

Great Aycliffe Town Council

Medium Term Financial Plan 2021/22 to 2025/26



MEDIUM TERM FINANCIAL PLAN

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Foreword

Welcome to Great Aycliffe Town Council's Medium-Term Financial Plan which sets out the Council's financial strategy for the five-year period to 2025/26.

This Plan has taken on increased importance as a consequence of the ongoing Coronavirus pandemic which has had, and is continuing to have, an impact on the Council's services and financial situation.

Reviewing the impact on the Council's finances and adjusting our financial strategy will be vital as the Council looks ahead to what is likely to be an increasingly challenging future.

In preparing the Medium-Term Financial Plan it is assumed that business will return to normal after the implementation and relaxing of restrictions in line with the government roadmap out of the Coronavirus pandemic. However it must be borne in mind that further disruption to services may be experienced dependant on variants of the Coronavirus.

Over the coming years the Council must deal with a number of longer-term budget pressures which are going to be faced.

These include likely cuts to the Council Tax Support Grant funding on which the Council is reliant, and which amounts to nearly 10% of the Council's Precept. There will also be increasing pressure on the costs of running the Council's services, not least the unavoidable increases in staffing costs linked to planned increases in the 'National Living Wage' over the next few years.

On top of this, the Council faces significant potential commitments over the next few years relating to capital investment in its fixed assets, expenditure which will see its balances and reserves diminish.

All of these issues highlight the importance of having in place a prudent, robust, realistic, and forward-looking Medium-Term Financial Plan.

This Plan aims to highlight and quantify the key financial challenges facing the Council over the next five years, with particular emphasis on the impact of the Coronavirus pandemic, likely cuts to the Council Tax Support Grant funding, increases in staffing costs, capital investment linked to the delivery of the Asset Management Plan and the resulting fall in the Council balances and reserves; and put in place a financial strategy to meet these challenges.

The Plan sets out a Revenue and Capital Budget forecast for the five-year period and estimates the level of Precept and council tax increase that may be required in order to balance the budget.

Whilst the next five years will undoubtedly present the Council with a number of challenges, we are confident that this Medium-Term Financial Plan provides a sound strategy for the planning of the Council's finances and budgets over this period, which ensures that services and jobs can be protected, and which aims to keep future council tax increases to a minimum.

The Council is fortunate that its finances remain in good health at the present time, and the implementation of this Plan will ensure that the Council can build on these strong foundations, meet the needs of our local community, and provide value for money services to our local taxpayers.

Councillor Arun Chandran
Chairman of Policy and
Resources Committee

Mr Dan Austin
Town Clerk

Mrs Tracey Woodhead
Finance Manager

Section 1 Introduction and Background

Purpose of the Medium-Term Financial Plan

- 1.1** This Medium-Term Financial Plan (MTFP) of Great Aycliffe Town Council covers the five-year period from 2021/22 to 2025/26.
- 1.2** The key purpose of the MTFP is to put in place a clear and robust financial strategy for the next five years that will help the Council to contend with the challenges it faces, achieve its strategic aims and meet community priorities, within the limited resources available, whilst delivering value for money to the local taxpayers of Great Aycliffe.
- 1.3** Strategic financial planning is of particular importance during this time as we come out of the national crisis; with the Coronavirus pandemic causing severe economic difficulties, significantly increased national debt and the potential reintroduction of austerity measures.
- 1.4** The MTFP is also important in putting in place a clear link between the Council's strategic aims and targets and the priorities of the local community, as set out in the Service Delivery Plan, and the Council's financial planning process. This helps ensure that financial resources are allocated to services in a way that supports the delivery and achievement of these aims and priorities.
- 1.5** The MTFP sets out the much changed national and local financial climate within which the Council will be working over the next five years and highlights the key financial challenges that it faces, as well as the strategic aims that it will be aspiring to deliver, and the community priorities that it will be striving to meet.
- 1.6** It then puts in place a financial strategy to meet these challenges and ensure the delivery of strategic aims and community priorities within the financial resources likely to be available. The Plan includes indicative Revenue and Capital Budgets as well as projections of the likely level of Town Council Tax and balances and reserves over the five-year period.
- 1.7** Producing the MTFP each year will help the Council to:-
 - ❑ ensure that a strategic approach is taken in the planning of the Council's future spending and finances;
 - ❑ create stronger links between the Council's strategic aims and the priorities of local taxpayers, and future spending decisions;
 - ❑ put in place a clear, understandable and forward-looking financial planning framework;
 - ❑ make it clear how the Council plans its spending and who is responsible for making spending decisions;
 - ❑ ensure that it regularly reassesses and reviews the cost of its services;
 - ❑ demonstrate and deliver value for money in the use of public resources; and
 - ❑ ensure that the views of the community are considered in deciding where and how the Council spends public money.

Development of the Medium-Term Financial Plan

1.8 The MTFP was originally developed in 2007 and has since been updated on an annual basis through a process involving:

- ❑ review of the Council's priorities based on the annual strategic aims and targets set out in the Service Delivery Plan;
- ❑ review of community priorities, informed by the neighbourhood plan, satisfaction survey and the annual budget consultation;
- ❑ reviewing the resources required to fund future service needs, including providing for pay awards, inflation and other unavoidable budget pressures, budgeting for changes in funding and income, managing expected changes in demand for services, and identifying efficiency savings and possible budget reductions;
- ❑ considering the costs of all new statutory requirements and any planned investment in existing services or new initiatives that have already been approved by the Council;
- ❑ projecting the likely available financial resources based on target council tax increases, projected council tax base changes, use of balances and reserves, the availability of external funding, and the potential for future capital receipts and borrowing opportunities;
- ❑ assessing the ability of the Council to fund its on-going service needs, deliver its strategic aims and meet community priorities within the limited resources available; and
- ❑ maintaining a continuous focus on efficiency and value for money.

Key Stakeholders

1.9 The MTFP is published for use by all stakeholders to help review the Council's finances over the medium term, understand the spending pressures it faces and how the Council plans and makes decisions about spending on services, and show how this links to each stakeholder's relationship with the Council, and in particular:-

- **for councillors and service managers;** to help communicate the Council's overall financial strategy and to improve understanding of the links between the Council's strategic aims and priorities, as set out in the Service Delivery Plan and individual service plans, and the setting of the Revenue and Capital Budget each year;
- **for the local community and council taxpayers;** to communicate the Council's overall financial strategy and its links to and impact on the provision of local services and the level of council tax, demonstrate how the Council seeks to prudently exercise stewardship of public money and look after community assets, and improve the openness and accountability of the Council's financial decision making; and
- **for local businesses and community organisations;** to communicate the Council's financial strategy and its links to and impact on the provision of local services and to provide key financial information to support the development of opportunities for partnership working and joint ventures in Great Aycliffe.

Financial Planning Responsibilities

- 1.10 Service Managers**, under the supervision and guidance of the Finance Section, are responsible for the preparation of the annual Revenue and Capital Budgets in respect of the services under their responsibility, in accordance with the Budget Framework, and with regard to the principles set out in the MTFP.
- 1.11** Service Managers are also responsible for managing, monitoring and controlling actual spending and income on the budgets under their responsibility during the year, via effective budget management, and informing the Finance Manager of any potential problems or significant variations from the approved budgets.
- 1.12 The Finance Manager** is responsible for developing and updating the MTFP and Budget Framework each year and ensuring compliance with these, co-ordinating the development and setting of the annual Revenue and Capital Budgets, providing financial information and advice, implementing an effective system of budget monitoring and control, and regularly reporting financial information to the Council.
- 1.13 Members of the Council** are responsible for reviewing and approving the MTFP and Budget Framework on an annual basis, considering and approving the annual Revenue and Capital Budgets, receiving budgetary control information, approving remedial action in respect of any significant budget variations, and considering and approving capital spending decisions and additional budget requests.

Links with Other Strategies and Plans

- 1.14** The Council produces a number of other strategies and plans which have links to this MTFP. **Appendix E contains a list of the various Council strategies, plans and policies**, and which have been considered in the development of this MTFP.
- 1.15** It is also important that the MTFP is clearly linked to the strategic aims and objectives that the Council is trying to achieve. These are set out in the Council's Service Delivery Plan. **The Council's strategic aims and targets for 2021/22 are set out in Appendix F.**

Consultation with the Local Community

- 1.16** The MTFP has been prepared taking into account the views of the local community and taxpayers, as expressed in the 2019 'Your Town, Your Choice, Your Voice' satisfaction survey, the neighbourhood plan consultation, and other surveys and consultation events.
- 1.17** The Council also undertakes a budget consultation exercise during the annual budget setting process. An online budget questionnaire is issued to establish views on the budget as well as priorities for investment and disinvestment. Feedback from previous budget consultation events has also been considered in the development of this Plan.

Section 2 Financial Principles and Financial Planning Framework

Introduction

- 2.1 In preparing a Medium-Term Financial Plan, it is first important to establish the key financial principles on which the Plan will be based, and to put in place a financial planning framework which will provide the guidelines for the annual budget setting process.

Financial Principles

- 2.2 This Plan will be based on the overriding principle of **Value for Money**.
- 2.3 Achieving value for the money that the Council receives from local taxpayers via the Town Council Tax, and subsequently spends on local services, is one of the Council's highest priorities. The Council is committed to the achievement of year-on-year efficiency savings and will work hard to keep future council tax increases to a minimum.
- 2.4 This will be achieved by regularly reviewing services and monitoring performance to ensure that services continue to be needed and are well managed and cost effective, regularly testing the market, undertaking internal and external audit, and ensuring that all Members and staff are aware of and committed to achieving value for money. The Council will also ensure that public money is spent in consultation with the local community and that resources are invested in line with taxpayer priorities going forward.
- 2.5 In order to ensure this, the following set of financial principles will be put in place for the period of this Medium-Term Financial Plan:-
- ❑ **a strong financial strategy** that enables the Council to take a long- term view of its finances, achieving greater stability and enhancing its ability to be proactive and have the capacity to take advantage of any opportunities and contend with any challenges that may arise;
 - ❑ **a level of spending that is affordable and sustainable** in the long term and which supports the effective delivery of services in line with strategic aims and the needs and priorities of the community;
 - ❑ **a prudent but realistic assessment of future revenue spending commitments, capital investment requirements, income levels, council tax base movement, and external grant funding;**
 - ❑ **a strong culture of financial management** where continuous improvement and a drive for more economic, efficient and effective ways of working and use of resources is undertaken;
 - ❑ **a prudent level of balances and reserves** that protects the Council against unforeseen budget pressures, provides sufficient resources to finance future capital investment commitments and enables the Council to be proactive and take advantage of any opportunities that may arise;
 - ❑ **an effective and responsive finance service**, which provides sound financial information and advice to Members and officers.

Financial Planning Framework

- 2.6** The financial planning framework provides the overarching guidelines for the development of the Medium-Term Financial Plan and the setting of the annual Revenue and Capital Budgets.
- 2.7** The financial planning framework is based on the key financial principles set out above and will be updated on an annual basis.
- 2.8** The financial planning framework is set out below:-
- ❑ The Revenue and Capital Budget will be produced annually;
 - ❑ The Revenue and Capital Budget will be developed in accordance with this financial planning framework and the key principles and assumptions set out in the Medium-Term Financial Plan;
 - ❑ In allocating resources to services, priority will be given to those areas of spending that contribute to the achievement of the Council's strategic aims and targets, or which clearly meet community needs and priorities;
 - ❑ Budgets will be prepared on the basis of a commitment to the achievement of year-on-year efficiency savings;
 - ❑ Budget resources will be redirected from low priority to high priority service areas as and when necessary;
 - ❑ Additional budget to meet new statutory requirements and unavoidable budget growth e.g. inflation and changes in demand, will be clearly identified and fully evidenced;
 - ❑ All other requests for additional revenue budget resources and investment in services will need to be fully justified and evidenced and will be subject to an appraisal process when setting the budget;
 - ❑ An annual review of budgeted expenditure and income targets in respect of all service areas will be undertaken, using the principles of zero-based budgeting, in order to identify efficiency savings;
 - ❑ The financial implications of the recommendations from any completed service reviews will be incorporated into the annual Revenue and Capital Budget;
 - ❑ The Capital Programme Budget will be developed with priority given to those projects identified within and that contribute to the delivery of the Council's approved Asset Management Plan;
 - ❑ All other Capital Programme Budget bids will need to be fully justified and evidenced and will be subject to an appraisal process when setting the budget;
 - ❑ Council balances and reserves will be maintained at prudent levels to protect the Council against any unforeseen budget pressures and liabilities, and provide resources to finance future year's capital investment commitments as set out in the Asset Management Plan;
 - ❑ Annual budget consultation will be undertaken, and feedback will be taken into consideration by the Council in the setting of the Revenue and Capital Budgets.

Section 3 National Issues

Introduction

- 3.1** The development of the Council's Medium-Term Financial Plan must take place within the context of the national economic, political, demographic, and legislative situation.
- 3.2** This section of the Plan outlines in more detail the main national issues that are likely to affect the Council over the next five years and which will need to be considered in the Council's financial planning.

Coronavirus Pandemic

- 3.3** The ongoing Coronavirus pandemic and the actions taken by the Government to control the virus via various lockdown and social distancing measures has had, and continues to have, an impact on the national economy, and in turn on the Council's own financial situation.
- 3.4** The Government's Coronavirus Roadmap seeks to relax the majority of restrictions. However there remains a risk of future disruptions.
- 3.5** Reviewing the impact caused by these lockdown and social distancing measures and adjusting the Council's financial strategy moving forward to account for this will be a key consideration for this Plan.

National Economic Situation

- 3.6** The Coronavirus pandemic has had a significant impact on the UK economy with the lockdowns resulting in many businesses being required to temporarily close down and vast sums of money being spent by the Government supporting businesses and protecting jobs via initiatives such as the Job Retention Scheme, Self-Employment Income Support Scheme and Business Interruption Loan Scheme. Tax receipts are also down, whilst the benefits bill is up.
- 3.7** This is all coming at an unprecedented cost to the country and has resulted in substantial increases in public borrowing and the national budget deficit i.e. the gap between what the government spends and how much money is coming in to pay for this.
- 3.8** This is likely to lead to the Government needing to cut public spending and raise taxes in order to reduce the national budget deficit.
- 3.9** As the Coronavirus restrictions continue to be lifted, alongside the rapid vaccine rollout, the UK economy is predicted to expand as consumer confidence is boosted. Unemployment has increased however the increase has been limited due to the extension of the job retention scheme until September 2021.
- 3.10** During the pandemic, the Bank of England reduced the base interest rate to 0.1%, however should the economy expand as predicted and inflation increases, and if this is a sustainable recovery, the base rate and interest rates may increase.

- 3.11** Economic issues could therefore have a significant impact upon the Council's financial planning over the next five years and the potential financial impact of the relevant economic issues is considered in more detail in the key financial assumptions set out in Section 7 of the Plan.

Government Spending Reviews and Local Government Finance Settlements

- 3.12** Predicting the outcome of future Government spending reviews and Local Government Finance Settlements is almost impossible at the present time, with much dependent upon the financial impact of the Coronavirus pandemic and also the impact of Brexit.
- 3.13** Prior to the Coronavirus outbreak, the Chancellor of the Exchequer had indicated that austerity was finally coming to an end, with sustained economic growth, the budget deficit and public sector borrowing down, increased tax receipts, more people in work, and wages growth exceeding inflation.
- 3.14** The Coronavirus pandemic has changed everything. The increase in the national budget deficit is likely to lead to a renewed period of austerity, which will almost certainly lead to reductions in public sector spending.
- 3.15** Local government finance settlements are set out in the Government's Comprehensive Spending Review (CSR) which normally covers a four- year period. Due to the Coronavirus pandemic instead of the planned four-year CSR the current budget settlement covers only 12 months from April 2021.
- 3.16** Government funding reductions for local government have already amounted to more than 50% over the five-year period 2016/17 to 2020/21 and this has resulted in the Government Revenue Support Grant for principal authorities being largely phased out.
- 3.17** The Government has been undertaking a 'Fair Funding Review' of the relative needs and resources of local authorities and the formula for the distribution of resources to local government. It was intended that this review would inform the next Comprehensive Spending Review and Local Government Finance Settlements for 2021/22 onwards.
- 3.18** The Fair Funding Review was delayed a second time, the first time due to Brexit and the second time as a result of the Coronavirus pandemic, with the focus currently on tackling the virus.
- 3.19** It was previously confirmed that the Government was planning to increase the proportion of locally collected business rates income that principal councils can retain to 75%. This has now been delayed indefinitely.
- 3.20** There are no proposals within the Fair Funding Review for town and parish councils to receive a share of business rates.
- 3.21** The Government has also to date ruled out any reform of the council tax system or revaluation of council tax property valuation bands as part of this review. It can therefore be assumed that there will be no changes to the council tax system over the life of this Plan.

- 3.22** Clearly the Government's previous Comprehensive Spending Reviews have had a significant impact on principal councils, such as Durham County Council, who have faced substantial cuts to their funding.
- 3.23** Further cuts in the coming years cannot now be ruled out, especially following the funding which has been injected into the economy to protect jobs and livelihoods as a result of the Coronavirus pandemic.
- 3.24** There will undoubtedly be implications for the Town Council as a result of the future financial pressures likely to be faced by Durham County Council.
- 3.25** These issues are discussed in more detail in the Section 4 of the Plan which covers 'Local Issues'.

Local Council Tax Reduction Scheme Grant

- 3.26** The Town Council had, up until April 2013, been relatively sheltered from the public sector spending cuts, in that it had been in the fortuitous position of not being reliant on any funding from the Government in order to finance the services that it provides.
- 3.27** However, this situation changed following the localisation of support for council tax by the Government back in April 2013. These legislative changes around the council tax benefits system left the Council reliant on Government funding for the first time. This funding currently totals £180,300 per year, or 10% of the Council Precept.
- 3.28** This has made the outcome of the Fair Funding Review and future Comprehensive Spending Reviews and Local Government Finance Settlements of increased relevance and importance to the Council in terms of the future payment of this funding.
- 3.29** The Welfare Reform Act 2012 abolished the national council tax benefits system with effect from 1st April 2013, paving the way for the implementation of new Local Council Tax Support Schemes (LCTSS) by council tax billing authorities.
- 3.30** Previously, council tax benefits were administered centrally by the Government and paid to principal councils via a subsidy system. However, the new LCTSS schemes are based around a discount on the council tax bill rather than a cash payment and this had the impact of reducing the Council Tax Base and therefore the tax raising capacity of all local authorities, including town and parish councils.
- 3.31** The Government provided funding for LCTSS within the Local Government Grant Settlement, and a proportion of this funding was specifically set aside for town and parish councils to offset the losses faced from these reductions in tax raising capacity.
- 3.32** The Government has stated that it 'expects' billing authorities to pass down an appropriate proportion of their grant settlements to town and parish councils to offset the impact of LCTSS each year.

- 3.33** Durham County Council has developed a LCTSS that provides full protection to existing claimants of council tax benefits and that ensures that no claimant is worse off under the new scheme. This commitment has been reaffirmed by the Council each year and confirmed for 2021/22, although its longer-term viability is uncertain.
- 3.34** However, this did not help the town and parish councils in County Durham, who still faced a shortfall from the reduction in their own Council Tax Bases. This is because the funding provided by the Government and passed on by Durham County Council did not offset, in full, the loss in tax raising capacity faced by those councils.
- 3.35** The actual impact varies by council depending upon a number of factors, including benefits caseload and numbers of empty properties. However, most town and parish councils have been left facing losses, firstly because of the overall shortfall and subsequent cuts in the LCTSS funding, and also because of the fact that a large proportion of County Durham is unparished.
- 3.36** The initial impact of LCTSS on the Town Council in 2013/14 was a total loss in its tax raising capacity of £352,800. This was largely offset by the LCTSS Grant set aside by the Government as applicable to the Council, and passed on, in full, by Durham County Council, of £296,150. The resulting shortfall of £56,650 was funded from savings.
- 3.37** Since then Durham County Council have reduced the LCTSS funding proportionately each year in line with the cuts made to their overall grant settlement by the Government.
- 3.38** This has seen the Council's Local Council Tax Reduction Scheme Grant cut by nearly £116,000 or nearly 40% over the seven years between 2013/14 and 2021/22.
- 3.39** The Council found itself in the rare position of receiving an increase in the LCTSS Grant in 2021/22 as a result of a reduction in the council tax base, which was largely due to an increase in levels of benefit claimants in the Town as a result of the Coronavirus pandemic.
- 3.40** However, of ongoing concern for the future, the Council has been left dependent, not only on the continuation of the LCTSS funding by the Government, but also on Durham County Council's continued willingness to pass this funding on, particularly bearing in mind the financial pressure it is under in the coming years, and the fact that there is currently no statutory obligation to pass the funding on.
- 3.41** Current indications from Durham County Council are that they intend to honour the existing commitment to pay LCTSS funding to town and parish councils in County Durham over the coming years. However, it is likely that the LCTSS funding will continue to be reduced proportionately each year in line with the cuts made to their overall grant settlement by the Government.
- 3.42** It has been assumed for the purposes of this Plan that the grant will be cut by 5% per year. This would see the grant fall from £180,300 to £146,750 over the four-year period 2021/22 to 2025/26, a total further cut of nearly 19%.

- 3.43** However, these figures are subject to change depending on the outcome of future Local Government Finance Settlements, and actual cuts could actually prove to be higher than this.
- 3.44** The likely future financial impact of the above issue is discussed in more detail in the Revenue and Capital Programme Budget Forecast which is set out in Section 8 of the Plan.

Referendums to Veto Excessive Council Tax Increases

- 3.45** The Government introduced legislation within the Localism Bill to provide a stronger role for the local community in determining annual council tax increases, by giving local taxpayers the power to require local authorities to hold referendums, thereby providing them with the opportunity to veto 'excessive' increases in council tax.
- 3.46** These powers replaced the previous council tax capping powers available to the government.
- 3.47** The excessiveness limit has varied up and down over the years, but the core principle is currently set at 2%, while local authorities providing adult social care services are permitted to raise council tax by an additional 2% above the core referendum limit, on the understanding that the sum raised would be invested in adult social care through an adult social care precept.
- 3.48** Any increase above these limits would still be subject to a referendum with local taxpayers.
- 3.49** Currently this legislation does *not* apply to town and parish councils and the Government confirmed in the 2018/19 Local Government Finance Settlement and confirmed again in the one-year finance settlement that any consideration of the extension of council tax referendum principles to higher spending parish and town councils will be deferred i.e. until the end of the 2021/22 year.
- 3.50** This decision was conditional upon *"the sector taking all available steps to mitigate the need for council tax increases, including the use of reserves where they are not already earmarked for other uses or for 'invest to save' projects which will lower ongoing costs"*, and the Government *"seeing clear evidence of restraint in the increases set by the sector as a whole"*.
- 3.51** Clearly this was positive news, as it provided town and parish councils with the flexibility to raise additional Revenue Budget resources, should they require to do so, without any restraint from the Government.
- 3.52** The Council took advantage of this flexibility in the 2018/19 and 2019/20 financial years, implementing 5% increases in the Town Council Tax in both years, firstly to fund a grading restructure to ease pressure at the lower end of its staff pay scale, and secondly to facilitate the replenishment of its capital reserves.
- 3.53** There is currently no indication of the Government's intentions with regard to town and parish council referendum limits for the period 2022/23 onwards.

- 3.54** It has been assumed for the purposes of this Plan that referendum principles *will* be applied to town and parish councils with effect from 2022/23, and that the Council will need to limit the annual increase in the Town Council Tax to 2% or less from this year.
- 3.55** Clearly, there would be further implications for the Council if the referendum limit was reduced by the Government at any stage from the 2022/23 financial year onwards.
- 3.56** This eventuality is considered in the Revenue Budget Forecast set out in Section 8 of the Plan, and the savings target that would be required to freeze the council tax has been included in the projections for 2022/23 onwards.

External Audit Arrangements

- 3.57** The Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015 set out the statutory provisions regarding the Council's external audit arrangements.
- 3.58** Under the Accounts and Audit Regulations 2015, the Council is classified as being a "smaller relevant body", defined as being a public sector body with an annual income or expenditure of less than £6.5 million.
- 3.59** Smaller relevant bodies are required by the regulations to prepare accounts and governance statements via the completion of an 'Annual Governance and Accountability Return' and are subject to the 'limited assurance' audit regime.
- 3.60** The external audit fee for a limited assurance audit was set by Smaller Authorities Audit Appointments Limited at £2,400 per year for the period up to 2021/22, and this level of fee has continued to be provided for in the Revenue Budget Forecast in Section 8 of the Plan.

Localism Act 2011

- 3.61** The Localism Act came into force in 2011 and contained a package of reforms to devolve greater powers, responsibilities and freedoms to local councils, community organisations, neighbourhoods and individuals.
- 3.62** The four main measures of the Localism Act are:-
- new freedoms and flexibilities for local government;
 - new rights and powers for communities and individuals;
 - reforms to make the planning system more effective; and
 - reforms to ensure that decisions about housing are taken locally.
- 3.63** The key measure for local councils is the freedom to act in the interest of local communities through the 'General Power of Competence'.
- 3.64** This power gives local authorities the legal capacity to 'do anything that an individual can do', rather than relying on specific powers. This power applies as long as the action is not specifically prohibited by legislation.
- 3.65** However, it is important to note that the power does *not* raise money.
- 3.66** Town and parish councils qualify for the General Power of Competence if they meet certain criteria. The Council adopted this power at the Annual General

Meeting following the last elections. In theory this power will increase the Council's ability in future years to be creative and innovative in meeting the needs of the local community should the operational capacity and financial resources be available to do so.

- 3.67** The Act has also introduced greater powers for local people and community organisations to hold the Council to account including:-
- a right to challenge to take over services;
 - a right to bid for assets of community value;
 - a right to veto excessive council tax increases; and
 - increased transparency over public sector data.
- 3.68** The right to challenge to take over services or bid for assets could strengthen the Council's ability to request to take over services from Durham County Council should it wish to do so, and should the resources be available.
- 3.69** However, the above powers do *not* currently apply to town and parish councils in allowing local community organisations to approach the Council with a view to taking over *its* services or assets.
- 3.70** In addition, as already highlighted in paragraphs 3.45 to 3.56, the Council could also be required by local taxpayers, in future years, to hold a referendum to veto an excessive council tax increase.
- 3.71** There has also been an increasing drive towards improving transparency in the public sector, and the Openness of Local Government Regulations and Local Government Transparency Code require the Council to publish specific information, including certain decisions taken by officers of the Council, expenditure over £500, senior officer pay, and details of council owned land. The Council already publishes all of this information on its website.
- 3.72** The final area of the Localism Act that has an impact on the Council are the reforms of the planning system which are intended to provide more local control over planning decisions and make the planning system more democratic and effective.
- 3.73** The Act introduced a new right for communities to draw up a 'neighbourhood plan' which allows residents, employees, and businesses, to come together, through the Town Council if they wish, and have a say in terms of where they think new houses, businesses and shops should go, and what they should look like.
- 3.74** Local communities are able to use neighbourhood planning to grant full or outline planning permission in areas where they most want to see new homes and businesses, making it easier and quicker for development to go ahead.
- 3.75** The Council agreed in 2013 that it would help facilitate a Neighbourhood Plan for the Great Aycliffe area and put in place an Earmarked Revenue Reserve to fund the costs associated with the development of the plan.
- 3.76** The Great Aycliffe Neighbourhood Plan has now been completed and was adopted following a successful referendum with the residents of Great Aycliffe on 22nd June 2017, when an overwhelming majority of 91.2% voted to adopt the plan.

- 3.77** The Neighbourhood Plan provides planning policies for the Great Aycliffe Parish, as developed and agreed by the local community, covering a forward-looking period of fourteen years, and must now be considered by the planning authority; Durham County Council as a supplementary planning document.
- 3.78** There may also be a future financial benefit from having in place an adopted neighbourhood plan, as the Government's Housing and Planning Bill includes the requirement that local councils will receive a share of up to 25% of any Community Infrastructure Levy (CIL) monies relating to development in the Parish. This may give the Council access to an additional capital funding stream in the future. Although the County Durham Plan approved in 2020 does not make provision for CIL to be charged on new housing developments this may be something that changes in the future.
- 3.79** A comprehensive town survey was completed in 2015, as part of the neighbourhood planning process, which included key feedback on Council services and priorities for the future. The results of this survey have been considered in previous Plans.
- 3.80** In overall terms, many of the principles of the Localism Act promote building on the capacity of town councils and increasing their role in local government through decentralisation, though it does not bring with it any additional income or tax raising capacity.
- 3.81** Depending on the resources available, this could result in functions, duties and services being devolved to the Council in the future. It is also likely to see the Council having a greater role to play in working with and passing powers and services to local communities, for example, to community and voluntary organisations.

Demographic Issues

- 3.82** The Medium-Term Financial Plan will also need to take into consideration any demographic issues that may affect the Council's financial planning, such as the aging population, levels of unemployment, health issues, benefits dependency, and deprivation.
- 3.83** All of these issues could impact upon demand for particular services, for example the senior citizens' trips, and on income levels in respect of services such as the sports complex, golf complex and cemeteries.

Section 4 Local Issues

Introduction

- 4.1** As well as considering national, political, legislative, economic, and demographic issues, it is also important that the Council's medium- term financial planning process takes into account any local issues specifically relevant to the Great Aycliffe Parish.
- 4.2** The following section of the Plan provides details of local issues currently affecting Great Aycliffe, focussing particularly on issues relating to Durham County Council, and on the Council's strategic aims and targets. Section 5 of the Plan then looks at community priorities.

Durham County Council

- 4.3** The Government's Comprehensive Spending Reviews since 2010 have resulted in substantial reductions in grant funding for Durham County Council. As a result, the County Council has implemented budget reductions of more than £280 million over the ten-year period.
- 4.4** This has resulted in many services being cut or ceased and has brought with it a significant number of job losses.
- 4.5** There is significant uncertainty over the resources that will be available to Durham County Council over the medium to longer term due to the delayed publication of the Fair Funding Review and Comprehensive Spending Review and ongoing Coronavirus pandemic.
- 4.6** However, the implementation of renewed austerity measures by the Government is considered highly likely and this could bring with it further cuts to the County Council's grant funding.
- 4.7** A deterioration in the financial situation facing Durham County Council could impact upon the Town Council, in a number of ways:-
- Further cuts could be made to the Council Tax Support Grant funding which is currently paid to town and parish councils;
 - Cuts could be made to pre-school funding;
 - The Council could receive requests for financial support from community and voluntary organisations whose funding has been reduced or cut altogether by the County Council;
 - Requests may be received from the County Council for the Town Council to consider taking on services or to undertake joint working;
 - There may also be occasions where the Council may wish to step in to safeguard local services and facilities at risk of being cut or ceased by the County Council.
- 4.8** The issue of the Council Tax Support Grant funding was discussed in detail in Section 3 of the Plan. Durham County Council have indicated that they intend to honour the existing commitment to pass on the grant to town and parish councils in County Durham over the coming years, although the funding will be reduced proportionately in line with the cuts being made to the County Council's overall grant settlement.

- 4.9** The Council is also likely to continue to receive pre-school funding from the County Council over the coming years as this funding is currently ring-fenced by the Government and is passed on by Durham County Council Education Department in full.
- 4.10** The Council is currently receiving increased requests for financial support from community and voluntary organisations impacted by the Coronavirus pandemic and these requests are only likely to increase. The Council has set-up a COVID-19 Reserve of £100,000, of this £25,000 has been set aside in a community grant fund and the remaining £75,000 has been set aside for recreational and environmental projects and possible works on the former Elmfield school site. The aim of the fund is to help compensate local tax payers for the services that have not taken place during the Coronavirus pandemic.
- 4.11** The Council has worked closely with Durham County Council in discussing opportunities for joint working or devolvement of services. These discussions have, up to now, been based on the principle that the initiative should be beneficial to both councils and will not result in any significant additional financial liability to the Town Council.
- 4.12** To date these discussions have led to a joint working initiative on winter maintenance and the agreement of a license for the Council to undertake the maintenance and improvement of a number of County Council environmental areas. Both of these initiatives are being undertaken within existing staffing structures and budgets and have not resulted in any significant additional financial liability to the Council.
- 4.13** For the purposes of this Plan it has been assumed that any further joint working or taking on of services will only be undertaken if there is no additional cost to the Town Council and as such no additional budget will be assumed in the Revenue and Capital Budget Forecast.
- 4.14** The Council has also worked with the County Council to access services such as vehicle maintenance as well as professional officer support and advice on issues such as procurement, energy management, human resources and health and safety.
- 4.15** Finally, the Council has been keen to explore possible funding opportunities with the County Council. In recent years significant capital funding has been secured from Section 106 Agreement monies and Neighbourhood Budget grants from the Great Aycliffe and Middridge Area Action Partnership (GAMP).
- 4.16** This has helped fund a toddlers' play area and skate park extension in the Town Park, the planting of woodland in Woodham Burn, improvements at West Park, a BMX track at Woodham, a scoot track at Horndale Park and a multi-use games area at Moore Lane, a replacement junior play area at Aycliffe Village, a major new park development at Cobblers Hall, and, most recently an extension to St Oswald's pre-school extension.
- 4.17** The Council will continue to actively seek further funding but for the purposes of this Plan only funding that has already been confirmed will be included in the Revenue and Capital Budget Forecast.

- 4.18** The Council has recently secured funding from the GAMP Member's Initiative Fund to install a footpath to Aycliffe Village Play Area and a wildlife corridor in the Horndale area.
- 4.19** Durham County Council continues to consult with all key stakeholders on all relevant issues including proposed spending cuts, service reviews, partnership working and devolvement of services. The Council has been participating in these consultations where relevant and will continue to do so.

Great Aycliffe Parish Plan

- 4.20** Parish Plans are designed to assist communities to set out their vision for the area they live in, and to identify the actions required by the local council to help them to achieve this vision.
- 4.21** The Great Aycliffe Parish Plan was developed in 2006 following a report from the Society of Local Authority Chief Executives that recommended that the Council *"should define and articulate clearly its vision and key priorities in order to reflect the aspirations of the community of Great Aycliffe"*.
- 4.22** This report also recommended that the Council *"develop longer term service and budget planning arrangements informing the development of a future financial planning framework"*. This led to the development of the first MTFP back in 2007.
- 4.23** The Parish Plan was produced following extensive consultation with the community of Great Aycliffe, and as part of this process an overall vision for the Council was developed, supported by strategic aims and targets that would enable the vision to be achieved.

Council Vision and Strategic Aims

- 4.24** Following the parish planning process the Council adopted an overall vision or mission statement to be *"a quality Council, working in partnership, listening to and speaking up for the community, to bring excellent services to Great Aycliffe."*

This vision was updated in 2015, following a review as part of the neighbourhood planning process to be:-

"A pro-active and responsive Council, working in partnership, listening to and speaking up for the community, contributing towards making Great Aycliffe an excellent place in which to live for all its residents."

The Council has also set eight strategic aims to support the delivery of this overall vision. These aims are detailed below:-

1. *To provide good quality governance and management of the Council;*
2. *To manage the Council's finances and assets in a responsible manner;*
3. *To provide accessible, affordable leisure facilities and opportunities;*
4. *To provide pre-school education as appropriate in Great Aycliffe;*
5. *To contribute to the environmental improvement of Aycliffe by managing and developing parks, play areas and green spaces;*

6. *To help and encourage partnership working to improve services and facilities for the residents of Great Aycliffe;*
7. *To encourage the residents of Great Aycliffe to become involved in local democracy; and*
8. *To research information and make the case for Great Aycliffe.*

Town Council Service Delivery Plan

- 4.25 The Parish Plan was subsequently amalgamated with the Council's Best Value Performance Plan, following the end of the best value regime, and renamed the Parish Performance Plan. This Plan was then updated on an annual basis and set out the Council's performance and progress each year in achieving its strategic aims.
- 4.26 Following a review of the Council's performance management framework and strategic planning process in 2015, a decision was taken to replace the Parish Performance Plan, with effect from the 2015/16 financial year, with a new Service Delivery Plan.
- 4.27 The Service Delivery Plan focusses more on the services which are provided for the community of Great Aycliffe by the Town Council and how the Council meets the needs and priorities of the community. The Plan also incorporates a revised Performance Management Framework which provides for more robust setting, monitoring and review of strategic aims and targets by the Council.
- 4.28 In order to help successfully demonstrate the delivery of the Service Delivery Plan, each strategic aim is supported by a number of annual targets which are set out in an Aims and Targets Action Plan. It is ensured that each target is 'smart' i.e. specific, measurable, achievable, relevant and time bound, and targets are monitored throughout the year by officers, and are appraised by the Council's Review Sub Committee.
- 4.29 The Aims and Targets Action Plan effectively identifies the key areas that the Council needs to focus on each year in pursuit of the achievement of its strategic aims and sets 'smart' targets to guide the Council's programme of work and its financial planning for the year.
- 4.30 The update of the Service Delivery Plan at the beginning of each year includes a review of the Action Plan and the current status of each target in terms of progress towards completion. Any completed targets are removed from the following year's Plan and new targets are added.
- 4.31 This review process helps ensure that the Council makes continuous progress towards the achievement of its strategic aims, in 2021/21 the Coronavirus pandemic and associated restrictions made delivering a number of the aims and targets extremely difficult. **A copy of the Council's aims and targets for 2021/22 is attached at Appendix F.**
- 4.32 In addition to the strategic aims and targets, the Council has also embedded important crosscutting themes across all service areas, and these have now been incorporated into all corporate and service planning decisions taken by the Council's three major Committees and all Sub-Committees. These crosscutting themes are as follows:

- ❑ Policy Implications
- ❑ Staffing Implications
- ❑ Financial Implications
- ❑ Risk Assessment
- ❑ General Data Protection Regulation Implications
- ❑ Crime and Disorder Implications
- ❑ Equal Opportunities
- ❑ Environmental and Climate Change Implications

Section 5 Community Priorities

Introduction

- 5.1** The Council's 2021/22 Service Delivery Plan sets the Council's strategic aims and targets for the coming year. However, it is also important that the views of the local community are regularly sought and assessed by the Council.
- 5.2** Consultation is undertaken with the community, service users and local taxpayers in a variety of ways including:-
- the Residents Satisfaction Survey which is undertaken every two to three years (the most recent survey was undertaken in 2019);
 - the neighbourhood plan consultation process;
 - service specific surveys such as the annual allotments and senior citizens' trips surveys;
 - project specific surveys such as play area surveys etc;
 - the annual budget consultation event and online budget survey;
 - meetings with the Council's Customer Panel; and
 - meetings with the Youth Council.
- 5.3** Such consultation allows the views of the community and local taxpayers to be sought and then used to inform future decisions around allocation of resources, investment in services, and where any required efficiency savings should be targeted over the life of the Plan.
- 5.4** Feedback from previous consultations, and in particular the results of the Resident Satisfaction Surveys and annual budget consultation events, have already been used to inform the Council's financial planning and have been considered in the setting of the Council's Revenue and Capital Budgets in previous years.

Your Town, Your Choice, Your Voice Satisfaction Survey

- 5.5** A comprehensive consultation exercise was undertaken with the local community in late 2019.
- 5.6** Two open days were held offering residents the opportunity to meet key officers and members of the Council and discuss any issues of interest or concern and the issue of the 'Your Town, Your Choice, Your Voice Satisfaction Survey'.
- 5.7** This survey asked a number of questions relating to satisfaction with the various services provided by the Council, value for money, community involvement and priorities for investment and disinvestment, seeking to establish the priorities of the local community for the future.
- 5.8** Budget consultation is also undertaken every year prior to the setting of the annual budget. This helps provide feedback on the Council's annual budget proposals.

Consultation Results and Community Priorities

- 5.9** The key financial question asked in the 2019 Your Town, Your Voice, Your Choice Survey related to the Town Council proportion of the council tax and

whether council taxpayers felt that this provided value for money for the services provided.

- 5.10** A total of 87% of respondents consider that the Town Council Tax represents value for money. This was a very pleasing response, which is up on the figures from previous years' surveys and demonstrates that the vast majority of council taxpayers believe that the Town Council delivers value for money services to the local community.
- 5.11** The survey also asked respondents to rank the services most important to them i.e. where service delivery should be continued, budget cuts avoided, and future investment targeted.
- 5.12** The top five priority service areas from the survey were as follows:-
1. Environment and Open Spaces
 2. Parks and Play Areas
 3. Senior Citizens' Trips
 4. Litter and Dog Bins
 5. Sports Complex
- 5.13** By far and away the top priority Town Council services for local taxpayers are environment and open spaces and parks and play areas.
- 5.14** These are areas in which the Council has invested very heavily in recent years.
- 5.15** Parks and play area investment has included the installation of multi-use games areas and new play equipment at Simpasture, Horndale, Woodham and Moore Lane Parks, improved play areas at St Oswald's Park, Moore Lane Park, West Park, Town Park, Horndale Park, Byerley Park, School Aycliffe and Aycliffe Village, a BMX track in Woodham Park, a scoot track at Horndale Park, replacement of the Town Park skate park, and, a new park, play area and multi-use games area at Cobblers Hall.
- 5.16** Environment related investment has included the set-up of the Environment Centre at Moore Lane, the employment of the Town Pride Team, the planting of the new woodland in Woodham Burn for the Queen's Jubilee, new wildflower meadows, and taking over the management of environmental areas from Durham County Council.
- 5.17** The next highest priority from the survey were the senior citizens' trips. This is one of the Council's flagship special events in which investment is made every year and feedback is sought to continually seek ways of improving the event. Please note that this event has been cancelled in 2020 and 2021 due to the Coronavirus pandemic.
- 5.18** The other top priorities identified in the survey were the litter and dog bins and the sports complex.
- 5.19** The Council makes regular capital investment on the replacement of litter and dog bins. However, there are limitations as to how much more the Council can invest in these areas, as it is restricted to Council owned and leased land, and whether Durham County Council has the staffing capacity to actually empty the additional bins.

- 5.20** The sports complex is a service area that divides opinion. It is clearly very highly regarded by the users of the facility such as the bowls club and squash club, which is very much reflected in the survey results.
- 5.21** However, there are also a number of respondents who would clearly wish to see the Council spend less on this service.
- 5.22** The Council continues to invest in this facility, whilst at the same time looking at ways of increasing usage, diversify and generate new income streams, and aim to reduce the net subsidy from taxpayers
- 5.23** Every effort will be made to continue to invest in community priorities over the period of this MTFP. However, there will be limitations on any additional investment due to the likely cuts in Council Tax Support Grant funding, falling balances, reduced availability of external grant funding, increases in staffing costs linked to the National Living Wage, and the need to keep future council tax increases as low as possible.
- 5.24** However, this information will also be useful in highlighting the services that are most important to council taxpayers, and which should be protected from budget cuts, should revenue and capital spending need to be reduced in the future.
- 5.25** The lower priority services which attracted the least number of votes in the Your Town, Your Voice, Your Choice Survey were as follows:-
1. Civic events and the Office of Mayor
 2. Councillors
 3. Golf Complex
 4. Fireworks Display
 5. Allotments
- 5.26** This would suggest that these are the service areas that are least important to council taxpayers and where spending reductions, if required in the future, should be targeted.
- 5.27** The Council has already reduced spending in some of these service areas over the last few years. For example, a service review of the golf complex has been completed which resulted in the management of the service being taken back 'in house' and has seen reductions in running costs and increases in income. The Council has also undertaken a review of the civic budget which resulted in savings in the cost of civic functions and hospitality.
- 5.28** However, it is important to reiterate that 87% of survey respondents believed that the level of council tax paid to the Town Council represents value for money, which would suggest that the majority of taxpayers *do not* wish to see the Council cut services, if at all possible.

Section 6 Key Financial Influences and Challenges

6.1 This Medium-Term Financial Plan will need to address the following key financial influences and challenges:-

- ❑ **the Coronavirus pandemic and its impact on the economy and Government spending plans** e.g. austerity measures and public sector spending cuts, inflation, interest rates and reduced consumer spending power;
- ❑ **the likelihood of further cuts to the Council Tax Support Grant funding** on which the Council Revenue Budget is reliant;
- ❑ **the ongoing increases in the National Living Wage, and its subsequent impact on the local government pay scale;**
- ❑ **the possible extension of council tax referendum principles to town and parish councils, with effect from 2022/23;**
- ❑ **the implications of any new spending cuts made by Durham County Council,** which could result in increasing pressure to take over local services which have been reduced or withdrawn by the county council;
- ❑ **increased requests for financial assistance from community and voluntary organisations** whose grant funding has been cut;
- ❑ **ensuring the funding of existing service requirements;**
- ❑ **delivering the Council's strategic aims and targets;**
- ❑ **meeting the needs and priorities of the local community, service users and taxpayers;**
- ❑ **funding any new statutory requirements and any planned investment in existing services or new initiatives;**
- ❑ **delivering value for money and ensuring the achievement of year-on-year efficiency savings;**
- ❑ **minimising any future increases in the Town Council Tax;**
- ❑ **working within the resources available and deciding how the Council's spending will be prioritised** in the event of limited resources being available;
- ❑ **providing for the significant future capital investment commitments facing the Council and ensuring the delivery of the Asset Management Plan;**
- ❑ **maintaining a prudent level of balances and reserves, whilst meeting the cost of this capital investment.**

6.2 Many of these key financial influences and challenges are linked to the Coronavirus pandemic, national economic situation and likely austerity measures, possible cuts to the Council Tax Support Grant, and the financial pressures faced by Durham County Council. All of these issues were discussed in detail in Sections 3 and 4 of the Plan.

- 6.3** The Council relies heavily upon the Precept and therefore the Town Council Tax to fund the services it provides and is limited in its ability to raise additional funds, other than through the Precept and Council Tax.
- 6.4** In addition, the localisation of support for council tax has left the Council in a position whereby it is reliant on an external grant totalling £180,300 per year to support its Revenue Budget. This Council Tax Support Grant funding is likely to be cut by at least a further £33,550 or nearly 19% over the 2022/23 to 2025/26 period.
- 6.5** The Council will also face increasing pressure on its spending budgets from staffing cost increases linked to the National Living Wage, possible future employers' pension contribution increases, as well as inflation and other unavoidable budget pressures.
- 6.6** The resulting shortfall in resources will need to be made up in the Revenue Budget via a combination of increases to the Town Council Tax, council tax base growth, savings, and budget reductions, and increases to fees and charges.
- 6.7** It is likely that the process of balancing the Council's Revenue Budget will become increasingly difficult over the medium to longer term.
- 6.8** At the same time the Council needs to be aware of the financial difficulties that continue to be faced by local taxpayers and the need to keep future increases in the Town Council Tax as low as possible. This is also important in the context of the possible implementation of the power allowing local communities to require town and parish councils to hold a referendum to veto an excessive council tax increase, from 2022/23 onwards.
- 6.9** The Council is also facing the prospect of needing to undertake significant capital investment in its fixed assets over the medium term and ensuring that sufficient balances and reserves are maintained to meet these commitments, is an ongoing challenge that the Council will need to address over the next five years.
- 6.10** This MTFP has been prepared on the key principle of aiming to maintain existing levels of service, while keeping the increase in council tax as low as possible. Prudent assumptions have been made around the impact of the various challenges faced and the key assumptions made are set out in Section 7 of the Plan.
- 6.11** A Revenue and Capital Budget Forecast is then set out in Section 8 of the Plan which highlights the likely changes to the budgets between 2022/23 and 2025/26 and the council tax increase that may be required in each year to balance the Revenue Budget.
- 6.12** This forecast will also quantify the possible savings and budget reductions that would be needed to freeze the council tax, should the Council wish to do so at any time over the period.
- 6.13** Actual options for delivering any required budget reductions and efficiency savings would need to be drawn up each year and agreed by the Council during the annual budget setting process.

Section 7 Key Financial Assumptions

- 7.1 Summarised in this section of the Plan are the specific assumptions that have been made in planning the Council's Revenue and Capital Budget forecast over the five-year period in order to respond to the key influences and challenges summarised in Section 6 of the Plan.

Providing for Inflation

- 7.2 In order to ensure that the Revenue Budget accurately reflects future spending commitments, it is essential that the Council makes prudent provision for all unavoidable increases in costs that will arise from inflationary pressures over the five-year period.
- 7.3 Inflation has historically been a significant pressure on some expenditure budgets, particularly in relation to fuel and utilities costs.
- 7.4 Inflation had fallen back over the last few years, however due to increases in energy, fuel and clothing prices inflation has risen sharply over the last few months and is forecast to increase further, in May 2021 it stood at 2.1% and is projected to increase as high as 3% over the course of the year.
- 7.5 The current Government target for inflation is 2% and the long-term aim is to keep inflation within this limit. It is uncertain what longer-term impact the Coronavirus pandemic will have on inflation.
- 7.6 **A key principle of the Council's medium-term financial planning is to make provision only for unavoidable inflationary increases** in budgets i.e. where there is a contractual obligation to pay the increased cost or where the increase literally cannot be avoided.
- 7.7 Budget provision for general expenditure such as equipment, stationery, uniforms, training, and publicity has therefore been frozen at existing levels and the budgets will be expected to absorb any price variations year on year.
- 7.8 This approach encourages managers to shop around, use the Durham County Council procurement service, and negotiate better deals with suppliers, and therefore ensures improved use of resources and helps the Council to achieve value for money.

Annual Pay Awards and the National Living Wage

- 7.9 Over half of the Council's gross expenditure relates to officer pay costs and therefore annual officer pay awards and the ongoing increases to the National Living Wage are likely to be one of the most significant cost pressures on the Council's Revenue Budget moving forward.
- 7.10 The National Living Wage sets out the minimum hourly rate for all staff working in the United Kingdom who are over the age of 23. This rate has been set at £8.91 for the 2021/22 financial year.
- 7.11 The Government has previously pledged to increase the **National Living Wage to £10.50 per hour by 2024** and to lower the age at which workers are entitled

to it, to 21, although the current indicative trajectory is a £10.33 per hour National Living Wage in by 2024.

- 7.12 The Council currently pays its staff in accordance with the National Joint Council for Local Government Services (NJC) pay scales.
- 7.13 The NJC **Local Government Pay Agreement** for the **2021/22** financial year has been proposed at a **1.5% pay increase on all pay scales**, although this has not yet been agreed. If implemented this will result in a minimum local government pay rate of £9.39 per hour for 2021/22. This is currently therefore headroom of £0.48 between the lowest rate of local government pay and the current National Living Wage rate.
- 7.14 The 2021/22 Revenue Budget assumed a pay award of 1.5%.
- 7.15 Moving forward, the planned increases in the National Living Wage between 2021 and 2024 towards £10.50 per hour will cause the headroom between the lowest local government pay rate and the National Living Wage to erode and eventually disappear altogether.
- 7.16 The only way to avoid the National Living Wage overtaking the lowest local government pay grade, and also to retain the current 'differentials' between local government pay grades working up through the pay grade, will be for the National Joint Council for Local Government Employers to agree an annual pay increase in excess of the current 1.5% pay award.
- 7.17 Based on the above, **it is estimated that a local government pay award of 2.5% will be required in 2022/23, a pay award of 3% in 2023/24 and a pay award of 3.5% in 2024/25 and 2025/26 will be required.**
- 7.18 If a higher-than-expected pay increase is awarded at any point over the next five years, for example following union action, a significant increase in the National Living Wage, or the election of a new Government, then additional budget would need to be found to meet the increased cost.
- 7.19 For every 0.5% pay award above those budgeted for, the Council's salaries and wages budget would need to increase by around £8,500.
- 7.20 Any additional costs over the life of the Plan would be met in the first instance from the Revenue Budget Contingency Sum, or, over and above this, from efficiency savings elsewhere in the Revenue Budget.
- 7.21 In the longer term, further expected increases in the National Living Wage, are likely to bring about increasing compaction at the lower end of the local government pay scale, which may result in further restructure of the local government pay scale. Staffing costs increases are therefore likely to remain a key budget pressure well into the future.

Salary Increments

- 7.22 Some Council staff are appointed on a salary grade that allows progression through the grade linked to performance in the job or successful completion of qualifications.

- 7.23 Full provision has been made in the Revenue Budget forecast for any salary increments that are due to such staff over the five-year period of the Plan.**

Pension Costs

- 7.24** Pension costs in respect of Council employees are another significant area of expenditure. The 2020 actuarial valuation of the Durham County Pension Fund set the pension contributions for employers and employees for the three years 2020/21 to 2022/23. The Council's employer's pension contribution rate for this period decreased marginally from 19.1% to 18.9% of pensionable pay costs.
- 7.25** The next valuation of the pension fund is due to take place during 2023 and will set the pension contributions for the period 2023/24 to 2025/26.
- 7.26 The Council's employer's pension contribution rate will therefore remain unchanged at 18.9% until the end of 2022/23.**
- 7.27 However, early indications from Durham County Council Pension Fund are that employers' contributions may need to increase at the next revaluation as the impact of the Coronavirus pandemic on investments is factored in. It has therefore been assumed that the contribution rate will increase to 20% with effect from 2023/24.**
- 7.28** The other issue relating to pensions that will continue to have an impact upon the Council's pension costs over the next few years is the Government's automatic enrolment legislation.
- 7.29** This initiative aims to ensure that all workers are enrolled into an occupational pension scheme. It requires employers to automatically enrol all 'eligible' employees into a qualifying pension scheme, although employees do have the option of 'opting out' should they wish to do so.
- 7.30** The Council initially implemented automatic enrolment in May 2014, and this resulted in a number of additional staff joining the Local Government Pension Scheme. It has since undertaken two three-yearly re-enrolment exercises in 2017 and 2020.
- 7.31** The 2021/22 Revenue Budget provides fully for the costs of all staff who are currently members of the pension scheme.
- 7.32** The Government continues to encourage workers to enrol in a pension scheme and the Council must automatically enrol all eligible new staff and existing staff whose earnings exceed the automatic enrolment threshold of £10,000, and also re-enrol all 'opted out' staff every three years, with the next re-enrolment date being May 2023.
- 7.33** This could result in more staff joining the pension scheme over the medium term. It has been assumed in the Revenue Budget projections for 2022/23 to 2025/26 that all new staff will join the pension scheme, while all existing staff who have previously opted out will remain outside of the pension scheme.

Savings from Staff Turnover and Flexible Retirements

- 7.34 No provision has been made within the Revenue Budget forecast for savings from staff turnover or flexible retirements** e.g. savings from reductions to working hours, staff leaving the pension scheme, posts being vacant for a period of time, new staff commencing employment on lower grades etc, unless this has already been approved by the Council and removed from the Revenue Budget.
- 7.35** For example, the savings from a flexible retirement in the works department, arising from the reduced working hours, have not been removed from the Works Revenue Budget on the basis that a further review of the works department staffing structure will need to be undertaken upon the permanent retirement of this member of staff.
- 7.36** It has therefore been assumed in the Revenue Budget forecast that any future savings that *are* achieved from staff turnover or further flexible retirements would be available to support the Revenue Budget in the year in which they were achieved, rather than permanently removed from the budget.
- 7.37** These savings would be used in the first instance to fund any recruitment costs or temporary cover arrangements, with any remaining savings added to Council balances at the end of the year.

Changes to the Staffing Structure

- 7.38 There are not currently any approved decisions to change the Council's staffing structure and the Revenue Budget Forecast for 2021/22 to 2025/26 is therefore based on the existing approved staffing structure.**

Premises Costs

- 7.39** There have been some significant increases to the Council's premises costs in recent years, although wherever possible the Council has actively worked to minimise these increases, for example by working with Durham County Council energy team to access their gas and electricity contracts and reduce usage and changing maintenance providers to achieve better value for money.
- 7.40** However, the Council still faces some potentially unavoidable increases to its premise's costs over the next few years and these have been provided for within the Revenue Budget Forecast.
- 7.41** In respect of gas and electricity costs, the 2021/22 Revenue Budget figures reflect the current contract rates and latest annual usage information and have been increased by 5% to provide for forecast increases on the new contracts being negotiated by Durham County Council's procurement department.
- 7.42 A further increase of 5% per year has been assumed for the 2022/23 to 2025/26 period to provide for further unavoidable increases in energy prices.**
- 7.43** Officers will continue to work with Durham County Council's Procurement Department to minimise the actual increases in each year and may set up longer fixed term contracts if this is more cost effective.

- 7.44** Water budgets have been increased by 3% per year to provide for likely inflationary increases by Northumbrian Water.
- 7.45** Business rates budgets have been increased by 2% per year in line with the expected rate of inflation, and service agreement costs by 3% per year, in line with actual expected increases.
- 7.46** The Council's building maintenance budgets, as a whole, are in the fortunate position of being under-utilised, despite there having been some significant one-off costs in the last few years which have resulted in some individual building maintenance budgets being overspent.
- 7.47** In addition, significant asset management works have been completed to buildings in recent years and continue to be planned via the Capital Programme Budget over the next five years which should help to limit the call on the building maintenance budgets over the next few years.
- 7.48** As a result, **current budget provision for building maintenance is considered to be sufficient and has been frozen at existing levels** for the life of this Plan.

Insurance Costs

- 7.49** The Council's current three-year long-term agreement for its insurance contract runs until June 2022 and insurance costs should remain relatively stable until then.
- 7.50** **A 5% increase in insurance premiums has been assumed in the 2022/23 year, when the next long-term agreement is due to be negotiated.**
- 7.51** Vehicle insurance does not form part of the long-term agreement and is negotiated annually. **A 5% annual increase in premiums has been assumed for vehicle insurance.**

Vehicle Costs

- 7.52** Vehicle fuel costs can fluctuate widely month to month and year to year linked to changes in global oil prices. However, over the long term there has been an upward trend in prices.
- 7.53** **Due to the move to a new fuel contract an initial saving has been assumed in 2022/23 with an annual increase of 5% per year on top of this in fuel costs to provide for fuel price inflation.**
- 7.54** Vehicle maintenance costs also vary widely year to year but have fallen in recent years as a result of capital investment by the Council in replacing older vehicles. **The vehicle repair budget has been frozen at £8,000 per year for the duration of the Plan.**
- 7.55** **A freeze has been assumed in officer car allowances and mileage rates over the period of the Plan,** and it has been assumed that the mileage claimed will remain broadly at current levels.
- 7.56** **The budgets for Mayors' taxi costs and Members' mileage claims have also been frozen at the current levels.**

Supplies and Services Budgets

- 7.57 The majority of supplies and services budgets have been frozen at existing levels with the expectation that any inflationary increases are absorbed.** This approach encourages managers to shop around, use the Durham County Council procurement service, and negotiate better deals with suppliers, and helps the Council to achieve value for money. Examples of budgets that have been frozen include equipment, stationery, cleaning materials, uniforms, training, and publicity.
- 7.58 An inflationary increase has been provided for over the life of the Plan for any supplies and services where there is a contractual obligation to pay the increased cost, or where the increase cannot be avoided.** Examples include machine rentals, telephones, subscriptions, computer support contracts and licences, CCTV running costs, and the bar supplies contract.
- 7.59 In some cases, supplies and services budgets have been reduced, for example where the budget provision is of a one-off nature, where there are known savings, or where the budget has been regularly under-utilised in the past.**

Town Council Elections

- 7.60 The next Town Council Elections** are due to take place in **May 2025** and a budget of £21,500 has been set aside in the 2025/26 Revenue Budget to meet the cost. This **will be funded from the Earmarked Elections Reserve** set aside for this purpose.
- 7.61** The cost of any by-elections held during the period of the Plan would also be met from the Elections Reserve.

Members Allowances

- 7.62** The 2021/22 Revenue Budget incorporates the current town and parish council members' allowance rate as recommended by the Independent Remuneration Panel at Durham County Council.
- 7.63 Moving forward, no increase has been assumed to the Member's Allowances rate over the period of the Plan.**

Income Budgets

Pre-School Funding

- 7.64** Funding is receivable towards the running costs of the two pre-school settings at St Oswald's Park.
- 7.65** This funding is paid by the Government via Durham County Council's Education Department and pays for up to thirty hours of care per week for three to five-year old children and up to fifteen hours of care per week for two-year old children. This equates to five daily three or six-hour sessions per child per week and is payable during school term time only.

- 7.66 Additional funding is received towards the cost of one-to-one support provided to children with special educational needs.
- 7.67 Funding is claimed in advance of each term based on the projected numbers of children attending, with a reconciling claim at the end of the term. Funding is received in two payments during the term.
- 7.68 **The 2021/22 pre-school funding budget was set at £175,000 which represents a target occupancy rate of 67.5% for the two settings and the current funding rates of £4.08 per hour for the three to five-year old setting, and £5.18 for the two-year old setting. A further £7,500 is budgeted for Special Educational Needs Funding.**
- 7.69 The target attendance rate is based on an assessment of the number of children currently attending, waiting list numbers for future places, and the assumption of some additional applications from parents.
- 7.70 It is difficult to accurately assess waiting lists beyond 2021/22 and therefore estimate funding income for the medium term, as the numbers of children attending and waiting lists constantly change.
- 7.71 **The funding income budgets for 2021/22 to 2025/26 have been based on an assumed 2.5% per annum increase in the funding rate and a fixed target occupancy rate of 70%.**
- 7.72 **This would result in funding income increasing from £175,000 in 2021/22 to £200,000 in 2025/26.**
- 7.73 Special Educational Needs Funding varies depending on the numbers of children receiving one-to-one support and has been assumed at £7,500 in 2021/22 and £10,000 per annum over the remaining life of the Plan in line with increasing numbers.

Sports Complex Income

- 7.74 Sports complex income from sporting activities has fallen over the last few years, with five a side and squash usage particularly badly affected. There are a number of reasons for this including declining demand, increased competition in the indoor football market, reduced squash club activity, and Coronavirus and the associated economic downturn.
- 7.75 However, prior to the pandemic, there had been recent efforts to diversify the services on offer at the sports complex and boost income from non-sporting activity, with more events such as craft fairs, dog shows, caravan rallies and mixed martial arts being held in the sports hall. This has led to an increase in sports hall hire income and has also boosted secondary income such as bar, catering, and gaming machine takings.
- 7.76 **The sports complex income budgets for the years 2021/22 to 2025/26 have largely been based on pre-pandemic usage and sales.**
- 7.77 In the medium-term it has been assumed that there will not be any material recovery in the income over the period but also that income will not fall further from pre-pandemic levels.

- 7.78** A price freeze in the fees and charges for sports activities has been assumed over the life of the plan to ensure that the sports complex prices remains competitive.
- 7.79** **However, a 3% annual increase has been assumed in bar and catering prices in order to absorb expected inflationary increases** in the cost of supplies and ensure that current profit margins are maintained over the life of the Plan.

Golf Complex Income

- 7.80** Golf complex income has fluctuated up and down in recent years, impacted in particular by the closure and re-opening of Woodham Golf Club in 2014 and 2015, the Coronavirus pandemic, and by the weather conditions in each year.
- 7.81** Over the last three years, golf course income, including memberships, green fees and buggy hire has averaged £125,000, fluctuating up and down linked to weather conditions.
- 7.82** Pre-Coronavirus pandemic the driving range income has averaged £50,000 over the three years but has been on an upward trend, seeing significant increases in usage and income in 2019/20.
- 7.83** Golf shop sales, pre pandemic, were in excess of £35,000 per year following the move to in-house management of the facility in 2017/18.
- 7.84** Golf membership numbers have fallen from 262 members in 2017/18 to 199 members in 2021/22, well down on the 300 plus members seen in earlier years.
- 7.85** For the purposes of the Revenue Budget projections in this Plan, **target golf membership number have been set at 225, with membership prices increasing by £10 per year over the life of the plan.** This will increase income by around £2,000 per year, helping to offset increases in running costs.
- 7.86** Green fee income hit £70,000 in 2018/19, boosted by favorable weather conditions but then fell dramatically to £50,000 during 2019/20 as a result of very wet weather and the Coronavirus outbreak. The fees increased to £79,000 in 2021/22 due to golf being one of the sporting activities permitted under Government restrictions in 2020. An income target of £75,000 has been set for 2021/22.
- 7.87** For the purposes of the Revenue Budget projections in this Plan, **it has been assumed that green fee income will gradually increase to £85,000 over the period 2021/22 to 2025/26.**
- 7.88** **The income target for buggy hire has been fixed at £7,500 per year for the period of the Plan, in line with the average takings** over the last five years, while the income target for equipment hire has been fixed at £2,500 per year.
- 7.89** Driving range prices were increased by 50p per basket in 2019/20, which, taken alongside an increase in usage led to a significant boost in income to £60,000. **The income target for the driving range has remained at £60,000 from 2021/22 and it has been assumed that income will increase to £67,500 per year by 2025/26.**

- 7.90 The income target for golf shop sales, including golf equipment and clothing, drinks, snacks and hot drinks, has been set at £48,250 in 2021/22 increasing to £53,250 by 2025/26.**

Sports Pitch Income

- 7.91 Budgets have been set at £4,800 in 2021/22 and 2022/23 with a 5% annual increase has been from 2023/24 in relation to sports pitch fees.** This is in line with the Council's previous commitment to increase charges more in line with the actual costs of maintaining the sports pitches and changing rooms. **The number of teams using the pitches has been assumed to remain unchanged.**

Cemeteries Income

- 7.92** Cemeteries fees and charges have been subject to a comprehensive review by the Council's Charges Working Group, with a view to reducing the high level of subsidy in this service area and the disparity between the Council's cemeteries charges and those levied by principal councils.
- 7.93** It was agreed to increase cemeteries charges by 25% per year between 2016/17 and 2018/19, to move the Council's charges more in line with the actual cost of the service.
- 7.94 A lower price increase of 5% was implemented in 2019/20 and 2020/21, and a continuation of this pricing policy has been assumed for the period 2021/22 to 2025/26.**
- 7.95** The lease of the building at Stephenson Way Cemetery to a funeral director is currently £5,850 per year and is due to increase again in 2022/23. A 5% increase to £6,150 per year has been assumed in 2022/23.

Allotments Income

- 7.96 Allotments income has been based on current numbers of plots and assumes 100% allocation of plots each year.**
- 7.97 Allotments rents increased by 2.5% from 2021/22 and are assumed to increase at this rate for the life of the plan year** in order to ensure that increases in running costs are offset, and that the subsidy from the taxpayer is reduced.

Investment Income

- 7.98 Investment income has been based on the projected level of balances and reserves** as set out in the Revenue and Capital Budget Forecast in Section 7 of the Plan.
- 7.99 It has been assumed that there will be a very gradual recovery in interest rates**, from the current level of 0.1% to 0.25% in 2022/23, 0.50% in 2023/24, 0.75% in 2024/25 and 1% in 2025/26.

Grant Funding

7.100 Grant funding has only been assumed in the MTFP projections where it is already in place or has already been approved.

7.101 Other than the Council Tax Support Grant and pre-school funding received from Durham County Council, no other revenue grant funding is currently receivable or had been approved at the time this Plan was prepared.

Investment in Services and New Initiatives

7.102 As outlined earlier in the Plan, the Council has established, through the Service Delivery Plan, and consultation with the local community, the strategic aims, targets and priorities, which will guide future investment.

7.103 The Council has already actively responded to the delivery of many of the aims, targets, and priorities in previous budget setting exercises and in all cases sufficient revenue or capital budget provision is already in place to enable their achievement.

7.104 Clearly, the Council will be constrained over the next five years in its ability to raise additional resources for investment, by the funding cuts and other budget pressures faced. In the longer term, this could actually leave the Council needing to deliver savings and reduce expenditure rather than make further investment in services.

7.105 Budget provision has only therefore only been included in the Revenue Budget Forecast in this Plan for existing service provision and any already approved additional commitments.

7.106 No further additional investment in services or in new initiatives has been assumed. If any new investment was required, this would need to be met from the Revenue Budget Contingency Sum, or by reducing spending on existing services.

Annual Council Tax Increase

7.107 As highlighted earlier in the Plan, the Revenue Budget Forecast has been prepared on the principle of continuing to provide all current Council services, facilities, and events, maintaining current standards of service, and ensuring a prudent level of balances and reserves, whilst keeping any future increases in the Town Council Tax as low as possible.

7.108 This is in recognition of the 'cost of living' difficulties that may be faced by local taxpayers during the COVID-19 pandemic and the likely austerity measures that will follow, as well as the possibility of council tax referendum principles being extended to higher spending town and parish councils with effect from the 2022/23 financial year.

7.109 Clearly, there would be financial implications for the Council if a council tax referendum limit were implemented for town and parish councils by the Government at any stage from 2022/23 onwards.

- 7.110** The base council tax referendum limit is currently set at 2% for principal councils, but could be reduced in the coming years, if local authorities are not seen to be showing restraint in setting their council tax rates.
- 7.111** This eventuality is considered in the Revenue Budget Forecast set out in Section 8 of the Plan, which assumes that a 2% limit will apply between 2022/23 and 2025/26.
- 7.112** The forecast also quantifies the savings that would be required to restrict the council tax increase, in the event of a council tax referendum limit being implemented at 0%.

Council Tax Base

- 7.113** In order to calculate the possible changes that may be required to the level of council tax over the medium term, assumptions need to be made around the likely movement in the Council Tax Base.
- 7.114** The Council Tax Base is a calculation of the number of chargeable properties within the Parish for council tax purposes. The Council's Precept divided by the Tax Base calculates the Band D Council Tax.
- 7.115** The localisation of support for council tax had significant implications for the Council Tax Base calculation, and the future design of the Durham County Council Local Council Tax Support Scheme could have a major impact on the Council Tax Base moving forward.
- 7.116** For example, if the County Council chooses, in the future, to ask council tax support claimants to contribute towards their council tax liability, as many other councils in the country have already done, this would have the impact of increasing the Council Tax Base.
- 7.117** The Tax Base will also be influenced by the council tax benefits caseload in the Parish. An increase in caseload would reduce the Tax Base while a decrease in the caseload would increase the Tax Base.
- 7.118** For the purposes of estimating the Town Council Tax Base for the period of the MTFP, it is not considered prudent to make any assumptions around possible changes to the Durham County Council Local Council Tax Support Scheme or the council tax benefits caseload.
- 7.119** The Council Tax Base decreased by 80 properties in 2021/22 this was largely as a result of the impact of the Coronavirus pandemic. This followed on from an increases in the Council Tax Base of 77 properties in 2020/21, 48 properties in 2019/20, 193 properties in 2018/19, and 65 properties in 2017/18.
- 7.120** It is likely that the Council Tax Base will continue to benefit from some new housing development over the life of the Plan.
- 7.121** **For the purposes of the Revenue Budget forecast for the four-year period 2022/23 to 2025/26, an annual increase in the Council's Tax Base of 50 properties per year has been assumed to provide for new housing development. This would raise an additional £12,750 to £13,500 per year, to support the Revenue Budget.**

Council Balances and Reserves

- 7.122** Within the existing statutory and regulatory framework, it is the responsibility of the Finance Manager to advise the Council on the level of its reserves and to ensure that there are clear protocols for their establishment and use.
- 7.123** In accordance with Section 25 of the Local Government Act 2003, an annual assessment of the adequacy of the Council's balances and reserves is made at the time the Council Precept is set.
- 7.124** This assessment is based upon a guidance note on Local Authority Reserves and Balances issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is considered to be best practice with regard to balances and reserves (LAAP Bulletin 99).
- 7.125** CIPFA holds the view that a generally applicable minimum level of reserves is not appropriate. The guidance note states that *'in assessing the appropriate level of reserves, a well-managed authority will ensure that the reserves are not only adequate but are also necessary'*, and that Council's *'should establish reserves including the level of those reserves based on the advice of their chief financial officer and make their own judgements taking into account local circumstances'*.
- 7.126** In theory, a well-run Council with a prudent approach to setting its budget, should be able to operate with a relatively low level of general balances, although these general balances will need to be supported by sufficient sums set aside in earmarked reserves to meet specific needs and fund future spending commitments.
- 7.127** In coming to a view on the adequacy of the Council's balances and reserves, account needs to be taken of the risks facing the Council, in terms of any significant unforeseen spending commitments or funding cuts, and also the capital investment requirements of the Council over the medium to long term, taking into account the ability of the Council to secure external funding via capital grants and contributions, take out additional borrowing, or generate capital receipts from sale of assets.
- 7.128** **The Council held balances and reserves of £1.608 million at the end of the 2020/21 financial year.**
- 7.129** **Around £174,000 is set aside in the General Fund Balance and Revenue Budget Support Fund** to provide support to the Revenue Budget in the event of any significant unforeseen spending commitments or funding cuts. **The remaining £1,434,000 is set aside in Earmarked Revenue and Capital Reserves**, to fund future year's capital investment commitments as set out in the Council's Asset Management Plan, and other one-off commitments such as elections.
- 7.130** **The Council's 2021/22 Revenue Budget includes a £29,250 Contingency Sum and a £50,000 Contribution to Capital Reserves**, which provide further protection against unforeseen spending commitments as well as allowing the Council's Earmarked Capital Reserves to be 'topped up' to support future year's capital investment.

7.131 The recommended policy for balances and reserves is as follows:-

- 1. Maintain minimum Revenue Balances of 5% of the Council Precept** to protect against unforeseen budget pressures and cuts to the Council Tax Support Grant funding.
- 2. Set aside such sufficient sums in Earmarked Reserves, as is considered prudent**, to support future year's capital investment requirements and other specific commitments;
- 3. Undertake an annual review of the level of Balances and Earmarked Reserves** as part of the budget setting process.

7.132 It is a key principle of the Council's financial strategy to limit support from Council balances and reserves to the Revenue Budget over the medium term as such support is not sustainable.

7.133 However, the Council does hold a Revenue Budget Support Fund which allows unspent budget resources to be carried forward from one year to another for specific approved purposes, while the Plan also provides for the use of Earmarked Revenue Reserves to fund the one-off costs of any elections and by-elections.

7.134 The policy regarding support from Council Balances to the Revenue Budget may also need to be reviewed in the future, should the Council face significant cuts to the Council Tax Support Grant funding.

7.135 It is considered that the current level of balances and reserves, taken alongside the contingency sum and contribution to capital reserves set aside in the Revenue Budget, provides the Council with an adequate level of resources to protect against any unforeseen spending pressures and future funding cuts, and to fund capital investment requirements in the medium term.

7.136 However, it is inevitable that Council balances and reserves will fall over the life of this Plan as capital commitments are funded.

7.137 The contribution to capital reserves was reduced to £50,000 in the 2021/22 budget, having previously been £75,000. However, this reduced Revenue Budget contribution will still help to replenish balances each year, and if efficiency savings can continue to be delivered on the Revenue Budget moving forward, balances and reserves should be able to be maintained at prudent levels over the five-year period of the Plan.

7.138 However, in the longer term, the Council's balances and reserves are fully earmarked against future capital investment requirements, and the effect of the on-going cuts to the Council Tax Support Grant and other Revenue Budget pressures may limit the Council's ability to replenish balances via Revenue Budget savings, which could lead to balances being significantly diminished by the beginning of the next decade.

7.139 This issue is considered in more detail in the Revenue and Capital Budget Forecast in Section 8 of the Plan.

Efficiency Savings

7.140 The Council is committed to ensuring that year on year efficiency savings are achieved over the five-year period of the Plan.

7.141 The need to identify and achieve efficiency savings is likely to become increasingly important over the coming years given the ongoing cuts to the Council Tax Support Grant funding, increases in staffing costs and other budget pressures faced, as well as the need to limit council tax increases over the next five years.

7.142 The Council has a proven track record of achieving efficiency savings on its Revenue Budget over a number of years and a saving of £413,000 or 24% was achieved during 2020/21.

7.143 There were a number of reasons for this saving including:

- The budgeted contribution to capital reserves and no use of the contingency sum,
- The unfortunate cancellation of most of the Council's community events programme due to the Coronavirus pandemic.
- Significant savings in staffing costs from unfilled staff vacancies, very limited overtime and claims to cover sports and golf complex staff costs under the Coronavirus Job Retention Scheme.
- Much lower spending during lockdown periods across all services.
- Significantly higher than budgeted pre-school funding, with additional funding having been received to ensure the service could continue during the Coronavirus pandemic and very high attendance numbers.
- A substantial increase in golf green fee takings, assisted by favourable weather conditions and the fact that golf was one of the few sports permitted under the Government restrictions in 2020.

7.144 A significant proportion of the surplus was made up of 'one-off' savings that came about because of the Coronavirus pandemic.

7.145 There have been some savings in the early part of 2021/22 due to the ongoing Coronavirus pandemic, for example from the cancellation of the senior citizen's trips, and although losses in sports and golf complex income are likely to offset any savings, **it is still likely that the Council will deliver a saving on its Revenue Budget**, via the planned contribution to capital reserves and contingency sum.

7.146 This suggests that there may still be some scope for further efficiency savings in future budget setting rounds once the Coronavirus crisis is over.

7.147 Any known savings or budget reductions have been built into the Revenue Budget Forecast for 2022/23 to 2025/26 in the Plan.

7.148 As highlighted earlier in the Plan, the Revenue Budget Forecast for the four years from 2022/23 to 2025/26 sets out the savings and budget reductions that would need to be made to freeze the Council Tax.

7.149 This information has been included to provide for the eventuality of the Government limit on council tax increases being extended to larger town

councils and reduced from the current limit of 2% at some point after the 2021/22 financial year.

- 7.150** Options for delivering any required budget reductions and efficiency savings, should they be required, would need to be drawn up each year and agreed during the annual budget setting process.

Section 8- Revenue and Capital Programme Budget Forecast 2021/22 to 2025/26

Introduction

8.1 A summary of the Revenue and Capital Programme Budget Forecast for the five-year period 2021/22 to 2025/26 is set out below. Please note that the first year of the Plan reflects the already approved 2021/22 Budget. A detailed analysis is attached at **Appendix A and B**.

Budget Description	Budget 2021/2022 £	Estimate 2022/2023 £	Estimate 2023/2024 £	Estimate 2024/2025 £	Estimate 2025/2026 £
Policy and Resources Budgets	781,200	786,350	812,400	836,400	861,200
Recreation Budgets	838,800	858,700	889,550	920,200	952,250
Environment Budgets	178,550	182,950	189,850	196,900	204,350
Contingency Sum	29,250	40,300	15,800	19,750	-
2021 and 2025 Elections	20,000	-	-	-	21,500
Less LCTSS Grant	(180,300)	(171,250)	(162,750)	(154,500)	(146,750)
Add Contribution to Reserves	50,000	50,000	50,000	25,000	22,950
Total Revenue Budget	1,717,500	1,747,050	1,794,850	1,843,750	1,915,500
Capital Programme Budgets	471,500	331,250	130,000	192,750	227,000
Revenue and Capital Budget	2,189,000	2,078,300	1,924,850	2,036,500	2,142,500
<u>Less Use of Reserves:</u>					
Funding of 2021&2025 Election	(20,000)	-	-	-	(21,500)
Funding of Capital Budgets	(471,500)	(331,250)	(130,000)	(192,750)	(227,000)
Council Precept	1,697,500	1,747,050	1,794,850	1,843,750	1,894,000
Council Tax Base	6,788	6,850	6,900	6,950	7,000
Band D Council Tax	£250.07	£255.04	£260.12	£265.29	£270.57
Band A Council Tax	£166.72	£170.03	£173.42	£176.86	£180.38
% Increase in Council Tax	0.00%	1.99%	1.99%	1.99%	1.99%
Savings Required to Freeze the Council Tax	£0	£34,045	£35,048	£35,894	£36,986

Revenue Budget Forecast 2021/22 to 2025/26

- 8.2** The Revenue Budget forecast summarised above has been based on the detailed assumptions set out in Section 7 of the Plan, and the following key principles:-
1. Continuing to provide all Council services, facilities and events and maintaining current standards of service;
 2. Ensuring continued delivery of the Asset Management Plan via the Capital Programme Budgets;
 3. Safeguarding a prudent level of balances and reserves;
 4. Keeping any increase in council tax as low as possible between the years 2022/23 to 2025/26.
- 8.3** The forecast makes provision for likely future increases in costs from pay awards, pension increases, inflation, and any other unavoidable spending commitments, forecast increases and decreases in income, as well as accounting for any known savings, assumed increases in fees and charges, and council tax base growth.
- 8.4** As highlighted earlier in the Plan, the Revenue Budget Forecast is based around the latest information available from Durham County Council with regard to the future of the Council Tax Support Grant.
- 8.5** This assumes that the funding will continue to be passed on to town and parish councils, but that it will be reduced year on year, in line with the cuts being made to Durham County Council's overall government grant settlement.
- 8.6** The Revenue Budget forecast assumes that the Council Tax Support Grant will reduce by £33,550 or 19% over the 2022/23 to 2025/26 period, from £180,300 to £146,750. However, it is important to point out that the implementation of austerity measures by the government may result in more severe cuts to this funding being implemented.
- 8.7** **In overall terms, the Revenue Budget forecast shows that the Council may need to increase the Precept by up to £196,500 or 11.6% over the four-year period between 2022/23 and 2025/26.**
- 8.8** These precept increases will be required in order to offset the year-on- year cuts to the Council Tax Support Grant Funding and to fund the various spending pressures that the Council faces including pay and pension contribution increases, inflation on running costs, and other unavoidable increases in costs and falls in income.
- 8.9** The precept increases also reflect the importance of maintaining a contribution to reserves, which helps to facilitate the replenishment of the Council's earmarked capital reserves, in light of the substantial capital investment faced by the Council over the medium to long term.
- 8.10** The increases to the Council Precept over the medium term will be offset, as far as possible, from savings and reduction of under-utilised budgets, as well as assumed increases in fees and charges and council tax base growth each year.
- 8.11** There may also be savings over the period of the Plan arising from the completion of service reviews by the Council.

- 8.12 This may restrict the need to increase the Precept, although it is not possible to quantify any such savings and include them in this Medium-Term Financial Plan.
- 8.13 **In overall terms, the Revenue Budget Forecast highlights that the Council may need to consider increasing the Town Council Tax by a total of 7.96% between the financial years 2022/23 and 2025/26; an average increase of just under 2% per year.**
- 8.14 The potential increases in the Town Council Tax would therefore be within the current Government council tax referendum limits and in accordance with one of the key principles of this Plan to keep any future increase in the council tax as low as possible.
- 8.15 **In real terms, this would equate to an average increase of £5 per year at Council Tax Valuation Band D and £3.40 per year at Council Tax Band A.**
- 8.16 Commentary on the key issues and financial implications in each individual year is detailed in the following section of the Plan.

2021/22 Revenue Budget

- 8.17 **The 2020/21 Revenue Budget was set by the Council in January 2021, when a freeze in the Town Council Tax was agreed.**
- 8.18 The freeze was approved and implemented in recognition of the difficulties being faced by local taxpayers during the Coronavirus pandemic. The freeze was made possible as a result of the Council's strong financial health and the fact that the Council made a number of one-off savings during 2020/21 as a direct consequence of the pandemic.
- 8.19 The Council has continued to maintain surplus resources via a contingency budget and contribution to capital reserves in the 2021/22 Revenue Budget, to facilitate the replenishment of the Council's balances and reserves, at a time when the Council is facing significant capital investment commitments.

2022/23 Revenue Budget

- 8.20 Next year, the Council faces increases in staffing costs from an assumed local government pay award of 2.5%. This increase will likely be required in order for local government pay to keep pace with expected increases in the National Living Wage.
- 8.21 There is also forecast to be a further 5% cut to the Council Tax Support Grant and some increases in running costs linked to inflation.
- 8.22 However, these increases in costs and funding cuts will be able to be offset by assumed council tax base growth, increases in fees and charges, reductions in under-utilised budgets and efficiency savings.
- 8.23 **In overall terms, it has been assumed that the Council would need to increase the Precept by around £49,550 in 2022/23. This would represent a council tax increase in the region of 1.99% next year.**
- 8.24 This increase will enable the Council to maintain surplus resources within the contingency sum and contribution to capital reserves.

8.25 In real terms, this would result in a £4.97 per year increase in the Council Tax at Band D and £3.31 per year at Council Tax Band A.

8.26 This level of increase would be within the previous Government excessiveness limit on council tax increases of 2%.

2023/24 Revenue Budget

8.27 The Council faces further forecast budget pressures in 2023/24, as a result of a further cut in Council Tax Support Grant, an expected 3% pay award and inflation on running costs, although these increases will be partly offset by council tax base growth and increases in fees and charges.

8.28 In overall terms, the Council would need to increase the Precept by around £47,800 in 2023/24, which, would represent a council tax increase in the region of 1.99%.

8.29 In real terms, this would result in a £5.08 per year increase in the Council Tax at Band D and £3.39 per year at Council Tax Band A.

2024/25 Revenue Budget

8.30 The Council faces similar ongoing budget pressures in 2024/25, with a further cut to the Council Tax Support Grant, an assumed 3.5% pay award and inflation on running costs. The pressure on local government pay costs is likely to become more pronounced this year as the National Living Wage rate passes £10 per hour in line with government expectations.

8.31 As in previous years, it is likely that these increases will be able to be partly offset by council tax base growth and increases in fees and charges, while it has been assumed that the contribution to capital reserves will be cut further from £50,000 to £25,000 this year in order to help balance the Revenue Budget.

8.32 Based on the above assumptions, it is likely that the Council will need to increase the Precept by around £48,900 in 2024/25, which would represent a council tax increase of 1.99%.

8.33 In real terms, this would result in a £5.17 per year increase in the Council Tax at Band D and £3.44 per year at Council Tax Band A.

2025/26 Revenue Budget

8.34 The Council faces a similar situation in 2025/26, as a result of a further cut in Council Tax Support Grant, another 3.5% pay award and inflation on running costs, although again these increases will be partly offset by council tax base growth and increases in fees and charges.

8.35 However, in order to balance the Revenue Budget in this year, it is likely that the contingency sum budget would need to be cut to zero and the contribution to capital reserves reduced to £22,950.

8.36 In overall terms, it is likely that the Council will need to increase the Precept by up to £50,250 in 2025/26, which would represent a council tax increase in 2025/26 in the region of 1.99%.

- 8.37 In real terms, this would result in a £5.28 per year increase in the Council Tax at Band D and £3.52 per year at Council Tax Band A.**

2026/27 Onwards

- 8.38** It is likely that by 2026/27, the Council may need to use up the remaining resources set aside in the contribution to capital reserves in order to offset the longer-term funding cuts and spending pressures faced and balance the Revenue Budget.
- 8.39** This could lead to a situation towards the end of the decade whereby there will be very limited surplus resources remaining in the Revenue Budget, and where all options for achieving further savings, without making cuts to services, will have been exhausted.
- 8.40** It will therefore be important that the Council continues the process of reviewing its services in the years leading up to the middle of the decade, with a view to determining where possible budget cuts will be made in the longer term, if required.

Possible Withdrawal of the Council Tax Support Grant

- 8.41** Whilst, at the present time there is no indication that the Council Tax Support Grant will be withdrawn in its entirety at any point over the next five years by Durham County Council, it is considered prudent to set out the impact of this **‘worst case scenario’** within this Plan.
- 8.42** This is particularly pertinent in light of the likelihood of renewed austerity measures by the Government, which may lead to further funding cuts across the public sector.
- 8.43** Total withdrawal of the Council Tax Support Grant would leave the Council needing to make substantial savings to balance the Revenue Budget, or to ask the taxpayers of Great Aycliffe, via a referendum, to consider a substantial increase to the Town Council Tax in order to maintain services.
- 8.44** **Withdrawal of the Council Tax Support Grant would leave the Council needing to make up a shortfall of between £146,750 and £180,300 in the Revenue Budget**, with the actual amount depending upon which year the withdrawal was made.
- 8.45** This would equate to an increase in the Town Council Tax of between 8% and 10% and would add as much as £25 per year to the current Band D Council Tax bill.
- 8.46** Alternatively, £146,750 to £180,300 would need to be ‘cut’ from the Council Revenue Budget which would inevitably lead to services being ceased, redundancies and job losses.

Overall Summary of Revenue Budget Forecast

- 8.47** The Council remains in good financial health with a balanced Revenue Budget, on-going savings, and strong levels of balances and reserves.

- 8.48 The Government's Coronavirus Roadmap seeks to relax the majority of the restrictions, although there remains a risk of future disruptions.
- 8.49 However, the Council is well placed to deal with any further impacts as a result of the pandemic and maintain a healthy financial position.
- 8.50 **Looking ahead, the medium-term outlook for the Council's Revenue Budget through to the middle of the decade is relatively positive.**
- 8.51 The decision to increase the Town Council Tax by 5% in 2019/20 and 2020/21 and boost the contribution to capital reserves and contingency sum, whilst unpopular with some local taxpayers at the time, has definitely helped contribute towards the Council's improved financial situation and the fact that the Coronavirus pandemic has not had as severe an impact as it could have done.
- 8.52 Working on the assumption of a 1.99% council tax increase in each of the next four financial years from 2022/23 to 2025/26, and assuming that the Council Tax Support Grant continues to be paid on a reducing basis, the Council should be able to maintain current services until at least the middle of the decade.
- 8.53 The downside of this is that balancing the Revenue Budget will be dependent on reducing and ultimately removing the contingency sum from the budget and making year on year reductions to the contribution to capital reserves.
- 8.54 **It is also apparent that the process of balancing the Revenue Budget will get progressively harder as the Council moves beyond the middle of the decade.**
- 8.55 The Council faces relentless year on year cuts to the Council Tax Support Grant funding, and potentially significant increases in staffing costs linked to future increases in the National Living Wage and possible further restructure of the local government pay scale.
- 8.56 The Council also needs to try and maintain surplus resources in the Revenue Budget for as long as possible, in order to provide protection against any unforeseen budget pressures, help offset future year's budget pressures, and ensure that earmarked capital reserves can be replenished each year.
- 8.57 These Revenue Budget pressures will need to be funded by a combination of increases to the Town Council Tax, increases in fees and charges, council tax base growth, and efficiency savings and budget reductions.
- 8.58 The Revenue Budget Forecast has been prepared on the assumption that a 2% Government limit on the council tax increase will be applied to larger town councils from 2022/23, and that the Council will be limited to a maximum 2% increase the Town Council Tax in the 2022/23 to 2025/26 financial years.
- 8.59 **Beyond the end of this Medium-Term Financial Plan period i.e. from 2026/27 onwards, it is likely that the Council will reach a position whereby the remaining contribution to capital reserves will need to be removed, and where all options for achieving further savings, without making cuts to services, are likely to have been exhausted.**
- 8.60 **As a result, whilst it is likely that services will be able to be maintained until the middle of the decade, beyond this, the Council is likely to need to**

begin the difficult process of considering reductions to services and reassessing its priorities in light of the limited resources that will be available.

- 8.61** In addition, if in any year a Government limit on council tax increases in implemented at less than 2%, or worse, that the Council Tax Support Grant was withdrawn, then budget cuts and reductions to services may be required before this.
- 8.62** Clearly the Revenue Budget projections included in this MTFP are subject to change depending upon a number of factors including:-
- the final financial impact of the Coronavirus pandemic;
 - the impact of the subsequent government austerity measures;
 - any further implications linked to 'Brexit';
 - confirmation each year of the Council Tax Support Grant;
 - possible changes to the Durham County Council LCTSS;
 - increases in the Council Tax Base from new housing;
 - the likely extension of council tax referendum principles to large town councils;
 - significant increases to the National Living Wage and further restructuring of the local government pay scale; and
 - Government reform to local government finance;
- 8.63** These issues will need to be considered, in detail, via future budget setting processes, when the options for delivering any required budget reductions and efficiency savings, if these are required, would need to be drawn up and agreed.
- 8.64** It would also be advisable for the Council to continue with its programme of service reviews and annual appraisal of the Council's strategic aims and community priorities, with a view to determining which services are to be protected and which services may be subject to budget reductions in the longer term.

Capital Programme Budget Forecast 2021/22 to 2025/26

- 8.65** The Capital Programme Budget provides for major investment in the Council's assets including planned maintenance to buildings such as roofing works and heating system replacements, replacement vehicles, plant, machinery and office equipment, and investment in community assets such as play areas, street equipment and allotments.
- 8.66** A detailed breakdown of the Capital Programme Budget Forecast for the five-year period 2021/22 to 2025/26 is attached at **Appendix B**.
- 8.67** The forecast has been based on the capital investment requirements set out in the approved 2021/22 Capital Programme Budget, including the agreed carry forward of on-going commitments from 2020/21, as well as the likely commitments for the following four years, as identified in the Council's Asset Management Plan.
- 8.68** **The 2021/22 Capital Programme Budget was set at £198,500 and has since been increased to £471,500, following the carry forward of a number of ongoing and delayed projects from the 2020/21 financial year, totalling £273,000.**

- 8.69** The budget provides for a number of projects including replacement of windows and blinds at the council offices, upgrade of the alarm sensors at the depot, internal CCTV system and redecoration at St Oswald's Pre-School, a replacement play area at Woodham Park, purchase of electrical alternatives for works machinery, replacement of the rotary mower and golf course utility vehicle, the ongoing programmes of footpath repairs and play area safety surfacing replacement, computer replacements, skate park maintenance, provision to replace the bowls hall roof, drainage repairs, external redecoration and deep cleaning of the function room carpet at the sports complex, replacement of the remainder of the fence at St Oswald's allotments and continuation of removal of trees affected by Ash dieback disease and replanting.
- 8.70** **The indicative Capital Programme Budgets for the four-year period 2022/23 to 2025/26 total £881,000** and provide for a number of further projects contributing towards the ongoing delivery of the Asset Management Plan.
- 8.71** Planned projects include various building works including roofing replacement, window replacement, alarm system upgrades and redecoration works, replacement works vehicles and machinery, driving range machinery, the ongoing programmes of footpath repairs and play area safety surfacing replacement, computer replacements and website development, festive lighting, the drainage and repair of West Park lakes, and Ash tree dieback disease felling and replanting works.
- 8.72** The budget focusses on investment linked to the delivery of the Council's Asset Management Plan and ensuring all essential building works and replacements of vehicles, machinery, office equipment, street equipment and play equipment are kept up to date.
- 8.73** It is important to stress that the five-year Capital Programme Budget Forecast is an indicative budget and will be reviewed on a year to year and project by project basis, in line with actual needs, requirements and priorities and the actual level and availability of Council Balances and Reserves.
- 8.74** This is in line with the recommendations made in previous year's Medium-Term Financial Plans to more closely scrutinise and control capital investment to help maintain and protect the Council's balances and reserves over the longer-term.
- 8.75** The Capital Programme forecast does not take account of any further external funding that may become available over the five-year period from external capital grants or contributions such as Section 106 Agreement monies and the Durham County Council Members' Initiatives Fund.
- 8.76** Any external capital funding that was secured, would provide resources over and above those shown in the MTFP.
- 8.77** The Council will continue to actively pursue any grants that may be available to support relevant projects. However, external funding opportunities may be limited in light of the expected public spending cuts by the Government and Durham County Council.
- 8.78** **In overall terms, the 2021/22 to 2025/26 Capital Programme Forecast identifies a total potential investment of as much as £1.35 million, and this**

would need to be funded, in full, from the Council's Earmarked Capital Reserves.

- 8.79** If all of this capital investment goes ahead, this would inevitably lead to a significant fall in the Council's balances and reserves.
- 8.80** It is for this reason that an annual contribution to capital reserves was established in the Revenue Budget. This will allow the Council to partially replenish its balances and reserves in each year of the Plan moving forward.
- 8.81** Alongside this, it would also be prudent for the Council to continue its policy of undertaking only essential capital projects over the period of this MTFP and beyond, in order to preserve Council balances and earmarked reserves for as long as possible.
- 8.82** The Council's Asset Management Working Group will continue to scrutinise and monitor planned capital expenditure to help ensure this.

Council Balances and Reserves

- 8.83** The Council held Balances and Earmarked Reserves at the end of the 2020/21 financial year, totalling £1.608 million.
- 8.84** The Capital Programme Budget forecast for the five-year period potentially totals up to £1.35 million and would need to be funded from earmarked reserves.
- 8.85** It is clear therefore that the Council's balances and reserves would be largely used up funding capital investment commitments over the next five years, if they could not be replenished via the Revenue Budget.
- 8.86** However, as highlighted earlier, the inclusion in the Revenue Budget of the contribution to capital reserves will allow balances and reserves to be replenished each year and will make a contribution towards maintaining balances at prudent levels over the period of this Plan.
- 8.87** Any savings that can be achieved on the Revenue Budget over the five-year period will also be used to top up balances and reserves.
- 8.88** It is difficult to accurately estimate exactly how balances and reserves may change over the five-year period due the uncertainty around the various budget pressures and the level of savings that may or may not be delivered on the Revenue Budget.
- 8.89** In order to provide an indication of the possible movement in the Council's balances and reserves over the five-year period, a forecast has been produced based around two scenarios.
- 8.90** The first forecast reflects the worst-case scenario whereby no efficiency savings will be achieved on the Revenue Budget over the five-year period of the Plan, and where the contingency sum would need to be used, in full, each year.
- 8.91** Under this scenario, Council Balances and Earmarked Reserves could fall as low as £275,000 by the end of the 2025/26 financial year.

- 8.92** The second forecast reflects the more realistic scenario whereby some efficiency savings will be made over the 2021/22 to 2025/26 period, and where the contingency sum would not need to be used in each of these years.
- 8.93** Working on an assumption of annual savings against the Revenue Budget of 5% or £100,000 in 2021/22 and 4% or £75,000 in 2022/23, 3% or £50,000 in 2023/24, 2% or £35,000 in 2024/25, and 1% or £20,000 in 2025/26, and assuming no use of the contingency sum in each year, **Council Balances and Earmarked Reserves at the end of 2025/26 would be much higher at around £660,000.**
- 8.94** This is considered to be a prudent level of reserves although much reduced on the position at the start of the Medium-Term Financial Plan period.
- 8.95** A detailed projection of the likely movement on the Council's Balances between 2021/22 and 2025/26, under the two scenarios highlighted above is attached at **Appendix C.**
- 8.96** The recommended policy for balances and reserves is to aim to hold a minimum Revenue Balance of 5% of the Council's Net Budget Requirement or Precept, supported by such balances in Earmarked Reserves, as is considered prudent, to support future year's capital investment requirements and any other specific commitments.
- 8.97** This equates to a Revenue Balance in the region of £85,000 to £95,000, with the remainder of the Council's balances set aside in Earmarked Revenue and Capital Reserves to support future year's revenue budget and capital investment commitments.
- 8.98** The projection of Balances and Reserves assumes that there will be no further land sales over the five-year period. Any further capital receipts from land sales would therefore be available in addition to the levels of Council Balances and Earmarked Reserves identified above.
- 8.99** In the longer term the Council has a small number of land holdings within the Parish, some of which are identified within the Local Development Framework as being earmarked for potential future sale.
- 8.100** However, any future land sales would be subject to a percentage claw back payable to the Homes and Communities Agency under the terms of the original transfer agreement from Aycliffe Development Corporation to the Council. This percentage claw back will reduce over the life of the Plan, from 36% of the value of the land sale in 2021/22 to 28% in 2025/26.
- 8.101** The Plan does not make any provision for additional borrowing, in light of the assumed replenishment of earmarked capital reserves from the Revenue Budget, or for the use of balances to fund the early repayment or rescheduling of the Council's remaining outstanding loan, in light of the need to replenish balances rather than use them up.

8.102 Looking ahead beyond the life of the Plan, balances will continue to deteriorate as the contribution to capital reserves is eventually removed and as longer-term capital investment is financed, but it is also possible that capital receipts from land sales and council tax base growth may enable the Council to replenish its balances and reserves. Additional borrowing could also be considered if absolutely necessary.

Section 9 Balance Sheet Forecast

- 9.1 The Revenue and Capital Budget Forecast set out in Section 8 of the Plan will have an impact on the overall financial standing or 'net worth' of the Council as shown in the Council's Balance Sheet within the Statement of Accounts.
- 9.2 The Balance Sheet Forecast for the five-year period 2021/22 to 2025/26 is attached at **Appendix D**.
- 9.3 The Balance Sheet shows that the Council has a healthy financial standing at the present time with a **net worth**, as represented by the value of its fixed assets and its balances and reserves, net of any outstanding debt, **of £11.119 million as at 31st March 2021**.
- 9.4 This position will deteriorate slightly over the medium term as Council balances and reserves are used up to meet capital investment requirements and savings on the Revenue Budget fall.
- 9.5 **The Balance Sheet projection shows a reduction in the Council's net worth of just over £1,000,000 to £10.1 million by 31st March 2026.**

Section 10 Treasury Management Issues

Introduction

- 10.1** The Council has in place an approved Treasury Management Code of Practice which provides the framework for the management and control of the Council's borrowing, investment, and banking arrangements.
- 10.2** The Revenue Budgets and Capital Programme Forecast set out in this Medium-Term Financial Plan could have treasury management implications for the Council that will need to be accounted for.
- 10.3** The potential treasury management implications for the Council over the next five years are considered in this section of the Plan.

Outstanding Loans / Borrowing

- 10.4** The total amount of loans outstanding to the Public Works Loans Board as at 31st March 2021 was £97,830 and relates to a loan taken out in previous years to fund the construction of the Town Park.
- 10.5** Assuming no rescheduling or early repayment of the existing outstanding debt, the outstanding balance on the above loans will change over the period of the Plan, as follows:-

31st March 2022	£88,500
31st March 2023	£78,500
31st March 2024	£68,000
31st March 2025	£57,000
31st March 2026	£45,500

- 10.6** Annual repayment costs on the Council's remaining loan, including interest, amount to £14,400 per year.
- 10.7** The Revenue Budget forecasts detailed in Section 8 provide fully for repayments and interest payable on the Council's existing borrowing.
- 10.8** It has been assumed for the purposes of the MTFP that there will not be any early repayment or rescheduling of the Council's outstanding loans over the period of the Plan, particularly bearing in mind the likely deterioration in the Council's balances and reserves over this period.
- 10.9** However, this position will continue to be reviewed on an annual basis when possible options for rescheduling or early repayment of debt will be assessed, taking into account various issues including the premiums that may be payable and the level of Council balances and reserves likely to be available to fund such a repayment.

Investments

- 10.10** The Council currently invests its earmarked reserves in a business premium account with the Council's bank, with any other surplus cash balances held in the Public Sector Deposit Fund.

- 10.11** Investment income is credited to the Revenue Budget and varies year to year depending upon the level of balances available to invest and interest rates. Income is currently negligible following the recent interest rate cut.
- 10.12** The estimates included within the MTFP for investment income have been based on the existing investment methods and on forecasted levels of balances.
- 10.13** It has been assumed that interest rates will increase marginally over the life of the Plan as the economy recovers from the Coronavirus pandemic. It has been assumed that interest rates will recover to 0.25% during 2022/23, to 0.50% in 2024/25, to 0.75% in 2024/25 and to 1% in 2025/26.
- 10.14** Using this assumption and the projected average level of balances and reserves available in each year, investment income would range between £2,500 and £6,000 over the period of the Plan.

Long Term Treasury Management Issues

- 10.15** The retention of a contribution to capital reserves in the Revenue Budget will help ensure that Council balances are replenished to a sufficient level to meet the Council's medium-term capital investment commitments.
- 10.16** Looking ahead beyond the life of the Plan, the likely need to remove the contribution to capital reserves in order to balance the Revenue Budget may lead to a reduced ability to replenish balances, but it is also possible that capital receipts from land sales and longer-term council tax base growth may offer the Council an alternative means of replenishing its balances and reserves in the future.
- 10.17** Additional borrowing could also be considered if absolutely necessary.

Section 11 Risk Assessment

Introduction

- 11.1 The Council has an approved Risk Management Strategy in place, supported by a Corporate Risk Register, which is updated on a quarterly basis. All key decisions made by the Council are also subject to a formal risk assessment where this is considered relevant.
- 11.2 The Corporate Risk Register covers all identified risks applicable to the Council and the services that it provides. The register provides full details of the risks broken down by service area, with an assessment of the impact of the risk and the likelihood of the risk occurring (low, medium or high), the controls put in place to minimise the risk, and any further actions required.
- 11.3 All relevant financial risks have been identified and assessed during this process and are included within the Council's Risk Register. **An extract from the Risk Register detailing all current financial risks is attached at Appendix G.**

Links to Medium Term Financial Plan

- 11.4 The Council is subject to a range of political, economic, demographic, sociological and technological influences. Many of these factors change on a regular basis resulting in new, and sometimes unexpected, financial pressures.
- 11.5 The Council keeps under constant review the key challenges and risks impacting on its financial position. This identification and assessment of risk is an essential element of the financial planning process and a key factor in informing financial planning decisions. The key influences and challenges facing the Council over the next five years were considered in Section 6 of the Plan.
- 11.6 The Medium-Term Financial Plan provides for the continued inclusion of a contingency sum and contribution to capital reserves within the Revenue Budget for the duration of the Plan, albeit on a reducing basis, and with the contingency sum needing to be removed in the final year of the Plan.
- 11.7 As highlighted earlier, the Council's balances and reserves should be able to be maintained at prudent levels over the five-year period of the plan, partly due to this contribution to capital reserves. These balances provide protection against any unforeseen budget pressures that might arise, as well as providing resources to fund capital investment requirements. The level of contingencies, balances and reserves is reviewed annually as part of the budget setting process.
- 11.8 The MTFP and annual Revenue and Capital Budgets are developed on a prudent basis taking into account all known commitments and spending pressures. The key assumptions made in the MTFP Revenue and Capital Budget forecasts were set out in Section 7 of the Plan.

Key Risk Areas

- 11.9 The key risk areas over the medium term that could potentially adversely impact upon the forecasts set out in the MTFP, have been identified and are summarised below. This includes details of how these risks might be mitigated.

11.10 Coronavirus Pandemic / Austerity Measures

The key risk facing the Council is the ongoing impact of the Coronavirus pandemic as the country navigates through the Government's Roadmap out of restrictions, as there remains a risk of future disruptions. Alongside this is the impact on the economy and future Government spending plans e.g. austerity measures and public sector spending cuts that will follow, as well as the impact on inflation, interest rates and consumer spending power. There are also the implications of the impact of austerity on other organisations e.g. further grant cuts for Durham County Council resulting in services being cut and increasing pressure for town and parish councils to take over local services, and increased requests for financial assistance from community and voluntary organisations whose grant funding has been cut. The Council can take comfort from the fact that its current financial situation is relatively healthy, and the levels of contingencies and balances held will provide it with a strong foundation to weather the storm and offset any financial liabilities in the short-term.

11.11 Future Receipt of Council Tax Support Grant Funding

Another key risk facing the Council is that the Council Tax Support Grant funding provided by the Government and passed onto the Council by Durham County Council will be cut or withdrawn in the future. However, this MTFP has been prepared on the basis of the latest estimates with regard to the cuts in the Council Tax Support Grant over the next five years and also identifies the impact on the Council Revenue Budget and the savings that would need to be achieved if the grant were withdrawn altogether. This issue will need to be considered in detail during future year's budget setting processes once the funding for each year has been confirmed and work is already underway to review services and identify savings.

11.12 National Living Wage and Annual Staff Pay Awards

The National Living Wage is expected to increase to at least £10.50 per hour by 2024. The assumptions around pay made in this MTFP are based on the expected 2021/22 local government pay award and assumed pay awards of 2.5% in 2022/23, 3% in 2023/24 and 3.5% in 2024/25 and 2025/26. These assumptions are based around the need for local government pay to keep pace with increases in the National Living Wage and are considered prudent. However, there is a risk that the Government could increase the National Living Wage by more than previously indicated or that union action could result in actual pay awards being higher than provided for in the Plan. The Revenue Budget contingency sum provides some scope to meet any additional costs should this be the case.

11.13 Long-Term Restructure of the Local Government Pay Scale

In the longer term increases in the National Living Wage beyond £10.50 per hour are likely to lead to significant erosion of differentials between pay grades at the lower end of the salary scale and may lead to a requirement to undertake a fundamental restructure of the local government pay scale and job evaluation exercise. This issue represents the key risk to the Council's financial planning over the longer term.

11.14 Inflation

There is a risk that non-staffing-based inflation e.g. in respect of energy prices, fuel, supplies and services could be higher than provided for in the MTFP.

However, the assumptions made within the MTFP are considered to be prudent and the contingency sum provides some scope to meet any additional costs.

11.14 Members' Allowances

There is a small risk that if Members' Allowances are reviewed again by the independent remuneration panel at Durham County Council during the life of the Plan that this may result in significant increases in allowances. Any increases would need to be met from the Revenue Budget contingency sum which provides some scope to meet any additional costs.

11.15 Fall in Demand for Services and Reduced Income

The impact of the economic difficulties on usage levels in previous years, particularly in relation to the sports and golf complex, has caused income in respect of these facilities to fall significantly. There is a risk that income levels may fall further in the future. However, all income losses up to 2019/20 have been fully accounted for in the Revenue Budget and the Revenue Budget contingency sum provides some scope to meet any future losses.

11.16 Pre-School Funding

The level of pre-school funding is an ongoing area of risk within the Council's Revenue Budget. The level of funding is very much dependent upon a number of uncontrollable factors including the number of children attending, waiting lists, and how many children are eligible for funding. The estimates of pre-school funding have been based around the pre-school operating at 70% capacity and it has been assumed that there will be a 2.5% annual increase in the funding rate over the life of the Plan. The estimates are therefore considered to be prudent. However, any significant reduction in the numbers of children attending the pre-school or reductions in funding rates over the period of the Plan could have a significant impact and any shortfall would need to be met from the Revenue Budget contingency sum which provides some scope to meet any future reductions.

11.17 Insurance Claims

A significant increase in the number or value of insurance claims would represent a financial risk to the Council as this would have an adverse impact on the Council's future insurance premiums, which would then impact on the Revenue Budget. However, the Council has a good recent claims history, evidenced by the fact that premiums reduced significantly on the recent renewal of the Council's policy. The Council's Risk Management Strategy also helps to minimise the Council's exposure to risk and this in turn should help to keep the number of future insurance claims to a minimum.

11.18 VAT

There is a financial penalty if the Council breaches the VAT Partial Exemption limit. However, this is regularly monitored and is not anticipated that the Council would ever breach the limit.

11.19 Plastic and Carbon Reduction Initiatives

The Council committed to reducing unnecessary single use plastics in all of its services over the next few years, whilst carbon reduction initiatives such as the move to electric vehicles are likely to increase in prominence over the medium term. There are likely to be costs associated with plastic and carbon reduction and the Council will need to factor this into its future financial planning. The

Revenue Budget contingency sum provides some scope to meet any additional revenue costs, whilst the earmarked capital reserve for vehicles and machinery replacements provides for the costs of moving the Council's vehicle fleet over to electric alternatives.

11.20 General Data Protection Regulation (GDPR)

There are significant financial penalties under the GDPR if the Council suffers a significant loss of personal data. However, measures have been put in place to ensure the Council complies with GDPR and to minimise the risk of a breach occurring and the potential impact.

11.21 Council Balances and Reserves

The Council's balances are projected to fall over the five-year period of the Plan. However, the contribution to capital reserves set aside in the Revenue Budget will help to facilitate the partial replenishment of those balances and will help to mitigate this risk.

11.22 Capital Programme and Asset Management Plan Requirements

Making budget provision available for the potentially significant longer- term Capital Programme and Asset Management Plan requirements represents a risk to the Council. However, as highlighted above, the increased contribution to capital reserves, taken alongside Revenue Budget savings, fees and charges increases, and council tax base growth will help to replenish Council balances and reserves to prudent levels over this period.

Mitigating Financial Risks

11.23 In terms of managing and mitigating financial risks, in the event of an unforeseen event during the year creating a substantial budget pressure, the following list details examples of the action that could be taken to mitigate the risk:-

- ❑ use of Revenue Budget Contingency Sum;
- ❑ use of Council Balances and Earmarked Reserves;
- ❑ investigation of external funding opportunities;
- ❑ income generation activity e.g. pricing review, marketing;
- ❑ enhanced approval process for making financial commitments;
- ❑ recruitment freeze;
- ❑ all non-statutory spend frozen; and
- ❑ service reviews.

Conclusion

11.24 The MTFP makes a key contribution towards the risk management process by putting in place a financial planning framework to efficiently manage the Council's finances, considering the key influences on its financial position and the main risks facing the Council.

11.25 Financial forecasts are reviewed and updated annually and regularly monitored throughout the year. The key challenges and risks that could have implications for the Council's financial position in the following year and over the medium term are subject to annual review.

11.26 Fortunately, the Council remains in a relatively healthy financial position at the present time and is therefore as well placed as it can be to meet the challenges that the next five years are likely to bring.