



Northumberland  
County Council

# Budget 2020-21

## and Medium Term Financial Plan 2020-22



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# Northumberland

## County Council

### **CABINET**

**11 February 2020**

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### **Budget 2020-21 and Medium Term Financial Plan 2020-22**

Report of Chris Hand, Executive Director of Finance

Cabinet Member: Councillor Nick 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 Revenue Budget for 2020-21 and 2021-22 and the Capital Plans for 2020-21 to 2022-23, following the Government's Spending Round Announcement 2019 (SR 2019), on 4 September 2019, and the publication of the provisional Local Government Finance Settlement on 20 December 2019.

It is important to note that there may need to be some revisions to the figures following receipt of the Government's February 2020 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 Budget 2020-21 and Medium Term Financial Plan 2020-22 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. Note that the figures contained within the Medium Term Financial Plan 2020-22 within Appendix 1 are based on the provisional Local Government Finance Settlement of 20 December 2019.**
- 2. Approve the revenue budget for 2020-21 including, the budget balancing targets totalling £9.800 million contained within Appendix 1.**
- 3. Note the Medium Term Financial Plan covering the period 2020-22 detailed within Appendix 1 and the requirement to deliver budget balancing measures in 2021-22 of £12.024 million.**
- 4. Note that with effect from 1 April 2020 the Council will no longer be part of the North of Tyne 75% Business Rates Pool Pilot with Newcastle City and North Tyneside Councils.**
- 5. Note the estimated retained Business Rates and the Top-Up grant funding to be received by the Council over the period of the Medium Term Financial Plan.**
- 6. Note the contribution of protected Collection Fund Business Rates balances of £0.172 million to support the Medium Term Financial Plan.**
- 7. Note the estimated receipt of Rural Services Delivery Grant of £2.340 million for 2020-21 and the indicative allocation of £2.340 for 2021-22.**
- 8. Note the estimated receipt of the New Homes Bonus of £5.937 million for 2020-21 and the indicative allocation of £3.003 million for 2021-22.**
- 9. Note the total estimated receipt of Improved Better Care Fund grant (now including Winter Pressure funding) of £12.128 million for 2020-21 and £8.460 million for 2021-22.**
- 10. Note the receipt of Social Care funding of £8.445 million for 2020-21 and the indicative allocation of £5.846 million for 2021-22.**
- 11. Approve a 1.99% increase in Council Tax for 2020-21, noting that this is in line with the Government's assumptions regarding the Council's Core Spending Power; and, within the Government's referendum limit.**
- 12. Note that the Medium Term Financial Plan 2020-22 includes a 1.99% annual increase in Council Tax for 2021-22, and, that an estimate of annual tax base growth has been included.**
- 13. Note the contribution of protected Collection Fund Council Tax balances of £3.351 million to support the Budget 2020-21.**

14. Approve a 2.00% increase in Council Tax in 2020-21 for use on Adult Social Care services; raising an additional £3.874 million to support the Budget 2020-21.
15. Note that the Medium Term Financial Plan assumes no future increases in council tax for use on Adult Social Care services beyond 2020-21.
16. Note the schedule of Service Specific grants of £252.904 million contained within Appendix 2.
17. Approve the recurrent pressures of £13.000 million for 2020-21 that have been included within the schedule totalling £19.316 million in the Medium Term Financial Plan, detailed in Appendix 3.
18. Approve the use of the Strategic Management Reserve to fund the Active Northumberland Management fee of up to £1.000 million per annum for the two years of the plan and the current year (2019-20).
19. Approve the use of the Invest to Save Reserve to fund the costs of the Improvement and Innovation Team of £1.159 million per annum for the two years of the plan.
20. Note the non-recurrent income of £0.300 million for 2020-21 and note that there will be non-recurrent income of £0.200 million in 2021-22 shown in Appendix 4; and, note the pressure of £0.500 million for 2021-22 that has also been included within Appendix 4.
21. Note the use of £0.500 million from the Strategic Management Reserve to fund the non-recurrent pressure in 2021-22.
22. Approve the Inflation Schedule for 2020-21 totalling £14.673 million detailed in Appendix 5 and note the risks in relation to the proposed inflation increase for staffing salaries.
23. Approve the identified budget balancing measures contained in Appendix 6 of £9.800 million for 2020-21.
24. Note the Corporate Equality Impact Assessment at Appendix 7.
25. Note the 2020-21 budgets by service area detailed in Appendix 8.
26. Note the Summary of the Reserves and Provisions contained within Appendix 9.
27. Approve the transfer of £6.536 million to the General Fund in 2020-21 to be utilised to offset budget pressures in 2021-22.
28. Note the receipt of Dedicated Schools Grant of £139.906 million in 2020-21; and, note the revised allocation of £137.557 million for 2019-20. This is following the conversion of nine schools to academy status during 2019-20.
29. Agree the Housing Revenue Account 2020-21 budget as detailed within Appendix 10, which will reduce the balance on the HRA reserve from £28.812 million at 31 March 2019, to £25.384 million at 31 March 2021; and note the indicative budgets to 2022-23 which will reduce the balance on the HRA

reserve to £13.171 million. This will fund, alongside additional borrowing and grant funding, a Housing Investment Programme over the period to 2022-23 of £50.231 million of new investment in council housing.

30. Note that from 1 April 2020 there is a new Rent Standard for rent setting for Council tenants and that the budget detailed in Appendix 10 assumes that rents and service charges will rise by the Consumer Price Index of 1.70% plus 1.00% for the period 1 April 2020 to 31 March 2021 in line with the new Government guidance.
31. Approve the increase of 2.70% for Housing rents from 1 April 2020.
32. Note the indicative 30 year Housing Revenue Account business plan as detailed within Appendix 10.
33. Approve the Capital Strategy 2020-21 to 2022-23 contained within Appendix 11.
34. Approve the revised Capital Programme as detailed within Appendix 12; and, note the projects highlighted within the main body of the report which will complete after 2022-23.
35. 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.
36. Approve the delegation of the detail of the capital allocation for highway maintenance investment in U and C roads and footways to the Executive Director Place and the Cabinet Member for Environment and Local Services.
37. Agree delegation to Cabinet to approve individual projects which propose to utilise the flexibilities of capital receipts.
38. Approve the Prudential Indicators based on the proposed Capital Programme detailed within Appendix 13.
39. Approve the Minimum Revenue Provision Policy detailed in Appendix 14.
40. Approve the proposed Treasury Management Strategy Statement 2020-21 detailed in Appendix 15.
41. Approve the Revenues and Benefits Policies for 2020-21 contained within Appendix 16 and note the proposed changes to the Council Tax Discount, Corporate Debt and Rate Relief policies in particular.
42. Approve the Pay Policy Statement for 2020-21 at Appendix 17.
43. Approve a delegation to amend the budget 2020-21 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 2019, the Council approved the Budget for 2019-20 and the Medium Term Financial Plan covering the period 2019-22.
2. This report updates the Medium Term Financial Plan position; and, the budget for 2020-21, following the Spending Round Announcement 2019 (SR 2019) on 4 September 2019 and the provisional Local Government Finance Settlement on 20 December 2019. The final settlement is not due until February 2020, 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 2020-21 Budget and the 2020-22 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 in detail the budget balancing proposals for 2020-21, and illustrates that there is a requirement to deliver efficiencies equating to £9.800 million in 2020-21; and, £12.024 million in 2021-22.
4. The report also sets out the forecast budget position for the financial year 2021-22. 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 consultation "Fair funding review: a review of relative needs and resources", a technical consultation on relative need, concluded on 12 March 2018. The Secretary of State had said that the results of the review would be introduced in 2020-21. The Secretary of State also confirmed that there would be a business rates baseline reset in 2020-21; and, from 2020-21, business rates retention would be at 75%.
6. The Government was expected to publish its Spending Round (SR) in the summer of 2019 covering a three year period. However, the Government announced on 8 August 2019 that the SR would be delayed until 2020 with another one year settlement for local government for 2020-21. As a result of this delay, and in consideration of the uncertainty of future funding this report concentrates on the revenue budget for 2020-21 and 2021-22 instead of the usual three or four year plan. This period also coincides with the term of office for the current administration. The budget for 2021-22 therefore contains a number of assumptions in terms of the local government financial settlement for Northumberland.
7. It was also expected that the outcome of the Fair Funding Review (FFR) including the move to 75% Business Rate Retention would be published during 2019. In line with the delay to the SR it is now expected that the outcome of the FFR and review of Business Rates will also be published in 2020.
8. The December 2019 Queen's Speech stated that to "support businesses" the Government was looking to bring forward changes to business rates. The Government is committed to conducting a fundamental review of business rates (as a tax) engaging with businesses and Local Authorities and further details will



be announced in due course. It is not known if or how this will affect the business rates retention system or future local government funding arrangements.

9. There is also a lack of clarity currently in relation to:
- the publication of the Social Care Green Paper,
  - short term funding provided to local authorities in 2019-20 and 2020-21 for adult and children's social care pressures,
  - how climate change pressures are to be financed.

However, the strong financial position of the Council will ensure that the Council is well placed to react effectively to any outcome.

10. The Medium Term Financial Plan will be updated for future years once this information is available.
11. 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 Rates income for 2019-20. The approval was for 2019-20 only and the pilot will not continue into 2020-21.

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## **BUDGET 2020-21 AND MEDIUM TERM FINANCIAL PLAN 2020-22**

### **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 was the last year that this offer applied 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 had said that the results of the review would 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 the Business Rates Retention mechanism.
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 would be a business rates baseline reset in 2020-21; and, from 2020-21, business rates retention would be at 75% instead of 50%. The reset when it occurs will see National Non Domestic Rates (NNDR) Baselines adjusted to reflect the amounts local authorities are actually collecting in business rates (currently it is based on the amounts collected in 2010-11 and 2011-12).
4. The Government subsequently published two further consultation papers as part of the provisional Local Government Finance Settlement of 13 December 2018. The consultations concluded 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. SR 2019 announced that the outcome of the FFR and review of Business Rates would be delayed by one year until 2020, with implementation in 2021-22. In the absence of the outcome of these reviews it remains difficult to accurately forecast the financial position for the Council beyond 2020-21. However, for the purpose of the Medium Term Financial Plan it is assumed that the Council will continue to retain 50% of business rates and no pooling arrangements will be in place beyond 2019-20.
  6. 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**

7. The 2020-21 provisional Local Government Finance settlement was announced by Government on 20 December 2019. The settlement covers the financial year 2020-21. Beyond this, the report identifies that the Government intends to change the funding mechanism for the sector from 2021-22. 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 2020. Members are requested to note that the figures from the provisional settlement are included within Appendix 1. **(Recommendation 1)**
8. It is recommended that the Council approves the Budget 2020-21 (Appendix 1) including the requirement to implement budget balancing measures totalling £9.800 million. **(Recommendation 2).**
9. Members are requested to note the Medium Term Financial Plan at Appendix 1 including the requirement to deliver budget balancing measures totalling £21.824 million over the period. **(Recommendation 3)**

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

10. The Settlement Funding Assessment is a combination of resources received from Revenue Support Grant and Baseline Funding (including Top up Grant).
11. 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

12. The Revenue Support Grant to be received in 2020-21 is £10.451 million. There is no announcement beyond 2020-21 pending the outcome of the Fair Funding Review and implementation of the new system for Business Rates retention. However, for the purposes of the Medium Term Financial Plan it is assumed that the grant remains unchanged in 2021-22.

## Baseline Funding

13. 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 provided to top up the Government's assessed retained Business Rate income to the Baseline Funding level applicable for the Council.
14. 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% locally retained Business Rates, which increased the overall funding the Council expected to receive from Business Rates to the assessed baseline level.
15. In 2019-20 the success of the North of Tyne combined authority bid to the Government to become a 75% Business Rates retention Pilot allowed the region to retain 75% of the net Business Rates Income for the authorities involved in the pool. The pilot ends 31 March 2020 and the Government's assessed Baseline Funding level for the Council (including Top up grant) will revert back to 50% retention of Business Rates income. Members are requested to note that the Council will no longer be part of the North of Tyne Business Rates Pilot with effect from 1 April 2020. (**Recommendation 4**)
16. The impact of this change on the Council's Medium Term Financial Plan is neutral. For 2019-20 the Government's assessment of the Council's Baseline Funding level had been increased to take into account 75% retention of business rates income; and, the Top-up Grant had been reduced accordingly. In addition, to make the position fiscally neutral, the Revenue Support Grant and Rural Services Delivery Grant had also been removed. There had also been an adjustment made to the Medium Term Financial Plan to remove the additional element of Business Rates income that would be allocated to the Combined Authority; (the net of; the increase in Business Rates income less the grants and reduced Top up grant). These will be reversed by Government for 2020-21 when the Council's position reverts back to 50% retention of Business Rates income. The Medium Term Financial Plan shown at Appendix 1 has been updated to reflect these changes.
17. 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 Rates income collected will result in a variation from the

assessed Baseline Funding level and a shortfall or excess in Business Rates funding.

18. The 2019-20 budget report, which was approved by Council in February 2019, highlighted a significant risk that Business Rates income could reduce as a result of a national appeal for rate relief for NHS Foundation Trusts which was pending, where it was estimated that the Council's net Business Rates income could reduce by approximately £12.6 million (75% share) if the NHS was successful in its appeal. This could have increased further if the scope of the relief was extended to all NHS properties. However, on 12 December 2019 the High Court issued a judgement that the NHS Foundation Trusts appeal had been rejected and the NHS would therefore not be entitled to a reduction in Business Rates payable. However, this decision could still be appealed. 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 complex. It is forecast that the Council's provision for Business Rate appeals will be £13.511 million by 31 March 2020 (£10.204 million at 31 March 2019). This figure excludes NHS Foundation Trust appeals.
19. Members are requested to note the following table which shows the Council's estimated value of locally retained Business Rates and Top-up grant payments included in the Medium Term Financial Plan 2020-22; based on 50% 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. **(Recommendation 5)**

	Estimated Retained Business Rates £m	Top-Up Grant Funding £m	Total £m
2020-21	51.130	27.535	78.665
2021-22	52.260	28.058	80.318

20. In addition to the figures in the table above, the Council will receive £0.172 million in 2020-21 being the estimated accumulated surplus at 31 March 2020 on the Business Rates element of the Collection Fund, as shown in Appendix 1. Accounting rules require that any forecast surplus must be utilised by the General Fund within the following financial year. **(Recommendation 6)**
21. The provisional Settlement of 20 December 2019 made no announcement regarding any potential non-recurrent funding as a result of a surplus on the national Business Rates Retention Levy/Safety Net account. This is due to a delay in the audit of the account and the General Election. The position will be monitored and the Medium Term Financial Plan updated should this be announced.

22. Business Rates projections contained within the Medium Term Financial Plan have been inflated annually by CPI: 1.7% (2020-21), and 1.9% (2021-22).
23. Known business rates growth and reductions have also been forecast for 2020-21 and 2021-22 along with an additional income allowance of £0.150 million per annum in each year to accommodate unknown growth. This is considered to be a prudent allowance.
24. 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.
25. 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 50% 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**

26. The Rural Services Delivery Grant to be received in 2020-21 is £2.340 million. There is no announcement beyond 2020-21 pending the outcome of the Fair Funding Review and implementation of the new system for Business Rates retention. However, for the purposes of the Medium Term Financial Plan it is assumed that the grant remains unchanged in 2021-22 and members are requested to note the grant. **(Recommendation 7)**

### **New Homes Bonus**

27. 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.
28. 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 would not be paid;
  - A statement by the Government that it would retain the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth;

- A statement by Government that it would not introduce the proposals to withhold payments for areas without a local plan in 2017-18. However, it said that the issue would be revisited for 2018-19.
29. The provisional Local Government Finance Settlement of 20 December 2019 maintained the baseline figure at 0.4% and confirmed legacy payments from 2017-18 to 2019-20. It also confirmed that no legacy payments would be made in future years in relation to the 2020-21 allocation. Nationally, by 2020-21 payments of New Homes Bonus is forecast to be £907.000 million.
  30. The ministerial statement which introduced the 2020-21 provisional Local Government Finance Settlement announced a Spring 2020 consultation on the future of the scheme, stating that “It is not clear that the New Homes Bonus in its current form is focused on incentivising homes where they are needed most” and the consultation will “include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance”.
  31. The figures shown within the Medium Term Financial Plan for 2020-21 to 2021-22 at Appendix 1 are indicative. The Council expects to receive New Homes Bonus grant funding of approximately £5.937 million for 2020-21 and at least £3.003 million for 2021-22; the latter being subject to the outcome of the Spring 2020 review and consultation exercise. The funding supports the overall revenue budget of the Council and members are requested to note the grant’s inclusion in the Council’s Medium Term Financial Plan. **(Recommendation 8)**

### **Improved Better Care Funding and Winter Pressures Grant**

32. The Government’s SR 2019 and December 2019 provisional Local Government Finance Settlement confirmed that both the existing Improved Better Care Fund Grant and Additional Improved Better Care Fund Grant would be combined and would continue for 2020-21. In addition the existing Winter Pressures Grant was also rolled forward to 2020-21 and combined with the Improved Better Care Fund grants. This grant allocation is not ring fenced and is intended to help address some of the financial pressures faced by councils, including those in Adult and Children social care.
33. The Council will receive Improved Better Care Fund Grant of £12.128 million in 2020-21. There is no guarantee that this funding will continue beyond 2020-21. However, it has been assumed within the Medium Term Financial Plan that the Winter Pressures and Additional Improved Better Care Fund elements will cease beyond 2020-21 and that grant of £8.460 million will be received in 2021-22. Expenditure has been reduced accordingly within the Medium Term Financial Plan to accommodate the forecast reduction in these grants, and it is essential that actual expenditure within the service is also reduced to accommodate this reduction. The position will be monitored and the Medium Term Financial Plan will

be updated if required. Members are requested to note the grant. **(Recommendation 9)**

### **Social Care Support Grant**

34. 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 for 2019-20. There were two elements to this grant; Social Care Support Grant and Winter Pressures Grant. The SR 2019 and the provisional Local Government Finance Settlement of December 2019 confirmed that both of these grants would continue into 2020-21. The Winter Pressures Grant was transferred to the Improved Better Care Fund allocation as mentioned above.
35. The SR 2019 and provisional Local Government Finance Settlement of 20 December 2019 also announced new Social Care Funding of £1 billion nationally, to help address cost pressures. The Council will receive an additional allocation of £5.846 million in 2020-21.
36. In total the Council will receive Social Care Support Grant of £8.445 million in 2020-21. There is no guarantee that this funding will continue, and it has been assumed within the Medium Term Financial Plan that only the new element of this grant will continue beyond 2020-21 (£5.846 million). Expenditure has been reduced accordingly within the Medium Term Financial Plan to accommodate the forecast reduction to this grant, and it is essential that actual expenditure within the service is also reduced to accommodate this reduction. The position will be monitored and the Medium Term Financial Plan will be updated if required. Members are requested to note the grant. **(Recommendation 10)**

### **Council Tax**

37. The budget proposals for 2020-21 contained within this report are based on the assumption that the Council will agree to increase the Council Tax by 1.99% and members are requested to approve the increase. **(Recommendation 11)**
38. The December 2019 provisional Local Government Finance Settlement set the referendum limit for general Council tax increases to 2.00%. For the purposes of this report the increase used in 2020-21 is 1.99%. It is not clear what the referendum limit will be beyond 2020-21. However, the Medium Term Financial Plan assumes that the limit will remain at 2.00%, and an increase of 1.99% has been included for 2021-22. Members are requested to note this assumption. **(Recommendation 12)**
39. There has been no Government decision to implement referendum limits for Town and Parish Councils.
40. An assessment of potential housing development across the County has been undertaken and an estimate of the growth in the Tax Base has also been included within the Medium Term Financial Plan.



41. The increase in the tax base and the 1.99% inflationary increase provide additional funding of approximately £6.581 million per annum which helps to retain the levels of service the Council provides; as well as 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.
42. The provision for non-collection of Council Tax will remain at 0.7% in 2020-21 following a review of actual collection rates.
43. It is forecast that the Council's share of the Council Tax element of the Collection Fund will generate a surplus of approximately £3.351 million by 31 March 2020. Accounting rules require that any forecast surplus must be utilised by the General Fund within the following financial year. The Budget 2020-21 assumes a non-recurrent amount of £3.351 million to support the Council's revenue budget.  
**(Recommendation 13)**
44. The Council agreed at its meeting on 6 November 2019 to continue with the local Council Tax Support Scheme which was approved for 2019-20; that is, an 8% reduction in the level of council tax support for working age claimants. This report, and the Budget 2020-21 and Medium Term Financial Plan 2020-22 at Appendix 1 include this anticipated level of reduction.
45. The Spending Review 2015 introduced the Adult Social Care Precept. In order to deal with pressures in Adult Social Care 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 had to be spent entirely on Adult Social Care.
46. 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 2019 provisional Local Government Finance Settlement extended the offer to add 2% per annum for 2020-21 only. Currently there has been no announcement to indicate that the Adult Social Care Precept will continue beyond 2020-21. Therefore, within the Medium Term Financial Plan it has been assumed that it will not continue beyond 2020-21. Officers will continue to monitor this position and should the position change the Medium Term Financial Plan will be updated.
47. The Council's Medium Term Financial Plan included at Appendix 1 assumes that a 2% increase is applied in 2020-21. This will generate additional funding of approximately £3.874 million for Adult Social Care purposes. For 2020-21 this will result in a Band D property increase of £33.91. It is proposed that Council Tax is

increased for the Adult Social Care precept by 2% in 2020-21. **(Recommendation 14).**

48. Members are also requested to note that the Medium Term Financial Plan contains no Adult Social Care precept increases beyond 2020-21. **(Recommendation 15)**

### **Service Specific Grants**

49. 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 £252.904 million and members are requested to note the grants. **(Recommendation 16)**

### **Demand for Services**

50. The pressures facing the Council are detailed within Appendix 3, some of which are explained further in the following paragraphs. Recurrently, £13.000 million has been added to the base budget for 2020-21 and £6.316 million for 2021-22. It is proposed that these pressures and their funding are approved. **(Recommendation 17)**
51. The Government's offer to add up to 2% Adult Social Care Precept to Council Tax levels in 2020-21 to address pressures in relation to Adult Social Care has provided some additional funding to meet the increasing costs. However, there still remains a significant recurrent on-going demographic pressure which needs to be funded by the Council. There has been no announcement that this precept will continue beyond 2020-21; and, the Medium Term Financial Plan therefore assumes that it will cease and the Council will need to fund these cost pressures from within its own resources.
52. The Council has set aside recurrent funding within the Budget 2020-21 and the Medium Term Financial Plan to address the demographic pressures in relation to both Adult's and Children's social care as well as the ongoing revenue consequences of the Council's ambitious capital investment programme and a number of other identified pressures.
53. The Council's Pension Fund actuary has also recently undertaken an actuarial revaluation of the Northumberland County Council Pension Fund which is an exercise undertaken every three years. The future service pension rate for the Council as an employer has increased to 21.0% from 18.5% but the deficit lump sum payment made by the Council has reduced to £0.500 million. The overall result of this is a saving to the Council's revenue budget of £3.063 million.
54. Members will also be aware that Advance Northumberland has been requested to make an annual charitable donation of £1.000 million to Active Northumberland in recent years. However, the value of the charitable donation which can be made is difficult to predict and is not usually known until the year end which creates

financial uncertainty for Active Northumberland. In order to provide this funding to Active Northumberland on a sustainable and manageable basis, with contracted outcomes for residents, and, in line with the existing management fee arrangements currently in place; it is proposed that for a period of 3 years, including 2019-20, that the Council funds up to an additional £1.000 million from the Council's Strategic Management Reserve. **(Recommendation 18)**

55. Members will also be aware that in order to continue to improve and transform the Council additional resources are required to supplement the existing workforce. During the year a number of key appointments have been made and an Improvement and Innovation Team has been created to drive forward this agenda. The costs for this team have been included in the schedule of pressures and added to the Council's baseline budget for approval and it is proposed that for a period of 2 years that the costs of this team are funded from the Council's Invest to Save Reserve. **(Recommendation 19)**
56. There are also non-recurrent issues which the Council needs to address from time to time. The Medium Term Financial Plan identifies that £0.500 million will be required in 2021-22 to fund the County Council elections and it is proposed that this one-off expenditure is approved and that when it is incurred it is funded from the Strategic Management Reserve. **(Recommendations 20 and 21)**
57. The Council has also identified income totalling £0.300 million for 2020-21 and £0.200 million for 2021-22 which is non-recurrent and this too is included in Appendix 4 which Members are requested to note. **(Recommendation 20)**

## EXPENDITURE

### Inflation

58. 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 as a result of the National Living Wage and National Minimum Wage where demand for the provision of care and support for Looked After Children and the elderly continues to grow. These inflationary increases add significantly to the budgetary pressures faced by the Council and are included within Appendix 5.
59. All inflationary pressures are detailed within Appendix 5 which includes the costs associated with incremental drift, pay inflation and non-pay inflation.
60. Pay inflation is based on an indicative award of 2.75% pending finalisation of negotiations between national bodies and Trades Unions. Whilst this inflationary uplift is indicative it has recently been benchmarked against other Local Authorities. Members must note however that there is a risk that the actual pay award could be higher as the request from the Trades Unions is for a 10.00% increase.
61. The Local Government pay award will be effective from 1 April 2020. 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 £14.673 million for 2020-21 and £13.019 million for 2021-22 and it is recommended that the inflationary pressures identified in Appendix 5 for 2020-21 are approved. **(Recommendation 22)**

### Budget Balancing

62. The Council's Budget 2020-21 and Medium Term Financial Plan 2020-22, 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 £9.800 million in 2020-21 and £12.024 million for 2021-22. It is recommended that the identified spending reductions of £9.800 million for 2020-21, which are detailed in Appendix 6 are approved. **(Recommendation 23)**
63. The schedule of spending reductions contained in Appendix 6 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.
64. 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 Directorate, 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 provided a draft assessment of the overall equality impact of the budget proposals, shown at Appendix 7, 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. Members are requested to note the Equality Impact Assessment shown at Appendix 7. **(Recommendation 24)**

65. A number of the proposals will require active management and each Executive Director will be responsible for their successful delivery.
66. 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**

67. The 2020-21 budget is shown by service area at Appendix 8. This highlights expenditure, income, inflation, grant funding changes, pressures, savings and the proposed final budget 2020-21 by service area. Members are requested to note Appendix 8. **(Recommendation 25)**

#### **Summary**

68. The financial position of the Council over the period 2020-22 is detailed within Appendix 1.
69. It is recommended that Members approve Appendices 1, 3, 4, 5 and 6.

## RESERVES AND PROVISIONS

70. 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

71. 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 9.
72. A review of all usable reserves has recently been undertaken to ensure they are still required and are at an appropriate level. Appendix 9 details the outcome of the review which Members are requested to note. **(Recommendation 26)**.
73. Given the uncertainty around much of the future funding for Local Government 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.
74. It is proposed to utilise £1.000 million in 2020-21 and £1.500 million of the Strategic Management Reserve in 2021-22 to fund the non-recurrent pressure detailed in Appendix 4 and the Active Northumberland Management Fee as explained earlier. Council is requested to approve the use of this reserve for the 2020-21 Budget. **(Recommendation 18)**
75. In addition, £6.542 million will be added to the General Fund Reserve in 2020-21. This is largely attributable to the surplus generated within the Council's Collection Fund and an increase in the forecast New Homes Bonus allocation. It is proposed to fully utilise these funding allocations in 2021-22 to support the revenue budget. **(Recommendation 27)**

76. With regard to the Transformation Fund, a working group of officers has been created to progress the following eight work streams:
- a. Digital
  - b. Service Reviews
  - c. Place Based Shaping
  - d. Workforce
  - e. Quality and Complaints
  - f. Cultural and Engagement
  - g. Business Development and Income Generation
  - h. Climate Change

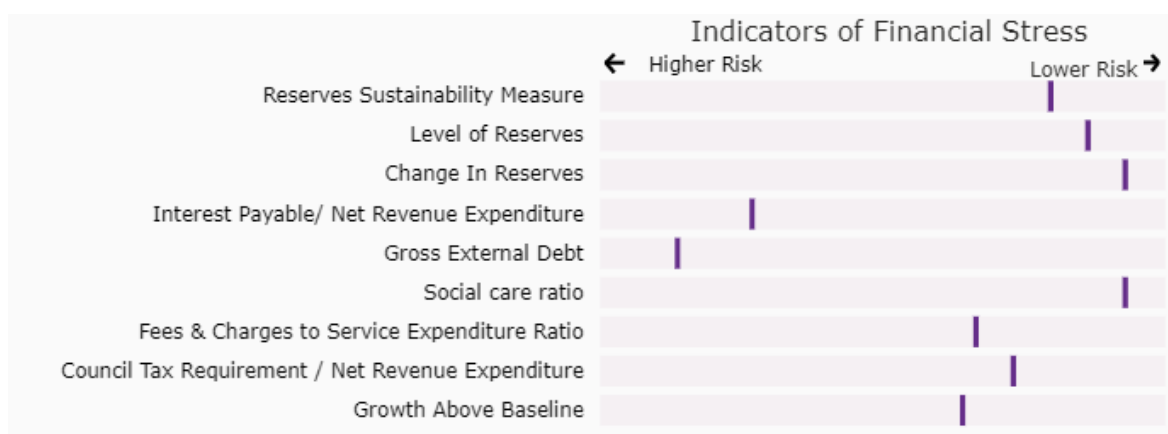
Each work stream has an Executive sponsor and a delivery lead that will bring forward proposals to the Transformation Board for approval. Only £0.051 million of the Transformation Fund has been utilised to date, in order to fund a temporary appointment, which has now concluded; and, the start-up costs for the Northumberland Lottery which was approved by Cabinet on 6 August 2019. Members will also be aware that a recruitment exercise has resulted in a number of key appointments to drive forward transformation for the Council. As mentioned earlier in the report the proposal is to fund the Improvement and Innovation Team from the Invest to Save Reserve. **(Recommendation 19)**

Further updates on the use of the Transformation Fund will be reported to Cabinet during 2020-21 as part of the regular financial monitoring report.

77. The schedule of reserves contained within Appendix 9 demonstrates that the financial standing of the Council is sustainable and therefore the Council is able to withstand a significant revenue shock.
78. 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.
79. 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.
80. The Executive Director of Finance (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.

## CIPFA Financial Resilience Index December 2019

81. In December 2019 CIPFA published a Financial Resilience Index for all English local authorities. This information has been made publically available (via CIPFA's website).
82. The index does not produce one overall single 'league table' score. Instead the index consists of financial ratios across 9 primary indicators and a further 7 secondary indicators. The index also publishes the Council's latest External Audit Value for Money opinion and the OFSTED judgement on Children's Social Care.
83. In addition to a calculated value for each financial ratio, the index also expresses each indicator on a scale of risk-level linked to risk of financial stress. Scores for each indicator are also benchmarked with a 'nearest neighbour' peer group.
84. The following chart shows the indicator of financial stress risk for all 9 primary measures on the Financial Resilience Index for the Council:



85. The Financial Resilience Index for Northumberland shows low levels of risk for 7 of the 9 primary indicators. However, a higher level of risk is indicated for the following 2 primary indicators:
  - Interest Payable / Net Revenue Expenditure
  - Gross External Debt
86. For Northumberland these two indicators are inextricably linked. Members will be aware that the Council's debt has historically been at a high level due to the level of lending to other organisations such as Advance Northumberland (formerly Arch) and Northumbria Healthcare NHS Foundation Trust; as well as being the main source of funding to service the capital programme.
87. As a consequence of the high level of debt the Council's interest payments are significant hence the risk is high as shown in the diagram above. Members should note that the indicator does not take into account the fact that the debt is being repaid and that the Council either has a legal charge over a number of assets to cover the debt or wholly owns the company and by default the assets.



## Provisions

88. The Council maintains a number of provisions which are also detailed in Appendix 9. 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 to ensure they are still required. Appendix 9 details the outcome of the review and Members are requested to note the provisions. **(Recommendation 26)**

## SCHOOL FUNDING

89. 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 for 2019-20 (after academy recoupment), which Members are requested to note is forecast to decrease by £14.791 million from the 2019-20 original allocation to £137.557 million. This is as a result of the nine schools that converted to academies during 2019-20.
90. The provisional value of the Dedicated Schools Grant for all schools in Northumberland (including Academies) for 2020-21 is £243.163 million. This is an increase of £10.641 million when compared to the 2019-20 original allocation and is due to an increase in both the funding available for schools and in the overall number of pupils. The Council will receive £139.906 million which members are requested to note. **(Recommendation 28)**
91. The Dedicated Schools Grant is divided into four notional blocks:
- Schools Block
  - Central School Services Block
  - High Needs Block
  - Early Years Block
92. Virement between the 4 notional blocks is possible by the local authority.
93. 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.
94. 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.
95. 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.
96. The National Funding Formula is planned for implementation in 2021-22. As in 2019-20, for 2020-21 there will be a phased transition from the current local formula as approved by Cabinet.
97. The Dedicated Schools Grant is currently predicted to overspend by £0.953 million in the financial year 2019-20 predominantly because of budget pressures within the High Needs block. It is proposed to recover the deficit and create a sustainable budget by transferring 0.5% of funding from the Schools Block to the High Needs Block for 2020-21 and conducting a thorough review of the current SEND offer, as previously agreed by the Schools Forum.

## **HOUSING REVENUE ACCOUNT**

98. 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/tenant related services from this account.
99. 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 2050).
100. The Council keeps two HRA specific reserves that are required 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.
101. It was agreed during previous 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.
102. The balance on the HRA account was £28.812 million at 31 March 2019 and is planned to decrease to £25.384 million by 31 March 2021.
103. The HRA cannot be subsidised by the Council's General Fund and therefore needs to maintain an adequate level of reserves. Risks to the HRA include: 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. The HRA Medium Term Financial Plan maintains a significant level of reserves which is considered to be adequate.
104. At this time, due to the 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.

### **Right to Buy**

105. The HRA 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. Capital receipts from Right to Buy sales is estimated to contribute £3.351 million towards the Housing Investment Programme between 2020-21 to 2022-23.

## Rent Increases

106. The requirement to reduce social housing rents by 1.00% has now come to an end. On 26 February 2019, the Government issued a new Direction that requires the regulator of social housing to set a new rent standard for registered providers with effect from 1 April 2020. It is accompanied by a policy statement which sets out the Government's policy on rents for social housing from 1 April 2020. The standard states that the maximum allowable rent increase for the year will be the Consumer Price Index (CPI) as at September plus 1.00% for the next 5 years. (new 2020 Limit Rent)
107. For the period 1 April 2020 to 31 March 2021 it has been assumed that the Council will apply a rent increase equivalent to CPI of 1.70% plus 1.00%. 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 £1.08 pounds 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%	2.70%
<b>£79.93</b>	<b>£79.13</b>	<b>£78.34</b>	<b>£77.56</b>	<b>£76.78</b>	<b>£78.85</b>

The above illustration shows the average weekly rent for a 3 bed property in 2020-21 will be £78.85, which is a lower weekly rent than that which the tenant would have been paying in 2015-16 and 2016-17.

## Existing Housing and Housing Investment Programme

108. The HRA MTFP and 30 year Business Plan have been updated to fund £50.231 million of capital expenditure towards the Housing Investment Programme for the period 2020-21 to 2022-23.
109. In order to fund this programme the MTFP includes:
- New borrowing of £18.440 million,
  - External grant support of £10.000 million from Homes England. Current funding from the Affordable Homes Programme 2016-21 is available for projects completed by 31 March 2021. Details of future funding programmes from 2020-21 have not yet been published, but a commitment to continue with the programme was contained within the Queen's speech,

- Utilisation of the Investment Reserve totalling £18.440 million; and,
  - Use of capital receipts of £3.351 million generated from the Right to Buy receipts.
110. The commitment, as set out within the Housing Strategy for Northumberland, to grow its own housing stock and seek to facilitate up to 1,000 new homes for rent, will be informed by the Strategic Asset Management Plan that is to be refreshed. Although the overall strategic plan is to be finalised, areas under development for inclusion in the programme, which it is intended will be evidence led having regard to overall demand and need, will include:
- a. Building new affordable homes – to date, 6 sites have now been identified for development in 2020-21 and are currently progressing;
  - 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 Dementia Care bungalows to reflect the objectives set out within the Extra Care and Supported Housing Strategy, to meet the current and future needs of Northumberland residents; and,
  - e. Remodelling of existing blocks of maisonette flats, for which there is no or very little demand.
111. Opportunities to look at broader aspects of regeneration to improve overall housing across Northumberland will continue to be explored. In developing a Housing Investment Programme, the Council will seek to explore all opportunities including working with partners and accessing external sources of funding which will be key to delivery.

### **Major Repairs Reserve**

112. 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.
113. The HRA Medium Term Financial Plan includes provision for depreciation charges to increase in line with new capital expenditure and then by 1.00% 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.
114. The HRA Medium Term Financial Plan assumes that the current adjustment factor for valuation of the housing stock for Northumberland of 42% of Market Value (Existing Use Value-Social Housing) will continue to apply throughout the plan for the purpose of valuation and depreciation.

115. The expenditure within the HRA Medium Term Financial Plan 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 £75.000 million will be spent on maintaining the housing stock to a decent homes standard.

### **Annual Review**

116. 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**

117. The proposed 2020-21 Housing Revenue Account budget and HRA Medium Term Financial Plan 2020-23 is attached at Appendix 10. An indicative 30 year business plan, showing the projected position at five yearly intervals, is also included for information.

118. Members are requested to:

- Agree the Housing Revenue Account 2020-21 budget as detailed within Appendix 10, which will reduce the balance on the HRA reserve from £28.812 million at 31 March 2019, to £25.384 million at 31 March 2021; and, note the indicative budgets to 2022-23 which will reduce the balance of the HRA reserve to £13.171 million. This will fund, alongside additional borrowing and grant funding, a Housing Investment Programme over the period to 2022-23 of £50.231 million of new investment in council housing **(Recommendation 29)**; and,
- Note that from 1 April 2020 there is a new Rent Standard for rent setting for Council tenants and that the budget detailed in Appendix 10 assumes that rents and service charges will rise by the Consumer Price Index of 1.70% plus 1.00% for the period 1 April 2020 to 31 March 2021 in line with the new Government guidance **(Recommendation 30)**;
- Approve the increase of 2.70% for Housing rents from 1 April 2020 **(Recommendation 31)**; and
- Note the indicative 30 year Housing Revenue Account business plan as detailed within Appendix 10 **(Recommendation 32)**.

## CAPITAL EXPENDITURE

### Capital Strategy 2020-23

119. 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.
120. Appendix 11 sets out a proposed Capital Strategy for the Council.
121. Members are recommended to approve the attached Capital Strategy at Appendix 11. **(Recommendation 33)**

### Capital Programme 2020-23

122. There is a revised Capital Programme covering the period 2020-23 within Appendix 12. 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.
123. A number of schemes within the Programme are included on a 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.
124. The programme is largely based on that agreed in February 2019 but adjusted to reflect:
- a) updated re-profiling estimates from 2019-20 of £36.190 million;
  - b) further proposed re-profiling from 2020-21 to 2021-22 of £55.993 million, to 2022-23 of £16.951 million, and 2023-24 of £11.501 million;
  - c) revised or new funding requirements over the period 2020-23 for projects agreed during the year by members via Cabinet, as well as a number of other newly identified commitments, including:
    - **HRA Re-provision, Re-modelling and New Builds** (£35.981 million): Additional resources to support new affordable housing provision across the county; the re-provision of flats at Lanercost, Cramlington; re-modelling of warden units in sheltered housing accommodations; and the re-provision or re-modelling of council owned maisonettes.
    - **Loans to Third Parties (e.g. Advance Northumberland, Other Organisations)** (£20.264 million): Additional resources to fund the anticipated loan finance support for Advance Northumberland activities.

- **James Calvert Spence** (£16.007 million): New provision to support the delivery of new and refurbished buildings for James Calvert Spence College in Amble.
- **Highway Maintenance Investment in U and C roads and Footways** (£15.000 million): New investment in the Council's unclassified road network and in a flags to flex programme to improve footways. The work will entail one-off additional investment to improve the condition of these roads, and similarly investment in maintenance of footways, which have seen little investment in recent years.
- **Blyth Future High Streets** (£14.000 million): New provision to cover the anticipated funding requirements identified in a bid submitted for Future High Streets funding for Blyth Town Centre. Blyth has been accepted into the programme and a full business case for funding will be submitted by April 2020. The Council is working with Advance Northumberland on the development proposals and the business case.
- **Hexham Town Centre Redevelopment** (£5.000 million): New provision to support major economic development of strategic sites in Hexham town centre. The development is being co-ordinated by Advance Northumberland,
- **Lynemouth Bay Landfill Encapsulation** (£2.500 million): New funding for coastal defence provision to resolve a pollution incident on an area of land owned by the Council. The coast at Lynemouth has been subject to accelerated rates of erosion by the sea. This has exposed waste materials from an unconsented landfill site which are being deposited on the beach and washed into the sea creating ecological and amenity issues.
- **Blyth Sports Centre** (£4.500 million): Additional funding to support the Centre's refurbishment, as reported to Cabinet in March 2019. The project will resolve the centre's essential repair and maintenance issues, allow for the refurbishment and renewal of end of life areas and equipment, and provide the opportunity to transform the centre into a more progressive leisure facility, integrating inclusive services designed to support physical active lifestyle and wellbeing.
- **Hexham New Build Schools** (£3.659 million): Additional resources required to support the construction of new school buildings for Hexham Queen Elizabeth High School and Hexham Middle School, as reported to Cabinet in August 2019.
- **Renewable Energy Programme** (£3.087 million): Additional resources to fund a number of anticipated renewable energy projects, such as photovoltaic panel installations.



- **Desk top refresh** (£3.000 million): New resources to fund the replacement of existing 5 to 6 year old desk top (computer) equipment with new agile devices to meet the requirements of the business.
- **Provision of Leisure Facilities in Morpeth** (£3.000 million): Increased funding to support the construction of a new Leisure Centre and Community Services Hub on the Terrace site in Morpeth, as reported to Cabinet in October 2019 and County Council in November 2019.
- **Hexham High Streets Heritage Action Zone** (£2.198 million): New Council, Central Government and private sector support, as agreed by Cabinet in December 2019, to facilitate a programme of interventions to deliver heritage-led regeneration and strategic investment around Hexham's primary shopping area, with a specific focus on the main east - west axis of Priestpopple, Cattle Market and Battle Hill.
- **Beadnell Coast Protection Scheme** (£1.610 million): Environment Agency funding, along with a Council contribution, for the repair / replacement of two existing coastal defences adjacent to Harbour Road, Beadnell. The project will protect 265 properties against erosion and sea flooding, and maintain the function and access to the harbour, village and Beadnell Bay.
- **Strategic Regeneration Projects** (£1.541 million): Increase in resources provided to respond to regeneration opportunities, particularly in relation to either a potential Borderlands or North of Tyne deal.
- **Schools Refurbishment** (£1.505 million): Anticipated expenditure.
- **Devolved Formula Capital Grant** (£1.500 million): Anticipated continuation of central government grant support for schools Devolved Formula Capital (DFC) programme.
- **Flood and Coastal Erosion Risk Management 2022-24** (£3.920 million): Indicative new Environment Agency funding, and Council match funding, to support the Environment Agency's national Flood and Coastal Defence Medium Term Plan. The plan for the period 2022-23 to 2023-24 currently includes an allocation of significant external Environmental Agency funding to support a variety of flood alleviation schemes across Northumberland. The outcome of these projects will be refined through feasibility and business case development although, at this stage, it is expected that a minimum of 200 properties, both residential and commercial, will be better protected from flood and coastal erosion risk.
- **Union Chain Bridge** (£1.395 million): Additional support agreed by Cabinet in June 2019 to allow a major programme of repairs on the

Union Chain Bridge between Scotland and England - the oldest suspension bridge in the world still carrying traffic.

- **County Hall Solar Car Port** (£1.320 million): New European Regional Development Fund (ERDF) and Council match funding to support the construction of a solar farm above the main car park at County Hall, as approved by Cabinet June 2019. The solar farm will generate electricity to be used by the building and will support electric vehicle charging.
- **Berwick Swan Leisure Centre** (£1.300 million): Additional funding requirement following the completion of the design and procurement exercise. The project will replace the existing ageing and uneconomical Leisure Centre with a new modern and self-sustainable Leisure Centre.
- **Disabled Facilities Grant** (£1.038 million): Anticipated continuation of central government grant support for disabled facilities grant awards.
- **Wise Academy Trust, Haltwhistle** (£1.013 million): Further Council resources, along with a contribution from the Wise Academy Trust, to deliver the scheme to refurbish Haltwhistle Middle School building for the Wise Academy Trust, as approved by Cabinet in September 2019. This will support the development of the primary school following the Secretary of State's decision to close Haltwhistle Middle school and expand the age range of Haltwhistle First School to become a primary school.
- **Members Small Schemes** (£1.005 million): Council support for continuation of the existing programme.

(Note: the above list identifies all budget increases in excess of £1 million over the 3 year period.)

125. All amendments to the programme result in a net increase in Council resource requirements over the period 2020 to 2023 of £65.856 million (£8.766 million for existing projects and £57.090 million for new projects), and a net increase in external grant contributions of £4.693 million. These figures are exclusive of the re-profiling mentioned above, of £36.190 million from 2019-20 and £11.501 million to 2023-24.

126. The Capital Programme includes budgets for some specific projects that will complete in either 2023-24 or 2024-25. Members are requested to note the following commitments:

		2023-24	
	Gross Budget	External Funding	NCC Funding
	£m	£m	£m
Blyth Relief Road	9.476	8.656	0.820
Hexham High Streets Heritage Action Zone	0.236	0.083	0.153
<b>Total</b>	<b>9.712</b>	<b>8.739</b>	<b>0.973</b>

127. Members are recommended to approve the revised Capital Programme as detailed within Appendix 12. **(Recommendation 34)**
128. 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 35)**
129. Within the capital programme there is also an allocation of £7.500 million in each of the next two years for highway maintenance investment in U and C roads and footways. Members are recommended to approve the delegation of the detail of the programme of works to the Executive Director Place and the Cabinet Member for Environment and Local Services. **(Recommendation 36)**

#### **HRA Capital Programme**

130. The business case demonstrates potential capital expenditure over the Medium Term Financial Plan of up to £79.643 million which is included in Appendix 12.

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

131. 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.
132. 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.
133. 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."
134. It is proposed that the Council utilises this flexibility for up to £0.500 million of capital receipts in 2020-21 on qualifying projects. It is proposed that approval of individual projects within these allocations is delegated to the Cabinet. **(Recommendation 37)**

135. 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**

136. As a result of the revisions to the Capital Programme the Prudential Borrowing Indicators have been updated for the next three years. Prudential Indicators for approval are detailed within Appendix 13. **(Recommendation 38)**

#### **Minimum Revenue Provision Policy Statement**

137. The proposed policy is enclosed at Appendix 14. The policy is unchanged from 2019-20.

138. Members are requested to approve the Minimum Revenue Provision Policy. **(Recommendation 39)**

## **TREASURY MANAGEMENT**

139. The proposed Treasury Management Strategy for 2020-21 is attached at Appendix 15. The report will also be considered by the Audit Committee on 22 January 2020. Any subsequent amendments following Audit Committee will be updated for the final report to the County Council in February.
140. Cabinet is requested to endorse the proposed Treasury Management Strategy included at Appendix 15 and recommend its approval to the County Council.  
**(Recommendation 40)**

## **REVENUES AND BENEFITS POLICIES**

141. 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 20 February 2019. The policy documents are attached at Appendix 16. A summary of each policy is provided below. Where the policy has changed, the change is also highlighted below.

### **Caravans/Chalets Council Tax Policy**

142. 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.

143. There are no proposed amendments to this policy.

### **Council Tax Discounts Policy**

144. This policy sets out the treatment of local discretionary discounts, empty property (including empty home premium), second homes for council tax and care leavers.

145. The policy was amended and approved at County Council on 6 November 2019 to introduce increased empty homes premiums (EHP) for empty and substantially unfurnished properties as follows:

- An increase in the current 50% EHP to 100% for property empty and substantially unfurnished for between two and five years, effective from 1 April 2020;
- A 200% EHP for property empty and substantially unfurnished for five years or more, effective from 1 April 2020. This premium will remain for property empty and substantially unfurnished for between five and ten years effective from 1 April 2021; and,
- A 300% EHP for property empty and substantially unfurnished for ten years or more, effective from 1 April 2021.

146. There are no further proposed amendments to this policy.

### **Corporate Debt Recovery Policy**

147. 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. A minor amendment has been made to the wording of this annex but there is no effect on the policy.
- Annex 2 Council Tax and NNDR Court Costs and Fees Policy – provides a uniform scale of costs at each recovery stage. No amendment has been made to this annex.
- Annex 3 Housing Benefit and Council Tax Benefit/Support Overpayment Recovery 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. A minor amendment has been made to the wording of this annex but there is no effect on the policy.
- Annex 5 Write-Off Policy – sets out the framework for writing off debts. Minor amendments have been made to the wording of this annex but there is no effect on the policy.
- Annex 6 Sundry Debt Policy – covering the recovery of all collectable sundry debt. Minor amendments have been made to the wording of this annex but there is no effect on the policy.
- Annex 7 Statutory and Chargeable Debt Policy – sets out the approach to debt arising from the Council carrying out its statutory duties/enforcement functions. No changes have been made to this annex.
- Annex 8 Overpaid Salaries and Wages Policy - sets out the approach to the recovery of salary overpayments. No changes have been made to this annex.
- Annex 9 Bankruptcy and Liquidation Policy - ensures that the Council's use of bankruptcy is consistent and complies with the relevant legislation and best practice. This annex has been amended to allow the Council to expedite insolvency proceedings in the event of a debtor attempting to prevent a debt being recovered.
- Annex 10 Enforcement Agent Code of Practice for Council Tax and National Non Domestic Rates – 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. Minor amendments have been made to

the wording of this annex but there is no effect on the 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. Minor amendments have been made to the wording of this annex but there is no effect on the policy.

### **Discretionary Housing Payments Policy**

148. 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.

149. There are no proposed amendments to this policy.

### **Local Welfare Assistance Policy**

150. This policy sets out the Council's strategy and criteria for the localised welfare support scheme for:

- a. 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,
- b. 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.

151. There are no proposed amendments to this policy.

### **Rate Relief Policy**

152. This policy applies to National Non-Domestic Rates (Business Rates) and provides the framework under which mandatory and discretionary relief will be administered.

153. 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).

154. The policy relates to awards concerning:

- Rural Rate Relief;
- Charities and Not for Profit Organisations;



- Hardship Relief;
- Partly Occupied Relief - Section 44A (relief on the grounds of part occupation);
- Newspaper Relief;
- Supporting Small Business Relief;
- Business Rates Revaluation Relief;
- Retail Discount Scheme; and,
- Local Discretionary Discounts.

155. The policy was amended for 2019-20 to reflect the 75% rates retention from 1 April 2019 resulting from the North of Tyne Business Rates Pool Pilot. With effect from 1 April 2020 this reverts back to the previous 50% rates retention regime and the policy has been amended to reflect that.

156. A minor amendment has been made to Paragraph 21 to ensure that all rural relief cases benefit from the same maximum percentage award.

157. It is likely that the new Government will introduce scheme(s) to assist businesses. Under this policy the Chief Executive has delegated power to implement new schemes in line with the required legislation and timetable. This policy will then be updated at the next annual review.

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

158. 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.

159. The Social Security Administration Act 1992 gives the Council discretion to disregard any amount it chooses in addition to the statutory provision.

160. The policy has been in place since 2009-10 and the Council has taken advantage of this provision and fully disregarded income which 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.

161. There are no proposed amendments to this policy.

### **Counter Fraud Policy**

162. 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.

163. There are no proposed amendments to this policy.

### **Bribery and Corruption Policy**

164. 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.

165. There are no proposed amendments to this policy.

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

166. 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.

167. There are no proposed amendments to this policy.

168. It is recommended that the 2020-21 Revenues and Benefits Policies contained within Appendix 16 are approved. **(Recommendation 41).**

## **PAY POLICY**

169. 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.
170. The statement is reviewed annually and takes into account the guidance on openness issued by the Secretary of State for Communities and Local Government.
171. The statement for the financial year 2020-21 is shown at Appendix 17. Cabinet is asked to recommend approval of the statement by Council (**Recommendation 42**). The statement will be published on the Council's website by the Executive Director of HR & OD.
172. An Equality Impact Statement has also been prepared and is shown at Appendix 18.

## **FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT**

173. The provisional Local Government Finance Settlement 2020-21 was announced on 20 December 2020 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 2020-21 budget if necessary. **(Recommendation 43)**

**BACKGROUND PAPERS:**

20 February 2019: Report to Full Council; Medium Term Financial Plan 2019-22 and Budget 2019-20

8 October 2019: Report to Cabinet; Approval of the Council Tax Support Scheme for 2020-21

12 November 2019: Report to Cabinet; Budget 2020-21 and Medium Term Financial Plan 2020-23

10 December 2019: Report to Cabinet; 2019-20 Estimated Year End Collection Fund Balances – Council Tax and Business Rates

10 December 2019: Report to Cabinet; Approval of the Council Tax Base 2020-21

23 January 2020: Report to Audit Committee; 2020 Treasury Management Strategy Statement for the financial year 2020-21.

## **IMPLICATIONS ARISING OUT OF THE REPORT**

<b>Policy:</b>	This is the third 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 financial implications of the 2020-21 budget and the Medium Term Financial Plan are detailed within this report. Financial year 2021-22 and beyond will continue to be challenging.
<b>Human Resources:</b>	The size of the financial challenge will have an 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 provided an overarching equality review, which identifies the main issues that 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"/>	
<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 Council is implementing as well as developing a number of 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 2020 consultation on the 2020-21 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 an all member Corporate Services and Economic Growth Overview & Scrutiny Committee. This meeting will consider the views of Scrutiny before making final recommendations to the County Council.

**Health & Wellbeing** The Council's budget is founded on the principle of promoting inclusivity.

**Wards:** All wards.

**Report sign off.**

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

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