Cabinet

4 December 2024

Medium Term Financial Plan (15) 2025/26 – 2028/29

CORP/R/2024/001

Report of Corporate Management Team

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Purpose of the Report

1 This report provides an update on the development of the 2025/26 budget and the Medium-Term Financial Plan (MTFP(15)) covering the period 2025/26 to 2028/29, including updated financial planning assumptions, some of which reflect announcements made in the Chancellor of the Exchequer's Autumn Budget Statement, presented to the House of Commons on 30 October 2024.

2 The report includes details of further additional savings proposals that can be considered to help balance the budget next year and beyond, which are in addition to the savings which were approved on 28 February 2024 as part of MTFP (14) and cut across this MTFP planning period. These additional proposed savings will be subject to a second phase of budget consultation, running from Friday 6 December 2024 to Friday 17 January 2025. The second consultation will build on the phase one budget consultation which closed on Friday 1 November 2024, the outcomes of which are outlined in this report.

Executive Summary

3 The Council has operated in a period of significant financial uncertainty for many years. The 2024/25 budget was approved on 28 February 2024, and the budget identified several continued challenges relating to high levels of inflation during 2022/23 and 2023/24, and a rapid / sustained increase in demand for statutory (social care) service provision in recent years.

4 On 18 September 2024 Cabinet considered a report which set out the scale of the financial challenge facing the Council as part of its fifteenth Medium Term Financial Strategy, covering the period 2025/26 to 2028/29 – known as MTFP (15). That report noted that the financial planning position for the Council remained very challenging over the next four financial years, with a significant budget deficit / savings requirement of £64.130 million forecast - £21.720 million of which was forecast to fall into 2025/26. It was identified that the deficit would not be addressed unless additional funding was forthcoming or further extensive savings could be found to reduce the Council's cost base, The report highlighted that a comprehensive Transformational Change Programme to address the medium-term financial challenges would be required.

5 The financial forecasts presented to Cabinet on 18 September 2024 assumed annual 2.99% increases in the Council's Core Council Tax charges every year across the MTFP (15) planning period and assuming the savings proposals agreed in February 2024 for the period between 2025/26 to 2027/28 were all delivered. The overall position in September 2024 is set out in the Table below, which compares the updated forecasts at that time to the position that was set out in February 2024 when the 2024/25 budget and MTFP (14) forecasts were approved:

	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**TOTAL £'000**
MTFP (15) Forecast Budget Deficit / Savings Requirement – Sept 2024	21,720	23,671	10,622	8,117	64,130
MTFP (14) Forecast Budget Deficit / Savings Requirement (2025/26 to 2027/28 Only) – Council Feb. 2024	16,789	11,915	9,129	N/A	37,833
Increase / (Decrease) in Forecast Budget Deficit / Savings Requirement Between MTFP (14) and MTFP (15).	**4,931**	**11,756**	**1,493**	**8,117**	**26,297**

6 Since the September report was considered, the MTFP (15) forecasts have needed to be updated. Several of the specific assumptions made when the previous forecasts were prepared, including assumed incremental changes in forecast government funding, council tax and business rate income, as well as updated assumptions on base budget pressures that need to be addressed and catered for in our MTFP planning across the next four financial years have changed. The updated forecasts have also been informed by the new Government's Autumn Budget Statement, which was presented to the House of Commons on 30 October 2024.

7 Whilst the Autumn Budget Statement provided an indication of some additional funding for local government, the method by which some of this funding will be distributed remains uncertain and will not be known in more detail until the Local Government Finance Settlement is announced on 19

December 2024. The Government subsequently have indicated that local authorities will be able to raise council tax by 5%, however this is still to be confirmed and we will not get full clarity until the Local Government Finance Settlement is published.

8 The updated MTFP (15) forecasts set out in this report reflect amendments in relation to:

(a) Additional social care grant which has been allocated to local government as part of the Autumn Budget Statement (£7 million), which is however dwarfed by the significant unavoidable additional costs the council will face in both adult and children's social care next year (£28.282 million).

(b) An improved Council Tax Base position, which was set out in the report to Cabinet on 13 November and which reflects increases in house building across the County, changes to the charging arrangements for properties which are termed as long-term empty, and a number of properties being brought back into Council Tax following changes to holiday let and AirBnB arrangements (£2.8 million of additional council tax revenues).

(c) Updated assumptions on the consumer prices index (reflecting the drop to 1.7% as per the September 2024 CPI announcement) – which reduces some cost lines of the Council in 2025/26, but also reduces the assumed inflationary increases for uplifts relating to Business Rates supplementary grant funding (reduction in Government grant uplift of £1.312 million). It is worth noting that the October 2024 CPI rate increased back up to 2.3% from the 1.7% rate reported in September 2024, which is now in excess of the Bank of England's targeted level of inflation. The assumed inflation rates for later years have been uplifted by more than the rates assumed on 18 September, to reflect forecasts set out by the Office of Budgetary Responsibility as part of the Autumn Budget Statement (increase in Government grant uplifts of £3.140 million).

(d) Uplifted assumptions for the 2025/26 and 2026/27 Local Government pay award, considering the National Living Wage rate from 1 April 2025 announced on 30 October 2024 which will undoubtedly influence the level at which the 2025/26 local government pay award is settled. The 6.7% increase in the National Living Wage from 1 April 2025 will result in an increase in the NLW to £12.21 per hour, was higher than the 5% increase assumed in our MTFP planning.

(e) Increased Employer National Insurance costs because of the Chancellor increasing the employer rate of Employer National Insurance contributions from 13.8% to 15%, and more significantly, reducing the financial threshold at which point an employer pays national insurance on behalf of their employee from £9,100 per annum to £5,000 per annum. The Government have indicated that local government and the wider public sector will be fully compensated for these rising national insurance costs on their direct employment costs (estimated at c£6 million for the Council), but the quantum of funding, its source and its basis of allocation remain uncertain – the updated MTFP(15) forecasts have assumed this is cost neutral at this stage.

(f) Increases in costs of adult social care, which are directly influenced by the higher-than-expected increase in National Living Wage rate announced on 30 October 2024 and which also needed to be updated to reflect the increased employer national insurance costs the sector will face next year which they will seek to pass onto the council. The NLW and the Employers National Insurance changes will have a direct inflationary impact on the rates of fees charged by adult social care providers next year and beyond and have resulted in significant increases in these unavoidable forecast cost pressures across the MTFP (15) planning period (updated estimates are £5.423 million higher than forecast in September).

(g) Increases in the budgetary growth provision made for Home to School Transport across the four-year period reflecting a more detailed analysis of the causal demand pressures and underlying drivers of these costs and the impact of NLW and Employer's National Insurance changes on these budgets (£1.591 million higher next year and £3.816 million across the four-year period).

(h) A new and additional budget allocation of £0.680 million – building on the £2.6 million factored into the 2024/25 budget - to reflect continuing rising financial challenges relating to the Housing Benefit Subsidy loss, which is driven by an increased demand for temporary and supported accommodation, which is driven in part by the rise in unregistered housing providers across the County.

(i) A reprofiling and change to assumptions regarding the strategically important waste management budget – including consideration of the timing of new legislation been introduced, how this will be funded and the timing of when the new Teesside Waste Facility will be coming online (£3 million budget pressure in 2026/27 reprofiled to 2028/29).

(j) Revised assumptions around the timing and the costs of required new borrowing, and the resultant additional capital financing budgets required to service the Council's growing Capital Financing Requirement (£3.5 million of capital financing budget reprofiled from 2026/27 to 2025/26); and

(k) Assumed savings from energy (gas and electricity contracts) following a settling in the energy markets during 2024/25, which is expected to continue into 2025/26 (£2 million budget reduction applied in 2025/26).

9 A significant budget pressure facing the Council relates to the increased placement costs in Looked After Children's budget, which are significantly overspending in 2024/25 and require additional budgetary growth of £23.857 million across the Medium-Term Financial Strategy. This report does not amend the growth assumptions set out in the 18 September 2024 Cabinet Report at this stage. The forecasts have been assessed in more detail as part of a detailed diagnostic exercise undertaken by Newton Europe – who are specialists in analysing high-risk local authority budgets and this report outlines some of the broad findings of that review and the next steps in terms of developing an updated LAC Sufficiency and Commissioning Strategy to help manage these budgets. There is a risk however that these financial assumptions may need to be revised upwards before the budget is finalised.

10 Factoring in the various updated assumptions, the known outcomes of the Autumn Budget Statement and before consideration of the new savings proposals that have been developed, updated MTFP (15) Budget Deficit / Savings Requirement, has worsened when compared to the forecasts that were set out in the September report:

	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**TOTAL £'000**
MTFP (15) Forecast Budget Deficit / Savings Requirement – December 2024	25,615	18,912	12,455	12,806	69,788
MTFP (15) Forecast Budget Deficit / Savings Requirement – September 2024	21,720	23,671	10,622	8,117	64,130
Increase / (Decrease) in Forecast Budget Deficit / Savings Requirement Between MTFP (14) and MTFP (15).	**3,895**	**(4,759)**	**1,833**	**4,689**	**5,658**

11 These escalating challenges are driven 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. The Autumn Budget Statement indicated that local government will be allocated a one-year financial settlement in 2025/26, with a Comprehensive Spending Review to be undertaken in 2025/26 to inform a multi-year settlement from 2026/27. There were several announcements made on 30 October, where the finer details of will not be confirmed until 19 December 2024, which is very late in the Budget-Setting process.

12 There remains some uncertainty about the flexibilities and parameters within which local authorities will be able to raise council tax in 2025/26 – although the Government have subsequently indicated that councils will be permitted to raise Council Tax by 5% (potentially to include a 2% Adult Social Care precept to be applied next year at least). Whilst many other authorities are factoring that into the budget planning assumptions already, the updated MTFP (15) forecasts set out in this report do not at this stage. There will be a need to update the MTFP (15) forecasts following publication of the draft Local Government Finance settlement on 19 December, when, amongst other things, the council tax raising powers will be clarified.

13 There was confirmation in the Autumn Budget Statement that there are plans to reform local authority funding (especially the distribution methodology), during 2025, for implementation in 2026-27 - to ensure funding allocations reflects an up-to-date assessment of need and local tax-bases. This will coincide with the Government undertaking a Comprehensive Spending Review in 2025. This council has been calling for these changes for many years to address the inequities and unfairness in the current system, which significantly disadvantages authorities like ourselves.

14 Ministers are also considering making distributional changes in funding for 2025-26 as well: "starting with a targeted approach to allocating additional funding in 2025-26, ahead of a broader redistribution of funding through a multi-year settlement from 2026-27". It is not clear at this stage to what extent the Council's funding position would change as a result and therefore no amendments have been made to MTFP (15) assumptions for 2025/26 or for years 2-4 at this stage. More details will be provided in the provisional local government finance settlement on 19 December 2024, and this will be factored into a further report to Cabinet in January 2025.

15 Whilst the commitment to review how local government funding is allocated is to be welcomed, Cabinet should bear in mind that any fundamental changes may be heavily dampened and smoothed in over several years. This would protect the Council should it see a net reduction in the quantum of funding (unlikely given its levels of need and low tax base / tax raising capacity); however, it would also delay the receipt of a required increase in funding should it be a net gainer from any funding formula changes. The aspirational timescales to successfully amend national funding formulae from 2026/27 will also be quite challenging for the Government and may be conditional on wider structural reform of local authorities in England (e.g. a removal of two-tier government and a move towards unitary structures across the country which would be a longer lead-in time to implement).

16 There remains some uncertainty about specific ring-fenced funding pots associated with adult social care – including Better Care Fund, Public Health Grant, Adult Discharge Grant and the Market Sustainability

Improvement Fund. These grants could be top-sliced or discontinued to fund the additional social care funding announced in the Autumn Statement.

17 Because the Local Government Finance Settlement will not be received until just before Christmas, once again, local authorities are having to make budget planning arrangements without detailed information on the allocation of local government funding. This is not conducive to good financial planning and will only be resolved once the sectors are provided with the certainty it needs through a multi-year settlement.

18 Savings are forecast to be required in all years of MTFP (15) as unavoidable budget pressures outstrip the funding the Council is forecasting it will receive from Government and its ability to generate additional income from business rates and council tax. The updated forecasts set out in this report continue to assume the Council will increase Council Tax by 2.99% each year. Should the Government allow local authorities increased flexibility to raise council tax by 5%, the strong advice from the Section 151 Officer will be that Council Tax is increased by the maximum permitted in order to help balance the council's budget, protect front line service delivery and avoid an over-reliance on reserves.

19 The delivery of an additional £69.788 million of budget savings over the next four years will be extremely challenging and will require a fundamental rethink and significant transformational change to deliver. Changes of this magnitude will require careful planning to deliver and would result in several services currently delivered by the council having to be discontinued, delivered differently and significantly reduced.

20 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 now much more challenging, the scope for further savings in managerial and back-office efficiencies is reaching its limits following the delivery of £270 million of savings up to 31 March 2025.

21 The total savings required at this stage for 2025/26 to balance the budget amounts to £25.615 million. This is £3.895 million higher than the position previously forecast and presented to Cabinet in September.

22 There are £3.389 million of savings approved as part of MTFP (14) that can be delivered in 2025/26, with the savings previously agreed having been reprofiled (and brought forward) in relation to changing the way the Council will deliver its Customer Access Points from October 2025. A further £3.184 million of MTFP (14) savings are planned for 2026/27, followed by £0.754 million of MTFP (14) savings in 2027/28.

23 The updated schedule of previously agreed (in February 2024) MTFP savings is set out at Appendix 2. In terms of the previously agreed savings, CYPS have identified options to replace savings relating to

accommodation and fees and charges (previously agreed in February 2024) with enhanced savings relating to the gradual reduction in historic further education pension fund liabilities. The previously agreed savings have also been adjusted to reflect the policy decisions now taken on Home to School Transport provision, which are now factored into the net budget growth figures included in the updated MTFP (15) forecasts.

24 Officers have worked with Cabinet members to develop new savings proposals to help balance the budget and MTFP (15) position. The new savings proposals that have been developed total £15.836 million and are profiled across the four years, though the majority relates to 2025/26. Despite these proposed savings there remains a significant budget gap in 2025/26 and across the entire four-year MTFP (15) time-period. These new savings are itemised in Appendix 3. Factoring in the proposed savings the updated MTFP (15) forecasts can be summarised as follows:

	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**TOTAL £'000**
MTFP (15) Forecast Budget Deficit / Savings Requirement – December 2024	25,615	18,912	12,455	12,806	69,788
New MTFP (15) Savings Proposals	(14,654)	(667)	(515)	1	(15,836)
MTFP (15) Budget Deficit / Savings Requirement After New MTFP (15) Savings Proposals	**10,961**	**18,245**	**11,940**	**12,807**	**53,952**
Budget Deficit / Savings Requirement in 2026/27 assuming 2025/26 position is balanced by use of reserves		**29,206**			

25 If all the additional savings of £15.836 million are agreed at Full Council on 19 February 2025, the forecast budget deficit (savings) shortfall would be reduced to £10.961 million in 2025/26 and across the four-year the savings gap would be £53.952 million across the full four-year period. Of particular concern would be the position in 2026/27 if the £10.961 million gap is funded from reserves – this would result in a budget deficit / savings requirement of £29.206 million that year.

26 The forecasts set out in this report could change once we have more clarity on the detailed allocations of funding to the Council following the publication of the draft Local Government Finance Settlement on 19 December 2024. The funding gap would also be reduced if the Council increases Council Tax by more than the 2.99% per annum increases currently assumed. The savings gap could also increase as the full financial impact of the increases in NLW and increases in national insurance costs are worked through and reflected on in terms of price inflation that will need to be factored into the budget next year. If nothing

changes, then the Council will need to utilise a further £10.961 million of its MTFP Support Reserve to balance the budget next year.

27 The MTFP (15) forecasts continue to assume that there will be a 2.99% council tax increases each year of the four-year MTFP (15) period. An additional £5.8 million of council tax revenue income would be generated should an additional 2% adult social care precept be applied next year. If applied, this would not fully offset the unavoidable budget pressures we face in our adult social care budgets, which is the largest revenue budgets held by the Council. The budget pressures faced in adult social care are being largely driven by the 6.7% rise in the National Living Wage and the rise in the level of employer national insurance costs, which means the Council expects to pay an additional £14.6 million in adult social care costs in 2025/26 and £39.5 million across the entire four-year MTFP(15) planning period.

28 The updated MTFP (15) financial forecasts are attached at Appendix 4 and the report contains an explanation of the underpinning financial planning assumptions that support these financial forecasts and various changes to the assumptions which have been made since the Cabinet report of 18 September 2024 (which are summarised in Appendix 5).

29 Following the previous report, the phase one consultation has been concluded. This considered the scale of the savings gap and gauged views on the saving proposals previously agreed and on the potential for any additional council tax raising powers. The outcome of this consultation is set out in Appendix 6.

Recommendations

30 Cabinet is asked to:

(a) note the updated MTFP (15) forecasts and the requirement to identify additional savings of £69.788 million for the period 2025/26 to 2028/29 (and summarised in Appendix 4 and 5).

(b) note that the MTFP(15) forecasts will be updated further following the publication of the local government funding allocations on 19 December 2024, any updates which will need to be made to inflationary pressures arising from rising National Living Wage and employer National Insurance cost increases and once greater clarity is received on council tax raising powers – with a further report to be presented to Cabinet in January 2025.

(c) note the revised profile and reduced quantum of the savings previously agreed as part of MTFP (14) as set out at Appendix 2.

(d) note that at this stage a budget shortfall of £25.615 million exists for 2025/26.

(e) note that £15.836 million of additional savings have been identified as part of this report, with £14.654 million identified for 2025/26 resulting in a remaining forecast budget shortfall of £10.960 million next year.

(f) note the outcome of the phase one budget consultation as set out at Appendix 6; and

(g) agree that new additional savings proposals, itemised in Appendix 3, to assist with balancing the 2025/26 budget and MTFP (15) position are consulted on, whilst acknowledging that these savings proposals fall short of balancing the budget next year and the overall MTFP (15) position.

Background

31 The initial financial forecasts for the Council’s General Fund revenue budgets covering the period 2025/26 to 2028/29 (Medium Term Financial Plan (15)) (MTFP (15)) were presented to Cabinet on 18 September 2024.

32 The forecasts have subsequently been updated to reflect the Budget announcements made on 30 October 2024, updated CPI assumptions, as well as updated assumptions on base budget pressures outside some service’s control, that need to be catered for in our MTFP planning across the coming four years, including pay and National Living Wage increases next year and beyond.

33 Whilst the Autumn Budget Statement on 30 October 2024 has provided some clarity on several issues and helped firm up several of our budget planning assumptions, there is some areas where further clarification and more specific details are required – particularly around the parameters of Council Tax referendum limits and the details of how individual local authorities will be allocated their share of Government Funding. Some of this detail will be provided when the Draft Local Government Finance Settlement is published, which is expected on 19 December 2024.

34 The fact that the Draft Local Government Finance Settlement will not be published until 19 December 2024 is not conducive to good financial planning and perpetuates the significant uncertainty over the councils underlying financial position next year.

35 The updated MTFP (15) financial forecast is attached at Appendix 4. Many of the updated figures are directly related to the Autumn Budget Statement announcements from 30 October 2024, but other updates are because of changes to our assumptions and consideration of the quarter two forecast of outturn position. A summary of the changes made to the forecasts since

the previous version presented to Cabinet on 18 September is set out in Appendix 5.

36 The MTFP (15) forecasts have also been updated to reflect the impact of the Council Tax Base calculations, which were presented to Cabinet on 13 November 2024.

Review of Financial Forecasts in MTFP (15)

37 A series of key underlying budget / MTFP assumptions around inflation rates, future increases in payroll, national living wage costs and council tax increases have needed to be revisited with changes summarised in the table below:

Underlying Budget Assumptions	**Cabinet 18 September**	**Updated Assumptions**
Consumer Price Index (CPI) 2025/26	2.50%	1.70%
Consumer Price Index (CPI) 2026/27	1.75%	2.60%
Consumer Price Index (CPI) 2027/28	1.75%	2.30%
Consumer Price Index (CPI) 2028/29	1.75%	2.10%
General Price Inflation 2025/26	1.50%	1.70%
General Price Inflation 2026/27	1.50%	2.60%
General Price Inflation 2027/28	1.50%	2.30%
General Price Inflation 2028/29	1.50%	2.10%
National Living Wage 2025/26	5.00%	6.70%
National Living Wage 2026/27 to 2028/29	4.00%	4.00%
LG Pay Award 2025/26	2.00%	3.00%
LG Pay Award 2026/27	2.00%	2.50%
LG Pay Award 2027/28 & 2028/29	2.00%	2.00%
Business Rates & Settlement Funding Assessment / Section 31 Grant Uplifts 2025/26	2.50%	1.70%
Business Rates & Settlement Funding Assessment / Section 31 Grant Uplifts 2026/27	1.75%	2.6%
Business Rates & Settlement Funding Assessment / Section 31 Grant Uplifts 2027/28	1.75%	2.3%
Business Rates & Settlement Funding Assessment / Section 31 Grant Uplifts 2028/29	1.75%	2.1%
Council Tax Increases 2025/26 to 2028/29 (p.a.)	2.99%	2.99%

38 **Consumer Prices Index:** Headline inflation has in recent months dropped to a current position of 1.70% (position in September 2024). The headline rate of CPI in September was lower than was expected and previously

forecast by the Office for Budget Responsibility. The CPI position in September 2024 is significant, as it is used to determine uplifts in the business rate multiplier and certain government grants. CPI is also used to drive underlying inflationary uplifts in some key contracts, including our adult social care contracts, which use the CPI rate as of September and January each year. The unexpected lower CPI rate in September has resulted in reduced levels of assumed grant funding uplifts in 2025/26 for Business Rates Top-up Grant and Section 31 Grants which are used to fund compensatory funding for reliefs grants to some businesses and charities. However, the CPI rate for October 2024 increased to 2.3%, which rises above the Bank of England's Inflation Target and could feed into some supplier costs in 2025/26.

39 The CPI assumptions in the later years of the MTFP (15) planning period have been updated to reflect the updated forecasts of CPI as determined by the Office of Budget Responsibility for 2025, 2026 and 2027 – which accompanied the Autumn Budget Statement. These amended forecasts impact on inflationary assumptions for funding and some elements of the Council's costs in later years.

40 There remains some uncertainty about the direction of inflation over the medium term, which is in part compounded by rising geopolitical and global uncertainty, due in part to conflict in the Middle East and Ukraine but also as a consequence of the USA elections and market uncertainty arising from announcements that were made by the Chancellor on 30 October 2024 – including rising employer costs due to the increases in the national living wage and in suppliers' national insurance costs.

41 The updated modelling of CPI has an impact on the financial forecasts in the MTFP as follows:

(a) Increases in Government Grant funding for Business Rates – where a higher rate of CPI would benefit the Council, but not fully offset the additional costs borne by the Council from a higher rate of inflation.

CPI impacts directly on the Business Rates Multiplier, which notionally increases the levels of non-domestic rates paid by businesses. As part of the Autumn Budget Statement, it was confirmed that the small business multiplier will be frozen next year, and the standard multiplier relating to larger business premises will be indexed.

The Council will receive some compensatory funding relating to small business rates multiplier being frozen next year. This inflationary increase is likely to track the 1.7% rate of CPI in September.

The September MTFP (15) report assumed CPI would be 2.5% in September 2024, so an additional budget pressure is now forecast totalling £1.312 million for 2025/26, offset by higher forecast grant increases in later years resulting in an improved position across the four-year planning period by a net £1.828 million.

(b) Contract / price inflation provision in 2025/26: CPI assumptions impact on the non-staffing element of the adult social care contract costs and on contractual inflation allocations provided for significant contracts such as home to school transport, children's social care and waste management and disposal. Uplifts to non-staffing inflation allocation assumptions have been made in the updated forecasts, resulting in increased growth requirements in 2025/26 for CPI of £0.287 million, and an increase of £4.105 million across the four-year planning period.

42 It is proposed that for future MTFP planning (i.e. from MTFP (16) onwards), CPI assumptions and contract / price inflation provision for later years are matched to the forecasts produced by the Office of Budgetary Responsibility, which accompany the Chancellor's annual Autumn Budget Statement. This approach will replace the historic approach of allocating a notional 1.5% uplift (or a variation of this) to service budgets.

43 **National Living Wage:** The MTFP (15) forecasts presented to Cabinet in September were based on the National Living Wage (NLW) rising by 5% from the current level of £11.44 per hour to a projected rate of £12.01 per hour in April 2025. This was based on a report published by the Low Pay Commission in March 2024.

44 In the Autumn Budget Statement, it was announced that the National Living Wage will rise to £12.21 from April 2025, which is a 6.7% increase, and more than the assumed £12.01 per hour previously forecast by officers. The increase in the National Living Wage from April 2025 is based on an updated report published by the Low Pay Commission – which reflects higher than expected increases in national median earnings over the last six months. The NLW has been retained at two thirds of national median earnings.

45 The rise in the National Living Wage has a direct bearing on the Council's assumed costs for future years local government pay awards, adult social care provider costs and home to school transport costs.

46 The Local Government Employers, who negotiate the annual pay award on behalf of the sector, are maintaining a close view on the possibility that MHCLG could be more directing and prescriptive on issues around rates of pay for staff working in the adult social care sector, which could feed into further cost rises. This may become clearer once the draft Local Government Finance Settlement is published.

47 Assumptions on National Living Wage increases in later years (years 2-4) of MTFP planning period remain unchanged at 4% at this stage. This is a

risk, as National Living Wage increases have been consistently higher than initial council projections even though these have been based on the Low Pay Commissions reports and OBR forecasts at the time of the preceding budget announcements, influenced in large part by the buoyant rate of growth of average earnings in the UK in recent years.

48 **Adult Social Care Costs:** The combined impact of increases in the National Living Wage, employer national insurance and updated CPI assumptions have had a significant upward impact on the level of budget growth for Adult Social Care in 2025/26, which is £5.423 million higher than the projections reported in September 2024 – bringing the growth required to £14.553 million next year. The MTFP Growth required for Adult Social Care across the MTFP planning period is now £39.518 million - £7.763 million higher than the previous forecasts. These remain high level estimates, and more detailed analysis of the impact of employer national insurance and national living wage increases needs to be undertaken as part of the agreement of updated adult social care fee rates for 2025/26. This risk is matched by the fact no increase in budgetary growth has been made for demographic pressures in 2025/26.

49 **Pay Award Assumptions:** The National Living Wage increase has also impacted the budget assumptions on future pay award levels, where the higher NLW makes it more challenging to foresee the 2025/26 pay award remaining at an average annual cost increase of 2%.

50 To address the impact on lower-graded spinal points, it is likely that the Local Government Employers will once again be faced with having to offer a cash lump sum staff uplift to all staff again in 2025/26, to ensure the pay levels of those local government employees on the bottom spinal column points remains above the National Living Wage going into the new financial year.

51 The percentage pay-award applied will therefore vary and gradually reduce as the cash-flat pay award works upwards through the various pay spinal column points. The Council will once again lobby against such an approach being taken as it has long-term implications of the wider pay and grading structure, which will be costly to rectify.

52 The bottom spinal column point in local government is currently £12.26 per hour following the implementation of the 2024/25 pay award – only 5p more than the NLW in April 2025.

53 To cater for the potential need for the Local Government Employers to offer a further cash lump sum in 2025/26, our assumptions for the pay award have been uplifted to an assumed 3.0% average increase in 2025/26 and a 2.5% average increase in 2026/27, with more modest increases of 2% per annum retained thereafter. The cash lump sum uplift assumed in 2025/26 to achieve a 3.0% average increase is around £1,000

per annum for all staff whose pay award is linked to the Local Government Employers pay negotiations. The agreed cash lump sum uplift applied in 2024/25 was £1,290. The updated assumptions are in line with the levels being made by neighbouring authorities.

54 The additional 1% on the assumed pay award in 2025/26 has increased the required budget provision by circa £3.0 million, and the extra 0.5% increase in 2026/27 has increased the budget pressures by £1.588 million that year too.

55 **Employer National Insurance:** As part of the Budget, the Chancellor increased the percentage rate of employer national insurance from 13.8% to 15%. Furthermore, and more significantly, the threshold at which point an employer pays National Insurance has been lowered from £9,100 per annum to £5,000 per annum. This impact results in an additional £600 per annum, per employee, in additional national insurance contributions for an employer.

56 The cost impact on the council arising from its directly employed workforce has been estimated, with further work being undertaken to refine the forecasts.

57 The financial impact relating to staff who are funded by core budgets (rather than from specific government grants, recharges or traded service activities) have been assessed to be at least £6 million - split between a forecast increase of £1.7 million from raising the percentage contribution rate to 15% and £4.3 million to fund the £600 increase per employee for lowering the starting threshold for employer National Insurance Contributions. This represents a 30% increase in the Council's Employer National Insurance costs.

58 There is an expectation that the increases in Employer's National Insurance for directly employed staff in local authorities will be separately funded by Government, over and above the additional funding allocations announced on 30 October for local government, with HM Treasury to announce funding arrangements in due course.

59 At this stage the MTFP (15) budget forecasts have assumed that the National Insurance Contributions increases will be covered entirely by additional Government funding of £6 million. There is a risk that the additional funding provided could be insufficient to cover these costs or that funding for this reimbursement could be top sliced from other MHCLG funding streams. This is one of several issues where greater clarity will only be gained following the publication of the Draft Local Government Finance Settlement on 19 December 2024.

60 **Home to School Transport:** There has been significant further work undertaken to model the impacts of the following causes of rising costs within the Home to School Transport budget:

(a) Embedded challenges within the wider Special Educational Need and Disability (SEND) system, which is resulting in more children been given an Education Health and Care Plan meaning they need additional educational support, and in some instances need to be educated away from their mainstream school.

(b) A rising number of pupils are being placed in special schools, despite constraints on capacity and accessibility in these types of school and resulting in longer journey times requiring bespoke individualised transport arrangements.

(c) An increasingly frequent use of individual taxis and other high-cost forms of transport.

(d) Additional demand from groups of vulnerable young people including Children Looked After (CLA); children who are excluded from mainstream school, placed in Pupil Referral Unit (PRU) or Alternative Provision (AP); and those in Education Other Than at School (EOTAS); and

(e) The impact of inflation, a fragile provider market and a diminished public transport network.

61 Since the previous MTFP (15) forecasts were presented to Cabinet a more detailed forecast of Home to School Transport net budget requirements has been developed. This review has used more informed assumptions around future demand levels and potential price increases, including the following assumptions:

(a) A forecast of increasing demand for SEND, Children Looked After (CLA) and Pupil Referral Unit (PRU) transport based on existing trend data for each area.

(b) A forecast increase to average costs above the level currently included in the MTFP, using forecasts of National Living Wage (NLW) as a basis and other inflationary pressures associated with transport services.

(c) Inclusion of budgetary growth to invest in a Home to School Transport Transformation Team and enhance the capacity of this team to engage more proactively with external transport providers as part of the commissioning and procurement processes.

(d) An assessment of various efficiency measures being rolled-out to deliver efficiencies in this area, which are overseen by the Home to School Transport Board – including a more rigorous assessment of new single-person transport packages, the introduction of more generous personal travel budgets, and more targeted procurement measures to reduce supplier contract costs, in addition to the harmonisation of arrangements for commissioned services.

62 These updated estimates show that net Home to School Transport expenditure budgets need to be increased by £7.816 million across the MTFP (15) planning period, exceeding the previous forecast required budget increases that were presented to Cabinet on 18 September 2024 by £3.816 million. The updated budget growth assumptions can be compared as follows:

Year	**Home to school Transport Forecasts Cabinet September 2024** **£'000**	**Updated Home to school Transport forecasts October 2024** **£'000**	**Additional Budget Requirements** **£'000**
2025/26	1,000	2,591	1,591
2026/27	1,000	1,555	555
2027/28	1,000	1,636	636
2028/29	1,000	2,034	1,034
Total	**4,000**	**7,816**	**3,816**

63 **Vehicle Fleet Transfer to Electric Vehicles:** A revised budget growth forecast has been prepared to reflect updated timescales and updated cost estimates for the Council converting and changing its existing fleet, which are largely leased in, from fossil fuel-based vehicles to electric vehicles. The updated forecasts have resulted in a net reduction in the costs of conversion over the MTFP (15) planning by £0.409 million, although the timing of these conversions will start to fall into 2025/26, which is one year earlier than the previous MTFP (15) model had projected.

64 The electrification of the vehicle fleet is a key component of the Council's strategy to achieve its net zero ambitions and future MTFP planning periods will need to cater for costs of converting larger (and more expensive) vehicles which is likely to come at a higher net budget impact.

65 **Waste Disposal – New Contract:** In the September Cabinet report £3.0 million of forecast budget growth was provided in 2026/27 for the assumed net additional cost associated with the new Waste Treatment Facility in Teesside.

66 The Teesside facility will be a new build facility, procured in collaboration with six other local authorities in the Northeast. The project has been beset by delays relating to obtaining suitable grid connectivity timing commitments from Northern Power Grid.

67 Whilst it has been known for some time that this new facility will not be operational until later than previously expected, the budget pressure was retained in 2026/27 in recognition of the risk that existed in extending the current contractual arrangements. The Council has now secured an

extension to the Contract for Residual Waste Treatment with Sita UK Ltd at Haverton Hill in Stockton, on a rolling 2-year notice basis, with a long stop date of 31 March 2031 at index-linked price level which is reasonably comparable with the existing contract in place. This has allowed the £3.0 million of budget growth to be reprofiled into 2028/29 – year four of the current MTFP planning period.

68 **Housing Benefit Subsidy Loss:** The growth in the use of temporary accommodation and supported accommodation has continued into 2024/25. The Housing Benefit Subsidy Grant reclaimed from the Department for Works and Pensions, on whose behalf the Council administers the scheme (in line with nationally set criteria), does not allow for full recovery of payments linked to temporary and supported accommodation which is provided by non-registered providers.

69 The 2024/25 budget was adjusted to offset this this pressure, with a £2.6 million budget uplift reflected in the 2024/25 base budget to reflect overspending in 2023/24. However, the Quarter 2 forecast of outturn shows the Housing Benefit Loss is expected to be £3.283 million, which is £0.683 million above the £2.6 million budget provision in 2024/25. The overspend is an improved position on the £0.932 million overspend forecast at Quarter 1 – which is part due to the success of the joint working between the Supported Housing Improvement Programme Team in REG and the Assessments and Awards Team in Resources. There is an underlying base budget pressure of around £0.4 million forecast into 2025/26.

70 To maintain progress in managing the Housing Benefit overspend, it is proposed to extend the Supported Housing Improvement Programme initiatives team in REG for one further year into 2025/26, as funding for that team is due to end on 31 March 2025. The cost of extending the team for one year is £0.280 million, therefore in total £0.680 million has been added to base budget pressures in 2025/26, with the funding for the Supported Housing Improvement Programme being discontinued from 2026/27.

71 As part of the Budget Statement, the Government announced £230m of additional homelessness grant, which could result in c.£2.3 million being allocated to the Council. It is assumed however that this funding will be offset by additional new costs and have specific spending requirements attached to the grant funding. Officers will assess whether the continuance of the Supported Housing Improvement Programme beyond 2025/26 is qualifying spend against the additional funding and if so, the £0.280 million of growth included in the Housing benefit subsidy line above will be removed prior to the budget setting report being presented to Council in February 2025.

72 **Energy Budgets:** The North East Procurement Organisation (NEPO) have provided firmer estimates on the energy prices for 2025/26 and

based on current activity levels, and the level of forward purchasing, the Council has assumed that the savings will be around £2.00 million against the current budget provision in 2025/26. This is £1.000 million more than the budget reduction assumed in September. Cabinet should however remain aware of the high risk of energy costs fluctuating from year-to-year, which may require further budgetary growth in later years, if energy markets destabilise once more.

73 **Water Rates:** Additional budgetary growth of £0.110 million has been added in 2025/26 due to recurring overspends reported so far during 2024/25, which are unlikely to be contained due to price uplifts on commercial properties imposed by Northumbria Water. Further additional budget growth might be required in future budget setting rounds if commercial water charges are raised to fund infrastructure investment by Northumbria Water.

74 **Capital Financing Costs:** Officers have revised assumptions on Capital Finance Costs and reprofiled £3.5 million of capital financing costs, bringing this element of the growth requirement forward, from 2026/27 to 2025/26. This adjustment has been made in the light of an updated assessment of the timing when the Council will need to address its reducing cash balances, which are due to the Council maintaining a significantly under-borrowed position when compared to the Council's actual Capital Financing Requirement.

75 The Quarter 2 forecast of outturn report projects that the Council will be under-borrowed by £333.180 million at the end of 2024/25. Such a position will require cash-levels to be replenished, by commencing additional borrowing by Quarter 4 of 2024/25.

76 The Council needs to borrow at least £350 million over the next two years to fund existing capital programme commitments and is forecast to still retain an under-borrowed position by the end of 2026/27 of circa £214.0 million.

77 Concerns remain that bank base interest rates, and consequently PWLB rates, may not fall to the levels originally expected by the end of 2024/25, due to a significant commitment from the Government to Borrow to Invest in Capital Projects as announced in the Autumn Budget Statement. Therefore, the Council may need to consider borrowing for a short-term period, albeit at higher rates, in anticipation of interest rates on long-term borrowing falling more substantially in later years.

78 **Children's Social Care:** A significant unfunded budget pressure the Council has faced in recent years, which is forecast to continue into next year and beyond, relates to children's social care – particularly Looked After Children placement costs, which have increased by 215% over the last five years (from a budget of £24.218 million in 2018/19 to a current budget of £76.574 million in 2024/25).

79 In September, the MTFP (15) forecasts included £23.857 million of budget pressures for Looked After Children placement costs – of which £13.729 million was required in 2025/26. The updated forecasts presented in this report have been retained at the previously reported figures, despite the in-year overspend increasing from £6.033 million as at quarter one to a forecast £7.475 million as at quarter two. The in-year overspend on these budgets is despite a budget uplift of £14.674 million in 2024/25.

80 To support the MTFP(15) financial planning and the development of the next generation of the Children Looked After Sufficiency and Commissioning Strategy, the Council commissioned Newton Europe to undertake a detailed validatory diagnostic exercise of the assumptions the Council had made on Children's social care and to provide a series of recommendations on how the Council could better manage the demand pressures and costs of children in care.

81 Newton Europe have presented their findings and views on the Council's existing Looked After Children Sufficiency and Commissioning Strategy and the forecasts in our financial assumptions across the next four years. A deep dive assessment was undertaken into the drivers of these cost pressures and how and why they were occurring, where these were occurring, identifying different issues in different parts of the county. Newton Europe also provided some suggested strategies to mitigate this going forward.

82 Assurances have been provided that social care practice was sound and that all the children in care should be in care but that in around one third of cases, better earlier intervention could have prevented the child from being taken into more expensive residential care.

83 The forecasts prepared by Newton Europe suggested that the MTFP budget growth currently factored into MTFP (15) was understated, particularly from years three onwards in, based on the current Looked After Children Sufficiency and Commissioning Strategy initiatives and inflationary costs assumptions.

84 Newton Europe have provided a range of suggested actions and interventions that the Council could seek to implement to help mitigate the forecasts and officers are now developing a new informed Children Looked After Sufficiency and Commissioning Strategy 2. Cabinet should note that some of these interventions may require investment on an invest to save basis. The scale of investment in new actions and interventions are currently being determined and will be reported to Cabinet in March or April 2025.

85 The initial view of Newton Europe and officers in the Council is that these targeted interventions will merely seek to ensure the Council's spend on such placement costs remains within the budgetary growth allocations already set out in the current MTFP(15) forecasts, and that at this stage

there remain significant risks that the growth requirements may need to be revised upwards in later years.

86 **Council Tax Base Assumptions:** The MTFP (15) forecasts for 2025/26 have been updated for the confirmed Council Tax Base position, which was reported to Cabinet on 13 November 2024.

87 The 2025/26 council tax base is higher than the forecasts included in the September report and will allow an additional circa £3.3 million of council tax revenues to be generated next year - £2.8 million above the previous forecasts.

88 Taken together with the agreed policy changes in terms of premiums to be applied to those properties classed as second homes from April 2025 (which should generate around £0.650 million in 2025/26), the tax base changes (including prudent assumptions on new builds across the next 18 months) will increase Council Tax revenues by £3.950 million next year. No underlying changes have been made to the assumed tax base growth assumptions in later years at this stage, although this position will be closely monitored.

89 The improvement in the Council Tax position is due to an increase in the number of Band D equivalents, which has been increased by 2,115 (a 1.4% tax base uplift). An element of this uplift relates to a modest assumption about future tax base rises for the remainder of 2024/25 and across 2025/26 of 250 (247.5 @ 99%) band D equivalents, and an assumption that approximately 336 (332.7 @99%) band D equivalents will arise from the introduction of the second home premium from April 2025.

90 The improved position is attributable to a higher level of new residential dwellings been added into the Council Tax Valuation system during recent months, the application of new premiums relating to empty properties generating additional tax base growth over the previous assumptions, and a slight drop in the overall notional value of households receiving Local Council Tax Reduction Support, (which can be very sensitive to changing economic circumstances and adds risks to forecasting base increases alongside other discounts for students and single-person households), plus a number of properties being brought back into Council Tax following changes to holiday let and AirBnB arrangements.

91 **Council Tax Increases:** The Government has indicated that local authorities will be given additional flexibilities to raise council tax and several authorities are now assuming that social care authorities (like us) will be able to once again apply an Adult Social Care precept in 2025/26 (and potentially beyond) and are building this into the MTFP planning forecasts.

92 At this point the government have indicated councils can raise Council Tax by up to 5% but it remains somewhat unclear if this will be in the form of an additional adult social care precept or by increasing the core council tax

referendum limit in 2025/26, and throughout later years of the MTFP(15) planning period.

93 At this stage we continue to base our MTFP (15) financial planning on a 2.99% annual increase in council tax across all four years of the MTFP (15) planning period.

94 If the additional flexibilities are provided and the Council approves an increase in Council Tax 2% above the current MTFP assumptions (via an Adult Social Care Precept or a higher referendum limit) increasing the Council Tax by 5%, this would raise an additional c.£5.8 million in Council Tax revenues to offset the anticipated significant increases in Adult Social Care provider costs and the significant escalating Children's Social Care costs and help close, but not eradicate the funding gap that exists next year and beyond.

95 Should additional flexibilities or powers be provided on the level of council tax increases permitted, the strong advice from the Section 151 Officer will be that the Council Tax is increased by the maximum permitted to help balance the council's budget, protect front line service delivery and avoid an over-reliance on reserves. This would be in line with members' fiduciary responsibilities for setting a balanced budget.

96 **Additional Funding for Local Government in the Autumn Statement:** Central Government have announced an additional £1.3 billion of revenue grant funding for local government, with the Government indicating that this includes a £600 million uplift in the Social Care grant – which it is assumed will translate into an additional circa £7 million of social care grant funding for the Council.

97 Whilst this is a significant boost in funding, for the reasons outlined above, the additional social care granny funding falls significantly short of covering the rising demand and price costs in children's and adult social care costs - the latter of which has significantly increased following higher than expected rises in national living wage and the increases in employer national insurance costs, and other contracts where a high level of staffing cost is involved in the delivery of services. The social care grant increase only funds circa 25% of the unavoidable cost pressures faced in adult and children's social care budgets next year.

98 The Council has assumed that an element of the £1.3 billion increase announced will be used to fund the assumptions we have already made about inflationary increases to top-up and section 31 Grant associated with Business Rates.

99 More details on how the Government will distribute the £1.3 billion of additional funding will be provided in the Draft Local Government Finance Settlement on 19 December 2024. At this stage we have not factored in any additional benefit to the Council beyond the inflationary uplifts in top-

up and section 31 Grant and the circa £7 million uplift in the Social Care Grant allocation.

100 Further guidance is also awaited on the additional funding to compensate local authorities for the increase in employers' National Insurance costs for directly employed staff.

101 It remains both difficult and risky to precisely quantify the overall increase in spending power at this stage until the details of the local government finance settlement for 2025/26 are formalised.

102 **Extended Producer Responsibilities:** As part of the Autumn Budget Statement, it was announced that local authorities will receive around £1.1 billion of new funding in 2025/26 through the implementation of the Extended Producer Responsibility scheme to improve recycling outcomes from January 2025 onwards.

103 Exceptionally, for 2025/26 only, the Treasury has stated that it will guarantee that if local authorities do not receive Extended Producer Responsibility income in line with the central estimate there will be an in-year top up, with the detail on this to be set out through the Local Government Finance Settlement (LGFS) process.

104 The funding is in anticipation of new responsibilities for Producers of Waste under the *Producer Responsibility Obligations (Packaging and Packaging Waste) Regulations 2024*.

105 The proposed new regulations have been drafted and laid before Parliament under section 143(5)(b) of the Environment Act 2021 but are yet to be approved.

106 Extended Producer Responsibility for packaging aims to ensure that the producers pay for the full cost of dealing with packaging at the end of its life to help increase packaging recyclability and provide environmental benefits such as reducing material use, improving packaging recycling and helping in litter prevention. Key aspects of the regulations include:

(a) Extending the responsibility to producers to cover the full cost of dealing with packaging waste, which includes collection, recycling, and disposal.

(b) Encouraging improvements in packaging design that reduce waste and environmental impact.

(c) Incentivising appropriate use of packaging and the use of recyclable and reusable packaging; and

(d) Establishing clear roles and responsibilities for businesses, local authorities, compliance schemes, and other stakeholders involved in the packaging life cycle.

107 The types of waste which fall inside the scope of these regulations includes plastic, wood, aluminium, steel, paper, wood-board and glass.

108 The long-term principle of the scheme revolves around local authorities being compensated by packaging producers for the costs of efficiently and effectively managing household packaging waste – whether it be collected from residential households or from household waste recycling facilities.

109 A Scheme Administrator will be appointed to be responsible for calculating producer fees and local authority payments. Payments will made by the Scheme Administrator through a new payment mechanism. The Government have developed a model which will calculate the amount to be paid to individual local authorities for the necessary costs incurred for the collection, handling, treatment and disposal of Household Packaging Waste (net of income from the sale of recycled materials) as part of an efficient and effective service.

110 It is anticipated that local authorities will receive funding based on the estimated total costs of household waste management. As part of the calculation, there will be a single assumed total cost for each packaging category, covering its estimated portion of UK household waste management costs. Base fees for each packaging category will be calculated from total costs for in-scope packaging, based on a share of estimated national tonnage.

111 Indicative payments for individual local authorities will be provided by the end of 2024. Local authorities will receive grant determination letters and cash payments mid-way through 2025/26 – anticipated to be October 2025.

112 There remains uncertainty about whether the Council's eventual allotted funding will be sufficient to offset the full cost of introducing food waste collections and moving to a fully comingled collection for mixed, dry recycling (i.e. mixing glass) in 2026/27. Furthermore, there is uncertainty surrounding timelines due to DEFRA's continuous re-evaluation of the scheme, with a possibility the scheme is delayed into later years.

113 Monitoring and evaluation of the efficiency and effectiveness of waste management will need to be deployed by Government, with local authorities potentially being subject to improvement actions. If the improvement action process isn't followed, local authorities may be subject to deductions on their payments from 2027/28.

114 There is uncertainty about the timing of this funding, whether it is being funded from the top-slicing of other funding streams, and what the associated costs and new burdens might be with delivering this scheme.

115 The allocation methodology cannot readily be predicted at this stage due to the high number of district waste collection authorities in the country and the distribution of industry and businesses across the county. On that basis, the Council has not factored this funding into balancing the 2025/26 Budget at this stage.

116 A funding adjustment has however been made in 2026/27 to fund the assumed £1.600 million of costs budgeted for food waste collection in 2026/27, assuming the Extended Producer Responsibilities should have bedded in by that point, and that the Council can use an element of the additional funding to support the delivery of food waste collections, subject to flexibilities been confirmed on how the additional funding can be used.

117 **Local Government Funding Reform:** There was confirmation in the Autumn Budget Statement that there are plans to reform local authority funding (especially the distribution methodology), during 2025, for implementation in 2026-27 - to ensure funding allocations reflects an up-to-date assessment of need and local revenues. This is a welcome commitment and something the council has been calling for since the formula factors were effectively frozen in 2013.

118 Ministers are also considering making distributional changes in funding for 2025-26 as well, with the budget statements stating: “starting with a targeted approach to allocating additional funding in 2025-26, ahead of a broader redistribution of funding through a multi-year settlement from 2026-27”.

119 It is not clear at this stage to what extent the Council’s funding position would change because of this redistribution (if it is delivered) and therefore no amendments have been made to the MTFP (15) assumptions for next year or for years 2-4 at this stage. More details of the timescales for funding reform will be provided in the provisional Local Government Finance Settlement and the Comprehensive Spending Review, which will take place in Spring 2025.

120 Whilst welcoming the Government’s commitment to review how local government funding is allocated, it is highly likely that any fundamental changes may be heavily dampened and smoothed in over several years. This would protect the council should it be a “loser” from any changes (highly unlikely) but (as is more likely) would slow down the increases in funding provided should it be a “winner” from any funding formula changes.

121 Previous exercises to reform local government funding formulae have been subject to protracted delays and eventual abandonment, due to wider events such as Covid and political instability. It is conceivable that any significant reforms and redistribution of funding could be controversial and take time and therefore be delayed to coincide with more wholescale structural reform to English local government structures such as reducing the number of two-tier local authorities (i.e. merging county & district

councils in England) and / or amalgamating some smaller unitary authorities .

122 **MTFP (14) Savings:** The updated MTFP (15) forecasts continue to assume that the MTFP (14) savings approved by Full Council on 28 February 2024 will be substantially implemented as previously agreed.

123 The MTFP (15) forecasts presented to Cabinet in September have been updated for re-profiling of the MTFP (14) Customer Access Point savings (£160,000 brought forward from 2026/27 to 2025/26). In addition, CYPS have identified options to replace savings relating to accommodation and fees and charges (previously agreed in February 2024) with enhanced savings relating to the gradual reduction in historic further education pension fund liabilities. The savings previously reported in relation to Home to School Transport policy changes, which have now been agreed by Cabinet have been removed and netted off the updated budget growth figures factored into the MTFP (15) financial forecasts. Appendix 2 sets out these savings in more detail, which total £7.327 million across the first three years of MTFP (15) planning period.

124 **MTFP (15) Savings:** This report sets out details of additional savings which have been developed. Over the four-year period of MTFP (15) the new savings proposals total £15.836 million, with the bulk of these savings (£14.654 million - 93%) forecast to be deliverable in 2025/26.

125 The savings developed will have limited impact on front line service delivery and are a precursor to more wide-ranging transformational savings which the Council must make to maintain a sustainable financial position, and in lieu of any potentially delayed reform by Government of local government financing arrangements.

126 There is a clear need for a fundamental redesign and rethinking of Council service provision in later years of the MTFP planning period, and Cabinet will be advised in due course of the planned Transformation and Change Programme to deliver that change, however more planning and resourcing for this change programme is required before details of these arrangements are implemented.

127 The new MTFP(15) savings proposals do not fully meet the budget gap / savings requirement in 2025/26 and are forecast to be needed even if the Council is permitted to increase Council Tax by more than 2.99% (up to say 5%) in 2025/26 and the funding outcomes for 2025/26 result in more enhanced funding levels than currently projected.

128 The new MTFP (15) savings proposals are split by year and service grouping as follows:

Service	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	Total New Savings Proposals £'m
Adult & Health Services	2.002	0.050	-	-	2.052
CEO – Corporate Affairs	0.753	0.020	-	-	0.773
Children & Young People Services	0.788	-	0.141	0.189	1.118
Neighbourhoods & Climate Change	1.571	0.511	0.211	-	2.294
Regeneration, Economy & Growth	2.390	-	-	-	2.390
Resources	2.964	-	0.079	-	3.043
Other Corporate Budgets	4.186	0.086	0.085	(0.190)	4.166
Total	**14.654**	**0.667**	**0.516**	**(0.001)**	**15.836**
% Total	**93%**	**4%**	**3%**	**0%**	**100%**

129 The new MTFP (15) savings proposals can also be analysed based on their impact in directorate budgets – whether they be savings linked to staffing budgets, non-staffing budgets, or increases in income through recharges to capital or the generation of additional external income as follows:

Service	Total Savings Agreed by Cabinet (25/26 to 28/29) £'m	Analysis of New MTFP (15) Savings Proposals			
		Total Staffing Savings £'m	Total Non-Staffing Savings £'m	Recharging Capital / Use of Reserves / Other Funding £'m	Income Generation Savings £'m
Adult & Health Services	2.052	2.008	-	-	0.044
Chief Executives	0.773	0.656	0.117	-	-
Children & Young People Services	1.118	0.785	0.333	-	-
Neighbourhoods & Climate Change	2.294	1.599	0.695	-	-
Regeneration, Economy & Growth	2.390	1.458	0.435	0.497	-

Service	Total Savings Agreed by Cabinet (25/26 to 28/29) £'m	Analysis of New MTFP (15) Savings Proposals			
		Total Staffing Savings £'m	Total Non-Staffing Savings £'m	Recharging Capital / Use of Reserves / Other Funding £'m	Income Generation Savings £'m
Resources	3.043	2.171	0.871	-	-
Other Corporate	4.166	-	3.916	-	0.250
Total	**15.836**	**8.677**	**6.367**	**0.497**	**0.294**
% Total		**55%**	**40%**	**3%**	**2%**

130 As can be seen, 55% of the new savings that have been developed relate to staffing reductions. In developing the proposals careful consideration has been given to the impact of the reduction in capacity how these savings will be managed. Wherever possible, the expectation is that reductions in posts will be found from existing vacancies, and indeed, several services are holding vacancies in 2024/25 for that purpose.

131 The new savings proposals will result in the removal of 214 full time equivalent posts, of which around one third of these posts are currently classified as being vacant – with this figure set to rise further during the remainder of the financial year. Where staff are classified as being at risk, every possible attempt will be made to minimise the need for compulsory redundancies though the deletion of vacancies and the use of the councils Early Retirement and Voluntary Redundancy scheme. These post reductions are spread across several service units where the total posts in those areas amount to around 3,300 full time equivalents. Nearly 20% of the posts in scope for reduction are classed as managerial posts.

132 Appendix 3 provides more details of the savings in terms of which services the savings will be applied to, and the broad nature of the savings involved.

133 A significant Corporate Saving which amounts to around £3.000 million across the MTFP (15) planning period, relates to a change in the way the Council sets aside funds to repay debt – known as the Minimum Revenue Provision (or MRP). Full Council will be asked to approve a retrospective change to the MRP policy at its meeting on 11 December 2024 in order to facilitate these savings.

134 The CIPFA Prudential Code for Capital Finance in Local Authorities requires Full Council to agree an annual policy for the Minimum Revenue

Provision (MRP). These regulations were originally introduced in 2003 but have been updated subsequently on periodic occasions.

135 The MRP relates to the amount that is set aside each year to provide for the repayment of debt associated with borrowing to fund the Capital Programme (principal repayments). The regulations require the Council to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The guidance provides recommended options for the calculation of a prudent provision, but councils have discretion in determining the level of MRP which they consider to be prudent. In very broad terms, local authorities are statutorily required to ensure that they set aside MRP over a similar period to which the assets associated with that capital expenditure provide benefits to the local authority – this has the effect of reducing the capital financing requirement.

136 In 2018, the National Audit Office (NAO) published some updated guidance on MRP, which sought to prohibit some overtly aggressive changes in some local authorities MRP policies (i.e. some local authorities were changing their policies to significantly reduce their MRP costs as a one-off exercise or to reduce their MRP charges to unsustainably low levels). The MRP guidance was amended so that local authorities would be prevented from:

(a) Retrospectively changing MRP set aside in previous financial years to create a material credit in their current year's financial accounts;

(b) Making changes to the methodology used to calculate MRP which resulted in a nil charge in a current financial year in order to recover overpayments in previous years;

(c) Extending the assumed economic life of assets to justify the stretching of the period over which MRP is charged to a period in excess of 50 years (thus reducing the annual in-year charge to an unacceptably low level);

(d) Choosing not to provide MRP for expenditure on the basis that the eventual sale of an asset financed by borrowing would generate a capital receipt to repay that borrowing and therefore negate the need to set aside MRP in lieu of the asset eventually being sold.

137 The County Council's existing MRP policy was approved on 28 February 2024, as part of the 2024/25 budget setting report. The policy has been set using the following principles:

(a) In respect of the Council's supported borrowing (taken out before 2008, with MRP payments funded by underlying general government grant), MRP is provided for on a 2.5% straight-line basis – i.e. provision for the full repayment of debt over 40 years.

(b) MRP charges for unsupported borrowing (i.e. debt taken out since 2008) is applied by using the annuity method.

(c) MRP charges for finance leases (non-PFI) are equal to the principal elements of the rental or charge that goes to write down the balance sheet liability created from such arrangements.

(d) MRP charges for Private Finance Initiative Schemes are provided using the asset life method calculated on a straight-line basis; and

(e) The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

138 When borrowing to provide an asset, the Council commences MRP in the financial year following the one in which the capital expenditure was incurred. For the purposes of borrowing to provide an asset that is currently under construction, MRP charges are not applied until the year after the asset becomes operational.

139 Regulations allow the Council to review its policy each year and set a policy which is prudent.

140 Under MRP Guidance, any charges that are made that are greater than the statutory MRP and are referred to as "Voluntary Revenue Provision" (VRP) payments. VRP can be reclaimed as reductions in later years MRP contributions, providing those later years MRP contributions remain prudent. For these amounts to be reclaimed in later years, the policy must disclose the cumulative overpayment made each year. Cumulative VRP payments made to date are £2.934 million.

2024/25 Review of MRP Policy

141 The proposed changes to the Council's MRP Policy have been developed in liaison with its Treasury Management advisors. The review that was undertaken to inform options concluded that some amendments can be made to the way in which the Council accounts for MRP, which can deliver MTFP savings and help balance the 2025/26 budget. None of the proposed changes contravene the updated guidance on MRP issued by National Audit Office in 2018.

142 The identified options to revise its policy for MRP in relation to its Capital Financial Borrowing Requirement relates to borrowing incurred in the following tranches:

(a) Capital Financing Borrowing Requirement incurred before 31 March 2008 – £188 million outstanding as of 31 March 2024.

(b) Capital Financing Borrowing Requirement incurred after 31 March 2008 - £316 million outstanding as of 31 March 2024; and

(c) Capital Financing Borrowing Requirement incurred because of entering a Schools' PFI Funded Asset Build programme – £33.9 million outstanding as of 31 March 2024.

143 MRP charges are calculated based on the closing Capital Financing Requirement of the Council as of 31 March 2024, as opposed to the actual level of borrowing held (the difference relating to the under-borrowed position held by the Council).

144 The proposes changes to the Council's MRP Policy relates to the tranches of debt summarised in (a) to (c) at para 140 above and can be summarised as follows:

(a) Pre-2008 Borrowing: Move from a 2.5% per annum "straight-line" MRP contribution (which runs for 40 years) to a 32-year annuity repayment basis, on a projected annuity rate of 4.5%, on the basis the Council make this amendment before but not later than 31 March 2025.

(b) Post-2008 Borrowing: Move from an annuity calculation which currently uses an average asset-life assumption of 40 years at the standard PWLB annuity rate, to an annuity rate which is calculated over a shorter (34 years) projected annuity rate of 4.5%, assuming the amendment is made before but not later than 31 March 2025; and

(c) PFI Education Assets: move from charging MRP on an asset life over 45 years, on an annuity basis, to an annuity basis over 38 years, using a projected annuity rate of 4.5% assuming the MRP policy change is enacted before but not later than 31 March 2025.

145 The proposed policy change will support the achievement of MTFP (15) financial savings relating to capital financing costs. Based on assumed PWLB interest rates by 31 March 2025, the policy change will result in savings across the MTFP (15) period of £2.998 million.

146 It is proposed that the Council makes a Voluntary Revenue Provision Payment of £3.66 million from the saving that will accrue in 2024/25, to offset the impact of reprofiled increases in MRP budgets in later years. The Voluntary Repayment Provision proposed for 2024/25 is over and above the prudent provision of MRP already set aside for 2024/25, and this element can be released into future years to offset the increases in MRP required in later years.

147 The amount of debt held by the Council will not change because of the amendments to the MRP policy proposed in this report. However, the profile of the legally required provision set aside by the Council to reduce its Capital Financing Requirement does change. Indeed, the Council's Capital Financing Requirement will remain relatively higher for longer, as less MRP is set aside in the next few years.

148 The savings generated from the change in the policy create a base budget saving from 2025/26, however additional budget allocations for MRP will need to be added into later years' budgets and medium-term financial plans to reflect the incremental year-on-year increases in MRP required to offset this upfront re-profiled saving.

149 The Office for Local Government (OFLOG) have recently introduced measures to monitor and review levels of indebtedness and assess if local authorities are setting aside sufficient MRP in their budgets. This is determined to be at least 2%. If the Council does not provide a minimum level of MRP, this would be flagged and could trigger a regulator review and could impact on the Value for Money Assessment undertaken by our External Auditors. The proposed MRP changes are all within the guidance set out by the Government and the Council will continue to set aside enough MRP to exceed the notional 2% threshold.

150 Many other local authorities have already implemented these changes to their MRP policies, and consequently set aside lower levels of MRP compared to the Council, as a relative proportion of their capital financing requirement, so the proposed policy changes are not unique.

151 By the 2040s, there will be a substantial annual difference between the original MRP profile and proposed future profile. Therefore, each year for the next 30 years, the Council will need to increase its MRP budget by a rising amount to keep pace with the MRP reprofiling requirements. However, these increases are not inflated for future years' inflation, and are therefore dampened by the impact of the time value of money. The MTFP (15) forecasts include the impact of future years increases from 2026/27 onwards.

152 The Council will also have options to review MRP profiling in later years based on the life of assets which were funded from capital expenditure underpinned by borrowing. Another option would be for the Council to choose to make further voluntary revenue payments in later years.

Equality Impact Assessment of the Medium-Term Financial Plan

153 Consideration of equality analysis and impacts is an essential element that members must consider in approving the savings plans for MTFP (15) and this section updates Members on the outcomes of the equality analysis of the MTFP (15) savings proposals.

154 The aim of the equality impact 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 because of MTFP decisions; and

(d) ensure the effective discharge of the public sector equality duty.

155 As in previous years, equality impact analysis is considered throughout the decision-making process, alongside the development of the budget and MTFP process. 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.

156 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; and

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

157 Several successful judicial reviews have reinforced the need for robust consideration of the public sector equality duty and the impact on protected characteristics in the decision-making process. Members must take full account of the duty and accompanying evidence when considering the MTFP proposals.

158 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; and

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

Impact Assessments for 2025/26 Savings Proposals

159 Consideration of equality analysis and impacts is an essential element that members must consider in approving the savings plans for MTFP (15) and this section updates Cabinet on the outcomes of the equality analysis of the new MTFP (15) savings proposals. Where savings proposals are developed further, then analysis of impacts will be updated and included in the final decision-making reports.

160 **Adult and Health Services (AHS):** There are several proposals for Adult and Health Services with both service user and staff impacts which are likely to have a disproportionate impact for older people, men, women and people with disabilities due to service user profiles. At this stage, savings proposals cover several services including adult protection, social care direct, substance misuse, learning disabilities and mental health, review teams, sensory support, Pathways and commissioning.

161 The proposal for Pathways, to reduce one day service location providing services for people with learning disabilities, enables efficiencies in terms of staffing and in building revenue costs but also allows for services to be delivered from the most accessible premises. Service user transitions will be carefully managed to minimise any distress or negative impact. Many of the service users live within the vicinity of more than one day centre, so travel disruption for those affected will be kept to a minimum. Consultation with service users and their families will be undertaken as part of the implementation of these proposals.

162 Staffing reductions for locality teams are likely to have a detrimental impact for older people, women and disabled people, some with complex needs. Triage and effective use of assistant roles to work with lower risk clients could mitigate some of the impact. Further improvements, such as streamlining recording practices will be explored.

163 There is a proposal to introduce a subsidised charge of £2.00 per journey (£4.00 return) for individuals accessing Learning Disability provision through our internal fleet service. This will impact people with a learning disability, who receive mobility and/or disability related national benefits for this purpose. The introduction of a subsidised charge still represents value for money for service users and continues to provide access to a safe and

reliable transport service. It also provides equity for those service users receiving transport outside of the DCC fleet and addresses fairness and equity in charging policy. Clear communication will be issued to those impacted by these proposals, which are profiled to be implemented from October 2025.

164 The proposal to review Hawthorn House, Shared Lives and Extra Care arrangements will involve a staffing reduction. This will impact people with disabilities including learning disability. Several posts are already vacant, and this has had minimal impact on service users. However, the reduction in staffing capacity/skill will hamper development of the service. More efficient ways of working / rotas within the Shared Lives team will enhance resilience.

165 In terms of other proposals across Adult and Health Services a reduction in staffing resource could impact the ability to maintain manageable workloads, resulting in a growing backlog, would increase pressures for staff, potentially negatively impact service delivery for the most vulnerable people and likely increase response times for service users.

166 Several mitigations are in place to offset the potential impacts including system and administrative improvements and upskilling of staff to enhance resilience. Where a team is absorbed into the wider service, as with the substance misuse team, specialism would be retained to provide advice and support to all social workers across the system. Impacts will be closely monitored following the change in practice that the saving will bring.

167 Re-deployment of staff, deletion of vacant posts and Early Retirement and Voluntary Redundancy will be utilised where possible to minimise the potential for compulsory redundancy. HR processes will be followed to ensure fair treatment of staff.

168 **Chief Executive Directorate (CEO):** There is a proposal to cease producing a printed version of Durham County News and move this to digital. Digital exclusion disproportionately impacts the following groups: older residents, people with disabilities and people on low incomes (possibly more women and minority ethnic). In mitigation, a limited number of hard copies will be made available in council-owned sites such as customer access points and libraries for members of the public who wish to have them. Reasonable adjustments will be made for people with disabilities who cannot access digital due to their disability. Adjustments will include hard copies and/or alternative formats (large print, audio) distributed to those residents who request this as an adjustment.

169 There is a potential equality impact for the proposed corporate affairs restructure which could lead to reduced activity in equality and diversity, data analysis and intelligence, communications and marketing and community engagement. In mitigation, a broader integration of roles will

maintain specialism and make best use of the available capacity. All statutory functions and core activity will be maintained.

170 Minimal impact on staff is anticipated as savings are expected to be made through Early Retirement and Voluntary Redundancy arrangement, deletion of vacant posts and a reduction in temporary posts. HR processes will be followed to ensure fair treatment.

171 **Children and Young People's Services:** A review of early help and youth justice services to streamline management and operational delivery would involve staff reductions. This may lead to waiting lists for families/carers, children and young people accessing early help and could potentially lead to some cases going more quickly to statutory social care referrals. This would have a disproportionate impact in terms of age (younger and working age) and disability as disproportionally more children and young people with SEND access the service. Also, a likely greater impact on women who generally undertake higher levels of care within the family unit or be a single parent with greater family responsibility.

172 The impact on the early help workforce is likely to be an increase in average caseloads across key workers, as they will be allocated more families to work with. High caseloads can lead to increased pressure on staff in terms of staff wellbeing, sickness, and staff turnover. The workforce is predominantly female, and more females are likely to be impacted.

173 In mitigation, implementation of the Family Hub and Start for Life programme and Supporting Families programme will seek to maximise wider partnership resources for early help work and collective best use of available resources.

174 The review and re-alignment of work in the youth justice service will involve a small staff reduction with minimal impact expected in terms of service delivery. HR processes will be used to ensure fair treatment of staff in both justice and early help.

175 Minimal equality impact is expected because of the remaining CYPS savings proposals.

176 **Neighbourhoods and Climate Change (NCC):** Proposals for Neighbourhoods and Climate Change (NCC) often have community impacts due to the nature of services delivered for residents. There are several proposals to reduce grounds maintenance, grass cutting, planting and weed spraying in open spaces, with weed treatment retained on paths and footways. The approach will be kept under review and any complaints or issues in relation to access will be addressed. Removal of offensive or obscene graffiti on private properties will remain available.

177 Potential staff reductions will be managed through deletion of vacant posts and progression of Early Retirement and Voluntary Redundancy

opportunities where possible to minimise impact. There is likely to be a disproportionate impact for men due to the staff profile in this service. HR processes will be followed to ensure fair treatment. The removal of future apprentice vacancies will reduce future opportunities with a likely disproportionate impact for younger people.

178 **Regeneration, Economy and Growth (REG):** The Care Connect Service provides an emergency alarm and response service primarily for older people and people with additional needs and disabilities. The proposal involves the deletion of vacant posts due to the posts having been vacant for some time with no adverse impact. No negative impact on current staff and service users is foreseen. An improved shift pattern and digitisation efficiencies will maintain robust service delivery and further enhance team resilience.

179 Removal of night-time patrols in Durham city car park (supplied by contractors) is proposed due to changes in parking systems. This could result in car park users feeling less secure on an evening/night which impacts all but may have a disproportionate impact for women. CCTV cameras will remain in operation and the car park has been awarded the Safer Parking 'Park Mark' accreditation.

180 Several of the remaining proposals involve the removal of vacant posts or the use of Early Retirement and Voluntary Redundancy exit packages. HR processes will be followed to ensure fair treatment. The removal of future apprentice vacancies will reduce future opportunities with a likely disproportionate impact for younger people.

181 **Resources:** There are several proposals for resources which involve a staff reduction. Disproportionate gender impact is expected in certain job areas, women are more likely to be impacted in Human Resources and men in Digital Services. A reduction in staffing can lead to greater pressure on teams to maintain service delivery as these savings come on top of prioritised reductions in back-office services in previous MTFP rounds and could impact on individuals' wellbeing. Greater prioritisation of available resources, cessation of some activity / support, new ways of working (including greater manager self-serve), process improvements and digitisation help to minimise impact for staff and customers.

182 The outcome of future budget reviews in Business Services may not be sufficient to resource all apprentice posts going forward. Although current apprentices within the service are not impacted this would impact any future intake. An analysis of the current cohort shows this could potentially have a disproportionate impact in terms of gender (women) and age (younger age groups). This could potentially remove up to 25 apprentice opportunities.

183 HR processes will be followed to ensure fair treatment with utilisation of Early Retirement and Voluntary Redundancy exit packages where possible.

184 **Corporate:** The review of Section 13a Council Tax discount for properties impacted by the empty homes' premium will be subject to a Cabinet report in due course. At this stage, no differential impact is identified.

185 No specific equality impact is expected in relation to the remaining corporate savings proposals.

Budget Consultation

186 The Council conducted a detailed "first phase" consultation between 20 September and 1 November 2024. This revolved around using our existing County Durham Partnership networks, including the fourteen Area Action Partnerships (AAPs) and the thematic partnerships that support the County Durham Partnership. Additional work was undertaken with special interest groups, and we received responses from residents via the council's website, which we promoted through the council's presence on various social media platforms.

187 The first phase consultation considered the scale of the savings gap presented in the 18 September Cabinet Report and was used to gauge views on the saving proposals previously agreed in February 2024, that will be taken forward, and on the potential for any additional council tax raising powers.

188 Between 20 Sept and 1 Nov 2024, we carried out a consultation with our residents and partners regarding proposals to balance the council's budget for the next financial year (2025/26) and Medium Financial Term Plan 2026-2029. We asked respondents:

(a) Do you agree or disagree with this continued approach to help balance the budget for 2025/26?

(b) To help us to continue to prioritise areas for savings please select three service areas (from a list provided) to target for savings.

(c) Do you agree or disagree to pay more for your council tax next year to help us to protect services and reduce the need to make as much further savings?

(d) If you have answered that you disagree with a council tax rise of 2.99%, or above if the government allowed, please select another three service areas to target for savings.

(e) If you have any further comments to make, please provide your feedback.

189 This consultation was promoted following the Council’s standard approach. The approach enabled the council to engage with over 3,500 people. 237 survey responses were received. 89% of residents responding to the survey provided equality data.

Method	**Number**
Survey (online and paper returns)	237
AAP meeting attendance	244
Partner letters/emails	7
DYC member contribution	42
Total	530
Social media engagement	Post engagement reached 3,100

190 **The Councils overall approach and areas that should be prioritised for savings:** We received 229 responses to these questions. 70% of responses either agreed or neither agreed nor disagreed, whilst 30% disagreed. To help us prioritise where to make budget reductions, respondents were asked to select three service areas to target for savings. We received 708 responses to this question. The top four areas are as follows:

	Frequency	**Percent of respondents**
Culture	98	41.5%
Environment and climate change	74	31.4%
Planning services	63	26.7%
Local community projects	62	26.3%

191 **Council Tax increases of 2.99% (plus potential additional increase if the government allowed):** We received 232 comments relating to this question. Over 50% of responses agreed with the rise in council tax at either 2.99% or a higher amount. Where respondents disagree with the proposal to raise council tax by 2.99%, they were asked to select another three service areas to target for savings. We received 324 credible responses to this question. The breakdown top four areas are as follows:

	Frequency	**Percent of respondents**
Culture	35	32.4%
Planning services	29	26.9%
Environment and climate change	28	25.9%
Preventative services	27	25.0%

192 **Additional comments:** 242 additional comments were received. The following has been generated by the Council's AI tool, Co-Pilot, using the prompt: Identify common themes in order of prevalence and summarise. Do not deviate from the content of the (responses) document:

(a) Reduction of management and staff costs

(b) Reform of Council Tax

(c) Service efficiency and automation

(d) Preservation of community and cultural services

(e) Reduction of Wasteful Spending

193 The summary has been crossed referenced for due diligence through a process of manual coding of the open text comments and has found the AI summary to be accurate. This process also found that the main responses could be grouped into the following similar categories:

(a) Areas for additional savings and efficiencies: covering the need to review a range of processes/schemes/projects/services. (30)

(b) Council tax specific: regarding opportunities to increase council tax income by imposing council tax on students/student landlords/private landlords. (18)

(c) Areas for additional savings and efficiencies: covering reduction in staffing/manager roles. (17)

(d) Service protection, preservation, enhancement: covering the protection of front line/visible services (libraries, grass cutting, leisure, community projects). (14)

(e) Areas or additional savings and efficiencies: covering salary reductions, performance related pay, sickness pay review. (11)

194 Residents provided the majority of the responses to the survey at 93%. The majority of Elected Members either agree, or "neither agree nor disagree" with the Council's continued approach to savings. DCC employees were more favourable regarding the Council's continued approach to savings proposals and proposals regarding council tax increase when compared to residents. Feedback from business owners showed similarities in responses.

195 **Summary of additional feedback – AAP Board Meetings:** A presentation was delivered to each AAP Board where they could ask questions and provide feedback. Where feedback aligned to the itemised

service list provided, areas to prioritise for further budget reductions covered:

(a) Culture

(b) Leisure and wellbeing Community

(c) Safety and protection

(d) Customer access and customer services

(e) Street cleaning and grounds maintenance

196 Area Action Partnerships were asked about Council Tax increases of 2.99% (plus potential additional increase if the government allowed). The feedback covered the following key common areas:

(a) Council tax banding reform

(b) Opportunities to increase council tax income

(c) Understanding re: council tax increase

(d) Concern re: council tax increase

(e) Improved understanding and perceptions re: council tax income

197 Area Action Partnerships provided additional comments and feedback including ideas or suggestions as to areas where we can raise further income or make more efficiencies:

(a) Income generation questions, ideas and suggestions: Specific areas included income generation from council assets, developments, local facilities, lobbying central government for increased funding and NE devolution opportunities.

(b) Areas for improved efficiency: Specific areas where efficiencies should be found covered:

(c) Children and young people's services

(d) Home to School Transport

(e) Adult Social Care:

(f) Views on how proposal will impact people

(g) Overall position and financial approach

(h) Importance of the consultation exercise

Summary of additional feedback from residents and partners

198 A range of feedback from partners was received via letter, email and the consultation survey. A resident provided feedback via direct email which aligned to the majority survey responses. Overall feedback from partners showed appreciation for the challenging financial situation the Council face, agreement regarding the Council's continued approach to savings proposals and council tax increase, although expressed empathy and awareness of the impact of savings on communities.

199 Partners also highlighted areas for the Council to explore to make efficiencies including collaborative and integrated approaches to service provision through continued partnership approach. There was evidence within the partners feedback regarding support for further lobbying on key issues at central government level.

200 Durham Youth Council received a presentation. Discussion at the meeting highlighted concern that savings made within the back office may impact negatively on the front-line, placing strain on the overall functionality of the Council. Following the meeting DYC submitted a comprehensive consultation report.

201 The second stage of the consultation process will commence following consideration of this report and will run from Friday 6 December 2024 to Friday 17 January 2025. The second phase consultation will consider the savings options set out in this report, which have been developed as part of MTFP (15) Planning process and will provide a further opportunity for comment on the updated budget assumptions set out in the report.

Corporate Overview and Scrutiny Management Board (COSMB)

202 The Corporate Overview and Scrutiny Management Board (COSMB) have provided detailed scrutiny of the MTFP (15) proposals on 3 October 2024. A further Corporate Overview and Scrutiny Management board is scheduled for 9 December 2024 – to consider the contents of this report. The key themes discussed on 3 October 2024 related to:

(a) The need for more details to be provided in future consultations to allow respondents to make more informed decisions on options to make savings and other measures to balance the budget position.

(b) The need to be clear on why there are few other options available to balance the budget position other than to raise council tax and make cashable savings.

(c) Concerns were raised about the capital and revenue costs of the Durham Light Infantry Museum and Art Gallery Project.

(d) Wider concerns were raised about the Council's financial and resource capacity to deliver a very complex capital programme with multiple projects and activities.

(e) Concerns were also raised about the potential reliance on reserves to balance the Council's revenue budget position, and this needed to be minimised as far as possible to avoid risks of a Section 114 Notice being triggered and/or the need for targeted Central Government Intervention.

Overall Position

203 Factoring in the various updated assumptions set out in this report, the known outcomes of the Autumn Budget Statement and before consideration of the new savings proposals that have been developed, the updated MTFP(15) Budget Deficit / Savings Requirement has worsened when compared to the forecasts that were set out in the September report:

	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**TOTAL £'000**
MTFP (15) Forecast Budget Deficit / Savings Requirement – December 2024	25,615	18,912	12,455	12,806	69,788
MTFP (15) Forecast Budget Deficit / Savings Requirement – September 2024	21,720	23,671	10,622	8,117	64,130
Increase / (Decrease) in Forecast Budget Deficit / Savings Requirement Between MTFP (14) and MTFP (15).	**3,895**	**(4,759)**	**1,833**	**4,689**	**5,658**

204 The new savings proposals to help balance the budget and MTFP (15) position, which total £15.836 million and are profiled across the four years, do not balance the budget next year or thereafter and there remains a significant budget gap in 2025/26 and across the entire four-year MTFP (15) time-period. These new savings are itemised in Appendix 3. Factoring in the proposed savings the updated MTFP (15) forecasts can be summarised as follows:

	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**TOTAL £'000**
MTFP (15) Forecast Budget Deficit / Savings Requirement – December 2024	25,615	18,912	12,455	12,806	69,788
New MTFP (15) Savings Proposals	(14,654)	(667)	(515)	1	(15,836)
MTFP (15) Budget Deficit / Savings Requirement After New MTFP (15) Savings Proposals	**10,961**	**18,245**	**11,940**	**12,807**	**53,952**
Budget Deficit / Savings Requirement in 2026/27 assuming 2025/26 position is balanced by use of reserves		**29,206**			

205 If all the additional savings of £15.836 million are agreed at Full Council on 19 February 2025, the forecast budget deficit (savings) shortfall would be reduced to £10.961 million in 2025/26 and across the four-year the savings gap would be £53.952 million across the full four-year period. Of particular concern would be the position in 2026/27 if the £10.961 million gap is funded from reserves – this would result in a budget deficit / savings requirement of £29.206 million that year.

206 The revised assumptions detailed in this report which are detailed in Appendix 4, can be summarised as follows:

	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**Total £'000**
Pay Inflation	8,850	7,458	6,047	6,147	**28,502**
General Inflationary Pressures	2,437	3,857	3,527	3,360	**13,180**
Employer National Insurance	6,000				**6,000**
Adult Social Care (incl NLW & NI Impact)	14,533	8,427	8,404	8,134	**39,518**
Childrens Social Care	13,729	5,798	2,629	1,701	**23,857**
Home to School Transport	2,591	1,555	1,636	2,034	**7,816**
Investment in EHCP Capacity	1,127				**1,127**
Investment in DLI Reopening	300				**300**
Waste Collection - Simpler Recycling		1,600			**1,600**
Waste Disposal - New Contract				3,000	**3,000**
Housing Benefit Subsidy Loss	680	(280)			**400**
Electrification of Vehicle Fleet	102	358	988	211	**1,659**
Capital Financing / TM Issues	8,590	8,187	3,761	1,978	**22,516**
Pension Fund Revaluation		1,000			**1,000**
Other – Including Energy savings in year 1	(969)	1,258	1,249	1,340	**2,858**
Total Budget Pressures	**57,970**	**39,218**	**28,241**	**27,905**	**153,333**
C. Tax Increases / Taxbase Growth	(11,900)	(10,300)	(10,600)	(10,950)	(43,750)
C. Tax Second Homes Premium	(650)				(650)
B. Rates Increases / Taxbase Growth	(1,148)	(750)	(500)	(500)	(2,898)
Govt. Grant – RSG / Social Care Grant	(7,000)				(7,000)
Food Waste Funding (assumed)		(1,600)			(1,600)
Govt. Grant – National Insurance Funding – Staff Costs	(6,000)				(6,000)

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Total £'000
Govt. Grant – CPI Top Up (SFA)	(2,788)	(4,572)	(4,032)	(3,749)	(15,140)
Govt. Grant – Other Specific Grants	(3,200)	100	100	100	(2,900)
Use of Reserves to Balance 2024/25	3,720				3,720
Savings Already Agreed – MTFP (14)	(3,389)	(3,184)	(754)		(7,327)
New MTFP (15) Savings Proposals	(14,654)	(667)	(515)	1	(15,836)
Budget / MTFP Gap (Savings Req.)	**10,960**	**18,245**	**11,940**	**12,807**	**53,952**

Reserves

207 As part of the 2023/24 final accounts, and in recognition of the financial challenges the Council will face in 2025/26 and beyond, a thorough review of all earmarked reserves was undertaken, with a key aim of seeking to replenish and increase corporate reserves such as the MTFP Support Reserve and the Early Retirement/Voluntary Redundancy (ER/VR) reserve to ensure corporate capacity is in place to support future MTFP's.

208 The redirection to corporate reserves ensured that there is sufficient capacity in place to meet corporate commitments going forward and strengthen the Council's ability to set balanced budgets over the coming years.

209 In total, £18.330 million of reserves were repurposed to replenish corporate reserves, with those reserves increased as follows:

Corporate Reserve	Amount £ Million
MTFP Support Reserve	9.330
Commercial Reserve	5.000
ER/VR Reserve	2.500
Elections Reserve	1.000
Culture Reserve - Lumiere	0.500
Total	**18.330**

210 The Council's General Reserve is forecast to be £26.727 million on 31 March 2025 based on the latest quarter two forecast of outturn. This is £1.5 million below the required 5% minimum threshold (of the Council's net revenue budgets) set out in the Reserves Policy agreed by Council and will

necessitate a transfer from the MTFP Support Reserve at year end to ensure we enter the new year with at least 5%.

211 On 31 March 2025 the Council is forecasting that £163.4 million of earmarked reserves will be held, with £63.9 million of this related to corporate strategic reserves which are essential for MTFP (15) planning purposes and can be summarised as follows:

(a) MTFP Support Reserve - £32.6 million (balance prior to required transfer to General Reserve);

(b) Early Retirement & Voluntary Redundancy Reserve - £8.4 million;

(c) Commercial Reserve - £14.1 million;

(d) Equal Pay Reserve - £2.5 million;

(e) Insurance Reserve - £4.1 million; and

(f) Elections Reserve - £2.2 million.

212 The Council's reserves' position is closely monitored and benchmarked against other local authorities and is a measure of the financial resilience of a local authority. An early warning sign of a financially distressed council is when a council is running its reserves down to an unacceptably low level or is running its reserves down at a very fast rate.

213 The CIPFA Financial Resilience Index has identified the Council as having the highest use of reserves over the last 3 years, in comparison to our statistical neighbours and an above average use of reserves compared to all other Unitary Authorities in England – to 31 March 2023 – reflecting Cabinet decisions to progress plans and expend earmarked reserves on the issues for which they were set aside. The Council's comparative position will be updated and reported to cabinet when comparative 2023/24 data becomes available.

214 In 2023/24 our reserves position reduced by a further £14 million. This reduction also reflects Cabinet decisions to progress plans and expend earmarked reserves on the issues for which they were set aside.

215 The Council has a significant risk around the potential need to write off the High Needs' Cumulative Deficit, which sit in an unusable reserve because of a Statutory Override, and which could amount to around £40 million to write off by 31 March 2027 unless the statutory override is extended further.

216 The Quarter 2 forecast of revenue outturn position for 2024/25 shows an in-year General Fund overspend of £5.334 million (an increase of £1.2 million on the Quarter 1 projections) and the High Needs Cumulative Deficit as of 31 March 2025 will be around £22 million (and increase of

£11.6 million in 2024/25). The in-year reduction in Earmarked Reserves in 2024/25 based on the quarter two forecast of outturn is £12.888 million.

Budget Timetable

217 The high-level timetable up to budget setting in February 2025 is set out below:

Date	Action
04 December 2024	MTFP (15) update report to Cabinet – outcome of Ph1 Budget Consultation and consideration of all savings plans and Transformation proposals for MTFP (15)
06 December 2024	Commence phase 2 consultation.
09 December 2024	Corporate Overview and Scrutiny Management Board consider 4 December Cabinet Report
19 December 2024	Local Government Finance Settlement will be announced.
15 January 2025	MTFP report to Cabinet – analysis of provisional local government settlement published in December.
17 January 2025	Phase 2 of the Budget Consultation Closes
21 January 2025	Corporate Overview and Scrutiny Management Board consider 15 January 2025 Cabinet Report
12 February 2025	Budget Report to Cabinet – outcome of Ph2 Budget Consultation and finalising of savings plans and Transformation proposals for MTFP (15) + Consideration of Capital Programme
13 February 2025	Corporate Overview and Scrutiny Management Board consider 12 February 2025 Cabinet Report
19 February 2025	Council Budget and MTFP (15) report and Council Tax Setting Report

Risk Assessment

218 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, and the late timing of the

Government's Local Government Finance Settlement. All risks will be assessed continually throughout the MTFP (15) planning period. Some of the key risks identified include:

(a) New Government: The new government have not had sufficient time to make any significant changes to local government funding allocations, nor commit to a longer-term funding settlement this year. The Council has lobbied the new Government as a single council and as a regional group of north-east councils to identify a range of measures / formula changes which could be implemented by the new Government to more effectively target and allocate funding across local government, which would benefit this council. The Government have indicated they will look to make targeted changes for 2025/26 and ensure that deprivation and need alongside council tax raising capacity will be more significant factors in the formulae from 2026/27 onwards but it is by no means certain how these changes will be made and over what period.

(b) Balanced Budget: There remains a significant challenge to ensure a balanced budget and financial position is achieved across the MTFP(15) period – including balancing the Council's appetite to take decisions to increase council tax, alongside the likely need to still must reduce service provision given the council inherent low tax raising capacity, high and increasing unavoidable demand / cost pressures and its reliance on Government grant funding.

(c) Savings Plans & Transformation: New savings plans have been produced and published as part of this report, which have been risk-assessed in terms of their impact upon customers, stakeholders, partners, and employees and the report includes an equality impact assessment on these proposals. The proposals will need to be subject to consultation as part of the next phase of budget consultation. There will need to be suitable levels of management oversight on the delivery of those savings to ensure they are delivered and realise the financial returns expected.

(d) Fair Funding Review: Whilst the Government have committed to undertaking a Fair Funding Review, which could be implemented in 2026/27, this review could be delayed further or de-prioritised. The timescales for implementation in 2026/27 are very tight.

The conditions of such a review could be predicated on more wide-ranging reform of English local government structures – which are inconsistent in terms of county/district functions in some parts of the country and mayoral authority arrangements in place.

Implementation of fair funding reforms could result in significant changes to the distribution of government funding. The delay to this review also potentially delays the prospect of a Business Rates

Reset as part of the Business Rate Retention (BRR). Whilst it would appear unlikely that a business rate reset will be implemented until the Fair Funding Review is progressed, the Council has lobbied Government to suggest this reset could and should take place in advance of this. 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, and the Council could because of this review expect to review increased Top-up Grant funding as a Council which does not collect Business Rates income up to the national average.

(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 '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 (15).

(f) 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 Council's local council tax scheme is very generous compared to other neighbouring local authorities, and therefore any increase in uptake in this scheme has a compounding effect on the Council's income-generating tax base and is susceptible to any adverse economic fluctuations. A further review of this scheme in advance of 2026/27 will be required, and amendments may need to be made to make this scheme more affordable.

(g) The impact of future increases in inflationary factors such as the National Living Wage and Local Government pay awards, and the impact of additional costs of business for our suppliers associated with a significant increase in Employer National Insurance taxation.

The assumptions for future pay awards have had to be uplifted in this report. Every 1% in terms of the pay award adds circa £3.0 million to the Council's pay bill, whereas every 1% increase in the National Living Wage adds circa £1.2 million of costs into the council's base budget for Adult Social Care – increasing the funding gap that needs to be bridged to balance the Council's budget. The increases in National Living Wage announced on 30 October 2024 of 6.7% were much more substantial than previously forecast. There is a risk that the Government's broad statements that local authority employer national insurance contributions will be funded may not fully materialise.

(h) The Council continues to experience significant increases in demand for social care services – particularly children's social. Significant budget allocations have been set aside in MTFP (15) for these areas, especially Children's Social Care. These allocations are being closely monitored and the forecasts have been externally validated, as in recent years the Council has seen the eventual outturn forecasts in these areas exceed the budget allocations set aside to fund these pressures. This is the case once again in 2024/25 with CYPS forecast to be £9.5 million overspent this year despite a £12m budget uplift being provided for in terms of growth in children looked after placement costs.

The Council appointed external consultants to undertake a detailed diagnostic assessment of these costs, review existing mitigation measures and to suggest other measures that could be taken to offset an estimated rising trend of volumes of looked after children and overall costs per case. The findings of this review concluded that without taking additional substantial measures to mitigate this demand and cost pressure, over and above our existing plans, the Council will likely spend £30m more than the assumed budgetary growth projections included in this MTFP (15) report. A series of measures to manage this demand are currently being developed and will be reported to Cabinet by March or April 2025. These measures will potentially require a drawdown from reserves to pump-prime activities, additional capital investment and/or permanent base budget growth to support transformational change in how we manage children's social care demand.

(i) High Needs Dedicated Schools Grant: officers have reported to Schools Forum and lobbied the new Government regarding its projections for the current and future High Needs Deficit Shortfall. At the end of 2023/24, this cumulative deficit was £10.595 million, with a further £11.572 million shortfall in 2024/25 predicted at Quarter 2, increasing the cumulative deficit to £22.167 million.

Local Education Authorities are required, using a statutory override, to charge the cumulative high needs deficit to an Unusable Reserve on the council's balance sheet. This statutory override is due to end on 31 March 2026, and as things stand, the value of the high needs deficit the following year (31 March 2027) would need to be charged to the General Fund Reserves. The value of the deficit at that point (March 2027) was estimated to be £44 million and would place significant financial strain on the Council's depleted reserves levels at this point. This level of deficit is also placing additional challenges on the Council's cash-flow planning arrangements and it is estimated that loss of interest on the HN DSG deficit balance is around £0.750 million this year for the council.

The local authority sector is lobbying Government to highlight that many authorities are at risk of issuing s114 notices due to the emerging substantial high needs deficit balances.

As part of the Autumn Budget Statement, it was announced that there would be an additional £1 billion added to overall High Needs budgets. This means an increase to High Needs funding of over 9%, compared to 2024/25. Local authority allocations will not be published until 19 December 2024.

The Council assumes it will receive an additional £9 million, although of this a £3 million assumed increase was already factored in for notional inflationary uplifts. The extra £6 million is welcome, however Cabinet should note it does not fully cover the assumed planned High Needs Deficit forecast for 2024/25 let alone the forecast deficit that will materialise in 2025/26.

The Autumn Budget Statement provided no further update on arrangements to continue the Statutory Override for carrying forward cumulative deficits or seek to write off these cumulative deficits from local education authority balance sheets. This omission is very concerning and heightens the risks of the statutory override ending and any deficit write-offs not been funded by central government.

(j) Prudential Borrowing: The Council's current Capital Programme / Capital Investment Plans are predicated on high levels of future borrowing, with the Council currently managing a highly under-borrowed position, whereby the actual level of debt held is significantly below the levels of debt required to be held by the Council in line with its underlying Capital Financing Requirement. The Council will need to borrow c.£350 million over the next two-years from the date of this report to fund the existing programme and remain sufficiently solvent.

The MTFP (15) forecasts assumes that borrowing will be from the Public Works Loan Board at rates of between 4.0% to 4.5%, in the anticipation that rates will fall from their current levels of around 5.7% (for forty-year borrowing) between September 2024 and April 2025. This planned fall in PWLB rates may not happen, and therefore if PWLB rates were 1 percentage point higher than the assumed 4.5% in 2025/26, the borrowing costs for this additional necessary debt would be £3 million higher than the budget provision set aside.

In November 2024, the Monetary Policy Committee of the Bank of England cut the bank base rate by 0.25% but in doing so projected that interest rates may not fall as fast as originally anticipated during 2025.

(k) The financial forecasts will continue to be reviewed and refined, and further updates will be provided across the coming months in advance of reporting the updated position to the Cabinet meeting in February 2025.

Conclusion

219 This report updates the financial planning assumptions for MTFP (15). Cost pressures have increased significantly since 18 September 2024 – an increase of £24.4 million to £153.333 million across the four-year planning period – largely because of the National Living Wage announcements, the impact of this on pay inflation assumptions, the changes to Employers National Insurance and updated CPI forecasts. This increase in cost pressures more than eclipses the increases in funding of £18.778 million across the four-year period since the 18 September MTFP (15) Cabinet report which factors in the know increases in governed finding, the impact of updated CPI uplift assumptions and the improved council tax base position.

220 Further work needs to be undertaken to understand whether supplier cost pressures will rise by more than the assumptions included in this report, for the impact of rising national living wage and employer national insurance costs.

221 The financial gap across the four-year MTFP (15) period, before new savings are considered stands at £69.788 million - with a budget gap of £25.615 million in 2025/26.

222 Cabinet have developed £15.8 million of new savings proposals of which £14.7 million are proposed to be implemented in 2025/26.

223 These new savings proposals are in addition to the £7.327 million of savings (as amended) that were previously agreed in MTFP (14).

224 Even if all savings are subsequently agreed, and assuming no further changes to the financial planning assumptions, there is still a budget gap / additional savings requirement of £10.960 million in 2025/26, and a four-year gap of £53.952 million. Significantly, the savings gap in 2026/27 should the £10.960 million gap in 2025/26 be addressed using reserves would be £29.206 million.

225 The impact of the new savings proposals on front line service delivery have been kept to a minimum, and the implementation of these savings provides some time to make much more substantial and wide-ranging transformational savings from 2026/27 and into later years.

226 A second public consultation is planned and will commence on 6 December 2024 and run until 17 January 2025. This phase of budget consultation will allow views to be provided on the new savings proposals. Corporate Overview and Scrutiny Management Board will consider the contents of this report and the new savings proposals at its meeting on 9 December 2024.

227 More details on the budget position will be revealed once the Council receives its detailed allocations in the Provisional Local Government Finance Settlement on 19 December 2024. At that point, the Council should receive clarity on options to raise Council Tax by more than 2.99% - which would provide an option to reduce the 2025/26 budget gap of £10.960 million. A 2.0% increase in the adult social care precept would generate £5.8 million, which would reduce the gap to £5.160 million.

228 An overview of the Provisional Local Government Finance Settlement, alongside any further updates to the financial planning assumptions set out in this report will be presented to Cabinet on 15 January 2025.

Other useful documents

- Medium Term Financial Plan (14), 2024/25 to 2027/28 – Report to Council 28 February 2024
- Medium Term Financial Plan (15), 2025/26 to 2028/29 – Report to Cabinet 18 September 2024

Council Tax Base 2025/26 and Forecast Surplus / Deficit on the Council Tax Collection Fund – Report to Cabinet 13 November 2024

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Appendix 1: Implications

Legal Implications

The council has a statutory responsibility to set a balanced budget for 2025/26. It also has a fiduciary duty not to waste public resources and recklessly run down reserves to an unacceptably low level.

Finance

The report includes a range of changes to the 2025/26 and MTFP (15) financial planning assumptions, some of which reflect announcements made in the Chancellor of the Exchequer's Autumn Budget Statement, which was presented to the House of Commons on 30 October 2024.

The report sets out details of additional new MTFP (15) savings of £14.7 million in 2025/26 and £15.836 million in total across the MTFP (15) planning period. These are set out at Appendix 3 and will be subject to public consultation between 6 December 2024 and 17 January 2025.

There are also £7.327 million of savings approved as part of MTFP (14) that can be delivered between 2025/26 and 2027/28, with the savings previously agreed having been reprofiled and reviewed. The updated schedule of previously agreed savings is set out at Appendix 2.

Despite these savings, there remains a shortfall for 2025/26 of £10.960 million, with a four-year gap of £53.952 million forecast assuming all these additional savings are implemented.

The 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 Government have provided indicative additional funding to local government in the finance settlement for 2025/26, however this additional funding as it stands does not match the significantly higher increases in cost pressures due to demand pressures in children's social care, school transport, payroll costs and adult social care costs (due to rising national living wage and employer national insurance costs), and this gap could be reduced further.

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

The MTFP Support Reserve balance on 31 March 2024 was £36.299 million, however, £3.720 million was utilised to balance the 2024/25 revenue budget, leaving an unallocated balance of £32.579 million available to support MTFP (15). The four-year financial gap of £53.952 million is far more than the remaining MTFP Support Reserve Balance, and therefore additional savings measures and council tax rises (above the assumed annual increases of 2.99% already factored into planning assumptions) must be considered. The outcome of any fair funding review may improve this position, but the indicative timescales for this review are challenging and may be heavily dampened in terms of their redistributive impact across English local authorities.

The use of reserves to excessive levels to balance budgets is not a sustainable long term budget strategy. There remains a significant risk that the Council may be forced to use its significantly depleted reserves to fund the writing off of any large cumulative High Needs Deficit as at 31 March 2027 (no clarity was provided regarding these arrangements in the Autumn Budget Statement).

Consultation

Consultation on the 2025/26 budget and MTFP (15) began 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.

The report includes a summary of the feedback received during the first phase of budget consultation – with full details provided at Appendix 6.

Additional consultation will take place with AAP's and partners in relation to the new savings proposals included in this report during December and January. 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 (15) and budget setting process. The views of COSMB on the initial budget forecasts presented to Cabinet on 18 September 2024 are set out in the report.

Equality and Diversity / Public Sector Equality Duty

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

The report contains summary details of the impact assessment that has been undertaken on the proposed savings.

Climate Change and Biodiversity

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. The proposals with regards to ceasing weed spraying around fence lines and obstacles on open spaces will make a positive ecological impact and encourage biodiversity, although weed treatment on paths and footways is retained.

Human Rights

Any human rights issues will be considered for all proposals agreed as part of MTFP (15).

Crime and Disorder

None

Staffing

The new savings will result in the deletion of around 214 full time equivalent posts, of which around one third of these posts are currently classified as being vacant – with this figure set to rise further during the remainder of the financial year.

The previously agreed savings proposals include 216 full time equivalent post reductions also.

Re-deployment of staff, deletion of vacant posts and Early Retirement and Voluntary Redundancy will be utilised where possible to minimise the potential for compulsory redundancy. HR processes will be followed to ensure fair treatment of staff.

Land and Property

Additional Budgetary growth of £400,000 has been included in MTFP (15) to cover additional revenue repair and maintenance costs associated with the Council's land and property. More substantial allocations of capital funding will be required to augment existing capitalised maintenance and structural infrastructure investment budgets.

Risk

The Council is continuing to operate in a period of significant financial uncertainty. When the 2024/25 budget was approved on 28 February 2024, 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 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 3 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 3, building on information provided on the savings detailed in previous reports.

Procurement

None