

Cabinet

18 January 2023

**Medium Term Financial Plan 2023/24 to 2026/27
and Revenue Budget 2023/24**

Key Decision: CORP/R/22/01



Report of Corporate Management Team

Paul Darby, Corporate Director of Resources

**Councillor Richard Bell, Deputy Leader and Portfolio Holder for
Finance**

Councillor Amanda Hopgood, Leader of the Council

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To provide an update on the development of MTFP(13), covering the period 2023/24 to 2026/27 and on the development of the 2023/24 revenue budget in the light of the Chancellor of the Exchequer's Autumn Statement in November and the provisional local government finance settlement published on 19 December 2022.
- 2 The report includes updated financial forecasts, building on the figures previously considered by Cabinet in October 2022, together with the outcome of the MTFP(13) budget consultation process.

Executive Summary

- 3 On 17 November 2022 the Chancellor of the Exchequer published an Autumn Statement (AS). The timing and content of the AS was vital due to the need to calm financial markets following the fiscal event (mini budget statement) in September 2022, which came at a time of high inflation and led to widespread uncertainty and reductions in the value of the pound followed by rapid increases in interest rates. The AS contained important announcements on future forecasts for government borrowing, taxation,

and public sector expenditure, alongside the Office for Budget Responsibility forecasts for inflation, economic growth, and taxation yields.

- 4 It was widely expected that the AS would result in funding reductions for the public sector, particularly previously unprotected departments such as the Department for Levelling Up, Communities and Communities, alongside a potential cap on public sector pay increases, due to the significant increases in the forecast of annual national deficits over the coming years - a combination of post Brexit economic challenges, the ongoing impact of the pandemic upon the economy and the poor outlook for the economy in the medium term.
- 5 In making the AS, the Chancellor of the Exchequer however deferred decisions on any significant funding reductions in the public sector until the next parliamentary period, with reductions now expected in the period 2025/26 to 2027/28. In the next two years, in recognition of the significant inflationary pressures being faced, additional funding was provided to the health service, education and to local government, as well as local government being provided with additional council tax raising flexibilities.
- 6 The additional funding being provided will result in an improved financial outlook for the council in the short term, with budget shortfalls reducing from those reported to Cabinet on 12 October 2022, where it was previously forecast that savings required over the next four years (assuming the Council maximised its council tax raising powers at that time) would be £52.569 million with £37.389 million of this falling into 2023/24.
- 7 The updated forecasts included in this report highlight that once the available government funding, taxbase growth, updated base budget pressures, and an assumption that the council raises council tax by the maximum sums available, the savings required over the next four years has reduced to £41.041 million, with £25.614 million of this falling into 2023/24.
- 8 The AS announced additional funding to meet rising demographic and costs pressures in social care (both adult and children social care) with specific grant funding also provided in order to focus investment to facilitate early discharge of patients from hospital into the community. In this regard local government was allocated £400 million as a Market Sustainability and Improvement grant in 2023/24, rising to £680 million in 2024/25 to be focussed on early discharge from hospital.
- 9 There was also an increase in the Better Care Fund nationally, with an additional £600 million allocated in 2023/24 rising to £1 billion in 2024/25. This funding is ring-fenced and must be pooled within the Better Care Fund and will be shared 50%/50% between the NHS and Local Authorities, with local investment plans to be agreed with the Integrated Care Board.

- 10 Significantly, the AS also announced the deferral of the planned Adult Social Care Reforms from October 2023 to October 2025 i.e., after the next General Election. These reforms included the introduction of revised means tests for adult social care charging and the introduction of a £86,000 cost care cap, as well as a requirement for authorities to undertake a review and implement changes which demonstrated that they were moving towards the payment of a fair cost of care to providers.
- 11 Whilst the reforms have been deferred, the funding previously allocated to the Market Sustainability and Fair Cost of Care Grant associated with these new policies is to be retained and repurposed into the Social Care Grant – to help upper tier authorities to meet demographic and costs pressures in social care (both adult and children social care).
- 12 The sums being made available to local government are £1.265 billion in 2023/24 rising to £1.877 billion in 2024/25. The AS announced that this funding would be provided to local authorities via the current Social Care grant distribution methodology, which takes into account council tax raising capacity, and was being made available to assist local authorities to address budget pressures in both children’s and adult’s social care.
- 13 The AS announced additional council tax flexibilities for local authorities. The current council tax referendum limit is 1.99% but from 2023/24 this will be increased to 2.99%. Upper tier local authorities were also provided with the powers to increase council tax by an additional 2% in 2023/24 and in 2024/25 for an adult social care precept. This means that upper tier local authorities now have the ability to increase council tax by up to 4.99% in both 2023/24 and 2024/25, with a clear expectation from government that these authorities do so in order to help meet the extraordinary inflationary pressures they are facing and to help protect front line services as far as possible. Every 1% of council tax increase generates the council circa £2.6 million of additional income.
- 14 By increasing the council tax by 4.99% instead of the previously forecast / assumed 2.99%, the council will be able to reduce the savings required to balance the budget by circa £5.1 million next year and the year after and by circa £2.6 million in 2025/26 and 2026/27, reducing the cuts / savings required by circa £15.4 million over the MTFP(13) planning period.
- 15 In 2022/23 the council had the flexibility to increase council tax by 1.99% for the referendum limit and by up to 3% for the adult social care precept. After due consideration council agreed to limit the 2022/23 council tax increase to 3% for the adult social care precept only and to forego the 1.99% base council tax increase rather than increasing council tax by the maximum 4.99%, which is what the government expectation was (this is baked into the Core Spending Power calculations) and what the majority of other upper tier councils did. This resulted in the loss of circa £5 million of council tax raising capacity within the base budget.

- 16 In County Durham 83% of all households reside in properties that are in Bands A-C. A 4.99% increase in the council's council tax charge would result in an increase of between £1.12 and £1.50 per week for these residents. The circa 54,000 households on low incomes who qualify for support through the Local Council Tax Reduction Scheme, many of which would qualify for 100% support and pay no council tax, would be protected from any increase either in full or in part.
- 17 The AS confirmed that the National Living Wage would increase by 9.7% from April 2023, higher than the forecast 8.6% that was included in the previous MTFP forecasts, adding circa £3.4 million of additional budget pressure into 2023/24 and £0.4 million into 2024/25. It was also confirmed that local authorities would not fall within the energy price cap arrangements post April 2023, exposing local authorities once again to energy price volatility for 2023/24 although clear guidance on this is still awaited. The budget pressure remains at £9 million for energy price inflation next year at this stage.
- 18 In the AS there was no information published on the Fair Funding Review, the New Homes Bonus, Revenue Support Grant levels or on the Lower Tier Services Grant.
- 19 On 12 December 2022 the Department for Levelling Up, Housing and Communities (DHLUC) published a Policy Statement which provided further detail on potential distribution methodology, including confirmation that the Fair Funding Review would not take place until after the next General Election.
- 20 The provisional local government settlement was published on 19 December 2022, with the final settlement expected to be confirmed in February 2023. The provisional settlement confirmed the additional funding forthcoming to local government that was announced in the AS and the allocation methodologies for 2023/24. It was a one year settlement again, so whilst the additional sums for 2023/24 were detailed, at this stage there are no approvals for 2024/25. Forecasts have been included as to what the sums forthcoming may be for 2024/25.
- 21 The provisional settlement confirmed the additional allocation for the council from the Better Care Fund of £4.327 million in 2023/24. Although the sum for 2024/25 was not confirmed it is forecast that this sum will increase to circa £7.1 million in 2024/25. This grant is ring fenced and will be pooled with a similar allocation to the NHS to be utilised to facilitate early discharge of patients from hospital. An additional sum of £4.704 million in 2023/24 was confirmed from the renamed (and repurposed) Market Sustainability and Improvement Grant with a forecast additional £3.2 million in 2024/25.
- 22 After discounting specific grants being transferred into the Social Care Grant from next year, the council will receive an additional sum of £17.066

million in 2023/24, with a forecast additional sum of £7.800 million in 2024/25. These sums will not however fully address the demographic and price inflationary pressures in Children and Adult Social Care alone (excluding pay inflation and energy) of £36.7 million in 2023/24 and £19.7 million in 2024/25.

- 23 After the discounting of specific grants being transferred into the Revenue Support Grant from next year the settlement also confirmed a 10.1% Consumer Price Inflation (CPI) uplift in Revenue Support Grant of £2.952 million as well as a CPI uplift in business rate retention funding of £15.1 million in 2023/24.
- 24 Unfortunately, the provisional settlement also announced a reduction in the Services Grant of £3.831 million in 2023/24 with a forecast additional reduction of £0.120 million in 2024/25, partly due to the removal of funding provided to finance the now withdrawn 1.25% employers' national insurance increase but also to facilitate a transfer of this funding to finance increases in Supporting Families funding. Alongside this reduction, the New Homes Bonus and Lower Services Tier grants have also been reduced by £3.008 million in 2023/24 to provide a guaranteed funding increase in the main for district councils. It is forecast that the remaining 2023/24 payment of New Homes Bonus of £1.860 million will be fully withdrawn in 2024/25.
- 25 The provisional settlement also confirmed £100 million of additional funding for local authorities to support the most financially vulnerable households in England in 2023/24 with meeting their council tax costs. The Council Tax Support Fund is aimed at providing further support to those low income vulnerable households already receiving Council Tax Reduction Support. Durham has been allocated £1.440 million to offer further reductions of up to £25 per claimant to those facing financial hardship – targeted at those already in receipt of some element Local Council Tax Reduction Scheme (LCTRS) for 2023/24 but still left with a bill to pay.
- 26 In overall terms, the provisional settlement provided some much needed additional funding, which will reduce the savings requirements over the next two years, particularly in 2023/24. The additional funding received by the council next year is £39.792 million, however, our unavoidable cost pressures total £81.906 million, leaving £42.114 million to fund from a combination of council tax increases, business rates tax base changes, savings and efficiencies and council reserves in order to balance the budget.
- 27 It is of significant concern however that there is a likelihood of funding reductions for the public sector from 2025/26 onwards. The AS announced that for the period 2025/26 to 2027/28 public sector funding will increase by 1% in real terms. This would intimate that the public sector funding will increase by 1% above inflation. On the basis that health, education and defence would likely be protected, this will likely lead to some tough grant reductions for that period for unprotected government departments such as

the Department for Levelling Up, Housing and Communities. At this stage, for modelling purposes, it is assumed that grant settlements for the council will be cash flat for the period 2025/26 to 2026/27. This may prove to be an optimistic assumption.

- 28 To ensure budgets can be balanced, whilst further clarity is sought and to provide time to work up proposals to reduce expenditure to address the underlying budget position, the October Cabinet report highlighted that a thorough review of all earmarked reserves was to be undertaken to ensure that corporate reserves are in place to ensure the council can set balanced budgets.
- 29 This review has been completed and the report sets out details of the earmarked reserves to be re-prioritised and the transfer of funding to the ER/VR reserve and to the MTFP Support Reserve, to provide capacity to balance the budget over the medium term, together with a proposed transfer to the Commercial Reserve.
- 30 Following the report to Cabinet in October, consultation was undertaken on the strategy set out in that report for balancing the Councils budget next year (2023/24), which included a set of proposed savings, proposed Council Tax increases and the utilisation of reserves, and on the MTFP financial forecasts / outlook for the Council.
- 31 Presentations have been made to the 14 Area Action Partnership Boards, and to key partners in the County Durham Partnership (CDP). Officers also attended meetings of County Durham Association of Local Councils (CDALC) and the Youth Council and met with Trade Unions representatives during the period of the consultation, which ran from 25 October 2022 to 22 November 2022.
- 32 Consultation was also published on the Councils website and promoted and CDP partners were written to seek their views on the Councils budget strategy. The Corporate Overview and Scrutiny Management Board met on 24 October 2022 to consider the October Cabinet report. The questions posed during the public consultation were as follows:
 - (a) What is your view on our approach to balancing the 2023/24 forecast budget shortfall?;
 - (b) What do you feel will be the impact of this approach upon you or those you represent?;
 - (c) Do you have any alternatives to the approach, whilst making the required savings?;
 - (d) If the government do remove the cap, what is your view on the council utilising additional Council Tax raising powers above the current 2.99% forecast, given that we may be expected to do this?

- 33 The report sets out details of the consultation feedback received. The feedback will be taken on board in terms of finalising the saving that will be presented to Cabinet and Council in February as part of the budget setting process. The report sets out details of proposed changes to the savings previously considered by Cabinet. None of the savings previously put forward have been withdrawn at this stage, but there are some re-profiling proposals between 2023/24 and 2024/25. In addition, three new savings are to be considered, which increases the overall saving total to £18.611 million, and details of these are set out in the report.
- 34 Once the proposed revised MTFP(13) savings of £18.611 million are taken into account, £12.733 million of which would be deliverable in 2023/24, and assuming the council implement council tax increases in line with government expectations, the council is facing a £22.430 million shortfall over the four year MTFP(13) period, with a requirement to use £12.881 million of the MTFP Support Reserve to balance the budget next year whilst additional savings are developed to ensure a more sustainable budget is developed.
- 35 Planning for the councils 2023/24 budget will continue over the coming weeks with the budget report to be presented to Cabinet on 8 February 2023 before being presented to Council on 22 February 2023.

Recommendations

- 36 It is recommended that Cabinet
- (a) note the content of the report detailing the content of the Autumn Statement and the provisional local government finance settlement;
 - (b) note that the draft settlement is better than was forecast but that the government have announced that funding settlements for the public sector but especially for unprotected government departments will be challenging for the period 2025/26 to 2027/28;
 - (c) note that proposals for how the additional allocation of £1.440 million from the Council Tax Support fund funding can be used and administered to enhance the current LCTRS will be included as part of the MTFP report to Cabinet in February 2023
 - (d) note the changes to the MTFP(13) planning assumptions set out in the report, including the proposed council tax increases in line with the government's expectations;
 - (e) note the proposed revisions to savings plans for MTFP(13);
 - (f) agree the transfers of reserves recommended as part of the reserves review;

- (g) note the budget shortfall for 2023/24 of £12.881 million with a £22.430 million savings shortfall over the four year MTFP(13) period;
- (h) note the consultation responses on MTFP(13) and consider these when finalising the 2023/24 budget; and
- (i) note that the 2023/34 revenue and capital budget and MTFP(13) 2023/24 to 2026/27 budget report will be presented to Cabinet on 8 February 2023 and to Council on 22 February 2023.

Background

- 37 Previous reports have been presented to Cabinet on the development of MTFP(13), covering the period 2023/24 to 2026/27 and on the development of the 2023/24 revenue budget – in July and October 2022 - to ensure Cabinet are aware of any forecast budget pressures that need to be accommodated and the need to achieve savings / increase council tax in order to balance the budget.
- 38 This report provides an update based on the latest financial forecasts, taking into account the quarter two revenue and capital forecasts presented to Cabinet in November and, significantly, the Autumn Statement made on 17 November and the provisional local government finance settlement published on 19 December 2022.

Autumn Statement

- 39 The Chancellor of the Exchequer published the Autumn Statement (AS) on 17 November 2022. The statement was published against a background of significant turmoil in financial markets in the preceding weeks, following the previous Chancellor of the Exchequer's mini budget / fiscal event on 23 September 2022 where significant unfunded tax cuts had been announced, spooking the markets and leading to rapid increases in interest rates, the price of gilts alongside reductions in the value of the pound. The AS was aimed very much at seeking to calm financial markets.
- 40 The national finances are in a difficult position, with the forecast national deficits being very high and the economy forecast to be heading into a long recession, lasting well into 2024/25. It was widely anticipated that the public sector could face a very difficult financial outlook for 2023/24 and for the medium term, with a public sector pay cap being widely mooted prior to the publication of the AS.
- 41 The AS contained important announcements on future forecasts for government borrowing, taxation and public sector expenditure, alongside the Office for Budget Responsibilities forecasts for inflation, economic growth and taxation yields.
- 42 It was significantly reassuring that for the short term (i.e. the next two years) that the AS recognised the pressures councils were under and announced some much needed additional funding for adult social care and children social care, with a particular focus for adult social care being to invest in initiatives to facilitate early discharge of patients from hospital into the community.
- 43 The AS also announced additional council tax flexibilities for local government, with a clear expectation from government that these are used to help combat the inflationary pressures the sector was under. It was clear

however that funding reductions for unprotected government departments were likely for the period 2025/26 to 2027/28.

- 44 In the AS there was no information published on the Fair Funding Review, the New Homes Bonus, Revenue Support Grant levels or on the Lower Tier Services Grant. The key AS announcements impacting upon local government are detailed below:

Council Tax

- 45 The council tax referendum limit has been increased from 1.99% to 2.99%. This change is a permanent change. In addition, the forecast 1% adult social care precept for the two years 2023/24 and 2024/25 has been confirmed at 2%. On that basis upper tier local authorities will be able to increase council tax by a maximum 4.99% per annum over the next two years.
- 46 Every 1% of council tax increase generates the council circa £2.55 million of additional income. By increasing the council tax by 4.99% instead of the previously forecast / assumed 2.99%, the council will be able to reduce the savings required to balance the budget by circa £5.1 million next year and in 2024/25 and by an additional circa £2.6 million in both 2025/26 and 2026/27, reducing the cuts / savings required by circa £15.4 million over the MTFP(13) planning period.

Better Care Fund

- 47 An additional £600 million would be made available in 2023/24 rising to £1 billion in 2024/25. This funding to be shared 50%/50% between the NHS and local government. At the time it was expected that this grant would be specific to be utilised to improve early discharge of patients from hospital into community settings.

New Early Discharge Grant

- 48 This grant to support discharge from hospital was expected to have broad grant conditions and to be £400 million in 2023/24 rising to £680 million in 2024/25.

Social Care Reforms

- 49 Prior to the AS, the expectation was that the adult social care means test and cost cap changes, alongside the outcome of the fair cost of care process would be introduced in October 2023.
- 50 The AS confirmed however that the implementation date for the reforms has been deferred to October 2025 i.e. after the next General Election. The funding associated with the social care reforms (including the fair cost of care) of £1.265 billion in 2023/24 rising to £1.877 billion in 2024/25, will be distributed to local government as part of the current Social Care Grant.

The additional funding to be utilised to support budget pressures in children's and adult's social care.

- 51 It is not clear at this point if additional funding will be made available to local government in 2025/26 for the implementation of the social care reforms should they ultimately be implemented at that time.

National Living Wage

- 52 Based upon forecasts from the Low Pay Commission the council was previously forecasting an increase in the National Living Wage (NLW) of 8.6% next year. The Low Pay Commission report released on the same day as the AS recommended an increase of 9.7% to £10.42 per hour from April 2023, with a forecast further 6.3% increase in April 2024 to £11.08. By 2024 the NLW is forecast to have achieved its aim of reaching two thirds of the median national earnings level.
- 53 The updated NLW forecasts have added circa £3.4 million of additional budget pressure into 2023/24 and £0.4 million into 2024/25.

Energy

- 54 In the current year, the council is part of the national energy price cap scheme, which is limiting the impact of significant price increases and runs from October 2022 to December 2023. The AS confirmed that the energy price cap for 2023/24 will be targeted to those in need and that local government would not be part of the scheme. No detail has been released on the scheme at this point.
- 55 Energy markets continue to extremely volatile, however the £9 million budget uplift in 2023/24 has remained unchanged, though the recovery of this budget pressure over the period 2024/25 to 2026/27 as (hopefully) prices reduce has been reprofiled based on updated market expectations.

Services Grant

- 56 The AS confirmed that this grant would be top sliced in 2023/24 as a result of the withdrawal from November 2022 of the 1.25% employers national insurance increase. No funding was to be withdrawn in 2022/23.

Business Rates

- 57 The AS announced that the business rates multiplier would be frozen in 2023/24, ensuring total business rates charged would not increase.
- 58 There is a business rates revaluation to be applied from April 2023, which will result in business rates for ratepayers going both up and down, with some element of transitional relief in place to provide protection.

- 59 The AS confirmed local authorities would receive compensation through a Section 31 grant increase to recompense for the business rate multiplier being frozen, as it should have increased in line with CPI in September, which was 10.1%.
- 60 The AS also announced some ongoing business rate discounts for small businesses and retail, hospitality and leisure businesses.

Policy Statement

- 61 On 12 December 2022 the Department for Levelling Up, Housing and Communities (DHLUC) published a Policy Statement which provided further detail on potential distribution methodology, including confirmation that the Fair Funding Review would not take place until after the next General Election.

Provisional Local Government Finance Settlement

- 62 The provisional Local Government Finance Settlement was published on 19 December 2022 and confirmed a number of increases in funding for local government mainly as a result of the £2 billion of additional core grant funding for local authorities in 2023/24, increasing to £3 billion in 2024/25. At the same time funding from the Lower Tier Services Grant, New Homes Bonus and the Services Grant has been repurposed to finance the 10.1% increase in RSG and the 3% funding guarantee (impacting mainly on District Councils). The final settlement is expected to be published in February 2023. The additional funding provided to local authorities with the councils provisional allocations are detailed below:

- (a) **Better Care Fund £600 million in 2023/24 rising to £1 billion in 2024/25** – Local government and the NHS will each receive 50% of this grant providing additional funding of £300 million in 2023/24 and £500 million in 2024/25. The funding has specific grant conditions with local government and the NHS pooling budgets with the aim of improving the discharge of patients from hospital. The council will receive £4.327 million in 2023/24 and a forecast £7.1 million in 2024/25 equating to 1.44% of the national allocation;
- (b) **Market Sustainability and Improvement Grant increase in grant of £400 million in 2023/24 rising to £680 million in 2024/25** – in 2022/23 the government announced additional funding of £2 billion to enable the implementation of adult social care charging reforms and the outcomes of a fair cost of care review. The first £160 million tranche of this funding was allocated in 2022/23 with the council receiving £1.9 million which was utilised in increasing fees to adult social care providers in 2022/23.

In the AS however the government announced that the social care reforms had been deferred from October 2023 to October 2025 and

that the remaining circa £1.8 billion of funding would be repurposed into the Social Care grant to provide support for both adult and children social care.

The council will continue to receive the £1.9 million in the future but in a repurposed Market Sustainability and Improvement Grant. This grant will be £6.609 million in 2023/24 and is forecast to increase by a further £3.2 million in 2024/25.

The additional grant of £4.7 million in 2023/24 is expected to have broad grant conditions requiring that this funding is utilised to support early discharge of patients from hospital.

- (c) **Social Care Grant additional £1.265 billion in 2023/24 rising to £1.877 billion in 2024/25 after discounting transfer of specific grant (Independent Living Fund)** – this funding is to be utilised to support demographic and cost pressures in children’s and adult’s social care.

This funding is being apportioned to local authorities based upon the Adults Relative Needs Formula (RNF) alongside an element of equalisation to consider that local authorities can raise differing amounts from council tax increases due to varying size of council taxbases.

This funding is only payable to upper tier authorities who provide social care services. Net of the transfer of £1.543 million of Independent Living Fund specific grant funding the council already receives, the council will receive an additional £17.066 million in 2023/24 increasing to a forecast £24.866 million in 2024/25, equating to 1.32% of the national allocation, increasing our Social Care Grant to £49.564 million in 2023/24 and to a forecast £57.364 million in 2024/25.

These sums will not however fully address the demographic and price inflationary pressures in Children and Adult Social Care alone (excluding price inflation and energy) of £36.7 million in 2023/24 and £19.7 million in 2024/25;

- (d) **Revenue Support Grant (RSG)** – local authorities will receive an inflation uplift of 10.1% in line with the September 2021 Consumer Price Index (CPI) on their 2022/23 RSG allocations.

The government are transferring three specific grants into RSG from next year, these being the Local Council Tax Administration Grant (allocation currently £0.913 million), the Family Annex Council Tax Discount Grant (allocation currently being £0.013 million) and the Natasha’s Law grant (allocation currently being £0.013 million).

After discounting the transfer of these specific grants into RSG the council will receive an additional £2.952 million next year, increasing RSG received to £32.991 million. CPI is forecast to be 6% in September 2023, so a further increase of £1.9 million in 2024/25 has been factored into the MTFP(13) forecasts. RSG is assumed to be cash flat in 2025/26 and beyond;

- (e) **Reduction in New Homes Bonus (NHB) funding** – it was previously forecast that the NHB may be abolished from 2023/24. The government have however agreed to continue the NHB funding for one more year. The council receives £4.082 million of NHB in 2022/23 which will reduce by £2.222 million to £1.860 million in 2023/24. Nationally the sum payable via NHB will reduce by £263.9 million in 2023/24 with this sum being diverted to ensure all authorities, but particularly district councils, receive a minimum 3% increase in funding in 2023/24 and also to partially finance the 10.1% increase in RSG. At this stage it is forecast that the £1.860 million of NHB received by the council will be withdrawn in 2024/25;
- (f) **Lower Tier Services Grant** – the council presently has a budget of £0.786 million from this grant but similar to NHB this funding is being top sliced to ensure all authorities, but particularly district councils, receive a 3% increase in funding in 2023/24 and to help finance the 10.1% increase in RSG. The council has lost 100% of this funding from 2023/24;
- (g) **Services Grant** – the council currently receives £8.776 million from this grant which for 2022/23 was specified as a one off grant. In 2023/24 the council will receive £4.945 million, a reduction of £3.831 million.

The grant has been reduced to reflect that the withdrawal of the 1.25% employers' national insurance increase from November 2022 which has produced a saving in the council budget. In addition, the government have top sliced this grant to increase the Supporting Families Grant, which is a specific grant in Adult and Health Services and to partially cover the 10.1% inflation uplift to RSG and to help fund the 3% funding guarantee.

- (h) **Council Tax Support Fund** - The provisional settlement contained £100 million of additional one off funding for local authorities to support the most financial vulnerable households in England in 2023/24.

The Council Tax Support Fund is aimed at providing further support to those low income financially vulnerable households already receiving some element Council Tax Support. Durham has been allocated £1.440 million to fund further reductions to those still facing

financial hardship as part of its Local Council Tax Reduction Scheme (LCTRS) for 2023/24.

The government expects that the grant allocation is used to fund further reductions in the council tax liability of individuals receiving LCTRS support but still left with an outstanding council tax liability, by up to £25 in 2023/24.

Local authorities are also able to use a proportion of their allocations to determine their own local approaches to supporting economically vulnerable households with council tax bills.

As the council has already agreed its Council Tax Reduction Scheme for 2023/24, which includes continued use of previous Covid 19 Hardship Funding to provide up to £75 of additional support to Working Age LCTRS claimants, the scheme is being reviewed in the light of the Government's announcement. The Government guidance stipulates that the support of up to £25 should be provided to both Working Age and Pensioner claimants.

Proposals for how the funding can be used and administered to enhance the current LCTRS will be included as part of the MTFP(13) report to Cabinet in February 2023.

- 63 The government has also announced that the implementation of the Fair Funding Review (FFR) would definitely be delayed until at least 2025/26.
- 64 Overall, the settlement is better than was originally forecast by the council and by most commentators. The additional funding received by the council next year is £39.792 million, however, our unavoidable cost pressures total £81.906 million, leaving £42.114 million to fund from a combination of council tax increases, business rates tax base changes, savings and efficiencies and council reserves in order to balance the budget.
- 65 The major concern for the council must be however what happens to financial settlements from 2025/26 onwards, where it is forecast that funding uplifts for the public sector will be limited to an average of 1% real terms uplifts for the period 2025/26 to 2027/28. If as expected the NHS, Education and Defence are protected then it is highly likely that local government would face funding reductions. At this stage for modelling purposes it is forecast that there will be cash flat settlements for local government which are funding reductions in real terms.

Core Spending Power (CSP)

- 66 The provisional CSP figures for the council, which factor in assumptions on council tax increases in line with the referendum limits and the maximum permissible under the Adult Social Care Precept, would indicate a more positive position compared to previous years, provided that the Council

utilises the additional council tax flexibilities that have been provided. The England average is a 9.2% CSP increase next year, whilst Durham's position is forecast to be 10.3%. 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 revised 2.99% referendum level plus the 2% adult social care precept raising powers. Any 1% below the 4.99% assumed would reduce the CSP by 0.5%;
- (b) the CSP includes the additional Better Care Fund which comes associated with a new burden and as such is not available to support core council service provision.

67 In terms of comparative CSP per dwelling positions the table below compares the council with a number of authorities and the England average. If Durham received a CSP per dwelling equivalent to the national average CSP of £2,360 per dwelling the council would receive an additional £42 million of government funding.

Area	Core Spending Power Per Dwelling
	£
England	2,360
Durham	2,193
Middlesbrough	2,557
Newcastle	2,371
Northumberland	2,280
Richmond Upon Thames	2,236
Wokingham	2,213

Review of MTFP Model

- 68 The report to Cabinet on 12 October 2022 provided an update on the forecast revenue budget position for 2023/24 as well as an update for the MTFP(13) planning period 2023/24 to 2026/27.
- 69 An ongoing review of base budget pressures and savings options has been carried out resulting in a number of amendments to the base budget pressures forecasts for the MTFP(13) period. The major amendments and updates to the forecasts that were reported previously which are included in the updated MTFP(13) model attached at Appendix 2 are detailed below:
- (a) **Government Funding**

The revised model includes the government funding published in the provisional settlement and detailed above. In overall terms, after discounting grants provided for a specific purpose, the Council is forecast to receive £17.883 million of net additional grant funding in 2023/24 and a forecast £10.920 million of additional grant funding in 2024/25 to assist it with setting its budgets over the next two years;

(b) **Business Rate Retention**

The autumn statement confirmed that the total sums associated with business rate retention would increase by 10.1% in 2023/24 in line with September 2022 CPI. The model has been updated to reflect this in relation to business rate local share, Section 31 grants and the Top Up grant. It is assumed that CPI will be 6% in September 2023 and this has been used to determine estimated increases for 2024/25. Compared to the assumptions built into the October report, the updated forecasts include an additional £1.9 million of funding in 2023/24 and a reduction of £3.65 million in 2024/25;

(c) **Council Tax Increases**

The 12 October 2022 MTFP(13) update report included an assumption of council tax increases of 2.99% in 2023/24 and 2024/25 (a 1.99% base council tax increase and a 1% adult social care precept each year) and a 1.99% increase in 2025/26 and 2026/27.

The updated modelling assumptions, in line with government expectations and in light of the significant inflationary pressures being faced, is that council tax increases of 4.99% will be applied in 2023/24 and 2024/25 (a 2.99% base council tax increase and a 2% adult social care precept each year) and a 2.99% increase in 2025/26 and 2026/27. The additional revenues generated from these higher increases are £5.4 million in 2023/24; £5.6 million in 2024/25; £3.2 million in 2025/26; and £3.4 million in 2026/27.

These increases are necessary to assist in helping to set a balanced budget in the context of our unavoidable cost pressures, which total £81.906 million in 2023/24 and £163.303 million over the four year MTFP(13) planning period.

Inflationary and demand pressures in Adult and Children's Social Care alone total £45.2 million next year. Despite £21.8 million of additional government grant support being provided to help support these areas and £5.0 million possible through the Adult Social Precept there is still a funding gap of circa £18.4 million next year.

In 2022/23 the council had the flexibility to increase council tax by 1.99% for the referendum limit and by up to 3% for the adult social care precept. After due consideration council agreed to limit the 2022/23 council tax increase to 3% for the adult social care precept only and forgoes the 1.99% base council tax increase rather than increasing council tax by the maximum 4.99%, which is what the government expectation was (this is baked into the Core Spending Power calculations) and what the majority of other upper tier councils did.

In County Durham 83% of all households reside in properties that are in Bands A-C. A 4.99% increase in the council's council tax charge would result in an increase of between £1.12 and £1.50 per week for these residents. The circa 54,000 households on low incomes who qualify for support through the Local Council Tax Reduction Scheme, many of which would qualify for 100% support and pay no council tax would be protected from any increase.

(d) **Council Tax Base**

The 12 October 2022 MTFP(13) update report forecast a £3 million increase in the taxbase for 2023/24. The council tax taxbase setting report to Cabinet on 16 November 2022 however, identified a 1,980.1 (1.38%) Band D equivalent increase in the taxbase for 2023/24 equating to a £3.4 million increase. The tax base estimates in the period 2024/25 to 2026/27 now build in an assumed 0.9% annual increase in the tax base year on year. Compared to the assumptions built into the October report, additional revenues from tax base increases across the MTFP(13) planning period are £1.800 million higher than previous estimates;

(d) **Pay Inflation**

Pay inflation was previously forecast to be 4% in 2023/24 and 3% in 2024/25. In the light of the 9.7% increase in NLW and the consequential impacts on lower grades within the local government pay spine which are very close to the NLW hourly limit, it is felt prudent to increase the 2023/24 assumption to 5% but reduce the 2024/25 assumption to 2% as inflation is forecast to reduce significantly in that year and the NLW is forecast to have achieved its policy aim of convergence with two thirds of the nation median earnings by 1 April 2024. The impact of these changes is an increase in the provision for pay inflation of £2.5 million in 2023/24 (to £12.2 million) and a reduction of £2.5 million in 2024/25 (to £5.2 million);

(e) **Price Inflation**

Price Inflation was previously forecast to be 4% in 2023/24. It is now forecast that inflation will stay high across most of 2023/24. It is felt prudent therefore to increase the price inflation forecast from 4% to 5%. The impact of this change is to increase the budget pressure for price inflation by £1.1 million in 2023/24 to £5.3 million;

(f) **Holiday Pay**

A legal case has been settled nationally on the treatment of holiday pay for casual staff, which has necessitated a change in the way the council calculates and pays for holiday pay for these workers. This will result in a forecast £0.380 million increase in casual workers' pay from 2023/24;

(g) **Adult Social Care Fees**

The higher than forecast increase in NLW and higher rates of CPI have resulted in a forecast fee uplifts in 2023/24 to £21.9 million;

(h) **Adult Social Care Reform**

The deferral of the Adult Social Care reforms until October 2025, which would have seen the introduction of amendments to the means test for care charging and the introduction of the £86,000 cost cap, has meant that the cost of these changes has had to be reprofiled. It was forecast that the means test changes would result in additional costs (lost income) for the council of £3.5 million. This cost has been reprofiled to impact in 2025/26 and 2026/27 rather than 2023/24 and 2024/25;

(i) **Pension Fund Valuation**

The pension fund actuary has finalised deliberations on the pension fund triennial revaluation. The revaluation will result in a £4.4 million reduction in the annual deficit recovery payment to the pension fund and the employers pension contribution rate will fall from 18.5% to 18.1% saving £0.7 million. The total £5.1 million reduction in cost is higher than the previous £2.8 million forecast;

(j) **Children's Demographics**

The looked after children budget continues to face significant pressure mainly as a result of the complex nature of children requiring care but also due to the lack of supply of care placements which is resulting in increased costs. The updated budget forecast, which is based on the placement mix at 30 November 2022 and factors in an assumed 5% inflationary pressure next year, has increased from £7.5 million to £13.8 million;

(k) **Home To School Transport**

Growth required in this budget was previously forecast to be £2.6 million. Updated forecasts considering the impact of service volumes, the increased cost of contracts tendered from a September 2022 start, the increase in contract prices for base inflation and the cost of contracts to be relet from September 2023 has resulted in an increase in the forecast cost to £8.3 million. This sum is a large increase which is mainly the full year effect of the contracts relet in September 2022 costing in excess of 25% more than the previous contracts;

(l) **Waste contracts**

During 2023/24 waste volumes have been slowly moving back towards pre COVID levels. This has enabled the forecast £2.6 million increase in the cost of waste contracts to be reduced to £1.6 million;

(m) **External Audit Fees**

In recent years audit firms have struggled to fulfil external audit contracts. This has been due to a mixture of tendered contract costs being too low and a problem with recruiting new auditors. The Public Sector Audit Appointments (PSAA) has retendered for all local authority contracts resulting in significant increase in costs. The cost increase for the council is £0.350 million;

(n) **Homelessness**

During COVID lockdowns local authorities were required by government to house anybody whom at that point was homeless. Costs were able to be recovered via government COVID grant funding. That funding has now ceased but the council is still expending significant sums, above the budget provision to deal with the increased demand which has not dissipated.

At the same time a higher number of people are presenting as homeless at the present time due. It is forecast that a budget increase of £0.750 million is required in order to set a balanced budget next year and address the current overspending in this area;

(o) **Investment Income**

Two factors are resulting in a short term increase in investment income. Council cash balances are high at the present time but are forecast to reduce significantly as reserves are expended but particularly as the councils circa £600 million capital programme is

expended. In addition interest rates are higher at the present time than in previous years.

It is forecast that the investment income budget will be over recovered by £7 million in 2023/24 due to these two factors. It is then forecast however that cash balances will significantly reduce in 2024/25 bringing income back within budget. On that basis a £7 million one off benefit is introduced in 2023/24 but then withdrawn in 2024/25;

(p) **Prudential Borrowing**

Due to the current high level of cash balances the council does not forecast that borrowing will be required during 2023/24, though there remains an underlying need to borrow in line with our Capital Financing Requirement and Treasury Management policies. It is forecast however, that as cash balances decrease that borrowing will be required during 2024/25.

With this in mind the £3 million provision for new additional prudential borrowing previously required in 2023/24 has been reprofiled into 2024/25. Public Works Loans Board (PWL) interest rates have increased over the last six to nine months. Rates were previously circa 2.5% but have now increased to as high as 5%. With this in mind prudential borrowing cost forecasts for 2025/26 and 2026/27 have been increased to £3.4 million and £3 million respectively to ensure future years capital programmes can be financed, though the level of borrowing these budget provisions can fund will be lower than previous MTFP budget setting rounds.

(q) **Collection Fund Deficit Recovery**

The provision for recovery of the deficit that was created in the Council Tax Collection Fund in 2020/21 during the height of the pandemic, which in line with regulations was to be amortised over three years has been revised.

In the October Cabinet report provision of £0.792 million had been made in 2023/24. Based on the improved recovery over the last year and an improved forecast in terms of the Collection Fund to 31 March 2023, this provision can be removed from the budget next year.

70 Taking on board available government funding, taxbase growth, updated base budget pressures, and an assumption that the council raises council tax by the maximum sums available, the savings required over the next four years has reduced to £41.041 million, with £25.614 million of this falling into 2023/24. This compares to a previous forecast of savings

required over the next four years of £52.569 million with £37.389 million of this falling into 2023/24.

- 71 The MTFP(13) report to Cabinet on 12 October 2022 identified £17.731 million of savings options for consultation, with £11.873 million of the savings being in 2023/24, leaving a shortfall of £25.516 million to be met from the MTFP Support Reserve in order to balance the budget.
- 72 Work has continued to identify additional savings which could be considered whilst the profile of delivery of savings continues to be reviewed.
- 73 Additional savings have been identified from the early redemption of debt (£0.200 million), a restructure of Head of Service posts (£0.081 million) and from the removal of the free after two policy for council car parks introduced to aid COVID recovery in 2021/22 (£0.600 million).
- 74 None of the savings previously put forward have been withdrawn at this stage, but savings linked to a restructure of the Internal Audit Team will need to be reprofiled between 2023/24 and 2024/25.
- 75 The revised savings factoring in the new additional savings identified now total £18.611 million, with £12.733 million achievable in 2023/24 and work continues to refine these proposals, which will be considered and approved at Cabinet and Council in February as part of the budget setting process. An updated Equality Impact Assessment factoring in the consultation feedback and further work undertaken since the initial screening was undertaken in October will be factored into the February reports.

MTFP(13) Consultation

- 76 Between 25 October to 22 November 2022, consultation was undertaken with residents and partners regarding proposals to balance the council's budget for the next financial year (2023/24). During the same period and beyond to 1 December 2022, presentations were made to the 14 Area Action Partnership Boards.
- 77 Officers also attended meetings of the County Durham Partnership (CDP), County Durham Association of Local Councils (CDALC) and the Youth Council and met with Trade Unions representatives during the period of the consultation.
- 78 Consultation was published on the Councils website and promoted and CDP partners were written to seek their views on the Councils budget strategy. The Corporate Overview and Scrutiny Management Board met on 24 October 2022 to consider the October Cabinet report. The questions posed during the public consultation were as follows:
 - (a) What is your view on our approach to balancing the 2023/24 forecast budget shortfall?;

- (b) What do you feel will be the impact of this approach upon you or those you represent?;
 - (c) Do you have any alternatives to the approach, whilst making the required savings?;
 - (d) If the government do remove the cap, what is your view on the council utilising additional Council Tax raising powers above the current 2.99% forecast, given that we may be expected to do this?
- 79 The consultation was promoted with press releases; social media posts; posters displayed in libraries and Customer Access Points and targeted emails were sent to a range of partners.

Participation

- 80 The approach enabled the council to engage with 1,020 people who provided their views.
- 81 Feedback was received across the protected groups, although rates were not always directly comparable with population data for the County. More women (59.9%) than men responded to the survey. In terms of age, 83.5% of respondents of respondents were between the age of 18-64, with 16.3% over the age of 65. Recent census 21 data releases show County Durham's 16-64 years population is 61.8%, demonstrating a disproportionately higher engagement rate with the 'working age' population. There was only one respondent from the under 18 age group however a targeted engagement session was carried out with 17 members of the Youth Council to provide a representative voice for younger residents.
- 82 The disability respondent rate was 19.1%, which is broadly representative with census 11 rates of 18.9% (for working age) and 23.6% (for overall county population). 2.5% of respondents were Black, Asian and Minority Ethnic which is lower than recently released census 21 ethnicity data for the County at 5.3%. Respondents from the remaining protected groups were representative of the population with 6% from the lesbian, gay and bisexual population and 36.8% having no religion or belief. There was a slightly higher response rate from Christians (60.4%) compared to the County wide rate of 54.6%.
- 83 Full detail of responses can be found in Appendix 3 with summary detail below and an analysis of respondents across various protected characteristics detailed in Appendix 1 also:

Method	Number of people
Survey Online	628
Paper surveys in Libraries	38

Method	Number of people
Paper surveys in Customer Access Points	2
14 AAP Board meetings	269
AAP survey responses	30
Youth Council	17
County Durham Association of Local Councils	36
TOTAL	1,020

84 The outcomes from across the consultation have been recorded and analysed and key messages are summarised below.

85 A total of 668 people completed a survey either online or via a paper version. The views expressed differed between those that accessed the material on line versus those that participated in one of the facilitated sessions, where there was an opportunity for questions to be asked and a more informed debate took place.

Our approach to balancing the 2023/24 forecast budget shortfall – online and paper responses

86 When respondents were asked about their level of agreement with the approach to balancing the 2023/24 budget shortfall, there were 609 responses to this question. 49% of responses either agreed or neither agreed nor disagreed, whilst 51% disagreed.

87 When asked to explain their views, 810 comments were received with 620 of these being negative comments. Whilst the comments spanned across all the proposals, the majority of comments related to:

- (a) the 2.99% increase in council tax;
- (b) the impact of further reductions on back office on frontline service delivery.

Back-office savings

88 There were 167 comments relating to the back office savings that were consulted on. The largest number of comments related to general disagreement (42) and concern that these would impact on the delivery of front line services (30).

89 From the comments that supported the approach, the need for a balanced approach was mentioned.

Income raising opportunities

- 90 There were 67 comments relating to income raising opportunities that were consulted on. In the main, there was more positive response (39) to the range of income opportunities proposed which included support for selling renewable energy (15), and a need to explore more commercial and profit making opportunities (9).

Review of front-line service subject to further consultation

- 91 There were 69 comments which focused on the need to retain services for the vulnerable, the sports and culture offer, and suggestions to review the use of contractors and the management of commercial services as a way of achieving savings.

Use of council reserves

- 92 There were 47 comments on the planned use of reserves and from these, 16 comments were in support whilst 22 comments disagreed with the approach and a further 9 raised concerns about the sustainability of this approach.

Council Tax increases of 2.99%

- 93 There were 244 comments received in relation to increasing the council tax by 2.99%. The largest number of comments (215) disagreed either in general (106), or specifically mentioned that they felt that families would struggle financially (55) or that the council tax is already high (38). A small number of responses related to reviewing the Local Council Tax Reduction Scheme (6) or to reduce council tax.
- 94 From the responses in support (29), 14 agreed generally with the approach, a few suggested charging student properties (legally this cannot be implemented), with four supportive of further increases.

The impact of this approach upon you or those you represent

- 95 Respondents were asked to tell us how they felt they would be impacted by the proposals and why they believed this would be the case. 605 responses were received to this question with 29% stating that it was either a positive or neither positive nor negative, whilst 71% stated that it would have a negative impact on them.
- 96 The vast majority of comments related to concerns about the impact on either household budgets or potential reduction in services for the public (427). From those, the highest number of comments (165) were concerned about the impact of the cost of living, with a further 39 saying that they cannot afford to pay more. 117 stated that this would lead to reduced services for the public.

Alternatives to the approach, whilst making the required savings

97 In total 541 comments were received suggesting alternative ways in which savings could be achieved. The main responses have been grouped into the following categories:

- (a) **Efficiencies (101)**– make the savings from increased efficiencies (85), examine licences, subscriptions and procurement (11), other (5);
- (b) **Staffing costs (148)** – reduce salaries to senior officers (37), reduce number of management posts (29), reduce staff travel / work from home (29), reduce the cost of councillors including numbers, allowances and projects (19), promote cross-cutting roles and increase knowledge (10), redeploy staff into essential services (12), reduce use of consultants and agency staff (8), other (4);
- (c) **Capital projects (71)** – stop investment in capital or regeneration projects (38), do not proceed with plans for the reopening of the DLI Museum and Gallery project (19), invest more in invest to save projects (14);
- (d) **Buildings (55)** – reduce the number of buildings and land used (36), retain the money from the sale of the new HQ and stay in County Hall to utilise these funds (14), other (5);
- (e) **Services (55)** – reduce grounds maintenance across the county (11), reduce non-essential services (22), review services (22);
- (f) **Increase charges (26)** – increase charges for services, fines and parking (22), parking (4);
- (g) **Council tax (20)** – increase the tax cost for higher band properties (11), charge for student properties (9);
- (h) **Energy efficiency (19)** – increased use of solar power and renewables (19);
- (i) **Businesses (14)** - Support profitable businesses to expand (14);
- (j) **Revenue projects (12)** – reduce arts projects and public events (12).

The council utilising additional Council Tax raising powers above the current 2.99% forecast

98 There were 612 responses regarding the prospect of raising the council tax above 2.99%. During the consultation period, the government announced that they were making changes to the Council Tax referendum limits and amending the Adult Social Care Precepting powers in 2023/24 and 2024/25 and that they expected local authorities to take up these new flexibilities. 36% of responses either agreed or neither agreed nor disagreed, whilst 64% disagreed with the prospect of council tax increases beyond 2.99%.

- 99 The main reason given was that the increase will be unaffordable and will cause hardship (51), its already too high (26), need to make savings in alternative ways (18) and that it will be wasted (14).
- 100 There were 36 comments / responses in agreement, stating that it is required, it will protect services, is affordable and there are measures in place to protect people in low income households through the Local Council Tax Reduction Scheme.

Summary of feedback – AAP Board Meetings

- 101 A presentation was delivered to each AAP Board where they could ask questions and provide feedback. Members of the public were invited to attend the meetings and a feedback survey was available to collect responses. In total, 30 surveys were completed by those who attended these sessions across the 14 AAPs.
- 102 The key themes which emerged from the combination of AAP Board discussion and analysis of surveys are detailed below.

The proposed approach

- 103 There was an understanding and acceptance that budget reductions must be achieved and the importance of maintaining services – particularly front line services. It was difficult to achieve consensus on the feedback from the AAP meetings, however 19 of the 30 survey responses completed by AAP attendees agreed with the approach set out.
- 104 **Council Tax increase of 2.99%:** There was general debate at boards who all appreciated the problem however there were some concerns expressed about the impact on low income household who are also confronted with the increases in cost of living and energy prices were expressed.
- 105 The importance of the Local Council Tax Reduction Scheme to protect those on the lowest income was highlighted and recognised. However, there was concern that households which are not eligible will be impacted more and the cost of living crisis could result in an increase in eligible households for the scheme.
- 106 **Use of reserves:** The majority of AAPs supported the use of reserves as a short term measure; however, concerns were about sustainability into the future and that we must maintain a safety net to deal with future emergencies such as storm Arwen.
- 107 In addition to the key themes above, comments were made that it may impact some geographical areas more than others and these are detailed below.
- 108 **Poverty:** Comments from East Durham cited that it has high levels of poverty and deprived neighbourhoods with 45% of children already living in

poverty. Concern was expressed that we needed to ensure that these neighbourhoods are supported during these difficult financial times.

- 109 **Rural issues:** Whilst recognising the higher costs of delivering services in rural areas, they needed to be maintained. Comments were also received in relation to the impact on rural areas of high energy prices, in particular, for villages that are not connected to the gas network as well as the impact on rural schools.

The impact of this approach upon you or those you represent

110 The potential impacts of the approach include:

- (a) loss of services for those who need them in particular those services which support individuals of all ages;
- (b) household budgets;
- (c) funding for the Voluntary and Community Sector, local communities and AAPs;
- (d) weakened essential services as a result of back office reductions;
- (e) reductions in funding for Social Care could result in more costly services in the future;
- (f) staff morale of remaining fewer staff and a loss of knowledge and skills.

Alternatives to the approach, whilst making the required savings

111 Alternative ideas for balancing the budget include:

- (a) opportunities of additional funding through devolution;
- (b) lobby Government following 10 years of austerity and its impact on left behind neighbourhoods;
- (c) pause spending on capital expenditure projects;
- (d) review commissioned services provided by profit making organisations;
- (e) reduce the number of buildings and increase co-location of services.

The council utilising additional Council Tax raising powers above the current 2.99% forecast

- 112 The response to this question was divided. Most AAPs felt that household budget pressures would increase if the Council Tax was raised higher than 2.99% especially for those on low incomes or already living in poverty.

- 113 However, there was agreement from some which felt that increasing council tax is necessary and better than reduction in services and a fair approach to increasing revenue.

Summary of feedback from Partners

County Durham Partnership

- 114 The County Durham Partnership received a presentation on the council's budget proposals during the consultation period. CDP representatives were asked to submit their views in writing. Responses were received from Durham Police, the Police Crime and Victim's Commissioner (PCVC) and Livin, the housing representative on the Board.
- 115 **The Police and PCVC** expressed concern in their joint response about how balancing finances might affect the commitment to improve public services, wellbeing and economic growth but recognised that the challenges were not of the council's making. They recognised that there will be some difficult decisions to make but are confident in the council's ability to deliver these following thorough planning, full consultation and impact assessment and that the council would continue to lobby for a greater share of funding. The response highlighted a concern that the impact of the proposals on staff would be recognised and managed in terms of their wellbeing.
- 116 **Livin** agreed with the proposed approach to balancing the budget making the following comments. 'A council tax rise would be more palatable if incomes were rising by a similar level, rather than being stagnant, and that council tax exemptions should continue to be utilised to support the most vulnerable in the county, especially whilst cost of living remains high'. They also agreed with the principle of raising council tax above 2.99%, as additional receipts can support vulnerable residents and help avoid cuts to frontline services. Livin also said we should protect front line services as far as possible, as when gaps or shortfalls occur, members of their staff (untrained) have been required to fulfil responsibilities usually carried out by adult and children's services.

Town and Parish Councils

- 117 The County Durham Association of Local Councils (CDALC) received a presentation at their Larger and Smaller and Medium Council Forums on 24 November.
- 118 Town and Parish councils were largely sympathetic with the proposals as they are facing similar budgetary challenges in setting their budgets for 2023/24 and beyond. Their main comment was that members hoped that the budget could be balanced without too many reductions to front line services.

- 119 City of Durham Parish Council responded separately, again acknowledging the challenging circumstances the council finds itself in. It is supportive of the fact that the proposals put forward have explored every avenue to achieve the savings without heavily impacting on front line services but is concerned that further staff reductions should not impact on services for the most vulnerable. The Parish Council was welcoming of the income raising proposals but did express a concern about the impact of increased demand for planning application services and how that may affect assets outside the scope of the local development plan. The response also mentions the adverse impact of central government policy in relation to lost Council Tax revenue due to student exemptions.

Youth Council

- 120 The Youth Council had a presentation on the council's budget on 14 November with 17 young people attending. The young people were concerned about inflation and how council tax rises would affect people already struggling. They were concerned about the effect that the need to make savings might have on support schemes for young people, home to school transport and youth engagement activities like the Youth Council.

MTFP(13) Summary

- 121 The report to Cabinet on 12 October 2022 highlighted significant shortfalls over the MTFP(13) period. After taking into account the savings options proposed for consultation the shortfall was £35.1 million over the MTFP period with £25.5 million of the shortfall in 2023/24.
- 122 The MTFP(13) model attached at Appendix 2 includes detail of the grant increases detailed in the provisional local government settlement. The model also assumes that the council will raise council tax by the maximum sum possible utilising the new council tax flexibilities being 4.99% in 2023/24 and 2024/25 and 2.99% in 2025/26 and 2026/27. Building in the council tax assumptions, the grant increases detailed in the provisional local government finance settlement, the revised base budget pressures and the revised options for savings the savings shortfall is summarised below for the MTFP(13) period 2023/24 to 2026/27.

	Savings Requirement	Less Savings Options	Savings Shortfall
	£m	£m	£m
2023/24	25.614	(12.733)	12.881
2024/25	2.226	(2.225)	0.001
2025/26	5.213	(1.873)	3.340
2026/27	7.988	(1.780)	6.208

TOTAL 41.041 (18.611) 22.430

Reserves Review

- 123 To ensure budgets can be balanced and to provide time to work up proposals to reduce expenditure to address the underlying budget position, the October Cabinet report highlighted that a thorough review of all earmarked reserves was to be undertaken to ensure that corporate reserves are in place to ensure the council can set balanced budgets.
- 124 The reserves review has taken place in the context of a significant reduction in reserves, as reported in the Quarter 2 forecast of outturn to Cabinet on 17 November 2022, which forecast that total earmarked and cash limit reserves (excluding school reserves) would reduce by £44.915 million in 2022/23, from £235.529 million to £190.614 million, as summarised below:

	Earmarked £ million	Cash Limit £ million	Total £ million
Opening Earmarked Balances as at 1 April 2022	-223.964	-11.565	-235.529
Adjusted for increase (-) / use of Earmarked Reserves	41.516	3.399	44.915
Transfers Between Earmarked and Cash Limit Reserves	0.146	-0.146	0.000
Earmarked Reserve Balances as at 31 March 2023	-182.302	-8.312	-190.614

- 125 In addition, the General Reserve was forecast to reduce by £4.587 million to a forecast year-end balance of £21.311 million, taking the balance below the minimum threshold agreed by Council in February 2022 of £23 million.
- 126 In undertaking the review, the following factors were considered in terms of determining the level of earmarked reserves that could be required over the coming years to support the MTFP and the councils commercial activities:
- (a) **MTFP(13) shortfalls** – the latest forecast is that there will be a shortfall of £12.881 million in 2023/24 with that sum requiring the utilisation of the MTFP Support reserve to balance the budget, with additional shortfalls of circa £10 million in future years also. More worryingly, the forecasts for 2025/26 and 2026/27 assume that local government does not receive funding reductions as a result of the fiscal tightening in public finances detailed in the 17 November 2022 Autumn Statement. To cover this risk it is imperative that corporate reserves are available to support the MTFP during that period also;
 - (b) **ER/VR reserve** – if the council is required to achieve significant savings over the coming years to balance budgets the current balance will not suffice. It is also recognised that the council is also required to fund ER/VR costs in maintained schools;

- (c) **Commercial Reserve** – the current reserve balance of £5 million will not suffice to cover the short term costs that will be incurred in relation to commercial developments at Milburngate and Net Park 3;
- (d) **General Reserve** – the councils current policy is to seek to hold this reserve at between 5% and 7.5% of the councils Net Revenue Budget Requirement. This is a range of between £23 million and £35 million. The council is facing a £14.6 million overspend which impacting upon the general reserve balance with it forecast to stand at £21.3 million at the end of 2022/23, which is below the recommended minimum. There is a risk that the council continues to face higher than forecast inflationary and demand led budget pressures in future years and it is imperative that corporate reserves are in place to protect the financial position of the council.

127 The reserves review has taken these issues into account and it is recommended that the following reserves are transferred as part of the review process.

- (a) **Town and Villages Reserve £16.833 million** – the total investment from the reserve was £25 million. From this sum £4.2 million was invested into AAP's and Members budgets. In addition a sum of £0.8 million is planned to be invested in a range of revenue programmes. A sum of £3.167 million was invested from the reserve up until the 31 March 2022 leaving an available balance of £16.833 million. All of the future investments of the programme will be capital investments. It is recommended that the remainder of the full programme is funded as part of the development of the MTFP(13) capital programme with the reserve utilised within the reserves review process;
- (b) **Members Priorities Reserve £5.801 million** – the MTFP(12) report to Council on 23 February detailed a range of Member Priority investments of £10 million. A range of these priorities were capital investments. Capital expenditure of £3.114 million is forecast in 2022/23 and it is recommended that this is financed from capital contingencies freeing up the reserve. The planned £2.687 million of investment in future years will be considered as part of the development of the MTFP(13) capital programme with the reserve utilised within the reserves review process;
- (c) **Equal Pay Reserve £5 million** – All liabilities have been assessed and it is felt that the £9.479 million reserve can be reduced by £5 million;
- (d) **Culture Reserve £3 million** – at the end of 2022/23 a Cultural Reserve of £5 million was created to enable the council to

significantly invest if the council was successful in the City of Culture bid for 2025. Although the council was not successful with the bid it is still recommended that the council has a significant cultural programme in 2025. The reserve will be reduced by £3 million resulting in £2 million still being available for a 2025 cultural programme;

- (e) **Feasibility Reserve £1.8 million** – at the end of 2022/23 an earmarked reserve of £3.8 million was created to ensure the council could carry out robust feasibility studies to support the Levelling Up Fund capital bids thus securing our optimum chance in succeeding in bids for circa £100 million of government funding. It is forecast that £2 million will have been expended in developing the bids resulting in £1.8 million being available for utilisation in the reserve review;
- (f) **Review of all other earmarked reserves £5.885 million** – all earmarked reserves have been reviewed to identify where there is a firm commitment of investment. This review has identified there are 25 reserves where sums could be utilised as part of the reserves review totalling £5.885 million.

128 The table below summarises the reserves that have been identified for transfer to enable corporate reserves to be replenished and support the council in setting balanced budgets and making sound decisions on savings in a timely manner. The total sum available being £38.319 million

	£m
Town and Villages	16.833
Member Priorities	5.801
Equal Pay Reserve	5.000
Culture Reserve	3.000
Feasibility Reserve	1.800
Service Earmarked Reserves	<u>5.885</u>
TOTAL RESERVES AVAILABLE	<u>38.319</u>

129 It is recommended that the £38.319 million is utilised as follows:

	Current Balance	Addition	Revised Balance
	£m	£m	£m
MTFP Support	15.162	27.319	42.481
ER/VR Reserve	5.313	7.500	12.813
Commercial Reserve	4.971	3.500	8.471

- 130 The replenishment of the reserves set out above will ensure the council is well placed to face future financial challenges either relating to balancing future years budgets and supporting the MTFP process or providing cover for budget overspends thus protecting the General Reserve.

Conclusion

- 131 The provisional settlement received is in the main positive for the council and is to be welcomed. It will assist in helping to support the balancing of the 2023/24 budget provided the council tax raising flexibilities are taken, which is a clear expectation from central government. It will however not allow a balanced budget to be set without the need for significant savings (£12.733 million) and use of reserves next year (£12.881 million).
- 132 The provisional settlement however does not provide long term certainty for local government, with many uncertainties still in place in relation to settlements, especially beyond 2025/26.
- 133 The report sets out details of the consultation feedback received. The feedback will be taken on board in terms of finalising the saving that will be presented to Cabinet and Council in February as part of the budget setting process. The report sets out details of proposed changes to the savings previously considered by Cabinet. None of the savings previously put forward have been withdrawn at this stage, but there are some re-profiling proposals between 2023/24 and 2024/25. In addition, three new savings are to be considered, which increases the overall saving total to £18.611 million, and details of these are set out in the report.
- 134 To ensure budgets can be balanced, whilst further clarity is sought and to provide time to work up proposals to reduce expenditure to address the underlying budget position, a thorough review of all earmarked reserves has been completed and the report sets out details of the earmarked reserves to be re-prioritised and the transfer of funding to the ER/VR reserve and to the MTFP Support Reserve, to provide capacity to balance the budget over the medium term, together with a proposed transfer to the Commercial Reserve.

135 Planning for the councils 2023/24 budget will continue over the coming weeks with the budget report to be presented to Cabinet on 8 February 2023 before being presented to Council on 22 February 2023.

Background papers

- Autumn Statement, published 25 November 2022
- Provisional Local Government Finance Settlement, published 19 December 2022

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
- Medium Term Financial Plan (13), 2023/24 to 2026/27 – Report to Cabinet 12 October 2022
- Local Council Tax Reduction Scheme 2023/24 – Report to Council 19 October 2022
- Council Tax Base 2023/24 and Forecast Deficit on the Council Tax Collection Fund as at 31 March 2023 – Report to Cabinet 16 November 2022
- Forecast of Revenue and capital Outturn 2022/23 – Period to 30 September 2022 and Update on Progress towards achieving MTFP(12) savings – Report to Cabinet 16 November 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.

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

Finance

On 17 November 2022 the Chancellor of the Exchequer published an Autumn Statement (AS). It was widely expected that the AS would result in funding reductions for the public sector alongside a potential public sector capped pay increases, due to the significant increases in the forecast of annual national deficits over the coming years - a combination of post Brexit economic challenges, the ongoing impact of the pandemic upon the economy and the poor outlook for the economy in the medium term.

In making the AS, the Chancellor of the Exchequer deferred decisions on any significant funding reductions in the public sector until the next parliamentary period, with reductions now expected in the period 2025/26 to 2027/28. On a more positive however, additional funding was provided to the health service, education and local government, as well as local government being provided with additional council tax raising flexibilities.

The additional funding being provided will result in an improved financial outlook for the council in the short term. The report highlights that there is a savings shortfall in 2023/24 of £25.614 million required to balance the 2023/24 budget, with £41.041 million of additional savings required across the next four years.

Additional savings of £18.336 million across the MTFP(13) period have been factored into the forecasts to assist in balancing budgets across the MTFP(13) period, taking the overall savings proposals to £18.611 million.

Additional savings have been identified from the early redemption of debt (£0.200 million), a restructure of Head of Service posts (£0.081 million) and from the removal of the free after two policy for council car parks introduced to aid COVID recovery in 2021/22 (£0.600 million).

The savings factored into the October Cabinet report have been subject to consultation during October and November. None of the savings previously put forward have been withdrawn at this stage, but savings linked to a restructure of the Internal Audit Team will need to be reprofiled between 2023/24 and 2024/25.

Final decisions on savings to be implemented will be taken as part of the budget setting report in February 2023.

The achievement of £12.733 million of savings in 2023/24 will help reduce the 2023/24 funding shortfall from £25.614 million to £12.881 million whilst the £18.611 million of savings proposed will reduce the savings shortfall over the four years of MTFP(13) from £41.041 million to £22.430 million.

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, the October Cabinet report highlighted that a thorough review of all earmarked reserves was to be undertaken to ensure that corporate reserves are in place to ensure the council can set balanced budgets.

This review has been completed and the report sets out details of the funds to be re-prioritised and the transfer of funding to the ER/VR reserve and to the MTFP Support Reserve, to provide capacity to balance the budget over the medium term.

The application of reserves to balance the budget is not a sustainable solution to the financial challenges we face.

Consultation

The report provides full detail on the MTFP(13) consultation process.

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 October report contained summary details of the impact assessment on the proposed savings. An updated Equality Impact Assessment factoring in the consultation feedback and further work undertaken since the initial screening was undertaken in October will be factored into the February reports.

The table below provides information of the MTFP consultation responses.

Around 85% of overall online/paper questionnaire respondents provided equality monitoring information as set out in the tables below:

Gender	Number	Percent
Male	190	38.9%
Female	293	59.9%
Prefer to self-describe	5	1.0%
Non-binary	1	0.2%
Total	489	100.0%

Age	Number	Percent
Under 18	1	0.2%
18-24	6	1.2%
25-34	46	9.3%
35-44	129	26.2%
45-54	119	24.1%
55-64	112	22.7%
65-74	61	12.4%
75+	19	3.9%
Total	493	100.0%

Disability	Number	Percent
Yes	94	19.1%
No	398	80.9%
Total	492	100.0%

Religion or Belief	Number	Percent
Christian	282	60.4%
None	172	36.8%
Buddhist	4	0.9%
Agnostic	2	0.4%
Atheist	2	0.4%
Muslim	2	0.4%

Religion or Belief	Number	Percent
Pagan	2	0.4%
Spiritualist	1	0.2%
Total	467	100.0%

Ethnicity	Number	Percent
White British	468	97.5%
White Non-British	5	1.0%
Mixed Race	4	0.8%
Travelling Community	2	0.4%
Asian or Asian British	1	0.2%
Total	480	100.0%

Sexual orientation	Number	Percent
Heterosexual/straight	408	94.0%
Gay or lesbian	20	4.6%
Bisexual	6	1.4%
Total	434	100.0%

Feedback was received across the protected groups, although rates were not always directly comparable with population data for the County. More women (59.9%) than men responded to the survey. In terms of age, 83.5% of respondents were between the age of 18-64, with 16.3% over the age of 65. Recent census 21 data releases show County Durham's 16-64 years population is 61.8%, demonstrating a disproportionately higher engagement rate with the 'working age' population. There was only one respondent from the under 18 age group however a targeted engagement session was carried out with 17 members of the Youth Council to provide a representative voice for younger residents.

The disability respondent rate was 19.1%, which is broadly representative with census 11 rates of 18.9% (for working age) and 23.6% (for overall county population). 2.5% of respondents were Black, Asian and Minority Ethnic which is lower than recently released census 21 ethnicity data for the County at 5.3%. Respondents from the remaining protected groups were representative of the population with 6% from the lesbian, gay and bisexual population and 36.8% having no religion or belief. There was a slightly higher response rate from Christians (60.4%) compared to the County wide rate of 54.6%.

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 each of the proposals as they are developed and decisions made to take these forward. There are no human right implications from the information within the report.

Crime and Disorder

None

Staffing

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 the October report, as amended for the changes outlined in this report be implemented in full, it is estimated that there will a 118 FTE reduction across the four years. HR policies will be strictly adhered to in terms of any restructure activity and priority will continue to be placed on seeking voluntary redundancies and early retirements to mitigate against the need for compulsory redundancies.

The staffing / HR implications arising from the action that will need to be taken to meet the circa £22.4 million shortfall over the next four years are yet to be determined and will need to be outlined in future reports for MTFP(14) and beyond.

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 and volatility. 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 have been assured in terms of delivery with every attempt made to seek to protect front line services as far as possible.

Procurement

None

