

DRAFT MEDIUM TERM FINANCIAL PLAN

**Responsible Cabinet Member - Councillor John Williams,
Leader and all Cabinet Members**

Responsible Director – Corporate Management Team

SUMMARY REPORT

Purpose of the Report

1. To enable Cabinet to propose a detailed Medium Term Financial (MTFP) for consultation in light of feedback on initial proposals released in November 2010 and the Local Government grant settlement received in December 2010.

Summary

2. The Council is facing its most significant financial challenge since becoming a Unitary Council in 1997 due to significant reductions in Government funding. In 2011/12 the Council will see its non-schools government grant reduced by 12.1% and by a further 4.7% in 2012/13. There is no certainty about grant funding beyond 2012/13 as the Government is proposing a fundamental review of how local government is funded but based on the Comprehensive Spending Review figures it is estimated that the Council will lose 24.4% of its non-schools grant funding by 2014/15.
3. Confirmation of front-loading of grant reductions, with nearly half of the expected total over 4 years now confirmed in the first year, means there is very little scope to make changes to the initial savings proposals that were published for consultation in November. Even with the very challenging savings programme that is proposed, it will be necessary to draw on around £1.6m of reserves to balance the budget for 2011/12.
4. Cabinet anticipated the reduction in government grant announced in December 2010 and released its initial savings proposals for consultation in November 2010 totalling £13.8m. Initial consultation has taken place and this has helped Cabinet produce the draft MTFP included in this report. The majority of the initial savings proposals are included in the draft MTFP and represent the first stage of reducing expenditure to match resources. The Council will, however, need to develop further annual savings of £6.4m by 2014/15. These savings are in addition to the £1.4m agreed by Cabinet in July 2010, following the Government's emergency budget. Also included in the draft MTFP is £1.7m of savings that have been identified by management, that do not involve changes in policy or service levels. The total value of reductions in annual net revenue spending from 2010 to 2015 is likely to exceed £22m.

5. The savings proposals and those included in the draft MTFP follow savings already achieved in previous years. The transformation and savings programmes represent a major challenge and consequently carry risk that savings may not be fully deliverable to the planned timescale. They are also in the context of provision of a diverse range of high quality services, whilst continuing to have the lowest Council Tax in the region and receiving the lowest Government grant per head in the region. Darlington is also already ahead of most councils in having the type of shared service arrangements and 'mixed economy' that are advocated for their cost-effectiveness.
6. Grant figures have been announced only for the next 2 years. The Government plan to implement a fundamental review of local government funding in 2013. There is, therefore, uncertainty in the projected resource levels beyond the next 2 years, with significant risk that grants could be less than are assumed in this report.
7. In addition to grant and spending reductions, annual Council Tax increases of 3% in 2012 to 2014 are proposed, raising an additional £1.8m compared with the current MTFP to help to balance the budget and mitigate the impact of grant reductions on front-line services.

Recommendation

8. It is recommended that :-
 - (a) The draft Revenue MTFP be approved for consultation which includes the following :-
 - (i) A redundancy and decommissioning reserve of £5.240m be established.
 - (ii) The capitalisation order for redundancies be utilised to fund redundancies.
 - (iii) That all available capital receipts be utilised to fund redundancy costs and repay debt.
 - (iv) A zero Council tax increase for 2011/12 and the following potential increases be included in the MTFP for future years :-

	%
2012/13	3
2013/14	3
2014/15	3
 - (v) Budget reduction proposals set out in Table 2 (page 16) and Appendix 8.
 - (b) The draft Capital Medium Term Financial Plan is approved for consultation.
 - (c) Following consultation a report is presented to Cabinet on 22 February 2011 to enable Cabinet to finalise the MTFP and propose it to Council on 3 March 2011.

Reasons

9. The recommendations are supported by the following reasons :-
- (a) To approve a draft MTFP for consultation.
 - (b) To meet the statutory timetable for setting the 2011/12 budget.

Corporate Management Team

Background Papers

Feedback from initial consultation.

Paul Wildsmith : Extension 2301

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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	Initial assessments have been made of the proposals in the report for their impact on diversity. Work is continuing to ensure that impacts are assessed and managed in accordance with responsibilities and Sustainable Community Strategy objectives.
Wards Affected	All wards are affected
Groups Affected	Initial assessments have been made of the proposals in the report for their impact on specific groups. Paragraphs 70 to 73 set out the work being done to ensure that impacts are assessed and managed in accordance with responsibilities and Sustainable Community Strategy objectives.
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	The report contains many proposals to increase efficiency and reports efficiencies already made at a management level, which are included in the draft budget and MTFP. The report also highlights the Council's position as providing a very diverse range of high quality services whilst having the lowest Council Tax and per capita Government grant in the North East region.

MAIN REPORT

Financial Context

10. The last two revisions to the MTFP have been made against backgrounds of uncertainty. In March 2009, there was significant economic uncertainty following the near collapse of the banking industry followed by significant financial interventions by the Government. In March 2010 the economy appeared more stable than 12 months earlier however uncertainty surrounded the future levels of Local Government funding in light of the need for the incoming Government in May 2010 to address the Country's financial deficit. At the time of preparing the MTFP, the Council assumed a 9% cash reduction in Government funding spread over a 3 year period and planned accordingly. The MTFP as agreed in March 2010 based on these assumptions meant the Council had to deliver further savings of £10.4m over the 3 years commencing 2011/12.
11. Following the general election the new government announced in year grant reductions and indicated that the reductions in local government grants would be greater than had been assumed in the agreed MTFP and the Council then anticipated that it would need to save £22m over the three year period commencing 2011/12. The Comprehensive Spending Review (CSR) announced in October 2010 reinforced the assumptions used to estimate the £22m savings target.
12. Later in this report Members will see that based on the grant settlement figures received in December 2010 and projections of future years grants, the Council needs to reduce its annual revenue spending by around £22m by 2014/15. Cabinet began implementation of these reductions by approving £1.4m of savings in July 2010. Further savings of £1.7m have been identified by management in preparing the draft revised MTFP for 2011 to 2015.
13. There is no doubt that the financial context for the revision to the MTFP is one of rapidly reducing resources.

Strategic Context

14. The Council anticipated the financial challenge it was heading for some time ago and developed a new business model to meet the challenge. The challenge for Darlington was always going to be immediate and more challenging than for some other Councils given the following facts :-
 - (a) Darlington has the lowest Council Tax in the North East region and as measured under previous national inspection regimes is top performing. The Council was also awarded top rating for value for money. In short this means that Darlington starts this period of reducing resources with a very lean organisation, high performing/low cost.
 - (b) Darlington is the third smallest Unitary Council in the country and therefore does not have access to the same economies of scale as larger Councils.
 - (c) The government grant per head of population it receives is the lowest in the North East.

15. The business model sets out the key objectives for the Council :-
 - (a) Championing the interests of citizens and business
 - (b) Support strong partnership to set a vision and direction for the Borough and its services
 - (c) Promote the Borough to secure investment and support
 - (d) Ensure the provision of good quality services

16. In agreeing this the future Council was described as follows :-
 - (a) Strongly focussed on ensuring good overall outcomes for the public and the place rather than managing day to day service issues (these increasingly the responsibility of others but retaining ability to ensure they deliver).
 - (b) Providing 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.

17. Therefore the strategic context for this MTFP is that the Council is starting a period of significant change which will lead to the Council emerging from the change in a significantly different form however with the same high level aim which is to deliver the key priorities with the Sustainable Community Strategy – One Darlington Perfectly Placed.

18. It has been normal practice in previous years for Members to agree the Corporate Plan and the MTFP at the same time; this will not be the case this year. Due to the significant changes proposed within this report and their impact on the business of the Council, the Corporate Plan will not be revised until March allowing for the final decisions of Council on the MTFP to be factored into plans.

19. In terms of implementing the new business model, the Council will need to operate in different ways to enable the transformation to happen. Strategically the Council is moving to expand the commissioning of services, this will mean that services will be provided by a variety of providers as well as the Council including the voluntary sector, the private sector and partnerships with other Councils. In addition to these commissioned services, the Council is keen to build community capacity to enable groups of individuals to come together to provide support and help to others under the Darlington Together theme, resources are included within the MTFP to encourage and support such initiatives. Clearly resources will need to be prioritised to those proposals/ideas that have the greatest potential success of delivering the biggest outcomes for Darlington.

20. There have been a number of changes in how the Council will manage performance and be held accountable. The requirement for the Council and the Darlington Partnership to be held accountable for whole place outcomes through the Comprehensive Area Assessment process has been removed. The agreement that the Council and the Partnership had with Government about delivery of targets and performance reward through the Local Area

Agreement and the National Indicator Set has also been abolished. In its place, the intention is that local government will enter into a new agreement with government based around a list of requirements for data and information. Councils will be expected to manage their own performance in a manner and process that is based around what makes sense in that locality, rather than a nationally determined performance framework. There will be a high degree of visibility in this process with the intention that local people will hold the Council to account through regular publication of reporting on performance and targets. Where Councils are not performing adequately, there will be a process of Peer Review by another Council to share good practice and provide critical challenge.

21. In addition, Darlington Partnership will be reviewing its operating model to reflect the changes outlined above. A number of specific policy changes (such as the proposed introduction of Health and Well Being Boards and the proposed introduction of the Police and Crime Commissioners) plus the reduction in resourcing is likely to lead to some significant changes in how the Darlington Partnership operates. The principle of partnership working will be crucial however, and in some ways even more fundamental as resources decrease.
22. Members will appreciate that the financial and strategic context for the Council means we face a period of unprecedented change and to ensure we deliver the changes required we have developed our transformation plan – Darlington 2015 – to ensure we have a coherent and co-ordinated approach to delivering the changes required. The plan incorporates a number of programmes as follows :-
 - (a) People Programme
 - (b) Place Programme
 - (c) Business Operations Improvement Programme
 - (d) People and Change Programme
 - (e) Operational Design Programme
 - (f) Think Customer Programme
23. Each programme has a variety of projects to deliver specific outcomes; some projects are based on delivering the current saving proposals whilst others are aimed at developing new savings by looking at what we do, how we deliver it and who delivers it. Other key elements of the plan are developing approaches and understanding that can be applied across the Council to deliver the priority outcomes set out in the SCS within the reduced level of resources available to the Council. The programmes are developing all the time, it is fair to say that initially a great emphasis has been placed on delivering the immediate savings proposals, emphasis will now move more to monitoring their implementation and for developing new proposals to transform the Council.

Revising the Medium Term Financial Plan – Revenue

24. The remainder of this report concentrates on revising the MTFP's for revenue and capital in light of the significantly changed financial climate. The MTFP has been revised in consultation with Cabinet who are responsible for proposing a budget to Council. The revision has been carried out taking full account of the statutory responsibilities of the Director of Resources as the Council's Statutory Financial Officer.

25. The MTFP has been revised taking account of the Council's Financial Strategy (attached at **Appendix 1**) and the Reserves Policy (attached at **Appendix 2**).

2010/11 Projected Outturn

26. The starting point for the MTFP revision is to project the outturn for 2010/11, this gives an understanding of the impact on revenue balances and underlying trends that are emerging in respect of demand for and cost of services in so far as they impact on future years. Attached at **Appendix 3** is the latest projected outturn report, the key points are :-
- (a) The Revenue balances at 1 April 2011 are expected to be £1.820m greater than anticipated in the current MTFP; the projected balance is £13.1m.
 - (b) The net improvement in revenue balances masks significant underlying budget pressures which have been offset by some one off injections of resources e.g. £1m from the Insurance Reserve. The most significant pressure is the Looked After Children external placement budget where both demand and cost have increased to the extent of a £1.570m overspend in 2010/11. Actions that are being undertaken to manage the situation have been reported to Members, however, this budget will represent a significant pressure as explained later in this report.

Funding Redundancy and Decommissioning Costs Associated with Budget Savings Proposals

27. Later in the report are details of proposed savings. The savings are shown gross, they do not include redundancy and decommissioning costs, which are being accounted for centrally. The actual costs will not be known until full implementation but at this stage the estimated cost is £6m and these costs can only be funded from revenue expenditure unless specific approval is given by the Secretary of State to enable Councils to capitalise their costs and spread them over a number of years.
28. There is a scheme for capitalising redundancy costs and the Director of Resources made an application to the Secretary of State to cover the Council's potential redundancy costs. Unfortunately it is not possible to gain approval to fund the total cost of redundancies as the scheme only allows for the capitalisation of the statutory redundancy scheme therefore it is estimated that the maximum the Council can fund from capital would be £2m.
29. Approval to capitalise £760,000 of redundancies was received on 17 December 2010; it is recommended that this is utilised to avoid the need to charge the costs to revenue. To fund the £760,000 of redundancies the Council has two options, prudential borrowing which would mean the cost of borrowing would be charged to revenue, (approximately £60,000 p.a.) or it can use its available capital receipts which would negate any charge to revenue but would clearly remove the ability to fund capital schemes in the future. It is recommended that the £760,000 redundancies be funded from available capital receipts.
30. The net cost to revenue of redundancy and decommissioning costs is therefore estimated to be £5.240m and it is recommended that a reserve of that amount be established. The costs to be met from the reserve will be monitored and reported to Members as part of the financial reporting regime.

Revenue Balances

31. The Council expects to have £13.1m available, on 1 April 2011. Set out at **Appendix 4** is a risk assessment of revenue balances which suggests £6m should be retained; set out below is the recommended planned utilisation of balances :-

	£m's
Available at 31 March 2011	13.059
Less	
Redundancy and Decommissioning Reserve	(5.240)
Risk Reserves	(6.000)
Available to support the MTFP 2011/12 to 2014/15	<u>1.819</u>

Council Tax Rise for 2011/12

32. For Councillors one of the key decisions to be made when revising the MTFP is the balance between expenditure on services and the level of Council Tax increase levied. In years gone by the decision may well have been about what new services will be provided if Council Tax was increased where as in the current financial climate the key question is could services be protected if Council Tax was to rise.
33. The current MTFP has the following assumptions of Council Tax increases built in :-
- | | |
|---------|---|
| | % |
| 2011/12 | 1 |
| 2012/13 | 2 |
| 2013/14 | 2 |
34. Decisions on Council Tax increases are for the Council to make, however, in previous years the Government has set out in advance of the budget setting round its expectations on Council Tax increases and the Government has powers to cap increases retrospectively should they feel the increase is excessive. At the time of writing this report, no advice on increases had been received from the Government. However the Government have announced that if a Council sets a zero increase for 2011/12 grant funding equivalent to the lost revenue from a 2.5% Council Tax rise will be given to the Council for the life of the current spending review. This means the Council would receive approximately £1m per annum from 2011/12 for four years but with no guarantees beyond.
35. Taking the above into account, the following increases would deliver the following income :-

Table 1

% Increase 2011/12	Grant for 4 years £'s	Increased Income each year £'s	Total £'s	Additional Income to Approved MTFP
Nil	1,000,000	Nil	1,000,000	600,000
1%	Nil	400,000	400,000	NIL
2%	Nil	800,000	800,000	400,000
2.5%	Nil	1,000,000	1,000,000	600,000
3%	Nil	1,200,000	1,200,000	800,000
4%	Nil	1,600,000	1,600,000	1,200,000
5%	Nil	2,000,000	2,000,000	1,600,000

36. In the absence of guidance from the Government on what is considered an excessive increase, we must make an assumption on what would be reasonable. Clearly the Government is keen to keep Council Tax rises low given their approach on offering a grant to keep increases to zero therefore it is assumed that increases much above 2.5% may well be viewed as excessive. If the Council agreed an increase that was later determined by the Government to be excessive, it would need to revisit its budget and rebill all Council Tax payers, the cost of rebilling and lost interest due to payment delays is estimated to be £200,000. Cabinet have taken the above into account and decided to go for a zero increase.

Council Tax rises for 2012/13 and Beyond

37. Clearly the final decision for Council Tax increases in future years rests with the newly elected Council however in revising the MTFP, it is essential that a view is taken to enable the current Council to set its actual budget for 2011/12 within the medium term context of the MTFP. There is currently no proposed assistance from the government for a grant to facilitate a zero increase in future years so it must be assumed that it will not be available therefore the decision will need to be taken based on the balance of taxation/spending/likely capping criteria.
38. The Comprehensive Spending Review assumed the following national growth in Council Tax revenue: -
- | | |
|---------|-------|
| | % |
| 2012/13 | 4.21% |
| 2013/14 | 6.25% |
| 2014/15 | 3.80% |
39. The percentages include an element for the growth in taxbase i.e. new properties, so it is not as simple as assuming the above is a straight forward percentage increase in Council Tax charges. After taking some account of growth, it is reasonable to assume the Government's figures assume average annual increases in the region of 3% across the 3 years of the CSR.
40. Given the significant financial challenge the Council faces and the potential to see further significant reductions in services, Cabinet would recommend 3% annual increases be included in the MTFP on the basis that the increases should not be seen as excessive by the

Government and they will help in reducing the need for service reductions.

Grant Settlement

41. The Council received its provisional grant settlement on 13 December 2010, which provided grant figures for 2011/12 and 2012/13. The government has stated it will be undertaking a fundamental review of the way Local Government is funded for implementation wef 2013/14 so no grant figures are available for 2013/14 and beyond.
42. Although a fundamental review is expected later the current settlement has seen a number of changes e.g. :-
- (a) Various grant regimes have stopped
 - (b) Some grants have been merged with others
 - (c) Some grants have been merged with the Dedicated Schools Grant
 - (d) Some grants have been rolled into Formula Grant
 - (e) Formulae used for allocating grants to Local Authorities have been changed
43. The above means it is extremely difficult to get exact like for like comparisons and even more difficult to understand why grant levels have changed. Set out in the table below is the estimated like for like reduction in government grants provided to Darlington Borough Council for the provision of non-schools services. The figures for 2011/12 and 2012/13 are actuals, based on the settlement; the figures for 2013/14 and 2014/15 are based on information contained in the Comprehensive Spending Review.

Year	Grant Reduction %
2011/12	12.1
2012/13	4.7
2013/14	1.3
2014/15	6.3
Total Loss	24.4

44. Members will be aware that the figures above are in contrast to those reported in the media in December where it was reported that Darlington's Spending Power had reduced by 3.55%. This unfortunately led to much confusion for the workforce, partners and the public. Set out below is a simple explanation of why the figures are different. Each of the 4 principal reasons accounts for around 2% difference between the 12.1% and 3.55% figures above: -
- (a) Where we received a grant in 2010/11 but it has stopped in 2011/12 the Government's spending power calculation did not include this grant for comparative purposes in the 2010/11 comparator so if we received a grant of £1m for X in 2010/11 but didn't receive anything in 2011/12 this is not included in the governments figures.
 - (b) The Government's figures included a grant to the Primary Care Trust (PCT) of £1.362m as "spending power" for Darlington Borough Council. The grant is to be paid to the PCT to support social care and is therefore not money directly available to the Council.

- (c) The Government included a Council tax freeze grant of £997,000 in their figures. This grant is only payable if a Council sets a nil Council Tax. It is payable in lieu of raising Council Tax and is not, therefore, additional resource available to fund services.
 - (d) The Government figures include Council Tax revenues of £39.8m in the 2010-11 base and in 2011-12, so are not intended to show grant reductions alone.
45. Members will note that the forecast reduction in grant over the next four years is 24.4% (subject to the fundamental review of Local Government funding), which reflects the projections used throughout the summer and autumn of 2010 when developing savings proposals.
46. Mentioned above is the NHS grant to the PCT to fund Adult Social Care. At the time of writing this report there is no certainty around how this money is to be used, it appears that the PCT will work with the Council to decide how the funding shall be used to deliver specific outcomes. What is not clear yet is whether the money can be used to fund existing services already included in the budget; if this is the case the Council's deficit highlighted later in the report could be reduced by the full £1.362m or a proportion of it. Officers will be working with the PCT to understand more about this grant.

Schools Funding

47. A number of education funding streams that were previously paid as specific grants have been rolled into the Dedicated Schools Grant (DSG). After adjusting for that change, DSG nationally has been increased by 0.1%. As DSG is driven by numbers of pupils in the schools' January census the final amount of funding for Darlington schools is not yet known but the indicative DSG for 2011-12 is £70.099M. Individual schools' budget shares are also largely dependent on pupil numbers so year-to-year changes in individual budgets will vary. A minimum funding guarantee mechanism ensures that no school will have a reduction of more than 1.5% in its per-pupil funding as a result of changes to the formula, which are agreed through the Schools Forum.

Producing the Initial Draft Budget

48. As in previous years, officers have prepared budgets based on existing policy and service levels, to do otherwise would clearly undermine the role of elected Members in determining such matters. Set out at **Appendix 5** are the assumptions used to prepare estimates together with at **Appendix 6** details of budget pressures that have been included to reflect the cost of providing existing policy and service levels. The pressures at Appendix 6, which total £4.1m in 2011-12, can be categorised as follows: -

- | | |
|---|-------|
| (a) Looked After Children – increased demand and higher unit costs, including foster carers and legal costs | £1.7m |
| (b) Adults, Learning Disability – increases in care packages and number of transitions | £0.8m |
| (c) Transformation team and Darlington Together team – to drive change and deliver the business model | £0.3m |

(d) Reduced income – searches, external and internal traded services	£0.5m
(e) Carbon Reduction Commitment - regulation changes	£0.2m
(f) Increase in pensions costs	£0.4m
(g) Others	£0.2m

49. Members will see from Appendix 6 that for 2011/12 not all pressures have been allocated to service budgets, instead a contingency has been established. Pressures that can be estimated with reasonable certainty are allocated to service budgets. Pressures that are foreseen but can be estimated with less certainty are included in the contingency, which will be monitored during the financial year against the identified pressures.
50. The contingency includes £400,000 for potential increase in employers' pensions costs. The results of the 3-yearly revaluation of the Local Government Pension Fund are expected to be announced in January 2011. It is anticipated that lower investment returns and improvements in life expectancy will outweigh cost reductions such as the change from RPI to CPI indexation.
51. Pressures in later years include £1m relating to localisation of Council Tax benefit. The Government has announced its intention to transfer responsibility for Council Tax benefit to councils from April 2013 and at the same time make a 10% saving. Though details are not yet available it appears very likely that policy decisions will be required if the assumed saving is to be achieved. Until such decisions are made, the implication is a £1m reduction in Government grant without corresponding reduction in spending.
52. The Council in producing revisions to the MTFP has always included an allowance for headroom in future years. The aim of this is to reflect that year on year there are new pressures that arise due to demand and/or price increases or delays in achieving savings and by making such an allowance enables the Council to better estimate the medium term financial impact. Given the very tight financial position faced by the Council this element of the MTFP is more important than ever, therefore the following headroom has been included in the draft budget: -
- | | £m's |
|---------|-------|
| 2012/13 | 1.500 |
| 2013/14 | 1.750 |
| 2014/15 | 2.000 |

Other Budget Issues

53. This section sets out relevant information that has influenced the preparation of the MTFP. The following changes are included in the draft MTFP.
54. Capital Financing Costs – due to changes in interest rates payable and receivable and raised projections on cashflow and taking account of positive actions taken, the budget for 2011/12 shows a £500,000 saving.

55. Capital receipts - £1.7m has been received in 2010-11, which can be used to fund capitalised redundancy costs of £760,000 and repay debt of £940,000. The repayment of debt further reduces financing costs by £275,000 in 2011-12.
56. Savings of £0.5m have been identified in Adults Social Care by reviewing the residential care calculation and additional income from full fee payers. Demographic projections have also been reviewed, resulting in reduction of £0.2m in projected costs and a further £0.2m has been saved by reviewing costs. Working with schools, the net cost of school meals has been reduced by £0.3m. Highways services have been reviewed, saving £0.2m by focusing on cost-effective outcomes and efficiencies. A further £0.5m has been saved in similar efficiency reviews across a range of services. These savings totalling £1.7m per annum, listed in Appendix 7, are included in the draft budget. They are the more readily identifiable management savings and undoubtedly understate the total value of savings made through routine management actions to make large numbers of small-scale savings, which go largely unrecorded.
57. National Insurance Costs – estimates previously included in the MTFP for proposed changes can be reduced by £300,000 p.a.
58. The national employers did not offer a pay award for 2010/11 meaning a saving in future years of £300,000 p.a.
59. Fees and charges for the use of services have been reviewed with regard to: -
- (a) Statutory requirements including limitations
 - (b) Market forces where applicable
 - (c) Policy objectives
 - (d) Capacity to increase revenue
60. The resultant proposed fees and charges are set out in **Appendix 9**. The setting of fees and charges is a matter for Council, other than where specific delegated powers exist or charges are determined by statute. The financial effects of the proposed fees and charges are, however, included in the draft MTFP figures set out below. It is estimated that an additional £102,000 of income will be raised by the proposed revisions to charges.
61. The draft MTFP has been produced on the basis set out above, resulting in: -

	2011-12 £M	2012-13 £M	2013-14 £M	2014-15 £M
Draft Net Expenditure	91.863	94.894	97.942	99.684
Total Projected Resources	82.388	80.382	81.224	79.804
Initial Gap	9.475	14.512	16.718	19.880

Developing an approach to balancing the MTFP

62. As previously mentioned the Council was aware it faced a significant financial challenge from 2011/2 when it approved the existing MTFP and became aware in the summer that the challenge was going to be even greater following the Government's emergency budget announcement. At that stage it was estimated that £22m would need to be saved from a controllable budget of £107m.

63. In July 2010 Cabinet approved annual revenue spending reductions of £1.4m to make an early start on addressing the projected reduction in Government grants. During the year and in preparing detailed estimates for 2011-12, managers have identified savings totalling £1.7m, which are listed in **Appendix 7**.
64. Cabinet working with CMT commenced work on developing further savings proposals early in the current financial year. In developing proposals Cabinet embraced the business model and have considered the following within the constraints of delivering savings quickly :-
- (a) HOW we do things, can we be more efficient?
 - (b) WHAT we do, are the things we do delivering on key priorities and can we afford the same levels of service in the future?
 - (c) WHO delivers services, can services be delivered more effectively and efficiently by partnering with others or by getting others to deliver the services on the Council's behalf?
65. Whilst embracing the Business Model, Cabinet applied the following principles when developing their proposals :-
- (a) Support the vulnerable as far as possible.
 - (b) Continue to promote Darlington as a good place to invest and live as far as possible.
 - (c) Look to deliver the same outcomes by different means.
 - (d) Look at ways to save money quickly – this is key to match the level and speed of grant reductions.
 - (e) Be fair
66. In developing proposals Cabinet have concentrated as far as possible on proposals that have no direct impact on services to the public of Darlington including significant management savings (£1.5m), procurement savings (£1.5m) and asset rationalisation (£800,000) however it has not been possible to deliver all the savings required without having impacts on front line services.
67. The proposals have continued to be developed since their release in November; some changes have been made taking account of better information arising from development and others have changed as a result of consultation and engagement, the significant changes/updates from the initial announcements are set out below :-
- (a) **Civic Theatre** – The Council are seeking to sell the Theatre as a going concern with the aim of removing the revenue subsidy. The process of selling the Theatre will take place during this year with result of the exercise being reported in September. The contractual arrangements of the Theatre means that even if a suitable buyer cannot be found, the Theatre will continue to operate until the end of January 2012 when the

pantomime season ends.

- (b) **Arts Centre** – Since the November announcement of the proposal to remove the subsidy from the centre, work has been undertaken with partners to look at alternative delivery models for the Centre however given the restrictions on time and the complexities involved, it has not been possible to reach a solution. It is proposed therefore to continue with a (significantly reduced) subsidy to ensure continued Arts Council support to the work to develop a proposition that can retain a vibrant arts offer for Darlington that is not reliant on Council subsidy.
 - (c) **Bowling Greens** –All greens will remain open until the end of the 2011 outdoor bowls season to enable the bowling clubs to develop their proposals to fund/run the greens proposed for closure.
 - (d) **Cycle Training** – A grant may be available to allow the service to continue.
 - (e) **Subscription to the Local Government Association** – An additional proposal to save £34,000 with effect from 2012/13 has been added. A year's notice is required and it is proposed that this be given and the final decision on membership can be taken later in the year.
 - (f) **Supported Bus Services** – A review will be undertaken and a final decision will be taken in July.
 - (g) **Town Centre Management** - The proposed reductions has been deferred whilst the option to raise funding for town centre activities via a Business Improvement District are explored.
 - (h) **Home to School Transport** - Since the publication of the initial budget proposals the government have announced their own review of home to school transport policy and funding and will implement changes from April 2012. In the light of this announcement cabinet have decided to defer any decision on home to school transport policy until after the government's policy review has been published and after national funding levels have been clarified.
68. Papers relating to each proposal are attached at **Appendix 8**. The papers in the Appendix describe the proposal and the estimated financial savings. Initial assessments of the impacts of each proposal have been made. Impacts will continue to be assessed through the on-going consultation period, prior to further consideration by Cabinet on 22nd February, enabling comments to be taken into account and, if appropriate, any further mitigating actions to be considered alongside the proposals.
69. The programme of proposed savings, totalling £13.5m, will be extremely challenging to deliver. It follows similar, though smaller, savings programmes in previous years, it will require a very large amount of time, energy and commitment to deliver and involves some very significant change for residents, service users, employees, partner organisations and Members. Set out in Table 2 below is a financial summary of the proposals.

Table 2

Saving Proposal	Financial Years			
	2011/12 £	2012/13 £	2013/14 £	2014/15 £
1. Procurement	700,000	1,500,000	1,500,000	1,500,000
2. Corporate Landlord	70,000	170,000	350,000	350,000
3. Asset Rationalisation	-	-	430,000	430,000
4. Management and Departmental Restructuring	1,100,000	1,500,000	1,500,000	1,500,000
5. Employee Pay Freeze	850,000	1,700,000	1,700,000	1,700,000
6. Library Service	130,000	250,000	250,000	250,000
7. Reduction in Countryside & Rights of Way Service	100,000	100,000	100,000	100,000
8. Cycle and Pedestrian Training	49,000	80,000	80,000	80,000
9. Road Safety Education Training and Publicity	45,000	49,000	49,000	49,000
10. Anti Social Behaviour Team	101,000	110,000	110,000	110,000
11. Supporting People Efficiencies	169,000	169,000	169,000	169,000
12. Community Safety	212,000	212,000	212,000	212,000
13. Supported Bus Services	72,000	130,000	115,000	100,000
14. Car Parking	44,000	144,000	144,000	144,000
15. Contract Parking	(40,400)	37,500	37,500	37,500
16. Public Toilets – closure and introduction of charging	50,000	50,000	50,000	50,000
17. Environmental Health – cease some discretionary services	38,000	38,000	38,000	38,000
18. Trading Standards – cease some discretionary services	35,000	35,000	35,000	35,000
19. Strategic Funding Review of the Third Sector	95,000	132,000	137,000	147,000
20. Cultural Services	900,000	1,573,000	1,580,000	1,580,000
21. Street Scene	659,000	659,000	700,000	700,000
22. Adult Social Care – Reducing level of Disregard	200,000	400,000	400,000	400,000
23. Adult Social Care – Personalised Budgets	375,000	675,000	675,000	675,000
24. Local Education Authority Functions	800,000	1,600,000	1,600,000	1,600,000
25. Children’s Early Intervention and Prevention Service	990,000	1,400,000	1,400,000	1,400,000
26. Early Years Inclusion	50,000	60,000	60,000	60,000
27. Democratic Engagement	39,000	39,000	39,000	39,000
28. Local Government Association Fees		34,000	34,000	34,000
Total Savings	7,832,600	12,846,500	13,494,500	13,489,500
Less Transformation Team Costs	(155,000)	(448,000)	(460,000)	(474,000)
Net Saving	7,677,600	12,398,500	13,034,500	13,015,500

Impact of Budget Reduction Proposals

70. The Sustainable Community Strategy has provided Members with the overarching framework for development. The actual decisions made about specific proposals have been on the basis of continuing to protect, as far as possible, vulnerable people, and to be fair in our approach. It is recognised that, given the scale of the changes being proposed, that it will be highly unlikely that such a wide ranging set of proposals would have no impact on particular groups.
71. In order to aid the process for this decision making, the Council has undertaken a number of actions to fully understand the impact of its decisions. The first way of developing the thinking on the budget proposals has been to test out the proposals by going early to the public with them in outline stage. Through November, a number of public consultation events have taken place. Two public consultation Talking Together events have taken place, attracting more than 185 people. In addition, Talking Together events targeted at older people, people with disabilities and a specific event on rural transport have also been held, attracting more than 100 residents. The Council opened a Budget Hotline for telephone enquiries, a consultation email address, a web forum and regular Twitter feeds and a Facebook page. Whilst these proved less popular than the face-to-face events, the web forum found 13,300 views, which is double the number for the previous month. These activities ensured that the views of residents have been an important element of the development of the proposals outlined here.
72. Secondly, the Council has developed a process for understanding the impact of the proposals for budget reductions. This has encompassed the equalities impact assessment process and has widened it to include other important elements such as poverty and partnership impacts, as well as the impact on the deliverability of the Sustainable Community Strategy. This is an ongoing process, and as understanding is developed of the impact on the whole population, some groups are impacted more than others. Work is continuing in this area to identify those groups, communities and individuals who are most impacted, so that Cabinet can consider any appropriate mitigating actions. The work on individual proposals is ongoing however for the Cabinet meeting in February the latest impact assessments will be available.
73. The changes and proposals outlined in this report are significant, and will entail significant change to the how the Council operates and works with its resident population. However, the Council continues to invest its resources and for the future, the targeting of this continued investment will become even more important. This third area is what is being referred to as the Appreciative Enquiry – understanding the impact that the continued investment will make on the residents of Darlington. The Appreciative Enquiry process will be considering the impact of the investment over and above the statutory minimum has on target communities as well as the delivery of the Sustainable Community Strategy. This will continue to be tested over time, to ensure that the Council’s resource continues to provide positive impact on vulnerable people.

Summary MTFP Position

74. The net position for the MTFP is as set out in Table 3 below taking into account the following :-

- (a) Budget preparation based on current policy and service levels
- (b) Budget pressures
- (c) Savings not requiring policy decisions
- (d) Future assumptions
- (e) Council Tax increases
- (f) Implementation of savings proposals

Table 3 – Revised MTFP - Summary

		2011/12 £M	2012/13 £M	2013/14 £M	2014/15 £M
1.	Net budget before savings	94.918	98.425	101.052	102.781
	LESS				
2.	Savings approved by Cabinet July 2010	1.399	1.399	1.399	1.399
3.	Savings included in draft budget (Appendix 7)	1.656	2.132	1.711	1.698
4.	Net budget as drafted	91.863	94.894	97.942	99.684
5.	LESS Saving Proposals (Table 2)	7.833	12.847	13.495	13.490
	LESS Further savings to be identified: -				
6.	2012/13		1.665	1.665	1.665
7.	2013/14			1.558	1.558
8.	2014/15				3.167
9.	Net Expenditure	84.030	80.382	81.224	79.804
10.	Government Grant	42.541	39.340	38.739	35.826
11.	Council Tax	39.847	41.042	42.485	43.978
12.	General Fund Reserves	1.642	-	-	-
13.	Total Resources	84.030	80.382	81.224	79.804

75. The trail of the development of the MTFP, from the current Plan approved by Council in February 2010, is shown in **Appendix 10**.
76. Set out earlier in the report is the projection of £1.8m of reserves being available to support the MTFP. The projected level of reserves remains above the risk-assessed £6m throughout the draft revised MTFP. However, in view of the very limited level of available reserves, the challenging transformation and savings programme and uncertainties particularly beyond 2013, it is proposed that no reliance be placed on balances beyond 2012.
77. The above table shows that, in addition to implementing the challenging savings programme proposed in this report, the Council still needs to identify further annual savings of £6.4m. Members will appreciate the enormity of the task given the challenging savings list already included in the MTFP. Corporate Management Team will continue to develop options that will be available for consideration by the new Council following the May elections.
78. Service-by-service estimates of expenditure and income are shown in **Appendix 11**. The preparatory work for detailed estimates has been done prior to the Council restructure, which is being implemented from 1 January 2011. The estimates are, therefore, in the 'old' departmental structure and will be recast to reflect the new structure. The savings inherent in the new structure are, however, included in the estimates. Some savings proposals are Council-wide and cannot be allocated to individual services at this stage, e.g.

accommodation and procurement. These are shown in summary and will be allocated to services as implementation work progresses.

79. The draft MTFP is set out in **Appendix 13**.

Impact On the Workforce

80. As Members will be aware, this revision to the MTFP has had the largest impact of any on the workforce. In November 2010 a potential 475 redundancies were included as part of our consultation process, in addition consultation commenced on a two year pay freeze from 1 April 2011, reductions to the redundancy calculator and further consultation on proposals to amend premium payments that were agreed as part of the last revision to the MTFP. Some of the issues raised in this report which amend initial proposals will be fed back through the ongoing consultation process. It is estimated that the number of staff who face an immediate risk of redundancy is now 360; the majority of the reduction is due to the Civic Theatre proposal where it is anticipated that staff will be transferred to another provider in 2012 and the Arts Centre proposal where there are fewer immediate redundancies. The final impact on staffing in relation to these two proposals will only be known when reviews are completed.
81. Consultation on all issues relating to the workforce will be completed prior to the special Cabinet meeting on 22 February 2011 and will be reported in full to that meeting.

Outcome of Consultation

82. As mentioned in the report consultation has taken place via Talking Together events and other routes. 285 people attended Talking Together events and 98 comments have been received via other routes.
83. Comments at the Talking Together events showed a degree of interest in alternative approaches to managing bowling greens, concern about the proposal for the Early Years Inclusion service and significant numbers were concerned about the proposals for the Arts Centre. Comments via other routes were overwhelmingly related to the proposal to remove the subsidy from the Arts Centre and the Civic Theatre. In addition Home to School Transport and the proposals relating to the Tourist Information Centre also attracted a number of comments.
84. Consultation will continue following the approval of a draft Medium term Financial Plan and the final results will be reported to the Special Cabinet meeting on 22 February 2011.

Medium Term Financial Plan Capital

85. The earlier part of this report has dealt with the revenue MTFP. This section concentrates on the capital MTFP.
86. Capital expenditure by its nature is significant one off expenditure aimed at making improvements to, or acquiring assets that enable the Council to deliver its priorities. The vast majority of capital funding is received from the Government and is allocated to Councils in the main to match national priorities such as Transport, Children's Services and Housing. The allocation of spending within those three key national priorities is

subject to ongoing programmes and agreed outcomes. For example within Housing there is an agreed 30 year business plan which sets out how investment should be applied. Set out below are details of the levels of Government funding available for 2011/12 compared with 2010/11.

Table 4 Capital Funding Summary

		2010/11	2011/12
	Children's Services		
1.	Basic Need	0.773	1.554
2.	Capital Maintenance LA maintained	1.086	1.618
3.	LCVAP for VA Schools	0.486	0.333
4.	DFC LA maintained	1.398	0.286
5.	DFC for VA Schools	0.357	0.076
6.	Primary Capital Programme	5.378	0.000
7.	Targeted Capital Funding	6.000	0.000
8.	Schools Access Initiative	0.187	0.000
9.	Harnessing Technology	0.402	0.000
10.	Extended Schools	0.100	0.000
	Housing		
11.	Major Repairs Allowance	3.836	3.774
12.	Disabled Facility Grants	0.651	*0.371
13.	HCA direct development	2.658	0.000
	Transport		
14.	Local Transport Plan	3.064	2.323
15.	TVBNI	0.000	*2.380
16.	Cycling for England	0.300	0.000
	Community Services		
17.	Adults' Personal Social Services	0.135	0.260
	Total	26.811	12.975

* Denotes indicative figures

87. Previous MTFP have included capital programmes funded from the Council's own resources of capital receipts and prudential borrowing. In view of the very challenging financial outlook it is proposed that no internally funded programme be agreed at this time, other than existing commitments. Prudential borrowing that is more cost-effective than leasing for the necessary replacement of assets is delegated to officers and will continue where there are sound financial reasons. Any other urgent capital spending will be subject to a rigorous business case to demonstrate net financial savings, absolute policy priority or unavoidable need. Funding would have to be identified either from revenue savings, future capital receipts or revenue balances.
88. **Appendix 12** sets out the proposed capital programme with regard to applying the resources allocated to the Council, the programmes include ongoing schemes for previous years. Set out in the following paragraphs is a narrative of the major elements of the programme. Scheme specific approvals will be subject to detailed reports to Cabinet.

Children's Services

89. It is anticipated that Darlington Children's Services capital investment in 2011/12 financial year will be funded by new resources of £3.9m and carry forward from 2010/11. The majority of the carry forward funding has been reported and released at Cabinet but resources for 2011/12 were only announced on 13 December 2010 and have therefore not yet been considered by Cabinet.
90. During 2011/12 the final phases of the Primary Capital Programme are due to be completed. Approximately £4.7m carried forward from 2010/11 is projected to be spent, to support the national investment programme aimed at renewing 50% of all primary schools nationally. The projects at various schools across the Borough will complete the programme which focuses on primary school provision that is equipped for 21st century teaching and learning with children's services in reach of every family.
91. An element of the 14-19 Diplomas/SEN Disabilities funding (£1.5m) carried forward from the previous year will be used to address high priority condition related work at Branksome, Longfield and Hurworth Secondary Schools. The remaining balance of £5.5m will be prioritised for the Secondary School estate and further details will be presented to Cabinet in due course.
92. All remaining Modernisation funding and Schools Devolved Formula Capital will be spent in line with the locally agreed asset management plan arrangements in Darlington
93. The Government announced the capital allocation for 2011/12 in December 2010. Detailed projects have not yet been defined and will be subject to decisions through Cabinet at a later date. In the meantime key priorities have been identified which are detailed in Appendix 11.
94. Details of capital allocations from 2012/13 have not yet been announced and the Government has informed councils that they will be subject to the outcome of the Sebastian James Capital Review, the details of which are due to be published in the new year.

Housing

95. During 2011/12, major works are planned within the council housing stock of the Borough, in a number of locations.
 - (a) The Council plans to carry out internal planned maintenance, including electrical rewiring (where appropriate), replacement kitchens and bathrooms, and, insulation, to approximately 220 dwellings. Work will be undertaken in Haughton East, North Road, and Eastbourne and Banktop wards. Where small blocks of flats are included, the specifications will include works to the communal areas including upgrading the lighting, flooring and upgrading to digital television aerials.
 - (b) Refurbishment work to Rockwell House will commence in February 2011 on the completion of refurbishment works to Windsor Court. The refurbishment work will provide modern facilities which are easily accessible and accommodate a range of older people with some support requirements. Work will commence on refurbishing

Ted Fletcher Court on the completion of Rockwell House in 2012/13.

- (c) Approximately 300 dwellings throughout the Borough will benefit from new central heating systems located predominantly in the wards of Eastbourne, North Road, Haughton West, Cockerton West, and, Park East. This includes major regeneration activity at Parkside which includes heating replacements, internal planned maintenance, external improvements, and, some remodelling of existing 1 bed flats to create 3 bed family homes.
 - (d) A range of adaptations will be undertaken for people with disabilities based on their assessed needs and £371,000 has been set aside for these works.
 - (e) A range of energy efficiency measures will be available for council owned properties at targeted areas to be determined. Measures will include cavity wall insulation, loft insulation and “top ups” as well as draught exclusion works.
96. A regional bid through the Regional Growth Fund to finance the Financial Assistance policy for improvements to private sector homes will be submitted in January 2011. The outcome of the application for funding will be announced in March / April 2011. If successful, the programme will be delivered by the Home Improvement Agency, Care and Repair.
97. Disabled Facilities grants will be available on a means tested basis for eligible applicants. Disabled Facilities grants are not offered on a geographical basis but determined by individual assessments and family circumstances. Indications from Central Government suggest that there will be greater flexibility about how Disabled Facilities Grants can be utilised in the future to enable more cost effective and efficient solutions to remedy mobility difficulties and more appropriately meet customer requirements.

Transport and Highways

98. The following works are proposed for delivery in 2011/12 subject to agreement by Cabinet in March 2011 on proposals for the Tees Valley Bus Network Improvement scheme, the Third Local Transport Plan and the Local Sustainable Transport Fund.

Major Scheme Bid

99. Government announced as part of their Comprehensive Spending Review that the Tees Valley Bus Network Improvement major scheme will still go ahead and they agreed to accelerate the agreed funding so that the schemes can be delivered to a quicker timescale. The TVBNI scheme proposals aim to tackle traffic congestion and improve reliability of bus services. A number of schemes are planned for implementation subject to Cabinet approval in March 2011. These include the commencement of a new road and junction layout at the junction of North Road and Whessoe Road; new traffic signals at the junction of Yarm Road and Geneva Road; replacing traffic calming features on Clifton Road with bus friendly cushions; and a programme of verge hardening in Springfield, Firthmoor and Lascelles. Also as part of the scheme a number of “Real Time” information facilities will be installed at bus stops along with improved travel information; enhancements to passenger waiting environment and individualized travel marketing will also commence.

Local Transport Plan

100. The Council funds some of the annual highway maintenance programmes from the 3LTP and a list of schemes will be presented for Cabinet approval in March 2011. This programme includes reconstruction of roads, as well as resurfacing and general structural maintenance. As in previous years, the priorities for this work will be based on the annual condition survey data possible schemes could include the resurfacing of Whinbush Way; Geneva Road and McMullen Road. A programme of footway and cycle way maintenance schemes will also be delivered in the year. The bridge maintenance schemes are also identified from condition survey, with Hutton Avenue bridge due for replacement in 2011/12. A further six strengthening schemes will be delivered over a five year period. These include bridges at Chestnut Street, East Street, John Street, Spring Court, Baydale Beck and Boundary Bridge on the B31. A programme of additional inspection of street lights over forty years old will be developed, addressing any that are at risk with a prioritized replacement programme.
101. The funding for the Integrated Block has been reduced significantly for 2011/12 and subject to Cabinet approval in March 2011 the main focus will primarily be on managing the network. Possible schemes could include the tackling of congestion outside school entrances, implementation of the network management plan and some strategic schemes like the John Street cycle route (subject to CPO), which will provide the missing link to our radial cycle routes. A constant review of road safety will take place. Out of the allocated funds a contribution towards the TVBNI scheme is required for four years.
102. The Local Motion programme will aim to tackle congestion through changes in travel behaviour and will continue to be funded including school travel plans, travel plans with local employers including the council to include cycle parking and providing information and incentives to support people in their travel choices. The council still receives external funding until December 2011 to support this work from Europe through the Interreg IVB programme.
103. Preparatory work is being undertaken to support a possible bid subject to March 2011 Cabinet to the recently announced Local Sustainable Transport Fund. The fund has a total value of £560m over 4 years and would give this Council and partners the opportunity to realise the increasing potential for a sustainable transport network across the whole Borough that supports the economy, reduces carbon emissions and helps people to be healthy. Any bid would draw upon the experience and knowledge of the Council from the Local Motion and Cycling Demonstration Town projects.

2010 Capital Spending Review

104. The Government's Spending Review 2010 was announced on 20th October 2010. The Spending Review has simplified local government grant allocations. The majority of capital grants are now non-ringfenced.
105. As part of the Spending Review, the Government also made the decision that no new supported borrowing (SCE(R)) allocations will be made in the Spending Review period. Government capital support will be given in the form of capital grant only. Whilst there will be no new SCE(R) allocations after 2010/11, the level of assumed outstanding debt still forms part of the revenue Formula Grant calculation, as it has in previous years.