

**SPECIAL CABINET  
13 DECEMBER 2022**

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**MEDIUM TERM FINANCIAL PLAN  
INVESTING IN AND DELIVERING SUCCESS FOR DARLINGTON**

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**Responsible Cabinet Member - Councillor Jonathan Dulston  
Leader and all Cabinet Members**

**Responsible Directors – Chief Officers Executive**

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**SUMMARY REPORT**

**Purpose of the Report**

1. To propose a Medium Term Financial Plan (MTFP) for 2023/24 to 2026/27 for consultation, including setting a budget and Council Tax increase for 2023/24.

**Summary**

2. The financial pressures on the public sector as a whole and the Council more specifically have been significant over the last couple of years in the aftermath of Covid, and this was on the background of a decade of significant financial challenge following the economic downturn and the reductions in public sector spending.
3. Through good leadership, governance, and financial management, coupled with value for money service delivery the Council has weathered the storms well, and has risen to the challenge by continuing to provide vital core services to the residents of Darlington, and investing the resources available in growing our economy to deliver success for the benefit of all.
4. The current economic climate however presents new and significant financial challenges to the Council's budgets. Rising inflation and interest rates, energy costs, post Covid demand in social care and national living wage rises are putting significant pressure on affordability and unless additional government funding is forthcoming the Council will need to undertake a fundamental review over the course of 2023 to decide what and how services will be delivered in the coming years.
5. The Council's key ambition is to grow the Darlington economy and attract companies into the area to create more and better paid jobs to ensure all our residents will benefit. However, it takes time for the full potential of this ambition to be realised, particularly in the current economic climate. We have made a great start with a number of central government departments making Darlington their northern base and other companies wanting to relocate to the area on the back of this. Darlington is definitely a destination place for businesses and this economic growth will help Darlington to thrive and meet its ambitions.

6. Darlington has been successful in securing funding from the Towns Fund and the Tees Valley Combined Authority (TVCA) funded Indigenous Growth Fund and is transforming the landscape of our town centre, building on the good progress made since 2015. Furthermore, significant investment is continuing with new housing across the Borough, investment at Bank Top, the Head of Steam Museum, Crown Street library and the Town Centre more generally including the Victorian Market and the Yards. All these investments will help further our ambition of making Darlington an attractive place with opportunity where people can invest, live and prosper.
7. In October 2021, the spending review announced a three-year local government settlement, although there was only a one-year financial settlement which is not helpful for planning purposes. The Chancellors Autumn Statement delivered on 17 November 2022 has confirmed this spending review still stands on a cash flat basis, with inflation of 1% to follow from 2025/26. There were also announcements of additional grant funding for social care and changes to the Council tax referendum limits which have been increased to 3% for Council Tax and 2% for Social Care Precept.
8. The Local Government Finance Settlement is not anticipated until week commencing 19 December, the consequence of this is that the draft 2023/24 Budget and MTFP has an eye to future years but does not seek to presume what the future will look like. It aims to ensure that the Council can set a legal budget in 2023/24 and continue to provide our core offer level of services to the residents of Darlington.
9. The Council has performed well in responding to the financial challenges and has taken early action in order to ensure that it is ahead of the curve and not therefore pushed into short term decisions. The Council operates at a statutory service level with a small provision for discretionary services and this is the base level the new MTFP has been prepared on.
10. A healthy level of reserves had been maintained for medium term stability and this is now a crucial component of the budget strategy given the unprecedented pressures faced in the coming year. The reserves will be utilised to meet the 2023/24 funding gap and allow time for detailed work to be completed on savings options during 2023.
11. In summary, if the recommendations are agreed, the Council can deliver a 2023/24 budget which will allow net revenue investment in Darlington and its residents of £119m and capital investment of £111m. It also allows time to undertake a detailed review of all service provision during 2023/24 to deliver savings required in future years.

### **Recommendation**

12. It is recommended that Cabinet approve for consultation the Revenue MTFP as set out in **Appendix 6** and the Capital programme as set out in **Appendix 7**, including the following:
  - (i) A Council Tax increase of 2.99% plus a 2% Adult Social Care Precept to help fund social care for 2023/24.
  - (ii) The Schedule of Charges as set out in **Appendix 3**.

## **Reasons**

13. The recommendation is 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.
- (d) To ensure investment in our assets is maintained.

## **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 and Climate Change	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.
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
Council Plan	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 Council Plan within those constraints.
Efficiency	Efficiency savings which do not affect service levels have been included in the MTFP.
Impact on Looked After Children and Care Leavers	Children's social care continues to be resourced to provide good outcomes for Looked after Children or Care Leavers.

## MAIN REPORT

### Background and context

14. The Council has faced significant financial challenges over the last decade as the Government responded to the worldwide economic downturn by introducing public sector spending reductions. This has been exacerbated by the aftereffects of the pandemic, the Russia/ Ukraine conflict, inflation, rising interest rates and a growing demand for services, particularly in relation to social care, both Adults and Children's services.
15. The Council has to date performed well in responding to these challenges taking early decisions in order to ensure that it was ahead of the curve and was not pushed into short term decision making.
16. The Council's core offer budget which is based on statutory service provision along with a small discretionary provision is the starting position for the 2023/24 budget. The strategy to preserve reserves is now a crucial component of the budget strategy to allow time to see the impacts of the economic growth strategy come to fruition.
17. However, the recent economic events including rising interest rates and inflation have escalated the financial pressures faced to unprecedented levels and unless significant additional income, including funding from Government funding is forthcoming, the core offer moving forward will be unaffordable and need to be fully reviewed during 2023/24 to ensure the Council can maintain an affordable Medium Term Financial Plan.
18. Income and resource levels are discussed in detail later in the paper, however as the Local Government financial settlement won't be received until late December, along with the turbulent times we find ourselves in, it makes it challenging to predict expenditure and income levels moving forward. As a consequence, best estimates have been used and assumptions made on the impact of inflation and demand in 2022/23 going into 2023/24 and the income and resources we will receive in future years.

### Financial Analysis

#### Projected Expenditure

19. As noted previously the core offer budget and futures fund is the level on which the MTFP is based upon. 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 are discussed in the following paragraphs. The assumptions used when preparing the estimates are set out at **Appendix 4**.

<b>Summary of Pressures</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Additional Savings offsetting pressures	(3.567)	(5.320)	(5.173)	(3.989)
Service Demand	2.509	2.671	1.838	2.037
Price Inflation	3.665	4.195	4.264	5.336
Reduced Income	0.493	1.009	1.170	1.231
Other	1.047	1.151	1.172	0.822
Energy	2.551	2.551	2.551	2.551
Pay award	3.870	3.946	4.026	4.106
	10.568	10.203	9.848	12.094

20. **Efficiencies/Savings** – there are significant anticipated savings over the life of the MTFP of £18.049m. Whilst there are immediate and continued demand pressures on Children’s Services, one particularly high-cost package is coming to an end saving £1.4m per annum during 2023/24. Furthermore, as the strengthening families programme comes into fruition there is an anticipated reduction in residential and independent fostering placements of £2.880m. The contribution for Concessionary fares has reduced saving £2.561m and the investment returns on our joint venture housing partnership have increased by £0.924m. The independent triannual review of the pension fund shows it is now fully funded and the contingency allocated for future increases can be released for the next three years saving £2.961m. Other efficiencies cut across all areas and include staff savings and a realignment of running costs achieved following the different ways of working throughout the pandemic.
21. **Increased Service demand** – the main area of increased demand is on children’s services which has seen the number of Looked After Children increase to 289 at the end of September 2022 from 273 in March 2022 and cases are becoming more complex with some of our children requiring significant support. Pressures in this area are being felt nationwide with some commentators noting the Covid pandemic has contributed to this increase. On the back of this demand there has also been more legal fees incurred. The ultimate aim of the strengthening families team is to improve outcomes for children, focus on prevention and reducing the number of children who need to come into care and ultimately reduce the budget pressure. This initiative and the work ongoing as a spend to save scheme, require funding for the next two years. Overall, the pressure on Children’s activities across the MTFP is £5.8m. Demand for school transport has increased due to increased operators’ costs, more routes and more children now accessing free transport due to a large increase in children qualifying for free school meals.
22. **Price Inflation** – is a significant strain on the budget at £17.460m over the MTFP and 67% of that strain is related to our adult social care contracts with a £11.6m pressure. The contracts are linked to various inflation factors including the Consumer Price Index which in September stood at 10.1%, the national living wage set at £10.42 per hour from 1 April 2023 – an increase of 9.7%, which automatically feeds through to the care providers. Also, the residential care contract contains an additional factor for utilities which has significantly increased for 2023/24, and impacts on the contract rate. Whilst this is a

significant pressure on the Council's finances the pressure on the care sector is recognised and these uplifts are required to ensure stability in a very fragile market.

23. **Energy Inflation** – given the enormity of the increases, the energy inflation has been stripped out of the normal inflation pressures. There is an anticipated £10.204m pressure across the MTFP which has arisen following the increases seen in electricity (215%) and gas (260%). This is in addition to the £966k added to the budgets this year. No one knows what the future holds for our energy prices, but the budget assumes no further increases in future years. This inflation needs no introduction, is being seen across the country and has a direct impact on our running costs, from the buildings we operate, the swimming pools we heat to the street lighting electricity usage. Our energy is purchased through the North East Procurement Organisation and the impact is not as high as it could have been as some of our fuel allocation has been pre-purchased. Energy efficiency measures are continually being looked at, for instance the LED street lighting programme, however the significant increase cannot be contained within existing budgets.
24. **Reduced Income** - The main areas of reduced income are the ending of specific grant funding received for Adult Social Care where the services need to continue. There is also an anticipated reduction in council tax income due to a slowdown in housing completions exacerbated by the Nutrient Neutrality ruling and interest rate rises.
25. **Other and Contingencies** – the main pressure against this heading is the increased finance costs on Council borrowing due to the interest rate rises. It is anticipated to be £2.221m across the MTFP. There is also ICT cost pressures for security and mobile data, staffing changes due to pension contributions and grade changes following job evaluation.
26. **Pay Award** – the 2022/23 pay award was settled at a flat rate of £1,925 per employee. The percentage increase was therefore different depending upon base salary; however, the average increase was 6.5%. The 2022/23 MTFP only budgeted for a 3% increase hence the pressure which is recurring each year. Given the high inflation rates a 5% award has been budgeted for in 2023/24 reverting back to 2% thereafter. Together this is a significant pressure of £15.948m over the life of the MTFP.

### **Previous budget provision**

27. **Stronger Communities Fund** – the stronger communities fund was established to assist in grass roots projects and initiatives in each of the elected members wards. It was agreed in the 2021/22 and 2022/23 budget that £0.001m was made available to each member to utilise as they see fit in their communities and reviewed on an annual basis. At this point no provision has been made in the estimates but the utilisation will be reviewed over the next few months with a recommendation on the future of the fund included in the final draft for recommendation in February 2023.

## **Total Expenditure**

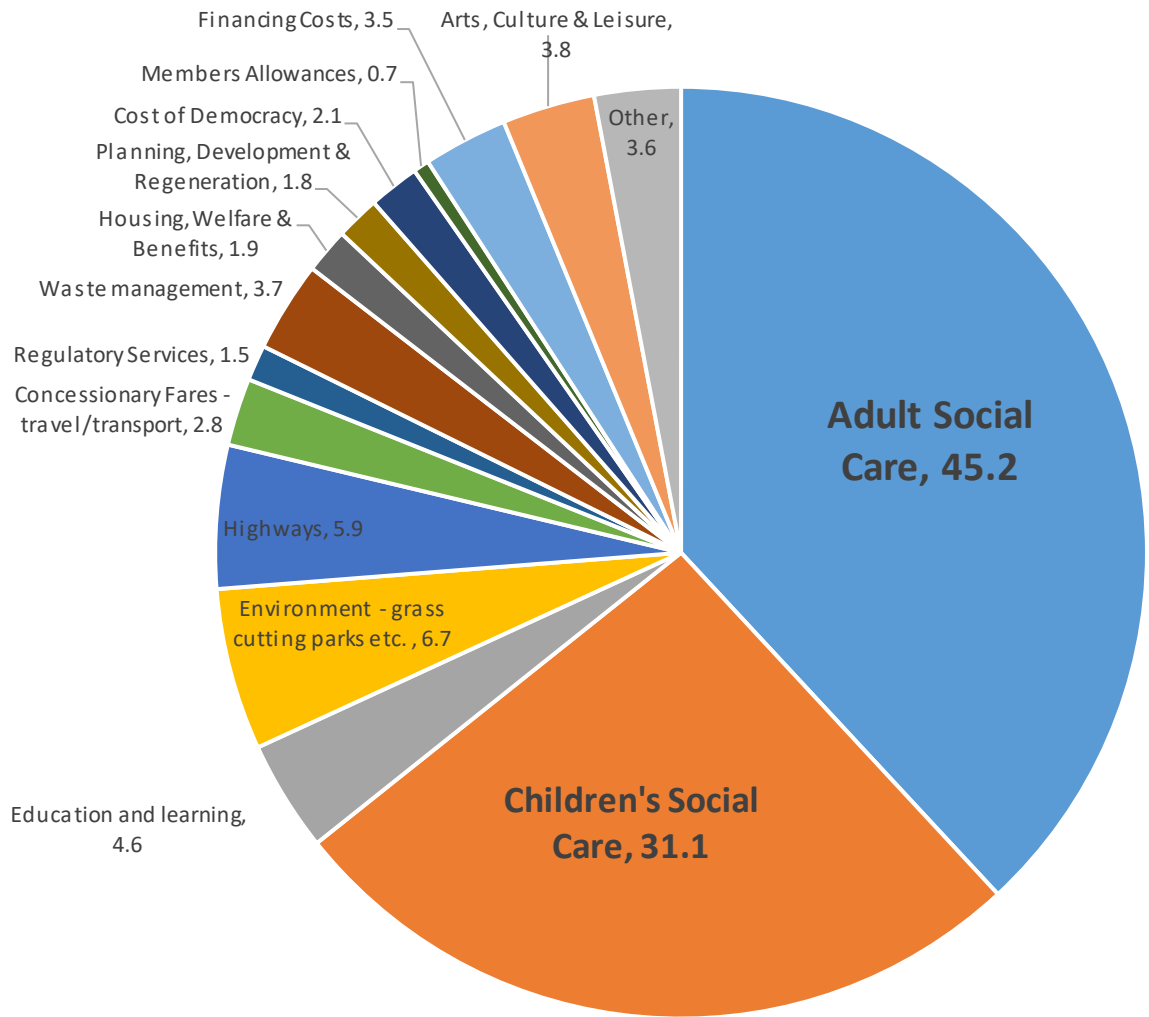
28. Taking the above savings and pressures into account the summarised projected expenditure is shown in the table below:

	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
People Services	74.176	76.320	77.966	80.432
Chief Executives Office & Economic Growth	1.535	1.571	1.664	1.716
Services	20.649	21.264	21.596	22.065
Operations	19.547	19.945	20.263	20.655
Financing costs	3.477	3.613	3.664	3.364
Investment Returns - Joint Venture	(1.816)	(1.718)	(1.130)	(1.130)
Council Wide Pressures/(savings)	1.259	1.283	1.309	1.335
Council Wide Contingencies	(0.237)	(0.246)	(0.255)	1.189
<b>Total Expenditure</b>	<b>118.590</b>	<b>122.032</b>	<b>125.076</b>	<b>129.626</b>

29. This proposed net investment in services of £119m in 2023/24 covers a wide range of areas from refuse collection to adult residential care, from street lighting to school crossing patrols and grass cutting to our Leisure and Culture provision. The chart below shows the split of investment and as can be seen Social Care, both Children's and Adults, are the most significant proportion of funding, accounting for nearly two thirds of the overall budget.



### WHERE THE MONEY WILL BE SPENT ON SERVICES FOR 2023/24 £m



- Adult Social Care
- Children's Social Care
- Education and learning
- Environment - grass cutting parks etc.
- Highways
- Concessionary Fares - travel/transport
- Regulatory Services
- Waste management
- Housing, Welfare & Benefits
- Planning, Development & Regeneration
- Cost of Democracy
- Members Allowances
- Financing Costs
- Arts, Culture & Leisure
- Other

## Projected Income

### **Spending Review and Local Government Finance Settlement**

30. The Autumn budget and spending review was announced on 17<sup>th</sup> November, and whilst the specific detail in regard to Darlington's funding won't be known until the Local Government Finance Settlement, anticipated week beginning 19<sup>th</sup> December, the Chancellor's statement indicated what local government could expect.
31. Those assumptions have been included in the following paragraphs along with best estimates, given the most up to date information available at the time of writing, and will be updated in the MTFP proposals at the February 2023 Cabinet meeting. All assumptions are summarised in **Appendix 4** and detailed in the sections below, however the overriding principle is that we will receive cash equivalent grant funding for all government funding streams unless otherwise stated.

### **Core Grant funding to Local Government**

32. **Revenue Support Grant (RSG)** has become a reducing element of the Council core funding over recent years; however, it has been assumed this will continue into future years with an annual inflationary increase of 2%. Furthermore, as the New Homes Bonus scheme is coming to an end, and the funding for NHB was top sliced from RSG, an assumption has been made this will be returned to Local Government and has therefore been included in the projections for future years.
33. **New Homes Bonus (NHB)** is included in core Government funding as it is top sliced from RSG. The scheme was due to end with only legacy payments made, however it was announced in the settlement that the scheme would be extended for a further year in 2022/23. There was no specific reference in the Autumn Statement, so we have assumed the scheme finishes but the legacy payment levels continue.
34. **Better Care fund and Adult Social Care Support Grant**- these funds were in recognition of the significant challenges faced in the Adult Social care sector and were initially time based. They have however been included as core funding for the last couple of years so it has been assumed this funding will continue into future years on a cash equivalent basis.
35. **Services Grant** – the review covered three years and included a £1.6bn package of support for Local Government (£0.1bn for Cyber security and Troubled families) with £1.5bn distributed directly. The Council received £1.579m un-ringfenced services grant, branded as one off for 2022/23 with a claim this would be reviewed during the year and future distribution considered and consulted upon, this hasn't happened so we are assuming this funding will still come along with top sliced NHB core scheme money which we are anticipating at £588k. There was also £1.162m of grant in the 2021 Spending Review, which again we have assumed continues on a cash flat basis.
36. **Autumn Statement 2022** - the Chancellor announced a funding package for core services beyond the 2021 spending review, £1bn of new grant for social care increasing to £1.7bn in 2024/25 – this will be split between allocations to the Better Care fund and direct support to Councils. We are anticipating the direct support will be £0.728m and £1.237m respectively. It is anticipated the funding to BCF will need to be utilised on additional

packages to allow speedier discharge from hospital. There was also £1.8bn further flexibility for Councils on Council Tax which will be discussed in the next section. The Chancellor also announced a delay to the adult social care charging reforms to give local authorities more time to prepare for rollout. The delay covers the implementation of the extended means test, the lifetime cap on personal care costs and the extension to enable self-funding residents to access local authority commissioning. It was announced that the one-off funding intended for implementation of the charging reforms would be retained by Local Authorities, however we have had no confirmation of how much this funding will be, the grant conditions attached or what the implications are for the 'Fair Cost of Care' exercise. At this point this additional funding has not been included, nor has the expenditure associated with the remaining reforms (e.g., Fair Cost of Care) this will be amended when the settlement figures are received.

### **Council Tax Income**

37. Due to reduction and reliance on Government funding over the last ten years, Council Tax is now by far the largest single funding stream and will increase further as a percentage over the coming years representing 62% of projected resources anticipated by 2026/27. The ongoing increases reflect the Cabinet's view that income from Council Tax needs to increase to protect key service provision and enable investment in vital services. Members will recall that a 1% increase in Council Tax equates to an annual revenue of £0.589m.
38. In recognition of the significant pressures facing local authority budgets particularly in regard to social care with contract inflation, demographic demand and increased complexity of needs, the Chancellor announced in the Autumn Statement that further flexibilities would be given to Councils in both Council Tax and the Social Care Precept with the referendum limit set at 5%, 3% for council tax and 2% for the Social Care Precept, previously they had been 2% Council Tax and 1% precept.
39. This MTFP assumes a Council Tax increase of 2.99% for 2023/24 and across the rest of the MTFP. In addition, it is proposed an Adult Social Care precept of 2% is levied for the next four years. As can be seen in the chart in paragraph 29, Adult Social Care is by far our largest overall budget with a spend of £45.2m and faced pressure of £2.7m in 2023/24. The precept will raise £1.2m which is crucial to help partially meet the pressure faced in this service area.
40. The Council Tax base was affected by Covid-19 due to the increase in Local Council Tax support claimants (LCTS) however those levels have started to reduce. There is however an impact anticipated due to Nutrient Neutrality with planning permissions halted until the legislation is changed or mitigations schemes are found by developers. There is also an impact on housing demand due to rising interest rates and mortgage costs which are anticipated to affect housebuilding levels. Moving forward planning estimates anticipate growth levels to be an average of 428 Band D equivalent properties over the period of this plan which is a growth on the tax base of 1.21% per annum. These figures have been used to prepare the estimates; clearly should this be any different income levels will differ. The collection rate (of collectable debt) is anticipated to remain at 99% in 2023/24, but as mentioned previously other factors are impacting on the overall income levels.

## **National Non-Domestic Rates (NNDR)**

41. 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 Consumer Price Index (CPI). 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 businesses against valuations.
42. Growing the economy is the key priority in the Council Plan and the Economic Strategy gives priority to increasing business within the borough and significant effort has been put into achieving growth. This has been rewarded with a positive net increase in NNDR collection. Sites such as Symmetry Park and Central Park are all contributing to the growth and the Darlington Economic campus will be located at Brunswick Street in 2026 housing His Majesty’s Treasury Department along with several other government departments including the Department for Levelling up, Housing and Communities. This is providing a boost to the town with other employers looking to relocate to Darlington.
43. Notwithstanding these major developments, attracting businesses into the town by their very nature takes time and upfront investment and therefore is an area which needs continued prioritisation and pump prime funding so growth can continue. It needs to be remembered that net growth in NNDR collected relies on growth outstripping revaluations and reductions which can be very challenging in the current economy.
44. One area of uncertainty is the business rate reset. The business rates system changed in 2013 and Councils received 49% of the NNDR collected above the base level, this was to incentivise Councils to drive economic growth. The system was due to be reviewed in 2020, with the intention of resetting the baseline and a review of need across the board and a subsequent redistribution of funding. This was part of the Fair Funding Review which has been postponed for a number of years now and there is no indication if this will happen in 2023/24. As Darlington has seen a healthy increase in business rates any reset would likely reduce funding in this area. Given the review has been postponed and there would need to be consultation on any new formula system, it has been assumed this would not impact on Darlington until 2024/25.
45. The in-year collection rate target for NNDR is 98.0% and as at the end of October 2022 is 69.8% and on track to achieve the target.

## **Collection Fund**

46. 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 the Business Rates Retention Scheme (BRRS). The Fund records all of the transactions for billing in respect of Non-Domestic Rates (NNDR) 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 and Rescue precept authorities and Central Government. The collection fund has benefited from business growth over the past few years on the back of the economic growth strategy with a robust healthy position. It is therefore felt prudent to release £2m of the fund into general reserves to assist the MTFP position. Furthermore, a government

Covid grant of £1.415m received to support the collection fund in the light of increased LCTS claimants during the pandemic and the aftermath can also be released given the numbers of claimants are now reducing back to pre-covid levels.

### Other Grants

47. Set out below are the estimated specific grants which as the title suggests are for specific areas of expenditure as dictated by the government and cannot be used for other areas; the main one being the Public Health ring-fenced grant. These grants are included in service estimates at Appendix 1.

	<b>2023/24</b>
	<b>£m</b>
Public Health Grant	8.831
PFI Grant	3.200
Youth Justice Board	0.223
Local Reform & Community Voices	0.057
Adult & Community Learning	1.062
Staying Put	0.055
Heritage Action Zone	0.047
Garden Village	0.100
Parks for People	0.014
Towns Fund	0.080
	13.669

### Fees and charges

48. The proposed fees and charges of the Council are set out in **appendix 3** the increases proposed are based on the cost of providing the services and take account of inflation and market conditions. Overall, the proposed increases are anticipated to generate approximately £200,000 of income to help offset the cost-of-service provision.

### Total Income

49. The table below summaries the Council's estimated income for the period of this plan which thanks to the increase in spending announced in the Autumn Statement, continued economic growth and house building activity, and the subsequent increases in Council Tax and NNDR, confirms a much-needed increase in income given our expenditure pressures.

<b>Resources - Projected and assumed</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Council Tax	61.877	65.556	69.791	74.375
Business rates retained locally	23.021	16.510	16.851	17.192
Top Up Grant	8.029	11.736	11.901	12.065
RSG	3.943	4.022	4.102	4.184
New Homes Bonus	0.354	0.354	0.354	0.354
Better Care Fund	4.488	4.488	4.488	4.488
Adult Social Care Support Grant	3.753	3.753	3.753	3.753
Spending Review 21 Government Funding	1.162	1.162	1.162	1.162
2022/23 Services Grant	2.167	2.167	2.167	2.167
Social Care Grant	0.728	1.237	0.000	0.000
Strengthening Families Grant	0.500	0.500	0.000	0.000
Lower Tier Services Grant	0.151	0.151	0.151	0.151
<b>Total Resources</b>	<b>110.173</b>	<b>111.636</b>	<b>114.720</b>	<b>119.891</b>

### Projected MTFP

50. Set out in the table below are the projections based on the income and expenditure analysis discussed in the previous sections, as can be seen there is a significant funding gap in each financial year. We are anticipating having £23.2m reserves which can be utilised to support the plan which would cover the position until 2025/26 however it is clear significant expenditure reductions will be required in future years if additional government funding is not forthcoming.

	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Estimated Expenditure	108.022	111.829	115.228	117.532
Add Pressures / Additional savings	10.568	10.203	9.848	12.094
	118.590	122.032	125.076	129.626
Projected Total Resources	(110.173)	(111.636)	(114.720)	(119.891)
Projected budget deficit	8.417	10.396	10.356	9.735
Utilisation of balances	(8.417)	(10.396)	(10.356)	(9.735)
<b>Total</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

## Revenue Balances

51. The projected revenue outturn for 2022/23 detailed at **Appendix 5**, has improved by £0.543m since quarter two from £22.662m to £23.205m however taking account of this and the Risk Reserve of £5.350m, as noted above our reserves will be fully utilised during the 2025/26 financial year. This is not a sustainable position, and a full review of service provision will need to be undertaken during 2023/24 to reduce expenditure and increase income unless further government funding is received.
52. In the light of the significant financial pressures the Council is facing work has begun on efficiency measures to reduce expenditure in areas which do not directly hit service provision

Revenue Balances	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Opening balance	23.205	17.203	7.807	(2.549)
Release of Earmarked Reserve - LCTS	1.415	0.000	0.000	0.000
Net contribution to GF from Collection Fund	1.000	1.000	0.000	0.000
Contribution to/(from) balances	(8.417)	(10.396)	(10.356)	(9.735)
Closing balance	<b>17.203</b>	<b>7.807</b>	<b>(2.549)</b>	<b>(12.284)</b>

## Capital Expenditure

53. The Council has an extensive capital programme with significant resources invested to purchase, improve, protect, and maintain our assets, to enable the Council to deliver its priorities, for example purchasing land to enable road improvements or investing in modernising school buildings and housing. The Council continues to deliver a significant capital investment programme in the main funded from the Housing Revenue Account (HRA) and grant or other external funding which is targeted at specific schemes and programmes such as Transport and Schools. Furthermore, investment from the Tees Valley Combined Authority (TVCA) along with European and other external funding sources are being used for economic growth initiatives.
54. The Council can also supplement these funding sources with its own resources such as capital receipts or prudential borrowing where there is a need, however as capital receipts are limited, and prudential borrowing comes with future revenue implications there must be a strong case for doing so.
55. In recent years there has been significant investment in Economic Growth either funded or pump primed by the Council; schemes such as Central Park including the National Biologics Centre and Business Central along with the Development of Feethams House which is now the temporary home for the Darlington Economic Campus, and recent Town Centre purchases funded from the Towns Fund and Indigenous Growth Fund are helping to make Darlington a more vibrant place to be. The Council's Investment Fund and Economic Growth Investment Fund are both being utilised to invest in these areas which ultimately increases business rates and the finances of the Council helping vital services to be funded.

56. The current capital programme stands at £308m as summarised in Table 1 below. The programme is monitored on a monthly basis and reported to Cabinet on a quarterly basis; the latest available monitoring report for the 2022/23 was presented to Cabinet on 8 November 2022 and noted there was a projected £0.132m underspend on the approved capital programme.

**Table 1**

	Construction				Non construction	Capital investment fund	Housing New Build not yet allocated	Total
	Live Schemes 75k & Over	Annualised Schemes	Completed Schemes awaiting review	Live Schemes under 75k				
Area	£m	£m	£m	£m	£m	£m	£m	£m
Housing	65.824	0.667	0.562	0.160	1.205	0.000	29.023	97.441
Economic Growth	54.849	0.000	0.485	0.578	9.804	27.716	3.216	96.648
Highways/Transport	64.762	7.113	5.755	2.322	1.334	0.000	2.228	83.514
Leisure & Culture	22.351	0.000	0.072	0.175	0.000	0.000	0.000	22.598
Education	4.155	0.000	0.000	0.323	0.053	0.000	0.290	4.821
Adult Social Care	0.000	0.000	0.000	0.000	0.071	0.000	0.000	0.071
Other	0.000	0.000	0.000	0.000	2.655	0.000	0.000	2.655
<b>Total</b>	<b>211.941</b>	<b>7.780</b>	<b>6.874</b>	<b>3.558</b>	<b>15.122</b>	<b>27.716</b>	<b>34.757</b>	<b>307.748</b>

57. In addition to the current agreed programme the Council looks ahead to future capital requirements based on the principles of the capital strategy. A four-year timeframe has been adopted to fall in line with the revenue Medium Term Financial Plan. Attached at **Appendix 7** are the priority proposals for addition to the plan along with the funding methods. The majority of schemes are focused on 'Housing and Transport, funded via the HRA and government grants respectively; there are also a number of Council funded corporate schemes that have already been approved.

58. The following paragraphs describe the major elements of the capital programme priorities for approval. Specific scheme funding release will be subject to detailed reports to Cabinet.

### **Corporate Schemes – funding required**

59. As noted previously the Council can supplement government capital funding, albeit options are limited in the current financial climate. Funding can come from prudential borrowing, repaid via revenue, which puts additional pressure on the revenue account or from capital receipts. Given the financial position of the Council only schemes that are a health and safety risk or that are self-funding have been considered while there is uncertainty over the overall funding envelope.

60. The risk assessed usable capital receipts over the next four years are in the region of £12m. Of this £1.110m has been allocated to the Eastbourne Sports Complex for the replacement running track and the new APG pitches and parking leaving just under £11m unallocated.



61. There will be many competing priorities against the available resources for both regeneration and refurbishment and these schemes will emerge over the coming year/s. At this stage Members are requested to make capital provision for three priority schemes with a total value of £1.374m, which will be subject to full reports to Cabinet in due course, these are:
- (a) **Whinfield School replacement roof - £1.124m** - £620k was approved in the 2022/23 capital programme for repairs on the roof however the costs have significantly increased and funding of £1.124m is required. The roof is in a very poor state of repair and needs to be completely renewed. The funding received for school condition works is insufficient to fund an undertaking of this magnitude. Over the last five years ongoing maintenance work has been carried out to keep the school watertight, however it is now at the point where unless this work is undertaken there will be further deterioration of the roof and a likely impact on delivery of education at the school.
  - (b) **Essential Works to Skerne Bridge - £0.050m** – is required for essential works to the Skerne bridge at the rear of the rugby club.
  - (c) **Essential play area equipment replacement - £0.200m** – is required to meet Health & Safety requirements and to ensure that the play equipment is fit for purpose.

### **Self-Financing Schemes**

62. There are 3 schemes that are classified as self-financing whereby the costs will be covered by either grants or by the rental income generated.
63. Following the successful establishment of Darlington Economic Campus (DEC) in the Council owned Feethams House under a 5-year lease agreement and given the ongoing investment in the building by Government it is unlikely the building will be available for the general market once the DEC move to its proposed permanent location at Brunswick Street. This will mean the only Council owned grade A office building, will not be available to accommodate the ongoing business enquiries, many of which are related to the relocation of His Majesty's Treasury (HMT) and other Government departments.
64. Therefore, more than ever before, Darlington town centre must be competitive if it is to be vibrant, diverse and successful and to achieve this, it is considered vital that the Council assists in leading, facilitating and enabling the conditions for economic growth through direct intervention in economic development and regeneration in partnership with business and communities. The three items below are actions to achieve this aim and full business cases for these schemes will be presented to Cabinet at a future date with details on the funding arrangements.
- (a) Development of an office block at Priestgate - £10.0m
  - (b) Northern Echo Building refurbishment - £5.5m
  - (c) Skinnergate office/commercial space - £1.6m

## Government Funding

65. Set out below are details of the levels of Government funding available for investment by the Council in 2023/24 and an outline of the proposed use of these funds.

	<b>2023/24 £m</b>
<b>Children's Services</b>	
School Condition Allocation	0.159
<b>Transport</b>	
Local Transport Plan	3.068
<b>Other</b>	
Disabled Facilities Grant	1.063
<b>Total Capital Grant Available</b>	<b>4.290</b>

## School Condition Allocations

66. The Local Authority now only receives school condition funding for Community Maintained Schools. Maintenance funding for Academies is available through other routes. This funding received by the Local Authority will be spent in line with key priorities identified with each maintained school through the locally agreed asset management planning (LAMP) process, carried out each January. There are no strict spend deadlines for these small-scale condition related projects which are prioritised and completed as funding becomes available.

## Transport and Highways

67. A new Local Transport Plan for the Tees Valley was endorsed by the Tees Valley Cabinet in 2021. This will help set the spending plans for the funding allocations from the Department for Transport and from the Devolution deal. The Integrated Transport Programme (ITP) of TVCAs Investment plan identifies £256.7m of investment over the next 10 years. There will be projects and initiatives delivered in Darlington from this fund.
68. The new Tees Valley Local Transport Plan has a number of accompanying documents that set the strategy and vision for different modes of transport. Each Local Authority is required to produce a Local Improvement Plan, which will effectively replace the local authority Local Transport Plan. These plans will cover local priorities and maintenance requirements. Prior to this year the Council received funding via TVCA that was based on needs formula. However, all of the funding has now been merged into the new City Region Sustainable Transport Settlement (CRSTS), which is a 5-year allocation of funding. The Tees Valley have been allocated £310m. The details of this allocation have been finalised and the Council has been awarded £15.340m over the 5 years to 2026/27. The annual amount of £3.068m is based on the following breakdown which includes £0.893m for the Integrated Block, £1.206m for the Highways Maintenance Block plus £0.969m for the Pothole action programme. The new CRSTS will provide the opportunity to deliver

larger improvement schemes in Darlington identified in the Tees Valley and Darlington transport plans and these will be dealt with on an individual project basis.

### **Disabled Facility Grants**

69. These grants are available if you are disabled and need to make changes to your home with examples being:

- (a) Widen doors and install ramps,
- (b) Improve access to rooms and facilities – e.g., stair lifts or a downstairs bathroom,
- (c) Provide a heating system suitable for your needs, and
- (d) Adapt heating or lighting controls to make them easier to use.

### **Housing**

70. All Housing Capital schemes are funded fully from the Housing Revenue Account. The priorities identified through the Housing Business Plan will be funded from the estimated capital resources for 2023/24. Further detail is given in the Housing Revenue Account financial plan but in summary includes:

- (a) Adaptations and lifts - £0.200m
- (b) Heating Replacement - £1.225m
- (c) Structural Works - £0.400m
- (d) Lifeline Services - £0.150m
- (e) Repairs before Painting - £0.060m
- (f) Roofing and Repointing work - £1.000m
- (g) Garages - £0.025m
- (h) External Works - £0.200m.
- (i) Pavements - £0.032m
- (j) Window & Door Replacement - £1.400m
- (k) Internal planned maintenance (IPM) - £2.760m
- (l) Communal Works - £0.150m
- (m) Energy Efficiency Improvements - £1.000m
- (n) New Build housing - £15.673m
- (o) Fees - £0.310m

### **Consultation**

71. This report will be published for consultation from 5 December 2022 to 20 January 2022.

### **Conclusion**

72. The Council has faced significant financial challenges over the last decade, with reductions in government funding followed by the financial instability during the pandemic, but to date has risen to these challenges well which has enabled a balanced MTFP.

73. 2022 has presented further challenge with the Russia/Ukraine crisis and subsequent soaring energy prices, high inflation levels and demand on services in particular social care at an unprecedented level.

74. The future of Local Government financing is still uncertain; however, it is clear from the Autumn Statement that public funding will not keep up with inflation. The Council can deliver a balanced position until 2024/25 utilising reserves as per our financial strategy, however there is an annual budget deficit which is not sustainable and will need to be addressed. Unless further funding is forthcoming the Council will need to both reduce expenditure and increase income to ensure we have a stable position moving forward.
75. Planning beyond the current year is extremely difficult, given the uncertainty around future funding and the review of the new Local Government Financial system, inflation and economic uncertainty, the conflict in Ukraine which is having significant pressure on our energy costs and the general cost of living crisis. Current planning suggests reserves will be depleted in 2025/26 and there will be a budget deficit of approximately £10m, however for the reasons above, this will almost certainly change. At this stage it is not possible to know whether this will be a positive or negative position.
76. In summary, the Council continues to face significant financial challenges, however, due to the healthy reserves position which now play a crucial role in the budget strategy, the Council can afford a 2023/24 budget and have reserves available to enabling time to achieve the savings required for future years. Making these savings will be challenging and there are risks given current economic uncertainty and estimated impacts of interest rates, inflation, demand, and energy costs have been factored in, if these change plans will need to be adjusted.
77. As the Council's Statutory Chief Financial Officer, the Group Director of Operations must advise the Council on the robustness of the budget and adequacy of reserves. The budget presented to Members in this report has been based on the most accurate information available at this point in time, therefore the Director is confident that they are an accurate reflection of the Council's financial position. Notwithstanding this there is a significant degree of uncertainty with regard to the future economic position and local government funding so this the position presented whilst as accurate as possible will change, however at this juncture I cannot be sure if that will be for the better or worse
78. General Fund Reserves are adequate for the coming financial year; however, the Council is carrying a significant financial risk over the lifetime of the plan with an unsustainable annual deficit which will need to be met from service reductions and/or increased income if no further government funding is realised. It is essential we maximise income where possible, ensure we are providing our services in the most efficient manner, and address the growing pressures in social care through transformation, as the Council needs to preserve reserves and allow as much time as possible to reduce the ongoing annual funding gap.

## APPENDICES

Appendix 1	Detailed Estimates
Appendix 2	Budget Pressures / Savings
Appendix 3	Fees and Income Proposals
Appendix 4	Assumptions used to prepare estimates
Appendix 5	Projected Revenue Outturn 2021/22
Appendix 6	Proposed MTFP 2023 to 2027
Appendix 7	Capital programme