

Cabinet

11 October 2023

Medium Term Financial Plan(14) 2024/25 – 2027/28

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, including updated financial planning assumptions which have affected a number of the figures previously reported.
- 2 The report also includes details of further savings proposals that could be implemented to help balance the budget, which will be subject to consultation over the coming two months, building on the consultation which is currently underway on the proposals contained in the report to Cabinet in July.

Executive Summary

- 3 The Council continues to operate in a period of significant financial uncertainty. When the 2023/24 budget was approved on 22 February 2023, the council was concerned about the ongoing and consequential impact of high levels of inflation and service demand alongside concerns
- 4 These concerns continue to impact significantly upon financial planning with increases in bank base rates, expected pay settlements for our employees and the impact of future National Living Wage increases all forecast to increase pressure upon future years budgets.
- 5 Once again, the Looked After Children's budget is under pressure due to increased demand and, significantly, increased complexity of need as we

emerge from the pandemic driving forecast overspends in the current year that are forecast to continue into next year which must be accommodated.

- 6 All these issues are making financial planning difficult and are resulting in a deterioration in the forecast MTFP(14) financial position as compared to that reported to Cabinet on 12 July 2023.
- 7 Unlike some other councils, Durham County Council currently has sufficient financial resilience, a strong track record of prudent financial management and sufficiently robust budget and MTFP planning processes such that we are not, at least at this stage, in danger of the Corporate Director of Resources having to consider issuing a Section 114 notice. That said, the financial challenges in 2025/26 and beyond are immense based on our current forecasts and if the council does not address these challenges in a planned way then the position could change rapidly.
- 8 These challenges are largely exacerbated by continuing inflationary and demand pressures and significant uncertainty in terms of future financial settlements for local government and how available funding will be shared between local authorities. Local authorities continue to be provided with one year financial settlements, which provide little financial certainty and security. The Chancellor of the Exchequer's Autumn Statement will be published on 22 November 2023 which will likely result in the local government finance settlement being in early December providing little time for local authorities to react.
- 9 Local authorities desperately need early notification of how much, if any, additional government support will be provided in 2024/25 to offset the significant financial pressures faced by the sector due to the present high levels of demand and inflation. The 2023/24 local government finance settlement included an indicative increase in the non-ring fenced social care grant of £7.8 million alongside increases in ring fenced specific grants such as the Adult Discharge Grant and the Market Sustainability Improvement Fund. It is clear however that increases in core funding for local authorities will not be sufficient to maintain services in 2024/25.
- 10 It appears that there will not be early confirmation or notification of funding levels for 2024/25, with the finance settlement not expected until around Christmas once again leaving local authorities to continue to plan for the worst i.e., no further funding being made available beyond the non-ring fenced grant increases indicated to date.
- 11 Against this background a number of local authorities across the country have either published or referenced that they may shortly need to publish Section 114 notices, with several more expected to in the coming months. A number of these announcements have been made by local authorities who are simply running out of funding to finance core services and not related to governance failures or risky commercial decisions. It is hoped that central government heed these warnings and provide additional core

funding to local government beyond the sums already indicated which are not sufficient to cover the pressures faced.

- 12 The ongoing uncertainty is continuing to make financial planning extremely challenging and requires the council to be flexible and adaptable. In this regard the relatively strong financial position of the council will ensure that the council is well placed to react effectively to any outcome. That said, without significant additional government funding the council will be placed in a very challenging situation and will be required to make very difficult decisions to address these pressures in setting balanced budgets in 2024/25 and in future years.
- 13 The council is presently prudently planning on the basis that the council will receive additional core funding uplifts including inflation uplifts in Revenue Support Grants (RSG), Business Rates and Top Up grants and additional social care grant totalling £20 million in 2024/25 but that from 2025/26 the council will only receive Consumer Price Inflation (CPI) uplifts in RSG, Business Rates and Top Up grants i.e., no increase in core grant funding are included. This prudent estimate for future years is in line with announcements by the Chancellor of the Exchequer in the March 2023 Budget that across the three years 2025/26 to 2027/28 the public sector would only receive a 1% real terms funding increase with Health, Education and Defence expected to receive additional protection. This position will be closely monitored in the coming months especially once the next local government finance settlement is received in the autumn.
- 14 As we continue budget planning for 2024/25, in line with previous practice, the MTFP Model has been reviewed and the financial forecasts for the next four years updated. Financial plans have been updated to consider the impact of inflation upon council costs, particularly in relation to the National Living Wage and the ongoing impact upon future years pay settlements for council employees. The impact of the revised assumptions is that the scale of forecast savings to balance the budget across the MTFP(14) planning period has increased.
- 15 The latest forecasts indicate that even with assumed council tax increases in each of the next four years, the council will face a funding gap / savings requirement of £67.602 million in order to balance the budget over the 2024/25 to 2027/28 period, £11.588 million higher than the position previously reported to Cabinet in July, with £4.1 million of this increase falling into 2024/25.
- 16 Savings are forecast to be required in all years of MTFP(14) as unavoidable budget pressures outstrip the funding the Council will receive from Government and its ability to generate additional income from business rates and council tax. The forecasts assume the Council will apply the maximum increases in its Council Tax it is allowed to across each of the next four years, in line with government guidance and expectations.

- 17 The achievement of an additional £67.602 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 to balance its budgets. 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 £260 million of savings up to 31 March 2024.
- 18 The total savings required at this stage for 2024/25 to balance the budget amounts to £16.308 million, £4.173 million higher than the position previously reported to Cabinet in July.
- 19 There are £2.332 million of savings approved as part of MTFP(13) that can be delivered in 2024/25, with the savings previously agreed having been reprofiled and one of the savings proposals reduced by £74,000 following a review. The updated schedule of previously agreed savings is set out at Appendix 2.
- 20 Cabinet agreed additional savings proposals of £3.725 million for 2024/25 and £6.617 million in total across the MTFP(14) planning period for public consultation at its meeting on 12 July 2023, with public consultation commencing on 3 September 2023. These are set out at Appendix 3.
- 21 Within this report are further 2024/25 savings of £1.943 million and £2.909 million in total across the MTFP(14) planning period for further public consultation. If ultimately agreed, the total savings would be £8.0 million in 2024/25 and £15.330 million across the MTFP(14) planning period, reducing the forecast budget deficit / savings shortfall to £8.308 million in 2024/25 and £52.272 million if all savings are approved at Full Council on 28 February 2024.
- 22 It must be recognised however that these figures could change, depending on whether the government provide any much needed additional resources to the sector in 2024/25 beyond the levels indicated in the 2023/24 local government finance settlement and whether the council experiences further additional financial pressures due to demand, loss of income or due to the impact of inflation or identifies further savings options. If nothing changes then the Council will need to utilise a further £8 million of its MTFP Support Reserve to balance the budget next year.
- 23 The updated forecast position for MTFP(14) has slightly deteriorated since the 12 July 2023 Cabinet report. At that stage it was forecast that the budget deficit / funding shortfall in 2024/25 would be £12.1 million with total budget deficit / funding shortfall across the MTFP(14) period of £56 million.
- 24 Work will continue over the coming months to closely monitor and manage the councils budgets and to identify additional savings options to help to

balance next years and future years budgets. It is crucial however that local government is given confirmation of funding settlements for next year and for future to ensure there is a clear understanding of the financial challenges faced.

- 25 The MTFP(14) forecasts continue to assume that there will be a 4.99% council tax increase in 2023/24 and maximum 2.99% increase for the period 2025/26 to 2027/28. The 4.99% increases for 2024/25 includes an assumed 2.99% council tax referendum limit core increase and 2% for the adult social care precept. It may well be that Government provide additional flexibility in terms of council tax going forward, though there is no indication on whether this will be the case at this stage.
- 26 It is important to recognise that the income generated from a 2% adult social care precept does not fully offset the unavoidable budget pressures we face in our adult social care budgets, which are some of the largest budgets the council has. Additional income of circa £5.3 million would be generated by a 2% adult social care precept, however, the unavoidable inflationary base budget pressure from social care fees alone are more than three times this level (care fees for residential, nursing and home care services - largely driven by expected increases in the National Living Wage next year) and expected to be £17.8 million.
- 27 The updated MTFP(14) financial forecasts are attached at Appendix 5 and the report contains an explanation of the underpinning financial planning assumptions that support these financial forecasts.

Recommendations

- 28 Cabinet is asked to:
- (a) note the updated MTFP forecasts and the requirement to identify additional savings of £67.602 million for the period 2024/25 to 2027/28, but also note that this forecast could change based upon outcome of future government funding settlements, the ongoing impact demand for services and inflationary pressures upon the council;
 - (b) note that at this stage a forecast £16.308 million of savings are required to balance the 2024/25 budget;
 - (c) note the revised profile and reduced quantum of the savings previously agreed as part of MTFP(13) as set out at Appendix 2;
 - (d) note the ongoing consultation on the new savings proposals agreed by Cabinet in July, which are set out at Appendix 3;

- (e) agree that the new additional savings proposals included at Appendix 4 to support MTFP(14) are consulted on; and
- (f) note that should the financial forecasts set out at Appendix 5 remain unaltered and the council tax increases and savings proposals at Appendix 2 to 4 are agreed at County Council on 28 February 2024 then the budget deficit would be reduced to £8.308 million in 2024/25, with a budget deficit of £52.272 million across the full MTFP(14) planning period.

Background

- 29 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 the council has a robust plan and timetable that is agreed and followed. The budget setting timetable was agreed by Cabinet on 12 July 2023.
- 30 The council is committed to strong financial governance and getting value for money whilst ensuring that any council tax increases are justified and affordable.
- 31 It is prudent that the council continues to plan across a four year timeframe. During this period the Council will continue to face significant and unavoidable budget pressures, especially relating to future pay awards to council employees, the National Living Wage uplifts, Children's Social Care and Waste pressures and from a shortfall in housing benefit subsidy relating to temporary and support accommodation, whilst facing the uncertainty over the impact of the future Fair Funding Review (FFR).
- 32 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.
- 33 Savings plans continue to be developed for consideration for 2024/25 and in future years. Unless there is a significant uplift in the level of local government financial settlements, additional savings are inevitable as the council suffers from a low taxbase and is not able to raise sufficient income locally from permissible council tax increases and from its locally retained share of business rates to meet its unavoidable inflationary and service demand pressures – particularly from its statutory social care services.
- 34 The council will be able to utilise the MTFP Reserve to help balance the budgets in the short-term whilst savings proposals are developed and or implemented. The MTFP Reserve balance is currently £27 million and can be utilised to balance the budget in the short term but this must be as a last resource and with the size and scope of funding shortfalls over the next four years would soon be exhausted.
- 35 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.
- 36 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 12 July 2023 MTFP(14) report to Cabinet;

- (b) an update on the MTFP(14) savings plans previously forecast for the period 2024/25 to 2027/28;
- (c) a range of additional savings plans to augment the savings proposals considered and agreed by Cabinet in July which are recommended for inclusion in the MTFP(14) plans and for these to be consulted on to assist in balancing budgets.

Review of MTFP Forecasts

- 37 The financial outlook for the Council continues to be extremely challenging. Prior to the pandemic the national finances were in a reasonably healthy state for the first time in ten years. The impact of the pandemic upon the national finances however alongside the impact of the Governments response to the cost of living crisis is forecast to have long term impacts on the flexibility for increases in expenditure across the public sector.
- 38 Local authorities continue to lobby strongly for a long term sustainable financial settlement, but it is becoming less likely that this will occur in the short term due to ongoing uncertainty in the national finances linked to the ongoing impacts of the pandemic, Brexit, and the inflationary impact of the crisis in Ukraine.
- 39 A number of local authorities across the country have either published or referenced that they may shortly need to publish Section 114 notices, with several more expected to in the coming months. A number of these announcements have been made by local authorities who are simply running out of funding to finance core services and not related to governance failures or risky commercial decisions.
- 40 Durham County Council currently has sufficient financial resilience, a strong track record of prudent financial management and sufficiently robust budget and MTFP planning processes such that we are not, at least at this stage, in danger of the Corporate Director of Resources having to consider issuing a Section 114 notice. That said, the financial challenges in 2025/26 and beyond are immense based on the current forecasts and if the council does not address these challenges in a planned way then the position could change rapidly.
- 41 It is hoped that central government heed these warnings from the sector and provide additional core funding to local government beyond the sums already indicated which are not suffice to cover the pressures faced.
- 42 The assumptions underpinning the development of MTFP(14) continue to be reviewed. This has resulted in a number of significant changes to the core financial planning assumptions for 2024/25 and in future years as well as consideration of increased costs and demand increases specifically

linked to the impact of high levels of inflation. The key adjustments and major areas for consideration are detailed below:

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

The assumed increase in RSG in 2024/25 has been increased from 6% to 6.5%. CPI at the end of July fell to 6.8% and is forecast to be in this region at the end of September with the uplift in RSG for 2024/25 being based upon the CPI rate at the end of September. The revised assumptions benefit the forecasts by £240,000 of additional grant income next year.

(b) Market Sustainability Improvement Grant

In late July the government announced additional specific grant funding of £365 million for 2023/24 (the council will receive an additional £4 million of MSIF funding in 2023/24), falling to an additional £205 million for 2024/25, of which it is forecast the council will receive circa £2.3 million next year. This additional funding has been assumed to be non-recurrent and will be removed in 2025/26. This funding is to support the adult social care sector especially in relation to workforce support and as such will come with additional spending requirements.

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

In line with revised assumptions made on RSG uplifts, the assumed CPI uplift on Business Rates/S31/Top Up Grant funding has been increased to 6.5%. The revised assumptions benefit the forecasts by £800,000 of additional grant income next year.

(d) Council Tax Taxbase

Taxbase growth has slowed down significantly in recent months – due to a combination of lower than forecast new house completions and an increase in discounts and exemptions as interest rates have increased and the economy has slowed. This position was demonstrated by the quarter one 2023/24 forecast of outturn, where a c£2 million deficit is forecast on the Council Tax Collection Fund to 31 March 2024.

The assumptions for taxbase growth have been reduced in both the 2024/25 and 2025/26 financial years to just £0.5 million in each year. The impact of the revised assumptions is a reduction in resources available of £1.8 million in 2024/25 and £1.375 million in 2025/26 – a total adverse impact of £3.175 million across the MTFP(14) planning period.

(e) **Business Rate Taxbase**

The July 2023 Cabinet report included a forecast for business rate taxbase growth of circa £1.8 million 2024/25 and £0.5 million per annum thereafter. These forecasts have been updated taking into account appeals received and resolved alongside updated assessments of future appeals and forecasts for business rates growth over the coming years, particularly from the new developments at Milburngate, Integra 61 and at Tindale Crescent in Bishop Auckland. The review has resulted in an increase in the 2024/25 business rate taxbase forecast from £1.8 million to £2.8 million and for 2025/26 tax base growth from £0.5 million to £1 million. These revised assumptions benefit the forecasts by £1.5 million of additional tax base growth income.

(f) **Pay Inflation**

The July 2023 MTFP(14) report to Cabinet highlighted that the assumption of a 2% pay increase for council staff in 2024/25 could be a risk linked to the concern that inflation may reduce slower than was forecast by the Chancellor of the Exchequer.

The concern in relation to inflation coming down slower than forecast has manifest, however, in addition there is an emerging concern that the National Living Wage(NLW) may increase by circa 10% in April 2024, rather than the 7.1% originally forecast by the Low Pay Commission (see below).

If this is the rate of NLW then the Local Government Employers are likely to consider another 'flat rate' increase on all local authority spinal column points in 2024/25 in order to preserve the pay differential at the bottom end of the national pay spine, which is their over-riding concern.

With this in mind the forecast for the pay increase for 2024/25 has been uplifted from 2% to 4%. This revised assumption doubles the budget pressure in 2024/25 and increases the forecast cost by £5.3 million.

Cabinet will be aware that the pay award is agreed nationally and is largely outside the councils control. Every 1% on the councils pay bill equates to a budget pressure of circa £2.65 million, which is broadly the same as the council tax income generated from a 1% increase in council tax.

(g) **Price Inflation**

Consumer Price Inflation (CPI) forecasts for the financial year are higher than previously forecast with the Bank of England target of

2% not expected to be achieved until early 2025 now. With this in mind the price inflation forecast in the MTFP model for 2024/25 has been increased to 2% from 1.5% adding a £0.8 million budget pressure into 2024/25. Actual inflationary pressures faced are expected to exceed the budget provision, necessitating services to exercise spending restraints and driving value for money to remain within budget.

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

The July 2023 MTFP(14) Cabinet report assumed that the NLW would increase to £11.16 in April 2024, based upon the Low Pay Commission March 2023 report.

The March 2023 report identified that if national median wages increased at the top end of their expectations then the NLW increase could be as high as £11.43, rather than £11.16, which is an increase of 9.69%.

Recent reports on the increase in national median wages of 7.8% per annum or 8.5% if bonuses are included is coming out at the top end of the Low Pay Commission expectations. With this in mind our forecasts of adult social care fee uplifts, which are heavily based upon the annual NLW increase, have been reforecast based upon a 9.69% increase in the NLW from April 2024.

This increase in the forecast NLW has increased the forecast contract uplift pressure by £2.4 million.

In total, forecast base budget pressure from social care fees for residential, nursing and home care services, which are largely driven by expected increases in the National Living Wage next year, is £17.8 million next year.

The income generated from a 2% adult social care precept would be circa £5.3 million, less than a third of this budget pressure alone.

(i) **Energy Price Increases**

The July MTFP(14) Cabinet Report forecast a £2.6 million reduction in the 2024/25 energy budget followed by £0.75 million reductions in the two following years as energy prices gradually reduced.

Based on the most recent NEPO updates it is now forecast that the energy budget reductions in 2025/25 and 2026/26 can be accelerated into 2024/25, with a £4.6 million reduction now being applied in 2024/25.

This adjustment benefits 2024/25 by £2 million but only benefits the overall MTFP forecasts by £500,000 due to it largely being a reprofiling issue

(j) **Loss of School SLA Income**

For a number of years, the academisation of more and more schools has created both an opportunity and a threat in terms of our ability to sell services and attract SLA income. The ability to absorb the loss of such income is creating significant budget pressures in a number of service areas. Variable costs incurred in the provision of services can be reduced as SLA's are lost but it is becoming impossible to reduce fixed costs.

With this in mind a £300,000 per annum pressure for loss of SLA income to offset these pressures is built into each year of MTFP(14) based upon compensating services for 50% of any income lost going forward.

(k) **Housing Benefit Subsidy Shortfall**

Cabinet will recall that a £2 million budget pressure was factored into the July MTFP(14) update report linked the difference between the escalating costs of temporary accommodation and for supported housing vs the grant the council can reclaim from the Department for Works and Pensions.

The quarter one forecast of outturn report considered by Cabinet on 13 September 2023 indicated that the HB subsidy shortfall will be c£3.2 million in 2023/24.

On the basis of work being undertaken to address temporary accommodation it is estimated that the budget adjustment required next year will be circa £2.6 million, which is £600,000 higher than the figures included in the previous MTFP(14) forecasts.

(l) **Treasury Management – Investment Income and Prudential Borrowing**

Based upon updated forecasts of capital expenditure and cash flow modelling, which establishes the need to borrow and the timing of that borrowing, it is possible to reduce the budget reduction for investment income (which was increased temporarily in 2023/24) in 2024/25 from £3.5 million to £2.5 million pushing the £1 million reduction into 2026/27. This is a timing issue and effectively retains a higher level of budgeted investment income for longer.

It is also possible to push back the £2 million budget uplift for prudential borrowing from 2024/25 into 2025/26 to reflect the latest assumptions on borrowing.

The updated strategy assumes we will be borrowing £100 million in 2024/25 at a rate of 4.5% and a further £200 million in 2025/26 at a rate of 3.75%. Current PWLB 40 year borrowing rates are circa 5.5% - whereas the current weighted average interest paid on existing external loans is 3.11%..

2024/25 Savings Forecast

- 43 Based upon the revised assumptions detailed in this report, the savings requirement for 2024/25 is forecast to be £16.308 million, £8.567 million higher than the position previously reported.
- 44 Although the budget deficit of £16.308 million in 2024/25 is the latest forecast, it should be recognised that this figure could and will likely change before Council ultimately sets the budget on 28 February 2024.
- 45 The MTFP(14) forecasts continue to be predicated on a 4.99% council tax increase being applied in 2024/25 (inclusive of a 2% adult social care precept) with 2.99% increases per annum across the remainder of the MTFP(14) planning period.
- 46 There are £2.332 million of savings approved as part of MTFP(13) that can be delivered in 2024/25, with the savings previously agreed having been reprofiled (bringing forward savings from 2025/26 into 2024/25 for restructuring in the HR Team (c£153k) and in Transactional and Customer Services Team (c£71k) and a saving in relation Internal Audit reprofiled to 2026/27 (c£43k)), and one of the savings proposals (Strategic Car Parking Review) reduced by £74,000 following updated forecasts for this proposal. The updated schedule of previously agreed savings is set out at Appendix 2.
- 47 Cabinet agreed additional savings proposals of £3.7 million for 2024/25 and £6.617 million in total across the MTFP(14) planning period for public consultation at its meeting on 12 July 2023, with public consultation commencing on 3 September 2023. These are set out at Appendix 3.
- 48 The July 2023 MTFP(14) report identified a forecast funding shortfall of £6.2 million for 2024/25 if all the savings to be consulted on were approved by Full Council in February 2024.
- 49 With this in mind service groupings have continued to work on saving plans to help close this forecast funding shortfall. This report provides details of savings plans amounting to £2.909 million over the next four years, with £1.943 million of these savings considered to be achievable in

2024/25, which if agreed would assist in closing the budget shortfall next year.

- 50 These savings plans have been fully assured in terms of delivery with every attempt made to seek to protect front line services as far as possible. The proposed new additional savings plans for next year, with indicative plans for 2025/26 to 2027/28 are attached at Appendix 4.
- 51 If ultimately agreed, the total savings would be £8.0 million in 2024/25 and £15.330 million across the MTFP(14) planning period, reducing the forecast budget deficit / savings shortfall to £8.308 million in 2024/25 and £52.272 million if all savings are approved at Full Council on 28 February 2024.
- 52 If government provide additional funding to local government in the finance settlement for 2024/25, this gap could be reduced and potentially eradicated depending on the level of support provided and whether there are any other budget pressures that emerge.
- 53 It is currently unclear whether and the extent to which any additional funding will be provided. However, there is also a risk that the gap widens if cost pressures, particularly in relation to energy and in looked after children's placement budgets, continue to escalate.
- 54 At this point it is likely the council would need to utilise its reserves once again to balance the budget in 2024/25.

Equality Impact Assessment of the Medium Term Financial Plan

- 55 Consideration of equality analysis and impacts is an essential element that members must take into account when considering the savings plans at Appendix 2 to 4. This section updates Members on the outcomes of the equality analysis of the new MTFP(14) savings proposals set out at Appendix 6, building on information previously considered.
- 56 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
- 57 As in previous years, equality analysis is considered throughout the decision-making process, alongside the development of MTFP(13). This is required to ensure MTFP process decisions are both fair and lawful. The process is in line with the Equality Act 2010 which, amongst other things, makes discrimination unlawful in relation to the protected characteristics listed above and requires us to make reasonable adjustments for disabled people.
- 58 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
- 59 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.
- 60 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 2024/25 Savings Proposals

- 61 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

- 62 There is a proposal for 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 and it should be noted that the proposed change in arrangements would ensure equity by bringing the arrangements for the community alarm charges in line with the other three extra care sites in County Durham.
- 63 Remaining proposals 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 impacts.

Children and Young People's Services (CYPS)

- 64 Most proposals for CYPS are at a formative stage and will require further analysis as proposals develop or have no expected equality impact.
- 65 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). A full impact assessment has been carried out as part of Cabinet reporting and decision making processes for this proposal which has been subject to full public consultation. 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.
- 66 Review of the early help model involves the management of vacant posts which could lead to an increased workload for remaining staff who are delivering services for families and young people. However, new

approaches and working practices have evolved to deliver efficiencies. The equality impact assessment will be updated as the proposal progresses to fully assess and monitor impact.

- 67 The review of council nursery provision is a long term review which will minimise impact and allow for careful planning towards a sustainable future which is potentially positive for young children and their families. The government plans for the expansion of free childcare will be phased in over the period from April 2024 to September 2025. The extension of the free (30 hour) childcare support for working parents of children over the age of nine months, will allow opportunities for all four council nurseries to remodel their provision. It is expected that increased volumes of potential children requiring places along with increased funding rates will allow for a financially sustainable model. HR processes will be followed to ensure fair treatment where there is any impact on staff and the equality impact assessment will be updated to reflect this.

Neighbourhoods and Climate Change (NCC)

- 68 NCC savings proposals are at an early stage of development and some require further analysis as proposals progress.
- 69 A fee increase for bulky waste collection is proposed 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.
- 70 A reduction in grant funding for the voluntary and community sector 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 extremely low and conversations will take place with organisations affected to minimise any adverse impact, such as providing support to secure alternative funding streams.
- 71 An adjustment to funding of Area Action Partnership (AAP) area budgets with a reduction in revenue budget, will be substantially offset by an increase in capital budget. As projects are broad in focus there is likely to be some impact on protected characteristics in terms of a reduced capacity to support projects which support older/younger people, people with disabilities, for example. An increase in capital funding is positive and will better support improvements to community infrastructure and equipment.

The AAPs will work closely with a range of internal and external partners and funders to potentially mitigate in full shortfalls in revenue funding.

- 72 There are proposals to introduce parking charges at Seaham Coast and Crimdon beach, which will impact all car park users with no disproportionate equality impact.
- 73 Any potential staff reductions will be managed through agreed HR procedures, and progression of ER/VR to minimise impact.

Regeneration, Economy and Growth (REG)

- 74 At this stage of equality analysis there is no anticipated equality impact for the majority of REG savings proposals.
- 75 There are several proposals in relation to the car parking review, with a particular focus on Durham City. There is no disproportionate impact on any particular group as the changes will impact across the board, however, mitigations, exemptions and concessions exist for disabled people in particular circumstances. On-street dedicated blue badge bays will remain free and on-street pay and display bays and time limited bays will remain free of charge and without limit of stay for blue badge holders. Some of the proposals may provide a nudge towards more sustainable travel which could be of potential benefit to all in terms of improved health and air quality.

Resources

- 76 There are a range of proposals 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.
- 77 There is a proposal to make Durham County News an online publication, 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

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

- 79 A proposed 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 partially mitigated.
- 80 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 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.

MTFP(14) – 2023/25 to 2028/28 Summary

- 81 The adjustments to the MTFP(14) model have resulted in the following revised forecast across the four year period of the current MTFP:

	Savings Requirement	Less Savings Previously Approved*	Savings Shortfall
	£m	£m	£m
2024/25	16.308	(6.057)	10.251
2025/26	20.432	(3.071)	17.361
2026/27	20.002	(2.784)	17.218
2027/28	10.860	(0.509)	10.351
TOTAL	67.602	(12.421)	55.181
Previous Forecast	56.014	(12.495)	43.519
Difference	11.588	0.074	11.662

* Includes savings agreed in July Cabinet and subject to ongoing consultation (set out at Appendix 3) and updated assessment of previously considered MTFP(13) savings proposals (set out at Appendix 2).

- 82 Assuming the proposals previously considered are implemented, the additional savings required to be developed to balance the budgets over the next four years is estimated to be £55.181 million.
- 83 This report provides details of additional savings plans amounting to £2.909 million over the next four years with £1.943 million of these savings in 2024/25. These savings plans have been assured in terms of delivery with every attempt made to seek to protect front line services as far as possible. The proposed savings plans for next year, with indicative plans for 2025/26 to 2027/28 are attached at Appendix 4.
- 84 If ultimately agreed and delivered, the total savings would be £8.0 million in 2024/25 and £15.330 million across the MTFP(14) planning period, reducing the forecast budget deficit / savings shortfall to £8.308 million in 2024/25 and £52.272 million if all savings are approved at Full Council on 28 February 2024. The table below provides a summary of the position once the new savings proposals at Appendix 4 are factored in:

	Savings Requirement	Less Total Potential Savings	Shortfall
	£m	£m	£m
2024/25	16.308	(8.000)	8.308
2025/26	20.432	(3.433)	16.999
2026/27	20.002	(3.046)	16.956
2027/28	10.860	(0.851)	10.009
TOTAL	67.602	(15.330)	52.272

- 85 The realisation of an additional £67.602 million of savings across the MTFP(14) planning period will have resulted in the Council being required to save circa £328 million from 2011/12 to 2027/28.
- 86 The updated MTFP(14) Model, factoring in the savings outlined at Appendix 2 to 4, is attached at Appendix 5.

Risk Assessment

- 87 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. The coronavirus pandemic 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 retains 49% of all business rates collected locally but is also 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. This risk has escalated since the Cabinet considered the MTFP update in July, which is why the assumed pay award in 2024/25 has been increased to 4%. The risk is not fully mitigated however, and there is still a risk that this will not be sufficient. 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.

Conclusion

- 88 The council continues to face significant financial uncertainty for the MTFP(14) planning period, covering the financial years 2024/25 to 2027/28. The uncertainty relating to future government financial settlements is exacerbated by the ongoing impact of demand for services and inflation including increases in the national living wage, social care pressures alongside enduring pressures in our looked after children's placement budgets.
- 89 The proposed new additional savings attached at Appendix 4 will be subject to consultation via our existing County Durham Partnership networks during October and November. This will include the fourteen Area Action Partnerships (AAPs) and the thematic partnerships that support the County Durham Partnership. The outcome of this consultation, together with greater certainty around the local government finance settlement, will inform final budget decisions in February.
- 90 The MTFP forecasts at this stage would indicate a budget gap next year even if all the savings identified for 2024/25 are ultimately taken. The council will be required potentially to utilise reserves to balance its budget next year.
- 91 The application of reserves to balance the budget is not a sustainable solution to the financial challenges we face. Whilst the review is undertaken and until there is greater clarity, the programmes and projects funded from a range of earmarked reserves will need to be paused at this time.

92 Planning will continue in relation to the identification of further savings to enable future years budgets to be balanced, which alongside the review of reserves currently underway will ensure the Council is well placed to respond to the financial forecasts as they are firmed up over the coming months.

Other useful documents

- Medium Term Financial Plan (13), 2023/24 to 2026/27 – Report to Council 22 February 2023
- Medium Term Financial Plan (14), 2024/25 to 2027/28 – Report to Cabinet 13 July 2023

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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.

Finance

The report highlights that at this stage savings of £16.308 are required to balance the 2024/25 budget, with £67.602 million of savings required across the next four years.

There are £2.332 million of savings approved as part of MTFP(13) that can be delivered in 2024/25, with the savings previously agreed having been reprofiled and reviewed. The updated schedule of previously agreed savings is set out at Appendix 2.

Cabinet agreed additional savings proposals of £3.7 million for 2024/25 and £6.617 million in total across the MTFP(14) planning period for public consultation at its meeting on 12 July 2023, with public consultation commencing on 3 September 2023. These are set out at Appendix 3.

The report sets out new additional saving plans amounting to £2.909 million over the next four years, with £1.943 million of these savings considered to be achievable in 2024/25, which if agreed would assist in closing the budget shortfall next year. These savings plans are set out at Appendix 4.

If ultimately agreed, the total savings would be £8.0 million in 2024/25 and £15.330 million across the MTFP(14) planning period, reducing the forecast budget deficit / savings shortfall to £8.308 million in 2024/25 and £52.272 million if all savings are approved at Full Council on 28 February 2024.

These savings plans have been fully assured in terms of delivery with every attempt made to seek to protect front line services as far as possible.

If government provide additional funding to local government in the finance settlement for 2024/25, this gap could be reduced further. However, there is also a risk that the gap widens if cost pressures continue to escalate.

The council is therefore likely to be required to utilise reserves to balance its budget next year.

The MTFP Support Reserve balance at 31 March 2023 was £36.996 million, however, £10.028 million was utilised to balance the 2023/24 revenue budget, leaving an unallocated balance of £26.968 million available to support MTFP(14).

The use of reserves to excessive levels to balance budgets is not a sustainable long term budget strategy.

Consultation

Consultation on the 2024/25 budget and MTFP(14) begun in September with a range of meetings with the fourteen AAP's and with a public consultation and online surveys available via the Councils website.

Additional consultation will take place with AAP's and partners in relation to the new savings proposals included in this report during October and November. This will include the fourteen Area Action Partnerships (AAPs) and the thematic partnerships that support the County Durham Partnership.

The Corporate Overview and Scrutiny Management Board will continue to provide scrutiny of the MTFP(14) and budget setting process.

Equality and Diversity / Public Sector Equality Duty

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

The report contains summary details of the impact assessment that has been undertaken on the proposed savings, which is set out in more detail at Appendix 6.

Climate Change

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

Human Rights

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

Crime and Disorder

None

Staffing

In terms of the new MTFP(14) savings plans set out at Appendix 4 it is forecast that these would result in a reduction in fte of 20.7 if all savings were approved.

Taken together with the estimated workforce implications of the proposals agreed in July for consultation (set out at Appendix 3 – 31.5 fte) and the MTFP(13) previously agreed proposals (set out at Appendix 2 – 41.9 fte) total forecast reduction in fte if all savings are approved would be 93.1 fte.

The staffing / HR implications arising from the action that will need to be taken to meet the £52.272 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

Medium Term Financial Plan (MTFP) savings of £275,000 were previously factored into MTFP12 from the expected move to the new HQ and closure/demolition of the existing County Hall building at Aykley Heads.

Risk

The Council is continuing to operate in a period of significant financial uncertainty. When the 2023/24 budget was approved on 22 February 2023, the council was concerned about the ongoing and consequential impact of high levels of demand for services and historic high levels of inflation. These concerns still remain.

Prudent financial planning assumptions have been made in terms of forecasting the base budget pressures the council will face over the coming years. The underpinning rationale is explained in detail in the report and a range of key risks and issues is set out in the body of the report.

The savings plans attached at Appendix 2 to 4 have been assured in terms of delivery with every attempt made to seek to protect front line services as far as possible.

The report includes details of the impact assessments and key risks associated with the additional new savings proposals included at Appendix 4, building on information provided on the savings detailed in previous reports.

Procurement

None