Cabinet

12 October 2022

Medium Term Financial Plan(13) 2023/24 – 2026/27

CORP/R/22/01

Report of Corporate Management Team

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Purpose of the Report

1 To provide an update on the development of the 2023/24 budget and the Medium Term Financial Plan (MTFP(13)) covering the period 2023/24 to 2026/27.

Executive Summary

2 The council is continuing to operate in a period of significant financial uncertainty. When the 2022/23 budget was approved on 23 February 2022, the council was concerned about the ongoing and consequential impact of the pandemic and the uncertainty of future local government finance settlements.

3 Whilst these concerns remain, they are now overshadowed by the forecast impact of high inflation, especially in relation to fuel and energy prices. The impact of inflation is being experienced across all council services with no part of the council's budget unaffected. Energy costs are significantly above original budget forecasts, despite a 40% increase being built into the base energy budgets this year, along with the majority of other major spend areas such as waste and transport.

4 On 8 September, 2022 the Government announced a package of measures to cap energy costs for households and businesses, with further detail published on 22 September, 2022. At the time of preparing this report more detail on how the support to businesses will work in practice was awaited. The support to business is only for six months and therefore will only help alleviate some of the pressure being experienced in 2022/23

and therefore is not expected to help offset the £9 million of budget growth that is required in 2023/24. The MTFP forecasts assumes that prices for gas and electricity return to 2022/23 budgeted levels over the following two years.

5 Inflation is also impacting upon bank base rates and expected pay settlements for our employees with future National Living Wage increases expected to exceed previous expectations, which will impact upon the cost of adult social care in particular.

6 In addition to the increase in costs highlighted above, there is concern that the outcome from the Fair Cost of Care exercise, being carried out in Adult and Health Services, could result in cost pressures that are significantly higher than the funding government has provided to cover the costs of implementation. It is not clear at this time if government will provide the additional funding required to close any shortfall in this regard.

7 Once again, the Looked After Children’s budget is under pressure due to increased demand and, significantly, increased complexity of need as we emerge from the pandemic driving forecast overspends in the current year that are forecast to continue into next year which must be accommodated.

8 All these issues are making financial planning difficult and are resulting in a adjustments to the relation to the forecast MTFP(13) financial position as compared to that reported to Cabinet on 13 July 2022, with significant additional pressure falling into 2023/24.

9 On 23 September, 2022 it was announced that the 1.25% increase in National Insurance & the Health and Social Care Levy, was being withdrawn from November 2022. This will produce both an in-year saving in 2022/23 (of circa £0.7 million) and a base budget reduction from 2023/24 of circa £1.5 million. It is unclear at this stage what, if any impact, the unwinding of this will have on funding for social care going forwards.

10 There still continues to be significant uncertainty in terms of future financial settlements for local government and how available funding will be shared between local authorities. Local authorities continue to be provided with one year financial settlements, which provide little financial certainty and security and given the timing of these announcements in late December, provides little time to react for local authorities.

11 Local authorities desperately need early notification of how much, if any, additional government support will be provided in 2023/24 to offset the significant financial pressures faced by the sector due to the present high levels of inflation. It appears at this stage however that there will not be early notification of funding levels for 2023/24, leaving local authorities to continue to plan for the worst i.e., no further funding being made available. Representations have been made to Government in this regard.

12 Although it was anticipated that in the 2022/23 local government finance settlement that the Fair Funding Review (FFR) would be implemented, it is now expected that the implementation of the findings from the FFR, may now be delayed until at least 2024/25 but more likely to be 2025/26.

13 The lack of clarity in relation to the quantum of future financial settlements and the FFR is exacerbated by uncertainties in relation to future council tax referendum levels, the distribution of the Improved Better Care Fund, the impact of the cost cap and fair cost of care requirements in adult social care, the future of short term funding provided to local authorities for adult and children social care pressures and the ongoing impact of the pandemic upon council services and especially council income.

14 This level of uncertainty is making financial planning extremely challenging and requires the council to be flexible and adaptable. In this regard the strong financial position of the council will ensure that the council is well placed to react effectively to any outcome. That said, without significant additional government funding the council will be placed in a challenging situation and will be required to make very difficult decisions to address these pressures in setting balanced budgets in 2023/24 and in future years.

15 Previously the council was prudently planning on the basis that the council would only receive additional core funding uplifts of £0.9 million in 2023/24 and that from 2024/25 the council will lose £8.8 million of funding due to the combined impact of the outcome of the FFR but also from the forecast impact of further government funding reductions for local government to contribute to the recovery required to the national finances.

16 With the unlikelihood of the FFR not now being implemented until 2025/26 and the expectation that in the current financial climate government will find it very difficult to reduce the funding of local government, it is assumed that there will be small inflation uplifts in the Revenue Support Grant over the next four years but no reduction in funding from government relating to the FFR outcomes. This position will be closely monitored in the coming months especially once the next local government finance settlement is received in the autumn.

17 As we continue budget planning for 2023/24, in line with previous practice, the MTFP Model has been reviewed and the financial forecasts for the next four years updated. Financial plans have been updated to consider the impact of inflation upon council costs with the consumer price index forecast to peak at 10% by the end of 2022, the forward forecasts of energy costs and the Low Pay Commission’s latest forecast for the 2023/24 increase in the National Living Wage of 8.6%.

18 The latest forecasts indicate a funding gap / savings requirement of £52.569 million will be required to balance the budget over the 2023/24 to

2026/27 period. This assumes that the Fair Cost of Care outcomes can be accommodated from the grant funding provided.

19 Savings are forecast to be required in all years of MTFP(13) as budget pressures and the impact of funding reductions outstrip the council's ability to generate additional income from business rates and council tax. The forecasts assume the council will apply the maximum increases in its Council Tax it is allowed to across each of the next four years, in line with government guidance.

20 The achievement of an additional £52.569 million of savings over the next four years would be extremely challenging and should not be under-estimated – more so given the savings that the council has been required to achieve in the last ten years. The emphasis since 2011/12 has been to minimise savings from front line services by protecting them wherever possible whilst maximising savings in management and support functions and by targeting increased income from charging. This is becoming much more difficult however, as the scope for further savings in managerial and back office efficiencies is becoming exhausted following the delivery of £250 million of savings up to 31 March 2023.

21 The total savings required at this stage for 2023/24 to balance the budget amount to £37.389 million, although it must be recognised that this figure could change significantly depending on whether the government provide much needed additional resources to the sector in 2023/24 and whether the council experiences further additional financial pressures due to demand, loss of income or due to the impact of inflation especially in relation to energy.

22 The previous forecasts, presented to Cabinet on 13 July 2022, identified a forecast funding shortfall of £21.9 million for 2023/24 and an overall funding gap of £54.845 million across the period 2023/24 to 2026/27. The updated forecasts show that overall savings requirements across the next four years are not too dissimilar, but the challenge in setting a balanced budget next year is significantly more difficult.

23 Based on the previous forecasts service groupings have been working on saving plans to help close this funding shortfall. This report provides details of savings plans amounting to £17.731 million over the next four years, with £11.853 million of these savings in 2023/24 which, if approved, will assist in reducing the forecast £37.389 million shortfall in that year to £25.536 million. The savings plans have been assured in terms of delivery with every attempt made to seek to protect front line services.

24 Work will continue over the coming months to identify additional savings options to help to balance next years and future years budgets. In this regard however local government requires confirmation of funding settlements for the future to ensure there is a clear understanding of the financial challenges faced.

25 To ensure budgets can be balanced whilst clarity is provided and to provide time to work up proposals to reduce expenditure to address the underlying budget position, a thorough review of all earmarked reserves is being undertaken to ensure that corporate reserves are in place to ensure the council can set balanced budgets. This review will result in options to re-prioritise earmarked reserves and transfer funding to the ER/VR reserve and increase the MTFP Support Reserve, which is currently £15.2 million and would be insufficient to balance the budget next year based upon latest forecasts highlighting a £25.536 million funding shortfall. The application of reserves in this way is not a sustainable solution to the financial challenges we face. Until there is greater clarity, the programmes and projects funded from earmarked reserves are being paused at this time.

26 The MTFP(13) forecasts continue to assume that there will be a 2.99% council tax increase in 2023/24 and 2024/25, in line with MTFP(12) planning assumptions, and 1.99% increases per annum thereafter. The 2.99% increases for the next two years include an assumed 1.99% council tax referendum limit core increase and 1% for the adult social care precept. It may well be that Government provide additional flexibility in terms of council tax going forward, though there is no indication on whether this will be the case at this stage.

27 The MTFP(13) forecasts include provision for £3 million of prudential borrowing in 2025/26 to fund new capital expenditure in MTFP(13). Given the increase in base rates in recent months and forward forecasts for the cost of borrowing, the £3 million budget will only fund circa £60 million of new capital expenditure. This position may need to be reviewed in line with increases in base rates in recent months and potential for further increases, which could reduce the scope of new capital expenditure that could be funded from the prudential borrowing provision factored into the plans at present. In previous MTFP planning, when interest rates were lower and much more stable, £3 million of prudential borrowing provision would have serviced circa £75 million of new capital expenditure.

28 Pre-commitments to existing programmes and business as usual requests are expected to well exceed capital resource availability in MTFP(13), which together with the impact of construction price inflation, will lead to some difficult choices to be made around re-prioritsing existing commitments and scaling back or increasing the pressure on the MTFP by requiring greater provision for prudential borrowing, which would increase the savings targets in MTFP(13).

29 Although the position beyond 2023/24 appears to be not as challenging as in 2023/24, this is mainly due to revised assumptions in terms of the outcome of the Fair Funding Review and an assumption that energy prices fall back to 2022/23 budget assumptions across 2024/25 and 2025/26, plus an assumption that provision for new prudential borrowing remains

unaltered once the capital bids are assessed. This position will need to be closely monitored to ensure plans are in place for any eventuality.

Recommendations

30 Cabinet is asked to:

(a) note the updated MTFP forecasts and the requirement to identify additional savings of £52.569 million for the period 2023/24 to 2026/27, but also note that this forecast could change significantly based upon outcome of future government funding settlements, the ongoing impact of the pandemic, demand for services and inflationary pressures upon the council;

(b) note that at this stage a forecast £37.389 million of savings are required to balance the 2023/24 budget;

(c) note the expected challenges in balancing the capital programme in light of increased cost of borrowing and construction price inflation;

(d) agree the savings included at Appendix 3 to support MTFP(13) are consulted on;

(e) note the planned review of earmarked reserves and the need to replenish corporate reserves should these forecasts prevail; and

(f) agree the MTFP(13) consultation process as outlined in the report.

Background

31 To ensure the 2023/24 budget and MTFP(13) can be developed effectively and savings targets delivered in time to produce a balanced budget, it is important that a robust plan and timetable is agreed and followed.

32 The council is committed to strong financial governance and getting value for money whilst ensuring that any council tax increases are justified and affordable.

33 It is prudent that the council continues to plan across a four year timeframe. During this period the council will continue to face significant and unavoidable budget pressures, especially relating to the inflationary impacts on energy and fuel costs, future pay awards to council employees, the National Living Wage uplifts, Children's Social Care and Waste pressures whilst facing the uncertainty over the impact of the Fair Funding Review (FFR) and implementation of the Fair Cost of Care.

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

35 Savings plans have been developed for consideration for 2023/24 and in future years. These plans were developed in the context of the initial MTFP(13) forecasts presented to Cabinet in July. Unless there is a significant uplift in the level of local government financial settlements, additional savings are inevitable.

36 The council will be able to utilise the MTFP Reserve to help balance the budgets in the short-term whilst savings proposals are developed and or implemented. The MTFP Reserve balance is currently £15.2 million and will be insufficient to balance the budget next year based on the updated estimates and the savings proposals that have been developed to date.

37 A review of all earmarked reserves is necessary, and a strategy may need to be implemented whereby funding set aside for specific projects and programmes is reprioritised and redirected to replenish the MTFP Reserve. While this review is completed and in advance of the financial settlement in December when the position will be clarified, a range of programmes and initiatives that are funded by these reserves have been paused.

38 The use of reserves to balance the budget is not a sustainable position and is only recommended where there is a need to smooth in more sustainable budget solutions.

39 At this stage of the planning cycle for MTFP(13) the following areas are presented for consideration by Cabinet:

(a) an update on the development of the 2023/24 budget since the 13 July 2022 MTFP(13) report to Cabinet;

(b) an update on the MTFP(13) savings forecast for the period 2023/24 to 2026/27;

(c) detail on a range of savings plans recommended for inclusion in MTFP(13) plans to assist in balancing budgets

(d) an overview of a review of reserves that has been initiated to replenish corporate reserves should the need arise and the implications arising from this; and

(e) the proposed approach for consultation on the 2023/24 budget proposals and on MTFP(13);

Review of MTFP Model

40 The financial outlook for the council continues to be extremely challenging. Prior to the pandemic the national finances were in a reasonably healthy state for the first time in ten years. The impact of the pandemic upon the national finances however alongside the impact of the Governments response to the cost of living crisis is forecast to have long term impacts on the flexibility for increases in expenditure across the public sector.

41 Local authorities continue to lobby strongly for a long term sustainable financial settlement, but it is becoming less likely that this will occur in the short term due to ongoing uncertainty in the national finances linked to the ongoing impacts of the pandemic, Brexit, and the inflationary impact of the crisis in Ukraine.

42 The council will need to continually review its MTFP(13) projections and savings requirements over the coming months in light of future announcements and as more information becomes available on the longer term impacts of the pandemic and inflation upon the council’s budgets going forward.

43 The assumptions underpinning the development of MTFP(13) continue to be reviewed. This has resulted in a number of significant changes to the core assumptions for 2023/24 and in future years as well as consideration of increased costs and demand increases specifically linked to the impact of high levels of inflation. The key adjustments and major areas for consideration are detailed below:

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

The 13 July 2022 MTFP(13) report to Cabinet included the assumption that the council would receive revenue support grant increases over the next four years of between 1.5% and 3%. This assumption remains unchanged at this time but does represent a risk in terms of this being actioned.

It was also assumed however that the council would lose £8.8 million of funding due to the FFR, which at that time was forecast to be implemented from 2024/25. The planning assumption being that a combination of formula changes and reductions in funding to local government would be implemented as part of a strategy to bring the national finances back into balance which would adversely impact our funding levels.

It now appears more likely that the FFR will not be implemented until at least April 2025 and that local government will not face funding reductions, mainly due to the significant inflationary budget pressures now faced. On that basis it has been assumed that the settlement the council received in 2022/23 will be ‘rolled over’ into 2023/24 and that no funding reduction will be encountered in 2024/25.

All of these financial planning assumptions could change in the coming months as a result of government announcements.

(b) **Business Rates, Section 31 Grant and Top Up Grant inflation uplift**

It was previously forecast that these sums would be uplifted by a CPI rate of 3% in 2024/25. In line with current CPI forecasts this assumption has been increased to 9%, which has increased the estimated additional resources by £8.9 million compared to the previous forecast. There is a risk that the government seeks to cap this support and not provide funding at that level, but that would require a change in legislation.

(c) **Pay Inflation**

The 2022/23 budget includes 3.25% in the base for pay inflation. In July the Local Government Employers made an offer of a £1,925 flat increase pay offer to ‘green book’ employees, which represents the majority of employees in the council, is presently being considered by trade unions through a consultative ballot .

If this offer is ultimately accepted and a similar pay award is agreed with non ‘green book’ employees also, it will cost a forecast £7 million more than the 3.25% budget provision in the base.

The content of the current pay offer and the likelihood of ongoing higher rates of inflation have also resulted in revised assumptions in terms of pay awards in future years. The updated forecasts for the cost of future pay rises in 2023/24 and 2024/25 have been increased from 2.5% and 2% to 4% and 3% respectively. In total, accommodating the budget shortfall from 2022/23 and the revised assumptions in terms of pay awards over the next two years has added circca £13.2 million of additional budget pressures into the MTFP(13) projections, of which £10.6 million falls into next year.

(d) **National Insurance**

A 1.25% increase in employers national insurance contributions was introduced in April 2022. On 23 September, 2022 it was announced that this was being withdrawn from November 2022. This will produce both an in-year saving in 2022/23 (of circa £0.5 million) and a base budget reduction from 2023/24 of circa £1.5 million. It is unclear at this stage what, if any, impact the unwinding of this will have on funding for social care going forwards.

(e) **Price Inflation**

Forecasts of price inflation in 2023/24 have been increased from 3% to 4% based upon forecast levels of price inflation next year – which has added an additional £1.1 million of budget pressure into the MTFP in 2023/24. At 4%, price inflation below forecast RPI / CPI levels and will require services to absorb an element of the inflation pressures they will face in terms of supplies and services and agency and contracted services.

(f) **CPI Uplift impact upon adult care fees**

The council uplifts care fees each year based upon a combination of increases in the National Living Wage and CPI. National Living Wage increases are in line with the figures factored into the MTFP forecasts in July (an 8.6% increase from April 2023, consistent with the Low Pay Commissions published estimates) but CPI related elements have been updated.

The CPI uplift for non-labour costs in 2023/24 has been uplifted to 9%. The 2023/24 impacts are offset slightly by savings in the commissioning budgets with the net increase required estimated at £13.6 million.

CPI is still forecast to be high when the 2024/25 budgets are set so along with estimates published by the Low Pay Commission, care fee uplifts in 2024/45 have been increased from the previously forecast budget pressure of £10.4 million to £14.9 million.

(g) **Energy Price Increases**

The 2022/23 base budget included a £3.1 million uplift in energy costs based upon forecasted increases in gas and electricity prices.

Over the last six months however, mainly because of the conflict in Ukraine, prices have been extremely volatile and have increased significantly. In July, an additional £4.3 million increase in the 2023/24 budget was estimated to be required.

More recently, energy prices have continued to increase significantly, mainly because of the closure of the Nord Stream gas pipeline between Russia and Europe.

Gas and electricity commodity prices are presently trading at rates ten times higher than they were eighteen months ago.

The council via the North East Purchasing Organisation (NEPO) has forward purchased a large proportion of this years' energy and a smaller proportion of next years' energy, providing some protection against the current volatility.

On 8 September 2022 the Government announced a package of measures to cap energy costs for households and businesses, with further detail published on 22 September, 2022. At the time of preparing this report more detail on how the support to businesses will work in practice was awaited. The support to business is only for an initial six months and therefore will only help alleviate some of the pressure being experienced in 2022/23 and therefore is not expected to help offset the £9 million of budget growth that is required in 2023/24. This position will be kept under review and forecasts amended if necessary as more information emerges.

The MTFP forecasts assumes that prices for gas and electricity return to 2022/23 budgeted levels over the following three years. There are differing views on this within the sector and within the markets and there is a risk that prices rates do not return to 2022/23 budgeted levels in future.

Energy prices continue to be volatile, and this budget will continue to be closely monitored.

(h) **Cost of the Implementation of Adult Social Care Reform**

Local authorities are set to receive £600 million of funding from the Market Sustainability and Fair Cost grant to 'finance' the fair cost of care exercise being carried out in 2022 and £1.4 billion to finance the impact of the introduction of the cost cap and means test changes in relation to charging assessment for adult social care. This includes provision for additional social care and financial assessment staffing to undertake the additional assessments that will be required under the new regime.

The council received the first tranche of funding from the fair cost of care element in 2022/23 (£1.9 million), which the council has utilised to part fund the increase in adult care fees of 7% in 2022/23.

Based upon the proportion of funding received from the national total, it is forecast that the council will receive an additional £5.2 million in 2023/24. This has not been confirmed by government at this stage and it is likely the government may utilise an alternate apportionment methodology.

In relation to the £1.4 billion, a sum of £800 million will be provided in 2023/24 and an additional £600 million in 2024/25. The government have published a consultation on three variant methodologies for apportionment of this element of the funding.

Based upon the three variants the council would receive between £6.7 million and £8.3 million in 2023/24 with between £5 million and £6.2 million in 2024/25. For modelling purposes the council is forecasting the receipt of £11.7 million in total.

The council is assuming therefore that an additional £16.9 million will be received in total and that this sum will be utilised to finance the outcome of the fair cost of care and the changes to the cost cap and the means test. There is a risk that the costs of implementing these changes exceeds the grant funding being provided, though the council will need to argue strongly that if it does it would constitute a new burden that needed to be fully funded by government.

(i) **Children's Social Care Demographic Pressures**

In recent years the council has had to increase the base budget for children's social care significantly.

The pressure on the budget in children's social care has been evident for a number of years, as the number of children in the care system has increased and their needs have continued to become more complex and more costly to accommodate.

This budget was increased by £5.5 million in 2018/19 and by a further £6.5 million in 2019/20 to cover the escalating care costs, as well as additional costs for staffing in order to meet the expected challenges and pressures identified in 2019/20. The 2020/21 budget included an additional increase for placement costs of £3.417 million

The 2022/23 base budget was increased by £8.9 million through a combination of a 2021/22 in year budget transfer of £4.5 million from

Adult and Health Services and by a £4.4 million base budget uplift approved by Council on 23 February 2022.

Despite this, the Children's Services (Children's Social Care and Early Help & Intervention) 2021/22 outturn showed a net £2.232 million overspend for the year, including an overspend of £4.263 million in relation to looked after children's placements.

The MTFP(12) planning assumption was that there would be a need for a further £2 million uplift in the 2023/24 base budget. However, in light of the 2021/22 outturn, the 2023/24 forecast base budget uplift forecast was increased from £2 million to £3 million in the 13 July 2022 Cabinet report.

This forecast has been reviewed based upon current costs of delivery with the number of children in the care system in the county presently exceeding 1,000 for the first time, which is driving a forecast c£5 million overspend in the current year. On that basis the previous forecasts over the next three years for costs of £3 million, £2 million, and £2 million respectively have been increased to £7.5 million, £4 million, and £3 million in financial years 2023/24, 2024/25 and 2025/26 – increasing the MTFP growth by £7.5 million across the next four years.

(j) **Forecast increase in major contracts resulting from high levels of inflation**

A number of the councils major contracts have annual inflationary uplift calculations built into them linked to CPI or RPI uplifts and sometimes linked to key materials inflation e.g. diesel prices.

The council faces significant unavoidable contract price uplifts in a number of major contracts in 2022/23 which will produce an overspend in the current year and which, together with higher than previously anticipated increases in 2023/24 contracts, will require base budget increases in 2023/24 to accommodate these pressures and ensure a balanced budget is set next year.

The main contracts affected relate to waste and refuse collection where a £2.6 million unavoidable increase is required, home to school transport and local bus subsidy contracts where a £3.9 million unavoidable increase is required and in some of the ICT contracts where a £0.193 million unavoidable increase is required.

(k) **Prudential Borrowing**

The MTFP(13) forecasts include provision for £3 million of prudential borrowing in 2025/26 to fund new capital expenditure in MTFP(13).

Based on current interest rates and forward forecasts for the cost of borrowing, the £3 million budget will fund circa £60 million of new capital expenditure. In previous MTFP planning rounds, when interest rates were lower and much more stable, £3 million of prudential borrowing provision would have serviced circa £75 million of new capital expenditure.

This position may need to be reviewed in line with increases in base rates in recent months and potential for further increases, which could reduce the scope of new capital expenditure that could be funded from the prudential borrowing provision factored into the plans at present.

Pre-commitments to existing programmes and business as usual requests, together with the impact of construction price inflation are expected to result in requests for new capital expenditure well exceeding capital resource availability.

Capital bids are currently being finalised and careful consideration will be given to these and all other existing capital programme commitments considering the financial position the council is facing.

There will undoubtedly need to be some difficult choices to be made around re-prioritsing existing commitments and scaling back or increasing the pressure on the MTFP by increasing the provision for prudential borrowing, which would increase the savings targets in MTFP(13).

2023/24 Savings Forecast

44 Based upon the revised assumptions detailed in this report, the savings requirement for 2023/24 is forecast to be £37.389 million, £15.408 million higher than the position previously reported. At this point our forecasts assumes no further government support beyond the inflationary uplifts on RSG and upon business rate retention sums. The forecast also assumes energy prices are contained within the updated forecasts, with no additional government support. The forecasts also assume that the fair cost of care impacts can be contained within the government funding provided.

45 Although the budget deficit of £37.389 million in 2023/24 is the latest forecast, it should be recognised that this figure could and will likely change before Council ultimately sets the budget on 22 February 2023.

46 The MTFP(13) forecasts continue to be predicated on a 2.99% council tax increase being applied in 2023/24 and again 2024/25, with 1.99% increases per annum across the remainder of the MTFP(13) planning period. The forecast 2.99% increase in 2023/24 and 2024/25 includes the

1% adult social care precept flexibility announced in the 2022/23 local government finance settlement.

47 The July 2022 MTFP(13) report identified a forecast funding shortfall of £21.9 million for 2023/24. With this in mind service groupings have been working on saving plans to help close this forecast funding shortfall. This report provides details of savings plans amounting to £17.731 million over the next four year with £11.853 million of these savings in 2023/24, which will assist in closing the forecast £37.389 million shortfall next year. These savings plans have been fully assured in terms of delivery with every attempt made to seek to protect front line services as far as possible. The proposed savings plans for next year, with indicative plans for 2024/25 to 2026/27 are attached at Appendix 2.

48 The achievement of £11.853 million of savings in 2023/24 will close the funding shortfall from £37.389 million to £25.536 million. If government provide additional funding to local government in the finance settlement for 2023/24, this gap could be reduced and potentially eradicated depending on the level of investment provided. It is currently unclear whether and the extent to which any additional funding will be provided. However, there is also a risk that the gap widens if cost pressures, particularly in relation to energy and in looked after children’s placement budgets, continue to escalate.

49 At this point it is likely the council would need to utilise significant levels of reserves to balance the budget in 2023/24.

Equality Impact Assessment of the Medium Term Financial Plan

50 Consideration of equality analysis and impacts is an essential element that members must consider in approving the savings plans at Appendix 4. This section updates Members on the outcomes of the equality analysis of the MTFP (13) savings proposals.

51 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

52 As in previous years, equality analysis is considered throughout the decision-making process, alongside the development of MTFP(13). 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.

53 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

54 A number of successful judicial reviews has 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.

55 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 2023/24 Savings Proposals

56 Consideration of equality analysis and impacts is an essential element that members must consider in approving the savings plans, a summary

equality analysis on savings proposals can be found at Appendix 4. This section updates Members on the outcomes of the equality analysis of the MTFP (13) savings proposals as they currently stand. If savings proposals are developed further then analysis of impacts will be updated and included in the final decision making reports.

Adult and Health Services (AHS)

57 Savings proposals for AHS include a number of commissioning efficiencies which may impact vulnerable groups with protected characteristics with a disproportionate impact expected in terms of disability, including physical/sensory/learning disability and/or poor mental health. Any reductions in these areas could have a disproportionate impact on men and impacts for ethnic minority groups in relation to services for the Gypsy Roma Traveller GRT community.

58 Part of proposals for non-assessed community based services, include a reduction in floating support services which are predominantly accessed by single males between the age of 16-35 years who are experiencing potential homelessness and mental health issues and require housing, benefit/financial advice and support to access services. There will also be an impact to the delivery of Gypsy Roma Traveller (GRT) floating support services.

59 Proposals to reduce the costs of high cost learning disability support packages will impact those with a learning disability and their carers. Any models of care developed for individuals will aim to create services with an improved model of care and support, encourage independence and improve welfare. Depending on re-commissioning outcomes there should be no negative impact on service users.

60 A review of commissioned services for people who are deaf, deafened or living with a hearing impairment will impact in terms of disability and older age groups. Impact on service users should be minimised with efficiencies focused primarily on premises and associated utilities and prioritisation of projects within the services. To further mitigate the impact of reduced funding on service users, we have strengthened the need for a community based model of IAG support hubs, whereby people are supported county wide as opposed to a centralised ‘building’. The hubs must support accessibility and encourage social inclusion.

Children and Young People’s Services (CYPS)

61 There are number of savings proposals within CYPS with a disproportionate impact for age (younger and working age in terms of parents and carers) and disability although mitigations are proposed. There are a number of staff reductions and deletion of vacant posts. Fair

treatment of staff will be ensured through agreed corporate HR change management procedures, and progression of ER/VR to minimise impact.

62 Reduced expenditure within the One Point activities budget will impact families in terms of age, parents and carers, children and young people 0-19 years and up to 25 years and disability, for those with Special Educational Needs and/or a disability. Negative impact will be minimised due to the greater use of virtual technology and partnership working to enhance levels of non council funded activity. A phased three year approach will help us to monitor impact.

63 Through the development and implementation of Family Hubs and Start for Life programme there will be an opportunity to rationalise a number of posts within Early Help, Inclusion and Vulnerable Children due to improved integration with partners. A greater focus on development and use of digital platforms will minimise any potential impact in terms of age and disability.

Neighbourhoods and Climate Change (NCC)

64 NCC savings proposals generally have no disproportionate equality impact on any particular group apart from some fee increases with potential disproportionate impact in terms of disability and older age. There are a number of staff reductions and deletion of vacant posts with potentially a greater impact on men, disproportionately represented in some posts. Fair treatment of staff will be ensured through agreed corporate HR change management procedures, and progression of ER/VR to minimise impact.

65 A number of fee increases are proposed which although impact all may have a disproportionate impact for disabled and older residents who may not be able to use ‘free’ alternatives such as bulky waste collection and garden waste collection.

Regeneration, Economy and Growth (REG)

66 REG savings proposals generally have no disproportionate equality impact on any particular group although there are two proposals with a disproportionate impact on working age and younger age. There are a number of staff reductions and deletion of vacant posts. Fair treatment of staff will be ensured through agreed corporate HR change management procedures, and progression of ER/VR to minimise impact.

67 Removal of the discount rate for park and ride users will negatively impact the most regular users who access this discount rate (4.5% of all transactions), most likely to be of working age, although it will create price equity for all users. Proposed improvements in flexibility in payment methods for all customers through reconfiguration of on-bus ticket machines to accept contactless debit/credit card payment will benefit all

customers, in particular some people with disabilities who may find using contactless on-bus payments more accessible.

68 Reducing capacity of the International Team will adversely impact opportunities for young people in the county to participate in international and/or intercultural events. The proposal is felt to both reflect the reducing demand for the service, post EU exit and the pandemic which has reduced the level of school travelling, while still retaining sufficient capacity to provide an effective service offer going forward. HR processes will be followed to ensure fair treatment of staff involved.

Resources (RES)

69 There are a range of proposals for Resources, two with front line service implications with a disproportionate impact in terms of disability, older age and men. A number of proposals involve staff reductions and deletion of vacant posts. Fair treatment of staff will be ensured through agreed corporate HR change management procedures, and progression of ER/VR to minimise impact. Service continuity will be supported by ongoing business improvement and the data insight and business intelligence programme. However, reduced staff capacity places teams under increasing pressure to meet service demand which can lead to burn out and poor mental and physical health.

70 Business Support Services propose a significant number of staff reductions, phased over four years. The initial phase for 2023/24 involves a management restructure with realignment of responsibilities. Further equality analysis will be undertaken to understand the impact of a reduced service provision and any disproportionate staff impact.

71 It is proposed to introduce weekly charges of £5 or £7.50 for support provided by the Deputy and Appointee Team (DAT) who act as an appointee to manage the financial affairs of service users who, following a mental capacity assessment, have been found unable to manage their own finances. The introduction of such charges would bring the service in line with other authorities. There are currently 458 clients, all have a disability, disproportionately male (58%) and from a range of age groups from 16+ years. There will be a negative financial impact for groups affected however accessing this service protects clients from financial exploitation and abuse.

72 A review of service provision in relation to the face-to-face service in non-strategic sites provided by Customer Services from the Customer Access Points (CAPs) is currently underway and will be subject to public consultation. The largest overall proportion of CAP footfall and appointment traffic relate to Blue Badge and Concessionary Bus Pass application support and queries, both of which can be associated with older age and/or disability. This will potentially mean a disproportionate

impact on disabled people and older age groups although a service offer will remain, it will be restricted in terms of reduced opening hours. The suggested reduction in opening hours releases the capacity of 4FTE staff, with HR processes followed to ensure fair treatment.

Corporate (COR)

73 There is no expected equality impact of COR savings proposals.

Review of Reserves

74 To ensure budgets can be balanced whilst clarity is provided and to provide time to work up further proposals to increase income and reduce expenditure to address the underlying budget position, a thorough review of all earmarked reserves is being undertaken.

75 This is required to ensure that corporate reserves are in available to enqble the council to set balanced budgets. The review will result in options to re-prioritise earmarked reserves and transfer funding to the ER/VR Reserve, the Commercial Reserve and to increase the MTFP Support Reserve, which is currently £15.2 million and insufficient to balance the budget next year should these latest forecasts come to fruition.

76 The ER/VR reserve at the end of 2022/23 is forecast to be circa £2.5 million. This reserve needs replenishing and it is also forecast that the Commercial Reserve (presently £5 million) will not be sufficient to provide coverage for the Milburngate and NetPark developments as they come on stream.

77 As part of the review of reserves, it is therefore intended to find the capacity to replenish the ER/VR reserve by £7.5 million and the Commercial Reserve by £3.5 million, with options to be developed to bolster the MTFP Support reserve by circa £25 million potentially.

78 The application of reserves to balance the budget is not a sustainable solution to the financial challenges we face. Whilst the review is undertaken and until there is greater clarity, the programmes and projects funded from a range of earmarked reserves will need to be paused at this time.

79 Further details of the review of reserves and the impact of redirecting these resources will be provided in the December MTFP(13) update report.

MTFP(13) – 2023/24 to 2026/27 Summary

80 The adjustments to the MTFP(13) model have resulted in the following revised forecast across the four year period of the current MTFP:

	Savings Requirement	Less Savings Previously Approved	Savings Shortfall
	£m	£m	£m
2023/24	37.389	0	37.389
2024/25	2.609	0	2.609
2025/26	4.213	0	4.213
2026/27	8.633	0.275	8.358
TOTAL	**52.844**	**0.275**	**52.569**

81 As can be seen, the additional savings required to be developed to balance the budgets over the next four years is estimated to be £52.569 million. As previously mentioned, there is significant uncertainty facing local government at this time, especially in relation to future local government finance settlements, the continuing impact of the pandemic, the volatility of energy prices and the other high levels of inflation impacting upon the council.

82 This report provides details of savings plans amounting to £17.731 million over the next four year with £11.853 million of these savings in 2023/24, which will assist in closing the forecast £37.389 million shortfall next year. These savings plans have been assured in terms of delivery with every attempt made to seek to protect front line services as far as possible. The proposed savings plans for next year, with indicative plans for 2024/25 to 2026/27 are attached at Appendix 2.

83 The achievement of £11.853 million of savings in 2023/24 will help reduce the funding shortfall from £37.389 million to £25.536 million. If government provide additional funding to local government in the finance settlement for 2023/24, this gap could be reduced further. However, there is also a risk that the gap widens if cost pressures, particularly in relation to energy and in looked after children’s placement budgets, continue to escalate.

84 The realisation of an additional £52.569 million of savings across the MTFP(13) planning period will have resulted in the council being required to save circa £303 million from 2011/12 to 2026/27.

85 The updated MTFP(13) Model, factoring in the savings outlined at Appendix 2, is attached at Appendix 3.

Consultation Programme

86 Based on the best practice that has developed over previous consultations, it is once again proposed that we consult using our existing County Durham Partnership networks during October and November.

87 This will include the fourteen Area Action Partnerships (AAPs) and the thematic partnerships that support the County Durham Partnership. Additional work will be undertaken with special interest groups and there will be an opportunity for residents to respond electronically via the council's website which will be promoted through the council's presence on various social media platforms.

88 The consultation will inform final decisions on the savings proposals set out in Appendix 2 and on the approach to council tax increases in future years.

Conclusion

89 The council continues to face significant financial uncertainty for the MTFP(13) planning period, covering the financial years 2023/24 to 2026/27. The uncertainty relating to future government financial settlements is exacerbated by the ongoing impact of the pandemic alongside increases in base budget pressures from inflation, national living wage, social care, and waste disposal, together with enduring pressures in our looked after children's placement budgets.

90 The proposed savings attached at Appendix 2 will be subject to consultation via our existing County Durham Partnership networks during October and November. This will include the fourteen Area Action Partnerships (AAPs) and the thematic partnerships that support the County Durham Partnership. The outcome of this consultation, together with greater certainty around the local government finance settlement, will inform final budget decisions in February.

91 The MTFP forecasts at this stage would indicate a significant budget gap next year even if all the savings identified for 2023/24 are ultimately taken. The council is therefore in the unenviable position of having to potentially utilise significant reserves to balance its budget next year.

92 The application of reserves to balance the budget is not a sustainable solution to the financial challenges we face. Whilst the review is undertaken and until there is greater clarity, the programmes and projects funded from a range of earmarked reserves will need to be paused at this time.

93 Planning will continue in relation to the identification of further savings to enable future years budgets to be balanced, which alongside the review of reserves currently underway will ensure the council is well placed to

respond to the financial forecasts as they are firmed up over the coming months.

94 The ER/VR Reserve at the end of 2022/23 is forecast to be circa £2.5 million. This reserve needs replenishing and it is also forecast that the Commercial Reserve (presently £5 million) will not be sufficient to provide coverage for the Milburngate and Net Park developments as they come on stream.

95 As part of the review of reserves, it is therefore intended to find the capacity to replenish the ER/VR Reserve by £7.5 million and the Commercial Reserve by £3.5 million, with options to be developed to bolster the MTFP Support reserve by circa £25 million potentially.

96 Further details of the review of reserves and the impact of redirecting these resources will be provided in the December MTFP(13) update report.

. Background papers

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

Other useful documents

- Medium Term Financial Plan (12), 2022/23 to 2025/26 – Report to Council 23 February 2022
- Medium Term Financial Plan (13), 2023/24 to 2026/27 – Report to Cabinet 13 July 2022

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Appendix 1: Implications

Legal Implications

The council has a statutory responsibility to set a balanced budget for 2023/24. It also has a fiduciary duty not to waste public resources.

Finance

The report highlights that at this stage additional £37.389 million of savings are required to balance the 2023/24 budget, with £52.569 million of additional savings required across the next four years.

Based on previous forecasts, additional savings of £17.456 million across the MTFP(13) period are included for approval in the report to assist in balancing budgets across the MTFP(13) period, taking the overall savings proposals to £17.731 million. These will be subject to consultation across the coming months. Final decisions on savings to be implemented will be taken as part of the budget setting report in February 2023.

These savings plans have been fully assured in terms of delivery with every attempt made to seek to protect front line services as far as possible. The proposed savings plans for next year, with indicative plans for 2024/25 to 2026/27 are attached at Appendix 2.

The achievement of £11.853 million of savings in 2023/24 will help reduce the funding shortfall from £37.389 million to £25.536 million.

If government provide additional funding to local government in the finance settlement for 2023/24, this gap could be reduced further. However, there is also a risk that the gap widens if cost pressures, particularly in relation to energy and in looked after children's placement budgets, continue to escalate

The council is therefore in the unenviable position of having to potentially utilise significant reserves to balance its budget next year and the MTFP Reserve is currently insufficient to balance the budget. This has necessitated a review of all earmarked reserves, to ensure that corporate reserves are in place to ensure the council can set balanced budgets.

The review will result in options to re-prioritise earmarked reserves and transfer funding to the ER/VR Reserve, the Commercial Reserve and to increase the MTFP Support Reserve, which is currently £15.2 million and insufficient to balance the budget next year should these latest forecasts come to fruition

The application of reserves to balance the budget is not a sustainable solution to the financial challenges we face. Whilst the review is undertaken and until there is greater clarity, the programmes and projects funded from a range of earmarked reserves will need to be paused at this time.

Consultation

Consultation on the 2023/24 budget and MTFP(13) will include engagement via existing County Durham Partnership networks during October and November. This will include the fourteen Area Action Partnerships (AAPs) and the thematic partnerships that support the County Durham Partnership.

Additional work will be undertaken with special interest groups and there will be an opportunity for residents to respond electronically via the council's website which will be promoted through the council's presence on various social media platforms.

The consultation will inform final decisions on the savings proposals set out in Appendix 2 and on the approach to council tax increases in future years.

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.

The report contains summary details of the impact assessment that has been undertaken on the proposed savings, which is set out in more detail at Appendix 4.

Climate Change

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

Human Rights

Any human rights issues will be considered for all proposals agreed as part of MTFP(13).

Crime and Disorder

None

Staffing

The impact of the MTFP forecasts and the savings proposals that have been developed to contribute to the financial challenges faced is detailed within the report.

Should the MTFP(13) savings proposals set out in Appendix 2 be implemented in full it is estimated that there will a 117 FTE reduction. HR policies will be strictly adhered to in terms of any restructure activity and priority will continue to be placed on seeking voluntary redundances and early retirements to mitigate against the need for compulsory redundancies.

Accommodation

Medium Term Financial Plan (MTFP) savings of £275,000 were previously factored into MTFP(12) from the expected move to the new HQ and closure/demolition of the existing County Hall building at Aykley Heads.

Based on the revenue estimates that underpinned the review of the options for disposal of the building on the sands and the implementation of an alternative strategy, net revenue running costs are still forecast to be at least £0.275 million less than the 2022/23 £1.954 million budgeted running cost of County Hall. This saving is factored into the MTFP(13) savings proposals, alongside further building rationalisation and efficiencies to protect front line service delivery.

Risk

The council is continuing to operate in a period of significant financial uncertainty. When the 2022/23 budget was approved on 23 February 2022, the council was concerned about the ongoing and consequential impact of the pandemic and the uncertainty of future local government finance settlements.

Whilst these concerns remain, they are now overshadowed by the forecast impact of high inflation, especially in relation to fuel and energy prices and from increases in bank base rates. The impact of inflation is being experienced across all council services with no part of the council's budget unaffected. Energy costs are significantly above original budget forecasts, despite a 40% increase being built into the base energy budgets this year, along with the majority of other major spend areas such as waste and transport.

Prudent financial planning assumptions have been made in terms of forecasting the base budget pressures the council will face over the coming years. The underpinning rationale is explained in detail in the report.

A robust approach to Risk Assessment across the MTFP process will be followed especially in relation to any individual risk assessments of savings plans. The savings plans attached at Appendix 2 have been assured in terms of delivery with every attempt made to seek to protect front line services as far as possible.

Procurement

None