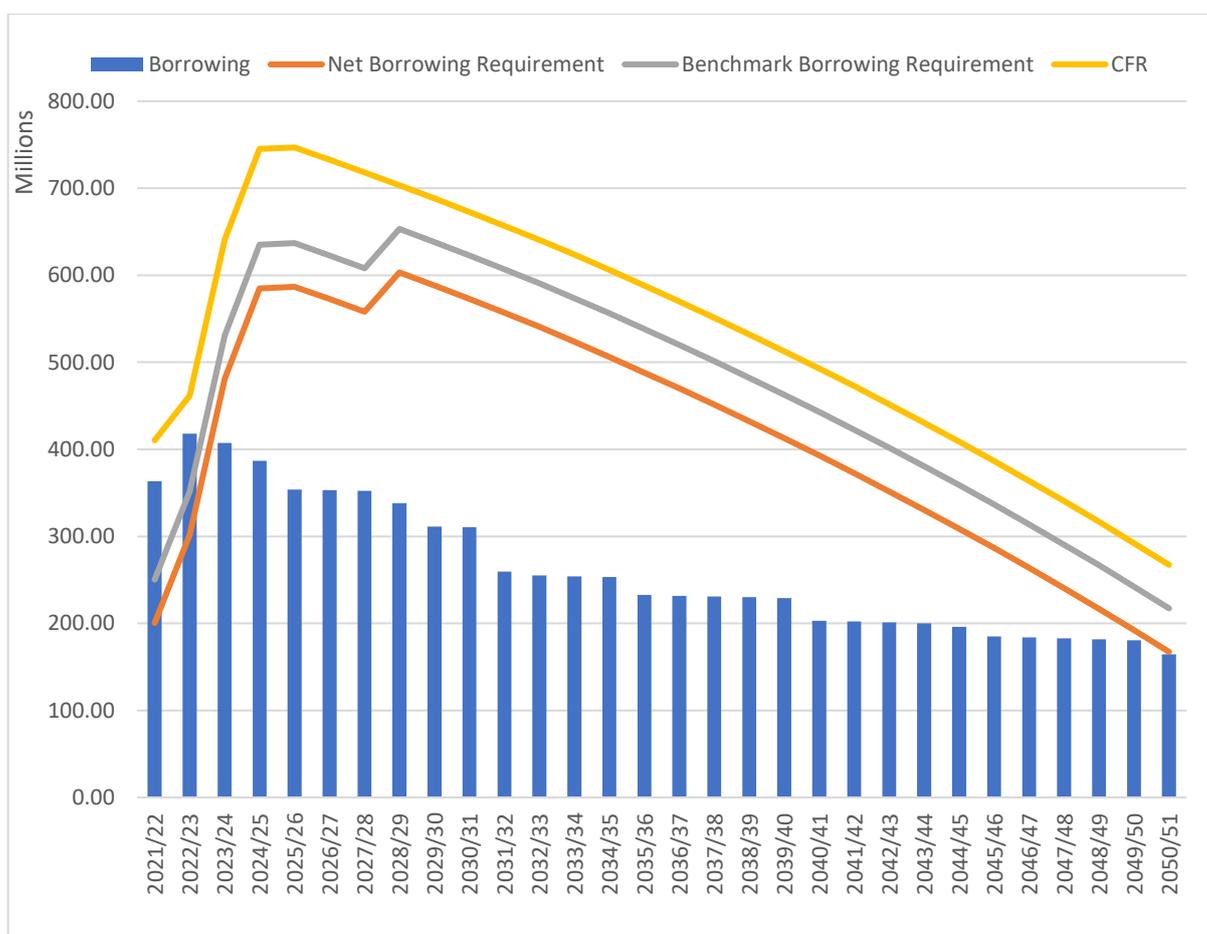
Expected change in debt	4.840	54.554	(10.621)	(20.632)	(33.120)
Other long-term liabilities	80.120	81.450	84.011	86.976	84.016
Expected change in other long-term liabilities	1.330	2.561	2.964	(2.960)	(4.167)
Gross Debt at 31 March	444.870	501.985	494.329	470.737	433.350
Capital Financing Requirement	491.718	545.723	727.940	829.055	826.661
Internal borrowing	46.848	43.738	233.611	358.318	393.211

*Values from 2022/23 onwards will be revised to account for calculated liabilities for operating lease liabilities included for first time under IFRS 16 - Leases

Debt Liability Benchmark: This benchmark has been introduced to show the link between the Capital Financing Requirement and the profile of the borrowing that the council has taken out to finance this requirement, where:

Net Borrowing Requirement – shows the need to borrow after taking account of reserve balances that can be used for internal borrowing

Benchmark Borrowing Requirement – shows the Net Borrowing Requirement plus a margin to ensure there is an adequate balance to manage cashflows effectively



Operational Boundary: This is the limit which external borrowing is not normally expected to exceed and approximates to the CFR for a given year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2021/22 Estimate £ Million	2022/23 Estimate £ Million	2023/24 Estimate £ Million	2024/25 Estimate £ Million
Borrowing	462.000	642.000	746.000	748.000
Other long term liabilities	85.000	87.000	85.000	80.000
Total	547.000	729.000	831.000	828.000

*Values from 2022/23 onwards will be revised to account for calculated liabilities for operating lease liabilities included for first time under IFRS 16 - Leases

Authorised Limit for external borrowing: This represents a control on the maximum level of borrowing and is a statutory limit determined under section 3 (1) of the Local Government Act 2003. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

	2021/22 Estimate £ Million	2022/23 Estimate £ Million	2023/24 Estimate £ Million	2024/25 Estimate £ Million
Borrowing	512.000	692.000	796.000	798.000
Other long term liabilities	90.000	92.000	90.000	84.000
Total	602.000	784.000	886.000	882.000

*Values from 2022/23 onwards will be revised to account for calculated liabilities for operating lease liabilities included for first time under IFRS 16 – Leases

Estimates of the ratio of financing costs to net revenue stream: This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
Ratio of financing costs to net revenue stream	7.4	8.7	10.0	10.1

*Values from 2022/23 onwards will be revised to account for calculated liabilities for operating lease liabilities included for first time under IFRS 16 – Leases

The estimates of financing costs include current commitments and the proposals in this budget report

Estimates of the ratio of investment income to net revenue stream: This indicator identifies the trend in the reliance of the council on income from treasury management and service and commercial investments against the net revenue stream.

	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
Treasury Management Income	0.4	0.3	0.3	0.3
Commercial & Service Income	0.6	0.6	0.6	0.6

*Values from 2022/23 onwards will be revised to account for calculated liabilities for operating lease liabilities included for first time under IFRS 16 – Leases

(g) **MRP Policy Statement**

- 56 The CIPFA Prudential Code for Capital Finance in Local Authorities requires the full Council to agree an annual policy for the Minimum Revenue Provision (MRP).
- 57 The MRP is the amount that is set aside each year to provide for the repayment of debt. The regulations require the authority to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the support provided through the RSG. The guidance provides recommended options for the calculation of a prudent provision, but local authorities have significant discretion in determining the level of MRP which they consider to be prudent.
- 58 The Government updated its Statutory Guidance on MRP on 2 February 2018, with some elements of the guidance taking effect from 1 April 2018.
- 59 The Council's annual MRP policy has been set in line with the following principles:
- (i) In respect of the Council's supported borrowing, MRP will be provided for on a 2.5% straight-line basis, i.e. provision for the full repayment of debt over 40 years;
 - (ii) MRP charges for unsupported borrowing will be applied by using the annuity method;
 - (iii) MRP charges for finance leases (non PFI) will be equal to the principal element of the rental or charge that goes down to write down the balance sheet liability created from such arrangements;
 - (iv) MRP charges for PFI to provide MRP on an annuity basis;
 - (v) The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.
- 60 The regulations allow the Authority to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy would be kept under regular review to ensure that the annual provision is prudent.

(i) Other Matters

Training

- 61 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in

treasury management. This especially applies to members responsible for scrutiny and training will be arranged as required. There is a further requirement that the training needs of treasury management officers are periodically reviewed.

Policy on use of external advisers

- 62 Link Asset Services are the Council's treasury management advisers and whilst they provide professional support to the internal treasury management team, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Council. This service is subject to regular review.
- 63 The range of services provided by the advisers currently includes:
- technical support on treasury matters and capital finance issues;
 - economic and interest rate analysis;
 - debt services which includes advice on the timing of borrowing;
 - debt rescheduling advice surrounding the existing portfolio;
 - generic investment advice on interest rates, timing, and investment instruments;
 - credit ratings/ market information service, comprising the three main credit rating agencies
- 64 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties

Annex 1: Treasury Management Policy Statement and Practices

Treasury Management Policy Statement

The Council defines its treasury management activities as:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Treasury Management Practices

The Council has developed a range of Treasury Management Practices to enable it to implement its Treasury Management Policies.

TMP1 Risk Management

General Statement

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The responsible officer will design, implement, and monitor all arrangements for the identification, management, and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting Requirements and Management Information Arrangements*.

The arrangements for the management of identified risks are detailed overleaf.

Credit and Counterparty Risk Management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its

counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved Instruments, Methods and Techniques*. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

Liquidity Risk Management

The Council organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft, or standby facilities to always enable it to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Interest Rate Risk Management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting Requirements and Management Information Arrangements*.

It will achieve this by the prudent use of its approved instruments, methods, and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. Before taking action any policy or budgetary implications would be considered and approval would be sought if required.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

Exchange Rate Risk Management

It will manage its exposure to fluctuations in exchange rates to minimise any detrimental impact on its budgeted income/expenditure levels.

Inflation Risk Management

The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

Refinancing Risk Management

The Council will ensure that its borrowing, private financing, and partnership arrangements are negotiated, structured, and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Legal and Regulatory Risk Management

The Council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 *Risk Management - Credit and Counterparty Risk Management*, it will ensure that there is evidence of counterparties' powers, authority, and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Fraud, Error and Corruption, and Contingency Management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption, or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Price Risk Management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 Performance Measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

TMP3 Decision Making and Analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

TMP4 Approved Instruments, Methods and Techniques

The Council will undertake its treasury management activities within the limits and parameters defined in TMP1 *Risk Management*.

Where The Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is always a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with *TMP6 Reporting Requirements and Management Information Arrangements*, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the responsible officer in respect of treasury management are set out in the Council's constitution. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

TMP6 Reporting Requirements and Management Information Arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

Full Council) will receive:

- (a) an annual report on the strategy and plan to be pursued in the coming year;
- (b) a mid-year review;
- (c) an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The committee/board/council will receive regular monitoring reports on treasury management activities and risks.

The body responsible for scrutiny, such an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

TMP7 Budgeting, Accounting and Audit Arrangements

The responsible officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk Management*, TMP2 *Performance Measurement*, and TMP4 *Approved Instruments, Methods and Techniques*. The responsible officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 *Reporting Requirements and Management Information Arrangements*.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of The Council will be under the control of the responsible officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *Risk Management - Liquidity Risk Management*.

TMP9 Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained.

TMP10 Training and Qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge, and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 Use of External Service Providers

The Council recognises that responsibility for treasury management decisions always remains with the organisation. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer.

TMP12 Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity, and accountability.

The Council has adopted and has implemented the key principles of the Code. This is considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICES – DETAILED SCHEDULES

The following schedules have been prepared to support the implementation of the TMPs.

TMP1 Risk Management

TMP2 Best Value and Performance Measurement

TMP3 Decision Making and Analysis

TMP4 Approved Instruments, Methods and Techniques

**TMP5 Organisation, Clarity and Segregation of Responsibilities,
and Dealing Arrangements**

**TMP6 Reporting Requirements and Management Information
Arrangements**

TMP7 Budgeting, Accounting and Audit Arrangements

TMP8 Cash and Cash Flow Management

TMP9 Money Laundering

TMP10 Training and Qualifications

TMP11 Use of External Service Providers

TMP12 Corporate Governance

TMP1 Risk Management

1.1 Credit and Counterparty Risk Management

Credit and counterparty risk

The risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project, or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital or current (revenue) resources.

1.1.1 Criteria to be used for creating/managing approved counterparty lists/limits:

- (a) Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be formulated and a lending list comprising time, type, sector, and specific counterparty limits will be constructed. These criteria will follow the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance issued in February 2018 to cover financial years from 1 April 2018.
- (b) The primary criteria used in the selection of counterparties is their credit worthiness. However, the authority will also monitor latest market information and reduce the limits imposed on third parties where appropriate.
- (c) The Authority's Treasury Management Advisors provide a regular update of all the ratings relevant to the authority as well as any changes to the counterparty credit ratings. This information is also available via their website.
- (d) Credit ratings will be used as supplied from one or more of the following credit rating agencies:
 - (i) Fitch Ratings;
 - (ii) Moody's Investors Services;
 - (iii) Standard and Poor's.
- (e) Counterparty limits will be as set within the annual Treasury Management Strategy reported to Council.

1.1.2 Credit ratings for individual counterparties can change at any time. The Corporate Director of Resources is responsible for applying the stated credit rating criteria in 1.1.1 for selecting approved counterparties and will add or

delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g., on mergers or takeovers. This is delegated on a daily basis to the Treasury Management team.

- 1.1.3** When there is a change in the credit ratings of individual counterparties or in banking structures (e.g., on mergers or takeovers in accordance with the criteria in 1.1.1) the Corporate Director of Resources will also adjust lending limits and periods This is delegated on a daily basis to the Treasury Management team

1.2 Liquidity Risk Management

Liquidity Risk

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.

1.2.1 Cash Flow

The treasury management section will maintain, on a daily basis, a cash flow projection showing:

- (a) all known income and expenditure;
- (b) all anticipated income and expenditure.

This record will be maintained for a minimum period of 12 months ahead of current date.

1.2.2 Amounts of approved minimum cash balances and short-term investments

The Treasury Management team shall seek to ensure that the balance held in the Council's main bank accounts at the close of each working day is held at a level in order to maximize the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim.

The target is to achieve a net overall pooled bank balance of nil within the Council's current bank accounts on a daily basis. The performance will be monitored on a daily basis by the Council's Treasury Management team

1.2.3 Short-term borrowing facilities

The Council can access temporary loans through approved brokers on the London money market.

1.2.4 Closure of Council Offices

When the Council offices are closed on a banking day, then provision will be made for expected clearances and receipts. The actual strategy to be adopted will depend on overall liquidity and market conditions at the time and available staff resources. At such times the Treasury Management team undertakes transfers, anticipating cash flow within the Council's accounts.

1.3 Interest Rate Risk Management

Interest rate risk

The risk that fluctuations in the levels of interest rates creates an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

1.3.1 Details of approved interest rate exposure limits

This risk is considered as part of the Treasury Management Strategy Statement approved by Council in February/March each year. The Strategy sets interest rate exposure limits in accordance with the requirements of the CIPFA Prudential Code. A variety of Prudential indicators is required to be approved and monitored by Council. The Council will have regard to potential fluctuations in interest rates when borrowing or lending surplus cash. Advice will be sought from the Council's Treasury Management advisors before any non-routine transaction is made.

1.3.2 Maximum proportion of variable rate debt/interest

The requirement to set out a series of Prudential Indicators includes a requirement to set upper limits for exposure to fixed interest rates and variable interest rates.

1.4 Exchange Rate Risk Management

Exchange rate risk

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

1.4.1 Approved criteria for managing changes in exchange rate levels

Durham County Council rarely deals with foreign currency so an exposure to exchange rate risk will be minimal. However, as a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk

from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Where appropriate the Council will adopt a hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Council will minimize all foreign exchange exposures as soon as they are identified.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency may be held on deposit to meet this expenditure commitment, depending on the expected timing of transactions.

1.5 Inflation Risk Management

Inflation risk

The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

1.5.1 Details of approved inflation exposure limits for cash investments/debt

During the current period of low and stable worldwide inflation there is little requirement for an active consideration of the impact of inflation. The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within TMP 1 *Risk Management*.

1.5.2 Approved criteria for managing changes in inflation levels

Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations.

1.6 Refinancing Risk Management

Refinancing risk

The risk that maturing borrowings, capital, project, or partnership financings cannot be refinanced on terms that reflect the provisions made by the Council for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

1.6.1 Debt/other capital financing maturity profiling, policies, and practices

The maturity profile of debt will be monitored and used to minimize any refinancing risk in consultation with the Council's treasury advisors. Any debt rescheduling is likely to take place when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored. The reasons for any rescheduling to take place will include:

- (a) the generation of cash savings at minimum risk;
- (b) to reduce the average interest rate;
- (c) to enhance the balance of the long term portfolio (amend the maturity profile and /or the balance of volatility)

1.6.2 Projected capital investment requirements

The Council will prepare forecasts of capital investment needs and resources covering at least a three-year period within the Medium Term Financial Plan (MTFP). This will identify capital financing requirements and therefore the need to borrow to finance the capital programme. The MTFP provides details of the Council's financial plans covering a three-period and is updated on an annual basis.

1.6.3 Policy concerning limits on revenue consequences of capital financings

As part of compliance with the CIPFA Prudential Code, the Council will consider the revenue consequences of any capital scheme to ensure it is affordable, prudent, and sustainable.

1.7 Legal and Regulatory Risk Management

Legal and regulatory risk

The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

1.7.1 References to relevant statutes and regulations

The treasury management activities of the Council shall comply with legal statute and the regulations of the Council.

1.7.2 Procedures for evidencing the Council's powers/authorities to counterparties

The Council will prepare, adopt, and maintain, as the cornerstones for effective treasury management:-

- (a) a Treasury Management Policy Statement, stating the overriding principles and objectives of its Treasury Management activities;
- (b) Treasury Management Practices, setting out the manner in which the Council will achieve those principles and objectives, and prescribing how it will manage and control those activities.

1.7.3 Required information from counterparties concerning their powers/authorities

Lending shall only be made to counterparties on the authorised list and borrowings will only be undertaken from recognized and reputable counterparties to comply with TMP 9 *Money Laundering*.

Durham County Council hold letters verifying that the approved brokers are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000.

1.7.4 Statement on the Council's political risks and their management

The Authority recognises that future political, legislative, or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the authority.

1.8 Fraud, Error and Corruption, Business Continuity, and Contingency Management Arrangements

Fraud, error and corruption, business continuity and contingency risk

The risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption, or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures to maintain effective business continuity

and contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

1.8.1 Details of systems and procedures to be followed, including internet services

The Treasury Management function is subject to a regular review by the Council's Internal Audit Service. The systems and procedures followed are described overleaf:

Authority:

- The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by the Corporate Director of Resources or authorized persons.

Occurrence:

- Detailed register of loans and investments is maintained.
- Adequate and effective cash flow forecasting records are maintained to support the decision to lend or borrow.
- Written confirmation is received from the lending or borrowing institution
- All transactions placed through the brokers are confirmed by a broker note, showing details of the loan arranged.

Completeness:

- The loans register is updated to record all lending and borrowing. This includes the date of the transaction and interest rates and covers both Treasury Management loans and others to third parties that are not part of the routine Treasury Management activity.

Measurement:

- The Treasury Management team checks the calculation of repayment of principal and interest notified by the lender or borrower for accuracy.
- The Treasury Management team calculates periodic interest payments of PWLB and other long-term loans. This is used to check the amount paid to these lenders.

Timeliness:

- The Treasury Management team maintains an up to date diary and register that clearly identifies when money borrowed, or lent is due to be repaid.

Regularity:

- Lending is only made to institutions on the Approved List or as specifically approved by Cabinet for loans that are outside the usual Treasury Management activity.

- All loans raised and repayments made go directly to and from the institutions bank account.
- Authorisation limits are set for every institution (see 1.1.1).
- A list of named officials authorised to perform loan transactions is maintained.
- There is adequate Fidelity Guarantee insurance cover for employees involved in loans management and accounting.

1.8.2 Contingency planning and business continuity management arrangements

If the Electronic Banking System fails, there is a contingency arrangement in place with the Bank whereby cash balances can be obtained from Lloyds Bank, and the Council can make CHAP payment instructions (which are normally input directly into the electronic payment system) to Lloyds, via telephone and/or e-mail.

In the event of a business continuity problem, which prevents access to the electronic payment system, the present contingency management arrangements will be invoked.

1.8.3 Insurance cover details

The officers concerned in the treasury management function are covered by appropriate fidelity guarantee insurance.

1.9 Market Risk Management

Market risk

The risk that, through adverse market fluctuations in the value of the principal sums invested, the Council's stated treasury management policies and objectives are compromised, so it has not protected itself adequately against the effects of the fluctuations.

1.9.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs, etc.)

The Council does not normally make investments where the capital value may fluctuate. Investment instruments used by external fund managers are subject to fluctuations in capital and exposure to interest rate risk. The Council does not currently use external fund managers but will keep the situation under review. In order to minimise the risk of fluctuations in capital value of investments, capital preservation is set as the primary objective.

TMP2 Best Value and Performance Measurement

2.1 Methodology To Be Applied For Evaluating The Impact Of Treasury Management Decisions

The Council's Treasury Management consultants are required to carry out a health check of our Treasury Management function.

2.2 Policy Concerning Methods For Testing Best Value In Treasury Management

2.2.1 Frequency and processes for tendering

Tenders are awarded for a minimum of two years, with an option to extend for up to a further two years. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

2.2.2 Banking services

Banking services will be reviewed every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.3 Money-broking services

The Council will use money broking services in order to make deposits or to borrow and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both prices and quality of services. The Corporate Director of Resources may add brokers to the list during the year, providing they meet the council's standards and requirements.

2.2.4 Consultants'/advisers' services

This Council's policy is to separately appoint professional treasury management consultants and leasing advisory consultants.

2.2.5 Policy on External Managers (Other than relating to Superannuation Funds)

The Council's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

2.3 Methods To Be Employed For Measuring The Performance Of The Council's Treasury Management Activities

Performance of the Treasury Management function will be measured against annual Treasury Management Strategy Statement targets and in compliance with the CIPFA Code of Treasury Practice.

Performance will be monitored against approved budgets and internally agreed targets.

TMP3 Decision-Making And Analysis

3.1 Funding, Borrowing, Lending, And New Instruments /Techniques:

3.1.1 Records to be kept

- (a) daily cash projections;
- (b) telephone / e-mail rates;
- (c) dealing ticket for all money market transactions;
- (d) PWLB loan schedules;
- (e) local bond certificates (if used);
- (f) market bond certificates (if used);
- (g) temporary loan receipts (if used);
- (h) brokers confirmations for deposits/investments;
- (i) contract notes received from fund managers (if used);
- (j) fund managers valuation statements (if used);
- (k) Confirmation notes from borrowers.

3.1.2 Processes to be pursued

- (a) Cash flow analysis;
- (b) Maturity analysis;
- (c) Ledger reconciliations;
- (d) review of borrowing requirement;
- (e) monitoring of projected loan charges and interest and expenses costs;
- (f) review of opportunities for debt rescheduling;
- (g) collation of performance information.

3.1.3 Issues to be addressed.

3.1.3.1 In respect of every decision made the Council will:

- (a) above all be clear about the nature and extent of the risks to which the Council may become exposed;
- (b) be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained;
- (c) be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping;
- (d) ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded;
- (e) be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the Council will:

- (a) evaluate the economic and market factors that might influence the manner and timing of any decision to fund;
- (b) consider the merits of alternative forms of funding, including (but not exclusively) funding from revenue, leasing and private partnerships;
- (c) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- (d) consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.

3.1.3.3 In respect of investment decisions, the Council will:

- (a) consider the optimum period, in the light of cash flow availability and prevailing market conditions;
- (b) consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

TMP4 Approved Instruments, Methods And Techniques

4.1 Approved Activities Of The Treasury Management Operation

- (a) borrowing;
- (b) lending;
- (c) debt repayment and rescheduling;
- (d) consideration, approval and use of new financial instruments and treasury management techniques;
- (e) managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- (f) managing cash flow;
- (g) banking activities;
- (h) leasing.

4.2 Approved Instruments For Investments

All investments will comply with the Council's Annual Investment Strategy (which takes into account guidance issued by the Secretary of State concerning Local Authority investments). The instruments used will be:

- (a) term deposits with banks and building societies;
- (b) term deposits with non-rated subsidiaries of an institution meeting the basic credit criteria;
- (c) Debt Management Office;
- (d) Treasury Bills;
- (e) term deposits with other Local Authorities and Parish Councils;
- (f) Money market funds that meet the criteria set in the investment policy;
- (g) Ultra-Short dated Bond Funds;
- (h) Property Funds.

4.3 Approved Methods And Sources Of Raising Capital Finance

Finance will only be raised in accordance with the Local Government and Housing Act 1989, and within this limit the council has a number of approved methods and sources of raising capital finance.

Borrowing will only be undertaken in keeping with the contents of the Prudential Code and within the limits determined through the approved Prudential Indicators and Treasury Management Strategy and, in respect of any long term borrowings, following consultation with the Corporate Director of Resources.

All forms of funding will be considered dependent on the prevailing economic climate, regulations, and local considerations. The Corporate Director of Resources has delegated powers through this policy and the strategy to take the most appropriate form of borrowing from the approved sources.

TMP5 Organisation, Clarity And Segregation Of Responsibilities, and Dealing Arrangements

Index Of Schedules:

- 5.1 Limits to responsibilities/discretion at Council/Director levels**
- 5.2 Principles and practices concerning segregation of duties**
- 5.3 Treasury management organisation chart**
- 5.4 Statement of duties/responsibilities of each Treasury post and other officers involved with Treasury Management**
- 5.5 Absence cover arrangements**
- 5.6 Investment Dealing Limits**
- 5.7 List of approved brokers**
- 5.8 Policy on brokers' services**
- 5.9 Policy on recording of conversations**
- 5.10 Direct dealing practices**
- 5.11 Settlement transmission procedures**
- 5.12 Documentation requirements**
- 5.13 Arrangements concerning the management of third-party funds.**

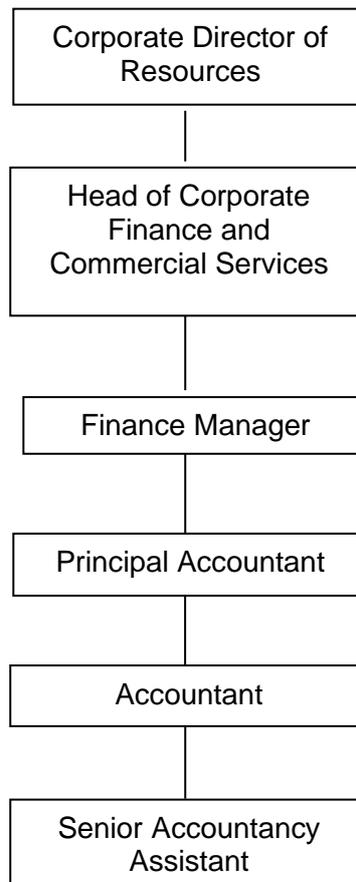
5.1 Limits To Responsibilities/Discretion At Council/Director Levels

- (a) council will receive and review reports on treasury management policies, practices and activities, and the annual treasury management strategy;
- (b) The Corporate Director of Resources will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.

5.2 Principles And Practices Concerning Segregation Of Duties

The Corporate Director of Resources will ensure there is always adequate segregation of duties in all transactions.

5.3 Treasury Management Organisation Chart



5.4 Statement Of Duties/Responsibilities Of Each Treasury Post And Other Officers Involved With Treasury Management

5.4.1 Corporate Director of Resources

- (a) The Corporate Director of Resources will:
- (i) recommend clauses, treasury management policy/practices for approval, reviewing the same regularly and monitor compliance;
 - (ii) submit Treasury Management reports to Council;
 - (iii) authorise and maintain TMPs and Schedules;
 - (iv) set, submit, and monitor budgets;
 - (v) review the performance of the treasury management function;
 - (vi) ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function;

- (vii) ensure the adequacy of internal audit and liaise with external audit;
 - (viii) recommend the appointment of external service providers and brokers where appropriate;
 - (ix) approve and authorise investment deals (within dealing limits – see 5.6).
- (b) The Corporate Director of Resources has delegated powers to take the most appropriate form of borrowing from the approved sources and to take the most appropriate form of investments in approved instruments.
 - (c) Prior to entering into any capital financing, lending, or investment transaction, it is the responsibility of The Corporate Director of Resources to be satisfied, by reference to legal and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation, or the Council's Financial Regulations.
 - (d) The Corporate Director of Resources may delegate power to borrow and invest to members of staff to conduct all dealing transactions. All transactions must be processed by at least two specified named officers. Alternatively, staff can be authorised to act as temporary cover for leave/sickness.

5.4.2 Head of Corporate Finance and Commercial Services

The treasury responsibilities of this post will be to assist the Corporate Director of Resources to:

- (a) formulate the Treasury Management Strategy;
- (b) identify and recommend opportunities for improved practices;
- (c) supervise Treasury Management staff;
- (d) monitor performance;
- (e) review the performance of treasury management functions.

5.4.2 Finance Manager

The treasury responsibilities of this post will be to assist the Corporate Director of Resources and the Head of Corporate Finance and Commercial Services to:

- (a) formulate the Treasury Strategy;
- (b) produce the Treasury Management reports to Council;
- (c) identify and recommend opportunities for improved practices;
- (d) supervise Treasury Management staff;
- (e) monitor performance;
- (f) review the performance of treasury management functions;
- (g) implement Treasury Management Strategy;
- (h) approve and authorise investment deals (within dealing limits – see 5.6);
- (i) approve CHAPS payments/Faster Payments according to the limits in the Table of Payment Approval Responsibilities below;
- (j) arrange rescheduling or premature repayment of existing borrowings.

5.4.4 Principal Accountant

This post responsibilities to assist the Finance Manager – Commercial Capital Treasury to:

- (a) formulate the Treasury Strategy;
- (b) identify and recommend opportunities for improved practices;
- (c) supervise Treasury Management staff;
- (d) monitor performance;
- (e) review the performance of treasury management functions;
- (f) implement Treasury Management Strategy;
- (g) approve and authorise investment deals (within dealing limits – see 5.6);
- (h) approve CHAPS payments/Faster Payments according to the limits in the Table of Payment Approval Responsibilities below.

5.4.5 Accountant

This post has responsibilities to:-

- (a) calculate daily cash balances;
- (b) monitor performance and market conditions on a day to day basis and recommend investments;
- (c) adhere to agreed policies and procedures on a day to day basis;
- (d) enter transmission of monies via Lloyds Banking system;
- (e) approve CHAPS payments/Faster Payments according to the limits in the Table of Payment Approval Responsibilities below;
- (f) select Brokers from approved list;
- (g) adhere to agreed policies and practices on a day to day basis;
- (h) submit management information reports;
- (i) maintain cash flow projections;
- (j) record investment deals and obtain third party loan confirmation;
- (k) identify and maintain relationships with 3rd parties and external partners;
- (l) ensure counter party limits are not exceeded.

5.4.6 Senior Accountancy Assistant/Principal Accountancy Assistant

This post has responsibilities to:-

- (a) calculate daily cash balances;
- (b) enter transmission of monies via Lloyds Banking system;
- (c) select Brokers from approved list;
- (d) adhere to agreed policies and practices on a day to day basis;
- (e) submit management information reports;
- (f) maintain cash flow projections;

- (g) obtain third party loan confirmation;
- (h) ensure counter party limits are not exceeded.

Table of Payment Approval Responsibilities

Monetary Limit per Investment	Number of Approvers	Level of Approver Required
Up to £100,000	1	Any one of Accountant/Principal Accountant/Finance Manager
£100,000 to £20,000,000	2	Any two of Accountant/Principal Accountant/Finance Manager
£20,000,000 to £30,000,000	2	Any two of Principal Accountant/Finance Manager

5.5 Absence Cover Arrangements

The Corporate Director of Resources is responsible for ensuring that adequate arrangements are in place to cover staff absences.

5.6 Investment Dealing Limits

Dealings can be carried out providing that transactions are within limits determined by the council and the Corporate Director of Resources as detailed in the table below:

Officers	Limits
Corporate Director of Resources and Head of Corporate Finance and Commercial Services	As per limits set within the Treasury Management Strategy
Finance Manager & Principal Accountant	As per limits set within the Treasury Management Strategy for dealings of up to 12 months
Accountant	As per limits set within the Treasury Management Strategy for dealings of up to 12 months, in consultation with Finance Manager or Principal Accountant

5.7 List Of Approved Brokers

A list of approved brokers is maintained within the Treasury Management section and a record of all transactions recorded against them.

5.8 Policy On Brokers' Services

It is the council's policy to divide business between brokers.

5.9 Policy On Recording Of Conversations

It is not Council Policy to record broker's conversations

5.10 Direct Dealing Practices

It is an acceptable practice for the council to make direct dealings with suitable counterparties if the use of Brokers does not provide a satisfactory financial arrangement at any time.

5.11 Settlement Transmission Procedures

All payments and repayments resulting from the treasury management function will be made via the authority's bank account using the electronic payment facility (with Lloyds Banking system). Only authorised officers can transmit, approve, or release payments, protected by appropriate passwords and a card operated security arrangements. A manual back up facility, agreed with Lloyds Bank, is in place to cover system failure.

5.12 Documentation Requirements

For each deal undertaken a record should be prepared giving details of amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

5.13 Arrangements Concerning The Management Of Third-Party Funds

The authority manages funds under delegated powers for the Office of the Durham Police, Crime and Victims' Commissioner, the Durham County Council Pension Fund and the North East Combined Authority.

TMP6 Reporting Requirements And Management Information Arrangements

6.1 Annual Treasury Management Strategy

The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial. This strategy will be submitted to Council for approval before the commencement of each financial year.

The formulation of the annual treasury management strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates.

The Treasury management statement is concerned with the following elements:

- (a) Summary Treasury Position;
- (b) Borrowing Strategy;
- (c) Other Debt and Long Term Liability Plans
- (d) Cash Investment Strategy;
- (e) Non-Treasury Investments;
- (f) Treasury Management Indicators;
- (g) Prudential Indicators;
- (h) MRP Policy Statement;
- (i) Other Matters.

6.2 Mid-Year Review Of Annual Treasury Management Activity

A report will be presented to the Council detailing performance for the six months to 30th September against the items reported in the annual strategy. The report will be presented to Council at the earliest practicable meeting after the mid-year point.

6.3 Annual Performance Report

An annual report will be presented to the Council at the earliest practicable meeting after the end of the financial year, but in any case, by the end of September. This report will include the following:

- (a) Summary Treasury Position;
- (b) Borrowing Activity;
- (c) Other Debt and Long Term Liability Activity;
- (d) Investment activity;
- (e) Treasury Management Indicators;
- (f) Prudential Indicators;

TMP7 Budgeting, Accounting And Audit Arrangements

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognized by statute as representing proper accounting practices.

7.2 Accounting Practices And Standards

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Council adopts in full the principles set out in:

- (a) the CIPFA Code of Practice on Treasury Management in the Public Services;
- (b) the CIPFA Prudential Code for Capital Finance in Local Authorities;
- (c) the Code of Practice on Local Authority Accounting in the United Kingdom (Statement of Recommended Practice);
- (d) Statutory Guidance on Local Authority Investments;
- (e) Statutory Guidance on Minimum Revenue Provision; and
- (f) any other mandatory guidance covering this service area.

7.3 Budgeting And Accounting Arrangements

The Finance Manager will prepare an annual budget for treasury management, which will bring together all the expenditure incurred with regard to this activity, as well as the associated income. The Finance Manager will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with section TMP6 *Reporting Requirements and Management Information Arrangements*.

All transactions for loans, repayments and interest paid and received are recorded to general ledger codes reserved for these purposes.

7.4 List Of Information Requirements Of Internal And/Or External Auditors

Durham County Council will ensure that all those charged with regulatory review, including internal and external auditors, have access to all information and papers supporting the activities of the treasury management function.

TMP8 Cash And Cash Flow Management

8.1 Arrangements For Preparing/Submitting Cash Flow Statements

The authority will monitor and complete daily cashflow forecasts for major items of Income and expenditure. The annual and monthly cash flow projections are prepared from the previous year's daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. Additionally, a strategic cashflow forecast will be prepared annually and updated as necessary.

TMP9 Money Laundering

9.1 Procedures For Establishing Identity/Authenticity Of Lenders

The Authority will only accept loans from individuals where the funds are transferred through a United Kingdom domiciled bank account. All other loans are obtained from the PWLB or from authorised institutions under the Financial Services and Markets Act 2000. The Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website at <https://register.fca.org.uk/>

9.2 RECONCILIATION OF DEPOSITS

All deposits are identified and reconciled on a daily basis. The source of each deposit is verified so they can be allocated to the appropriate fund within the main accounting system. Staff will be kept aware of developments in money laundering regulations and will be encouraged to keep abreast of money laundering issues through specific training, publications, and the Internet. The Council's nominated Money Laundering Reporting Officer (MLRO), the Chief Internal Auditor & Corporate Fraud Manager is responsible for reporting on the Council's Anti-Money Laundering Policy. The latest policy was approved by [Audit Committee on 31 July 2018](#).

TMP10 Staff Training and Qualifications

10.1 Details Of Training Arrangements

The Corporate Director of Resources is committed to ensuring that staff engaged in Treasury Management activities are appropriately trained, so they can carry out their duties to the required standards.

Staff employed in the treasury management function will be qualified to the level that is appropriate to their post. All staff will be given appropriate basic training before fulfilling their treasury management duties for the first time and will be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

Training courses run by CIPFA and other training providers such as our Treasury Management advisors will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff as part of their annual appraisal. The authority will take all reasonable steps to ensure that staff are adequately trained.

CIPFA members are required to abide by CIPFA's Ethics Standard on Professional Practice (SOPP).

TMP11 Use of External Service Providers

11.1 Details Of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

11.1.1 Banking services

- (a) name of supplier of service is Lloyds Bank plc. The branch address is:
19 Market Place
Durham
DH1 3NL
- (b) contract commenced 5th January 2015 and runs for a minimum 5 years, subject to one year's notice, such notice to expire after the minimum period;
- (c) Cost of service is variable depending on schedule of tariffs and volumes agreed at the beginning of the contract.

11.1.2 Money-broking services

Name of suppliers of service:

- (a) Martin Brokers (UK) plc;
- (b) Tradition (UK) Ltd;
- (c) King and Shaxson;
- (d) BGC Brokers;
- (e) Tullett Prebon (Europe) Limited.

The Corporate Director of Resources may add brokers to the list during the year, providing they meet the council's standards and requirements.

No commission is paid by the Council to any money broker.

11.1.3 Consultants/advisers services

- (a) Treasury Consultancy Services
Name of supplier of service is Link Asset Services Their address is:
65 Gresham Street
London
EC2V 7NQ

(b) Leasing Consultancy Services.

Name of the supplier of the service is Link Asset Services. Their address is:

65 Gresham Street

London

EC2V 7NQ

The cost of the service is dependent upon the value of leasing drawdowns which take place throughout the year.

(c) External Fund Managers

There are none at present.

External Fund Managers and other consultancy services may be employed on short term contracts as and when required.

TMP 12 CORPORATE GOVERNANCE

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

To support the implementation of a robust corporate governance policy, the following documents are available for public inspection:

- (a) Treasury Management Practices;
- (b) Treasury Management Strategy;
- (c) Mid-year Treasury Management Review;
- (d) Annual Treasury Management Report;
- (e) Annual Statement of Accounts, and
- (f) Annual Budget

Appendix 13: Property Investment Strategy

Purpose

- 1 The purpose of the Property Investment Strategy is to set out the council's objectives relating to investing in property. It identifies the benefits, risks, and approach to acquiring property in order to support the council's priorities.

Definition of an Investment Property

- 2 This strategy defines an investment property as "an asset acquired by the council for the purposes of income generation and profit creation", in line with the definition in the Statutory Guidance issued under Section 15(1)(a) of the Local Government Act 2003. Through the acquisition there may be secondary benefits achieved, such as new jobs created, or existing jobs safeguarded. However, the primary purpose of the acquisition as an investment will be to provide a source of income to the council.

Introduction

- 3 Over the past five years local authority investment within the commercial property market has grown, due to the return on investment opportunities presented by this market segment. As a result of the changing nature of budgets in local government, the council is looking towards this market to support its overall priorities.
- 4 To ensure that investment decisions fit with the council's requirements, this strategy has been prepared to set out the investment framework and policy to apply to the acquisition of commercial property investments. This will ensure that any opportunities considered are evaluated against agreed criteria and the risks and returns associated with these investments are fully appraised.
- 5 The overall aim of the strategy is to create a framework that ensures that all relevant issues are considered when the council analyses a property investment opportunity. The council will need to balance commercial risks against the opportunity to delivering term, sustainable revenue streams for the council, together with potential for capital growth from investments. Investments could also help to generate economic growth and secure or protect jobs. The objectives of this strategy will ensure acquisition, management and returns relating to investments made continue to deliver against the council's priorities throughout their lifespan.

- 6 Set against key objectives the strategy will not only cover the income opportunities for the council, but also the wider regeneration benefits that will be delivered, particularly in relation to acquisitions within the county boundary.

Objectives

- 7 The key objectives of the Property Investment Strategy are consider investment opportunities which achieve the following:
 - (a) delivers a sustainable revenue stream;
 - (b) contributes towards a balanced investment portfolio;
 - (c) protects existing capital value or delivers capital growth opportunities, as the market dictates;
 - (d) maximises income within the agreed acceptable risk levels;

Investment Proposal

- 8 The council has already taken opportunities to invest in property located within the county, where this decision has met the wider council objectives. This consists of surplus freehold council properties, that have been converted to successful commercial lets and leasehold properties sublet for income generation and to support regeneration.
- 9 Examples include the surplus Priory House now leased to Northumbria Water and the council taking the head lease at Freemans Reach to support the retention of civil service jobs in Durham. Investment properties are defined separately for accounting purposes and will be identified as such within the asset register. Annex 1 provides a list of current properties held by the council for investment purposes, which provide a rental income of approximately £540,000 per annum. This level of income is comparably small when compared with council gross expenditure of almost £1.1 billion.
- 10 This strategy forms the basis for the council investing in property on a balanced and risk assessed basis. The council will consider acquiring investment interests in property, including the acquisition of head leases benefitting from the security of tenure the council covenant can provide to investment institutions and developers. In addition, freehold opportunities are not to be discounted, to provide the council with flexibility should appropriate opportunities arise.

Investment Criteria

- 11 In order to assess whether an investment meets the objectives set out in the strategy, clear criteria have been established that forms the basis of an initial appraisal. These are set out in Table 1 below:

Table 1 - Investment Criteria

A. Location	The priority of the strategy is to invest in the geographical and administrative boundary of County Durham as this meets the key objectives and minimises risk to the council, in addition to providing wider benefits to the county's economy. This could also include investment opportunities that sit on the periphery of the county boundary, where it is proven that they meet the key objectives.
B. Economic Development	Opportunities in relation to economic development require consideration for any investment, in order to understand the wider benefits to the county. This should take into account relevant factors, including but not limited to inward investment potential, job creation and the quality of jobs created.
C. Sector	<p>The consideration of sectors will be specific to each investment opportunity and will need to be appraised as such. Market performance, growth, alignment with key partners and supply and demand within sectors will need to be considered in terms of location within County Durham.</p> <p>To ensure an appropriate risk profile is achieved investments should be cross sector to enable diversification of risk and a spread across sectors. This will prevent over exposure in specific sectors.</p>
D. Tenure	The acquisition of head leases will be considered and fully appraised, although freehold opportunities will also be considered, should appropriate opportunities arise. The strategy will prioritise the opportunities for return on investment balancing commercial risk and regeneration benefits against commercial risk.
E. Tenant Performance	Head lease and freehold options would result in the Council subletting in order to raise income. The initial appraisal will need to review the quality of

	<p>tenants and the ability to observe rental commitments. This tenant risk profiling exercise is essential as it directly affects the risk profile of the investment.</p> <p>Full legal and financial due diligence will be required as part of the appraisal process. In addition, the activities undertaken by the tenant will need to be reviewed by the council to ensure they are considered appropriate for public investment.</p>
F. Occupier's Lease Length	<p>The length of lease agreements is a key consideration for any investment decision and the council will need to consider the risks associated with potential void levels and the ability to attract good quality tenants at appropriate rental levels. Shorter lease lengths and break clauses further compound this, although this should be reflected in the rental level received.</p> <p>In terms of risk profile, the principle of the longer the lease the more secure the investment applies. However, this should consider break options that may exist in the agreement, alongside the financial status of the tenant.</p>
G. Rental Income	<p>Rental income will be considered alongside lease length and covenant strength as part of the appraisal. This will need to take into account cost of voids, rental levels, rent reviews and break clauses.</p>
H. Building Quality	<p>Consideration of the building age and specification is a deciding factor in any investment as it can determine the lifespan, condition and capital expenditure levels required to ensure it remains available for let. An initial appraisal of this will be completed to consider the quality of the building against the proposed length of the council's tenure.</p> <p>In addition, any acquisition of new build will need to consider the track record of the developer and main contractor, together with the security of warranties and contractual arrangements.</p>
I. Repairing Obligations	<p>Leases in the market can vary in terms of the repairing responsibilities that the landlord retains. In terms of initial appraisal, lease terms that transfer the repairing obligation to the tenant are more</p>

	favourable, than those that require the landlord take more responsibility.
J. Yield / Return	Yield will be considered as part of the initial appraisal and will be directly impacted by a number of the other appraisal criteria. This will inform the return anticipated on the investment, which would need to be considered acceptable in order to progress further.

Governance Arrangements

- 12 All investment opportunities will need to be subject to an initial appraisal. The initial appraisal will be carried out at officer level and if considered appropriate will be then progress to a full business case. The business case will set out the detailed due diligence work, risk assessment and confirm that the investment meets the key objectives in order to establish the suitability of the investment. In some cases, the appointment of an external investment advisers may be required, where additional advice is necessary.
- 13 The completed full business case will need to be submitted to the Head of Corporate Finance and Commercial Services who will be required to work with service, property, legal and technical experts to assess the opportunity. The current constitution requires that any decision on investment will then need to go to Cabinet for approval. However due to the fast paced nature of the investment process delegated powers may need to be utilised on occasion with full consultation with Portfolio Holders. All acquisitions will be subject to a building survey, valuation and completed business case.

Management Arrangements

- 14 All investment properties held by the council will be subject to appropriate management, monitoring and review throughout the financial year. Any variation from budgeted performance will be reported as part of the quarterly forecast of outturn reports to Cabinet and Scrutiny. If performance is lower than originally forecast considerations will be given to opportunities to improve performance. Active management of the portfolio on a day to day basis will be undertaken by the council's Corporate Property and Land and Finance Teams, in line with the proposed Corporate Landlord model.
- 15 If an investment is considered to be underperforming, or no longer meets the key objectives then an exit strategy will be prepared.

Annex1 – Existing Investment Properties

UPRN	Asset Name	Acquired by DCC	DCC Tenure
50621S01	Durham Wearside House (National Savings)	28/01/15	Leasehold
50658S01	Durham Freemans Reach (Passport Office)	18/03/16	Leasehold
50659S01	Durham Freemans Reach Kiosk	18/03/16	Leasehold
50660S01	Durham Freemans Reach Hydro-Turbine	28/01/15	Leasehold
3372S01	Northumbria House, Aykley Heads, Durham	Transferred to investment 01/11/14	Freehold
3230S01	Priory House, Pity Me, Durham	Transferred to investment 04/07/16	Freehold