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**MEDIUM TERM FINANCIAL PLAN**

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

**Responsible Director - Chief Officers Executive**

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**SUMMARY REPORT**

**Purpose of the Report**

1. To recommend amendments to the existing MTFP, propose a 2016/17 Budget and Council Tax increase for consultation and agree an approach to further revise the MTFP in the New Year following the Local Government finance settlement.

**Summary**

2. Between the financial years 2010/11 to 2015/16 the Council has faced unprecedented financial challenges following the Governments response 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 £33.8m which resulted in the Council agreeing reductions to planned expenditure of £35.3m leading to reduction of 572 in the Council's workforce.
3. Whilst the economy overall appears to be improving there is no sign the austerity measures facing the Council will improve and further funding cuts will follow. Since the Council approved the MTFP in February of this year there have been no verified funding changes to Revenue Support Grant although there have been a number of mixed messages and it would appear reductions in Local Government funding along the lines predicted in the MTFP remain likely with the potential for them to be greater and implemented faster.
4. The resources position will become clearer over the next couple of months, the Comprehensive Spending Review on the 25 November 2015 will set the general direction and the Local Government Finance settlement is anticipated late in December which will provide the council with its grant settlement for a minimum of one year but it is hoped there will be a three year settlement.
5. Given the timing of the above it is proposed that no significant decision on service levels and spending reductions will be recommended until after the full implications of the settlement are understood. Therefore a two stage approach to revising the MTFP is proposed and described in the main report.

6. The first stage is to set the council tax for 2016/17 along with the fees and charges. In order to undertake this two stage approach revenue balances of £2.415m will need to be utilised to bridge the projected budget gap in 2016/17

### **Recommendation**

7. It is recommended that Special Cabinet :-
  - (a) Approve 2016/17 budget as set out in Appendix 8 for consultation including the following;
    - (i) Council tax increase of 3.99% for 2016/17 and subsequent years.
    - (ii) Schedule of charges as set out in Appendix 3
    - (iii) Use of £1.613m revenue balances to fund the budget gap in 2016/17
  - (b) Note that the 2016/17 – 2019/20 MTFP will be reviewed in February 2016.

### **Reasons**

8. 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

Paul Wildsmith : Extension 5828

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

### SECTION ONE

#### Background and Context

9. The previous Council administration for the period 2010/11 to 2015/16 financial year, faced unprecedented financial challenges as the then Government responded to the worldwide economic downturn by introducing significant public sector spending reductions throughout the period of the Government. In the case of Darlington Borough Council this meant an overall real terms decrease in government funding of £33.8m which resulted in the Council agreeing reductions to planned expenditure of £35.3m leading to reduction of 572 in the Council's workforce.
10. In agreeing the MTFP 2015/16 to 2019/20, the previous Council acknowledged that potentially Council spending would need to be further reduced by £12m by

2019/20. Due to the significant impact such reductions would have in addition to previous reductions and the uncertainty around financial projections due to the pending Government elections, major decisions on spending reductions were deferred to allow the incoming Council to make the decisions with the benefit of greater certainty about the MTFP projections.

11. The severity of the levels of reductions anticipated were explored by the Budget Advisory Panels (BAP's) in public sessions during the Summer of 2013 when the question "will the Council have sufficient revenue to cover its legally required services?" was addressed. The findings suggested that it was likely the Council would potentially not have sufficient funds. This question continues to face the Council and is explored further later in the report.
12. In terms of the financial context faced by the Council since approving the MTFP the situation remains similar following the appointment of the new Government and although there have been a number of mixed messages it would appear reductions in Local Government funding along the lines predicted in the MTFP remain likely with the potential for them to be greater and implemented faster. The key dates for gaining certainty about the Council's resources are :-
  - (a) The Comprehensive Spending Review 25 November 2015 which will set the general direction. A verbal update will be made at your meeting.
  - (b) Local Government Finance settlement – late December which will provide each Local Authority with their grant settlements for a minimum of one year but it is hoped there will be a three year settlement.
13. Given the timing of the above it is proposed that no significant decision on service levels and spending reductions will be recommended until after the full implications of the settlement are understood. Therefore a two stage approach to revising the MTFP is proposed as set out below :-
14. Phase One – Contained in this Report
  - (a) The projected expenditure levels up to 2019/20 based on current service levels be noted.
  - (b) A budget and Council Tax level for 2016/17 be agreed.
  - (c) Revenue balances be utilised to bridge initial projected budget gap.
  - (d) The principles for delivering Phase Two to be established.
15. Phase Two – To be presented to Cabinet in February 2016 for public consultation and final decisions by Council in July 2016
  - (a) A revised MTFP for 2016/17 to 2019/20 be agreed.
  - (b) The MTFP to ensure expenditure is reduced to available income levels by the end of the plan.

(c) Consultation takes place.

## SECTION TWO

### Production of Phase One of the MTFP Revision

16. The following sections bring together the various components to deliver a revised MTFP for Phase One and set the scene for Phase two.

### Projected Expenditure

17. Estimates attached at **Appendix 1** have been prepared based on current service levels 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**.

<u>Summary of Pressures</u>	Estimate 16/17 £m	Estimate 17/18 £m	Estimate 18/19 £m	Estimate 19/20 £m
Service Demand	0.151	0.151	0.151	0.151
Reduced Income	0.995	1.102	1.074	0.850
National Living Wage	1.498	2.203	3.388	4.553
Other	0.090	0.171	0.264	0.500
Additional Savings offsetting pressures	(0.628)	(0.610)	(0.583)	(0.661)
	2.106	3.017	4.294	5.393

18. **National Living Wage** – In this year’s budget the Chancellor announced there would be a National Living Wage. It will start at £7.20 and rise to £9+ an hour by 2020 and replaced the current £6.50 minimum wage. The estimated impact on the Councils own workforce by 2019/20 is £0.236m however the real pressure is from the anticipated effect on our contracts in particular social care where the increase over and above that already predicted is £4.317m by 2019/20.

19. **Review of Delivery of Planned Savings** – whilst on the whole the savings are being achieved there is a significant pressure in Public Health where the ring fenced grant is being cut whilst the responsibilities are growing. A pressure of £0.500m has been included within this MTFP which represents the loss of grant in the current year, although this could potentially be higher dependent upon the outcome of the consultation exercise. It is also worth noting there is a balance of £0.500m still to be identified from the existing savings target of £2.700m and to achieve this Cabinet will need to make decisions on decommissioning other public health services.

20. **Implementation of LED Street Lighting** – The Council has been successful in securing funding to carry out works to upgrade the existing street lighting to LED

lights in order to save £0.365m per year on its electricity bill. All English local authorities were invited to submit a bid to the Department for Transport's Challenge Fund and Darlington's bid was one of only 28 to be successful in sharing £275m. The Council will receive a contribution of £5.294m to carry out the street lighting improvement works. The work will take 3 years to complete and will involve converting 11,884 street lights to energy efficient LED lights. In addition to the electricity savings the completed works will reduce the Council's carbon footprint by 1,938 tonnes a year. The Council will also be using the funding to replace 4,053 street lighting columns which are over 40 years old, with new columns.

### Projected Income – Core Grant Funding to Local Government

21. As mentioned earlier in the report, details are not yet available of exact RSG grant levels so the figures below remain as in the existing MTFP and will be amended 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 £1.5bn now distributed based on net increases in housing numbers, on current levels Darlington breaks even in this arrangement. 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 £1,470 per band D equivalent property with an additional £350 for affordable housing.
23. Set out in the table below are the latest projections which show a further £10.433m reduction in cash terms which equates to £11.548m in real terms.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	17.938	13.392	9.613	6.097	5.290
Top up Grant	3.979	4.062	4.178	4.319	4.468
New Homes Bonus	1.691	2.448	2.709	2.908	3.228
NHB - Additional property growth contributing to MTFP savings	0.189	0.186	0.206	0.341	0.378
<b>TOTAL</b>	<b>23.797</b>	<b>20.088</b>	<b>16.706</b>	<b>13.665</b>	<b>13.364</b>

24. What happens to Local Government funding beyond 2020 is unknown, the previous Government committed to a "reset" of the system which would take account of local needs and ability to raise local taxation therefore re-establishing some form of equalisation within the system. The Government recently 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. Any changes will reflect the need for further savings to be made.
25. 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. Although the new system has not been shared by Government based on past history it is an officer view that such changes will not

benefit areas such as the North East and more likely to assist more wealthy areas, however at this stage there are no real facts so we must await the details and continue to plan based on the best information available at the time of making decisions.

## Council Tax Income

26. Council Tax is by far the largest single funding stream and it will become an increasing percentage over the coming years as it represents 50% of all income in 2015/16 increasing to 61% by 2019/20, 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 £393,000 and that Darlington has the second lowest Council Tax in the North East Region.
27. 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%.
28. In the last few years the Government has offered Councils a Council Tax freeze grant equivalent to a 1% increase which the government has agreed to build into baseline funding. There has been no indication this will be available next year and has therefore not been included when developing Cabinet's approach to Council Tax. If this offer was to become available as in previous years it would not be recommended as it would reduce council tax income by £361,000 in 2016/17 and a further £361,000 plus each year thereafter, therefore removing total funding of £1.54m for this plan.
29. Current planning estimates anticipate growth levels to be an average of 415 properties over the period of this plan which is a growth on the tax base of 1.5%. 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 slightly during the year and it is anticipated to be at 99% in 2016/17.
30. Taking the above into account Council Tax income over the period of this plan is estimated as follows :-

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Total Council Tax anticipated	39.291	41.698	43.833	46.180	48.608

## National Non Domestic Rates

31. 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.

32. Whilst there have been a number of successes in regard to economic regeneration and the subsequent increases in business rates, a number of downward revaluations and successful rating appeals have been granted through the Valuation Office during the course of the year, along with an increase in reliefs for small businesses, charities and empty properties which have had an overall damaging effect on the NNDR anticipated.
33. 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.
34. The in-year collection rate target for NNDR is 97.2% and as at the end of September 2015 the actual collection figure is 55.3% as opposed to the equivalent figure in 2014 of 55.1%.
35. Taking the above into account the projections of NNDR are shown below

	<b>2015/16</b> <b>£m</b>	<b>2016/17</b> <b>£m</b>	<b>2017/18</b> <b>£m</b>	<b>2018/19</b> <b>£m</b>	<b>2019/20</b> <b>£m</b>
NNDR	15.995	16.708	17.188	17.760	18.352

### **Collection Fund**

36. 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.
37. The Collection Fund at 31 March 2016 is projected to have a deficit of £2.040m of which £1m is Darlington’s share. The key reasons are :-

	<b>£m’s</b>
Loss of NNDR appeals / reduction in liability	0.600
Increase in Charitable NNDR Relief	0.170
Increase in Empty Property Relief	0.180
Increase in small business rate relief	0.050



## Other Grants

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

	<b>2016/17</b>
	<b>£m</b>
Public Health Grant	9.093*
PFI	3.200
Troubled Families Grant	0.360
Discretionary Housing Payments	0.200
Youth Justice Board	0.281
Local Reform & Community voices	0.057
Adult & Community Learning	0.911
Bus Service Operators Grant	0.027
Community Sports Activation Fund	0.023
Individual Electoral Registration	0.007
Total	<u>14.159</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 net cash reduction of £2.392m however after allowing for annual inflation of 1.5% this would represent a real term loss of £6.099m, on top of the £12.487m already lost over the last 5 years

<b>Resources - Projected and assumed</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Council Tax	39.291	41.698	43.833	46.180	48.608
Business rates retained locally	19.974	20.770	21.366	22.079	22.820
Revenue Support Grant	17.938	13.392	9.613	6.097	5.290
New Homes Bonus	1.880	2.634	2.915	3.249	3.606
<b>Total Resources</b>	<b>79.083</b>	<b>78.494</b>	<b>77.727</b>	<b>77.605</b>	<b>80.324</b>

## SECTION THREE

### Projected MTFP Phase One

40. Set out in the table below is the projections based on the income and expenditure analysis discussed in the previous sections of this report. As explained earlier there are significant budget gaps to be addressed in February 2016. The table shows the planned use of resources in 2016/17 to produce a balanced budget

however this may well be revised in February 2016. Beyond 2016/17 no balances have been applied leaving £4.693m available to assist bridging the budget gap during implementation of reductions, details of balances are in the next paragraph.

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Estimated Expenditure	84.594	85.910	86.880	87.853
Add Pressures / Additional savings	2.106	3.017	4.294	5.393
	86.700	88.927	91.174	93.246
Less				
Estimated Income	(78.494)	(77.727)	(77.605)	(80.324)
Use of Revenue Balances previously agreed	(6.593)			
Proposed further use of revenue balances	(1.613)			
<b>Budget Deficit</b>	0.000	11.200	13.569	12.922

### Revenue Balances

41. The table below is revised to take account of the projected revenue outturn for 2015/16 which is detailed at **Appendix 5**, the key issues for the report are below :-
42. And other changes including the assessment of required risk balances as set out in **Appendix 6**.

	£m's
Projected Balances at 31 March 2016	17.229
Less Risk Balances	(4.330)
Less Planned Usage already agreed	(6.593)
Use of Balances in 2016/17	(1.613)
<b>Total</b>	<b>4.693</b>

## SECTION FOUR

### Planning for the MTFP Revision in February 2016

43. Members will note the table in paragraph 41 that at this time the projected budget deficit is £12.9m by 2019/20. This deficit is subject to revision when the grant settlement is confirmed but there can be little doubt that whatever happens in the settlement the Council is facing a very significant challenge and the question remains can the Council continue to meet statutory obligations from within its resources.
44. The work undertaken by the Budget Advisory Panels (BAP's) in 2013 is being further developed using the approach set out in **Appendix 7**. All current services are being reviewed and categorised into Statutory, Business case or Discretionary. To arrive at what is described as the 'Core Offer' legislation has been reviewed but in most cases the levels of service required are not specified therefore a risk based approach is being taken to arrive at the minimum level. The Core Offer is the statutory minimum services budget plus the agreed business case budgets. Work is ongoing on this process and there is a real risk that resources will be insufficient to provide for little more than the core offer.
45. In February 2016 when the work on the Core Offer is complete and resources known a proposed revised MTFP will be presented for consultation. The proposal will show :-
  - (a) The cost of the Core Offer (statutory minimum service level and agreed business case services)
  - (b) Reductions in expenditure required to get to that level
  - (c) Proposals if appropriate to spend above the Core Offer

### Capital Expenditure

46. 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 such as Transport and Schools. In addition there are a number of schemes 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. Attached at **Appendix 9** is the latest capital programme which has regular updates as decisions are made and external funding becomes available.
47. At this point in the MTFP development process it would be normal to review any demands for capital expenditure and propose the allocation of any available resource. Given the considerable financial challenge the Council faces and the need to significantly reduce spending it would be inappropriate to make any further investment decisions at this point in time.
48. An equally significant reason for not making any decisions on capital investment at this time is the links between capital expenditure and revenue expenditure. Despite capital receipts and prudential borrowing only being available to fund capital

expenditure there are links as set out below :-

- (a) Any prudential borrowing has to be funded via repayments from revenue.
- (b) Utilising capital receipts for capital expenditure removes the ability of the Council to utilise receipts from reducing debt and consequential revenue debt repayment costs.
- (c) The methodology and application of how debt is repaid and its links to revenue are currently subject to an officer review to consider prudent options to release revenue funds to assist with delivering a balanced MTFP. Any further applications of capital resources may well have an adverse effect on the ability to deliver such funds.

49. Given the above it is recommended that no further capital expenditure be proposed at this stage and capital investment demands are reviewed post the finance settlement.

50. The Tees Valley Devolution Deal offers the promise of more flexibility on the various capital funding streams that are directed towards economic growth and transport, and from 2017, additional funding of £15m per year. Council Officers will continue to work to develop proposals and programmes that could enable access to these resources, and will also be contributing to the development of criteria and priorities.

### **Consultation**

51. The MTFP will be subject to consultation between 1 December 2015 and 30 January 2016.

## 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 2015/16
Appendix 6	Assessment of Risk Balances
Appendix 7	Minimum Service Level approach
Appendix 8	Proposed MTFP 2016 to 2020
Appendix 9	Capital summary