
MEDIUM TERM FINANCIAL PLAN

**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 (MTFP) for 2017/18 to 2020/21 for consultation including setting a budget and Council Tax increase for 2017/18.

Summary

2. Between the financial years 2010/11 to 2016/17 the Council has faced unprecedented financial challenges from reductions in public sector spending. In the case of Darlington Borough Council this has meant an overall real terms decrease in government funding of £37.3m anticipated to increase to £44.5m by 2020/21. This resulted in the Council agreeing reductions to planned expenditure of £46.6m leading to a reduction to date of 698 in the Council's workforce. These income reductions have come at a time when demand for Council services, in particular social care, are increasing.
3. UK economic growth has slowed over the last year and official data for the first three months since the EU referendum suggests this will continue into 2017. Subsequently there are no signs the austerity measures facing the Council will improve and further funding cuts will follow. Since the Council approved the MTFP in June, the Council has submitted and had approved an Efficiency statement which will guarantee the Revenue Support Grant figures already published which gives certainty over a proportion of our funding albeit a small and decreasing element.
4. The Council undertook a significant consultation exercise earlier in the year following an in-depth and detailed review of all services which resulted in the agreement of a Core Offer budget by Council on the 29 June 2016.
5. Whilst delivering the Core offer is extremely challenging and further pressures have arisen the Council can still deliver the agreed plan but needs to continue to pursue with vigour our three conditions of Building Strong Communities, Spending Wisely and Growing the Economy.

Recommendation

6. It is recommended that Special Cabinet Approve the 2017/18 budget as set out in **Appendix 7** for consultation including the following;
 - (a) Council tax increase of 1.99% plus a 2% levy agreed by the government to fund help Adult Social Care for 2017/18 and subsequent years.
 - (b) Schedule of charges as set out in **Appendix 3**
 - (c) Use of capital receipts to assist in funding the MTFP.

Reasons

7. The recommendations are supported by the following reasons :-
 - (a) The Council must set a budget for the next financial year.
 - (b) To enable the Council to continue to plan services and finances over the medium term
 - (c) To ensure decisions can be made in a timely manner.

Chief Officers Executive

Background Papers

No background papers were used in the preparation of this report

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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	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

8. The Council for the period 2010/11 to 2016/17 faced unprecedented financial challenges as the Government responded to the worldwide economic downturn by introducing significant public sector spending reductions. In the case of Darlington Borough Council this meant an overall real terms decrease in government funding of £37.3m anticipated to increase to £44.5m by 2020/21. This resulted in the Council agreeing reductions to planned expenditure of £46.6m leading to reduction to date of 698 in the Council's workforce.
9. In agreeing the MTFP 2016/17 to 2019/20, the Council acknowledged that spending would need to be further reduced by £12m per annum by 2019/20 and following significant public consultation agreed a Core Offer budget for the period which reduced expenditure and services to a statutory level with a small investment fund of £2.5m for

services which the Council does not have to provide but which add great value to Darlington and its residents.

10. In terms of the financial context faced by the Council since approving the MTFP the situation remains similar with reductions in Local Government funding along the lines predicted in the MTFP likely. Following the submission and approval of the Council's Efficiency Statement, Revenue Support Grant is guaranteed at the published reducing level however certainty over New Homes Bonus and Better Care Funding should be received in late December when the Local Government Finance settlement is announced. The Council's two main sources of funding are Council Tax and Business Rates, the former being relatively stable, the latter being far more volatile.

PROGRESS ON DELIVERY OF THE CURRENT MTFP

11. On the whole the savings identified in the Current MTFP will be achieved with the exception of the Library relocation where the decision has been deferred by Cabinet on 13 September 2016 pending further consultation. There are however some considerable savings still to be achieved which have been programmed for future years and whilst progress is being made and is on track the significance of the challenge should not be underestimated.

FINANCIAL ANALYSIS

Projected Expenditure

12. Estimates attached at **Appendix 1** have been prepared based on service levels agreed in June and include known pressures and efficiencies which are summarised below and detailed in **Appendix 2**. The most significant pressures and efficiencies are however discussed in the following paragraph. Assumptions used when preparing the estimates are set out at **Appendix 4**.

	Estimate 17/18 £m	Estimate 18/19 £m	Estimate 19/20 £m	Estimate 20/21 £m
<u>Summary of Pressures</u>				
Service Demand	1.486	1.530	1.703	1.726
Reduced Income	0.955	1.271	1.541	1.690
National Living Wage	0.000	0.000	0.000	0.700
Other	(0.123)	0.241	0.104	(0.172)
Current Savings Shortfall	0.397	0.000	0.000	0.000
Council Tax -reduced growth	0.290	0.445	0.609	0.795
Additional Savings offsetting pressures	(1.293)	(1.122)	(0.792)	(0.695)
	1.712	2.365	3.165	4.044

13. Service demand – There are a few main pressure areas in service demand, the first being a pressure on the pensions fund following an actuarial revaluation. Whilst there is a step change over the next couple of years by 2019/20 the additional cost to the Council will be £1.058m. In addition there is a pressure in Children's Services with additional placements in looked after children along with the continued pressure of agency worker cost covering vacant posts which are difficult to recruit to. Whilst there is a regional group looking at the issue which is led by Darlington's Director of Children

and Adult Services this is a longer term issue so improvement will not be quick. There are also service demand pressures in Adult Services in regard to increased costs in residential services for older people due to increases in quality standards and low attrition rates.

14. Reduced income – The most significant pressure is the reduction in investment interest. When the MTFP was set earlier in the year based on external advice it was anticipated interest rates would increase over the life of the plan, however since the referendum results the interest rates have been cut and are anticipated to remain low which has a direct impact on our investment income.
15. National Living Wage. The announcement last year that there would be a National Living Wage starting at £7.20 and rising to £9+ an hour by 2020 was factored into the 2016/17 MTFP, however as we are a year on we need to assume the rate will continue to rise in future years and the pressure in 20/21 assumes the rises will take the same trajectory.
16. The current shortfall in savings relates to the library relocation as noted above.
17. Council Tax - Planning estimates anticipate growth levels to be an average of 370 band D equivalent properties over the period of this plan which is a growth on the tax base of 1.1%. This is lower than the number anticipated in the current MTFP of 415 which places a pressure on income over the life of the MTFP of £2.139m.
18. Offsetting these pressures are savings of £3.9m over the life of the MTFP again detailed in Appendix 2.
19. The revenue MTFP includes capital expenditure which currently the Council has previously chosen to treat as revenue. The extent of such expenditure is approximately £1m per annum mainly in the highway service and therefore given the pressures on the Revenue account it is recommended that capital receipts be used to support the MTFP 2017/18 – 2020/21. This approach will assist the Council in funding the MTFP. Members will appreciate that this will reduce funds available for capital schemes but given the priority of delivering a sustainable MTFP this approach is seen as appropriate.
20. Taking all of the above into account the projected expenditure is shown in the table below

	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Children and Adult Services	53.902	54.413	55.258	56.879
Economic Growth	8.537	8.768	9.144	9.435
Neighbourhood Services and Resources	17.640	17.516	17.824	17.882
Financing costs	1.645	1.857	1.980	2.060
Council Wide Pressures/(savings)	(3.159)	(3.198)	(3.186)	(3.186)
Contingencies	1.611	2.140	2.715	3.065
Total Expenditure	80.176	81.497	83.735	86.135

Projected Income – Core Grant Funding to Local Government

21. As mentioned earlier in the report, the Council submitted an Efficiency Statement which was approved and although the Finance settlement won't be announced until later in December we can assume the Revenue Support Grant figures published last year will remain the same. The figures below therefore remain as in the existing MTFP and will be amended if necessary following the settlement.
22. In terms of New Homes Bonus (NHB) this is included in core Government funding as it is top sliced from RSG with £1.7bn now available to be distributed based on net increases in housing numbers, on current levels Darlington breaks even in this arrangement. The future of NHB is uncertain as the Government has made proposals for change including reducing the amount of top slice, the number of years payable and method of distribution. We are awaiting the results of the consultation which will be available before the final version of the MTFP is agreed.
23. As part of the financial strategy to combat the grant cuts, the Council is working towards increasing housing numbers albeit very challenging in the current climate. Whilst there are a high number of planning applications being granted some of the developments are slow to come to fruition. The current financial rewards in terms of NHB are £1,484 per band D equivalent property with an additional £350 for affordable housing. In addition the Council also receives additional Council Tax for each property. Clearly housing growth is key to sustaining the Councils MTFP.
24. Set out in the table below are the latest projections which show a further £7.851m reduction in cash terms which equates to £7.973m in real terms.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Revenue Support Grant	13.286	9.094	6.334	3.556	3.102
Top up Grant	4.012	4.091	4.212	4.346	4.433
New Homes Bonus	2.698	2.540	1.945	1.739	1.463
Better Care Funding	0.000	0.161	1.731	3.147	3.147
TOTAL	19.996	15.886	14.222	12.788	12.145

25. What happens to Local Government funding beyond 2020 is unknown, the Government has announced that it will be reviewing the system and is proposing to allow Councils to keep 100% of NNDR subject to some equalisation of resources and safety nets. In return Local Government will receive no RSG and take on additional responsibilities and costs.
26. This change puts a significant level of uncertainty in to the system at a time when the need for certainty to allow good financial planning is paramount given the scarcity of resources. Planning at this stage beyond 2020 is extremely challenging.

Council Tax Income

27. Council Tax is by far the largest single funding stream and it will become an increasing percentage over the coming years as it represents 53% of all income in 2016/17 increasing to 62% by 2020/21, this is due to reducing government funding and planned

annual increases of 3.99%, the maximum allowed without a referendum based on expected limits, actual limits will not be known until December. 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 £411,000 and that Darlington has the second lowest Council Tax in the North East Region.

28. In the Autumn Statement delivered on the 25 November 2015 the Government announced that Council's with responsibility for adult social care will be able to levy a 'precept' of 2% on top of the current council tax referendum limit to help fund the increasing cost of social care. For Darlington, adult social care expenditure is the largest overall budget and the 2% levy is required to help in funding the ongoing increases. The 3.99% quoted above includes the additional 2%.
29. As noted above planning estimates anticipate growth levels to be an average of 370 band D equivalent properties over the period of this plan which is a growth on the tax base of 1.1% albeit lower than anticipated in the current MTFP. These figures have been used to prepare the estimates; clearly should this be any different income levels will differ. The collection rate is anticipated to remain at 99% in 2017/18.
30. The figures assume the Council Tax discount awarded for empty properties is withdrawn from April 2017 saving an estimated £0.590m over the MTFP. Details of the change will be discussed later on the agenda.
31. Taking the above into account Council Tax income over the period of this plan is estimated as follows :-

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2019/20 £m
Total Council Tax anticipated	41.698	43.623	45.895	48.169	50.517

National Non Domestic Rates

32. 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 tax-base 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.
33. From 1 April 2017 a new valuations list across the country for non- domestic properties takes effect, the revaluation of all properties has led to a net reduction in business rates payable in Darlington although this loss of income will be offset within the system so there will be no direct impact on the Council. However, following each revaluation appeals increase so there will be a period of volatility in regards to income which could have a negative impact on our revenue.
34. 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.

35. The in-year collection rate target for NNDR is 97.2% and as at the end of October 2016 the actual collection figure is 63.7% as opposed to the equivalent figure in 2015 of 63.4%.

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

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
NNDR	16.486	16.963	17.466	17.938	18.296

Collection Fund

37. 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. The collection fund is in a balanced position.

Other Grants

38. Set out below are the estimated grants which are included in service estimates at Appendix 1.

	2017/18 £m
Public Health Grant	8.670*
PFI	3.200
Troubled Families Grant	0.360
Discretionary Housing Payments	0.200
Youth Justice Board	0.222
Local Reform & Community voices	0.057
Adult & Community Learning	0.992
Bus Service Operators Grant	0.027
Community Sports Activation Fund	0.023
Individual Electoral Registration	0.007
Total	<u>13.758</u>

* based on expected reductions in grant

Total Income

39. The table below shows the Council's estimated income for the period of this plan which shows a dip from 2016/17 to 2017/18 then a slight increase over the following three

years. This is despite the anticipated reductions in government grant and new homes bonus due to the assumed 3.99% Council tax increase and growth in business rates.

Resources - Projected and assumed	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m
Council Tax	41.698	43.623	45.895	48.169	50.517
Business rates retained locally	16.486	16.963	17.466	17.938	18.296
Top Up Grant	4.012	4.091	4.212	4.346	4.433
RSG	13.286	9.094	6.334	3.556	3.102
New Homes Bonus	2.698	2.540	1.945	1.739	1.463
Better Care Fund	0.000	0.161	1.731	3.147	3.147
Total Resources	78.180	76.472	77.583	78.895	80.959

Capital Receipts

40. As mentioned previously capital receipts can be used to fund capital expenditure but any new capital receipts can also be used for other purposes such as repaying the past service deficit on the pensions scheme. The deficit repayment over the next three years would have been £7.270m; however by repaying the deficit upfront the Council will save £465k. To facilitate this we can use capital receipts of £6.805m which not only saves £465k but also relieves some of the pressure on the revenue account.

Revenue Balances

41. The table below is revised to take account of the projected revenue outturn for 2016/17 which is detailed at **Appendix 5**, the assessment of required risk balances as set out in **Appendix 6**, along with the suggested use of capital receipts and revenue balances:-

Revenue Balances	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Opening balance	15.713	9.156	7.576	5.243
Less Rev bud Man Qtr 2	(0.099)			
Less Redundancy Reserve	(0.765)	(0.088)	0.000	0.000
Risk Reserve	(4.330)	0.000	0.000	0.000
Contribution to/(from) balances	(1.363)	(1.492)	(2.333)	(5.176)
Closing balance	9.156	7.576	5.243	0.067

Use of Balances	£m's
Balance of Reserves as at 01/04/17	15.713
Less Risk Reserve	(4.330)
Less Qtr 2 2016/17 projections	(0.099)
Utilisation of capital receipts to fund PSD	7.270
Less reserves to fund deficit	(17.635)
Less Redundancy reserve	(0.852)
	0.067
Projected reserves 2020/21	0.067

PROJECTED MTFP

42. Set out in the table below is the projections based on the income and expenditure analysis discussed in the previous sections of this report.

	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Estimated Expenditure	78.464	79.132	80.570	82.091
Add Pressures / Additional savings	1.712	2.365	3.165	4.044
	80.176	81.497	83.735	86.135
Less				
Estimated Income	(76.472)	(77.583)	(78.895)	(80.959)
Planned use of balances	(2.524)	(2.909)	(2.762)	0.000
Further utilisation of balances	(1.180)	(1.005)	(2.078)	(5.176)
Budget Deficit	0.000	0.000	0.000	0.000

CAPTIAL EXPENDITURE

43. The Council continues to deliver a significant capital investment programme in the main funded from the Housing Revenue Account (HRA) and external funding which is targeted at specific schemes and programmes in Transport. In addition there is a requirement for schemes to be financed from the Council's own resources for example the Dolphin Centre Plant and Equipment refurbishment and the Multi Storey Car Park. Council financed schemes are funded by either capital receipts or prudential borrowing.

44. It is proposed that plans for future capital expenditure will be presented in the new year when demands and income become clearer.

CONSULTATION

45. The MTFP will be subject to consultation between 13 December 2016 and 27 January 2017.

CONCLUSION

46. The MTFP as agreed by Council remains deliverable but as previously acknowledged it is not without risk and challenges. Some risks previously identified have occurred and the recommendations within this report address the financial implications of them. The proposed MTFP includes the retention of risk balances to offset further unforeseen risks.
47. The Council still has the financial capacity to deliver a four year balanced MTFP which puts it in a much stronger position than many Councils, however this is at the cost of reductions in service levels.
48. Planning beyond the current MTFP is extremely difficult given the uncertainty around the new Local Government financial system planned for 2020 and such issues as the impact of BREXIT on the Country's finances. The proposed plan will allow the new Council elected in 2019 to inherit a balanced MTFP for 2019/20 and 2020/21 giving it time to assess the impacts of the changing landscape and make its decision on how it will address the financial position it faces. Current planning suggests there will be a budget deficit of approximately £5m for the new Council to address however for the reason above, this will almost certainly change but at this stage it is not possible to know whether the change will be positive or negative.
49. In summary, the Council continues to face significant financial challenges however the MTFP agreed by Council in June remains deliverable, although regrettably this means service levels will be at the reduced levels agreed by Council.

APPENDICES

Appendix 1	Detailed Estimates
Appendix 2	Budget Pressures / Savings
Appendix 3	Fees & Income Proposals
Appendix 4	Assumptions used to prepare estimates
Appendix 5	Projected Revenue Outturn 2016/17
Appendix 6	Assessment of Risk Balances
Appendix 7	Proposed MTFP 2016 to 2020