

**SPECIAL COUNCIL
16 FEBRUARY 2023**

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

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

Responsible Directors – Chief Officers Executive

SUMMARY REPORT

Purpose of the Report

1. To approve a Medium Term Financial Plan (MTFP) for 2023/24 to 2026/27 including setting a budget and Council Tax increase for 2023/24. To also approve the 2023/24 to 2026/27 Capital programme.

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, furthermore 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 rising 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 next couple of years 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. It does however take time for the full potential of this ambition to be realised, particularly in the current economic climate. The Council has 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 the town centre. 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. The Local Government Finance Settlement delivered on the 19 December 2022 confirmed funding allocations for the two years remaining of the spending review with 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. Future years funding beyond this period have not been confirmed and the consequence of this is that the draft 2023/24 – 2026/27 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 years. The reserves will be utilised to meet the 2023/24 funding gap and allow time for detailed work to be completed on future savings options.
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 £120m and new capital investment over the plan of £111m.

Recommendation

12. Council are requested to:
 - (a) Approve 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**.
 - (b) Approve a delegation for Cabinet to vary the Revenue Budget for 2023/24 by up to £0.5m without further Council approval.

- (c) Approve a delegation for Cabinet to vary the Capital Budget for 2023/24 by up to £0.5m without further Council approval.

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 has been a crucial component to allow time to see the impacts of the economic growth strategy come to fruition.
17. The economic events over the last year including rising interest rates and inflation have escalated the financial pressures faced to unprecedented levels and moving forward, unless further government funding is received the core offer will need to be fully reviewed over the next couple of years to ensure the Council can maintain an affordable Medium Term Financial Plan.
18. The draft Local Government Finance settlement was received on the 19 December 2022 and with it a welcomed increase in funding for social care via grant and precept flexibilities. However, our pressures exceed the increased funding levels and as the settlement only covers the spending review period 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.

Updated Information and changes to the draft MTFP

19. As a result of updated information since the draft MTFP was approved for consultation, a number of changes have been made to this proposed MTFP. The net effect is an additional £8.4m in resources across the life of the plan. These changes along with the references to where they appear in the report are shown below:

No.	Change	Effect	Para	App
1	Council Tax reduced to 2.99% in 2025/26 & 2026/27	Over the life of the MTFP reduces reserves by £4.137m	48, 58, 59, 61	4, 6
2	Settlement – increase in business rates retained locally due to reset being delayed	The delay increases reserves by £3.832m in 2024/25 with a further increase in reserves of £2.238m over the life of the MTFP	53, 58, 59, 61	6
3	Settlement – increase in top up grant due to reset being delayed	Over the life of the MTFP increase reserves by £1.165m	58, 59, 61	4, 6
4	Settlement – NHB scheme assumed to end after 2023/24	Over the life of the MTFP reduces reserves by £0.849m	40, 58, 59, 61	4, 6
5	Settlement – Increased RSG due to uplift of inflation	Over the life of the MTFP increases reserves by £0.802m	39, 58, 59, 61	4, 6
6	Settlement – Reduction in Services grant	Over the life of the MTFP reduces reserves by £5.108m	42, 58, 59, 61	4, 6
7	Settlement – Social Care grant announced in Autumn Statement included in Adult Social Care Market Sustainability & Improvement Grant (ring-fenced)	Over the life of the MTFP reduces reserves by £1.965m	44, 58, 59, 61	6
8	Settlement – new Social Care Grant	Over the life of the MTFP increases reserves by £15.150m	43, 45, 58, 59, 61	4, 6
9	Settlement – removal of the Lower Tier Services Grant	Over the life of the MTFP reduces reserves by £0.604m	58, 59, 61	6
10	Additional pressures/savings	Pressures identified in children’s placements, support and legal fees, school transport, additional inflationary and employee costs. Savings identified in Utility costs. Reduces reserves by £1.875m	20 - 26, 36, 37, 58, 59, 61	1, 2 & 6
11	New agreed spend	Includes Events, discretionary cost of living fund, Street Scene fly tipping and back lanes & YEI. Reduces reserves by £0.398m	20, 30, 31, 32, 35, 36, 37, 58, 59, 61	1, 2 & 6
12	Stronger Communities Fund	Reduces reserves by £0.050m	28, 61	6
13	Qtr 3 Revenue Budget Management	Improved position at Quarter 3 increases reserves by £0.192m	60, 61	6
14	Fees and charges	Omission from draft. Booking fee for ceremonies.	57	3

Financial Analysis

Projected Expenditure

20. 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**.

<u>Summary of Pressures</u>	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Additional Savings offsetting pressures	(3.567)	(5.320)	(5.173)	(3.989)
Service Demand	3.764	3.956	3.143	3.362
Price Inflation	3.689	4.281	4.357	5.438
Reduced Income	0.493	1.009	1.170	1.231
Other	1.445	1.151	1.172	0.822
Energy	2.251	1.451	1.451	1.451
Pay award	3.870	3.946	4.026	4.106
	11.945	10.474	10.146	12.421

21. **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 during 2023/24 saving £1.4m per annum. 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 triennial 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.
22. **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 £10.7m. 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.

23. **Price Inflation** – is a significant strain on the budget at £17.765m over the MTFP and 67% of that strain is related to our adult social care contracts with a £11.9m 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.
24. **Energy Inflation** – given the size of the increases, the energy inflation has been stripped out of the normal inflation pressures. There is an anticipated £6.604m pressure across the MTFP which has arisen following the increases seen in electricity (136%) and gas (237%). This is in addition to the £966k added to the budgets this year. No one knows what the future holds for our energy prices, and numbers change on a monthly basis, for planning purposes the budget assumes no further increases in future years. This inflation needs no introduction and is being seen across the country. It 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.
25. **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.
26. **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.
27. **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.

Additional budget provision

28. **Stronger Communities Fund** - £0.050m – 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. A report was taken to the Communities and Local Services Scrutiny Committee on 12 January and subsequently forwarded to the Economy and Resources Committee on 19 January, updating on the spend to date and initiatives Councillors had funded.
29. Scrutiny recommended to Cabinet that the scheme should be extended for a further year with six monthly reports back to committee to monitor progress. At the beginning of the financial year each members fund will be topped back up to £1,000. Members final spend will not be known until the end of March 2023 so a full provision of £0.050m has been included in the MTFP for 2023/24. If this is not utilised it will be returned to reserves.
30. **Events – Promoting Darlington’s Economic Growth £0.060m** - Strengthening the Town Centre Events to include the Kings Coronation celebrations and staffing support. Town Centre events are a key in bringing communities together, the Queen’s Jubilee celebrations across the town were enjoyed by many and it is fitting the Kings Coronation is also celebrated this year. We are awaiting government guidance in regard to the Coronation and will be bidding for any funding available to help offset any costs incurred.
31. **Street Scene (fly tipping and back lanes) - £0.070m** - A dedicated team have been funded from one off futures fund pots which have now come to an end. The work of the team ensures fly tips can be removed quickly and that the education campaigns can continue, encouraging more responsible behaviour with the ultimate aim of reducing unsightly litter in back lanes and targeting litter hot spots. The proposal is to continue to fund this team for a further year.
32. **Youth Employment Initiative £0.168m** - This service is funded from the European Social Fund until July 2023. This important service provides practical help, advice and support to 16-29 year olds to help them into employment, both those claiming benefits and those classified as ‘economically inactive’ in the labour market. The economically inactive group includes students, those looking after family or the home, temporarily sick, long term sick and retired (under retirement age).
33. To date 93% of the young people who engaged with our YEI programme have progressed into employment or education and 57% of those were still in employment or education six months later. In the last 12 months we had 335 starts on programme.
34. There is a possibility further funding will be secured through UKSPF however the specifications haven’t been released yet, when it is we will bid into it but at this stage we cannot guarantee we will be successful or how large the funding stream is. To ensure the continuation for the remainder of 2023/24 this funding will be set aside in a contingency budget provision.
35. **Discretionary cost of living support fund £0.100m** - The cost of living is a concern to many residents, the council is supporting our communities in many ways including the household support fund, the crisis support fund administered through Citizens advice

bureau, the discretionary council tax relief fund and working with our voluntary sector partners. Despite this we recognize there are residents who are in difficulty and want to establish a one off fund of £100k to be used on initiatives to help with the cost of living. We have recently purchased Low Income Activity Tracker (LIFT) software which will help to identify residents in vulnerable positions and schemes will be drawn up in the new year using this data to target those most vulnerable.

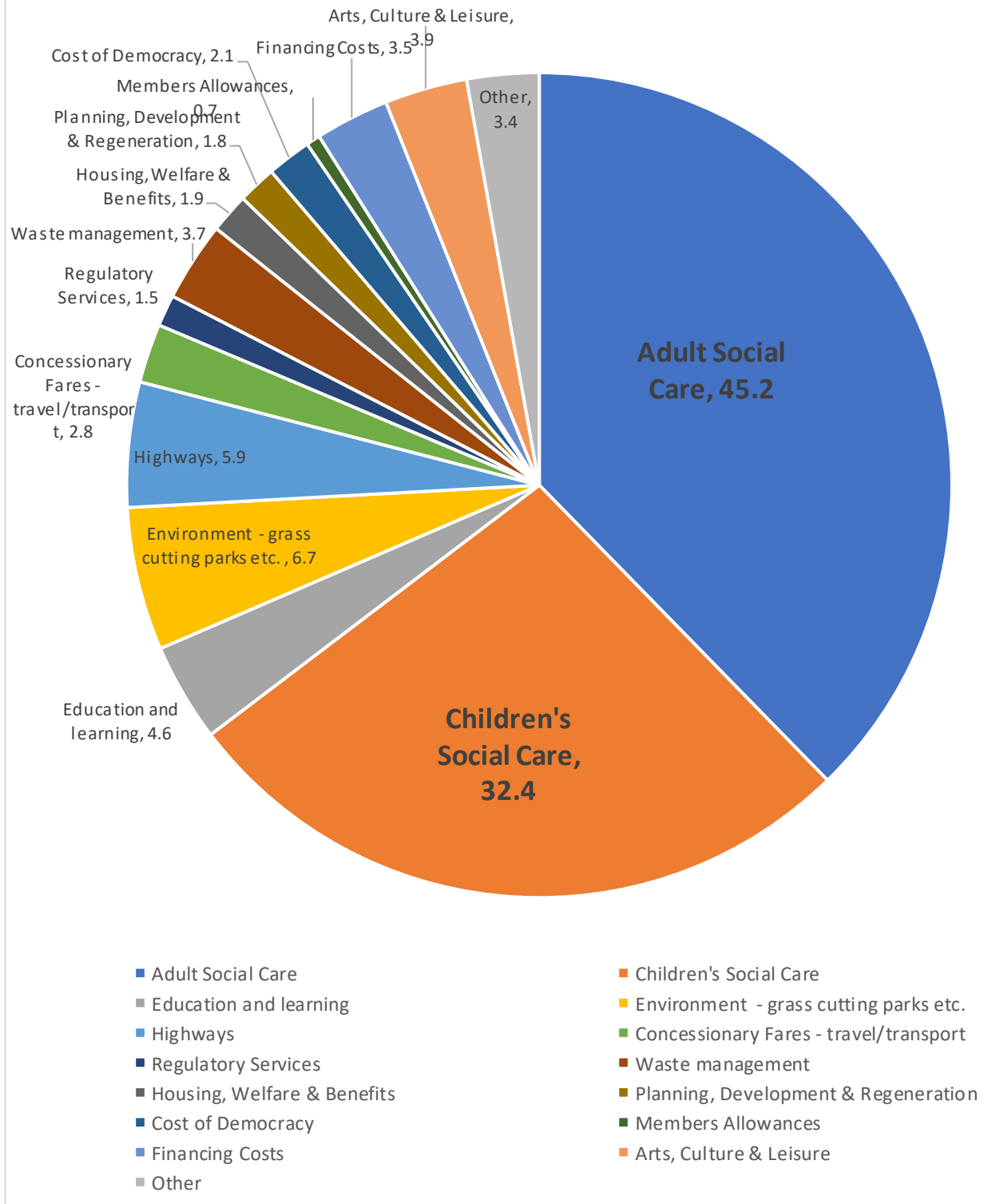
Total Expenditure

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

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
People Services	75.355	77.591	79.264	81.759
Chief Executives Office & Economic Growth Services	1.535	1.571	1.664	1.716
Operations	20.749	21.054	21.386	21.855
Financing costs	19.377	19.155	19.473	19.865
Investment Returns - Joint Venture	3.477	3.613	3.664	3.364
Council Wide Pressures/(savings)	(1.816)	(1.718)	(1.130)	(1.130)
Council Wide Contingencies	1.359	1.283	1.309	1.335
	(0.069)	(0.246)	(0.255)	1.189
Total Expenditure	119.967	122.303	125.374	129.953

37. This proposed net investment in services of £120m 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



Projected Income

Local Government Finance Settlement

38. The draft Local government Finance Settlement was announced for consultation on 19 December 2022 and confirmed a number of assumptions made in the Autumn statement and spending review was announced on 17 November. Consultation on the settlement closed on the 16 January 2023 and at the time of writing we have yet to hear if there are any changes to the draft, however in previous years there has been little, if any movement so this plan is based on the draft position. The settlement is for one year although announcements on additional social care spending have been made for two years along with precept levels and indications on what inflation may be added. The Medium Term Financial plan is therefore based on assumptions for years two to four of the plan using the best estimates on the latest information available. All assumptions are summarised in **Appendix 4** and detailed in the sections below.

Core Grant funding to Local Government

39. **Revenue Support Grant (RSG)** has become a reducing element of the Council core funding over recent years; however, it has been confirmed this will be uplifted by CPI in 23/24 and it has been assumed this will continue into future years with an annual inflationary increase of 2%.
40. **New Homes Bonus (NHB)** has been extended for a further year without legacy payments. There was no announcement on the future of the New Homes bonus however there was reference to repurposing some of the fund for inflationary pressures for the funding guarantee which ensures no council will receive less than a 3% increase in funding. Given this statement it has been assumed no further NHB payments will be received in future years.
41. **Better Care fund, 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 so it has been assumed this funding will continue into future years on a cash equivalent basis.
42. **Services Grant** – was announced in 2021 as an un-ringfenced package of support for Local Government, the Council received £1.579m in 2022/23. The settlement has confirmed this will be reduced in future years in part because there will no longer be increased National Insurance contributions and the compensation is therefore reduced, in addition some is being utilised for the Supporting Families Programme. The Councils allocation for 2023/24 is £0.890m and it is assumed this level will continue into future years on a cash flat basis.
43. **Social Care grant** - this funding is a continuation from the 2021 spending review and can be utilised to fund both Children and Adults social care and is distributed on the relative needs formula.
44. **New and repurposed Social Care funding** – two funding packages were announced in the Autumn statement and further clarity has been provided in the Local Government Finance Settlement. The New grant funding of £1bn in 2023/24 and £1.7bn in 2024/25 will be distributed via the Better care fund and directly to councils. This is to be used to enable

Local authorities to make improvements to adult social care in particular to address delays in discharges, social care waiting times and workforce pressures. To that end this funding will undoubtedly generate additional cost and has not been included in the MTFP income stream.

45. Repurposed monies from delaying charging reform in 2023/24 and 2024/25 of £1.265bn and £1.877bn respectively is being distributed to councils and added to the existing social care grant so can be utilised for both Adults and Children's services. It is anticipated this funding will continue in future years given the significant pressures on the system.

Council Tax Income

46. 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 59% 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.
47. 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.
48. The Finance settlement confirmed the referendum limits however this was only for two years. Therefore, the MTFP assumes a Council Tax increase of 2.99% for 2023/24 and 2024/25 reverting back to 1.99% thereafter. In addition, it is proposed an Adult Social Care precept of 2% is levied for the next two years and reverts to 1% thereafter. As can be seen in the chart in paragraph 37, 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.
49. 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)

50. 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.
51. 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.
52. 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.
53. 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. The government have confirmed the reset will not happen in the current spending review so the impact has been assumed for 2025/26.
54. The in-year collection rate target for NNDR is 98.0% and as at the end of December 2022 is 85.4% and on track to achieve the target.

Collection Fund

55. 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

56. 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.

	2023/24
	£m
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

57. 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

58. 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.

Resources - Projected and assumed	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Council Tax	61.877	65.556	68.461	71.568
Business rates retained locally	23.021	23.481	16.407	16.735
Top Up Grant	8.156	8.596	13.703	14.440
RSG	4.133	4.219	4.306	4.395
New Homes Bonus	0.567	0.000	0.000	0.000
Better Care Fund	4.488	4.488	4.488	4.488
Adult Social Care Support Grant	3.753	3.753	3.753	3.753
Social Care funding SR21	1.162	1.162	1.162	1.162
Services Grant	0.890	0.890	0.890	0.890
New Social Care Grant	2.781	4.123	4.123	4.123
Supporting Families Grant	0.500	0.500	0.000	0.000
Total Resources	111.327	116.768	117.293	121.554

Projected MTFP

59. 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 £23.4m reserves which can be utilised to support the plan which would cover the position fully until 2025/26 however it is clear significant expenditure reductions will be required in future years if additional government funding is not forthcoming.

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Estimated Expenditure	108.022	111.829	115.228	117.532
Add Pressures / Additional savings	11.945	10.474	10.146	12.421
	119.967	122.303	125.374	129.953
Projected Total Resources	(111.327)	(116.768)	(117.293)	(121.554)
Projected budget deficit	8.640	5.535	8.081	8.399
Utilisation of balances	(8.640)	(5.535)	(8.081)	(8.399)
Total	0.000	0.000	0.000	0.000

Revenue Balances

60. The projected revenue outturn for 2022/23 detailed at **Appendix 5**, has improved by £0.735m since quarter two from £22.662m to £23.397m after taking account of the Risk Reserve of £5.350m, as noted above our reserves will be fully utilised during the 2026/27 financial year. This is not a sustainable position, and a full review of service provision will need to be undertaken to reduce expenditure and increase income unless further government funding is received.
61. In the light of the significant financial pressures the Council is facing work is ongoing 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	23.397	17.122	12.587	4.506
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
Transfer to Stronger Communities Fund	(0.050)	0.000	0.000	0.000
Contribution to/(from) balances	(8.640)	(5.535)	(8.081)	(8.399)
Closing balance	17.122	12.587	4.506	(3.893)

Capital Expenditure

62. 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.
63. 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.
64. 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.

65. 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
Total	211.941	7.780	6.874	3.558	15.122	27.716	34.757	307.748

66. 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.
67. 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

68. 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.
69. 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.

70. 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

71. 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.
72. 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.
73. 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

74. 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.

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

School Condition Allocations

75. 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

76. 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 TVCA's Investment plan identifies £256.7m of investment over the next 10 years. There will be projects and initiatives delivered in Darlington from this fund.
77. 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

78. 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

79. 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

Scrutiny and Consultation

80. Consultation on the draft plan ran from 5 December 2022 to 20 January 2023. The plan was promoted on the Council's consultation website, social media, an article in the One Darlington Magazine and there was coverage in the Northern Echo. There was also information available at Cockerton Library and Customer services.

81. Council Scrutiny Committees reviewed the MTFP and its proposals through December and January and the Economy and Resources Committee met on 19 January 2023 to consider the responses from all the Council's Scrutiny Committees. The minutes of that meeting are shown in **Appendix 8** and include the resolution from all the scrutiny meetings; in summary the committee submitted the following response for Cabinet consideration:

82. That Cabinet be advised that the following is the response of the Economy and Resources Scrutiny Committee on behalf of all of the Council's Scrutiny Committees in relation to the Medium Term Financial Plan 2023/24 to 2026/27 consultation :-

(a) That, taking into consideration the views of all the Scrutiny Committees, the majority view of this Scrutiny Committee is that the Medium Term Financial Plan 23/24-26/27 provides the best solution going forward.

(b) That the minority view of this Scrutiny Committee is that:

i. It notes the many and various concerns raised at the Children and Young People, Adults, Communities and Local Services and Health and Housing Scrutiny Committee meetings, specifically highlighting:

- the long-term affordability of services, in particular Children and Adults Social Care;
- the unsustainability of the revenue budget;
- that residents are facing unprecedented financial difficulties.

ii. It notes Cabinet's draft 4-year financial plan is based on spending nearly £10m more than our income every year, at the same time as raising Council Tax by 5% every year.

iii. It is gravely concerned that Cabinet's draft financial plan puts forward no new ideas as to how to bring under control four years of overspending.

83. Further feedback has been received from five members of the public via the website consultation pages and is summarised into three categories as follows;

(a) Council tax levels

- (i) Acceptance that the reasons for increasing the council tax were valid albeit they will increase the payments to households significantly and questioning if the collection rate estimates are ambitious.
- (ii) Noting whilst the 4.99% was half of inflation it should really have been compared with the average wage increase which would have been more informative.
- (iii) Where is all the money going provided by taxes that is raised from all the new housing – it looks like excessive wastage.

(b) Services

- (i) A request for the council tax money to be used for more street scene services including drain clearing (particularly in tree lined streets) and maintenance of grass verges damaged from parking.
- (ii) Suggestion of making more drive ways for houses without drives if there is room to park and asking households to contribute 50%.
- (iii) Pavements need maintenance where tree roots are lifting them.

- (iv) Concern that personal savings may need to be used for social care and the unfairness when others haven't saved for their futures and will be council funded.
- (c) Consultation
 - (i) A comment that in the future consultation it needs to be more timely, understandable and relevant.
 - (ii) More notification of consultation required.

Conclusion

84. 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.
85. 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.
86. The Local Government finance settlement was better than expected with additional funding for Social care, and the Council can deliver a balanced position until 2025/26 utilising reserves as per our financial strategy. However, there is a substantial annual budget deficit which is not sustainable and will need to be addressed. Unless further funding is forthcoming the Council will need to fundamentally review services and both reduce expenditure and increase income to ensure we have a stable position moving forward.
87. 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 putting significant pressure on our energy costs and the general cost of living crisis. Current planning suggests reserves will be depleted in 2026/27 and there will be a budget deficit of approximately £8m, 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.
88. 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 enabling time to achieve the savings required in future years.
89. 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.

90. 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 efficiencies, 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.

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 2022/23
Appendix 6	Proposed MTFP 2023 to 2027
Appendix 7	Capital programme
Appendix 8	Economy and Resources Scrutiny Committee Minutes 19 January 2023