
**REVIEW OF THE MEDIUM TERM FINANCIAL PLAN AND PROPOSED BUSINESS
MODEL FOR THE FUTURE**

Responsible Cabinet Member - Councillor John Williams, on behalf of all Cabinet

**Responsible Director – Ada Burns, Chief Executive on behalf of
Corporate Management Team**

SUMMARY REPORT

Purpose of the Report

1. To present to Cabinet an update on the medium term funding position, and to propose a business model for responding to the increased financial challenge anticipated over the coming decade.

Summary

2. The first part of the report that follows contains an update on the projections and scenarios that are informing the review of the Council's Medium Term Financial Plan. The Council, like all local authorities, faces a significant financial challenge in the short to medium term in light of a potential significant reduction in income from the Government. There is no certainty at the moment as to the extent of such income losses, or indeed at the timescale in which they may appear, however it is prudent that the Council starts to plan accordingly.
3. Against a record of strong value for money and efficiency programmes covering many Council services, for example, Streetscene, Transport, procurement, it is clear that the medium term position will not be addressed by "more of the same". A more radical approach and strategy will be needed if the Council is to be confident of having the capacity and resilience to continue to serve the people of Darlington well as a proud and independent unitary local authority.
4. The second part of this report therefore proposes a new business model for Darlington Borough Council, based upon a refreshed expression of the Council's role in delivery of One Darlington Perfectly Placed.
5. It is proposed that the core purpose of Darlington Borough Council is to:
 - Champion the interests of its citizens and business
 - Support strong partnerships to set a vision and direction for the Borough and its services
 - Promote the borough to secure investment and support.
 - Ensure the provision of good quality services to the public.

6. The key elements of the business model required to achieve this purpose are :-
 - (a) Focus upon securing efficiency in every aspect of business and activity through business reviews, and process re-engineering.
 - (b) Reliance upon One Darlington Perfectly Placed to support the process of prioritisation for service delivery and investment.
 - (c) The development of a more mixed economy in terms of the arrangements for the delivery of services, based upon what vehicle; Council, partnership, contractor, can release savings and secure quality service delivery.

Recommendation

7. Cabinet are recommended to:
 - (a) Note the challenging financial climate the Council faces.
 - (b) Approve the business model .
 - (c) Work with Corporate Management Team to develop a revised MTFP to be presented to a special meeting of Cabinet in January 2010.

Reasons

8. The recommendations are supported by the following reasons :-
 - (a) To enable Members to be aware of the latest financial projections.
 - (b) To agree an approach to delivering the MTFP.
 - (c) To enable statutory deadlines to be achieved in setting the Council's budget.

Corporate Management Team

Background Papers

No Background papers were used in the preparation of this report.

Ada Burns: Ext 2010
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S17 Crime and Disorder	This report does not contain any specific proposals but sets out a strategy within which options will be developed therefore there are no S17 Crime and Disorder issues contained within this report
Health and Well Being	This report does not contain any specific proposals but sets out a strategy within which options will be developed therefore there are no Health and Well Being issues contained within this report
Sustainability	This report does not contain any specific proposals but sets out a strategy within which options will be developed therefore there are no Sustainability issues contained within this report
Diversity	Equality Impact Assessments are a regular feature of the process of review of the MTFP and development of efficiency programmes.
Wards Affected	At this stage no Wards are affected by the contents of this report
Groups Affected	At this stage no Groups are affected by the contents of this report
Budget and Policy Framework	This report does not alter the existing budget and policy framework it sets out a direction for delivering changes which will be presented later in the financial year
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
One Darlington: Perfectly Placed	This report does not contain any specific proposals but sets out a strategy to ensure that the Council is able to meet its commitment to One Darlington : Perfectly Placed
Efficiency	This report does not contain any specific proposals but sets out a strategy within which options will be developed therefore there are no Efficiency issues contained within this report

MAIN REPORT
Part One
The Emerging Financial Climate

Background

9. The Council has managed its finances on a 4 year rolling medium term basis since 2000. Its strategy over that period included raising sufficient taxation to meet the aspirations of the Darlington public whilst at the same time improving services in terms of outcomes and efficiency. Since 2000 the Council has become 4 star rated under the Comprehensive Performance Assessments (CPA) framework and is judged to be improving strongly. Within the overall rating the Council achieved 4 out of 4 rating for use of resources and of particular note within that judgement is a 4 out of 4 score for value for money. The Council has the lowest council tax in the North East region.
10. The Council's existing medium term financial plan (MTFP) is underpinned by the aim to reduce net expenditure to the level of resources available thus reducing reliance on revenue balances. The gap is to be bridged by increased efficiency. The recent economic downturn has meant that a much shorter period was available to bridge the gap due to spending pressures and income losses.

Changing Financial Climate for Local Government

11. Members will be aware of the ongoing challenges the Government faces in balancing the nation's budgets following the investment it has made in responding to the recession and will appreciate that this will have an impact on Local Government funding in future years. This section of the report examines what the future financial picture may look like for Local Government generally and Darlington specifically by reviewing all areas of Local Government income.
12. Local Government has four sources of revenue income to fund services for the public:
 - (a) Formula Grant (Revenue Support Grant and redistributed non domestic rates)
 - (b) Specific government grants
 - (c) Council Tax
 - (d) Fees and charges for services
13. Since approving the current MTFP the emerging picture for local government finance has worsened. It is clear that the new government in 2010 will have to reduce public expenditure considerably to balance the nation's budget therefore reductions in forecast government grants both general and specific can be anticipated. The extent of the reduction is not known and is not likely to be known until December 2010 when the next 3 year Comprehensive Spending Review (CSR) is due to be announced; however, there is a school of thought that in December 2010 the announcement will only cover one financial year not three therefore extending the uncertainty. Reductions in grant as large as 10% have been

mentioned by various commentators and such potential reductions are likely to be sustained into the medium to long term. Darlington currently receives £38m in revenue support grant and £30m in specific grants. A third of specific grants, known as Area Based Grants (ABG's) have recently been "freed up" by Government so although they are targeted at certain aspects of work eg housing benefits administration, the grants can be used for any purpose the Council wishes. Specific grants are included in service budgets are used to reduce net expenditure therefore the Council's budget is net of specific grants.

14. The level of council tax is determined by each Council, however the Government have powers to "cap" increases. Currently the Government do not pre-signal capping limits but do issue guidance. For 2009/10 it was – "it is expected that average increases will be substantially below 5%" - Darlington agreed a 3.5% increase for 2009/10, however the MTFP still assumes 4.9% in subsequent years. There can be no certainty at this stage about the stance the Government will take on council tax in the lead up to the General Election and beyond but it may well give guidance for increases below the 5% it signalled this year. In addition locally Members may wish to revisit the 4.9% going forward bearing in mind the 3.5% set in 2009/10.
15. The final source of income is fees and charges. The Council is already seeing reductions in areas such as car parking, land charges and land sales and has had significant reductions in the interest it receives. It is very likely that other areas of income will reduce in the short term.

What does the Financial Future look like for Darlington?

16. The key numbers looking forward are:-
 - (a) a 1% increase in council tax delivers £400,000 conversely each 1% reduction from the planned 4.9% increase per annum reduces funding within the existing MTFP by £400,000 per annum;
 - (b) a 1% increase in formula grant is equivalent to £400,000 per annum. The existing MTFP assumes a 2% cash increase each year with effect from 2011/12 each 1% reduction from this figure will reduce funding in the MTFP by £400,000 per 1%;
 - (c) a 1% increase in specific grants is equivalent to £300,000 per annum. The MTFP has various assumptions on the levels of increases in grant however of greater risk than the percentage increases is the withdrawal of various specific grants. Commentators on local government finance believe this is very likely. Specific grants within Darlington are used to fund key services therefore the loss of grants would have a significant impact in service delivery.
 - (d) income and service pressures – the approved MTFP has very little contingency going forward and therefore assumes no increase in service pressures or lost income. Experience tells us that in terms of looking forward given the economic downturn such pressure are likely to arise.

17. As the above demonstrates there is the potential for significant variations in the Council's income in the medium term and a large amount of uncertainty with regard to the extent of the variation.
18. Officers are continuing to gather intelligence about future funding streams and will produce a best estimate in time for the commencement of the budget cycle later in the financial year. However, what is very clear at this stage in the process is the financial challenge will be extremely tough, possibly more challenging than any other budget the Council has had to produce. Hopefully the Government pre budget reports in November this year will give the Council a better picture of what grants are likely and the Government's view on Council Tax. However it is likely that it will be some considerable time until we return to the level of certainty we have experienced in recent years and therefore plans will need to be flexible to cope with the increased uncertainty.
19. Taking into account the commentary in the previous paragraphs, Members will appreciate that judgement will be key to preparing the revised MTFP due to the level of uncertainty. Projections about future income will be subject to wide ranges and undoubtedly people will have differing views until certainty returns. Members will need to ensure the revised MTFP is sufficiently prudent to produce sustainability in the medium term however over prudence could put increased pressure on key services when not required. Preparation and work will need to be done to produce options for Members however some decisions may be deferred whilst uncertainty remains. What must happen is a strategic and understood approach must be adopted.

MAIN REPORT
Part Two
The proposed Business Model

20. The national response to the credit crunch and downturn present significant challenges to the financial environment for public services in Britain over the coming decade. Darlington Borough Council needs to plan for a period of significant constraint, and this report presents a proposed new business model that it is believed can offer resilience and a framework to ensure that the Authority is able to continue to serve the people of Darlington well into the future.
 21. The potential scale – and the pace – of reductions in public spending required to restore public finances will not be delivered within the framework of conventional efficiency programmes, although it is important that these should continue. This is particularly the case in Councils like Darlington, that perform well on value for money and financial stewardship, and that have run ambitious efficiency programmes in recent years.
 22. Examination of the wide range of approaches to efficiency recommended by Government, and the Audit Commission, and those being undertaken by other local authorities, shows that most of the recommended efficiencies have been (or are already being) tackled here, and so demonstrates that for Darlington new strategies are needed. For example, we have business transformation programmes already delivering savings or being implemented in:-
 - (a) “back office” services,
 - (b) procurement
 - (c) transport,
 - (d) adult social care,
 - (e) school improvement,
 - (f) facilities management and accommodation
 - (g) revenues and benefits
 - (h) customer access
 - (i) The re-organisation of the Council in 2007 and re-structuring have streamlined and slimmed down tiers of management. For example since 2004 re-structuring of services has reduced the number of managerial posts by 61.
 - (j) Programmes are underway in children’s and adults services to integrate activity with health in order to improve quality and reduce cost.
 23. These efforts will be maintained and constantly refreshed as key ways of delivering cost reductions in the early years of the (MTFP). This is the first strand of the Business Model: continued and continually refreshed efficiency programmes.
 24. To release significant cost reductions over the medium term however requires a different approach and key to that is a view of where the Council needs to be at the end of this period of financial restraint – whether that is in five or ten years or even twenty years time. Without that sense of ambition and direction Darlington will simply be buffeted by the external environment, efficiency programmes will lack focus and may inadvertently damage our prospects of serving the people of Darlington well in the long term.
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25. There are two elements to defining a vision for the Council that contribute to the Business Model:-
 - (a) understanding what is needed to enable the Borough of Darlington to prosper, and
 - (b) understanding the role of the Council in delivering those aspirations.
 26. **Goals and Priorities** - In terms of answering the first part of this question the Council is well placed in that within the Borough's Sustainable Community Strategy, One Darlington Perfectly Placed, there is a clearly articulated set of ambitions and priorities for Darlington in 2020 that were built from widespread public engagement and are shared with key public, private and voluntary sector partners.
 27. Analysis by the Darlington Partnership of the impacts of the downturn suggest that the priorities within One Darlington: Perfectly Placed hold true, and indeed the imperative of tackling inequalities and boosting our economy expressed in the document's title and 2 priorities is if anything strengthened by the impact of job losses and the collapse in business confidence.
 28. This clear statement of goals, together with our statutory responsibilities, enables the Council, with the Darlington Partnership, to respond to declining resources within a clear sense of agreed priorities. Resources need to follow core obligations and agreed priorities, and there is therefore a framework, based on public consultation, for identifying options to remove or reduce resources from areas of activity or services.
 29. This process of service review captured within the annual service planning and MTFP review, comprises the second strand of the Business Model. It may involve difficult choices being made by Council over the life of the MTFP.
 30. **The core functions of Darlington Borough Council** - Turning to the role of Darlington Borough Council in delivering One Darlington: Perfectly Placed, the Council agreed Leading Edge, the organisational development strategy in 2007. This sets out the core purpose of the Council in terms of :-
 - (a) Champion for the interests of the residents
 - (b) Promoting the borough
 - (c) Influencing others to provide high quality services
 - (d) Providing high quality services
 31. These key functions have informed the corporate and service planning process subsequently.
 32. It is proposed that this description of the Council's role in delivering the SCS needs to be updated, in order to support and facilitate a Business Model that is future proofed.
 33. **Championing the interests of the citizen and business** - Remains unchanged, it is the Council's role to understand its population, how it is changing, what its people need and want, how they might be enabled to help themselves and their families. It is the fundamental role of elected Members, and the understanding it brings needs to shape future strategy, and be communicated to all those responsible for public services for the borough. There is a
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particular set of statutory responsibilities to protect and champion the needs of the most vulnerable, and to ensure equitable outcomes for all. This function would also include community empowerment – working to enable communities to exercise more control over their own lives and communities and to work with public services to reduce demand.

34. We know that the most efficient Council is still unlikely to be able to maintain the level of services it currently provides or meet in full its resident's expectations. Strong engagement with the population of Darlington will be needed to manage that process of change and to explore the scope for communities to play an active role in saving money.
35. **Promoting the Borough** - Remains unchanged, this is a simple expression of the role of a unitary council, doing everything in its power to secure the best outcomes for the place. It is the role the Council plays within the Association of North East Councils, its relations with Government Office North East, ONE (the regional development agency), central Government, business, Audit Commission, inward investors – all the things the Council does to say – come to Darlington, shop in Darlington, invest in Darlington, support Darlington achieve its goals. The more stretched the Council's own resources become the more necessary it becomes to make sure that we are able to lever in external support and resource.
36. It is proposed that **Influencing public services** and **providing public services** are re-examined, given that they describe different approaches to the same basic function.
37. The introduction to the Leading Edge Strategy describes the direction of travel for local authorities towards more streamlined and outward facing organisation, with greater focus placed on influencing good public services and community engagement.
38. This shift towards plurality in delivery models combined with stronger focus on commissioning is evident across a range of Council services and is entirely consistent with Government policy.
39. For example, in the two biggest areas of Council spending this has been the direction for some years. Since the introduction of Local Management of Schools, the role of the local education authority has been moving steadily towards one that is based around commissioning, influencing, facilitating rather than running education services. The increasing role and responsibilities placed with the Director of Children's Services and Lead Member for Children's Services to facilitate broad public service partnerships to plan for and commission quality services is the latest manifestation of that policy direction.
40. Head Teachers, with Governors, manage their own budgets, set their own priorities. Some of our schools are outside local authority control completely. Our role has been to challenge, to support, and to facilitate improvement.
41. In Adult Social Care Councils have been moving closer to the NHS for some time with joint commissioning and integrated provision. The introduction of personal budgeting, and in the NHS, world class commissioning (and contestability), requires a stronger role in supporting and facilitating personal choice, and as a result has contributed to an ongoing process of commissioning a wide variety of services from the private and voluntary sector.

42. Across other Council functions the commissioning of services from private and voluntary sector is commonplace and driven in each case by the best means of delivering high quality services at best cost. Highways engineering, building design, housing repairs, children's accommodation for example, all demonstrate diversity in delivery vehicles.
43. The development of a public public partnership with Stockton Borough Council for the delivery of so-called "back office" functions – HR, ICT, Finance, Print and Design, has introduced a new model of delivery to Darlington, and one which offers significant scope for flexible provision within a public sector ethos.
44. Where we provide services directly the focus has been on driving down costs and raising performance, and we have been creative and successful in bringing in investment (for example, prudential borrowing to improve leisure facilities based on increased revenue), and in using charging and trading to enhance income (for example, building services).
45. The approach already operating across the Council has been driven more by a focus on what needs to be delivered than on how it should be delivered.
46. In terms then of how the key functions of the Council are described it is proposed that **Influencing public services** and **providing public services** should be collapsed into one and altered to say ; **Ensuring the provision of quality services to the public**. This is a more flexible form of words to capture the range of ways in which services are being delivered and may be delivered in the future – direct Council delivery, people organising their own services, public/public and public/private partnership delivery, third sector delivery, public sector delivery.
47. It should also embrace the ambition to work more closely with the providers of other public services which are key to achieving One Darlington Perfectly Placed, health and Police for example. It represents the need to be better, smarter commissioners – squeezing every penny from providers, procuring smartly, making every penny work as hard as it can.
48. The final element in our core purpose is not currently captured within the description. **Setting a vision and direction for the Borough and for public services**. If we understand the needs of our citizens then we need to facilitate and participate in the partnerships that turn that knowledge into long term vision – the Sustainable Community Strategy, the Local Development Framework, the Children's Plan, etc. In other words the Council should continue to have a lead role in ensuring that there is a clear direction of travel for the place and its people. This provides the framework for promoting the borough and ensuring the provision of quality public services. It has a critical role in pulling people together in pursuit of that vision, whether it's the Town Centre Board, or the Older People's Partnership.
49. Therefore it is proposed that the role and function of Darlington Borough Council should be expressed as follows:-
 - (a) Champion the interests of its citizens and business, based upon a solid evidence base and good in depth engagement.
 - (b) Promote strong partnerships to ensure there is a vision and clear direction for the Borough and for public services.

- (c) Promote the borough, as an active player within local, sub regional, regional and national governance frameworks.
 - (d) Ensure the provision of good quality services to the public.
50. The relationship of this set of core functions to the operation of a new Business Model is to be found in particular in the work to “Ensure the provision of good quality services”.
51. The current use of partnerships and commissioning enables the Council to exploit established markets for quality services, to build in flexibility and diversity, and to secure the benefits of economies of scale that are difficult to secure within a relatively small organisation. In the current economic context the journey towards greater focus on commissioning where it can release savings needs to be faster and more radical.
52. **The new business model for Darlington Borough Council** is proposed therefore to comprise three strands:-
- (a) Focus upon securing efficiency in every aspect of business and activity through business reviews, and process re-engineering.
 - (b) Reliance upon One Darlington: Perfectly Placed to support the process of prioritisation for service delivery and investment.
 - (c) The development of a more mixed economy in terms of the arrangements for the delivery of services, based upon whatever vehicle; Council, partnership, contractor, can best release savings and secure quality service delivery.
53. Across the Council, are there areas of service delivery where other delivery arrangements – outsourcing, integration with other public services (including the hosting of those), collaboration with other Council’s or the voluntary sector, the establishment of trading arms – could produce economies because of scale, investment in technology that improves productivity, greater scope for customer self-service, without jeopardising our core purpose in driving forward One Darlington: Perfectly Placed.
54. Some strands of this model would undoubtedly offer a better deal to the public as well as efficiency, for example, if we truly integrated with the NHS (those parts concerned with community health services) imagine the improvements in joined up services – as well as the efficiencies in back office and management costs. If we were better able to exploit technology there would be benefits in convenient access for residents.
55. The work associated with (a) is already familiar from the annual MTFP review process that has commenced.
56. The different delivery mechanisms referred to in (c) are likely to be drawn from those already in common use across the Council and demonstrating better value.
57. **Partnerships with other public services** - Examples of these in current use would include Xentrall, the partnership with Stockton Borough Council for services including Human

Resources, ICT, and Finance, and the partnerships with the Darlington Primary Care Trust being developed in Children's and in Adult services.

58. These offer scope to secure the economies of scale that a bigger local authority might expect to see within the deployment of assets and staff resources, management structures and investment business payback periods. It has the advantage of retaining a strong public service ethos but the possible disadvantage of requiring a shift towards common service standards.
59. **Commissioning of services with the private sector** - Examples of these in current use would include the contracts for housing repairs and maintenance and waste disposal.
60. These offer scope to secure savings where there are mature private sector markets that can respond to a tightly drawn specification.
61. **Commissioning of services with the voluntary sector** – Examples of these in current use can be found across adults and children's services, from contracts with Barnardos to those with Age Concern.
62. These offer scope to secure savings where there are mature markets that can deliver innovation and personalisation.
63. **Retention of services within Darlington Borough Council** - Examples of these might relate to services that demonstrate via benchmarking or market testing that savings are unlikely to be found, or that are so closely aligned to the Council's core functions that direct management control is required. Examples may include audit or safeguarding.
64. As indicated by these examples, diversity will continue to be a feature in service delivery arrangements. The overriding criteria will remain whatever is best for the borough of Darlington and its residents.
65. The requirements of (c) will need to anticipate what long term capacity will be needed to ensure that Darlington Borough Council can continue to fulfil its core functions. In particular it will be vital that as commissioned services form a greater element in ensuring the public receive quality services, that the Council secures sufficient capacity and expertise to prepare, procure and manage contracts with an increasingly diverse range of providers.

What might the Council of the future look like?

66. It is hard at this point to be definitive, but it is possible that in future Darlington Borough Council may be:-
 - (a) Strongly focussed on ensuring good overall outcomes for the public and the place than managing day to day service issues (these increasingly the responsibility of others but retaining ability to ensure they deliver).
 - (b) Clear and acknowledged leadership of "place" and facilitator of partnerships concerned with delivering One Darlington: Perfectly Placed.

- (c) Significantly smaller in terms of directly employed staff.
- (d) Many of its big budgets linked to contracts, or service level agreements or partnership delivery vehicles.

67. It must also be faced that the services commissioned or delivered directly may be more modest.

Next Steps

68. The Business Model within this paper will be communicated to staff, trade unions, partners and the public during the period to January 2010.

69. Engagement opportunities that identify the scope for cross public sector approaches will be taken.

70. It is recognised that the Business Model will generate uncertainty and anxiety about the future shape of the Council and the direct employment prospects that it will offer. However it must be noted that Darlington Borough Council has an excellent track record of working to implement change with care and sensitivity while seeking to minimise the impact on employees and this will continue to underpin the implementation of the business model.

71. The report on the revision of the MTFP in January next year will be prepared based on the principles of the Business Model by Cabinet and the Corporate Management Team for consultation and scrutiny prior to final recommendations being made to Council in February.

Conclusion

72. The Council, like all Councils, faces a significant financial challenge in the short to medium term. The Council must respond to this challenge in a strategic way to ensure sustainability so it can continue to meet the key aspirations and needs of the public of Darlington. This report proposes such an approach.