CORPORATE SERVICES AND ECONOMIC GROWTH OVERVIEW & SCRUTINY COMMITTEE

1 FEBRUARY 2018

MEDIUM TERM FINANCIAL PLAN 2018-22 AND BUDGET 2018-19

Report of Alison Elsdon, Director of Finance

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 present the Medium Term Financial Plan 2018-22 and Budget for 2018-19 to the Committee for scrutiny, before it is presented to the Cabinet who will make formal budget recommendations to the County Council.

Northumberland County Council

CABINET

13 FEBRUARY 2018

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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 2018-22 and Budget for 2018-19, following the Government's Autumn Budget of 22 November 2017 and the publication of the provisional Local Government Finance Settlement on 19 December 2017.

It is important to note that there may need to be some revisions to the figures following receipt of the Government's February 2018 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 2018-19 budget and 2018-22 Medium Term Financial Plan are delegated to the Director of Finance in consultation with the Portfolio Holder for Corporate Services.

Recommendations

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

1. **Approve the Medium Term Financial Plan covering the period 2018-22 detailed within Appendix 1 and the revenue budget for 2018-19; including, the requirement to deliver budget balancing targets equating to £8.2 million in 2018-19 and £65.1 million over the period 2018 to 2022, against last year's spending plans.**
2. **Note the Government's assessment of Core Spending Power for the Council assumes an annual inflationary uplift for Council Tax; that the additional Adult Social Care Council Tax precept is charged annually; and, that the Council grows its Council Tax Base year on year.**
3. **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.**
4. **Note the estimated receipt of Rural Services Delivery grant funding of £1.9 million for 2018-19 and £7.5 million over the period of the Medium Term Financial Plan.**
5. **Note the estimated receipt of the New Homes Bonus of £5.8 million for 2018-19 and the indicative allocation of £24.1 million over the period of the Medium Term Financial Plan.**
6. **Note the total estimated receipt of Improved Better Care Funding of £8.7 million in 2018-19 and £10.6 million in 2019-20.**
7. **Approve a 2.99 per cent increase in Council Tax for 2018-19, 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 2018-22 includes a 1.99 per cent annual increase in Council Tax over the remaining period of the plan, and, that a prudent estimate of annual Tax Base growth has been included.**
8. **Note the use of protected Collection Fund balances of £4.5 million in 2018-19 to support the Medium Term Financial Plan.**
9. **Approve a 2 per cent increase in Council Tax in 2018-19 for use on Adult Social Care services; raising an additional £3.3 million in 2018-19. Note that the Medium Term Financial Plan assumes an increase of 1 per cent in 2019-20 which would raise an addition £1.8 million for use on Adult Social Care services.**
10. **Note the schedule of Service Specific grants of £132.8 million contained within Appendix 2.**

11. **Approve the schedule of recurrent and non-recurrent pressures that have been included within the Medium Term Financial Plan, detailed in Appendices 3 and 4.**

12. **Approve the Inflation Funding Schedule (£4.3 million) detailed in Appendix 5.**

13. **Approve the schedule of Growth and Commitments detailed in Appendix 6.**

14. **Approve the identified 2018-19 and 2019-20 budget balancing measures contained in Appendix 7 of £8.2 million 2018-19, and £11.3 million 2019-20 and note that £65.1 million of spending reductions are required over the period of the Medium Term Financial Plan.**

    In addition note that the reductions required to balance the budget and Medium Term Financial Plan would have been higher, at £16.0 million 2018-19 and £72.9 million over the period of the Medium Term Financial Plan had the recurrent contingency of £7.8 million not been utilised in lieu of additional savings in 2018-19.

15. **Note the 2018-19 budget by service area detailed in Appendix 9.**

16. **Note the Summary of the Reserves and Provisions contained within Appendix 10.**

17. **Approve the use of £3.2 million of the Strategic Management Reserve in 2018-19 to support the budget. Also, note the proposed use of £8.1 million over the period of the Medium Term Financial Plan.**

18. **Note the overall reduction in the ring-fenced Dedicated Schools Grant of £10.1 million in 2018-19. This is a result of six schools converting to academies during 2017-18.**

19. **Agree the Housing Revenue Account 2018-19 budget as detailed within Appendix 11, which will reduce the estimated balance on the HRA reserve from £23.6 million at 31 March 2017, to £11.1 million at 31 March 2023. This will fund an investment reserve over the same period which will allow £17.0 million of new investment in council housing.**

20. **Note that 2018-19 is the third year of a four year compulsory 1 per cent reduction for Council tenant rents and that the budget detailed in Appendix 11 assumes that rents will rise by CPI plus 1 per cent from April 2020 in line with the recently announced Government guidance.**

21. Note the indicative 30 year Housing Revenue Account business plan as detailed within Appendix 11. A further report will be presented to Cabinet, (it is anticipated in April 2018), setting out proposals for a Housing Investment Programme covering the period to 2022-23 to utilise the investment reserve totalling £17.0 million over this period.

22. Note the debt cap of £109.5 million and the additional amount that could be borrowed to support capital investment is £4.3 million.

23. Agree to refinance a maturing Housing Revenue Account loan of £10.0 million during 2018-19.

24. Approve the Capital Strategy 2018-19 to 2020-21 contained within Appendix 12.

25. Approve the revised Capital Programme as detailed within Appendix 13.

26. Approve the delegation of the detail of the final Local Transport Programme and any subsequent in year amendments to the Service Director – Local Services and the Cabinet Member for Environment and Local Services.

27. Agree delegation to Cabinet to approve individual projects which propose to utilise the flexibilities of capital receipts.

28. Approve the Prudential Indicators based on the proposed Capital Programme detailed within Appendix 14.

29. Approve the Minimum Revenue Provision Policy detailed in Appendix 15.

30. Approve the proposed Treasury Management Strategy detailed in Appendix 16.

31. Approve the Revenues and Benefits Service Policies contained within Appendix 17 and note the proposed changes to the Rates Relief Policy, Corporate Debt Recovery Policy and the Council Tax Discount Policy.

32. Approve the Pay Policy Statement for 2018-19 at Appendix 18.

33. Approve a delegation to amend the budget 2018-19 and Medium Term Financial Plan in light of any changes as a result of the final Local Government Finance Settlement to the Director of Finance in consultation with the Portfolio Holder for Corporate Services.

Key Issues

1. In February 2017, the Council approved the Medium Term Financial Plan covering the period 2017-20 and budget for 2017-18.

2. This report replaces the 2017-20 Medium Term Financial Plan with a new plan covering the period 2018-22 and budget for 2018-19, following the announcement of the Autumn Budget in November 2017 and the provisional Local Government Finance Settlement on 19 December 2017. The final settlement is not due until February 2018, 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 2018-19 budget and 2018-22 Medium Term Financial Plan are delegated to the Director of Finance in consultation with the Portfolio Holder for Corporate Services.

3. The report sets out the first and second year budget balancing proposals for the 2018 to 2022 Medium Term Financial Plan (i.e. 2018-19 and 2019-20), including the requirement to deliver efficiencies equating to £8.2 million in 2018-19, £21.1 million in 2019-20 and £65.1 million over the period 2018 to 2022 based on last year's budget.

4. The report also 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 has published the consultation paper "Fair funding review: a review of relative needs and resources", a technical consultation on relative need which runs until 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 per cent. The outcome of these reviews will 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.

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MEDIUM TERM FINANCIAL PLAN 2018 - 2022 AND BUDGET 2018-19

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 would provide a four year funding commitment covering the Revenue Support Grant, Rural Services Delivery Grant and Transitional Grant. This would provide greater financial stability for the County Council over the period. In theory this commitment is fixed, however, there is no guarantee that other changes will not occur outside of this offer. The four year offer does at least provide some level of certainty over future funding levels for the Council. 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. Figures are contained within the Medium Term Financial Plan detailed in Appendix 1. Ninety seven per cent of Local Authorities accepted the Government's four year settlement offer. The four year offer expires after 2019-20.

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 runs until 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 look at areas 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 per cent. The reset will see NNDR Baselines adjusted to better 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. In the absence of the outcome of these reviews it is 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's retained Business Rates and Top-Up grant will continue, and that there will be no further reductions in the Core Grant funding. The position will be monitored closely and the Medium Term Financial Plan will be updated accordingly once more information is available.

Provisional Local Government Financial Settlement

5. The 2018-19 provisional Local Government Finance settlement was announced by Government on 19 December 2017. The settlement covers the financial period to 2019-20. Beyond this, the report identifies that the Government intend 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 2018.

6. To give some degree of clarity and facilitate financial planning, the Government provided the Council with a four year funding offer which in theory is fixed up to and including 2019-20. To facilitate this offer the Council has produced and published on its web-site an efficiency plan. It is also worth reiterating that although a four year offer is on the table these figures are subject to change to take into account changes in the business rates multiplier, changes to functions and unforeseen events. The figures are included within the Medium Term Financial Plan, Appendix 1. **(Recommendation 1)**

Core Spending Power

7. The settlement includes a measure called "Core Spending Power". The Core Spending Power of a Local Authority includes the Settlement Funding Assessment, Improved Better Care Fund, New Homes Bonus, Rural Services Delivery Grant and a Section 31 Compensation Grant for changes in the business rate multiplier from RPI to CPI. It also includes the Government's projection of the Council Tax Requirement over the period up to 2019-20, including an assessment of what can be raised from the additional Adult Social Care precept. This measure provides an assessment of the resources available for the whole sector and individual authorities. Each of the elements of Core Spending Power is considered within this report.

8. The December 2017 Core Spending Power figures which were announced as part of the Provisional Local Government Finance settlement 2018, indicate that the Government has made two assumptions in making its projection for the total revenue raised through Council Tax Revenue:

- An allowance for an inflationary increase in Council Tax for the period. The figure used was 3.0 per cent; and,
- An assumption of growth in the tax base; applying the average annual growth in the council tax base between 2013-14 and 2017-18. The figure used was 1.8 per cent.

9. The Core Spending Power excludes those grants that are outside the direct control of Local Authorities such as the Better Care Fund and the Public Health Grant. The table below highlights Northumberland's Core Spending Power assessment in relation to the national position and the average of the seven North East Local Authorities position (Prior to adjusting for Business Rates Pools).

Core Spending Power Comparison

	Core Spending Power			**Change in Spending Power**	
Local Authority	**2017-18**	**2018-19**	**2019-20**	**2018-19**	**By 2019-20**
	£000	**£000**	**£000**	**%**	**%**
All England				1.6	3.2
Average of the 7 North East Councils *	230.2	233.7	236.2	1.5	2.6
NCC	267.0	272.1	274.9	1.9	3.0

* 7 North East Councils (Northumberland, Durham, Newcastle, Gateshead, North Tyneside, South Tyneside, Sunderland)

10. The table demonstrates that the Government's assessment of Northumberland's Core Spending Power exceeds the average of the seven North East Councils by 2019-20.

Settlement Funding Assessment and Revenue Support Grant

11. The Settlement Funding Assessment is a combination of resources received from Revenue Support Grant and Baseline Funding (including Top up Grant). The Revenue Support Grant is the main non ring-fenced grant received from Government to fund General Fund services.

12. 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 to a greater extent.

Revenue Support Grant

13. The Revenue Support Grant to be received in 2018-19 is £19.0 million; and, by 2019-20 the grant allocation will be £10.3 million. For financial planning purposes, at this stage it is assumed that there will be no further Revenue Support Grant reductions from 2020-21 following the outcome of the Fair Funding review and implementation of the new system for Business Rate retention.

Baseline Funding

14. The Government significantly altered the grant funding arrangements for councils by introducing the Business Rates Retention Scheme in 2013-14. Under this scheme councils now retain a proportion of the Business Rates collected and are classified as either tariff or Top-Up authorities.

15. The Council retains 50 per cent of the Business Rates it collects and is classified as a Top-Up authority. This means that the Council receives a Top-Up grant over and above the 50 per cent of Business Rates retained locally which will increase the overall funding the Council is expected to receive from Business Rates to the assessed baseline level shown in the settlement funding assessment above.

16. As previously stated in this report the Government is currently reviewing the distribution of business rates income to local authorities. Consultation has taken place with councils across the country and a Government lead group is considering the matter.

17. 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%. The reset will see NNDR Baselines adjusted to reflect how much local authorities are actually collecting in business rates (the current ones are based on the amount collected in 2010-11 and 2011-12).

18. As previously stated in this report there is also a "Fair funding review: a review of relative needs and resources" being undertaken. The outcome of this review will identify the Government's assessed financial need for all councils and then subsequently the Business Rates allocated to each authority. The Secretary of State has said that the result of the "Fair funding review: a review of relative needs and resources" will be introduced in 2020-21. For the purpose of the Medium Term Financial Plan it is assumed that Northumberland's retained Business Rates and Top-Up grant will continue beyond this period to the end of this Medium Term Financial Plan, and the figures have been uplifted annually for inflation and growth. The position will be monitored closely and the Medium Term Financial Plan will be updated accordingly once more information is available.

19. The Council's Top-Up payment is fixed until the Business Rates system is reset in 2020-21 and only uplifted annually for inflation. However, any variation in the actual level of Business Rates collected will result in a variation from the assessed baseline funding level and a shortfall or excess in Business Rates funding.

20. There is a significant risk that Business Rates income could reduce. This was highlighted through a national pending appeal for rate relief on NHS Foundation Trusts where it is estimated that the Council's net Business Rates income could reduce by approximately £5.2 million. This could increase further if the scope of the relief is extended to all NHS properties. This reduction has not yet been factored into the Medium Term Financial Plan. In addition, it should be noted that there are risks to Northumberland's business rates system as a result of factors such as the success of appeals. This makes financial planning and forecasting difficult. It is forecast that the Council's provision for Business Rate appeals will be £9.5 million by 31 March 2018 (£8.5 million at 31 March 2017).

21. The following table shows the Council's estimated value of locally retained Business Rates and Top-Up grant payment included in the 2018-22 Medium Term Financial Plan. In additional the Council plans to use £1.1 million of the protected Business Rates Collection Fund balance to support the 2018-19 budget shown in Appendix 1:

	Estimated Retained Business Rates £m	**Top-Up Grant Funding £m**	**Total £m**
2018-19	46.4	26.5	72.9
2019-20	47.4	27.1	74.5

	Estimated Retained Business Rates £m	Top-Up Grant Funding £m	Total £m
2020-21	48.8	27.7	76.5
2021-22	49.9	28.2	78.1

22. 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.

23. In line with Government guidance prior to the November 2017 budget announcement RPI was used to apply an inflationary increase to business rates up until 2019-20, then CPI thereafter. The CPI rate of inflation is lower than RPI. With this in mind the Government will reimburse Local authorities for the reduction in income through a Section 31 grant. This will mean that the financial position for the Council remains unchanged. The Medium Term Financial Plan contains CPI inflationary increases on Business Rates of: 3.0 per cent (2018-19), 2.2 per cent (2019-20), 2.0 per cent (2020-21) and 2.0 per cent (2021-22). The reimbursement CPI Section 31 grant is also included within the Medium Term Financial Plan.

24. Known business rates growth and reductions have also been forecast for 2018-19 and 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.

25. 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.

26. 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 per cent of any new Business Rates within the area; and in the case of renewable energy the Council can retain 100 per cent of Business Rates.

Rural Services Delivery Grant

27. This grant is to assist authorities who deliver services in sparsely populated areas. This grant currently forms part of the Government's four year funding offer. Previously in line with national allocations Northumberland's

share was forecast to reduce by approximately £0.5 million, to £1.4 million in 2018-19. However, the provisional Local Government Finance Settlement announced that this grant would be maintained at its 2017-18 level. The Council will therefore receive £1.9 million in 2018-19 and 2019-20. For financial planning purposes, at this stage, it is assumed that there will be no further reduction to this grant beyond 2019-20 following the outcome of the Fair Funding review and implementation of the new Business Rate retention scheme. The Council is forecast to receive £7.5 million over the period of the Medium Term Financial Plan.

New Homes Bonus

28. 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.

29. 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 per cent for 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.

30. The provisional Local Government Finance Settlement of 19 December 2017 made no changes to the scheme above and confirmed that payments would not be withheld for areas without a local plan. Nationally, by 2018-19 payments of New Home Bonus will be approximately £946.0 million.

31. New Homes Bonus allocations for 2018-19 included within the Medium Term Financial Plan at Appendix 1 takes into account the outcome of the "New Homes Bonus: Sharpening the Incentives" review and the December 2017 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.

32. The Council expects to receive New Homes Bonus grant funding of approximately £5.8 million for 2018-19, £6.2 million for 2019-20 and £6.1 million for 2020-21 and 2021-22. The funding supports the overall General Fund budget of the Council.

Improved Better Care Grant Funding

33. 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.

34. The Council will receive improved Better Care Fund money in both 2018-19 and 2019-20 of £4.3 million and £8.5 million respectively. The additional funding has been utilised as a corporate grant in line with previous assumptions within the 2017-20 Medium Term Financial Plan. There is no guarantee that this funding will continue. It is therefore assumed within the Medium Term Financial Plan that it will not continue beyond 2019-20.

35. Furthermore, the Government's Spring 2017 budget announced additional Improved Better Care Funding. This resulted in an increase of £4.4 million in 2018-19 (£8.7 million in total) reducing to £2.1 million in 2019-20 (£10.6 million in total). Currently there has been no announcement by the Government that this additional funding will continue beyond 2019-20. Therefore, it is assumed within the Medium Term Financial Plan that this funding will cease. The additional 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.

Council Tax

36. The budget proposals for 2018-19 contained within this report are based on the assumption that the Council will agree to increase the Council Tax by 2.99 per cent. In addition an assessment of potential housing development across the County has been undertaken and a prudent 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 per cent inflationary increase provide additional funding of approximately £6.8 million per annum and helps 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 7)**

37. The December 2017 provisional Local Government Finance Settlement amended the referendum limit for general Council tax increases to 3 per cent for both 2018-19 and 2019-20. The 2019-20 limit is subject to final confirmation from Government, but for the purposes of this report the increase used in 2019-20 is 2 per cent. The additional 1 per cent added to the 2018-19 limit added approximately £1.5 million of Council tax income. 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 per cent. A decision on the introduction of referendum limits for Town and Parish Councils has been deferred for 3 years.

38. The provision for non-collection of Council Tax was maintained at 1.2 per cent for 2018-19 following a review of actual collection rates. It is forecast that the Council's share of the Collection Fund will generate a surplus of approximately £3.5 million by 31 March 2018. 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 £3.5 million has been utilised to support the 2018-19 budget.

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 up to an additional 2 per cent 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 per cent increase for the Adult Social Care precept. An increase of up to 3 per cent in 2017-18 and up to 3 per cent in 2018-19 could be set, with no more than a 6 per cent increase over the three year period 2017-20. The December 2017 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, therefore, within the Medium Term Financial Plan it has been assumed that it will cease beyond 2019-20. Officers will continue to monitor this position and should the position change the Medium Term Financial Plan will be updated.

41. On 22 February 2017 the County Council approved a 3 per cent increase for the Adult Social Care Precept for 2017-18. It is proposed to increase Council Tax by 2 per cent in 2018-19 and 1 per cent in 2019-20. It is

estimated, that this would generate approximately £3.3 million additional funding in 2018-19 and £1.8 million in 2019-20 for Adult Social Care purposes.

42. The Council's Medium Term Financial Plan included at Appendix 1 assumes that a 2 per cent increase is applied in 2018-19 and 1 per cent in 2019-20. In 2018-19 this would result in a Band D property increase of £31.16 and £16.34 in 2019-20. It is proposed that Council Tax is increased for the Adult Social Care precept by 2 per cent in 2018-19. **(Recommendation 9)**.

Service Specific Grants

43. 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, totalling £132.8 million.

Demand for Services

44. 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 which has been increasingly apparent for some years. This adds significantly to the budgetary pressures faced by the Council. The Council has set aside recurrent and non-recurrent funding within the Medium Term Financial Plan to address a number of significant pressures, these are detailed within Appendices 3 and 4 respectively. Recurrently, £14.7 million has been added to the base budget in 2018-19 and £24.1 million over the period 2018-22. In addition non-recurrent funding of £0.2 million has been added in 2018-19 and £1.6 million in 2019-20. It is proposed that this funding is approved **(Recommendation 11).**

45. The Government's offer to add up to 6 per cent 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 has been no announcement that this precept will continue beyond 2019-20. Therefore, the Medium Term Financial Plan assumes it will cease after 2019-20.

EXPENDITURE

Inflation

46. Inflation is detailed within Appendix 5 and includes the costs associated with incremental drift, non-pay inflation, and the proposed pay award. The pay award is based on the offer of 2 per cent for 2018-19. For the purposes of the Medium Term Financial Plan it is assumed that the 2 per cent award will be maintained across each year. Total inflation equates to £4.3 million for 2018-19 and £19.6 million over the period of the Medium Term Financial Plan. **(Recommendation 12)**

Growth and Commitments

47. The budget 2018-19 and Medium Term Financial Plan 2018-22 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 2018-19 there is a reduction of £9.9 million and a net cost of £19.6 million by 2021-22. It is proposed that these budget changes are approved. **(Recommendation 13)**

Budget Balancing

48. The Council's Medium Term Financial Plan 2018-22, 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 £8.2 million in 2018-19 and £65.1 million over the period of the Medium Term Financial Plan. In order to minimise the value of recurrent measures required to balance the budget, the recurrent contingency has been utilised in lieu of savings, this is reflected in the growth and commitments schedule at Appendix 6. In 2018-19 contingent budget of £7.8 million has been utilised. Prior to utilising the contingency the value of budget balancing measures required was £16.0 million in 2018-19 and £72.9 million over the period of the Medium Term Financial Plan when compared to last year's figures. Appendix 7 contains detailed proposals to meet the 2018-19 and part of the 2019-20 target. It is recommended that the identified 2018-19 and 2019-20 spending reductions of £8.2 million and £11.3 million respectively which are detailed in Appendix 7 are approved. **(Recommendation 14)**

49. 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 will

continue up to the County Council and beyond as individual budget reduction measures are implemented.

50. 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, initially the relevant 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.

51. A number of the proposals will require active management and each Executive Director/Director of Service will be responsible for their successful delivery.

52. If a proposal cannot be implemented either partially or in full the relevant Executive Director/Director will be expected to find alternative compensating savings which they will agree with their relevant Cabinet Member. These proposals would then be formally considered by Cabinet.

Budget by Service Area

53. The 2018-19 budget is shown by service area at Appendix 9. This highlights expenditure, income, inflation, grant funding changes, pressures, growth, savings and the final budget 2018-19 by service area.

Summary

54. The financial position of the Council over the period 2018-22 is detailed within Appendix 1.

55. It is recommended that Members approve Appendices 1, 3, 4, 5, 6 and 7.

RESERVES AND PROVISIONS

56. 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

57. 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.

58. 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, which resulted in £1.2 million being transferred from other reserves and provisions into the Strategic Management Reserve.

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.

59. Within 2018-19 £3.2 million of the Strategic Management reserve is proposed to be utilised to support the budget; and, £8.1 million over the period of the Medium Term Financial Plan. Council is requested to approve the use of this reserve. **(Recommendation 17)**

60. The schedule of reserves contained within Appendix 10 demonstrates that the financial standing of the Council is sustainable for at least the next four

years and therefore the Council is able to withstand a significant revenue shock.

61. 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.

62. Section 25 requires the Chief Financial Officer (also referred to as 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.

63. The Director of Finance (the Council's Interim 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

64. 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. Appendix 10 details the outcome of the review.

SCHOOL FUNDING

65. 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 is forecast to decrease by £10.1 million from the 2017-18 allocation to £151.6 million. This is as a result of six schools converting to academies during 2017-18.

66. The value of the Dedicated Schools Grant received for all schools in Northumberland (including Academies) for 2018-19 is £228.8 million.

67. The Dedicated Schools Grant is divided into four notional blocks:

- Schools Block
- Central School Services Block
- High Needs Block
- Early Years Block

68. Virement between the 4 notional blocks is possible by the local authority.

69. 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.

70. 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.

71. The Early Years Block includes funding for 2 year old provision for the 40 per cent most disadvantaged pupils as well as the statutory offer for 3 and 4 year olds.

72. The National Funding Formula is planned for implementation in 2020-21. For 2018-19 and 2019-20 there will be a phased transition from the current local formula as approved by Cabinet.

73. The Dedicated Schools Grant is currently predicted to overspend by £2.2 million in the financial year 2017-18 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 per cent of funding from the Schools Block to the High Needs Block for 2018-19 only, as previously agreed by the Schools Forum.

HOUSING REVENUE ACCOUNT

74. 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.

75. 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 2047).

76. The overall balance in the HRA reserve has grown since Homes for Northumberland joined the Council in 2015. The balance in the reserve was £23.6 million at 31 March 2017 and is forecast to increase to £26.1 million at 31 March 2018.

77. The HRA MTFP and 30 year Business Plan have now been updated and show that over the next 5 years a £17.0 million investment reserve could be made available to fund a development plan, whilst retaining a level of reserves at £11.1 million to meet potential pressures on the budget beyond 7 years.

78. Within the current HRA, unless part of the current debt was repaid utilising existing balances when existing loans matured, the total additional amount that can be borrowed to increase borrowing to the debt cap of £109.5 million to support capital investment is £4.3 million. 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, other than smaller loans maturing within the next 7 years be repaid.

    The HRA MTFP assumes that maturing loans of £25.0 million within the next 3 years will be refinanced to benefit from lower interest rates. There is one loan of £10.0 million which will mature in 2018-19 and two loans totalling £15.2 million which will mature in 2019-20.

79. The Government announced in the budget on 22 November 2017 that it will lift the HRA borrowing caps for councils in areas of high affordability pressure, so they can build more council homes. Local Authorities will be invited to bid for increases in their caps from 2019-20. Details of whether or not Northumberland will qualify to bid are awaited.

Welfare Reform and current policy

80. 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 per cent a year for 4 years from a frozen 2015 to 2016 baseline and to comply with maximum rent requirements for new tenancies. 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.

81. 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 to cancel all outstanding council house development schemes.

82. The Government announced on 4 October 2017 that social housing rents may rise by the Consumer Price Index (currently 3 per cent) plus 1 per cent from 2020 to 2025, thereby providing some assurance in the short term regarding funding of the HRA.

83. Government has also recently announced plans for a new generation of council and housing association homes, with funding for affordable homes to be increased by a further £2.0 billion to more than £9.0 billion nationally. The Council is awaiting further details of how it can access this funding.

84. There are however other matters which have been subject to recent consultation under the Housing and Planning Act 2016, which may impact upon the HRA. An example included a levy to cover the cost of higher value council owned homes; the proceeds being used to fund right to buy within housing associations, but no formal announcement has been made post the consultation exercise in 2016 confirming whether this proposal is to be progressed or otherwise. No provision has been made within the HRA for the levy, however, this is a risk to the ongoing HRA Medium Term Financial Plan and will be subject to review when further information is available.

Existing Housing and Housing Growth

85. Aligned with the proposed Devolution deal, is the desire to develop and seek approval of a Housing Growth ''ask'', which will seek to accelerate delivery of housing of all tenure by working with a range of partners and the community and potentially through direct delivery funded through HRA, with special emphasis on the need to support rural housing.

86. Through the HRA MTFP the opportunity exists to utilise a £17.0 million investment reserve to fund a Housing investment programme, which could include; building new homes, remodelling and/or demolition and re-providing housing for which there is no or very little demand, the current effect of which is reduced rent income and increased council tax charges whilst the properties remain empty.

87. In developing a Housing Investment Programme, the Council would seek to explore all opportunities arising out of any future Housing Growth deal, including working with partners and accessing external sources of funding.

Summary

88. The proposed 2018-19 Housing Revenue Account budget and Medium Term Financial Plan 2017-23 is attached at Appendix 11. An indicative 30 year business plan, showing the projected position at five yearly intervals, is also included for information.

89. Members are requested to:

- agree the 2018-19 Housing Revenue Account budget **(Recommendation 19)**; and,
- note the rent decrease required under the Government's four year compulsory rent reduction policy and that the business plan assumes that rents will rise by CPI plus 1 per cent from April 2020 in line with recently announced Government guidance **(Recommendation 20)**; and,
- note the indicative 30 year Housing Revenue Account business plan and that a further report will be presented to Cabinet setting out proposals for a Housing Investment Programme to utilise the investment reserve totalling £17.0 million **(Recommendation 21)**; and,
- note the current debt cap of £109.5 million and that up to £4.3 million could be borrowed to support capital investment **(Recommendation 22)**; and,
- Agree to refinance a maturing loan of £10.0 million during 2018-19. **(Recommendation 23)**

CAPITAL EXPENDITURE

Capital Strategy 2018-21

90. CIPFA and the DCLG are currently consulting on a proposal that would require authorities to produce a 'Capital Strategy' as part of the budget setting process. This should "…set out the long term context in which capital expenditure and investment decisions are made".

91. Currently the proposals have not been finalised or published but, depending on the outcome of the consultation, the requirement may be introduced from 2018-19. However, given the limited notice, there is a suggestion CIPFA do not expect these to be fully worked-up or embedded until 2019-20. In the absence of the outcome of the consultation a Capital Strategy document represents good practice.

92. Appendix 12 sets out a proposed Capital Strategy for the Council. It should be noted that the intention is to continue to develop the strategy over the next year.

93. Members are recommended to approve the attached Capital Strategy at Appendix 12. **(Recommendation 24)**

Capital Programme 2018-21

94. There is a revised Capital Programme covering the period 2018-21 within Appendix 13. The inclusion 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.

95. A number of schemes have been included in the Programme on an "Invest to Save" basis which means that the revenue savings arising from the proposal are expected to cover the full costs of capital; i.e. Minimum Revenue Provision and associated interest costs.

96. The programme is largely based on that agreed in February 2017 but adjusted to reflect:

    a) updated re-profiling estimates from 2017-18 of £80.1 million;

    b) further proposed re-profiling/transfers from 2018-19 to 2019-20 of £44.8 million and to 2020-21 of £88.8 million;

    c) additional grant award allocations from external bodies, including Department of Transport and Department for Education;

    d) removal of a number of projects proposed by the previous administration - totalling £590.6 million capital (including £195.3 million removed from 2017-18 programme and estimated £72.7 million revenue budget debt servicing costs for the four year period from 2017-18 to 2020-21 – note that these figures include loan facilities to Arch / third parties of £376 million, with a gross revenue cost of £47.5 million over the same four year period);

e) revised or new funding requirements over the period 2018-21 for projects agreed during the year by members via Cabinet, as well as a number of other newly identified commitments including:

- Leisure Services facilities improvements (£9.0 million);
- IT Desk Top refresh / County Hall IT Infrastructure (£2.4 million);
- County Hall Refurbishment (£17.0 million);
- Salt Barns (£3.2 million);
- Street lighting replacement programme additional budget requirement of £4.5 million over and above the original budget of £23.4 million and the additional budget approved in 2017-18 of £4.0 million;
- Schools reorganisations (£30.0 million);
- Special Needs schools (£17.0 million);
- Loans fund to support start-up businesses (£21.0 million), and;
- Children's Homes (£1.2 million).

97. Members are recommended to approve the revised Capital Programme as detailed within Appendix 13 as a basis for consultation. **(Recommendation 25)**

98. 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 Service Director – Local Services and the Cabinet Member for Environment and Local Services. **(Recommendation 26)**

HRA Capital Programme

99. The business case demonstrates potential capital expenditure over the Medium Term Financial Plan of up to £30.9 million which is included in Appendix 13.

Flexible Use of Capital Receipts

100. 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 has announced that councils are to have greater flexibility regarding how they spend this money for the years 2016-17 to 2018-19. The provisional Local Government Finance Settlement indicates that this will continue for a further three years.

101. 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.

102. 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.”

103. It is proposed that the Council utilises this flexibility for up to £0.5 million of capital receipts in 2018-19 on qualifying projects. It is proposed that approval of individual projects within these allocations is delegated to the Cabinet. **(Recommendation 27)**

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

Prudential Borrowing Indicators

105. 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 28)**

Minimum Revenue Provision Policy Statement

106. The proposed policy enclosed at Appendix 15 has been updated to reflect changes in the capital programme highlighted above. The policy has been amended to provide for MRP on those long term capital debtors where principal is repaid on maturity and the loan term is greater than 5 years (such as the loans to Arch). It is also proposed that this amendment be retrospectively applied to the 2017-18 MRP calculation.

107. Members are requested to endorse the Minimum Revenue Provision Policy, including a retrospective adjustment to the 2017-18 calculation for

MRP on long term capital debtors, and recommend its approval to the County Council. **(Recommendation 29)**

TREASURY MANAGEMENT

108. The proposed Treasury Management Strategy for 2018-19 is attached at Appendix 16. The report will also be considered by the Audit Committee on 24 January 2018. Any subsequent amendments following Audit Committee will be updated for the final report to the County Council in February.

109. Cabinet is requested to endorse the proposed Treasury Management Strategy included at Appendix 16 and recommend its approval to the County Council. **(Recommendation 30)**

REVENUES AND BENEFITS POLICIES

110. There are a number of policies that the Revenues and Benefits Service uses in its day to day administration. The policy documents are attached at Appendix 17. A summary of each policy is provided below. As a result of changes to legislation in relation to council tax support and also the technical reforms that have been made to council tax a number of the policies have been amended. Where the policy has changed, the change is also highlighted below.

Caravans and Chalets Policy

111. 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.

112. There are no proposed amendments to this policy.

Council Tax Discount Policy

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

    - The discretionary discount for all second homes is removed completely;
    - The discount for all Class C and Class D vacant properties is set to nil (this refers to properties that would previously have fallen into the exemption Class A and Class C);
    - An Empty Homes premium equivalent to 150 per cent of relevant council tax liability is charged in respect of empty and substantially unfurnished property;
    - Income from War Widows (Widowers)/War Disablement Scheme and Armed Forces Compensation Scheme in excess of the mandatory £10.00 will be disregarded from the assessment of income in line with Section 13A (1)(c).

114. The policy has been amended so that the discount for vacant properties undergoing major works/structural alterations to improve the property under Class D will receive a 100% discount up to a maximum period of 12 months. This amendment will take effect from 1 April 2018. All other discounts will remain unchanged.

Corporate Debt Policy

115. 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;
Annex 2	Council Tax and NNDR Court Costs and Fees Policy provides a uniform scale of costs at each recovery stage;
Annex 3	Housing and Council Tax Benefit/Support Overpayments Policy – sets out the policy for the administration and recovery of overpayments;
Annex 4	Methods of Payment Policy – sets out the range of payment methods available to customers;
Annex 5	Write Off Policy – sets out the framework for writing off debts;
Annex 6	Sundry Debt Policy – covering the recovery all collectable sundry debt;
Annex 7	Statutory and Chargeable Debt Policy – sets out the approach to debt arising from the Council carrying out its statutory duties/enforcement functions;
Annex 8	Overpaid Salaries and Wages Policy - sets out the approach to the recovery of salary overpayments;
Annex 9	Bankruptcy Policy - ensures that the Council's use of bankruptcy is consistent and complies with the relevant legislation and best practice;
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.

116. The policy has had some minor amendments made which do not change the policy intentions or the appendices.

117. In addition Annex 11 below has been added to include rent collected due to the former Homes for Northumberland function being brought back into the Council;

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.

Discretionary Housing Payment Policy

118. 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.

119. There are no proposed amendments to this policy.

Local Welfare Assistance Policy

120. 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.

121. There are no proposed amendments to this policy.

Rate Relief Policy

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

123. 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).

124. The policy relates to awards concerning:

- Rural Rate Relief;
- Charities and Not for Profit Organisations (mandatory and discretionary relief);
- Hardship Relief;
- Section 44A (relief on the grounds of part occupation);
- New Build Empty Property Relief;

- Reoccupation Relief.

125. The policy has been amended to include additional reliefs announced by the Government in the Autumn Budget 2016 and Spring Budget 2017 (to assist with the 2017 revaluation) as follows:
    - Increase in mandatory Rural Rate Relief to 100% from 1 April 2017;
    - Newspaper Relief;
    - Supporting Small Business Relief;
    - Relief for Pubs;
    - Business Rates Revaluation Relief Scheme (agreed at County Council on 1 November 2017).

126. The policy has also been amended to reverse the amendment made for 2017-18 which removed the 20 per cent discretionary relief top up to Leisure Centres operated by Charitable Trusts.

War Pensions Disregard Policy

127. 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.

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

129. 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.

130. There are no proposed amendments to this policy.

Counter Fraud Policy

131. 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.

132. There are no proposed amendments to this policy.

Bribery and Corruption Policy

133. 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.

134. There are no proposed amendments to this policy.

Anti-Money Laundering Policy

135. 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.

136. There are no proposed amendments to this policy.

137. It is recommended that the 2018-19 Revenues and Benefits Policies contained within Appendix 17 are approved. **(Recommendation 31)**.

PAY POLICY

138. 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.

139. The statement is reviewed annually and takes into account the guidance on openness issued by the Secretary of State for Communities and Local Government.

140. The statement for the financial year 2018-19 is shown at Appendix 18. Cabinet is asked to recommend approval of the statement by Council **(Recommendation 32)**. The statement will then be published on the Council's website.

141. An Equality Impact Statement has also been prepared and is shown at Appendix 19.

142. 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.

143. 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.

144. 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.

145. 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.

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

FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT

147. The provisional Local Government Finance Settlement 2018-19 was announced on 19 December 2017 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 Director of Finance in consultation with the Portfolio Holder for Corporate Services to amend the 2018-19 budget and 2018-22 Medium Term Financial Plan if necessary. **(Recommendation 33).**

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.

24 January 2018; Report to Audit Committee; 2017 Treasury Management Strategy Statement for the Financial year 2018-19.

23 November 2017; Report to Corporate Services and Economic Growth Overview and Scrutiny Committee; Approval of the Council Tax Base – 2018-19

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	This is the first year of the Medium Term Financial Plan 2018-22. The plan supports the Corporate Plan.
Finance and value for money:	The Council remains under significant financial pressure. The financial implications of the 2018-19 budget and the Medium Term Financial Plan are detailed within this report. 2019-20 and beyond will continue to be challenging.
Human Resources:	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.
Property:	A significant proportion of the capital programme refers to property and assets. The estates rationalisation plan has now been implemented and is on-going.
Equalities: (Impact Assessment attached) Yes ☐ No ☐ N/A ☐	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. The Council Tax Support Scheme remains unchanged and has previously been subject to an Equality Impact Assessment.
Risk Assessment:	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 2018 consultation on the 2018-19 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.

List of Appendices

Appendix 1	Revenue Medium Term Financial Plan 2018-22
Appendix 2	Service Specific Grants 2018-19
Appendix 3	Recurrent Pressures Schedule 2018-22
Appendix 4	Non- Recurrent Pressures Schedule 2018-19
Appendix 5	Inflation Schedule 2018-19
Appendix 6	Schedule of Growth and Commitments 2018-22
Appendix 7	Schedule of Efficiencies 2018-19 and 2019-20
Appendix 8	Corporate Equality Impact Assessment
Appendix 9	Budget by Service area 2018-19
Appendix 10	Schedule of Reserves, Balances and Provisions
Appendix 11	Housing Revenue Account
Appendix 12	Capital Strategy 2018-19 to 2020-21
Appendix 13	Capital Programme 2018-19 to 2020-21
Appendix 14	Capital Prudential Indicators 2018-19 to 2020-21
Appendix 15	Annual Minimum Revenue Provision Policy Statement
Appendix 16	Treasury Management Strategy Statement 2018-19
Appendix 17	Revenues and Benefits Policies
Appendix 18	Pay Policy Statement April 2018 to March 2019
Appendix 19	Pay Policy Statement Equality Impact Assessment 2018-19

Report sign off.

	Name
Finance Officer	Alison Elsdon
Monitoring Officer/Legal	Liam Henry
Human Resources	Kelly Angus
Procurement	Not applicable
I.T.	Not applicable
Chief Executive	Daljit Lally
Portfolio Holder(s)	Nick Oliver