



# Northumberland

## County Council

### **CABINET**

**12 FEBRUARY 2019**

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### **MEDIUM TERM FINANCIAL PLAN 2019-22 AND BUDGET 2019-20**

Report of Barry Scarr, Executive Director of Finance and Deputy Chief Executive

Cabinet Member: Councillor Nicholas Oliver – Cabinet Secretary and Portfolio Holder for Corporate Services

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#### **Purpose of Report**

The purpose of this report is to enable the Cabinet to make formal budget recommendations to the County Council.

The report provides the Medium Term Financial Plan 2019-22 and Budget for 2019-20, following the Government's Autumn Budget of 29 October 2018 and the publication of the provisional Local Government Finance Settlement on 13 December 2018.

It is important to note that there may need to be some revisions to the figures following receipt of the Government's February 2019 final Local Government Finance Settlement figures. It is proposed that any changes to the figures as a result of this announcement, which impact on the 2019-20 budget and 2019-22 Medium Term Financial Plan are delegated to the Council's Section 151 Officer in consultation with the Portfolio Holder for Corporate Services.

## **Recommendations**

The Cabinet is requested to make the following recommendations to the County Council:

1. a) Approve the Medium Term Financial Plan covering the period 2019-22 detailed within Appendix 1 and the revenue budget for 2019-20; including, the requirement to deliver budget balancing targets equating to £12.8 million in 2019-20 and £36.4 million over the period 2019 to 2022.  
  
b) Note that the figures contained within the Medium Term Financial Plan 2019-22 within Appendix 1 are based on the provisional Local Government Finance Settlement of 18 December 2018; and, take into account the Council being part of the North of Tyne 75% Business Rates Pool Pilot with Newcastle City and North Tyneside Councils.
2. Note the estimated retained Business Rates and the Top-Up grant funding received by the Council over the period of the Medium Term Financial Plan.
3. Note the £1.3 million contribution required to fund the estimated cumulative Collection Fund Business Rates deficit at 31 March 2019.
4. Note the receipt of non-recurrent grant funding of £1.0 million for 2018-19 funded from a surplus on the National Business Rates Retention Levy/Safety Net account, some of which will be utilised in 2019-20.
5. Note the estimated receipt of the New Homes Bonus of £6.0 million for 2019-20 and the indicative allocation of £17.5 million over the period of the Medium Term Financial Plan.
6. Note the total estimated receipt of Improved Better Care Fund grant of £10.6 million in 2019-20 and £31.8 million over the period of the Medium Term Financial Plan.
7. Note the receipt of non-recurrent Social Care Support grant and Winter Pressures grant of £4.1 million in 2019-20.
8. Approve a 2.99% increase in Council Tax for 2019-20, noting that this is in line with the Government's assumptions regarding the Council's Core Spending Power. Note that the Medium Term Financial Plan 2019-22 includes a 1.99% annual increase in Council Tax over the remaining period of the plan, and, that an estimate of annual Tax Base growth has been included.
9. Note the contribution of protected Collection Fund Council Tax balances of £2.3 million in 2019-20 to support the Medium Term Financial Plan.
10. Approve a 1% increase in Council Tax in 2019-20 for use on Adult Social Care services; raising an additional £1.9 million in 2019-20. Note that the Medium Term Financial Plan assumes an increase of 2% for future years

which would raise an additional £7.7 million for use on Adult Social Care services.

11. Note the schedule of Service Specific grants of £241.9 million contained within Appendix 2.
12. Approve the schedule of recurrent pressures of £19.5 million that has been included within the Medium Term Financial Plan, detailed in Appendix 3.
13. Approve the schedule of non-recurrent pressures of £2.1 million that has been included within the Medium Term Financial Plan, detailed in Appendix 4.
14. Approve the use of £1.6 million from the Strategic Management Reserve to fund non-recurrent pressures in 2019-20, and £2.1 million over the period of the Medium Term Financial Plan.
15. Approve the Inflation Schedule totalling £5.3 million detailed in Appendix 5.
16. Approve the schedule of Growth and Commitments of £19.3 million detailed in Appendix 6.
17. Approve the identified budget balancing measures contained in Appendix 7 of £12.8 million for 2019-20; and, £6.5 million for 2020-21; and £6.0 million for 2021-22. Also note and approve the additional requirement to identify and deliver further budget balancing measures of £5.2 million in 2020-21 and £5.8 million in 2021-22 in order to balance the budget.
18. Note the 2019-20 budgets by service area detailed in Appendix 9.
19. Note the Summary of the Reserves and Provisions contained within Appendix 10.
20. Approve the use of £0.3 million from the General Fund in 2019-20.
21. Note the overall reduction in the ring-fenced Dedicated Schools Grant of £19.72 million in 2019-20. This is a result of the expectation that fifteen schools will convert to academies during 2019-20.
22. Agree the Housing Revenue Account 2019-20 budget as detailed within Appendix 11, which will reduce the estimated balance on the HRA reserve from £27.4 million at 31 March 2018, to £14.9 million at 31 March 2024. This will fund a Housing Investment programme over the same period which will allow £22.5 million of new investment in council housing.
23. Note that 2019-20 is the fourth and final year of a compulsory 1.0% reduction for Council tenants' rents and that the budget detailed in Appendix 11 assumes that rents will rise by CPI plus 1% from April 2020 in line with Government guidance.

24. **Note the indicative 30 year Housing Revenue Account business plan as detailed within Appendix 11.**
25. **Note that the Government has removed the Housing Revenue Account borrowing cap on 29 October 2018 which will enable the Council to consider a new Housing Investment Programme without the constraints of the previous debt cap.**
26. **Agree to refinance a maturing Housing Revenue Account loan of £15.3 million during 2019-20.**
27. **Approve the Capital Strategy 2019-20 to 2021-22 contained within Appendix 12.**
28. **Approve the delegation of the detail of the use of the Strategic Regeneration budget to the Council's Section 151 Officer, Executive Director of Place, the Cabinet Member for Corporate Services and the Cabinet Member for Economic Development.**
29. **Approve the revised Capital Programme as detailed within Appendix 13; and, note the projects highlighted within the main body of the report which will complete after 2021-22.**
30. **Approve the delegation of the detail of the final Local Transport Programme and any subsequent in year amendments to the Executive Director - Place and the Cabinet Member for Environment and Local Services.**
31. **Agree delegation to Cabinet to approve individual projects which propose to utilise the flexibilities of capital receipts.**
32. **Approve the Prudential Indicators based on the proposed Capital Programme detailed within Appendix 14.**
33. **Approve the Minimum Revenue Provision Policy detailed in Appendix 15.**
34. **Approve the proposed Treasury Management Strategy Statement 2019-20 detailed in Appendix 16.**
35. **Approve the Revenues and Benefits Policies for 2019-20 contained within Appendix 17 and note the proposed changes to the Council Tax Discount, Corporate Debt and Rate Relief policies in particular.**
36. **Approve the Pay Policy Statement for 2019-20 at Appendix 18.**
37. **Approve a delegation to amend the budget 2019-20 and Medium Term Financial Plan in light of any changes as a result of the final Local Government Finance Settlement to the Council's Section 151 Officer in consultation with the Cabinet Member for Corporate Services.**

## Key Issues

1. In February 2018, the Council approved the Medium Term Financial Plan covering the period 2018-22 and budget for 2018-19.
2. This report updates the Medium Term Financial Plan position; and, the budget for 2019-20, following the announcement of the Autumn Budget on 29 October 2018 and the provisional Local Government Finance Settlement on 13 December 2018. The final settlement is not due until February 2019, which could alter the financial position. It is proposed that any changes to the figures as a result of this announcement, which impact on the 2019-20 budget and 2019-22 Medium Term Financial Plan are delegated to the Council's Section 151 Officer in consultation with the Portfolio Holder for Corporate Services.
3. The report sets out the budget balancing proposals for the 2019 to 2022 Medium Term Financial Plan, including the requirement to deliver efficiencies equating to £12.8 million in 2019-20; £11.8 million in 2020-21; and, £11.8 million in 2021-22.
4. The report sets out the forecast budget position within the Medium Term Financial Plan for the 2020-21 and 2021-22 financial years. Whilst the position represents the best estimate at the current time, the income streams available to the Council are likely to change.
5. The Government published the consultation paper "Fair funding review: a review of relative needs and resources", a technical consultation on relative need which concluded on 12 March 2018. The Secretary of State has said that the results of the review will be introduced in 2020-21. The Secretary of State also confirmed that there will be a business rates baseline reset in 2020-21; and, from 2020-21, business rates retention will be at 75%. The outcome of these reviews will help inform the amount of funding that the Council will have available to it through the retention of Business Rate Income. This will replace some of the current Central Government Grant funding, but it is not yet clear exactly which grants will be replaced. The Medium Term Financial Plan will be updated in future years once this information is available.
6. The provisional Local Government Finance Settlement of 13 December 2018 announced that the Council has been successful in its joint bid, with Newcastle and North Tyneside councils, to become a pilot for retention of 75% Business Rates income for 2019-20. The approval is currently for 2019-20 only.
7. The impact on the Council's Medium Term Financial plan is neutral. Whilst as a result of the pilot there has been a loss of Revenue Support Grant, Rural Services Delivery Grant and a downward adjustment to Business Rates Top-Up grant, this has been compensated through the retention of additional business rates income. There has also been an adjustment made to the Medium Term Financial plan to remove the element of Business Rates income that will be

allocated to the Combined Authority; (the net of the increase in Business Rates income less the lost grants and reduced Top Up grant).

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## **MEDIUM TERM FINANCIAL PLAN 2019 - 2022 AND BUDGET 2019-20**

### **BACKGROUND**

#### **National Context**

1. In December 2015 the provisional Local Government Finance Settlement offered councils the opportunity to accept a provisional four year funding settlement subject to them fulfilling the requirements to produce and publish an efficiency strategy. The offer provided a four year funding commitment covering the Revenue Support Grant, Rural Services Delivery Grant and Transitional Grant. The Council produced and published on its website an efficiency strategy and submitted a request to Government to accept the four year funding offer. Subsequently on 16 November 2016 the Council received notification from the Government that its request for the four year funding offer had been successful. Financial year 2019-20 is the last year that this offer applies to.
2. The Government is currently reviewing the funding mechanisms for Local Government. As part of the provisional Local Government Finance Settlement of 19 December 2017 the Secretary of State launched a “Fair funding review: a review of relative needs and resources” consultation which concluded 12 March 2018. The Secretary of State has said that the results of the review will be introduced in 2020-21. The Government is looking to allocate resources to Local Authorities based on assessed need. This will be done using a number of key indicators which considers factors such as deprivation and sparsity, amongst others. Once need is assessed, resources will be allocated to individual authorities through Business Rates retention.
3. The Government is also considering the system that will be used to calculate and allocate Business Rates across the sector. Although it is not yet clear, many of the Core Grants within the Medium Term Financial Plan will disappear and will be replaced with retained locally collected Business Rates. As part of the provisional Local Government Finance Settlement of 19 December 2017 the Secretary of State announced that there will be a business rates baseline reset in 2020-21; and, from 2020-21, business rates retention will be at 75% instead of 50%. The reset will see National Non Domestic Rates (NNDR) Baselines adjusted to reflect the amounts local authorities are actually collecting in business rates (the current ones are based on the amounts collected in 2010-11 and 2011-12).
4. The Government has published two further consultation papers as part of the provisional Local Government Finance Settlement of 13 December 2018. The consultations conclude on 21 February 2019:
  - “A review of local authorities’ relative needs and resources” - a technical consultation on the assessment of local authorities’ relative needs, relative resources and transitional arrangements”; and,

- “Business Rates Retention Reform - Sharing risk and reward, managing volatility and setting up the reformed system” - a consultation on the proposed 2020-21 Redesign and Reset of the Business Rates Retention (BRR) scheme.
5. In the absence of the outcome of these consultations it remains difficult to accurately forecast the financial position for the Council beyond 2019-20. However, for the purpose of the Medium Term Financial Plan it is assumed that the Council will move to a 75% business rates retention model and no pooling arrangements will be in place beyond 2019-20. The position will be monitored closely and the Medium Term Financial Plan will be updated once more information is available.

### **Provisional Local Government Financial Settlement**

6. The 2019-20 provisional Local Government Finance settlement was announced by Government on 13 December 2018. The settlement covers the financial period 2019-20. Beyond this, the report identifies that the Government intends to change the funding mechanism for the sector from 2020-21. This report therefore utilises the financial data that was published as part of this announcement. Beyond that period the figures have been forecast as identified in this report. The final Local Government Finance Settlement is due in February 2019. The figures from the provisional settlement are included within the Medium Term Financial Plan, Appendix 1. **(Recommendation 1)**
7. The provisional Local Government Finance Settlement of 13 December 2018 announced that the Council had been successful in its joint bid, with Newcastle and North Tyneside councils to become a pilot for retention of 75% Business Rate income for 2019-20. The approval is for 2019-20 only. This will allow the pool to retain 75% of its net Business Rates income; individual councils currently retain 50%. The additional Business Rates income will be managed and invested by the North of Tyne Combined Authority in order to benefit the Council and the region. This additional element of business rates would otherwise have been retained by Central Government as part its central share of business rates had the application been unsuccessful.
8. The impact of this on the Council’s Medium Term Financial Plan is neutral. Whilst as a result of the pilot there has been a loss of Revenue Support Grant, Rural Services Delivery Grant and a downward adjustment to Business Rates Top-Up grant, this has been compensated through the retention of addition Business Rates income. The Medium Term Financial Plan has been updated to reflect this position.

### **Settlement Funding Assessment and Revenue Support Grant**

9. The Settlement Funding Assessment is a combination of resources received from Revenue Support Grant and Baseline Funding (including Top up Grant).
10. From 2016-17 the methodology in determining the Settlement Funding Assessment reduction changed. Instead of a flat rate cut across all authorities, as has been done in the past, Government has taken into account the ability of each authority to raise Council Tax locally (including increases in the Tax Base, Council Tax rate and inflationary uplift). Under this methodology, where an authority has greater capacity to raise resources locally through Council Tax, Revenue Support Grant has been reduced.

### **Revenue Support Grant**

11. As a result of entering into the 75% Business Rates Pool pilot for 2019-20 this grant is no longer payable to the Council. Instead, it has been compensated for through an increase in the retained Business Rates income; from 50% to 75%.

### **Baseline Funding**

12. This is the Government's assessment of what the Council should generate from Business Rates income to meet assessed need. It comprises of two elements; Assessed retained Business Rate income and a Top up Grant. The grant is given to top up the Government's assessed retained Business Rate income to the Baseline Funding level.
13. Prior to 2019-20 the Council retained 50% of the Business Rates it collected and was classified as a Top-Up authority. This meant that the Council received a Top-Up grant over and above the 50% of locally retained Business Rates, which increased the overall funding the Council expected to receive from Business Rates to the assessed baseline level. The success of the combined bid to the Government to become a 75% Business Rates retention Pilot will allow the pool to retain 75% of the net Business Rates Income for the authorities involved in the pool. Individual councils currently retain 50%. The Government's assessed Baseline Funding level for the Council (including Top up grant) is now based on 75% retention of Business Rates income.
14. The impact of this change on the Council's Medium Term Financial Plan is neutral. The Government's assessment of the Council's Baseline Funding level has been increased to take into account the 75% retention of business rates income; and, the Top-up Grant has been reduced accordingly. In addition, to make the position fiscally neutral, the Revenue Support Grant and Rural Services Delivery Grant has also been removed. There has also been an adjustment made to the Medium Term Financial Plan to remove the additional element of Business Rates income that will be allocated to the Combined Authority; (the net of; the increase in Business Rates income less the lost grants

and reduced Top up grant). The Medium Term Financial Plan shown at Appendix 1 has been updated to reflect these changes.

15. As stated above, the Baseline Funding level is the Government's assessment of what the Council should achieve through retained Business Rate income (including Top up Grant) to meet assessed need. However, any variation in the actual level of Business Rate income collected will result in a variation from the assessed Baseline Funding level and a shortfall or excess in Business Rates funding.
16. There is a significant risk that Business Rates income could reduce in 2019-20. This was highlighted through a national pending appeal for rate relief for NHS Foundation Trusts where it is estimated that the Council's net Business Rates income could reduce by approximately £12.6 million (75% share) if the NHS is successful in its appeal. This could increase further if the scope of the relief is extended to all NHS properties. This reduction has not been factored into the Medium Term Financial Plan. In addition, it should be noted that there are risks to Northumberland's business rates income as a result of factors such as the success of other appeals. This makes financial planning and forecasting difficult. It is forecast that the Council's provision for Business Rate appeals will be £8.6 million by 31 March 2019 (£9.7 million at 31 March 2018). This figure excludes NHS Foundation Trust appeals.
17. The following table shows the Council's estimated value of locally retained Business Rates and Top-up grant payments included in the Medium Term Financial Plan 2019-22; based on 75% retention of Business Rate income. Any variation from these figures will ultimately result in a surplus or deficit which will impact on the Budget and Medium Term Financial Plan.

	<b>Estimated Retained Business Rates £m</b>	<b>Top-Up Grant Funding £m</b>	<b>Total £m</b>
2019-20	68.2	19.4	87.6
2020-21	72.0	16.7	88.7
2021-22	73.7	16.7	90.4

18. In addition to the figures in the table above, the Council is required to contribute £1.3 million in 2019-20 to fund the estimated accumulated deficit at 31 March 2019 on the Business Rates element of the Collection Fund, as shown in Appendix 1. **(Recommendation 3)**
19. The provisional Settlement of 13 December 2018 also announced new non-recurrent funding which would be received by councils in 2018-19 of £180.0 million. This is as a result of a surplus on the national Business Rates Retention Levy/Safety Net account. Northumberland County Council will

receive £1.0 million. This allocation will be added to the General Fund Balance in 2018-19 and £0.3 million will be utilised in 2019-20.

20. In the November 2017 budget announcement the Government changed the inflation factor that it will apply to annual business rate increases, from RPI to CPI for 2018-19 and 2019-20. This brought forward the change to CPI inflationary uplifts which were previously planned for 2020-21. Business Rate projections contained within the Medium Term Financial Plan have now been updated and inflated annually by CPI: 2.4% (2019-20), 1.8% (2020-21) and 2.0% (2021-22).
21. Known business rates growth and reductions have also been forecast for 2019-20 along with an additional income allowance of £0.15 million per annum in each year to 2021-22 to accommodate unknown growth. This is considered to be a prudent allowance.
22. These figures are subject to the risks identified above and any changes to the figures will affect the level of savings required to balance the Council's budget.
23. Through the Business Rates Retention Scheme the Council not only faces a significant risk of reduced funding if Business Rates reduce, but it also has the opportunity to increase funding by encouraging new business within and to the area. In most cases under the current scheme the Council will be allowed to retain 75% of any new Business Rates within the area; and in the case of renewable energy the Council can retain 100% of Business Rates.

#### **Rural Services Delivery Grant**

24. As a result of entering into the 75% Business Rates Pool pilot for 2019-20 this grant is no longer payable to the Council. Instead, it has been compensated for through the increased retention of business rates income from 50% to 75%.

#### **New Homes Bonus**

25. The New Homes Bonus was first introduced in 2011-12. For each newly built house or conversion the Council receives a reward of the national average Council Tax for the relevant band. Long-term empty properties which have been brought back into use have also been included in the reward and there is a premium for affordable homes. The scheme originally paid grant for six years.
26. There were changes made to the scheme with effect from 2017-18 following the outcome of the consultation "New Homes Bonus: Sharpening the Incentives". These included:
  - A move to 5 year payments for both existing and future New Homes Bonus allocation in 2017-18 and then to 4 years from 2018-19;
  - The introduction of a national baseline of 0.4% from 2017-18, below which grant will not be paid;

- The Government will retain the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth;
  - It will not introduce the proposals to withhold payments for areas without a local plan in 2017-18; however, it will revisit this issue for 2018-19.
27. The provisional Local Government Finance Settlement of 13 December 2018 maintained the baseline figure at 0.4%. Nationally, by 2019-20 payments of New Homes Bonus was forecast to be £918.0 million.
28. New Homes Bonus allocations for 2019-20 included within the Medium Term Financial Plan at Appendix 1 take into account the outcome of the “New Homes Bonus: Sharpening the Incentives” review and the December 2018 provisional Local Government Finance Settlement. Those figures shown within the Medium Term Financial Plan for 2019-20 to 2021-22 are indicative and will be reliant on any further changes to the scheme and growth locally.
29. The Council expects to receive New Homes Bonus grant funding of approximately £6.0 million for 2019-20 and £5.8 million for 2020-21 and 2021-22. The funding supports the overall General Fund budget of the Council.

### **Improved Better Care Grant Funding**

30. The Improved Better Care Fund Grant is intended to help address some of the financial pressures faced by councils, including those in Adult Social Care.
31. The Council will receive Improved Better Care Fund money in 2019-20 of £8.5 million. There is no guarantee that this funding will continue. However, it has been assumed within the Medium Term Financial Plan that it will continue beyond 2019-20.
32. Furthermore, the Government's Spring 2017 budget announced additional Improved Better Care Funding. This resulted in an increase of £2.1 million in 2019-20. Currently there has been no announcement by the Government that this additional funding will continue beyond 2019-20. However, it has been assumed within the Medium Term Financial Plan that this funding will continue. The additional non-recurrent funding announced as part of the Government's Spring 2017 Budget (£4.4 million in 2018-19 and £2.1 million in 2019-20) has been allocated to Adult Social Care services to meet cost pressures. The Council will be actively lobbying for the funding to be maintained within the revised Business Rates system. The position will be monitored and the Medium Term Financial Plan will be updated if required. Demand pressures within Adult Social Care services continue to be a real issue for the Council.

### **Social Care Support Grant and Winter Pressures Grant**

33. The Government's Autumn Budget of 29 October 2018 announced an additional £650 million of non-recurrent funding for adults and children's social care in

2019-20. There are two elements to this grant; Social Care Support Grant and Winter Pressures Grant.

34. The Council will receive non-recurrent Social Care Support Grant of £2.6 million and Winter Pressures Grant of £1.5 million in 2019-20. There is no guarantee that this funding will continue and within the Medium Term Financial Plan it has been assumed that it will cease after 2019-20. The additional non-recurrent funding has been allocated to Adult Social Care services to meet additional cost pressures.

### **Council Tax**

35. The budget proposals for 2019-20 contained within this report are based on the assumption that the Council will agree to increase the Council Tax by 2.99%. In addition, an assessment of potential housing development across the County has been undertaken and an estimate of the growth in the Tax Base has been included within the Medium Term Financial Plan. The increase in the tax base and the 2.99% inflationary increase provide additional funding of approximately £8.1 million per annum which helps to reduce the value of measures required to balance the budget to the levels shown within the Medium Term Financial Plan. It is also worth highlighting that the Government's Core Spending Power calculation assumes that the Council will apply an inflationary uplift to Council Tax each year and that growth is made in the Council Tax Base figure.

#### **(Recommendation 8)**

36. The December 2018 provisional Local Government Finance Settlement maintained the referendum limit for general Council tax increases to 3%. For the purposes of this report the increase used in 2019-20 is 2.99%. It is not clear what the referendum limit will be beyond 2019-20. However, the Medium Term Financial Plan assumes that the limit will revert back to 2%, and an increase of 1.99% has been included within the Medium Term Financial Plan within 2020-21 and 2021-22. A decision on the introduction of referendum limits for Town and Parish Councils has again been deferred.
37. The provision for non-collection of Council Tax will be reduced from 1.2% in 2018-19 to 0.7% in 2019-20 following a review of actual collection rates. It is forecast that the Council's share of the Council Tax element of the Collection Fund will generate a surplus of approximately £2.3 million by 31 March 2019. Accounting rules require that any forecast surplus must be utilised by the General Fund within the following financial year. The Medium Term Financial Plan assumes a non-recurrent amount of £2.3 million to support the 2019-20 budget. **(Recommendation 9)**
38. A review of the local Council Tax Support Scheme has been undertaken by the Council. For a number of years the Council has provided assistance of up to 100% council tax liability for pensioners and working age claimants, meaning that some households pay no council tax. As part of its budget

balancing measures, the Council has introduced a reduced level of council tax support for working age claimants. An 8% reduction in the level of council tax support for working age claimants has been approved by full Council; therefore the maximum level of council tax support will be 92%. The Council appreciates that implementing a council tax charge to claimants who rely on welfare benefits will be difficult to collect; and, has therefore consulted on the proposal. The consultation period closed on 2 November 2018. A separate report including the outcome of the consultation exercise was considered by Council on 9 January 2019. This report, and the Budget 2019-20 and Medium Term Financial Plan 2019-22 at Appendix 1 include the revision to the Council Tax Support Scheme which was approved by Council on 9 January 2019.

39. The Spending Review 2015 introduced the Adult Social Care Precept. In order to deal with pressures in Adult Social Care services the Government allowed all local authorities to increase Council Tax by and up to an additional 2% per annum up to 2019-20. The total funding raised through this precept needs to be spent entirely on Adult Social Care services.
40. However, the provisional Local Government Finance Settlement announced by the Government on 15 December 2016 changed the parameters and allowed local authorities to accelerate the 6% increase for the Adult Social Care precept. An increase of up to 3% in 2017-18 and up to 3% in 2018-19 could be set, with no more than a 6% increase over the three year period 2017-20. The December 2018 provisional Local Government Finance Settlement did not alter this. Currently there has been no announcement to indicate that the Adult Social Care Precept will continue beyond 2019-20. However, within the Medium Term Financial Plan it has been assumed that it will continue beyond 2019-20 and an increase of 2% per annum has been included in the figures. Officers will continue to monitor this position and should the position change the Medium Term Financial Plan will be updated.
41. The Council's Medium Term Financial Plan included at Appendix 1 assumes that a 1% increase is applied in 2019-20 and will generate additional funding of approximately £1.9 million for Adult Social Care purposes. In 2019-20 this would result in a Band D property increase of £16.34. It is proposed that Council Tax is increased for the Adult Social Care precept by 1% in 2019-20. **(Recommendation 10).**

### **Service Specific Grants**

42. In addition to the core funding grants detailed in this report there are a number of service specific grants which are detailed at Appendix 2. These grants are included within the baseline budget figure, and total £241.9 million.

## **Demand for Services**

43. The Council, like many others, comes under increasing pressure to provide or enable essential statutory services. There are particular pressures within Children's and Adult's Social Care services where demand for the provision of care and support for Looked After Children and the elderly continues to grow. This adds significantly to the budgetary pressures faced by the Council. The Council has set aside recurrent funding within the Medium Term Financial Plan to address a number of significant pressures, these are detailed within Appendix 3. Recurrently, £9.3 million has been added to the base budget in 2019-20 and £19.5 million over the period 2019-22. It is proposed that this funding is approved. **(Recommendation 12).**
44. The Government's offer to add up to 6% Adult Social Care Precept to Council Tax levels over three years to 2019-20, to address pressures in relation to Adult Social Care services has provided some additional funding to meet the increasing costs of Adult Social Care; however, there still remains a significant recurrent on-going pressure which needs to be funded by the Council over the period of the Medium Term Financial Plan. There has been no announcement that this precept will continue beyond 2019-20; but, the Medium Term Financial Plan assumes that it will continue at the same rate beyond 2019-20, and an increase of 2% per annum is included.
45. The Council has also set aside non-recurrent funding within the Medium Term Financial Plan to address a number of one-off pressures; these are detailed within Appendix 4. Non-recurrent funding of £1.6 million has been added in 2019-20 and £0.5 million in 2021-22. It is proposed that this funding is approved and that the Strategic Management reserve is utilised to fund these one-off budgetary pressures. **(Recommendations 13 and 14).**

## EXPENDITURE

### Inflation

46. Inflation is detailed within Appendix 5 and includes the costs associated with incremental drift, pay inflation and non-pay inflation. Pay inflation is based on the forecast increase for each pay group, and where relevant, incorporates a different inflationary uplift for each spinal point within the pay scale.
47. The Local Government pay award is based on the new pay spine which will be effective from 1 April 2019. For the purposes of the Medium Term Financial Plan it is assumed that the pay awards will be maintained across each year. Total inflation equates to £5.3 million for 2019-20 and £16.5 million over the period of the Medium Term Financial Plan. **(Recommendation 15)**

### Growth and Commitments

48. The budget 2019-20 and Medium Term Financial Plan 2019-22 contains growth and commitments which are detailed in Appendix 6. These items are not included in the baseline budget figures shown on the Medium Term Financial Plan. The schedule shows the net year on year budget change from the previous financial year. In 2019-20 cost pressures increased by £2.2 million, and over the period of the Medium Term Financial Plan growth and commitments increase by £19.3 million. It is proposed that these budget changes are approved. **(Recommendation 16)**
49. On 29 October 2018, as part of the budget, the Government announced that there would be increases in employer contributions for unfunded public sector pensions from 2019. The increased employer costs follow the valuation of these schemes by the Government's Actuary Department. The valuation is undertaken every four years. Reductions in the discount rate for calculating employer contributions to 2.4% plus CPI will result in increased employer costs for all of the public sector unfunded pension schemes but the detail of the increase has not yet been released.
50. Indications are that the increased employers' cost for the Firefighters' Pension Scheme would be in the region of £0.7 million. The provisional Local Government Finance Settlement of 13 December 2018 announced that the Government would fund £0.6 million in 2019-20. The net £0.1 million cost pressure in 2019-20 is included in growth and commitments. The cost pressure for future years will be included in the Government's Comprehensive Spending Review (CSR19). The Medium Term Financial Plan will be updated once more information is available.
51. Although details of the increase for NHS employer pension costs show an increase of 44%; the Government has provided assurance that the increases in NHS public sector pension costs will be fully funded until 2023-24 as part of the five year settlement for the NHS. However, there is a risk that the increase

could be passed onto the Council without compensating funding. This will be subject to negotiation by the Council with its NHS partners. The Medium Term Financial Plan will be updated once more information is available.

### **Budget Balancing**

52. The Council's Medium Term Financial Plan 2019-22, which is contained within Appendix 1, has been updated to reflect the latest forecast position for both income and expenditure. The plan also highlights the value of budget measures required in order to set a balanced budget, equating to £12.8 million in 2019-20 and £36.4 million over the period of the Medium Term Financial Plan. Appendix 7 contains detailed proposals to partially meet the targets over the period of the Medium Term Financial Plan. It is recommended that the identified spending reductions of £12.8 million for 2019-20; £6.5 million for 2020-21; and, £6.0 million for 2021-22, which are detailed in Appendix 7 are approved. Also note and approve the additional requirement to identify and deliver further budget balancing measures of £5.2 million in 2020-21 and £5.8 million in 2021-22. **(Recommendation 17)**
53. The schedule of spending reductions contained in Appendix 7 has been agreed by the individual Cabinet Members. Any spending reductions that are considered to represent a risk will be subject to a separate comprehensive risk appraisal process. The risk appraisal process is the responsibility of the relevant Executive Director and will continue up to the County Council and beyond as individual budget reduction measures are implemented.
54. In addition, the potential impact of the proposed budget balancing measures on the Council's public sector equality duties has been considered by officers in each Group, and where screening identifies a need, detailed equality impact assessments have been carried out on the proposals. In some cases these are provisional, and will be reviewed before final decisions are made to implement these proposals. If this process makes it clear that there are unacceptable equality impacts which cannot be mitigated by adjustments within the proposal itself, the relevant Executive Director will be expected to find alternative compensating savings which they will agree with their relevant Cabinet Member. The Chief Executive has prepared a draft assessment of the overall equality impact of the budget proposals, shown at Appendix 8, which will be updated further as the budget process continues. Equality impacts will be considered further and subject to a comprehensive risk appraisal process as appropriate.
55. A number of the proposals will require active management and each Executive Director/Service Director will be responsible for their successful delivery.

56. If a proposal cannot be implemented either partially or in full the Executive Team will be expected to recommend alternative compensating savings for consideration.

### **Budget by Service Area**

57. The 2019-20 budget is shown by service area at Appendix 9. This highlights expenditure, income, inflation, grant funding changes, pressures, growth, savings and the final budget 2019-20 by service area.

### **Summary**

58. The financial position of the Council over the period 2019-22 is detailed within Appendix 1.
59. It is recommended that Members approve Appendices 1, 3, 4, 5, 6 and 7.

## RESERVES AND PROVISIONS

60. The Council has a number of reserves and provisions set aside for specific purposes and to meet potential significant general unforeseen costs. A report was taken to Risk Appraisal Panel on 7 January 2016 which set out the Council's approach to the management and utilisation of these balances. The policy is consistent with legislation and best practice.

### Reserves

61. There are two categories of reserves; unusable and usable. Unusable reserves arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile accounting requirements driven by reporting standards to statutory requirements. These reserves cannot be used for any other purpose and are therefore not considered as part of this report. Usable reserves are split between those that are earmarked for known or predicted purposes, such as Section 106 developer contributions, and those of a general nature which are available to fund unforeseen costs, smooth cash flow and prevent unnecessary temporary borrowing. A schedule of all usable reserves is detailed at Appendix 10.

62. A review of all usable reserves has recently been undertaken to ensure they are still required and are at an appropriate level. Appendix 10 details the outcome of the review.

63. Given the Government's on-going austerity measures, financial resources are stretched and there is a real risk that the Council may be unable to meet any significant unforeseen cost pressures. There is also a high level of risk associated with Business Rates income which was covered earlier in this report. It is therefore essential that the Council continues to maintain an adequate level of general reserves to fund such unforeseen events. There are two main general reserves that can be utilised for these purposes; the General Fund reserve and the Strategic Management reserve. An annual review of the reserves will continue to be undertaken to ensure reserve levels are appropriate to risks in line with legislative and best practice requirements.

64. Following the annual review of reserves £1.6 million will be added to the Strategic Management reserve in 2018-19 from a surplus in the value of provisions previously set aside; this is after £3.2 million is utilised as per the 2018-19 budget report. It is then proposed to utilise £1.6 million of the Strategic Management Reserve in 2019-20 and £0.5 million in 2021-22 to fund non-recurrent pressures. Council is requested to approve the use of this reserve.  
**(Recommendation 14)**

65. In addition, £1.0 million will be added to the General Fund Reserve following receipt of the Council's share of a surplus on the National Business Rates Retention Levy/Safety Net account. It is proposed to utilise £0.3 million of this in 2019-20. **(Recommendation 20)**

66. The schedule of reserves contained within Appendix 10 demonstrates that the financial standing of the Council is sustainable and therefore the Council is able to withstand a significant revenue shock.
67. Part two of the Local Government Act 2003 comprises a set of duties and powers that gives statutory support to important aspects of good financial practice in Local Government.
68. Section 25 requires the Chief Financial Officer (also referred to as the Section 151 Officer) to report to an Authority when it is making the statutory calculations required to determine its Council Tax or Precept. The Authority is required to take the report into account when making the calculations. The report must deal with the robustness of the estimates included within the budget and the adequacy of the reserves for which the budget provides.
69. The Executive Director of Finance & Deputy Chief Executive (the Council's Section 151 Officer) is satisfied that the Council is setting a viable budget based on the assumptions contained within this report and the Council has the required financial strength within its reserves position to cope with any anticipated financial challenge.

### **Provisions**

70. The Council maintains a number of provisions which are detailed in Appendix 10. Provisions are set aside for specific purposes and there are prescribed criteria which are set out in International Accounting Standard 37 (IAS 37), which must be satisfied before a provision can be created. Provisions are checked annually by the Council's external auditors as part of the final accounts process to ensure they comply with the requirements of IAS 37. It is essential that the Council provides for these items when the criteria set out in IAS 37 is met to prevent unbudgeted charges to the general fund. There is a requirement to review all provisions annually to ensure they are still relevant and satisfy the requirements of IAS 37. A review of all provisions has recently been undertaken, and following this review £1.6 million is available and will be transferred to the Strategic Management reserve. Appendix 10 details the outcome of the review.

## **SCHOOL FUNDING**

71. The Dedicated Schools Grant is a ring-fenced grant from the Department for Education to be spent on the education of pupils both in and out of school. The available grant funding (after academy recoupment) is forecast to decrease by £19.72 million from the 2018-19 allocation to £130.9 million. This is as a result of the expectation that fifteen schools will convert to academies during 2019-20.
72. The provisional value of the Dedicated Schools Grant for all schools in Northumberland (including Academies) for 2019-20 is £232.52 million.
73. The Dedicated Schools Grant is divided into four notional blocks:
  - Schools Block
  - Central School Services Block
  - High Needs Block
  - Early Years Block
74. Virement between the 4 notional blocks is possible by the local authority.
75. The Schools Block is in two parts:
  - The Individual Schools Budgets - Each school's Individual Schools Budget is calculated using the funding formula already approved by the Cabinet.
  - Central schools block – This block is used to meet the cost of statutory services provided to all schools including Academies. These services were previously funded through the Education Services Grant which came to an end in 2017-18 as the funding transferred into the Dedicated Schools Grant.
76. The High Needs Block will include funding for the additional needs of Pre and Post 16 students in Maintained Schools, FE Colleges and other establishments.
77. The Early Years Block includes funding for 2 year old provision for the 40% most disadvantaged pupils as well as the statutory offer for 3 and 4 year olds.
78. The National Funding Formula is planned for implementation in 2021-22. As in 2018-19, for 2019-20 there will be a phased transition from the current local formula as approved by Cabinet.
79. The Dedicated Schools Grant is currently predicted to overspend by £1.6 million in the financial year 2018-19 predominantly because of budget pressures within the High Needs block. It is proposed to recover the deficit and create a sustainable budget by transferring 1% of funding from the Schools Block to the High Needs Block for 2019-20 only and conducting a thorough review of the current SEND offer, as previously agreed by the Schools Forum.

## HOUSING REVENUE ACCOUNT

80. The Council is required by the Local Government and Housing Act 1989 to keep a Housing Revenue Account (HRA) which records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is heavily prescribed by statute and the Council is not allowed to fund any expenditure for non-housing related services from this account.
81. The Council is also obliged to produce a HRA Medium Term Financial Plan (MTFP) which is reviewed and updated on an annual basis. The current business plan clearly indicates that the Council can maintain its properties to the Decent Homes Standard for the full 30 years of the plan (which runs to 2049).
82. The Council keeps two HRA specific reserves that are allowed under statute:
  - Housing Revenue Account Balance - This is a reserve and holds the HRA accumulated surpluses. It can be used to make a contribution to balance the revenue budget in year or to make a contribution to fund schemes within the capital programme.
  - The HRA Major Repairs Reserve (MRR) - This reserve was created to fund capital works to maintain the Council's housing stock or to repay debt.
83. The overall balance in the HRA reserve has grown since Homes for Northumberland joined the Council in 2015. The balance in the reserve was £27.4 million at 31 March 2018 and is forecast to increase to £29.6 million at 31 March 2019.
84. It was agreed during last year's budget setting process to reduce reserves to fund an investment programme over the next 5 years to allow new investment in council housing.
85. The HRA MTFP and 30 year Business Plan have been updated and will support the provision of £22.5 million towards the Housing Investment Programme for the period 2019-20 to 2023-24; whilst retaining a level of reserves at £15.0 million to meet potential pressures on the budget beyond year 2025-26.
86. The HRA cannot be subsidised by the Council's General Fund and therefore needs to maintain an adequate level of reserves. Whilst in recent months the Government has given a clear indication of the support for social housing, major risks to the HRA budget remain. This includes: Central Government's influence in rent setting; increased borrowing costs due to interest rate increases; more homes purchased under right to buy regulations; the need for unplanned capital expenditure; the potential impact arising from the roll out of Universal Credit; and, higher levels of pay awards and inflation than included in the plan. Taking

all these into consideration a minimum level of reserves of £15.0 million is considered to be adequate.

87. At this time, without a developed housing investment programme; and, longer term uncertainty around interest rates and other issues, it is not proposed that current loans are repaid; and any loans maturing will be refinanced.
88. The HRA MTFP assumes that maturing loans of £15.3 million within the next 3 years will be refinanced to benefit from current lower interest rates.

### **Lifting of the Borrowing Cap**

89. The Prime Minister announced on 3 October 2018 that the HRA borrowing cap for councils will be removed in order that they can build more council homes. The Regulations have now been published and borrowing caps were removed on 29 October 2018.
90. The impact of this will need to be considered when there is an agreed Housing Investment Programme. The mix of funding to fund the programme will need to consider the affordability of increased borrowing costs on the HRA.

### **Right to Buy**

91. In August 2018, the Ministry of Housing, Communities and Local Government issued a consultation regarding the Use of Right to Buy Receipts by Local Authorities. The consultation invited views on options to change the rules governing the money raised from Right to Buy sales to make it easier for councils to build more homes.
92. It also sought views on whether the commitment that every additional home sold (as a result of the increase in discounts in 2012) would be replaced on a one-for-one basis nationally, should be retained, or reformed to focus on the wider supply of social and affordable housing. There is no significant impact for the Council as a result of the proposed changes.
93. The MTFP assumes that the current Right to Buy policy will continue, and this is reflected throughout the plan as a reduction to tenant's rental income. Income from Right to Buy sales is shown in the plan under capital receipts and this contributes £4 million towards the Housing Investment Programme to 2025.

### **Welfare Reform and Current Rent Policy**

94. From the 1 April 2016, arising from the Welfare Reform Act 2016 and amendment regulations, social housing providers in England, including the Council, subject to a limited number of exemptions, were required to reduce social housing rents by 1% a year for 4 years to 2019-20.
95. The introduction of the policy, not only had a significant impact upon the rent received, but created financial uncertainty, as no guidance was provided on how rent would be calculated post 2020.

96. In March 2016, a report was presented to and considered by the Housing and Economic Growth Cabinet Advisory Group, which set out the impact of the reduction in rent upon the HRA account and the council house development programme. In summary; it was calculated that the HRA would go into deficit in 2023 and the decision was taken at that time to cancel all outstanding council house development schemes.
97. The Government announced on 4 October 2017 that social housing rents were permitted to rise by the Consumer Price Index (2.4% at September 2018) plus 1% from 2020 to 2025, providing some assurance in the short term for the funding of the HRA.
98. From 1 April 2020 it has been assumed that the Council will apply a rent increase equivalent to CPI plus 1% (estimated at 3%). An example of the future rent charges for an average three bedroom property is set out below. This shows that the proposed average weekly rent for this property type will be £0.85 pence per week less than the rent charged in 2015-16.

### **Impact of rent increases on social housing weekly rents**

Average 3 bed weekly rent following implementation of rent reduction guidance implemented in 2016-17.

2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
CPI + 1%	1% Reduction	1% Reduction	1% Reduction	1% Reduction	CPI + 1%
2.2%	-1.0%	-1.0%	-1.0%	-1.0%	3.0% (Est)
<b>£79.93</b>	<b>£79.13</b>	<b>£78.34</b>	<b>£77.56</b>	<b>£76.78</b>	<b>£79.08</b>

The above illustration shows the average weekly rent for a 3 bed property falling to £79.08 per week by 2020-21. These changes mirror government guidance and are built into the HRA Medium Term Plan.

Housing Tenants will be paying a lower weekly rent in 2020-21 than they paid in 2015-16.

The following illustration shows that the average weekly rent for the same property type would have been £91.11 (estimated) in 2020-21 if the 4 year 1% rent reduction had not been implemented.

Average 3 bed weekly rent if 4 year 1% rent reduction had not been implemented and continued to follow CPI plus 1%.

2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
CPI + 1%	CPI + 1%	CPI + 1%	CPI + 1%	CPI+ 1%	CPI + 1%
2.2%	0.9%	2.0%	4.0%	3.4%	3.0% (Est)
£79.93	£80.65	£82.26	£85.55	£88.46	£91.11 (Est)

### Existing Housing and Housing Growth

99. Aligned with the proposed Devolution deal, is the desire to develop and deliver, an ambitious rural housing programme to accelerate delivery of housing of all tenure, including, working with Adult Social Care the provision of extra care facilities, through direct delivery funded by the HRA and by working with a range of partners and the community.
100. Through the HRA MTFP the opportunity exists to utilise £22.5 million to fund a housing investment programme over the next five years. The programme, which will be informed by the Strategic Asset Management Plan that is currently being developed, will include a variety of proposals. Although the detail is to be finalised, areas under development for possible inclusion in the programme include:
- a. Building new affordable homes
  - b. Demolition and re-provision of a block of flats in Cramlington
  - c. Remodelling of six former sheltered housing wardens accommodation to provide housing for people with care needs
  - d. Provision of new sheltered and extra care housing to reflect the objectives set out within the Extra Care and Supported Housing Strategy, to meet the current and future needs of Northumberland residents
  - e. Remodelling of existing blocks of maisonette flats, for which there is no or very little demand, the impact of which is reduced rent and increased council tax charges.
101. Tenants' rental income within the MTFP includes additional rent from 120 new affordable homes to be built between 2020-21 and 2024-25.
102. Subject to available funding, opportunities to look at broader aspects of regeneration to improve overall housing across Northumberland will be explored. In developing a housing investment programme, the Council would seek to explore all opportunities including working with partners and accessing external sources of funding which will be key to delivery.
103. It would be anticipated that current funding administered by Homes England, including the "Shared Ownership Affordable Housing Programme" (SOAHP);

and, recent Government announcements to support a new generation of council and housing association homes, with funding for affordable homes, increased by a further £2 billion to more than £9 billion nationally; will provide the main source of grant funding.

### **Major Repairs Reserve**

104. The Council is required to maintain a Major Repairs Reserve (MRR) with the main credit to the reserve being an amount equal to the total depreciation charge for all HRA assets.
105. The business plan includes provision for depreciation charges to increase by 1% each year with an assumption that the value of housing stock will increase. Any deviation from this assumption will affect the amount that is transferred into the MRR to fund future capital works.
106. The expenditure within the MTFP for MRR, includes a planned programme of replacement roofs, kitchens, bathrooms, rewires and heating systems, along with other improvement schemes. The current 8 year plan which started in 2018-19 assumes that £76 million will be spent on maintaining the housing stock to a decent homes standard.

### **Annual Review**

107. The HRA MTFP is subject to formal annual review and is part of existing budget monitoring arrangements, which allows any policy changes or impact upon the plan to be identified and any significant changes to be reported.

### **Summary**

108. The proposed 2019-20 Housing Revenue Account budget and Medium Term Financial Plan 2018-24 is attached at Appendix 11. An indicative 30 year business plan, showing the projected position at five yearly intervals, is also included for information.
109. Members are requested to:
  - agree the Housing Revenue Account 2019-20 budget as detailed within Appendix 11, which will reduce the estimated balance on the HRA reserve from £27.4 million at 31 March 2018, to £14.9 million at 31 March 2024. This will fund a Housing Investment programme over the same period which will allow £22.5 million of new investment in council housing (**Recommendation 22**); and,
  - note that 2019-20 is the fourth and final year of a compulsory 1% reduction for Council tenants rents and that the budget detailed in Appendix 11 assumes that rents will rise by CPI + 1% from April 2020 in line with Government guidance (**Recommendation 23**); and,

- note the indicative 30 year Housing Revenue Account business plan as detailed within Appendix 11 (**Recommendation 24**); and,
- note that the Government has removed the Housing Revenue Account borrowing cap on 29 October 2018 which will enable the Council to consider a new Housing Investment Programme without the constraints of the previous debt cap (**Recommendation 25**); and,
- agree to refinance a maturing Housing Revenue Account loan of £15.3 million during 2019-20. (**Recommendation 26**)

## **CAPITAL EXPENDITURE**

### **Capital Strategy 2019-22**

110. The Chartered Institute of Public Finance and Accountancy (CIPFA)'s Treasury Management revised Code of Practice and the Prudential Code requires authorities to have in place a capital strategy that sets out the long term context in which capital expenditure and investment decisions are made. The capital strategy should form a part of the authority's integrated revenue, capital and balance sheet planning.
111. Appendix 12 sets out a proposed Capital Strategy for the Council.
112. Members are recommended to approve the attached Capital Strategy at Appendix 12. **(Recommendation 27)**

### **Capital Programme 2019-22**

113. There is a revised Capital Programme covering the period 2019-22 within Appendix 13. The inclusion of a scheme in the programme signifies approval in principle; but, each individual scheme will be subject to business case approval in line with the Council's Constitution.
114. A number of schemes within the Programme are included on self-financing or Invest-to-Save basis which means that the revenue savings (or associated income) arising from the proposal are expected to cover the full costs of capital; i.e. Minimum Revenue Provision and associated interest costs.
115. The programme is largely based on that agreed in February 2018 but adjusted to reflect:
  - a) updated re-profiling estimates from 2018-19 of £81.3 million;
  - b) further proposed re-profiling from 2019-20 to 2020-21 of £46.6 million; and, to 2021-22 of £29.5 million;
  - c) a net reduction in external grants over the period 2019 to 2022 of £109.7 million - largely in relation to the re-profiling of the Newcastle to Northumberland Rail line and Blyth Relief Road beyond 2021-22;
  - d) a net reduction in NCC resource requirements for existing projects over the period 2019 to 2022 of £9.7 million;
  - e) additional grant award allocations from external bodies, including Department of Transport and Department for Education;
  - f) revised or new funding requirements over the period 2019-22 for projects agreed during the year by members via Cabinet, as well as a number of other newly identified commitments including:

- Flood and Coastal Protection (£4.7 million)

The Flood and Coastal Erosion Risk Management Programme, forms part of the Environment Agency's (EA) national Flood and Coastal Defence Medium Term Plan. The EA plan for the period 2019-20 to 2021-22 currently includes the following schemes which will attract significant external EA funding although may be subject to being re-programmed through national prioritisation processes:

- Hexham Industrial Estate Flood Alleviation Scheme;
- Alnwick, Haydon Bridge and Berwick Integrated Drainage Projects; and
- Beadnell Coast Protection Scheme.

The EA estimates that the total cost of the schemes would be in the region of £4.7 million, of which the EA would fund £4.3 million.

- Department for Transport (DfT) Challenge Fund Bid (£6.5 million)

The project will provide additional maintenance to the Council's transport assets. At this stage full details of the potential project are unknown, with the DfT expected to make an announcement in the next few weeks of the bidding competition for Tranche 3 of the Highway Maintenance Challenge Fund. Projects are expected to be needed to be undertaken in 2019-20 and 2020-21. Initial information has indicated that funding may be targeted towards bridge maintenance projects. The estimate of £6.5 million assumes grant funding from the DfT of £5.0 million and a Council contribution of £1.5 million.

- Wise Academy Trust Haltwhistle (£1.6 million)

Wise Academy Trust has approached the Council to provide funding to support the reorganisation of Haltwhistle middle and first schools. The recommendation is to support the proposal but in line with investment made in maintained schools when carrying out a reorganisation. The most cost effective way to achieve reorganisation would be to extend the existing first school, and release the middle school site back to the Council for alternative use or sale. The project would include extending the existing school with a small amount of refurbishment of the existing accommodation.

- Strategic Regeneration Budget (£15.0 million)

It is important that the Council can respond to regeneration opportunities in a timely manner, particularly where there is the prospect of either a potential Borderlands or North of Tyne deal. Members are recommended to approve the delegation of the detail of

the use of the Strategic Regeneration budget to the Council's Section 151 Officer, Executive Director of Place and the Cabinet Member for Corporate Services and the Cabinet Member for Economic Development. **(Recommendation 28)**

- Supported Accommodation (£4.0 million)  
To develop a supported accommodation scheme, providing both privacy and communal areas for residents.
- HRA Re-provision, Re-modelling and New Build (£14.6 million)  
This may include the re-provision of flats at Lanercost, Cramlington; re-modelling of warden units in sheltered housing accommodations; re-provision or re-modelling of maisonettes, and; new affordable housing provision.
- Provision of leisure facilities in Morpeth (£18.0 million)  
A number of proposals and options are still being considered, but a provision similar to that identified for Berwick Leisure Centre has been included in the programme.

- g) There are a number of projects included in the Capital Programme that will complete in either 2022-23 or 2023-24 therefore Members are requested to note the commitment:

	2022-23			2023-24		
	Gross Budget	External Funding	NCC Funding	Gross Budget	External Funding	NCC Funding
	£	£	£	£	£	£
East Sleekburn						
Enterprise Zone	229,383	-	229,383	-	-	-
Tyne Mills Depot	3,000,000	-	3,000,000	-	-	-
Union Chain Bridge	146,800	65,096	81,704	-	-	-
Newcastle						
Northumberland						
Rail Line	42,451,000	29,716,000	12,735,000	-	-	-
Blyth Relief Road	13,304,000	11,974,000	1,330,000	7,837,000	7,053,000	784,000
<b>Total</b>	<b>59,131,183</b>	<b>41,755,096</b>	<b>17,376,087</b>	<b>7,837,000</b>	<b>7,053,000</b>	<b>784,000</b>

116. Members are recommended to approve the revised Capital Programme as detailed within Appendix 13. **(Recommendation 29)**

117. Within the revised capital programme there is an indicative grant allocation from the Department for Transport for the Local Transport Programme (LTP).

County Council Members and Town and Parish Councils will be consulted in the development of the proposed LTP Programme as part of the prioritisation process. Members are recommended to approve the delegation of the detail of the final programme and any subsequent in year amendments to the Executive Director – Place and the Cabinet Member for Environment and Local Services. **(Recommendation 30)**

### **HRA Capital Programme**

118. The business case demonstrates potential capital expenditure over the Medium Term Financial Plan of up to £43.6 million which is included in Appendix 13.

### **Flexible Use of Capital Receipts**

119. As part of the Local Government Settlement for 2016-17, Government announced greater flexibility for councils in how they make use of capital receipts - the money received when an asset is sold. Councils currently are only allowed to spend this money on further capital projects, or set aside the money for the repayment of debt. However, the Government announced that councils were to have greater flexibility regarding how they spend this money for the years 2016-17 to 2018-19. The provisional Local Government Finance Settlement in December 2017 indicated that this would continue for a further three years.

120. The new flexibilities enable councils to use income from the sale of certain assets to fund the short-term revenue costs that support qualifying invest-to-save and efficiency projects in order to provide revenue savings in the future.

121. Qualifying expenditure under the guidance is defined as: “Expenditure on any project that is designed to generate on-going revenue savings in the delivery of services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demands for services in future years for any of the public sector delivery partners.”

122. It is proposed that the Council utilises this flexibility for up to £0.5 million of capital receipts in 2019-20 on qualifying projects. It is proposed that approval of individual projects within these allocations is delegated to the Cabinet. **(Recommendation 31)**

123. The proposal is not anticipated to have any revenue impact, as many of the qualifying projects will themselves provide on-going revenue benefits/efficiencies, which would in turn offset the additional cost of borrowing.

### **Prudential Borrowing Indicators**

124. As a result of the revisions to the Capital Programme the Prudential Borrowing Indicators have been updated for the next three years. Prudential Indicators are detailed within Appendix 14. **(Recommendation 32)**

## **Minimum Revenue Provision Policy Statement**

125. The proposed policy enclosed at Appendix 15 has been updated to reflect changes in the capital programme highlighted above. The 2019-20 policy has been amended to change the calculation basis for supported borrowing and historic debt prior to 2007-08. Charges for this element are currently calculated using the 4% reducing balance method, but from 2019-20 it is proposed to switch to a straight line method over 50 years.
126. The change to a straight line method is considered to be a prudent approach because it will reduce the repayment period from over 150 years down to 50 years. This is in line with one of the main MRP guidance principles; whilst achieving an overall faster level of debt redemption it also spreads the cost more evenly amongst the taxpayers that will benefit from the capital expenditure. – i.e. debt repayment is made over the useful life of the asset.
127. Members are requested to endorse the Minimum Revenue Provision Policy.  
**(Recommendation 33)**

## **TREASURY MANAGEMENT**

128. The proposed Treasury Management Strategy for 2019-20 is attached at Appendix 16. The report will also be considered by the Audit Committee on 23 January 2019. Any subsequent amendments following Audit Committee will be updated for the final report to the County Council in February.
129. Cabinet is requested to endorse the proposed Treasury Management Strategy included at Appendix 16 and recommend its approval to the County Council.  
**(Recommendation 34)**

## **REVENUES AND BENEFITS POLICIES**

130. There are a number of policies that the Revenues and Benefits Service uses in its day to day administration. The policies were approved at County Council on 21 February 2018. The policy documents are attached at Appendix 17. A summary of each policy is provided below. Where the policy has changed, the change is also highlighted below.

### **Caravans and Chalets Policy**

131. This policy is in respect of caravans/chalets on commercially rated sites that are occupied as a sole or main residence for council tax purposes. Council tax is reduced by any business rates payable by the taxpayer on receipt of an itemised invoice. A Class G exemption (occupation prohibited by law) will be granted for a period when the site has to close due to planning/licensing restrictions.

132. There are no proposed amendments to this policy.

### **Council Tax Discount Policy**

133. This policy sets out the treatment of local discretionary discounts, empty property (including empty home premium) and second homes for council tax. The policy is as follows:

- The policy has been amended so that a class of discount of up to 100% is created for care leavers who reside in Northumberland up to the age of 21. The discount will be applied after other discounts, exemptions and council tax support have been applied. This amendment will take effect from 1 April 2018. Care leavers aged 21 and over can apply on an ad hoc basis alongside other applications for local discounts.
- Minor amendments have also been made to make the decisions and appeals section clearer and job titles that have also been updated. All other discounts will remain unchanged.

### **Corporate Debt Policy**

134. This policy details the Council's coordinated approach to the billing, collection and recovery of monies due to the Council for council tax; business rates; housing benefit/council tax benefit and support overpayments; and, sundry debt for council services and overpaid salaries and wages.

The policy consists of a number of annexes:

- |         |   |
|---------|---|
| Annex 1 | Council Tax and NNDR Recovery Policy – sets out the recovery action taken to recover unpaid liabilities. No changes have been made to this annex; |
| Annex 2 | Council Tax and NNDR Court Costs and Fees Policy –  |

provides a uniform scale of costs at each recovery stage. Minor amendments have been made to this annex to reflect the change in the court fees charged for liability order summonses from £3.00 to £0.50 and the increase in court fees for Charging Order applications from £100.00 to £110.00;

- Annex 3 Housing and Council Tax Benefit/Support Overpayments Policy – sets out the policy for the administration and recovery of overpayments. No changes have been made to this annex;
- Annex 4 Methods of Payment Policy – sets out the range of payment methods available to customers. No changes have been made to this annex;
- Annex 5 Write Off Policy – sets out the framework for writing off debts. No changes have been made to this annex;
- Annex 6 Sundry Debt Policy – covering the recovery all collectable sundry debt. Minor amendments have been made to:
- Paragraph 2.9 to clarify the responsibility of Services for pursuing debts before they are escalated to the Corporate Debt Recovery Team;
  - Paragraph 7.3 - credit/service provision to consistently late payers - amended to say approval must be in writing and retained until debts are paid in full;
  - Paragraph 8.2 - minor changes to wording but no effect on the policy;
  - Paragraph 8.5 - minor change to wording but no effect on the Policy;
  - Paragraph 9.3 - minor changes to wording but no effect on the policy;
  - Paragraph 10.3 - minor changes to wording but no effect on the Policy; Copy of invoice request, credit memo request and write-off request forms (used by services) deleted;
- Annex 7 Statutory and Chargeable Debt Policy – sets out the approach to debt arising from the Council carrying out its statutory duties/enforcement functions. A heading has been added to the last section but this has no effect on the policy;
- Annex 8 Overpaid Salaries and Wages Policy - sets out the approach to the recovery of salary overpayments. Minor amendments

have been made to Paragraph 1.2 - Audit Section replaced with Corporate Fraud Team, no effect on the policy; all references to Employee Services changed to Payroll to reflect the new team name; references to agency payrolls removed; minor changes to Payroll's procedures following overpayments in light of an Employment Tribunal decision;

Annex 9 Bankruptcy Policy - ensures that the Council's use of bankruptcy is consistent and complies with the relevant legislation and best practice. Title changed to Bankruptcy and Liquidation Policy and minor amendments made to incorporate Liquidation/Winding-Up proceedings.

Annex 10 Enforcement Agent Code of Practice for Council Tax and NNDR – sets out the way that internal enforcement agents or external enforcement agent companies collecting local taxation debts on behalf of the Council will conduct themselves. No changes have been made to this policy;

Annex 11 Housing Income Management Policy – sets out the policy for the prevention of housing arrears, the rent arrears escalation procedure, recovery of former tenant arrears and write offs. The policy has been updated to reflect the roll out of Universal Credit.

### **Discretionary Housing Payment Policy**

135. This policy sets out the Council's approach to operating its Discretionary Housing Payment scheme. The primary aims of the policy are to prevent homelessness, to alleviate housing need, and to ensure that Northumberland residents have fair and equal access to all services and monies to which they may be entitled by virtue of their situation.

136. There are no proposed amendments to this policy.

### **Local Welfare Assistance Policy**

137. This policy sets out the Council's strategy and criteria for the localised welfare support scheme for emergency support to prevent an immediate deterioration to an applicant's health by providing short-term access to food, gas and electricity supply and limited supplies of clothing and baby consumables, such as nappies and milk, and for support to help applicants through periods of transition, for example, to remain in the community or move back into the community after a period in supported or unsettled accommodation. It does this by providing access to a range of standard items such as beds, bedding, furniture and white goods.

138. There are no proposed amendments to this policy.

## **Rate Relief Policy**

139. This policy applies to National, Non-Domestic Rates (Business Rates) and provides the framework under which mandatory and discretionary relief will be administered.
140. Rate Relief can be either mandatory, discretionary or both and is granted in accordance with the Local Government and Rating Act 1997 and the Local Government Finance Acts 1988 and 2012 (as amended).
141. The policy relates to awards concerning:
- Rural Rate Relief;
  - Charities and Not for Profit Organisations;
  - Hardship Relief;
  - Section 44A (relief on the grounds of part occupation);
  - Supporting Small Business;
  - Business Rates Revaluation Relief;
  - Newspaper Relief; and
  - Local Discretionary Discounts.
142. The policy has been amended to reflect 75% rates retention from 1 April 2019 resulting from the North of Tyne Business Rates Pool Pilot.
143. The policy intentions have remained the same but the policy has been amended to include additional relief by way of a retail discount announced by the Government in the 2018 Autumn Budget. The relief is for occupied retail properties with a rateable value of less than 51,000. These properties will receive relief of one third off the bill in the financial years 2019-20 to 2020-21.
144. The following reliefs have been deleted from the policy as they no longer apply:
- New Build Empty Property Relief; and,
  - Relief for Pubs.
145. Minor amendments have been made to make the delegation and appeals sections clearer and job titles have been updated.

## **War Pensions and Armed Forces Compensation Disregard Policy**

146. The Housing Benefit Regulations 2006 make provision for the first £10.00 of income from War Widows (Widowers)/War Disablement Scheme and the Armed Forces Compensation Scheme to be disregarded in any benefit assessment. The cost of this disregard is fully reimbursed to the Council.
147. The Social Security Administration Act 1992 gives the Council discretion to disregard any amount it chooses in addition to the statutory provision.

148. The policy has been in place since 2009-10 and the Council has taken advantage of this provision and fully disregarded income claimants receive from the War Widows (Widowers)/War Disablement Scheme and the Armed Forces Compensation Schemes when assessing entitlement to Housing Benefit/Council Tax Support.

149. There are no proposed amendments to this policy.

### **Counter Fraud Policy**

150. The policy sets out the Council's commitment to the prevention, detection and investigation of internal and external fraud and by working in partnership with other agencies reducing the incidence of crime and theft against the Council.

151. There are no proposed amendments to this policy.

### **Bribery and Corruption Policy**

152. This policy applies to all of the Council's activities and provides a framework to enable employees and members to understand and implement arrangements enabling compliance.

153. There are no proposed amendments to this policy.

### **Anti-Money Laundering Policy**

154. This policy sets out the obligations that impact on certain areas of local authority business and require local authorities to establish internal procedures to prevent the use of their services for money laundering.

155. There are no proposed amendments to this policy.

156. It is recommended that the 2019-20 Revenues and Benefits Policies contained within Appendix 17 are approved. **(Recommendation 35).**

## PAY POLICY

157. The Localism Act 2011 requires the County Council to prepare and publish a Pay Policy Statement. The purpose of such a statement is to articulate the Council's policies towards a range of issues relating to the pay of its workforce, particularly its senior staff and its lowest paid employees. The Council also wishes to ensure that it operates on the principles of equal pay for work of equal value, and also within the various other legislative requirements, including the Equality Act 2010.
158. The statement is reviewed annually and takes into account the guidance on openness issued by the Secretary of State for Communities and Local Government.
159. The statement for the financial year 2019-20 is shown at Appendix 18. Cabinet is asked to recommend approval of the statement by Council **(Recommendation 36)**. The statement will then be published on the Council's website.
160. An Equality Impact Statement has also been prepared and is shown at Appendix 19.
161. The Public Sector Exit Payment Regulations 2016 with Regulations to follow (initially expected to be in October 2017). These will see the introduction of a £95,000 cap on the total value of exit payments as envisaged in the Enterprise Bill 2015-16.

The payments that are likely to be included are:

- Redundancy payments;
  - Payments on voluntary exits;
  - Strain on the pension fund costs;
  - Severance or ex gratia payments;
  - Payments or compensation in lieu of notice and payments relating to the cashing up of outstanding entitlements (such as outstanding leave or allowances that are cashed up and added to the value of the sum);
  - Share or share options.
162. The draft regulations also include a general provision of any other payment made as a consequence of, in relation to or conditional on loss of employment whether under a contract of employment or otherwise. The regulations are expected to include a power for Full Council to waive the cap in relation to payments made
163. The Small Business, Enterprise and Employment Act was passed in 2015 (with regulations to follow) and deals with the legal requirement for individuals to

repay “prescribed” public sector exit payments if they are re-employed in the same public sector area within one year.

164. Following further consultation by the Government further reforms are now proposed to exit payments which includes:

- Setting the maximum tariff for calculating exit payments at three weeks’ pay per year of service;
- Capping the maximum number of months’ salary that can be used when calculating redundancy payments to 15 months;
- Setting a maximum salary for the calculation of exit payments;
- Enabling the amount of lump sum compensation an individual is entitled to receive to be tapered as they get close to the normal pension age of the Local Government Pension Scheme;
- Reducing the cost of employer-funded pension top up payments; such as limiting the amount of employer funded top ups for early retirement, or removing access to them, and/or increasing the minimum age at which an employee is able to receive an employer funded pension top up. The latter would link the minimum age more closely with the Local Government Pension Scheme Pension Age.

165. When the regulations have been received the Executive Director of Human Resources and Deputy Chief Executive will produce a report for the Staff and Appointments Committee for consideration and recommendation to Council

## **FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT**

166. The provisional Local Government Finance Settlement 2019-20 was announced on 13 December 2018 and the figures contained within this report are based on this announcement. However, there is currently a consultation period which could alter these figures. The outcome of the consultation will be announced in February as part of the final Local Government Finance Settlement. It is not expected that the figures will change significantly. However, in the event that they do change it is proposed that delegated authority is approved for the Council's Section 151 Officer in consultation with the Cabinet Member for Corporate Services to amend the 2019-20 budget and 2019-22 Medium Term Financial Plan if necessary. **(Recommendation 37)**

## **BACKGROUND PAPERS:**

7 January 2016: Report to Risk Appraisal Panel; Review of Council Reserves and Provisions and revised 2015-16 and 2016-17 Treasury Management Strategy, incorporating revisions to the Minimum Revenue Provision.

21 February 2018: Report to Full Council; Medium Term Financial Plan 2018-22 and Budget 2018-19

11 September 2018: Report to Cabinet; Medium Term Financial Plan 2019-22 and Budget 2019-20

9 October 2018: Report to Cabinet; Medium Term Financial Plan 2019-22 and Budget 2019-20

13 November 2018: Report to Cabinet; 2018-19 Estimated Year End Collection Fund Balances – Council Tax and Business Rates

11 December 2018: Report to Cabinet; Approval of the Council Tax Support Scheme for 2019-20

15 January 2019: Report to Cabinet; Approval of the Council Tax Base 2019-20

23 January 2019: Report to Audit Committee; 2019 Treasury Management Strategy Statement for the financial year 2019-20.

## IMPLICATIONS ARISING OUT OF THE REPORT

<b>Policy:</b>	This is the second year of the Medium Term Financial Plan 2018-22. The plan supports the priorities outlined in the Corporate Plan.
<b>Finance and value for money:</b>	The Council remains under significant financial pressure. The financial implications of the 2019-20 budget and the Medium Term Financial Plan are detailed within this report. 2020-21 and beyond will continue to be challenging.
<b>Human Resources:</b>	The size of the financial challenge will have a detrimental impact on staffing levels across the Council. The Council will continue to try and mitigate this impact by the management of vacancies and voluntary redundancy wherever possible.
<b>Property:</b>	A significant proportion of the capital programme refers to property and assets. The estates rationalisation plan has now been implemented and is on-going.
<b>Equalities:</b> (Impact Assessment attached)	The Chief Executive has prepared an overarching equality review, which identifies the main issues which need to be considered in setting the budget. Cabinet will be asked to consider changing the budget proposals should it at a later stage prove not to be possible to mitigate an unacceptable equality impact.
Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	The Council Tax Support Scheme has previously been subject to an Equality Impact Assessment.
<b>Risk Assessment:</b>	The risks associated with the budget proposals are regarded as acceptable but these risks will continue to be reviewed up to and including implementation of the detailed proposals.

- Carbon Reduction:** The budget makes financial provision for the carbon taxes levied by the Government and the Council is implementing as well as developing a number of invest to save proposals concerning the management of energy.
- Crime & Disorder:** This report has given careful consideration to Section 17 of the Crime & Disorder Act 1998 and the duty it imposes.
- Customer Considerations:** The individual proposals will carefully consider the impact upon both customers and residents of Northumberland.
- Consultation:** During January 2019 consultation on the 2019-20 budget and Medium Term Financial Plan has taken place at the five Local Area Councils in Northumberland. The report has also been subject to a review by the Corporate Services and Economic Growth Overview & Scrutiny Committee. This meeting will consider the views of Scrutiny before making final recommendations to the County Council.
- Wards:** All wards.

**Report sign off.**

***Authors must ensure that officers and members have agreed the content of the report:***

	Name
Monitoring Officer/Legal	Liam Henry
Executive Director of Finance & S151 Officer	Barry Scarr
Relevant Executive Director	Barry Scarr
Chief Executive	Daljit Lally
Portfolio Holder(s)	Nick Oliver

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## **List of Appendices**

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Appendix 15	Annual Minimum Revenue Provision Policy Statement
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