
**MEDIUM TERM FINANCIAL PLAN
2015/16 TO 2019/20**

**Responsible Cabinet Member - Councillor Bill Dixon,
Leader and all Cabinet Members**

Responsible Director - Chief Officers Executive

SUMMARY REPORT

Purpose of the Report

1. To propose a Medium Term Financial Plan for 2015/16 to 2019/20 for consultation including setting a budget for 2015/16.

Summary

2. Darlington Borough Council has to date been proactive in adapting to an environment of significant service pressure and resource reductions. During the period 2010/11 to 2015/16 there has been a £22.8m cash reduction in government grant which in real terms (after taking inflation into account) equates to £33.3m, a 41% real reduction with more cuts to come. This is in the context of rising demand for services, in particular social care where the increasing older population and high profile child cases are putting strain on the already financially challenged services.
3. The majority of spending reductions to date have been achieved without direct impact on the public, although it is regrettable that a significant number of jobs have been lost in the process. The 2014/15 – 2019/20 MTFP set out a forward strategy and phased approach to achieving the significant savings required over the period, focusing its planning and resources in three key areas that offer the best prospects of being in a position to continue to serve the public well into the long term. These areas, also described as conditions required are; Building strong communities, Spending wisely by maximising every public service pound spent, and Growing the economy.
4. The Council developed a staged approach to meeting the challenges and a two year budget within a six year planning horizon. The rationale being funding to 2015/16 is known but beyond this point is subject to change; this strategy allows new approaches to be tested to see what could be possible for future years and also given the sheer size of change required over the period to 2020 a staged approach was needed given the Council's capacity and the public's capacity to engage and understand the change required in the Borough.

5. The Council is making progress towards achieving the financial targets set within this strategy and this is detailed within the report. Whilst the savings previously agreed along with the use of additional balances and a proposed 1.99% Council Tax increase will deliver a balanced budget for 2015/16, beyond this period further significant cost reductions will be needed.
6. This report does not recommend any further reductions to service levels but recognises that significant budget savings will need to be developed for consultation in autumn 2015.

Recommendation

7. It is recommended that the MTFP as summarised in **Appendix 7** be approved for consultation including the following:-
 - (a) A 1.99% Council Tax increase for 2015/16 and subsequent years.
 - (b) Schedule of charges as set out in **Appendix 3**
 - (c) Use of a further £4.747m of revenue balances to fund revenue expenditure.
 - (d) Transfer £1.0m to the decommissioning and redundancy reserve fund.
 - (e) Additional resources of £486,000 for the continuation of the services currently covered by the Local Welfare Provision Grant.
 - (f) That the results of consultation are presented to Cabinet in February 2015 prior to a final MTFP being recommended to Council

Reasons

8. The recommendations are supported by the following reasons :-
 - (a) To propose a MTFP for consultation.
 - (b) To enable final recommendations to be made in light of consultation to propose a MTFP for consideration by Council.

Chief Officers Executive

Background Papers

No background papers were used in the preparation of this report

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TAB

S17 Crime and Disorder	The report contains proposals to continue to allocate resources in support of the Council's Crime and Disorder responsibilities
Health and Well Being	The report contains proposals to continue to allocate resources in support of the Council's Health and Well Being responsibilities
Carbon Impact	The proposals in the report seek to continue to support the Council's responsibilities and ambitions to reduce carbon impact in the Council and the Borough.
Diversity	There are no specific proposals that impact on diversity issues.
Wards Affected	All wards are affected
Groups Affected	All groups are affected by the Council Tax increase. Individual groups will be affected by specific proposals as they develop. In each case impacts will be considered before a decision is made to implement the proposal.
Budget and Policy Framework	The MTFP, Budget and Council Tax must all be decided by full Council-
Key Decision	The MTFP, Budget and Council Tax must all be decided by full Council
Urgent Decision	The MTFP, Budget and Council Tax must all be decided by full Council
One Darlington: Perfectly Placed	Within the constraints of available resources it is necessary for the Council to make decisions involving prioritisation. The proposals contained in this report are designed to support delivery of the Sustainable Community Strategy, within those constraints.
Efficiency	Efficiency savings which do not affect service levels have been included in the MTFP.

MAIN REPORT

BACKGROUND AND CONTEXT

9. During the period 2010/11 to the forthcoming year 2015/16 the Council's comparable government funding will have reduced in cash terms by £22.8m which in real terms (after taking inflation into account) equates to £33.3m, a 41% reduction. In response, by the end of 2014/15 the Council will have reduced expenditure by over £25m leading to workforce reductions of 564, with plans to save a further £10.3m.
10. It is predicted that comparable Government funding in real terms will reduce by a further £16.5m by 2020 in addition to the £33.3m already lost since 2010, an overall real terms decrease of £49.8m, a significant 56%.
11. These reductions are unprecedented. The Council's main sources of income going forward are Council Tax and Business Rates and the ability to increase these sources of income to protect services and offset the loss of government grant is limited by the Government. Unless a referendum is held the Council cannot raise Council Tax by more than 2% each year and the rateable value of properties is set by the Government. Therefore the only way we can collect more revenue from these sources is to increase the numbers of properties built and attract more businesses to the Borough.
12. Darlington Borough Council has to date been proactive and able to adapt to an environment of significant service pressure and resource reductions. Despite the significant funding reductions the majority of spending reductions to date have been achieved without direct impact on the public, although it is regrettable that a significant number of jobs have been lost in the process.
13. The Money Talks Events held over the summer of 2013 set the scene for the current MTFP where the public of Darlington gave the Council a clear message that whilst they appreciated the financial difficulty the Council faced they didn't want to see the demise of discretionary services such as cultural, sporting and recreational services provided including museums, libraries, sports facilities, theatres and our parks and open spaces. People also thought that the removal of some of the preventative services the Council is not required to provide would ultimately increase the cost of statutory services.
14. The 2014-15 MTFP proposals took account of the public's views and set out a strategy for savings along with the conditions that would be required to achieve those savings whilst maintaining services. The conditions described in paragraph 19 below were Building Stronger Communities, Spending Wisely and Growing the Economy. Savings of £13.752m were identified to be achieved by 2016/17 and it was noted a further £10.341m would be required by 2019/20.
15. This report reinforces the council priorities, the strategy set and the progress made towards these savings along with an updated resource plan.

A VISION FOR DARLINGTON

16. The Council has very clear priorities which are set out in the Community Strategy - One Darlington Perfectly Placed (ODPP), and developed in partnership with public services, business and the voluntary and community sector.
17. The Strategy was refreshed and endorsed by Council 8 May 2014, whilst the core vision of creating and maintaining a good quality of life by and for everyone in Darlington (One Darlington), and about making Darlington the best possible place to live and work (Perfectly Placed) remain the same, the outcomes and conditions to achieve those outcomes were updated to reflect the priorities in the current climate where the financial position of the council and the economy as a whole has been through significant change.
18. Fairness for all is central to all the outcomes identified as key for the continued delivery of the vision and the financial challenges also require a need to focus on Economic Growth in order to counter the impact of the financial climate. The outcomes identified as key to ensuring the vision are:
 - (a) Children with the best start in life
 - (b) A safe and caring community
 - (c) More people active and involved
 - (d) More people healthy and independent
 - (e) More businesses and more jobs
 - (f) More people caring for our environment
 - (g) Enough support for people when needed
 - (h) A place designed to thrive.
19. In order to achieve these ambitions in a climate of significantly reduced public spending the ODPP identifies the following conditions which are key to achieving the MTFP.
 - (a) **Building Strong Communities - Enabling people to live fulfilling lives with less involvement from public services** where people take personal responsibility, live in communities with strong social capital and where people look out for each other and where communities come together to take ownership and responsibility for the neighbourhood they live in or care about.
 - (b) **Spending Wisely - maximising value for all public expenditure**, where public services are planned and where sensible commissioned together and when every pound spent is spent well on the things that make most impact.
 - (c) **Growing the economy - generate income streams, employment and opportunities** where we have a strong and vibrant economy and we achieve growth in the economy.
20. The 2014/15 – 2019/20 MTFP was built around these conditions and we are in the early stages of the journey towards achieving them. The following section notes the progress made to date.

PROGRESS TOWARDS MEETING THE GAP

21. Last year's MTFP explored the potential to make the required savings by stopping all discretionary services. Notwithstanding the public concern in doing this it was found that the long term MTFP could not simply be balanced by ceasing all discretionary service spends due to the vast majority of the budget being spent on the statutory minimum level of services. A radical change was required and as Darlington depends highly on discretionary services to create the conditions for growth and prosperity, key to a thriving future for the Borough, plans needed to include the continued provision of some discretionary services. In short, the Council needed to address how it delivers legally required services and to what level it provides them as well as looking at what and how it delivers discretionary services and all such considerations need to be taken against the top priorities of One Darlington Perfectly Placed (ODPP) and the legal framework within which Local Government operates.
22. The Council developed a staged approach to meeting the challenges and a two year budget within a six year planning horizon. The rationale being funding to 2015/16 is known but beyond this point is likely to be subject to change; it allows new approaches to be tested to see what could be possible for future years and also given the sheer size of change required over the period to 2020 a staged approach was needed given the Council's capacity and the public's capacity to engage and understand the change required in the Borough.
23. The initial phase of delivery involved reducing expenditure by £7.219m by 2015/16 leading to annual savings of £13.752m by 2016/17. The targets were ambitious and good progress is being made in achieving the savings with £3.625m already delivered in 2014/15. Progress being made in achieving these savings is noted below, and whilst at this early stage there is an anticipated shortfall of £3.2m in 2016/17 due to policy change, slippage and additional pressures, this shortfall reduces in future years as the measures being implemented under the economic growth strategy start to take effect. A summary is shown in **Appendix 6**.

BUILDING STRONG COMMUNITIES

Transfer of responsibility for services to others – Head of Steam Museum and Cockerton Library. £300k

24. Following review of the options available set against the importance the Council gives to the heritage of Darlington a decision was taken to reinstate the £265k budget for the Head of Steam. A team is now working alongside colleagues from broader heritage campus projects on remodelling the museum with a view to exploring models that will be sustainable in the long term.
25. Cockerton Library work is ongoing, engaging with a number of interested parties looking at alternative development models for transferring the service to another party by June 2015.

Public involvement and demand reduction in street cleansing and parks and open spaces. - £600k

26. The concept of the project is to reduce demand for services by encouraging the public to reduce the amount of litter they drop, encourage the public to collect litter that is dropped and for the public and groups to adopt and/or maintain pieces of land. This is a long term goal and internal work has secured £400k savings in the first instance to allow work with the public to build.
27. Work continues on demand reduction, the initial phase of the work for the litter element, under the “Love Where you Live”; Keep Britain Tidy (KBT) banner, is aimed at encouraging public involvement in litter collection in areas where litter collection demand is high. The project team are working with local Councillors, Street Champions, local groups, housing officers and street scene staff to encourage involvement. Other work on the litter strand includes the “Green Feet” - KBT initiative and continuing to work with Litter Free Durham on their annual Spring Clean. Alongside this, the remodelling of Street Scene will see five dedicated Street Orderly/barrow routes focusing on the main arterial roads into town as well as supporting community initiatives.
28. The open spaces element is less developed and more challenging, detailed analysis following project initiation has identified limited scope for public involvement beyond cutting verges outside their properties. However Groundwork have been successful in gaining £80k from the Rethinking Parks programme, which is a fund to support organisations and partnerships to develop, implement and spread new approaches to sustaining and making the most of the UK public parks. It is a partnership between the Big Lottery Fund, Heritage Lottery Fund and NESTA. The final project will work in partnership with Darlington Cares, Darlington Borough Council and the Friends of South Park, North Park and the Denes to look at developing long term strategic relationships with local businesses. A tool library has also been made available to Street/Green Champions and Friends Group members enabling them to borrow items to help and improve open spaces in their local area.

Voluntary sector – co production of services - £200k

29. Work has begun on reviewing Strategic Grant to the voluntary sector. The proposed saving of £50k in relation to the grant to the CAB will be achieved in 2015-16 with a review of infrastructure support (£46k) ongoing and the intention is that a commissioning process for both services will be carried out. It is not anticipated at this stage that savings will achieve the profile in the current MTFP with savings of £50k in 2015/16 and a further £45K in 2016/17 as oppose to the £100k rising to £200k in the MTFP.

GROWING THE ECONOMY

Economic Growth - £1.5m

30. There is a significant amount of activity ongoing in this area. We have seen an increase in the number of houses built which has improved our council tax and new

homes bonus targets. There is a number of new business developments either planned or started which will assist in business rate growth, however there have been a number of successful valuation appeals made by businesses which has had a detrimental impact on the council's NNDR figures. It is anticipated the income target of £1.5m will be met however there will be slippage on the timescales; a pressure of £603k has been identified in 2016/17 however conversely in 2018/19 an additional saving of £390k is anticipated increasing to £903k by 2019/20. This is evidence that the strategy of growing the economy and pump priming this area will pay benefits in the medium term.

SPENDING WISELY

Public sector collaboration and joint commissioning - £1.3m

31. A shared management structure for commissioning and transformation across health and adult social care has now been implemented. The next key milestone is to further develop the joint commissioning and transformation programmes. This is the first stages of the process however at this early stage it is unlikely the full savings will be achieved in the timescales set and will need to be re-profiled over a number of years.
32. Anticipated collaboration with the Tees Valley Authorities in regard to waste collection has stalled however it has given the council the opportunity to renegotiate the waste contract and savings of £280k have been achieved and counted towards this target.
33. The Council is working with Richmondshire District Council to provide Legal and Procurement services. This could potentially deliver the council up to £60k per annum additional net income

Internal Efficiency improvements and restructuring - £800k

34. Through the rebasing exercise carried out earlier in the year and reported to Cabinet in July efficiency savings of £389k have already been identified and therefore the 2015/16 target has been achieved. Work is progressing to identify the balance of £411k for 2016/17.

Service redesigns - £1.602m

35. The budget advisory panels identified that some statutory areas redesign could achieve the same outcomes and likewise the cost of some key discretionary services could be further reduced whilst ensuring their continuation, these are:-
 - (a) Refuse Collection - Revised alternate weekly Refuse/Recycling Service now implemented - £400k – on target to be achieved in October 2014.
 - (b) Dolphin & Eastbourne Leisure Facilities – work is ongoing on remodelling the Dolphin Centre and the current year savings have been achieved. Whilst the majority of the 2015/16 savings will be achieved pressures in the Dolphin

Centre income mean it is unlikely the full saving will be achieved in 2016/17.

- (c) Homelessness Service – contracts have been re-commissioned and the current year savings achieved. However, decisions taken to improve the quality of housing support through the Multi Agency Safeguarding Hub (MASH) through a temporary specialist worker, and a decision to defer the review of the Key Point of Access for a year has meant that the savings will be under target by £95k in 2015/16.
- (d) Lifeline Services – Draft model and mitigating actions developed which will deliver the savings. Consultation and Equality Impact Assessments are underway with the project due to be completed in the autumn with savings anticipated to be achieved.
- (e) CCTV –Staffing savings of £38k achieved. A feasibility study into a wireless camera system has been undertaken and at this point there is concern at the reliability of the signal, it is therefore prudent to assume this saving of £42k will not be achieved.
- (f) Crown Street Library – Savings fully achieved in 2014/15 - £45k.

ADULT SOCIAL CARE - £3m

36. The managing cost of care programme contains a number of projects designed to increase the efficiency of processes and manage demand on Adult social care services. Phase 1 of this programme has been successful in beginning to change both culture and processes which has resulted in a reduction in care package costs which should result in continued incremental savings. To date at the second quarter £510k of the target £1m savings have been achieved, hence progress is currently on track to achieve the target. Savings are actually higher than £510k but have been offset against unexpected budget pressures as a result of the Cheshire West Deprivation of liberty (DOLS) judgement. Further areas of work are about to be initiated including a review of intake and re-ablement (structure and processes) which are expected to result in further incremental savings contributing to the overall target.

CHILDREN'S SOCIAL CARE - £1.75m

37. The proposed savings in this area are reliant on a continued decrease in numbers and cost of looked after placements as a result of targeted family support. Individual cost of external fostering placement is now subject to a Tees Valley Fostering Framework which provides a reduced cost with specific named providers, this approach is also being finalised for residential placements. The number of looked after children has seen an increase in overall terms but this does not reflect the complexity beneath. Recent legal judgements have resulted in an increase of placements now deemed looked after including a remand placement, and within this figure are children awaiting final adoption orders. Thus the increase in numbers reflects changes in the national guidance regarding who is now 'deemed looked after' and how those placements are financed. An additional factor affecting the savings is the requirement for two secure placements for complex young

people which together cost £52,733 per month. Because of their complexity their 'follow on' placement may also be at a similar cost. On this basis the forecast savings of £1m for 2015/16 will be difficult to achieve as these two placements alone may cost £650k, despite reduction in other areas. It is therefore anticipated £500k of the savings target will be achieved.

PUBLIC HEALTH RECOMMISSIONING OF SERVICES - £2.7m

38. A specific Public Health board has been established to look at the priorities for Public Health and commissioning decisions to ensure we are achieving the best possible outcomes with the funding available. The savings for 2015/16 have already been identified and the group is comfortable the target will be achieved.

Progress summary

39. Whilst the summary of savings highlight not all are anticipated to be achieved we are learning from the work that has been done so far and testing new approaches which will allow us to build on successes to help meet the substantial future challenge.
40. The following sections outline the council's financial context and provide an update on the current financial position.

FINANCIAL INFORMATION AND ANALYSIS - INCOME

41. The Council has to be income led in terms of its high level financial planning, income is finite and diminishing so the Council must understand what income is at its disposal in the short to medium term and this section explains income projections.

Core Government Funding to Local Government

42. The Governments finance settlement proposals announced on the 18 December 2013 covered both 2014/15 and 2015/16 and were built into the MTFP. The government are consulting on a number of technical aspects of the 2015/16 settlement with the results being known in December 2014; however it is not anticipated the outcome of this will significantly change the assumptions made in the current MTFP.
43. In addition to the 2015/16 settlement detail, further projections of Local Government Funding go beyond 2015/16 and although indicative they are the best information available and represent a continuation of the existing austerity measures. The production of the income projections in future years are based on information provided by the Local Government Association (LGA) and confirmed by LG Futures a well renowned consultancy working in the area of Local Government finance. Consequently, the projections in the following paragraphs represent a sound projection for up to 2020 however they could change if Government policy changes.
44. **New Homes Bonus (NHB)** is included in core Government funding as it is top sliced from RSG with £2bn now distributed based on net increases in housing

numbers, this has a negative impact on Darlington and the North East in general due to the proportionally lower demand for housing. However as part of the financial strategy to combat the grant cuts, the Council is working towards and is being successful in increasing housing numbers. The current financial rewards in terms of NHB are £1,455 per band D equivalent property with an additional £350 for affordable housing.

45. Set out in the table below is the analysis of government funding from the forthcoming financial year to 2019/20 which demonstrates an expected reduction in the region of a further £16.2m in cash terms and around £20.2m in real terms.

	2014/15 £m's	2015/16 £m's	2016/17 £m's	2017/18 £m's	2018/19 £m's	2019/20 £m's
Revenue Support Grant	24.730	17.666	13.077	9.169	7.685	5.744
Top up Grant	3.904	4.012	4.145	4.294	4.461	4.635
New Homes Bonus	1.341	1.799	2.283	2.308	2.393	2.550
NHB - Additional property growth contributing to MTFP savings	0.000	0.204	0.324	0.462	0.619	0.798
TOTAL	29.975	23.681	19.829	16.233	15.158	13.727

46. What happens to Local Government funding beyond 2020 is unknown, the Government is committed to a “reset” of the system which will take account of local needs and ability to raise local taxation however there is no detail about how this will happen, it is essential that this is explained as soon as possible to enable better financial planning as we near 2020.

Council Tax Income

47. Council Tax is by far the largest single funding stream and it will become an increasing percentage over the coming years as it represents 44% of all income in 2014/15 increasing to 56% by 2019/20, this is due to reducing government funding and planned annual increases of 1.99%, the maximum allowed without a referendum. There is a risk this limit could change as the Council has not been notified of the future capping limits which are unlikely to be known until early next year. The ongoing increases reflect the Cabinet’s continued view that income from Council Tax must increase to protect key services. Members will recall that a 1% increase in Council Tax increases annual revenue by £380,000 and that Darlington has the second lowest Council Tax in the North East Region.
48. The Government has again offered Councils a Council Tax freeze grant equivalent to a 1% increase which the government has agreed to build into baseline funding. In developing Cabinet’s approach to Council Tax this offer has not been included in the plans as it would reduce council tax income by £337,000 in 2015/16 and a further £337,000 plus each year thereafter, therefore removing total funding of £2.3m for this plan.
49. All increases and reductions in the Council Tax base are attributed to the Council; historically a 0.5% increase has been added to the base as this has been the

average increase in net growth (around 156 properties per annum). Current planning estimates anticipate growth levels to be far higher with an average of 342 properties over the period of this plan, an anticipated increase of 186 per annum. These figures have been used to prepare the estimates; clearly should this be any different income levels will differ. Pleasingly the collection rate has increased during the year and it is anticipated to be at 98.5% in 2015/16.

50. Taking the above into account Council Tax income over the period of this plan is estimated as follows :-

	2015/16 £m's	2016/17 £m's	2017/18 £m's	2018/19 £m's	2019/20 £m's
Council Tax Income incl 1.99% increase and normal 0.5% growth	38.675	39.641	40.631	41.647	42.687
Additional property growth contributing to MTFP savings	0.241	0.436	0.668	0.939	1.253
Total Council Tax anticipated	38.916	40.077	41.299	42.586	43.940

National Non Domestic rates (NNDR)

51. The Council retains 49% of NNDR collected and can gain or lose depending on whether the net tax collected increases or decreases. The Government via the valuation office sets rateable values and the rate paid in the pound is increased each year in line with the Retail Price Index (RPI). The business taxbase is far more volatile than the council tax base and requires very close monitoring. In addition to the potential to "lose" income due to business closures the Council also carries the risk of losing appeals by business against valuations.

52. Whilst there have been a number of successes in regard to economic regeneration and the subsequent increases in business rates, a number of rating appeals have been granted through the Valuation Office during the course of the year which have had an overall damaging effect on the NNDR anticipated

53. The ability to increase NNDR is a key tool to improve the Council's financial position and one of the key drivers in achieving the MTFP. However this is not a quick solution as major developments and attracting businesses into the Town by their very nature take time and upfront investment.

54. The in-year collection rate target for NNDR is 97.2% and as at the end of September 2014 the actual collection figure is 58.4% as opposed to the equivalent figure in 2013 of 58.9%.

55. Taking the above into account the projections of NNDR are shown below

	2015/16 £m's	2016/17 £m's	2017/18 £m's	2018/19 £m's	2019/20 £m's
NNDR	18.048	18.942	19.819	20.580	21.376

Collection Fund

56. The Collection Fund account reflects the statutory requirements for the Council to maintain a separate Fund in relation to the operation of Council Tax and Business Rates Retention Scheme (BRRS). The Fund records all of the transactions for billing in respect of Non Domestic Rates (NDR) and Council Tax, exemptions and discounts granted, provision for bad debts and appeals and payments made to the Council's General Fund, the Police and Fire & Rescue precept authorities and Central Government.
57. The Council Tax Collection Fund is estimated to be in surplus by around £0.720M at the end of 2014/15, of which the Council's proportion is approximately 83%, or £0.600M, and this sum has been identified as available resources for the 2015/16 MTFP as due to statutory requirements any contribution from the Collection Fund can only be used in the years following the year in which it is recognised.
58. The Business Rates Retention Scheme Collection Fund is in its second year of operation and the year-end position is more difficult to predict. It is likely that there will be a deficit at year-end although this is expected to be met from the receipt of additional Section 31 grant from Government, which is paid to compensate Council's for the differing reliefs they are statutorily obliged to grant.

Other Grants

59. Set out below are details of other grants received which are included in service budgets to offset the specific expenditure for which they are granted. The most significant change this year is the anticipated scrapping of the Local Welfare Provision Grant of £407,000. This grant replaced the crisis loans and community care grants with responsibility for administering the grant transferring to Local Authorities in April 2013. This significant reduction in grant will put another pressure on the council budgets if the scheme continues as recommended in paragraph 68 below. As Members will also note, the Welfare provision grant a case in point, that all these grants are subject to change in the short term so represent a risk going forward for the financial plan.

	2015/16
	£m
Public Health Grant	7.184
PFI	3.200
Troubled Families Grant	0.350
Discretionary Housing Payments	0.210
Youth Justice Board	0.296
Local Reform & Community Voices	0.090
Adult & Community Learning	0.897
Bus Service Operators Grant	0.027
Community Sports Activation Fund	0.045
Total	<u>12.299</u>

Total Income

60. The table below shows the Council's estimated income for the period of this plan which shows a net cash reduction of £6.548m however after allowing for annual inflation of 2.5% this would represent a real term loss of £17.8m.

Resources - Projected and assumed	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m	£m
Council Tax	37.541	38.916	40.077	41.299	42.586	43.940
Business rates retained locally	21.979	22.060	23.087	24.113	25.041	26.011
Revenue Support Grant	24.730	17.666	13.077	9.169	7.685	5.744
New Homes Bonus	1.341	2.003	2.607	2.770	3.012	3.348
Total Resources	85.591	80.645	78.848	77.351	78.324	79.043

FINANCIAL INFORMATION AND ANALYSIS - EXPENDITURE

61. As in previous years officers have prepared base budgets on existing policy and service levels and set out in **Appendix 1** are the assumptions used. The cost of providing current services has increased due to price and demand pressures and reduced income from fees and charges, set out below is a summary of such pressure and **Appendix 2** contains more detail.

	Estimate 15/16	Estimate 16/17	Estimate 17/18	Estimate 18/19	Estimate 19/20
<u>Summary of Pressures</u>	£M	£M	£M	£M	£M
Service Demand	0.679	0.737	0.749	0.757	0.763
Price Inflation	0.046	0.046	0.046	0.275	0.521
Reduced Income	1.120	0.929	0.943	0.949	0.954
Other	0.282	0.049	0.066	0.280	0.456
Current Savings Shortfall	1.221	3.211	2.412	1.719	0.957
Contingencies	0.200	0.200	0.200	0.200	0.200
Additional Savings offsetting pressures	(1.219)	(1.209)	(1.387)	(1.712)	(1.923)
	<u>2.329</u>	<u>3.963</u>	<u>3.029</u>	<u>2.468</u>	<u>1.928</u>

N.B. the Economic Growth pressures / (savings) shown below that are part of the Current Savings Shortfalls above are now included in Total Resources and are reflected in Business Rates retained locally.

	2015/16 £m's	2016/17 £m's	2017/18 £m's	2018/19 £m's	2019/20 £m's
Economic Growth	0.018	0.603	0.053	(0.390)	(0.903)

62. **The Care Bill** - At this stage no account has been taken of the potential pressures following the impending implementation of the Care Act 2014. This Act is the biggest change to adult health and social care law in over 60 year and is in response to the demographic changes where average life expectancy has increased from 68 to 80 over the last 60 years. One element of the act is the Care Cap set at £72,000. Many people currently pay for their own social care support however in the future there will be a limit to how much people pay for their care. This limit is called the 'Care Cap'. For older people (aged over 65) the cap will be £72,000 if you are assessed as having an eligible need for adult social care support when you are of pensionable age. The government has not yet said what the cap on care costs will be for someone who is assessed as having eligible needs when they are aged between 18 and pensionable age. This is an unknown burden on The Authority. The cap will not count money spent before 1st April 2016, and does not include living costs (i.e. food, rent, electricity and gas) of staying in a residential home.
63. Progress towards the cap will be monitored through a Care Account. This will have to be set up and monitored by the Authority, when the care cap is reached; the Local Authority then pays the costs associated with care. All residents of the borough that are self-funding their care and have an eligible care need will be able to open a care account with the local authority. To do so they will require an assessment.
64. Deferred Payments will come into law in April 2015. A deferred payment allows an individual to delay part of their payment for permanent residential accommodation. People who enter permanent residential care and wish to delay the sale of their home can do so under the Deferred Payment agreement. A legal charge is placed on the property (through Land Registry), this means that the property cannot be sold whilst the person is in residential care. At the end of the deferred payment agreement the full amount of care costs must be repaid to the Council. The agreement is in place for as long as the person is in residential care, the council can charge interest on this amount. Deferred Payments are already offered by the Council and there is an expectation that demand will rise due to National Communications Strategy
65. The act also brings about Changes to Eligibility & Assessments (this is not expected to impact Darlington hugely as the eligibility criteria for us is not likely to change) but the increase in assessments for both self-funders and carers (who have more rights under the act) could rise by between 30 – 40%. The Act could have significant financial implications for the Council from paying for care above the Care cap to increasing in staffing required for assessment and administration. There is still a significant amount of uncertainty on the funding for this Act so at this stage nothing has been included however a close eye will need to be kept as the act unravels.

66. The Council raises income from fees and charges and these are reviewed each year. **Appendix 3** proposes revision to existing levels and if approved these will increase income by £38k and estimates have been prepared assuming their approval. The increase expected is low as account has been taken of price resistance and the economic climate.

67. Taking the above into account projected expenditure based on current service levels and policy is set out in the table below :-

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m	£m
People	32.921	31.797	31.550	32.311	32.815	33.346
Children's Services	15.873	15.615	15.585	15.757	16.058	16.344
Economic Growth	11.250	11.902	12.318	12.853	13.118	13.394
Neighbourhood Services and Resources	22.619	22.108	21.700	22.193	22.457	22.717
Financing costs	4.428	4.403	4.601	4.604	4.607	4.529
Council Wide Pressures/(savings)	(0.804)	(0.763)	(4.050)	(4.037)	(4.025)	(4.013)
Contingencies	0.705	0.635	1.685	1.725	1.775	1.825
Additional net Pressures	0.000	2.311	3.360	2.976	2.858	2.831
Total Expenditure	86.992	88.008	86.749	88.382	89.663	90.973

LOCAL WELFARE PROVISION GRANT LOSS

68. In addition to current policy Cabinet may wish to consider additional funding to cover the loss of the Local Welfare Provision Grant of £486k. There is a proposal from central government to remove the Local Welfare Provision and thereby cut this grant.

69. The Local Welfare Provision grant was introduced in April 2013 to replace the Community Care Grant and Crisis Loan scheme that had previously been administered by the Department of Work and Pensions to support vulnerable people to return to or remain in the community or to ease exceptional pressure on families.

70. Darlington's initial allocation provided funding for £407K of crisis support; it also included a further payment of £79k for the administration of the grant which has funded two additional posts in the Council Tax and Benefits Service

71. To ensure that the crisis support for the most vulnerable in our community is maintained it is proposed that the £486K be included as a growth item in the Council's budget. This money should be directed towards providing continued crisis support and tackling the causes of crisis including financial advice, affordable loans and tackling fuel costs.

72. This reduction in Local Welfare provision grant is in addition to the reduced government subsidy for Council Tax benefits that was rolled into the Finance Settlement after being cut by over 10%. It will continue to fall in line with the current

policy so that by 2019/20 Darlington will have lost a further £2.444m since this change meaning the Borough will have lost £2.930m in total in addition to national reductions in welfare benefits. Such reductions continue to put direct strain on Council finances and those of individuals leading to increased demand on Council services.

FINANCIAL INFORMATION AND ANALYSIS - REVENUE BALANCES

73. Revenue balances are available to cover financial risks and to meet one off expenditure which includes bridging budget gaps in financial years to assist with implementing cost reductions in a planned and sustainable way. Each year an estimate is made of the amount that should be retained to cover risks and this is set out at **Appendix 4**. Taking the assessment into account and the latest financial projections for 2014/15 (see **Appendix 5** for detail), the balances position is set out below

	£m's
Revenue Balances at 31 March 2015	18.867
Add collection fund surplus	0.600
Total balances anticipated at 31 March 2015	<u>19.467</u>
Less Risk Balances	(5.330)
Less planned usage 2015/16-16/17	<u>(8.390)</u>
Available to use over the life of the MTFP	<u>5.747</u>

74. It is proposed that £2.728m of this balance is used to meet the increased 2015/16 funding gap, £2.019m used to help close the gap in the 2016/17 funding and the remaining £1m transferred to the decommissioning and redundancy reserve fund to assist with implementing the cost reductions post 2015/16.

FINANCIAL INFORMATION AND ANALYSIS - INITIAL REVENUE BUDGET PROJECTIONS

75. Set out in the table below is the estimated costs and income for the Council up to 2019/20 assuming no changes to current service and demand levels.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
Estimated Expenditure	85.697	83.389	85.406	86.805	88.142
Add Pressures / Additional savings	2.311	3.360	2.976	2.858	2.831
	88.008	86.749	88.382	89.663	90.973
Less					
Estimated Income	(80.645)	(78.848)	(77.351)	(78.324)	(79.043)
Use of Revenue Balances previously agreed	(4.635)	(3.755)			
Proposed further use of Revenue Balances	(2.728)	(2.019)			
Budget Deficit	0.000	2.127	11.031	11.339	11.930

76. The above table demonstrates the significance of the continued financial challenge the Council faces. The 2014/15 MTFP set out the conditions required to meet the financial challenge and we are on the early stages of the journey. Some of the savings targets have already been achieved and there is a strong and positive indication that the economic growth strategy is growing momentum with savings over and above the targets set last year anticipated in 2018/19 onwards. However the challenge cannot be under estimated, the biggest challenge being the immediacy of the savings required from 2016/17 which increase significantly in 2017/18.
77. Officers will be working on potential savings options to present to the new administration after the local council and national elections. At this time there should be more clarity about Government funding and the new council can decide on its priorities for the following four years and how it wants to deal with the funding deficit.
78. Subject to the approval of the contents of this report at **Appendix 7** is the proposed MTFP and at **Appendix 8** are the supporting detailed estimates.

Conclusion

79. The Council continues to face significant financial challenges with pressure increasing on a number of fronts. Steady progress has been made in achieving the targets set out in the 2014/15 – 2019/20 MTFP which significantly reduce the gap in future years however at this early stage it is clear some savings are not achievable and additional pressures have also been identified during the year.
80. The use of balances can address the 2015/16 funding gap and assist with some of the 2016/17 pressures but beyond that best financial projections show that the Council will need to deliver either more income or further expenditure reduction by 2017/18. The current strategy gives the Council, its partners and the public the opportunity to test out new approaches and build learning and capacity to assist in the deliverer of financial sustainability however it is clear that following the elections in May 2015 the new administration will need to review the progress made over the summer period and immediately take action to address the future year funding gap.

Consultation

81. The MTFP will be subject to consultation between 3 December 2014 and 30 January 2015.

Comments of the Director of Neighbourhood Services and Resources

82. As the Council's Statutory Chief Financial Officer I must advise Council on the robustness of the budget and adequacy of reserves. The budget presented to Members in this report has been based on the most accurate information available therefore I can be confident that they are an accurate reflection of the Council's financial position. General Reserves are adequate however the Council is carrying a very significant risk in terms of the need to reduce expenditure, it is essential that

cost reductions are planned in 2015 for delivery in 2016/17 and beyond as the council will be operating with minimum levels of balances to fund any cost pressures or non delivery of savings.

APPENDICES

Appendix 1	Assumptions used to prepare estimates
Appendix 2	Budget Pressures
Appendix 3	Fees & Income Proposals
Appendix 4	Assessment of Risk Balances
Appendix 5	Projected Revenue Outturn 2014/15
Appendix 6	Progress on Savings identified in the 2014/15 MTFP
Appendix 7	Proposed Medium Term Financial Plan 2015 to 2020
Appendix 8	Detailed Estimates