Cabinet

12 July 2023

Medium Term Financial Plan(14), 2024/25 – 2027/28, Review of the Local Council Tax Reduction Scheme and Council Tax Discretionary Discounts and Premiums Policy

CORP/R/23/01

Report of Corporate Management Team

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Purpose of the Report

1 To provide an update on the development of the 2024/25 budget and the Medium Term Financial Plan (MTFP(14)) covering the period 2024/25 to 2027/28. The report also considers a review of the Local Council Tax Reduction Scheme for 2024/25 and proposed changes to the Council Tax Discretionary Discounts and Premiums Policy.

Executive Summary

2 The Council is continuing to operate in a period of significant financial uncertainty, particularly from 2025/26 onwards. This uncertainty is driven by continuing short term local government finance settlements, our inherent low tax raising capacity due to our low tax base alongside ongoing significant budget pressures in social care brought about by National Living Wage increases, enduring demographic pressures in Children's Social Care and the ongoing inflationary impact upon pay awards and service provision such as in waste and transport. The financial outlook for the Council will continue to be extremely challenging for the foreseeable future.

3 Future financial settlements for local government beyond 2024/25 and how available funding will be shared between local authorities is still unclear.

4 For a number of years local government has awaited the implementation of the outcome of the Fair Funding Review (FFR). Progress in this regard

appears to have stalled, with no new consultations announced. It would appear highly unlikely that any changes will be implemented until at least 2025/26 with a 2026/27 implementation appearing much more likely. At the same time there was expectation of a business rate reset in 2023/24 as part of Business Rate Retention (BRR). This did not progress due to the delay in the implementation of the FFR and it would appear unlikely that a business rate reset will be implemented until the FFR is progressed. The council would expect to be a beneficiary of any business rate reset as business rate income growth in the county has been lower than the national average since the implementation of BRR in 2013/14.

5 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, this provides little time to react for local authorities. Lack of clarity on the date of the next general election and the date for any future Comprehensive Spending Review further exacerbates the uncertainty experienced for a number of years now.

6 The 2023/24 local government finance settlement was a one year settlement but did provide indicative additional national allocations of social care and Better Care Fund grant income for 2024/25. It has been assumed that the sums announced in December 2022 will be received in 2024/25 and that the distribution methodology will be in line with that used in 2023/24.

7 There is however no clarity at this stage on any other additional funding for local government against the background of continuing high levels of inflation – in particular compensation for the impact of the Local Government Pay settlement, which has outstripped budget assumptions for the second year running. In addition, there is no clarity at this stage on the future of the New Homes Bonus, with our MTFP planning assumptions being that the funding will cease in 2024/25.

8 For future years the Chancellor of the Exchequer’s 2022 Autumn Statement announced that for the period 2025/26 to 2027/28, public sector funding will increase by 1% in real terms. This would indicate that the public sector funding will increase by 1% above inflation. On the basis it is likely that health, education and defence spending would once again be protected. This will unfortunately 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 we have assumed grant settlements for the council will be cash flat for the period 2025/26 to 2027/28. This may prove to be an optimistic assumption.

9 This level of uncertainty continues to make financial planning extremely challenging and requires the council to be flexible and adaptable in its financial planning. In this regard the strong financial controls in place and

the councils track record in terms of managing its budgets and medium term financial planning arrangements, will ensure that the council is well placed to react effectively to any outcome.

10 As the council starts to consider the budget plans for 2024/25, in line with previous practice, the MTFP forecasts have been reviewed and updated covering the next four financial years - 2024/25 to 2027/28. Financial plans have been updated to for unavoidable inflationary and other demographic cost pressures the council will face. The Consumer Price Index (CPI) peaked at 11.1% in October 2022 and although this has reduced to 8.7% for the twelve months to April 2023, it is now forecast to stay higher for longer than the Chancellor set out in his budget forecasts. In addition, the Low Pay Commission are forecasting that the National Living Wage will need to increase by higher levels than previously estimated due to national median wages increasing higher than previously expected – with a 7.1% increase assumed to be implemented from April 2024 in our financial forecasts.

11 There are a range of unavoidable base budget pressures which have also needed to be reflected in the financial forecasts. These unavoidable base budget pressures include ongoing income pressures in 2024/25 for Leisure (£1.0 million) and Aycliffe Secure (£0.6 million), housing benefit subsidy shortfalls linked to increased costs of temporary and supported accommodation (£2.0 million) that need to be accommodated next year and forecasts of future waste disposal contract costs from 2026/27 (£3.0 million).

12 The updated forecasts indicate a funding gap / savings requirement of £56.014 million to balance the budget over the 2024/25 to 2027/28 period. Savings are forecast to be required in all years of the MTFP(14) planning period as a combination of unavoidable base budget pressures from inflation and other demographic changes not being offset by new government grant funding meaning that our spending pressures outstrip the Council's ability to generate additional income from business rates and council tax. The forecasts assume the Council will apply the maximum Council Tax increases allowed across each of the next four years, in line with government guidance.

13 The achievement of an additional £56.014 million of savings over the next four years will 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 £262 million of savings up to 31 March 2024.

14 The total savings required at this stage for 2024/25 to balance the budget amount to £12.135 million, although this figure could change depending on confirmation of the expected levels of increases in government grant in 2024/25 and whether the council experiences further additional financial pressures due to demand, loss of income or due to the impact of inflation. Of particular concern is whether the current 2% assumed pay award in 2024/25 will be sufficient and depending on how and whether inflation is brought more under control as the year progresses there may be a need to increase the pay award pay inflation forecast next year. Every 1% adds £2.65 million to the councils pay bill – increasing the funding gap that needs to be bridged to balance the councils budget.

15 Savings of £2.225 million for 2024/25, £1.873 million for 2025/26 and £1.780 million for 2026/27 were approved in MTFP(13), when the 2023/24 budget and MTFP(13) were agreed at Council on 22 February 2023. These savings are assumed to be deliverable and will contribute to meeting the forecast £56.014 million savings shortfall. The previously agreed savings are set out at Appendix 2.

16 The MTFP(13) forecasts assumed that there would be a 4.99% council tax increase in 2024/25, and 2.99% increases per annum thereafter. The 4.99% increase for 2024/25 includes a 2% increase for an adult social care precept in line with government expectations. The updated MTFP(14) forecasts assume the same at this stage. Decisions on council tax are ultimately matters reserved for County Council at budget setting in February 2024.

17 Every 1% of council tax increase generates circa £2.675 million, so if the Council ultimately chooses not to maximise its council tax increase in line with government expectations, the funding gap will increase by a further £2.675 million for every 1% it is below the expected level. Without a sustainable strategy to meet the additional challenge this would result in would not represent prudent fiscal management of the public finances.

18 The council continues to challenge government on the equity and effectiveness of council tax, both as a tax and as a fair method of funding local government. The council will continue to use every opportunity to raise this issue, especially as part of any consultation on the Fair Funding Review.

19 A challenging financial position is also forecast for the council in 2025/26, where the savings required to balance the budget in that year is forecast to be £16.157 million. The budget position for 2026/27 and beyond is also forecast to require the council to continue to seek savings where increasing base budget pressures, especially in social care and waste, cannot be financed from increases in council tax and from business rate yields. This is a symptom of our low tax raising capacity and the flaws in the current funding mechanisms for local authorities like ourselves.

20 Additional savings plans have been developed to assist in balancing the 2024/25 budget and help reduce the funding deficit across the next four years. Initial new savings proposals included in this report total £6.617 million for consideration and consultation across the coming months, with £3.725 million potentially available in 2024/25. The initial new savings proposals are set out at Appendix 3.

21 In addition to these new savings proposals for consideration and consultation, the report sets out proposals for consulting upon utilising additional council tax flexibilities for empty and second homes, which would result in a 100% premium being applied to homes that have been empty for more than twelve months rather than the current policy of applying this after twenty four months, and a 100% premium applied to second homes. The changes in relation to empty properties could be implemented from 1 April 2024, whereas the changes in relation to second homes could only be implemented from 1 April 2025. These proposals will also be subject to consultation over the coming months.

22 Savings plans for 2024/25 include a proposal to reduce the grant support the council provides to Town and Parish Council's linked to the implementation of Local Council Tax Reduction in 2013. The proposal is to consult with Town and Parish Councils on a 50% reduction in this grant, phased in over two years, to assist Town and Parish Councils in factoring this into their budget and medium term financial plans.

23 The previously agreed MTFP(13) savings plans and the new proposed MTFP(14) savings plans for consideration and consultation, together with the potential changes to the Council Tax Discretionary Discounts and Premiums Policy included in this report could reduce the savings shortfall to £6.185 million in 2024/25 and £43.519 million over the MTFP(14) planning period.

24 Work will continue in terms of identifying additional savings plans for 2024/25 over the coming months to enable a balanced budget to be set and limit the reliance on reserves. Although the MTFP Reserve is available to support the budget, which presently has a balance of £27 million, the size and scope of future savings shortfalls across the MTFP(14) period requires the council to seek to adopt a strategy of protecting the MTFP Reserve in 2024/25 as far as possible. 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.

25 The council is the only local authority in the North East to have retained entitlement levels for Council Tax support within the Local Council Tax Reduction Scheme (LCTRS) in line with that which applied under the national Council Tax Benefit regime prior to 2013/14. This policy has protected vulnerable residents at a time when welfare reform changes and more recently the pressure on household incomes from cost of living increases have had a significant adverse impact. This report recommends

that the current LCTRS is again retained and remains unaltered for a further year into 2024/25. Should the Cabinet agree these proposals, the Council will need to formally adopt this policy at Full Council prior to 11 March 2024, with a report scheduled for consideration by Council in October 2023

Recommendations

26 Cabinet is asked to:

(a) note the savings attached at Appendix 2 which were previously approved in MTFP(13);

(b) note and approve that consultation progresses on the new savings proposals developed for MTFP(14) as set out at Appendix 3, alongside the equality impact assessments contained at Appendix 5 ;

(c) approve that consultation begins on the implementation of additional council tax flexibilities for empty and second homes as set out in the report;

(d) approve that consultation begins in relation to proposed reductions in grant support for Town and Parish Councils;

(e) note the updated MTFP forecasts and the requirement to identify additional savings of £56.014 million for the period 2024/25 to 2027/28 but also note that this forecast could change significantly based upon decisions on council tax, the outcome of future government funding settlements, the Fair Funding Review and the ongoing impact of demand for services and inflationary pressures upon the council;

(f) note that at this stage it is forecast that additional savings of £12.135 million are required to balance the 2024/25 budget;

(g) agree the high level MTFP(14) and 2024/25 budget setting timetable contained in the report;

(h) agree the approach outlined for consultation on the 2024/25 budget and MTFP(14);

(i) agree the proposals to build equalities considerations into decision making; and

(j) agree that Cabinet recommend to Full Council that the Local Council Tax Reduction Scheme should remain unchanged for 2024/25.

Background

27 To ensure the 2024/25 budget and MTFP(14) 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.

28 The council is committed to strong financial governance and getting value for money whilst ensuring that any council tax increases are justified and affordable and has a strong track record in terms of managing its budgets and medium term financial planning arrangements.

29 The current MTFP(13) forecast that the Council agreed on 22 February 2023 covers the four year period 2023/24 to 2026/27. This report covers the MTFP(14) four year planning period 2024/25 to 2027/28.

30 It is prudent that the council continues to plan across a four year timeframe, even though this is compromised by the continuation of one year grant settlements from government. During this period the Council will continue to face significant and unavoidable budget pressures, especially relating to inflationary impacts, National Living Wage uplifts which impact significantly on our social care budgets, Social Care demographic pressures and Waste Disposal pressures, whilst facing the uncertainty over the impact of the Fair Funding Review (FFR) and future pay awards.

31 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 over the coming year(s).

32 Savings of £2.225 million for 2024/25, £1.873 million for 2025/26 and £1.880 million for 2026/27 were approved in MTFP(13). Initial new savings plans for the MTFP(14) period are included in this report for consideration and consultation, although further savings will need to be developed for consideration for 2024/25 and in future years as the budget planning process progresses. Having plans in place will enable the council to react to the outcome of the 2024/25 local government finance settlement, which is expected to be announced in December 2023.

33 If required, the council will be able to utilise the MTFP Reserve to balance the budgets across the MTFP(14) planning period as required whilst savings proposals are implemented. The balance in the MTFP Reserve after the application of £10.028 million to balance the 2023/24 budget is £27 million. 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.

34 At this stage of the planning cycle for MTFP(14) the following areas are presented for consideration by Cabinet:

(a) an update on the development of the 2024/25 budget since the council agreed its MTFP(13) strategy on 22 February 2023 and the risks and issues inherent in these forecasts;

(b) an update on the MTFP(14) savings forecast for the period 2024/25 to 2027/28;

(c) initial savings plans for consideration and consultation for the MTFP(14) period to assist in closing the MTFP(14) period savings shortfall and help balance the 2024/25 budget alongside Equality Impact Assessments

(d) proposals to utilise additional council tax flexibilities for empty and second homes, which would result in a 100% premium being applied to homes that have been empty for more than twelve months rather than the current policy of applying this after twenty four months, and a 100% premium applied to second homes;

(e) a draft MTFP(14) decision making timetable;

(f) proposed approach for consultation on the 2024/25 budget proposals and on MTFP(14);

(g) workforce implications;

(h) equality considerations;

(i) consideration of the proposed Local Council Tax Reduction Scheme (LCTRS) for 2024/25.

Review of MTFP Forecasts

35 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 alongside the impact of Brexit and the inflationary impact of the war in Ukraine and cost of living crisis that has followed, is forecast to have long term impacts on the councils ability to balance its budgets across the coming years as there will be limited flexibility for government to increases in expenditure across the public sector.

36 Local authorities continue to lobby strongly for a long term sustainable financial settlement. The publication of the next Comprehensive Spending Review, which is vital to local government receiving a long term financial settlement, is not expected to occur until after the next General Election which is not expected until at least October 2024 or perhaps could be as late as January 2025. It is highly likely therefore that local government will receive one year financial settlements for both 2024/25 and 2025/26.

37 The council will need to continually review the MTFP(14) 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 increasing demand for our services and the ongoing impact of inflation upon the council's budgets going forward.

38 In line with previous years, a thorough review of the council's budget forecasts has taken place subsequent to the approval of MTFP(13) forecasts by County Council on 22 February 2023. This has resulted in changes to a range of the core assumptions previously made for 2024/25 and in future years as well as the need to consider a range of unavoidable increased cost and demand pressures. The key required adjustments and major areas for consideration are detailed below:

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

MTFP(13) assumed that the FFR would not be implemented until at least 2025/26. To date there has been no updated consultation documents released relating to the FFR, which would seem to confirm that it is still unlikely that there will be any implementation until 2025/26 and with the likely date of the next General Election now forecast to be in Autumn 2024 it would appear more likely that any FFR implementation would not be until 2026/27.

The 2023/24 local government finance settlement provided detail of indicative additional Social Care, Adult Social Care Discharge and Market Sustainability Grant funding for 2024/25. The increases were included in the MTFP model included in MTFP(13). At this stage it is assumed that these additional sums will still be received by the council in 2024/25 and that the distribution methodology will be in line with that used in 2023/24. In addition, it is forecast that the council will receive an inflationary uplift in Better Care Fund (BCF) grant providing additional funding of £1.5 million in 2024/25.

There is still no clarity on the future of the New Homes Bonus or Services Grant. The MTFP(13) assumption of reductions in these two funding streams of £1.980 million in 2024/25 has been retained. This would mean the council would receive no New Homes Bonus funding in 2024/25 and the Services Grant would reduce to £4.825 million.

The reduction in the services grant is expected to be redirected towards Supporting Families funding – which is a specific grant aligned to our Children and Young People's Service.

At this stage, the underlying assumptions built into initial MTFP(14) planning are as follows:

(i) The local government finance settlement provided detail of indicative additional Social Care (£7.8 million), Adult Social

Care Discharge (£2.8 million) and Market Sustainability Grant (£3.2 million) funding for 2024/25. The increases were included in the MTFP(13) forecasts agreed by Council in February 2023.. At this stage it is assumed that these additional sums will still be received by the council. It should be noted however that the Adult Social Care Discharge Grant and the Market Sustainability Grant are both specific grants that come with new spending commitments. The grant conditions received in April provide limited flexibility in terms the ability to utilise this funding to balance the underlying budget;

(ii) It is forecast that the council will receive an inflationary uplift in Better Care Fund (BCF) grant providing additional funding of £1.5 million in 2024/25;

(iii) The future of the New Homes Bonus remains uncertain and further reductions in the Services Grant are yet to be confirmed. The MTFP(13) assumption of 2024/25 reductions in these two funding streams totalling £1.980 million is retained at this stage. This would mean the council would receive no New Homes Bonus funding in 2024/25 and the Services Grant would reduce to £4.825 million. The sums taken out of our services grant are expected to be redirected towards Supporting Families funding – which is a specific grant aligned to our Children and Young People's Service.

(iv) There will be a 6% inflationary uplift in RSG in 2024/25 in line with the forecast level of CPI as at 30 September 2023, the date which is normally utilised for the uplift figure. There is no certainty at this stage as to whether an increase will be received or whether the 30 September date will be retained, however, this assumption is felt to be prudent at this stage;

(v) The 2022 Autumn Statement forecast that uplifts in public spending for the period 2025/26 to 2027/28 would be limited to annual 1% real terms increases. On the basis that health, education and defence spending would, once again likely to be protected, this will unfortunately lead to some tough grant reductions for that period for unprotected government departments such as the Department for Levelling Up, Housing and Communities.

Unprotected services such as local government could therefore face real terms funding reductions. Until a long term settlement for local government is received there will continue to be a lack of clarity in this area. At this stage the MTFP(13) assumption that settlements for 2025/26 and beyond will be cash flat is retained. This may prove to be an optimistic assumption.

(vi) That the council tax referendum level will be held at 2.99% over the MTFP(14) period and that the council will take advantage of the expected 2% Adult Social Care precept raising capacity available in 2024/25.

The MTFP(13) forecasts assumed that there would be a 4.99% council tax increase in 2024/25, and 2.99% increases per annum thereafter. The 4.99% increase for 2024/25 includes a 2% increase for an adult social care precept in line with government expectations. The updated MTFP(14) forecasts assume the same at this stage. Decisions on council tax are ultimately matters reserved for County Council at budget setting in February 2024.

Every 1% of council tax increase generates circa £2.675 million, so if the Council ultimately chooses not to maximise its council tax increase in line with government expectations, then the funding gap will increase by a further £2.675 million for every 1% it is below the expected level. Without a sustainable strategy to meet the additional challenge this would not represent prudent financial management.

Any 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**

The business rate retention (BRR) system was introduced in 2013/14, with local authorities retaining 49% of business rates collected locally from that point forward.

Nationally business rates are uplifted every year by inflation based on the consumer price index (CPI) in the September previous to the year of application. Local authorities also receive similar inflationary uplifts for the compensation the council receives for previous lost business rates due to government intervention e.g. capping business rate increases.

In recent years government have sought to protect businesses from these increases and capped the actual increase in the business rate multiplier at 0%, but have reimbursed local authorities for the business rates lost by way of a section 31 grant. In 2023/24 £34.5 million of section 31 grant is being received in lieu of business rate income that would otherwise have been levied.

It has been forecast that business rates, section 31 grant and top up grants will be uplifted by a forecast 6% in 2024/25 based upon the estimated September 2023 CPI with a forecast 1.5% increase in

2025/26 and 1% increase thereafter. The increases in future years are in line with the inflationary forecasts published by the Chancellor of the Exchequer in the March Spring Budget announcements, alongside the Office for Budget Responsibility forecasts.

(c) **Taxbase forecasts**

The forecast growth in both the council tax and business rate taxbase across the next four years has been reviewed. Based upon the reviews undertaken to date it is forecast that the council tax taxbase will increase in 2024/25 by £2.3 million, in line with MTFP(13) forecasts although the forecast increases in later years will be slightly lower than forecast as a result of the impact of inflation and subsequent increases in bank base rates which have impacted construction costs and access to mortgages. The 2024/25 business rate taxbase increase forecast for MTFP(13) was £0.5 million, however, it is now forecast that the taxbase increase will be £1.8 million, largely as a result of new business developments coming on stream faster than forecast with taxbase increases for later years left unchanged at this stage. The forecasts will be kept under constant review and will be updated in September in advance of setting the taxbase for budget setting purposes in 2024/25.

(d) **Pay Inflation**

The 2023/24 base budget includes 5% pay inflation. However, at the end of February, after the Council had set its budget, the Local Government Employers made an offer which significantly exceeded this. The offer, which impacts the majority of council employees under ‘green book’ conditions is for a flat rate £1,925 per annum increase. Such an increase would result in an average 6.5% pay increase for council staff, with the percentage increase being greater for lower paid employees. The additional 1.5% over the 2023/24 budgeted sum will result in an overspend in 2023/24 and require a £3.711 million increase in the 2024/25 base budget.

MTFP(13) built in an assumption of 2% pay awards for the period 2024/25 to 2026/27. The inflationary forecasts published by the Chancellor of the Exchequer in the March Spring Budget announcements, alongside the Office for Budget Responsibility forecasts indicated that in 2025/26 to 2027/28 inflation would fall below the governments previous target of 2%.

In the latest modelling it has been assumed therefore that pay awards will be 2% in 2024/25, 1.75% in 2025/26 and 1.5% for the following two years.

This position will be kept under review, especially in light of public sector pay settlements in coming months and the trajectory of inflation. Every additional 1% on the paybill for the council would require additional budget of £2.65 million.

(e) **Price Inflation**

The MTFP(13) forecast of 1.5% across the four year period is retained for the MTFP(14) period 2024/25 to 2027/28. There are some specific increases in some contract costs across the MTFP(14) period which are covered later in this report for which additional budget provision is required as these costs cannot be contained within the general 1.5% inflationary provision. The 1.5% for price inflation is assumed to apply to all the councils income and expenditure budgets.

(f) **National Living Wage/CPI Uplift impact upon adult care fees**

The forecasts have been updated on the following basis:

(i) The proportion of the fee linked to NLW increases and CPI for residential care is based upon the fee uplift model agreed with the County Durham Care Home Association for 2023/24 and 2024/25;

(ii) The forecast NLW uplift in 24/25 is based on the March 2023 Low Pay Commission report forecasts of a likely increase from £10.42 per hour to £11.16, or 7.1%.

(iii) CPI is assumed at 6% in terms of the 2024/25 fee uplift;

(iv) That in 2024/25 the NLW will have reached the government target of 66% of average median wages;

(v) For later years it is assumed that social care fees increase by 3% in each year between 2025/26 to 2027/28. This is based upon the OBR forecasts of CPI being below 1% for those years. NLW is forecast to increase in line with average median salaries which are not forecast to increase by more than 4%.

(g) **Employer Pension Contributions**

The next the triennial valuation review of the Pension Fund will need to be applied from April 2026. This will set the employers’ pension contribution rate for the following three years, as well as determining the annual contribution to eliminate the pension fund deficit.

In the first year since the latest triennial review was undertaken (based on the position at 31 March 2022) asset values within the pension fund have not increased as much as forecast, largely due to market instability due to the continuing impact of the war in Ukraine, and it is presently forecast that there may need to be an increase in employers pension contribution rates or pension deficit payments in 2026/27.

At this stage a cost increase of £1 million has been included in 2026/27. This position will need to be kept under review.

(h) **Energy Price Increases**

In 2023/24 the council has a base budget of circa £18 million to meet its forecast gas and electricity costs. This includes the £6 million budget uplift factored into MTFP(13), which was expected to reduce to £16 million in 2024/25 as energy prices fell.

Energy prices are falling in line with forecasts but are now estimated to fall slightly further in 2024/25 than originally estimated. To be prudent at this stage the energy budget is presently forecast to reduce by £2.6 million in 2024/25, followed by £0.75 million reduction in 2025/26 and 2026/27. The reduction for 2024/25 is £0.6 million greater than previous forecasts although over the four years of MTFP(14) the reviewed forecast include £1.150 million of additional long term pressures in our energy budgets.

(i) **Adult Demographic Pressure**

The overarching position in terms of demand for higher cost social care packages is looking better than previously anticipated, largely as a result of the success of our reablement service and home care services which is allowing more people to remain in their homes for longer. Based upon latest data for activity and income recovery the growth of £1.5 million per annum which was previously forecast has been revisited. No uplift is included for 2024/25, but £1 million has been retained for 2025/26 and £1.5 million per annum included for the later years.

(j) **Children's Social Care Demographic Pressure**

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 significantly and their needs have continued to become more complex.

There are signs that the numbers of children needing to be looked after is stabilising, but the placement mix and the costs of meeting more complex needs is still driving budget pressures.

In MTFP(13) a budget uplift of £13.8 million was included to cover Looked after Children pressures above the “standard” inflation built into pay and price inflation assumptions. It was forecast that the annual pressure for later years would be £5 million per annum.

The Council has a Placement Sufficiency Strategy in place to increase capacity within county and reduce reliance on external out of county placements which can be costly. The strategy also includes a focus on increasing in-house fostering capacity, to reduce the reliance on more costly external Independent Fostering Agency placements.

It is presently forecast that there will be an overspend in 2023/24 despite the budget growth provided and that a budget uplift of £8 million will be required in 2024/25 rather than £5 million, in part to cover the overspend that is expected to manifest in the current year.

This position will be kept under constant review throughout 2023/24. The forecast budget uplift of £5 million is maintained in 2025/26 whilst uplifts of £4.4 million and £3.2 million are included for 2026/27 and 2027/28 respectively on the assumption that the council’s investment as part of its Sufficiency Strategy and in foster care in 2023/24 begins to impact on external residential and Independent Fostering Agency placements.

(k) **Vehicle Fleet Replacement – Electric Vehicles**

In line with the councils Climate Change commitments to reduce its carbon emissions, we have been pursuing a strategy of replacing smaller vehicles with electric vehicles in recent years. These vehicles replacements have been broadly cost neutral with the additional annual leasing cost offset by savings on fuel costs. The strategy then being to replace larger vehicles in a period up to 2030.

It was forecast that the replacement of larger vehicle with electric vehicles would be more expensive due to the higher cost of the vehicles, with forecast additional budget pressures net of savings on fuel costs of £1.3 million and £3.2 million included in MTFP(13) plans for 2025/26 and 2026/27 respectively.

A review of the forecast costs of replacement of larger vehicles with electric vehicles has been undertaken, factoring in updated market conditions. The forecast costs for 2025/26 and 2026/27 have been revised to £1.1 million and £2.2 million reflecting that lease costs of larger electric vehicles is forecast to be less than previously forecast as prices reduce due to technology improvement.

An additional budget requirement of £2.3 million is included for 2027/28 as the replacement process continues up to 2030.

(l) **Prudential Borrowing**

In MTFP(13) it was forecast that the borrowing costs to finance the existing capital programme would need increases of £6.4 million in 2024/25 and £3.4 million in 2025/26.

This position has been reviewed based upon the revised profile of the capital programme, the future forecast of interest rates and the timing of when it is forecast that the council will need to borrow. The council has also taken advantage of interest rate uplifts to repay a number of current loans thus reducing future repayments.

The review has enabled the forecast costs to be reprofiled but also to reduce the total forecast cost by £1 million. The revised cost profile is £2 million in 2024/25 and £6.8 million in 2025/26.

Budget provision of £3 million in 2026/27 and 2027/28 is retained at this stage to fund potential new capital funding commitments in MTFP(14) and MTFP(15). The scale and scope of any new capital commitments will need to take into account both the affordability in terms of borrowing costs but also the capacity of the council to deliver the programme. Opportunities may arise to leverage additional funding from the regional Devolution Deal which could augment the capital funding available to the council in future.

(m) **Investment Income**

Income earned from the investment of cash balances exceeded budget in 2022/23. This position was partially due to higher than budgeted cash balances being held (a combination of slippage within the capital programme and the receipt of significant capital receipts in year), along with improved interest rates on the back of increases in bank rates.

In MTFP(13) a short term forecast increase in investment income for 2023/24 (£7 million) was included in the budget, with this expected to drop out in 2025/26 as cash balances and bank base rates reduced.

The updated MTFP(14) forecasts assume that the additional £7 million of income factored into the 2023/24 base budget, will reduce by £3.5 million in 2024/25; £2 million in 2025/26; and £1.5 million in 2026/27. This takes into account the fact that investment income is expected to exceed budget in 2023/24 as cash balances and investment returns are exceeding previous forecasts, which will help offset some of the additional inflationary pressures we are facing this year, and updated cash flow forecasts in terms of the capital programme and the timing of taking out new borrowing.

(n) **General Contingencies**

A review of the current level of the general contingency budget has been undertaken. Despite the fact that contingencies budget will come under pressure in the coming year, it is felt that this budget can be reduced to £1.8 million realising a saving of £0.5 million. Going forward, this will increase reliance on the general reserve to meet any unforeseen costs that cannot be absorbed by cash limit or other earmarked reserves in year.

Additional Base Budget Pressures and Growth

39 As well as reviewing the MTFP(13) forecasts consideration has been given to a number of new and emerging base budget pressures that were not included in the previous forecasts but which are recommended for inclusion in the 2024/25 and MTFP(14) financial plans. The following new pressures are included in the updated forecasts;

(a) Leisure Centre Income

Attendance at leisure centres has never fully recovered after the pandemic, but budgeted levels of income remain at pre-pandemic levels. There was an under recovery of leisure income in 2021/22 of £2.5 million and in 2022/23 of £0.9 million, with the position last year benefitting from the buy out and 100% income retention of the gym provision contract. The underachievement of income has been treated as outside the cash limit and pick up corporately for the last two years.

In MTFP(12) and MTFP(13) it was identified that there was a risk that income levels would not fully recover to pre-pandemic levels, and this is proving to be the case.

It is expected a similar level of under recovery will occur in 2023/24 and result in another circa £1 million overspend this year. With this is mind a £1 million budget pressure will need to be accommodated in the base budget in 2024/25 in order to set a balanced budget next year to bring this budget back into balance.

(b) Aycliffe Secure Centre Income

Since the pandemic the service has struggled to achieve previous income levels. This is particularly linked to problems in recruiting staff to ensure that income targets can be generated.

It is prudently recommended that the current income budget is reduced by £0.6 million in 2024/25.

(c) Employability Service

A large proportion of the service was previously funded by European funding, which ends on 31 December 2023 and is replaced with the UK Shared Prosperity Fund (UKSPF) from 1 April 2024.

Funding available through UKSPF is lower than funding currently available to the council through the European Social Fund and significantly lower than the funding the council was due to receive had the UK remained within the European Union.

To partially offset the loss of European funding and help mitigate the impact of the restructuring and downsizing of the existing offer it is felt that additional council core funding is invested to supplement the UKSPF allocations. A £1 million investment has been included for 2024/25 and a separate report has been prepared for Cabinet consideration on the impacts of the new funding regime on existing Employability Services in County Durham.

(d) Member Support – Service Requests

An additional employee budget of £0.150 million is to be invested to ensure that members queries and requests are serviced more effectively. This follows a trial of an enhanced support to members to help with managing their ward caseloads and responding to issues raised by their constituents.

(e) Waste Disposal Contract

The current waste disposal contract ends on 31 March 2026 and needs to be reprocured. It is expected that this contract will be procured in partnership with the five Teesside councils and Newcastle City Council. This procurement is expected to include the development of a new Energy from Waste plan and waste disposal facility in Teesside, which will provide a long term contractual arrangement for all local authorities.

Although the new facility will not be available until 2028 the successful contractor will be required to dispose of the county’s waste from April 2026.

The procurement process is still underway and is still to be finalised but market intelligence would indicate that the contract price in 2026/27 will be £3 million higher than the budget at that time. Although this is a large increase the sum is lower than the increase that would have been expected if the council had relet the contract individually or if it could remain with the existing arrangements.

(f) Fostering Allowances

In late February 2023, the government announced that national fostering allowances for 2023/24 were to increase by 12.4%. The timing of the announcement was too late for the council to include this in the 2023/24 budget, where a 5% price increase had been forecast.

The additional 7.4% increase applied from April will result in an overspend in the budget this year and require a £0.590 million increase in the base budget for 2024/25.

(g) Home to School Transport

70% of all of the council's home to school transport contracts are due to be reprocured in the summer of 2023. It is hoped that the cost of these contracts will not increase significantly, especially with the cost of fuel reducing in recent months.

The outcome of the procurement will not be known until August and the impact of any new demand for SEND travel will not be clear until September. At this stage a prudent estimate of £1 million is included in MTFP(14) plans for 2024/25. This figure will need to be revisited later in the year.

(h) Microsoft Licensing

It is expected that the corporate licence costs will increase by 20% in 2024/25 when the current contract is renewed, which cannot be absorbed within the Resources Cash Limit. The re-procurement of our Microsoft licencing arrangements is underway but the forecast increase is in line with those being applied by Microsoft to other organisations currently. The impact is expected to be a cost increase of £0.336 million.

(i) Joint Stocks Income Loss

For a number of years, to aid the capital scheme around the restoration and landscaping of the closed landfill site at Coxhoe, construction companies have been able to bring soil generated from their activities to Joint Stocks and pay a fee for disposing of it.

This soil was then used to aid the landscaping of the closed landfill site. An income budget of £0.144 million was introduced when this process started a number of years ago and this income was achieved for a significant period of time. However, the site is into a phase where all the necessary material is on site and there is no prospect of achieving an income against this going forward. A budget adjustment is required to remove the income budget from 2024/25.

(j) **Find and Fix Initiative**

The Find and Fix initiative has allowed a more pro-active targeted approach to improving the condition of the local environment in specific areas, which might range from tackling littering and graffiti to overgrown footpaths or unkempt appearance. These are highly visible issues that are very important to local residents and the Find and Fix team supplements base cyclical cleansing and maintenance that s undertaken.

Multi-disciplinary teams have provided more immediate results reducing the level of complaint. Having been introduced in 2020/21, the initiative has had an excellent track record of success but has only ever been funded on a non-recurrent basis from earmarked reserves and funding will be expired by 31 March 2024.

An investment of £0.300 million is recommended to mainstream the Find and Fix activity going forward and secure the resources to continue this provision.

(k) **Housing Benefit Subsidy Shortfall**

The council administers housing benefit (HB) on behalf of the Department for Works and Pensions (DWP) and recovers the sums paid out via the annual housing benefit subsidy grant claim. The total value of the HB payments was £111.5 million in 2022/23.

In most cases the full cost of housing benefit paid can be reclaimed via HB subsidy grant. However, there are certain housing benefit payments that cannot be recovered fully. In the main these relate to Temporary Accommodation (B&B and other Homelessness related accommodation) and Supported Accommodation.

In recent years the total value of HB payments has reduced as people have migrated to Universal Credit. By way of an example, in 2019/20 HB payments totalled £132.5 million.

During the pandemic and in the period since there has been a significant growth in Temporary Accommodation, which led to the need for £0.750 million of growth being provided in MTFP(13). What was less clear and has now manifest is that that this growth in activity is also leading to an increased subsidy loss of circa £0.9 million i.e. HB payments are higher than the subsidy the council receives from government to fund those payments, leading to a further budget pressure for the Council.

The council strategy is to move people accessing Temporary Accommodation into our own properties when the council will be able to claim full subsidy on those payments, so it is hoped that this strategy will reduce the use of B&B accommodation this reducing the financial impact.

On Supported Accommodation there has been a similar significant increase in claims over the last 3 years with the subsidy deficit rising from £0.9 million to £1.4 million. The National Audit Office have recently reviewed this issue and identified that local authorities are increasingly facing significant unfunded subsidy deficits in this area that they need to pick up locally. The council has made a submission to a Call for Evidence that has recently been published by the Public Accounts Committee.

The council is reviewing the individuals who are in this claimant group to better understand the position, where they are being placed and by whom to determine the extent to which this is due to commissioning by the Council and others within the county and by other out of county bodies.

At this stage it is recommended that a £2 million pressure is included in 2024/25. This is a lower sum than the subsidy shortfall being experienced but it is expected that the Temporary Accommodation strategy will reduce the current levels of expenditure to partially mitigate the cost pressures currently being experienced.

2024/25 Savings Forecast

40 Based upon the revised assumptions detailed in this report, the savings requirement for 2024/25 is forecast to be £12.1 million, £1.2 million higher than the MTFP(13) forecast position of a £10.9 million budget deficit. The adjusted position reflects the additional inflationary uplifts in BCF, taxbase increases, reprofiling of the recovery of the uplifts in the energy budgets, retention of higher levels of investment income in the short term and reductions in prudential borrowing costs, offset by additional base budget pressures often linked to high levels of inflation and a range of contractual and unavoidable budget pressures.

41 Savings of £2.225 million for 2024/25 were approved in MTFP(13) and are detailed in Appendix 2 along with the savings that were also approved in MTFP(13) for later years.

42 To ensure the forecast 2024/25 savings shortfall can be addressed early work has been carried out on a range of prospective savings. In line with MTFP policy the main focus has been to protect front line service provision

wherever possible. With this in mind, a range of potential savings for consultation over the coming months are detailed in Appendix 3. If agreed, these proposals would achieve the following level of savings over the MTFP(14) planning period:

	£m
2024/25	3.725
2025/26	1.422
2026/27	0.961
2027/28	0.509
TOTAL	**6.617**

43 If these savings were subsequently approved after consultation, at Full Council on 21 February 2024 when the 2024/25 is set, augmenting the previously agreed proposals for 2024/25, the deficit that would need to be bridged to set a balanced budget next year would reduce from the current £12.1 million forecast to £6.185 million.

44 Within the potential new savings set out at Appendix 3 is a proposal in relation to the Local Council Tax Grant support paid to Town and Parish Council's, which will require engagement with our Town and Parish Council partners.

45 In 2013/14 when Business Rate Retention was introduced the County Council and Town and Parish Councils faced a significant reduction in taxbase. The County Council received a new £37.4 million grant to replace the lost taxbase impacts it faced although this was £5.4 million less than required - passing a significant funding reduction onto the council.

46 The Council also received funding in relation to Town and Parish Councils as part of the new arrangements. Upper tier authorities had a choice at that point whether to passport an element of the grant received onto Town and Parish Council's. Unlike many other councils at that time the County Council chose to do so with a payment of £2.3 million made to the Town and Parishes in 2013/14, with an agreement at that time that the payments would be adjusted in line with future funding settlements.

47 When the specific grant in relation to the LCTRS was subsequently subsumed into the new formula grant arrangements, the grant payment to the Town and Parish Council's was based upon 60% being linked to the County Council's Revenue Support Grant (RSG) level and 40% based upon business rate levels. Across the subsequent period RSG was cut significantly and therefore payments to Town and Parish Councils were reduced also. In the last two years the County Council has received uplifts in RSG and inflationary uplifts to business rates therefore the grant to Town and Parishes has been uplifted.

48 In 2013/14 when many upper local authorities took the decision not to provide any grant support to Town and Parish Council's a large number of Town and Parish Council's increased their council tax to recover the lost taxbase impacts. Town and Parish Councils do not have the same restrictions on council tax increases as upper tier authorities do as they are not subject to a referendum limit. This is still the case.

49 Since 2013/14 more local authorities have taken the decision to withdraw the grant to Town and Parishes as they have faced significant funding shortfalls. The County Council is now one of only a few local authorities who still pay an element of LCTRS grant support to local Town and Parish Councils.

50 The grant payment in 2023/24 is £1.5 million. The grant reduced in the austerity years as the County Council's RSG reduced from £167 million to as low as £28 million. This resulted in reductions in the Town and Parish grant element linked to RSG i.e. 60% of the grant. In recent years however the grant has begun to increase again as RSG and business rates have been inflated.

51 The council could fully withdraw the grant payments to help offset its ever increasing unavoidable budget pressures, however, the proposal is to consult upon applying a 50% reduction in this grant, phased in over two years to assist Town and Parish Councils in factoring this into their budget and medium term financial plans.

52 Town and Parish Council's will benefit from taxbase growth in 2024/25 and can also benefit from the tax base impacts of the proposed changes to long term property premiums in 2024/25 and the proposed introduction of the second home premium in 2025/26, which could partially mitigate the impacts.

53 Although the budget deficit of £6.185 million in 2024/25 is the latest forecast, it should be recognised that this figure could significantly change before Council sets the budget on 21 February 2024. The final savings requirement will be influenced by announcements in the local government finance settlement for 2024/25 and the results of the consultation that will be undertaken. Similarly, the council is facing significant additional budget pressures at the present time which could impact upon the savings requirement and there may be a need to accommodate further budget pressures as a result of the longer term impacts of the inflation upon councils budgets.

54 Unlike this time last year, the council has the benefit of knowing what its indicative funding allocations will be next year, based on the announcements made in December 2022. Additional funding of circa £15

million is included in the updated forecasts, although circa £7.5 million of this is specific grant, that comes with specific new spending requirements.

55 The MTFP(13) forecasts assumed a 4.99% council tax increase in council tax in 2024/25, and 2.99% increases per annum thereafter. The forecast 4.99% increase in 2024/25 includes the 2% adult social care precept flexibility announced in the 2023/24 local government finance settlement and expected by government as part of its Core Spending Power calculations. The updated MTFP(14) forecasts assume the same at this stage. Decisions on council tax are ultimately matters reserved for County Council at budget setting in February 2024

56 Every 1% of council tax increase generates circa £2.675 million, so if the Council ultimately chooses not to maximise its council tax increase in line with government expectations, then the funding gap will increase by a further £2.675 million for every 1% it is below the expected level. Without a sustainable strategy to meet the additional challenge this would not represent prudent financial management.

57 The council continues to challenge government on the equity and effectiveness of council tax, both as a tax and as a fair method of funding local government. The council will continue to use every opportunity to raise this issue, especially as part of any consultation on the Fair Funding Review.

58 With this uncertainty in mind in relation to the future, work will continue in the coming months to seek to identify additional savings to address any future shortfall.

59 If there is still a shortfall in savings at the time Council agree the budget in February 2024, then the MTFP Reserve will need to be utilised. The available balance on the MTFP reserve is £27 million, following the utilisation of £10.028 million to balance the 2023/24 budget. In utilising the MTFP Reserve Cabinet will need to be mindful of the significant budget deficit that is also forecast to exist in 2025/26 after the new and previously agreed savings are factored in of £12.862 million. 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. This necessitates the Cabinet to seek to adopt a strategy of protecting the MTFP Reserve in 2024/25 as far as possible.

Additional Council Tax Flexibilities

60 As part of the Government’s measures to tackle the country’s housing shortage, a change in legislation came into effect from April 2013, allowing local authorities to apply a premium charge on long term empty properties as an incentive for the owners to bring them back into use. The powers provided to authorities required local policy decisions to be made on

whether to adopt them. The powers were extended from April 2019, when the maximum premiums that could be applied were increased.

61 In February 2022, the Government published the Levelling Up and Regeneration Bill the United Kingdom White Paper, which includes provision for local authorities to apply extra council tax charges on properties defined as a long-term empty dwellings earlier than is currently allowed and introduce new additional charges on dwellings occupied periodically, also known as Second Homes.

62 The Levelling-up and Regeneration Bill, which is currently progressing through parliament, supports the Government's objective to reduce geographical disparities between different parts of the United Kingdom by spreading opportunity. It specifically seeks to:

(a) Amend the definition / duration of what is classed as a 'long-term empty dwelling' from two years to one, this will allow local authorities to charge the 100 percent premium a year earlier;

(b) Provide an amended definition of 'long-term empty dwelling' which will come in after 1 April 2024;

(c) Insert a new clause into the Local Government Finance Act 1992 which provides billing authorities in England with the discretion to increase the council tax payable on a dwelling where there is no resident, and which is substantially furnished, often referred to as second home.

Long Term Empty

63 Currently, section 11(8) of the Local Government Finance Act 1992 (Class C) defines a long term empty dwelling as a property which is unoccupied and substantially unfurnished for more than two years.

64 The maximum additional charges which may be applied are 100 percent of the standard council tax bill for long-term empty dwellings which have remained empty for more than two years and less than five years, up to 200% after five years and 300% after ten years. This is set out in the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018, which gave Local Authorities discretion to apply premiums to empty homes.

65 Local Authorities have discretion on whether to apply a premium and at what level to apply the charge below these maximums. In Durham, the 100% maximum additional charge is applied to dwellings empty between two and five years and the additional 200% charge is applied after the dwelling is empty five years. Durham has not (at this stage) adopted a policy to charge a 300% premium after ten years.

66 In introducing this policy the council was mindful that not all long term empty properties related to “absent landlords” and that some were genuine cases where owners were actively trying to sell or there were legal issues preventing dale or where major refurbishment was being undertaken. In such circumstances short term assistance can be applied for (called a Section 13A reduction) to offset the premium, however, any award was not to be extended beyond the financial year in which it is awarded and was not a way of reducing council tax liability indefinitely.

67 The Levelling-up and Regeneration Bill, amends the duration of ‘long-term empty dwelling’ from two years to one, this will allow local authorities to charge the 100% premium a year earlier should the wish to do so – providing the financial disincentive earlier than is currently the case and hopefully bringing more homes back into use earlier. The earliest this change can be applied would be 1 April 2025.

Dwellings occupied periodically/Second Homes

68 Within the Local Government Finance Act, second homes are defined as dwellings which are no one’s sole or main residence and which are furnished (Class A and B).

(a) Class A dwellings are second homes where occupation is prohibited by law for a continuous period of at least 28 days in the relevant year, for example, holiday homes or chalets subject to planning condition restricting year-round occupancy.

(b) Class B dwellings are second homes where occupation is not restricted.

69 Currently there is no council tax premium applied on second homes by the Council.

70 The Levelling-up and Regeneration Bill inserts a new clause into the Local Government Finance Act 1992 which provides billing authorities in England with the discretion to increase the council tax payable on a dwelling where there is no resident, and which is substantially furnished, often referred to as second home.

71 The new powers being provided will allow billing authorities to charge up to 100% extra on the standard council tax bill that would be payable if the property were occupied by two adults and no discounts were applicable.

72 The decision to apply the charge/premium must be made by the authority at least one year before the beginning of the financial year in which the charge is to be applied, i.e. the earliest the charge can be applied to second home dwellings would be 1 April 2025.

Forecasted impact of the adoption of a 300% Empty Home, additional Long-Term Empty and Second Home premiums

73 Should the council adopt the 300% premium for long term empty homes this would impact 252 properties of which 72 are currently receiving Section 13A relief. The remaining 180 properties equates to a potential gross value additional revenue of approximately £0.221 million.

74 Our records show that as of 1 June 2023 there were 5,401 properties recorded as empty for Council Tax purposes. Of these, it is estimated that 689 properties would progress onto being empty for more than twelve months and therefore attract a premium charge after the twelve months. This equates to a potential gross value additional revenue of £1.2 million.

75 Our records show that as of 1 June 2023 there were 1,244 properties recorded as Second Homes for Council Tax purposes. From these, 1,232 are recorded as Class B (empty - second home/furnished) and 12 are recorded as Class BE (empty - job related/furnished). The additional gross value of Council Tax levied on these properties would be £2.350 million should the council adopt a policy of applying a 100% premium on these properties.

Other Material Considerations and Next Steps

76 When considering applying the additional premium charges, it is important to consider that some of the properties affected are not deliberately being kept empty but rather the owners cannot sell or let them for various reasons and often beyond their control. Unfettered, adopting these policies could lead to an increased financial burden on owners.

77 To mitigate the financial burden on these owners, a review of our Section 13A policy will be carried out. Consideration will need to be given to the amount of additional income the increased premiums will generate versus the increase in S13A applications and resources required to collect the increased charges.

78 Consideration should also be given to financial impact the premium will have on some residents already struggling with the current cost of living crisis including the difficulties of selling properties resulting from increasing mortgage costs.

79 An Equality Impact Assessment Screening has been undertaken on these proposals and is attached at Appendix 5, which shows:

(a) It is not possible to know the makeup of those residents who will be directly impacted due to the limited information we are required to hold on our Council Tax base, however public consultation will be carried out to better understand impact across the protected groups.

(b) It is recognised, as the proposed changes involve an increase to a Council Tax charge, this may cause negative financial impact for those individuals affected. To mitigate this our Section 13A policy will be reviewed following the consultation to ensure the appropriate support is available.

(c) There may be an indirect benefit for some groups should the proposed changes encourage properties to be brought back into use and the positive impact this can have on the area.

80 Existing legislation provides the powers to apply a 300% empty homes premium charge after ten years, but Levelling-up and Regeneration Bill is currently in the House of Lords after which it will move to final stage and Royal Assent. Additionally. To implement these policy changes a public consultation will need to take place and decision on such policy changes ought to be made before the tax base is set.

81 An eight week public consultation on proposals to introduce a 300% premium for on homes that have been empty for more than ten years and to apply a 100% empty home premium after 12 months from April 2024 and to introduce the second home premium from April 2025 will commence immediately following this Cabinet meeting and run until October 2023, concluding in advance of tax base setting for 2024/25.

82 This will allow the Council to set out its overall approach for reviewing its policy, provide an opportunity to comment on the proposals and highlight any potential implications on individuals and agencies as a result of progressing with the proposals.

83 It is important to note that the council can consult before Royal Assent has been granted, providing it is made clear in the contextual information and clarification is given that proposals are subject to Royal Assent being granted.

84 Work is being conducted in conjunction with the Council's corporate consultation team to prepare for the consultation, which will be publicised via the Council's website and through the Council's Social Media pages.

85 The proposed consultation process will take the form of:

(a) Online consultations via the Council's website;

(b) Letters to be issued to town and parish councils via the County Durham Association of Local Councils, the major precepting authorities (Police & Fire); and

(c) Discussions with representatives of the County Durham Housing Forum.

86 Additionally, in preparation for a Second Home premium charge, a review is planned to be carried out on all Class B second home/furnished properties to identify which could attract the premium. An annual review is already carried out on empty properties.

MTFP(14) – 2024/25 to 2027/28 Summary

87 The updated MTFP(14) planning assumptions detailed in this report have impacted upon the forecast savings requirements for the 2024/25 to 2027/28 period. The current forecast of savings required for the period 2024/25 to 2027/28 are detailed below:

	Savings Requirement	**Less Savings Already Approved**	**Savings Shortfall**
	£m	**£m**	**£m**
2024/25	12.135	2.225	9.910
2025/26	16.157	1.873	14.284
2026/27	17.662	1.780	15.882
2027/28	10.060	0.000	10.060
TOTAL	**56.014**	**5.878**	**50.136**

88 As can be seen, the additional savings required to be developed to balance the budgets over the next four years is estimated to be £50.1 million.

89 New savings options totalling £6.617 million are included in this report for consideration and consultation, which could reduce the total shortfall from £50.1 million to £43.5 million. This forecast must be considered alongside the significant uncertainty facing local government at this time, especially in relation to future local government finance settlements and the continuing impact of increasing demand and high levels of inflation upon the council.

90 It is likely that savings plans in the future will become more complex and potentially more front line and as such will require significant planning and consultation. It will be vital that timeframes for delivery are planned effectively to ensure the Council continues to balance the budget across the MTFP(14) period.

91 The updated MTFP(14) financial forecasts are attached at Appendix 4.

Risk Assessment

92 There is significant uncertainty and a wide range of financial risks that need to be managed and mitigated across the short, medium and longer term. The risks faced are exacerbated by the council’s responsibility for

business rates and council tax support. All risks will be assessed continually throughout the MTFP(14) planning period. Some of the key risks identified include:

(a) ensuring the achievement of a balanced budget and financial position across the MTFP(14) period – including balancing the Councils appetite to take decisions to increase council tax vs increase potential cuts to service provision;

(b) ensuring any savings plans are risk assessed across a range of factors e.g., impact upon customers, stakeholders, partners, and employees and that there is appropriate management oversight on the delivery of those savings to ensure they are delivered and realise the financial returns expected;

(c) the outcome of the government's Fair Funding Review which is expected to be consulted upon during the next two years with the earliest implementation now being 2026/27. Any implementation could result in significant changes to the distribution of government funding, however, at the same time there was expectation of a business rate reset in 2023/24 as part of Business Rate Retention (BRR). This did not progress due to the delay in the implementation of the FFR. It would appear unlikely that a business rate reset will be implemented until the FFR is progressed. The council would expect to be a beneficiary of any business rate reset as business rate income growth in the county has been lower than the national average since the implementation of BRR in 2013/14;

(d) the localisation of council tax support which passed the risk for any increase in council tax benefit claimants onto the council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers. At this stage the coronavirus pandemic has resulted in a reduction in the council tax base for the first time since the council took on responsibility for council tax support;

(e) the council retaining 49% of all business rates collected locally but also being responsible for settling all rating appeals. Increasing business rate reliefs and the revised 'check and challenge' appeals process continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon MTFP(14);

(f) the impact of future increases in inflationary factors such as the National Living Wage and pay awards, which will need to be closely monitored. Of particular concern is whether the current 2% assumed pay award in 2024/25 will be sufficient and depending on how and whether inflation is brought more under control as the year progresses there may be a need to increase the pay award pay inflation forecast next year. Every 1% adds £2.65 million to the councils pay bill – increasing the funding gap that needs to be bridged to balance the councils' budget;

(g) the council continuing to experience increases in demand for social care services – particularly children's social care – and for home to school transport, where 70% of the existing contracts are subject to procurement from September 2023. Although some allowance is made for demand increases across the MTFP(14) period this issue will need to be closely monitored as experience in recent years has been that pressures in looked after children and home to school transport budgets in particular have exceeded the prudent estimates included in previous MTFP planning rounds;

(h) the funding position for the High Needs Dedicated Schools Grant. It is hoped that the government fully recognises this pressure as part of future financial settlements and that costs can be contained within the grant provided going forward, as was the case in 2022/23 for the first time in seven years;

(i) it is still not possible to be fully clear at this point as to any long-term impact from the coronavirus on council costs and income, though a budget adjustment is proposed with regards to leisure centre income levels based on experience over the last two years and forecasts for the shortfall that will materialise again this year. This will continue to be closely monitored with any ongoing impact needing to be built into future MTFP plans;

(j) the impact of requirements associated with the health and social care reforms in from October 2025.

MTFP(14) Timetable

93 A high level timetable up to Budget setting in February 2024 is detailed below:

Date	Action
12 July 2023	MTFP(14) update and LCTRS Review report to Cabinet
1 September 2023	Corporate Overview and Scrutiny Management Board consider 12 July Cabinet Report
11 October 2023	MTFP(14) update Report to Cabinet

Date	Action
October/November 2023	Corporate Overview and Scrutiny Management Board consider 11 October Cabinet Report
18 October 2023	Council Tax Reduction Scheme 2024/25 considered by Full Council
15 November 2023	Taxbase report considered by Cabinet – to include outcome on consultation on potential Council Tax Discount and Premium changes
13 December 2023	MTFP(14) update report to Cabinet – outcome of Budget Consultation and consideration of any further savings proposals
December 2023	Corporate Overview and Scrutiny Management Board consider 13 December Cabinet Report
17 January 2023	MTFP report to Cabinet – analysis of provisional local government settlement published in December
January 2023	Corporate Overview and Scrutiny Management Board consider 17 January Cabinet Report
7 February 2023	Budget Report to Cabinet
February 2023	Corporate Overview and Scrutiny Management Board consider 8 February Cabinet Report
21 February 2023	Council Budget and MTFP report

Proposed Consultation Programme

94 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 between September 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.

95 The consultation process will consider the savings options included in this report and be in addition to and run in tandem with the consultation on proposals to adopt the Council Tax flexibilities outlined in this report. The

consultation will set out the council’s proposed approach to the MTFP(14) process and the proposed council tax levels across the MTFP(14) period but focus particularly on 2024/25. The Corporate Overview and Scrutiny Management Board will provide scrutiny of the MTFP(14) and budget setting process as usual.

Workforce Implications

96 If savings of the magnitude detailed in the report over the MTFP(14) period are ultimately required it is forecast that the number of post reductions will increase significantly over the coming four years, as savings plans are developed, agreed and delivered to achieve the MTFP(14) required savings of £56.1 million. The exact number will not be known until proposals are fully developed and assessed.

97 In terms of the initial new MTFP(14) savings plans for consideration and consultation set out at Appendix 3, it is forecast that these would result in a reduction in fte of 31.5 if all savings were finally approved. Taken together with the estimated workforce implications of the previously agreed proposals attached at Appendix 2, the total forecast reduction in fte if all savings are approved would be 73.4 fte.

98 The council will continue to take all possible steps to avoid compulsory redundancies and minimise the impact upon the workforce. This will require a continued focus on forward planning, careful monitoring of employee turnover, only undertaking recruitment where absolutely necessary and retaining vacant posts in anticipation of any required service changes, seeking volunteers for early retirement and/or voluntary redundancy and maximising redeployment opportunities for the workforce wherever possible.

99 In addition, the way that work is organised and jobs designed will continue to be reviewed by service groupings, with the support of Human Resources, to ensure that changes that are made to maximise the use of the workforce numbers and skills and introduce flexibility into the way work is organised to maximise the capacity of the remaining workforce.

100 These actions will ensure that, wherever possible, service reductions continue to be planned well in advance of commencing the exercises, employees are able to consider their personal positions and volunteer for ER/VR prior to the start of the exercise should they wish to, thereby enabling, in a number of situations, the retention of sustainable employment in the County for those who wish to remain in the workplace.

Equality Impact Assessment of the MTFP

101 Consideration of equality analysis and impacts is an essential element that members must take into account when considering the savings plans at

Appendix 3. This section updates Members on the outcomes of the equality analysis of the MTFP(14) savings proposals.

102 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.

103 As in previous years, equality analysis is considered throughout the decision-making process, alongside the development of MTFP(14). 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.

104 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.

105 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.

106 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 Savings Proposals

107 Consideration of equality analysis and impacts is an essential element that members must consider in approving any savings plans. A summary equality analysis and mitigations for the potential MTFP(14) savings included in this report for consideration and consultation can be found at Appendix 6. This section updates Members on the outcomes of the equality analysis of the MTFP (14) savings proposals as they currently stand. Where 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)

108 There is a proposal to consider the removal of a historic contribution towards community alarms in in-house extra care schemes which could potentially impact older and/or disabled residents with an additional small charge. Further work will be carried out with the housing provider, however it should be noted the proposed change in arrangement would ensure equity by bringing the arrangements for the community alarm charges in line with the other three extra care sites in County Durham.

109 Remaining proposals for consideration for AHS include; a review of commissioned services in view of efficiencies, staffing turnover assumptions and a review of contractual arrangements, for which there is no expected equality impact.

Children and Young People's Services (CYPS)

110 Most proposals for consideration in CYPS are at a formative stage and will require further analysis as proposals develop or have no expected equality impact.

111 In terms of Home to School Transport, there are potential negative and beneficial impacts in relation to the protected characteristics of disability (SEND), age (younger and working age) and sex (women). These proposals have been subject to separate reports to Cabinet and a full impact assessment has been carried out as part of that Cabinet reporting

and decision making processes for these proposals, which have also been subject to full public consultation.

112 An increase in fare charges for the Standard and Maintained Concessionary scheme aligns with the Bus Service Improvement Plan offer and is 80p lower than the fare proposed as part of the consultation. This should mitigate some of the financial impact for working age families, and potentially (disproportionately), women. Programmes of review have been established for the remaining aspects of home to school transport changes to ensure children and young people have access to safe and sustainable transport and routes.

Neighbourhoods and Climate Change (NCC)

113 NCC savings proposals for consideration are at an early stage of development and some will require further analysis as proposals progress.

114 A fee increase for bulky waste collection is proposed for consideration which although impacts all customers, may have a disproportionate impact for disabled and older residents as they may not be able to easily use alternative means of disposing of bulky waste, such as using household waste recycling centres (tips), and may therefore have no option but to pay the cost of receiving this service. The service will continue to provide assisted bulky good collections (e.g. from yard/garden rather than kerbside) for those that require support and/or reasonable adjustments due to a disability.

115 A reduction in grant funding for the voluntary and community sector if agreed is likely to impact on the protected characteristics in terms of a reduced capacity to support community projects which provide benefit across different groups. However, the level of grant reduction is low and conversations will take place with organisations affected to minimise any adverse impact, such as providing support to secure alternative funding streams.

116 Any potential staff reductions will be managed through agreed HR procedures, and progression of ER/VR to minimise impact.

Regeneration, Economy and Growth (REG)

117 At this stage of equality analysis there is no anticipated equality impact for REG savings proposals.

Resources (RES)

118 There are a range of proposals for consideration for Resources, most in relation to service reviews where it is anticipated that process improvements and insight will lead to more innovative service delivery solutions. Fair treatment of staff will be ensured through agreed corporate

HR change management procedures, and progression of ER/VR to minimise impact.

119 There is a proposal for consideration to make Durham County News largely online which will affect how we communicate with residents who do not have digital access. Digital exclusion disproportionately impacts the following groups: older residents, people with disabilities and people on low incomes (possibly more women and minority ethnic). Reasonable adjustments will be made for people with disabilities where necessary. Adjustments could include hard copies and/or alternative formats (large print, audio) distributed to those residents who request this as an adjustment. Equality impact will be reviewed and updated as the proposal progresses.

Corporate (COR)

120 There is potential equality impact across the protected groups for two of corporate savings proposals.

121 A proposal for consideration and consultation on a 50% reduction in funding over two years for Town and Parish Councils is likely to adversely impact across the protected characteristics as it restricts investment. However, the impact of the grant reduction on individual authorities will be very much determined by the decisions individual authorities make upon increasing council tax. There is an expectation that normal taxbase growth of circa 1% alongside additional tax base income growth from utilising council tax additional flexibilities for empty and second homes will enable the impact of the grant loss to be mitigated.

122 An overall reduction in Member Budgets will reduce the total investment. This will result in investment being spread across larger populations as the overall number of members reduce and wards become larger. Member budgets cover a broad range of activity therefore there is likely to be some impact on protected characteristics in terms of a reduced capacity to support projects and/or individuals which will impact across the population age ranges.

123 Although there is potential impact, the level of investment will still remain high with the council Member budgets being higher than the average across the country.

Local Council Tax Reduction Scheme for 2024/25

124 Following the abolition of the national Council Tax Benefit (CTB) system on 31 March 2013, Local Authorities have been required to work with their precepting bodies to establish a Local Council Tax Reduction scheme (LCTRS); reviewed on an annual basis. The LCTRS provides a ‘discount’ against the council tax charge, rather than a benefit entitlement.

125 A Council Tax Reduction Scheme Grant to offset the impact of the reduction in tax raising capacity was initially paid directly to the council and the major precepting bodies (Police and Fire) but now forms part of the council's formula funding arrangements.

126 As this Government grant was technically a fixed amount, when there is growth in the numbers of council taxpayers becoming eligible for support with their council tax, there is a resulting risk to the Local Authority; this was seen in the early months of the pandemic in April/May 2020.

127 The council's formula grant includes an element relating to Town and Parish (T&P) Councils and whilst the council has previously passed the notional LCTRS grant on to the Town and Parish Councils, there is no statutory requirement to do so, with the majority of other Councils not doing so now.

128 Discussions have taken take place with the Town and Parish Councils' Working Group to inform them of the proposals contained earlier in this report to consider making a 50% reduction in the quantum of grant provided, phased in over two years from 2024/25. At this stage it is assumed that payments will total £1.125 million next year, a reduction of £375,000 on the payments being made in the current year, where payments total £1.5 million.

129 LCTR provides a 'discount' against the council tax charge, rather than crediting the account with a benefit payment and as such impacts on the council tax base and therefore the tax raising capacity of the council and its precepting bodies.

130 All local authorities are required to follow a national LCTR scheme for pension age applicants, which protects their entitlement at the same level as under the former national CTB regime. The pension age scheme can only be altered locally in ways which make it more generous to applicants.

131 There are no such restrictions on the level of support that can be given to working age LCTR schemes.

132 In the North East region, Durham is now the only authority whose scheme continues to mirror entitlement under the former CTB system for all claimants. The other eleven councils have schemes which offer an overall lower level of support to working age claimants, though some, in some circumstances, still provide up to 100% to some working age claimants.

133 The majority of councils who made changes to their schemes in the first few years of LCTR, did so to cap the overall amount that could be paid to working age households. Lots of these, including authorities in our region have sought to relax their initial schemes over time.

134 The most recent comprehensive national data was published in 2018/19 by the Joseph Rowntree Foundation, so is a little dated but some basic

national data was recently published by Entitled To concerning the 2023/24 schemes in place across the country.

135 National data shows that over 80% of councils have made at least one significant change to their scheme since the original schemes were adopted in 2013/14.

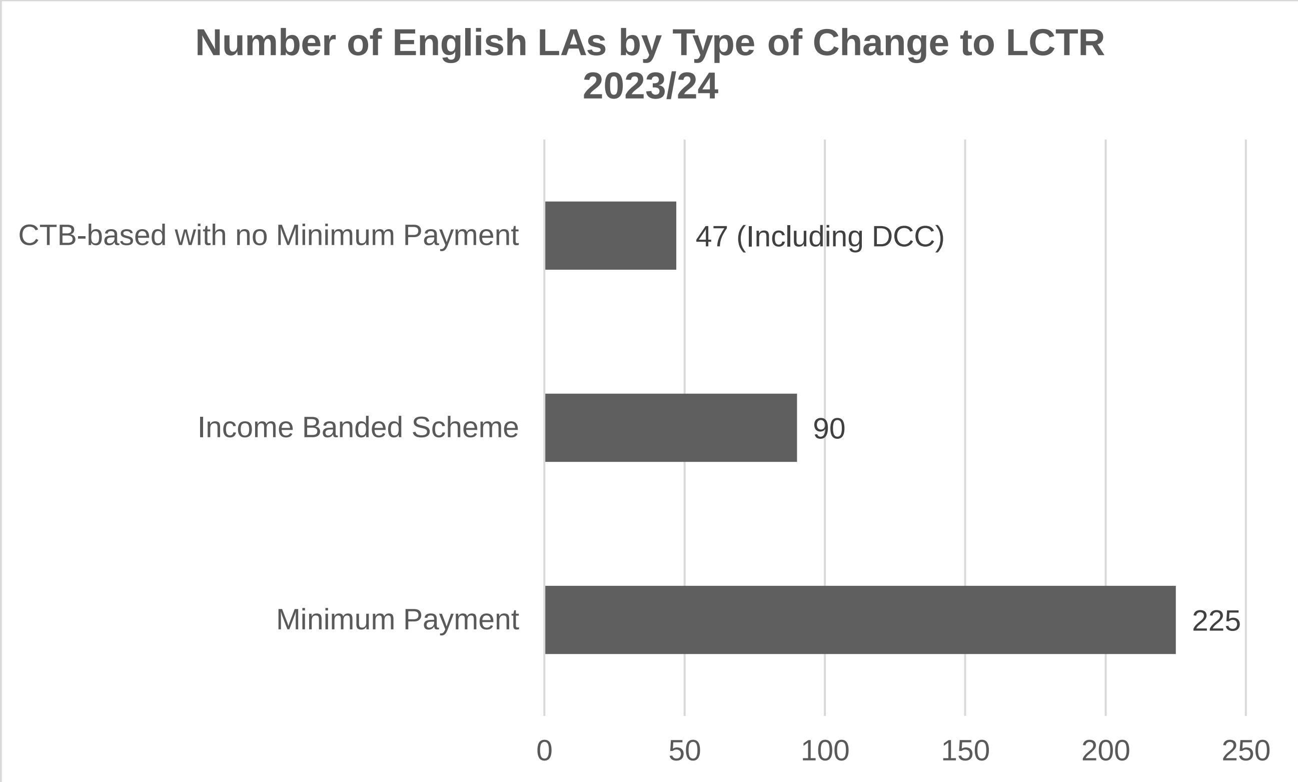
136 Different councils have set their schemes at very different levels across the country. Combined with different choices about other aspects of scheme design, this means that similar households are treated very differently according to where they live.

137 More recently, local authorities have started to focus on making changes to simplify administration and reduce the number of award changes for in-work Universal Credit (UC) claimants, while maintaining a cap on the total amount that an applicant can receive.

138 The Council will continue to track the impact of UC and consider how LCTR can best support residents who claim the benefit. Analysis of cases in Durham show that, on average, in-work households receiving UC and LCTR receive more than 12 council tax bills each year, as their UC is continually reassessed and LCTR revised in response. This results in delayed direct debits, reminders not being issued, and residents delaying payments as they are unsure what to pay. Evidence suggests approximately only 35% of in-work UC households receiving LCTR manage to pay all of their council tax in-year.

139 The cost-of-living crisis has prompted some local authorities to restore higher levels of maximum support for their poorest households. In 2023/24, 29 of 39 councils who changed the way their schemes were calculated, increased this maximum level of support allowed to working age claimants.

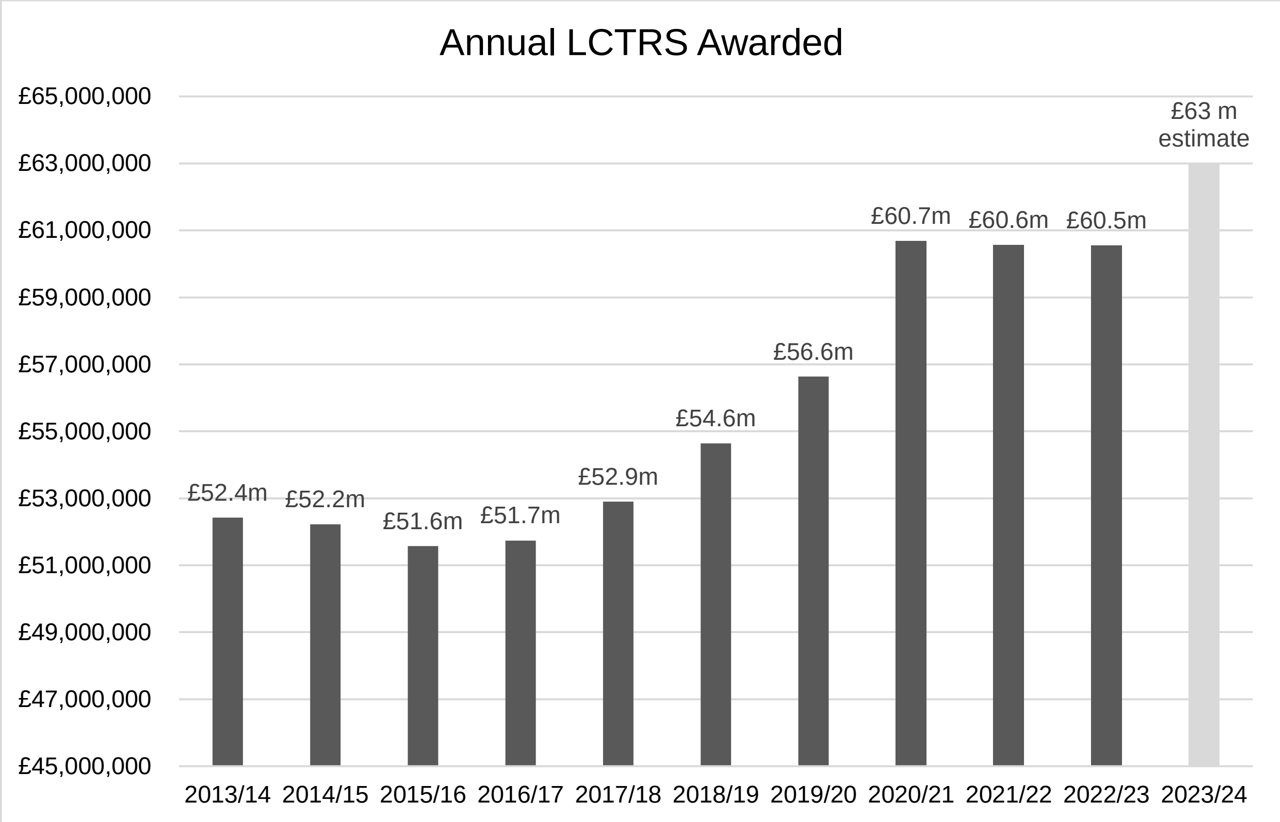
140 In England, 225 of 296 local authorities (76%) do not offer 100% reductions in liability to any working age residents and require a minimum payment instead regardless of the personal circumstances of the claimant and in spite of the cost of living crisis:



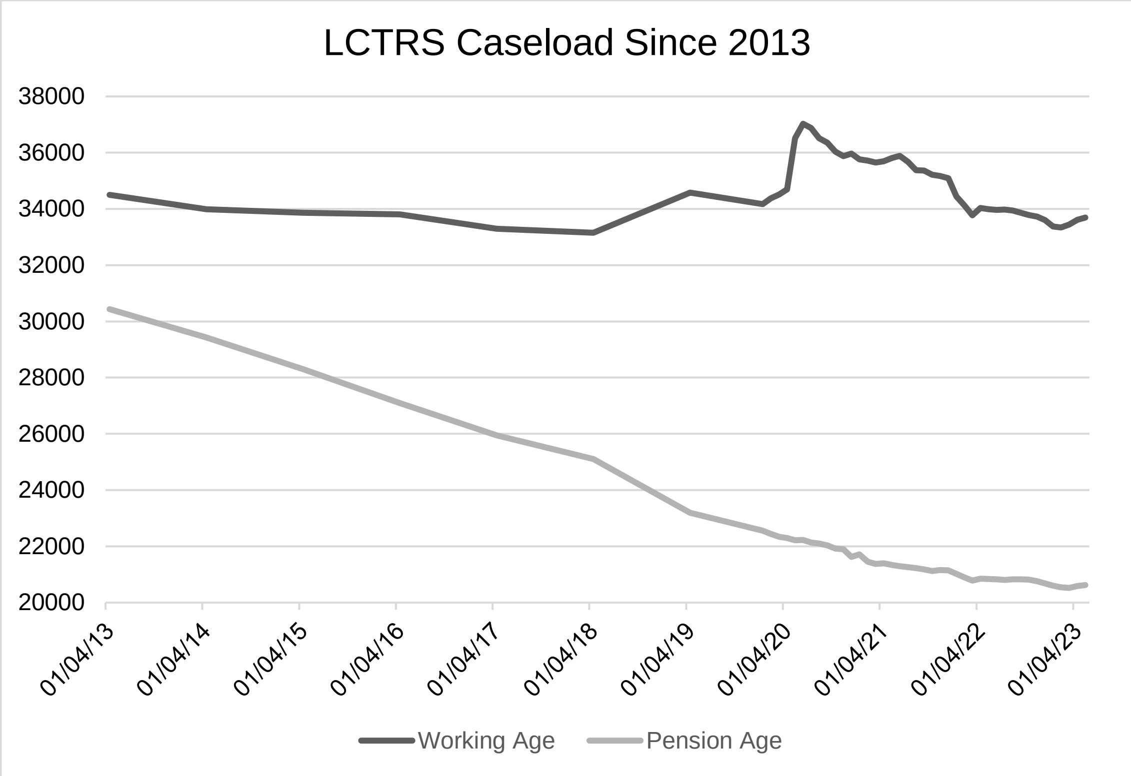
141 The roll-out of Universal Credit is currently scheduled to be completed by the end of 2028. As of 21 May 2023, there were circa 20,150 LCTR claimants in County Durham receiving UC, around 60% of the current working age LCTR caseload.

142 There are currently 54,400 LCTR claimants in County Durham, of which 20,600 (38%) are of pension age and 33,800 (62%) are of working age. Just over 80% of all working age applicants currently receive maximum LCTR, leaving them with no council tax to pay. Approximately 85% of working age LCTR applicants live in rented accommodation and 88% occupy Band A properties. LCTRS support is forecast to be circa £63 million in 2023/24.

143 The table below shows the year-on-year differences in LCTR scheme costs over the last ten years. Whilst it is important to note that the council tax charges have increased across this period also, there was a significant increase in both caseload and costs in 2020/21 that continued into 2021/22.

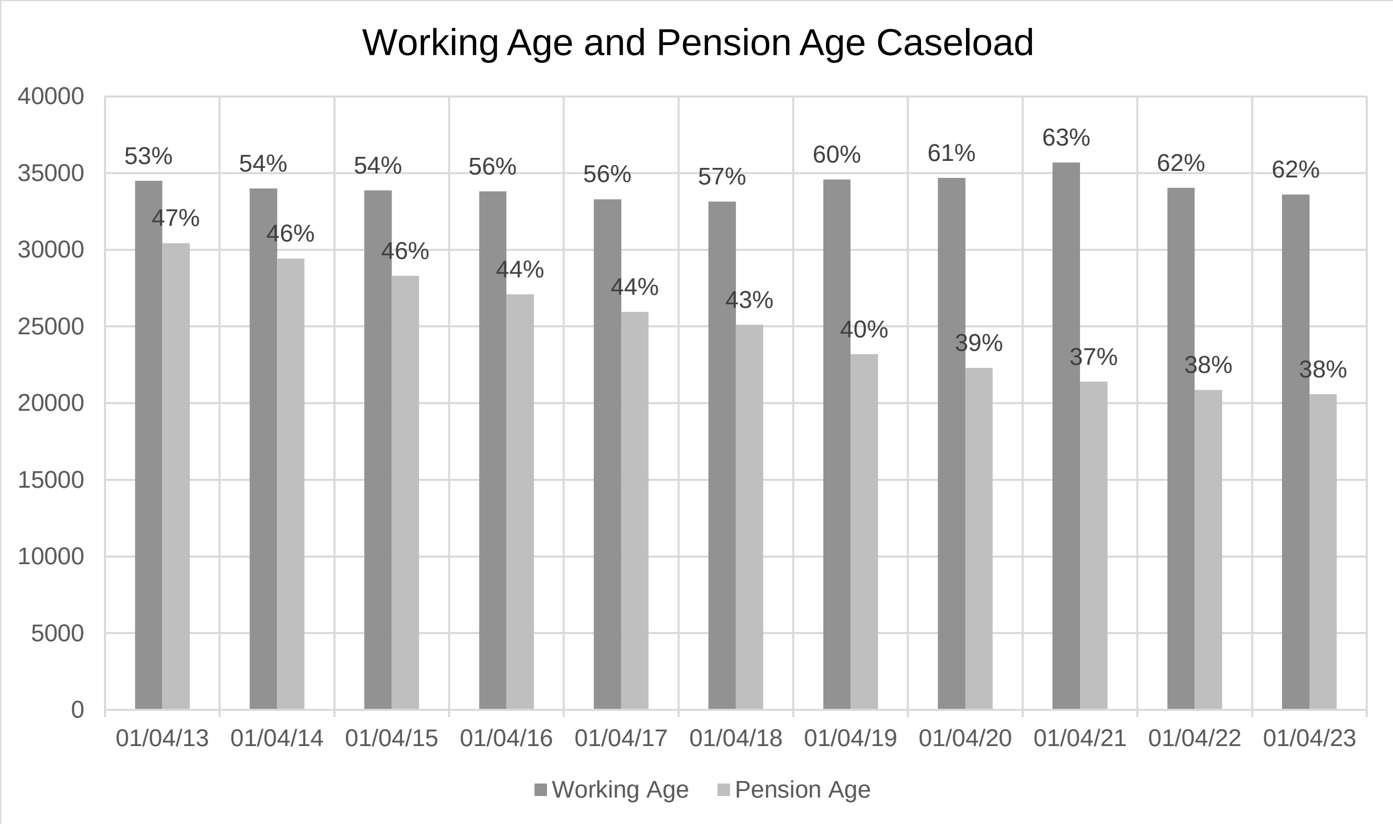


144 There was a significant increase in demand as a result of the Covid-19 pandemic. The pension age caseload has continued a trend of year-on-year reductions, although this rate of reduction has started to slow. The working age caseload, increased dramatically in the first quarter of 2020/21 as an unprecedented number of new claims were received by customers adversely affected by Covid-19. At the peak, in May 2020, the working age LCTRS caseload was almost 3,000 higher than in January of the same year. By March 2022 the number of working age LCTR claims had returned to pre-pandemic levels and have remained quite stable since:



145 In Durham, there are now over 6,100 LCTR claimants currently classed as working age that would have been treated as pensionable age claimants prior to 2010, when the process of moving eligibility to state pension credit age from 60 to 66 began. There will then be a further move up to 67 between 2026 and 2028, then to 68 between 2044 and 2046.

146 Over the last ten years there has been a nine-percentage point increase in the proportion of working age caseload in County Durham. This means a higher proportion of our caseload is coming under the part of the LCTRS scheme that the Council has control over. Working age claimants, particularly those on UC, carry a much greater administrative burden as they have more frequent changes in their circumstances that need to be processed, producing multiple bills across the year.



147 It is important to consider any impact on the collection rate for council tax, that changes to the LCTRS can have. The Institute for Fiscal Studies (IFS) estimate that a quarter of the additional council tax liability created by cuts to LCTR since 2013 has not being collected in year.

148 More significantly however, UC changes result in multiple reworking and changes to LCTRS entitlement throughout the year and multiple bills being issued to individual households resulting in numerous changes to their net liability and instalment plans for any council tax balance they are responsible for. After many years of continued improvement, our in-year council tax collection rate reduced slightly in 2018/19 to 96.65%, and further still in 2019/20 to 96.37%. Performance in 2020/21 (93.43%) was impacted significantly by the pandemic with recovery action largely suspended for the whole of the year. By 2022/23 the in-year recovery rate had improved to 95.91%, however this is still almost one percentage point below the 2017/18 rate of 96.83%, in part reflecting the ongoing impact of the expanding UC rollout on LCTRS and in part due to the ongoing impact of the pandemic and the subsequent cost of living squeeze that has impacted in year council tax collection rates.

149 The regional picture in terms of the schemes currently in operation and comparison of in-year collection rates with that which existed pre LCTRS is shown below for the position to 31 March 2023. It is notable that until April 2022, Durham was the only authority which did not require a minimum payment from all working age LCTR applicants and has improved its collection rate more than any other regional authority since council tax support was localised:

Local Authority	Basis of Scheme	Minimum Payment	Second Adult Reduction Offered?	Change in in-year council tax collection rate between 2012/13 and 2022/23
Durham	CTB	No	Yes	+0.91%points
Darlington	CTB	20%	No	+0.19%points
Gateshead	CTB	8.5%	No	-3.41%points
Hartlepool	CTB	12%	No	-4.86%points
Middlesbrough	Income Banded – since 2022/23	10%	No	-4.48%points
Newcastle	Income Banded – since 2018/19	No (was 15% but removed for 2022/23)	No	-0.02%points
North Tyneside	CTB	15%	No	-2.25%points
Northumberland	CTB	8%	Yes	-0.44%points
Redcar and Cleveland	CTB	17.5%	No	Not Available
South Tyneside	CTB	30% or 15% if vulnerable	Yes	-3.16%points
Stockton	Income Banded – since 2022/23	No (was 20% but removed for 2022/23)	No	-3.77%points
Sunderland	CTB	8.5%	No	-4.76%points

150 If any changes are to be made to the Councils LCTRS scheme, these must be consulted on and be subject to an equality impact assessment. Councils are required to review and approve their schemes annually and have this agreed by a Full Council meeting before 11 March each year. In reality decisions are needed much earlier than this given the impact on tax base calculations and the need to firm up the tax base forecasts much earlier in the budget planning cycle.

151 Pensioners, have to be protected from any changes, with any reductions applied to working age claimants only.

152 Eleven years after the government abolished the national CTB system the council continues to have a LCTR scheme which mirrors the previous

entitlement under the CTB system for all claimants. No LCTR claimants have therefore been financially worse off in the last eleven years (including the current year) than they would have been under the previous national scheme.

153 The council has been mindful of the continuing impacts of the wider welfare reforms and from the squeeze on household incomes from cost-of-living increases which are having a detrimental impact on many low-income households. Additional council tax liabilities for working age households could have a significant impact on low-income household budgets by around £100 to £350 a year based on a scheme whereby entitlement for working age claimants is set at a maximum of 90% entitlement. This would make collection of council tax more difficult and costly to recover from these low-income households.

154 In approving the scheme for 2023/24, the council gave a commitment to review the scheme on the grounds of medium-term financial plan (MTFP) affordability and on-going austerity causing further MTFP pressures.

155 The reduction in Government Grant support towards maintaining these schemes in the first year (2013/14) was £5.1 million, after which the Local Council Tax Support Grant was subsumed into general formula grant, which was and subject to annual reductions up to 2019/20. To recover the full initial £5.1 million cost by reducing the benefit awarded to working age claimants, and factoring in a prudent collection rate of 80%, would require the maximum entitlement to be reduced from 100% to 85.5% based on current caseloads.

156 Should the Council review its scheme and reduce maximum entitlement to working age claimants, depending on the forecasted council tax collection from affected low income households, there would be scope to increase Council Tax revenues by between circa £3.5 million (based on a scheme that awarded maximum entitlement to working age households of 90% with a prudent collection rate of 80%) and £5.1 million (based on a scheme that awarded maximum entitlement of 85.5% with a prudent collection rate of 80%). This would impact circa 33,800 working age households across County Durham, where 6,000 (17.8%) are actually in low paid jobs rather than being unemployed.

157 Following careful consideration of the current financial position of the council and in light of the continuing impact of the coronavirus pandemic, welfare reforms including the continued roll out of Universal Credit, which commenced in October 2017 in County Durham; and the cost of living impacts it is proposed that Cabinet recommend to Council that the current scheme should be extended for a further year into 2024/25 and, therefore, that no additional council tax revenues or pressures are built into the MTFP projections from a review of the LCTRS at this stage.

158 The reasons for extending the current scheme are due to the current scheme remaining within existing cost parameters for the Council. In addition, whilst the full impacts of the Government's welfare reforms are complex and difficult to track, demand for Discretionary Housing Payments; Social Fund Applications and Rent Arrears statistics in County Durham compared to others across the region, would suggest that the council tax benefit protection afforded to working age claimants, in addition to the wide-ranging proactive support that has been put in place, is continuing to have a positive impact on these households.

159 The council will need to continue to review the national situation and track what is happening in local authorities that have introduced LCTR schemes that have reduced entitlement to their working age claimants in terms of impacts and performance in terms of recovery of the council tax due.

160 The council will also need to keep track of the continuing impact of the roll out of Universal Credit (UC). This presents continuing challenges for the administration of the LCTRS as it results in a much higher number of changes in circumstances and removes the administrative economies of scale currently achieved by administering Housing Benefit and LCTR claims side by side.

161 More significantly however, UC changes results in multiple reworking and changes to LCTR entitlement throughout the year and multiple bills being issued to individual households resulting in numerous changes to their net liability and instalment plans for any council tax balance they are responsible for.

Conclusion

162 The council continues to face significant financial uncertainty for the MTFP(14) planning period, coving the financial years 2024/25 to 2027/28. The uncertainty relating to future government financial settlements is exacerbated by the ongoing impact of base budget pressures from inflation, national living wage, social care and waste disposal.

163 In addition to previously considered saving proposals, the report sets out details of new savings for consideration and consultation, including proposals for consulting upon utilising additional council tax flexibilities for empty and second homes, which would result in a 100% premium being applied to homes that have been empty for more than twelve months rather than the current policy of applying this after twenty four months, and a 100% premium applied to second homes. The changes in relation to empty properties could be implemented from 1 April 2024, whereas the changes in relation to second homes could only be implemented from 1 April 2025.

164 Savings plans for 2024/25 include a proposal to consult upon reducing the grant support the council provides to Town and Parish Council's linked to the previous implementation of Local Council Tax Reduction. The proposal

is to apply a 50% reduction in this grant phased in over two years to assist Town and Parish Councils in factoring this into their budget and medium term financial plans.

165 Planning will continue in relation to the identification of savings to enable future years budgets to be balanced. The MTFP Reserve of £27 million is available to support the protection of front line services although it is recognised that this reserve could be quickly exhausted if early decisions are not made.

166 The council is the only local authority in the North East to have retained entitlement levels for Council Tax support within the Local Council Tax Reduction Scheme (LCTRS) in line with that which applied under the national Council Tax Benefit regime prior to 2013/14. This policy has protected vulnerable residents at a time when welfare reform changes and more recently the pressure on household incomes from cost of living increases have had a significant adverse impact. This report recommends that the current LCTRS is again retained and remains unaltered for a further year into 2024/25. Should the Cabinet agree, the Council will need to formally adopt this policy at Full Council prior to 11 March 2024, with a report scheduled for consideration by Council in October 2023

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 (13), 2023/24 to 2026/27 – Report to Council 22 February 2023
- Local Council Tax Reduction Scheme 2023/24 – Report to Council 19 October 2022

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Appendix 1: Implications

Legal Implications

The council has a statutory responsibility to set a balanced budget for 2024/25. It also has a fiduciary duty not to waste public resources.

The Welfare Reform Act 2012 abolished the national council tax benefits system (CTB), paving the way for new Local Council Tax Reduction Schemes (LCTRS) to be introduced under the auspices of the Local Government Finance Act 1992. Section 13A of the Local Government Finance Act 1992 ("the 1992 Act") requires each billing authority in England to make a scheme specifying the reductions which are to apply to amounts of council tax payable by persons, or classes of person, whom the authority considers are in financial need ("a council tax reduction scheme").

The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012 ("the 2012 Regulations") prescribe matters which must be included in such a scheme in addition to matters set out in paragraph 2 of Schedule 1A to the 1992 Act.

Each year regulations amending the 2012 Regulations are made in November/December. The majority of the amendments are to ensure consistency with changes to social security legislation and these are subsequently included in our local scheme.

The LCTRS provides a 'discount' against the council tax charge, rather than a benefit entitlement and as such impacts on the council's tax base.

Regulations made under the Local Government Finance Act 1992 (The Local Authorities (Calculation of Council Tax Base) Regulations 1992 (as amended) the council to calculate a council tax base for each financial year.

The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 which came into force on 30 November 2012 and applies to the financial years beginning 1 April 2013 onwards contains the rules which require the council to calculate the Council Tax Base.

A key element of the tax base calculation is the council's policy in terms of its LCTRS.

There is a statutory requirement for the Council to adopt a local council tax support scheme for the ensuing financial year by 11 March each year. Where the council is proposing any changes to its scheme, there is a statutory requirement to consult on these proposals in advance of making any changes. Pensioners have to be protected from any changes, with any reductions applied to working age claimants only.

Finance

The report highlights that at this stage additional £12.1 million of savings are required to balance the 2023/24 budget. Savings of £2.225 million for 2024/25 have been previously approved by Council in MTFP(13). This results in a savings shortfall for 2024/25 of £9.9 million. This report includes additional 2024/25 savings of £3.725 million which if subsequently approved, would reduce the 2024/25 savings shortfall to £6.185 million.

Across the MTFP(14) period the savings shortfall is £56.014 million. In total MTFP(13) approved savings for the 2024/25 to 2026/27 period of £5.6 million. This reduces the total savings requirement to £50.136 million. Additional savings included for consultation in this report over the MTFP(14) period of £6.617 million if subsequently approved would reduce this shortfall to £43.519 million. Work will continue over the coming months to identify savings to balance the budget across the MTFP(14) period.

The funding made available to support the Local Council Tax Reduction Schemes in 2013/14 (90% of the previous funding available under the Council Tax Benefit System) now forms part of the Council's formula funding arrangements.

The Council has continued to pass on the Town and Parish element of its formula grant over the last five years but in doing so continues to apply pro-rata reductions in the Council Tax Support Grant paid to Town and Parish Councils. Local Council Tax Support Grant payments to Town and Parish Councils is forecast to be £1.5 million in 2024/25 should the Council decide to continue making these payments next year. This report includes a recommendation that consultation takes place on reducing this payment by 50% phased in over two years from 2024/25.

The Council is responsible for the costs of any increase in caseload as the level of Government support is fixed (and has been subject to reductions up to 2019/20) within formula grant.

Prudent estimates and provisions were built into the tax base forecasts for the current year at budget setting, and whilst the Council is subject to greater financial risk now, the current scheme remains within the budget provisions.

Should the Council review its scheme and reduce maximum entitlement to working age claimants, depending on the forecasted council tax collection from affected low income households, there would be scope to increase Council Tax revenues by between £3.5 million (based on a scheme that awarded maximum entitlement to working age households of 90% with a prudent collection rate of 80%) and £5.1 million (based on a scheme that awarded maximum entitlement of 85.5% with a prudent collection rate of 80%). This would impact circa 33,800 working age households across County Durham, where 6,000 (17.8%) are actually in low paid jobs rather than being unemployed.

Consultation

Consultation on the 2024/25 budget and MTFP(14) will include engagement via existing County Durham Partnership networks over the period September to 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 Corporate Overview and Scrutiny Management Board will provide scrutiny of the MTFP(14) and budget setting process.

If any changes are proposed to the LCTR scheme, these must not impact on pension age claimants, must be consulted on and be subject to an equality impact assessment. Councils are required to review and approve their schemes annually and have this agreed by a Full Council meeting before 11 March each year. In reality, decisions are needed much earlier than this given the impact on tax base calculations and the need to firm up the tax base forecasts much earlier in the budget planning cycle.

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.

An Equality Impact Assessment Screening has been undertaken on the savings proposals set out in this report, including the proposed changes to the long term empty property premium policy and the proposals to introduce a premium on second homes. This is attached at Appendix 4 and the outcomes are summarised in the body of the report.

Eleven years after the Government abolished the national Council Tax Benefits System the council continues to have a LCTRS which mirrors the previous entitlement under the Council Tax Benefit System for all claimants. No council tax benefit claimants have therefore been financially worse off in the last eleven years than they would have been under the previous national scheme and if the proposals set out in this report and ultimately agreed by Council in the autumn this will continue to be the case.

The Government EIA on the LCTRS was published in January 2012 and is relatively brief. It considered equality impacts in relation to age and disability, concluding that protection for pensioners would be a positive impact and the effects on disabled people would depend on how each local authority responded to the reduction in council tax support. No impacts were identified in relation to gender or ethnicity and no other protected characteristics were considered and it was left to individual councils to identify full local impacts, based on local implementation.

Given the proposals to extend the current LCTRS into 2024/25 thereby continuing to protect current entitlement, there will be no negative equalities impact.

Should the council decide against extending the current scheme into 2024/25 and elect instead to pass on reductions to working age claimants, there would be a range of potential negative equalities impacts. These include financial impact for working age claimants and possible additional impacts in relation to health and wellbeing, housing and the consequences of debt or legal action. These impacts are most likely in relation to gender, age and disability with limited impacts for race and sexual orientation and no evidence of impact on transgender status, religion or belief.

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(14).

Crime and Disorder

None

Staffing

In terms of the initial new MTFP(14) savings plans set out at Appendix 3 it is forecast that these would a reduction in fte of 31.5 if all savings were approved. Taken together with the estimated workforce implications of the previously agreed proposals attached at Appendix 2 total forecast reduction in fte if all savings are approved would be 73.4 fte.

The staffing / HR implications arising from the action that will need to be taken to meet the £43.519 million shortfall over the next four years should these estimates prove accurate and the savings proposals outlined are fully delivered are yet to be determined and will need to be outlined in future reports for MTFP(14) and beyond.

Accommodation

None

Risk

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 report outlines a range of significant risks that are inherent in the budget and MTFP(14) setting process.

The report outlines a range of financial risks surrounding the LCTRS. These are being effectively managed at this time. Given that the proposal is to extend the current arrangements into 2024/25 there are no system development issues or risk associated with these proposals.

The council will need to continue to keep track of the impact of the roll out of Universal Credit (UC). This presents challenges for the administration of LCTRS as it results in a much higher number of changes in circumstances (experience is that the UC earned income element changes frequently as the person moves through the claimant commitment with their Work Coach) and removes the administrative economies of scale currently achieved by administering Housing Benefit and LCTRS claims side by side.

More significantly however, UC changes result in multiple reworking and changes to LCTRS entitlement throughout the year and multiple bills being issued to individual households resulting in numerous changes to their net liability and instalment plans for any council tax balance they are responsible for. After many years of continued improvement, our in-year council tax collection rate reduced slightly in 2018/19 to 96.65%, and further still in 2019/20 to 96.37%. Performance in 2020/21 (93.43%) was impacted significantly by the pandemic with recovery action largely suspended for the whole of the year. By 2022/23 the in-year recovery rate had improved to 95.91%, however this is still almost one percentage point below the 2017/18 rate of 96.83%, in part reflecting the ongoing impact of the expanding UC rollout on LCTRS and council tax collection

Procurement

None