

Overview and Scrutiny Management Board

18 September 2015

Cabinet

15 July 2015

Medium Term Financial Plan (6), Council Plan, Service Plans 2016/17- 2018/19 and Review of the Local Council Tax Reduction Scheme 2016/17 plus an Update to the Discretionary Rate Relief Policy 2015/16

CORP/R/15/02



**Report of Corporate Management Team
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Lorraine O'Donnell, Assistant Chief Executive
Councillor Alan Napier, Cabinet Portfolio Holder for Finance
Councillor Simon Henig, Leader of the Council**

Purpose of the Report

- 1 To provide details on the development of the 2016/17 budget, the Medium Term Financial Plan (MTFP(6)) and Council Plan/Service Plans 2016/17 to 2018/19. The development of MTFP (6) has taken into account an initial analysis of the impact of the Government's 8 July 2015 'Summer' Budget.
- 2 The report also provides details of a review of the Local Council Tax Reduction Scheme and provides details of an update to the Discretionary Rate Relief Policy.

Executive Summary

- 3 The financial outlook for the Council continues to be extremely challenging. The final Coalition Government Budget in March 2015 identified the need for significant reductions in the spending of "unprotected" government departments over the 2016/17 to 2018/19 period. At that point, the forecasted impact on the Council's medium term financial plan was an additional funding reduction of £75m over the three year period with a £33m reduction in 2016/17.
- 4 Initial analysis of the Government's 8 July 2015 Summer Budget however indicates that the pace of funding reductions for "unprotected" government departments will be eased with funding reductions to be delivered over the four year period 2016/17 to 2019/20 rather than the three years planned

previously. The scale of the challenge faced by the Council remains undiminished however with total funding reductions across the four year period forecast to be £78m and with the Council also facing increased budget pressures with the introduction of a National Living Wage.

- 5 The position will remain uncertain however until the Autumn of 2015 when we receive the Government's Spending Review which will detail the funding reductions faced by the Department for Communities and Local Government (DCLG). The Council is then expected to receive its financial settlement in December.
- 6 By 31 March 2016, savings of £153.2m will have been realised since the beginning of austerity in 2011/12. It is presently forecast that this figure will be £256m by 2018/19 and exceeding £260m by 2019/20.
- 7 The emphasis since 2011/12 has been to minimise savings from front line services by protecting them wherever possible, whilst maximising savings in management and support functions. This is becoming much more difficult however, as the scope for further savings in managerial and back office efficiencies is becoming exhausted. In the coming months the Council will need to review all services to determine where savings can be best achieved with minimal impact upon the public.
- 8 Savings plans will continue to be developed in the coming months based on the savings forecast in this report. The details of these savings plans will be reported after there is clarity in relation to the funding reductions faced by the Council.
- 9 The consultation process in relation to MTFP(6) and individual savings options will embrace and influence the outcomes from the 'Durham Ask' where appropriate, in order to ensure the Council can maximise any opportunities to maintain service provision with community group involvement, where they can demonstrate a sustainable business case for the service areas and facilities they have shown an interest in taking on.
- 10 With regard to the Local Council Tax Reduction Scheme (LCTRS), the Council is one of only two local authorities in the North East to have retained entitlement levels for Council Tax support within the LCTRS in line with that which applied under the national Council Tax Benefit regime in 2012/13. The policy has protected vulnerable residents at a time when welfare reform changes have had a significant adverse impact. This report is recommending that the current LCTRS is retained for a further year into 2016/17. Should the Cabinet agree, the Council will need to formally adopt this policy at Full Council before 31 January 2016.
- 11 In December 2014, the Chancellor announced a range of amendments to Business Rates as part of his Autumn Statement, including an extension of Small Business Rate Relief for a further 12 months until 31 March 2016; changes to the temporary discount for shops, pubs and restaurants with rateable values below £50,000 awarding them increased relief of £1,500 for 2015/16, with the Government continuing to fully fund this relief through Section 31 Grant; and an extension of the transitional relief scheme for a further two years from 1 April 2015. All of these changes need to

incorporated into the Council's Discretionary Rates Relief and Empty Property Relief Policy and approved by Cabinet.

Background

- 12 To ensure MTFP(6) Council Plan and Service Plans can be developed effectively and savings targets to be delivered in time to produce a balanced budget, it is important that a robust plan and timetable is agreed and followed.
- 13 The current MTFP(5) forecast that the Council agreed in February 2015, covers a three year period 2015/16 to 2017/18. It is recommended at this stage that MTFP(6) also covers a three year period 2016/17 to 2018/19.
- 14 At this stage of the planning cycle for MTFP(6) the following areas are presented for consideration of Cabinet:
 - (i) Revised forecasts for government funding reductions following the Chancellor of the Exchequer's 8 July Budget;
 - (ii) An update on the development of the 2016/17 budget since the Council agreed its MTFP(5) on 25 February 2015;
 - (iii) Revisions to the MTFP(6) savings forecast for the period 2016/17 to 2018/19;
 - (iv) Proposed approach to the Council Plan and Service Plans 2016/17 to 2018/19;
 - (v) A MTFP(6) and Council Plan decision making timetable;
 - (vi) Proposed approach for consultation of MTFP(6) and Council Plans;
 - (vii) Workforce implications;
 - (viii) Equality considerations;
 - (ix) Consideration of the proposed Local Council Tax Reduction Scheme (LCTRS) for 2016/17;
 - (x) An update on the Council's Discretionary Rate Relief Policy

8 July Budget Impact

- 15 An initial high level analysis of the Budget has been carried out to understand the broad impact on both the Council and the public in the County. In relation to the Council's financial position the following points are noted:
 - (i) The pace of reductions faced by "unprotected" government departments has eased with reductions over a four year period to 2019/20.
 - (ii) The Council's forecast Government funding reduction in 2016/17 may not be as high as originally forecast.

- (iii) Total funding reductions across 2016/17 to 2019/20 of £78m are broadly in line with the £75m reductions formerly forecast for the 2016/17 to 2018/19 period.
- (iv) No additional funding reductions are forecast for 2015/16. The government has previously announced a consultation on a national £200m 2015/16 reduction in the Public Health grant. Based on an equal share methodology, the Council's grant would reduce by £3.3m. At this stage the Council is prudently forecasting that this reduction may be replicated in the 2016/17 base grant.
- (v) The funding reductions faced by DCLG will be detailed in the Spending Review to be published in the Autumn with the finance settlement for the Council expected in December.
- (vi) The Government announced a National Living Wage of £7.20 per hour from 2016/17 rising to at least £9.00 per hour in 2020/21. The current National Minimum Wage is £6.50 per hour with the Council's 'Durham Living Wage' of £7.20 per hour. These increases in remuneration will have an impact on the costs of both the Council's workforce but also on the cost of services the Council commissions from contractors if staff employed are predominantly lower paid e.g. residential care. The Council will need to fully assess the impact of this policy although at this stage an initial assessment of likely costs have been included in our MTFP(6) modelling and included in appendix 2.
- (vii) The Government has also announced an increase in Insurance Premium Tax from 6% to 9.5%. It is forecast that this could cost the Council circa £50,000 per annum.

16 In addition to the financial impact on the Council identified above, the following policy changes announced in the Summer Budget are of note:

- (i) Details on how £12bn of Welfare savings and £5bn of tax avoidance income would be delivered. Welfare savings are to be delivered over a three year period rather than a two year period as previously announced.
- (ii) Significant Welfare savings are to be achieved by reducing access to tax credits for the low paid.
- (iii) No increases in working age benefits, tax credits or Local Housing Allowance for a four year period.
- (iv) The benefits cap is to reduce to £23k a year in London and £20k elsewhere from the current cap of £26k.
- (v) Rents in social housing are to reduce by 1% in each of the next four years.
- (vi) Public sector pay increases are to be fixed at 1% for the next four years.
- (vii) Corporation Tax is to reduce from 20% to 19% in 2017 and to 18% in 2020. This along with reductions in national insurance liabilities for

small and medium enterprises is expected to assist business in paying the 'National Living Wage'.

- (viii) Local authorities are expected to come forward with options on how investments can be pooled between different Pension Funds with a view to reducing costs.

17 Although broad assumptions can be made on the overall impact of the Summer Budget on local authorities, further analysis will be required over the coming weeks. This analysis alongside information from the Autumn Spending Review and Local Government Finance Settlement will be utilised to finalise the 2016/17 Budget and MTFP(6) in February 2016.

2016/17 Budget

18 In line with previous years, a thorough review of the Council's budget has taken place subsequent to the approval of MTFP (5) by the Council on 25 February 2015. This has resulted in a number of changes to the assumptions built into our 2016/17 budget and, where necessary future years' budget models. The key adjustments are detailed below:

- (i) **Business Rates/Top Up Grant RPI Increase**

The previous forecast was for a 2% increase in Business Rates and Top Up Grant in 2016/17 in line with Retail Price Index (RPI) forecasts. Since then, inflation has been at historically low levels and it would be prudent at this stage to only assume a 1% increase. The RPI uplift for 2016/17 will be based upon rates in September 2015.

- (ii) **New Homes Bonus**

The New Homes Bonus was introduced in 2011/12 to, in theory, incentivise and reward local authorities where new houses are built and where empty homes are brought back into use. The funding to finance the New Homes Bonus is being top sliced from the Revenue Support Grant (RSG) each year and paid back to local authorities as the separately assessed New Homes Bonus. Between 2011/12 and 2015/16 the total sum top sliced from RSG for the Council was £11.9m against the amount we received in New Homes Bonus of £8.323m. The New Homes Bonus is expected to be in place for 6 years up to the end of 2016/17. At this stage there is some uncertainty as to what may happen to the New Homes Bonus post 2016/17. The annual sums received by the Council for New Homes Bonus to date are as detailed overleaf:

Year	Sum Received
	£m
2011/12	1.300
2012/13	1.251
2013/14	2.248
2014/15	1.985
2015/16	1.539
Total	8.323

The Council has been particularly successful in the last two years in bringing empty homes back into use which, together with new house building, has boosted the New Homes Bonus sums received, but this income is still £3.6m less than the amount of RSG withheld over this five year period.

It is felt prudent at this stage for planning purposes to introduce an estimate of additional New Homes Bonus of £1.25m for 2016/17. Nothing is included at this stage for 2017/18 and beyond until there is clarity on the future of New Homes Bonus, which is likely to be part of the Government's Autumn Spending Review.

(iii) **Council Tax and Business Rates – Tax Base Increase**

The Council benefits from any growth in either the Council Tax or Business Rate tax base due in the main to more properties being built and assumptions made with regards to discounts and exemptions, and in particular forecasts of the impact of the Local Council Tax Reduction Scheme. The forecast for tax base increases in MTFP(5) were as follows:

Tax Base	2016/17	2017/18
	£m	£m
Council Tax	1.000	0.750
Business Rates	0.500	0

The Council continues to develop forecasting to changes for both Council Tax and Business Rate tax bases. These developments are enabling the Council to be more certain in relation to forecast tax base increases into future years. Based upon current forecasts the following updated tax base increases have been included in MTFP(6) planning:

Tax Base	2016/17	2017/18
	£m	£m
Council Tax	3.000	0.750
Business Rates	1.140	0

The adjustment to tax base forecasts has enabled a £2.64m increase in forecasted resources available for 2016/17. In relation to 2017/18 it

is prudent at this stage to forecast an increase of £750k for Council Tax base growth but a flat line position for Business Rates to leave forecasts unchanged due to uncertainty in relation to the rate of development of new housing and business within the County and the impact of the 2017/18 Business Rate Revaluation..

(iv) **Impact of National Living Wage**

Detailed analysis will be required on the likely impact of the National Living Wage. A rate of £7.20 per hour is to be implemented from April 2016 with the rate expected to exceed £9.00 per hour by 2020/21. There will be increased costs in relation to the Council's workforce.

In addition, the Council will face pressure from service providers to increase contract prices. At this stage cost pressures of the magnitude detailed below are included across MTFP(6):

Year	£m
2016/17	3.00
2017/18	5.00
2018/19	5.00
Total	13.00

(v) **Other Budget Pressures**

The Council has previously forecast that Concessionary Fares would continue to be a budget pressure. Significant work has been carried out in negotiation with Bus Contractors and it is felt that the £0.1m 2016/17 budget pressure could be removed.

The reduction in oil prices has also influenced energy prices and there is now confidence in being able to delete the £0.5m pressure from 2016/17 budget planning.

The Council has reviewed the requirement for staff to be 'auto enrolled' into the Pension Fund. It is felt that it is likely that a significant number of employees will choose to become permanent members of the Pension Fund once the benefits of membership are explained. The Council is required to auto enrol all employees from 1 October 2017 unless employees expressly request that they wish to remain outside the Pension Fund.

After taking into account a forecast of 40% of employees auto enrolling and remaining in the pension scheme, a budget pressure of £0.55m in each of 2017/18 and 2018/19 has been introduced into MTFP(6) planning. In addition however, the Council is required to auto enrol any employees who have started employment during the last three years but have chosen not to become a member of the Pension Fund as of the end of March 2016. To reflect the likelihood of some of these

employees also choosing to become members of the pension scheme, a £0.1m pressure has been introduced into 2016/17 budget planning.

The triennial review of the Pension Fund will be carried out during 2016. The impact of this review will be reflected in the 2017/18 budget. It is forecast at this stage that there will be a deterioration in the Pension Fund deficit. With this in mind, the additional contribution to the Pension Fund in 2017/18 has been increased from £1m to £3m.

2016/17 Savings Forecast

- 19 Based on the forecasted revised Government funding cut and the other revised assumptions in this report, our savings requirement for 2016/17 is £30.488m. If the £3.3m forecast in year reduction in the Public Health grant is also applied in 2016/17 also, this reduction in the ringfenced specific grant will be “passported” to Public Health. This will result in a residual savings target of £27.188m.
- 20 Savings plans to achieve the target of £27.188m will be finalised in the coming months and reported to Cabinet and Full Council accordingly. To ensure savings are achieved in a timely manner, it may be necessary to either:
- (i) Report separately to Cabinet on individual savings plans to ensure a full consultation process can be followed;
 - (ii) Corporate Directors and Portfolio Holders may need to utilise delegated powers to initiate savings plans to ensure a full year’s saving can be achieved in 2016/17.

MTFP(6) – 2016/17 to 2018/19 Update

- 21 The Summer Budget contained overall “control totals” for the period 2016/17 to 2019/20 for Government departments i.e. no totals were provided for DCLG or any individual government department. These totals will be published as part of the Autumn Spending Review and will provide a clearer indication of the likely impact on local government funding.
- 22 An analysis can be carried out however on the overall control totals utilising a range of assumptions to determine the likely impact on DCLG. The following key assumptions have been utilised to develop the forecasts in Council funding reductions.
- (i) A 2% per annum increase in the NHS budget plus an additional £8bn by 2020/21
 - (ii) A 1% per annum increase in the Education budget
 - (iii) Defence and International Aid budget to increase every year by the increase in Gross Domestic Product (GDP). This is forecast to be 2.4% per annum.

- (iv) All “unprotected” government departments e.g. Home Office, Business, Industry and Skills and Justice to receive the same percentage budget reductions.

- 23 The revised funding reductions and adjusted budget assumptions are detailed in the MTFP(6) model at Appendix 2. The table below provides a summary:

	2016/17	2017/18	2018/19	Total
	£m	£m	£m	£m
Variance in Resource	4.298	23.220	18.867	46.385
Base Budget Pressures	26.190	14.750	15.550	56.490
Savings Required	30.488	37.970	34.417	102.875

- 24 The table above exemplifies the continuing challenge faced by the Council. Forecast savings are over £30m in each of the next three years with an overall total of £102.875m. In addition, the Council will face additional savings in 2019/20 when it is forecast that government funding will reduce by an additional £8m. Overall the savings to be delivered over the 2011/12 to 2018/19 period will be £256m with this figure exceeded in 2019/20.

- 25 The funding reductions forecast by the Council after the March and July Budgets are detailed below:

Year	March 2015	July 2015
	£m	£m
2016/17	33.1	15.0
2017/18	26.2	30.0
2018/19	15.0	25.0
2019/20	0.0	8.0
Total	74.3	78.0

- 26 Although overall funding reduction forecast is slightly higher than previous forecasts, the forecasted reduction is lower in 2016/17 and the cuts in Government grant are now spread over four years rather than three years.

Proposed Approach to the Development of the Council Plan and Service Plan

- 27 The Council Plan is the high level corporate plan for the Council. It sets out what the Council is aiming to achieve over the next three years, and is updated on an annual basis. Investments and savings agreed as part of the MTFP (6) will be targeted to achieving the objectives identified in the Council Plan as part of our strategic planning process.

- 28 The Council Plan also aligns to the Sustainable Community Strategy (SCS), which is a long term strategy for the county running to 2030, developed and agreed by the council and its partners through the County Durham Partnership.
- 29 The Council Plan sets out how the Council will deliver its contribution to the SCS across five priority themes:
- Altogether Wealthier
 - Altogether Better for Children and Young People
 - Altogether Healthier
 - Altogether Safer
 - Altogether Greener
 - Plus a sixth theme of an Altogether Better Council, aimed at improving how the council runs itself.
- 30 The priorities set out in the current Council Plan include an ongoing focus on protecting frontline services from budget savings in as far as possible. They reflect the results of an extensive budget consultation exercise carried out in late 2013 and early 2014 on spending priorities, plus a follow-up lighter touch consultation in 2014/15 which reconfirmed this approach. Our spending plans for this year are also based on these assumptions.
- 31 It is proposed that this year there will be a focused review of the Council Plan content to ensure that it reflects the updated MTFP focus over coming years. It is important to maintain the focus on high level priority themes set out in this year's plan, but to review the detailed objectives and outcomes to ensure that they are fit for purpose.
- 32 The refresh will also allow the Council Plan to be updated to reflect relevant changes in Government policy, plus any changes to local priorities for example arising from consideration of performance outcomes for the last year. Member input is proposed via Corporate Issues Overview and Scrutiny Committee considering key Cabinet reports, linked to the MTFP, in accordance with the timetable at paragraph 35.
- 33 Draft Service Plans for each service grouping are also scheduled for development during the autumn, and will include a high level action programme across all services. The final draft Council Plan will be presented to Cabinet and Council for consideration following agreement of the final MTFP (6) proposals.

MTFP(6) and Council Plan

- 34 The development of MTFP(6) is fundamental to ensuring that the Council can plan and prepare for the impact of continuing reductions in Government funding; plan for known budget pressures and set a balanced budget each

year. The timetable for delivery of MTFP(6), the Council Plan and Service Plans has taken the following into account:

- (i) The need to make changed to Council priorities as part of the development of the Council Plan;
- (ii) Consultation requirements;
- (iii) Equality and Diversity impact considerations;
- (iv) Government announcements; and
- (v) The need to consider both revenue and capital.

35 A high level timetable up to Budget setting is detailed below:

Date	Action
15 July	MTFP/Council Plan report to Cabinet
Sept/November	MTFP/Council Plan consultation process
18 September	Overview and Scrutiny Management Board consider 15 July Cabinet Report
28 September	Corporate Issues Overview and Scrutiny Committee (CIOSC) consider 15 July Cabinet Report
October	Expected date for publication of Spending Review (SR) 2015
18 November	MTFP/Council Plan report to Cabinet pending analysis of SR 2015
December	2016/17 Finance Settlement announced by DCLG
16 December	Tax Base Update report to Cabinet
December	CIOSC consider 18 November Cabinet Report
13 January	MTFP/Council Plan report to Cabinet Detail on settlement and outcome of the consultation process
26 January	CIOSC consider 13 January Cabinet Report
10 February	Budget Report to Cabinet
12 February	OSMB meeting to consider budget
24 February	Council Budget and MTFP report

Proposed Consultation Programme

- 36 During autumn 2013, the Council attracted over 10,000 people to take part in the largest public engagement programme of events ever held in County Durham. These events were managed through the Area Action Partnerships (AAPs) and were held across the county. They provided the opportunity for the public to allocate grants to local people, set AAP priorities and provide views as to how the Council should manage its budget challenges over the next two to three years.
- 37 At these events, almost 1,300 people took the time to take part in 270 budget setting group exercises where, over 30-45 minutes, they deliberated with other members of the public as to how the Council should allocate savings of £100 million over the next few years. Feedback from those taking part in the activities was very positive, with 97% of participants feeling that it was a good way to involve local people in decision making.
- 38 In addition to the group exercises, comments as to how the Council should achieve its savings target were also provided through different forms. There were 2,074 completed paper questionnaires and a further 517 completed online.
- 39 The results of this budget consultation which includes over 4,000 responses, were reported to Cabinet in February 2014 and 2015. A clear message from the consultation was the requirement to minimise the impact upon frontline service provision wherever possible.
- 40 The budget consultation carried out in 2014 confirmed that the majority of respondents felt that the priorities identified in 2013 were still relevant, as there had been no changes in their localities that would mean that they should change. The same consultation also confirmed that the vast majority of respondents (93%) felt the Council should progress with the Durham Ask initiative in order to try and safeguard frontline provision, given the financial challenges facing the Council.
- 41 Building on the extensive information gained from the budget consultations highlighted above, it is proposed that further budget consultation is carried out from September to November 2015 to seek views on:
- The budget challenge facing the Council and our overall approach to making savings
 - Whether there have been significant changes to local communities that the Council need to be aware of when setting the budget for 2016/17
 - The measures and support the Council should put in place to encourage more communities to take up greater control of assets and services as part of the Durham Ask
- 42 It is proposed that views will be sought on these points from September to November 2015 from the 14 A.A.P.s and the key partner agencies that make

up the County Durham Partnership and for a representing special interest groups.

- 43 In line with the practice following in previous years, following this initial phase of consultation, once draft budget proposals for 2016/17 are agreed by Cabinet, views will be sought from the key partner organisations that make up the County Durham Partnership.
- 44 In addition, where individual budget proposals involve a significant service change to the public, these will be subject to a specific, detailed public consultation prior to a decision being made in accordance with our established practice.

Workforce Implications

- 45 The Council originally estimated 1,950 reductions to full time equivalent posts by the end of 2014/15. This figure will be monitored over the coming months and updated once detailed savings plans are reported for future years.
- 46 In order to minimise the impact upon staff the Council will continue to take all possible steps to avoid compulsory redundancies and minimise the impact upon the workforce. This will require a continued focus on forward planning, careful monitoring of employee turnover, only undertaking recruitment where absolutely necessary and retaining vacant posts in anticipation of any required service changes, seeking volunteers for early retirement and/or voluntary redundancy and maximising redeployment opportunities for the workforce wherever possible.
- 47 In addition, the way that work is organised and jobs designed will continue to be reviewed by service groupings, with the support of Human Resources, to ensure that changes that are made to maximise the use of the workforce numbers and skills and introduce flexibility into the way work is organised to maximise the capacity of the remaining workforce.
- 48 These actions will ensure that, wherever possible, service reductions continue to be planned well in advance of commencing the exercises, employees are able to consider their personal positions and volunteer for ER/VR prior to the start of the exercise should they wish to, thereby enabling, in a number of situations, the retention of sustainable employment in the County for those who wish to remain in the workplace.

Equality Considerations

- 49 As in previous years, equality impact assessments will be considered throughout the decision making process, alongside the development of MTFP(6). This is in line with the Equality Act 2010 which under the public sector equality duty requires us to pay 'due regard' to the need to:
- Eliminate discrimination, harassment, victimization and any other conduct that is prohibited under the Act;
 - Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- To ensure that equalities considerations are properly built into this year's MTFP (6) process, there will be updated guidance for services, setting out an overall timetable and approach for completing equality impact assessments for any additional savings proposals identified. Cumulative impacts of ongoing changes will also continue to be considered through quarterly reports to Cabinet on MTFP delivery, and cumulative impacts will also be considered alongside any new impact assessments,

50 We will continue to ensure that full equality impact assessments inform final decision-making on implementing MTFP (6) savings for 2016/17 and subsequent years. This is built into management arrangements to monitor delivery of all MTFP savings, and will help to ensure that any changes implemented take into account equality impacts and that mitigating actions are taken where possible.

Local Council Tax Reduction Scheme for 2016/17

51 The Government abolished the national Council Tax Benefits System on 31 March 2013, replacing it with a requirement for local authorities to work with their precepting bodies to establish a Local Council Tax Reduction Scheme (LCTRS) with effect from 1 April 2013. The new scheme provides a 'discount' against the Council Tax charge, rather than a benefit entitlement.

52 The Council Tax Reduction Scheme Grant replaced Council Tax Benefit subsidy and from April 2013 is paid directly to the council and the major precepting bodies (Police and Fire).

53 Government funding towards council tax support was reduced by 10 per cent nationally in 2013/14. By so doing, the Government also transferred the risk of any growth in the system through more council taxpayers becoming eligible for support with their council tax to local authorities as the government grant was a fixed amount.

54 The funding made available to support the Local Council Tax Support Schemes in 2013/14 (90% of the previous funding available under the Council Tax Benefit System) now forms part of the Council's formula funding arrangements. Whilst separate figures were published for this in 2013/14, there is no longer any visibility over what level of funding is actually contained within the formula now for Council Tax Reduction Schemes.

55 The Council's formula grant includes an element relating to Town and Parish (T&P) Councils and whilst the Council passed the grant on to the Town and Parish Councils in the last three years, there is no statutory requirement to do so.

56 Following discussions with the Town and Parish Councils' Working Group, it is proposed to continue to pass on the Town and Parish element of the formula grant in 2016/17, but in doing so, continue to apply pro-rata reductions in the

Council Tax Support Grant paid to Town and Parish Councils 2016/17 in line with reductions in the overall formula funding made available to the Council and this is reflected in the updated MTFP model.

- 57 In the North East region, Durham and Northumberland have schemes that continue to mirror entitlement under the former Council Tax Benefit system, whilst the other ten Councils have schemes that have maximum entitlement to working age claimants on average of between 70% (South Tyneside) and 93% (North Tyneside).
- 58 There are currently c62,000 LCTRS claimants in County Durham, of which c28,000 (46%) are pensioners and c34,000 are working age claimants (54%), c23,500 working age claimants are on passported benefits and receiving 100% discount. LCTRS support to claimants in terms of discounts against their Council Tax liability totals c£53m.
- 59 As Members will be aware, if any changes are made to the scheme, these must be consulted on and be subject to an equality impact assessment. Councils are required to review and approved their schemes annually and have this agreed by a Council Meeting before 31 January each year.
- 60 Pensioners, have to be protected from any changes, with any reductions applied to working age claimants only.
- 61 Three years after the Government abolished the national Council Tax Benefits System the Council continues to have a Local Council Tax Support Scheme which mirrors the previous entitlement under the Council Tax Benefit System for all claimants. No council tax benefit claimants have therefore been financially worse off in the last two years than they would have been under the previous national scheme.
- 62 The Council have been mindful of the continuing impacts of the wider welfare reforms which are having a detrimental impact on many low income households and the fact that the additional Council Tax liabilities to working age households could have a significant impact on affected household budgets by around £125 a year based on a scheme whereby entitlement for working age claimants is set at a maximum of 90% entitlement. This would make collection of council tax more difficult and costly to recover from these low income households.
- 63 In approving the scheme for 2015/16 the Council gave a commitment to review the scheme on the grounds of medium term financial plan (MTFP) affordability and on-going austerity causing further MTFP pressures.
- 64 Based on Taxbase assumptions, the estimated net cost of retaining the scheme in 2016/17 is £5.064m. To recover the full £5.064m cost by reducing the benefit awarded to working age claimants would require us to reduce the maximum entitlement from 100% to 73%.
- 65 Should the Council review its scheme and reduce maximum entitlement to working age claimants, depending on the forecasted council tax collection from the affected low income households, there would be scope to increase Council Tax revenues by between £1.9m (based on a scheme that awarded maximum entitlement to working age households of 90% with a prudent

collection rate of 80%) and £5.6m (based on a scheme that awarded maximum entitlement of 70% with a prudent collection rate of 80%). This would impact on an estimated 34,000 working age households where 10,500 are actually in jobs rather than being unemployed.

- 66 Following careful consideration of the current financial position of the Council and in light of the £12 billion of further cuts to the Welfare Budget planned by Government, it is proposed that Cabinet recommend to Council that the current scheme should be extended for a further year into 2016/17 and therefore that no additional Council tax revenues are built into the MTFP projections from a review of the LCTRS at this stage.
- 67 The reasons for extending the current scheme are due to the current scheme remaining within existing cost parameters for the Council. In addition, whilst the full impacts of the Government's Welfare Reforms are complex and difficult to track, anecdotal evidence, from demand for Discretionary Housing Payments; Social Fund Applications and Rent Arrears statistics in County Durham compared to others across the region, would suggest that the council tax benefit protection afforded to working age claimants, in addition to the wide ranging proactive support that has been put in place is having a positive impact on these areas.
- 68 The Council will need to continue to review the national situation and track what is happening in local authorities that have introduced Local Council Tax Reduction Schemes that have reduced entitlement to their working age claimants in terms of impacts and performance in terms of recovery of the council tax due.

Discretionary Rate Relief

- 69 In December 2014, the Chancellor announced a range of amendments to Business Rates as part of his Autumn Statement, including:
- a. An extension of the Small Business Rate Relief for a further 12 months until 31 March 2016;
 - b. Changes to the temporary discount for shops, pubs and restaurants with rateable values below £50,000 awarding them increased relief of £1,500 for 2015/16, with the Government continuing to fully fund this relief through Section 31 Grant;
 - c. An extension of the transitional relief scheme for a further two years. This scheme covers properties with a rateable value up to and including £50,000. Following the issue of the subsequent guidance note for Transitional Relief by CLG on 15 January 2015 work has been carried out to identify the ratepayers affected in Durham County Council, the number is below 100.
- 70 The Council's Discretionary Rates Relief and Empty Property Relief Policy, which was approved by Cabinet in April 2014, referenced that these Government funded but discretionary policies were to end on 31 March 2015.

- 71 Minor amendments are required to the policy to reflect the extension of these schemes. Sections 6 and 7 of the policy have been amended to include the increase to Retail Relief from £1,000 to £1,500.
- 72 The policy has also been amended to include the extension of Transitional Relief for small and medium properties. Properties that will benefit are those with a rateable value up to and including £50,000 who would have received transitional relief had the existing scheme continued in its current format and without this new measure would face bill increases of above 15% for small properties and 25% for medium properties.
- 73 As this relief has been extended from 1 April 2015 for only a 2 year period, the legislation around transitional relief is not changing. Instead the government will reimburse local authorities that use their discretionary relief powers under Section 47 of the Local Government Finance Act 1988 (as amended) to grant relief.
- 74 Annual rate accounts for 2015/16 identified potential qualifiers and automatically awarded the relief.
- 75 The amendments to the policy have been applied under the scheme of delegation, however, to ensure that the policy, as published on the Councils website, is up to date and that all applications continue to be assessed in a fair and open process, based on an agreed policy framework Cabinet needs to approve the amendments set out above. A copy of the updated policy is available in the Members' Room and will be posted to the Council's website following the Cabinet meeting.

Recommendations and Reasons

- 76 Cabinet is asked to:-
- (i) Note the analysis of the Government's 8 July Summer Budget.
 - (ii) Note the forecast funding reductions for 2016/17 to 2018/19 resulting from the analysis of the Summer Budget.
 - (iii) Note that Corporate Directors and Portfolio Holders will be required to utilise delegated powers to action savings plans to ensure full year savings can be achieved for 2016/17.
 - (iv) Note the requirement to identify £102.875m of savings across the 2016/17 to 2018/19 period.
 - (v) Agree the approach to preparing the Council Plan and Service Plan.
 - (vi) Agree the high level MTFP(6) and Council Plan timetable.
 - (vii) Agree the approach outlined for consultation.

- (viii) Note the ongoing work carried out to support staff during the MTFP (6) process.
- (ix) Agree the proposals to build equalities considerations into decision making.
- (x) Agree that Cabinet recommend to Full Council that the Local Council Tax Reduction Scheme should remain unchanged for 2016/17, with a further review to be undertaken in Quarter 1 of 2016/17 to inform budget options for 2017/18 and beyond.
- (xi) Note the revisions to the Discretionary Rate Relief Policy agreed under delegated powers.

77 Recommendation for OSMB:-

It is recommended that Members of OSMB:

- (i) Consider the contents of the report and refer the detailed scrutiny of the MTFP to the Corporate Issues Overview and Scrutiny Committee, as per the terms of reference of that committee.
- (ii) Note the revised timescale for the Spending Review, which is now expected on 25th November, and the impact of this on the next MTFP Cabinet report, timetabled for November, but now expected in December.
- (iii) Agree that the planned December scrutiny session is now combined with the CIOSC meeting on 26th January, which will incorporate both the December and January Cabinet reports.

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Appendix 1: Implications

Finance – An analysis of funding reductions has been carried out. This has resulted in a £30.5m savings target for 2016/17 and £102.9m over the 2016/17 to 2018/19 period.

The revised Discretionary Rates policy takes into account the announcements in the Governments Autumn Statement with regards to Retail Relief and the extension of Transitional Relief for small and medium properties.

All awards in respect of Retail Relief and Transitional Relief will be refunded directly by the Government via s31 Grant.

Staffing – The savings proposals in MTFP(5) will impact upon employees. HR processes will be followed at all times.

Risk – In terms of the Discretionary Rate Relief Policy, given the scope and nature of the organisations supported through this policy any changes which would reduce entitlement would have reputational risks to the Council and financial risks to the individual organisations. The proposals set out in this report seek to extend and enhance current arrangements in line with Government policy

Equality and Diversity/ Public Sector Equality Duty – Equality considerations are built into the proposed approach to developing MTFP(6), Council Plan and Services Plans, as a key element of the process.

An equality impact assessment has not been completed at this stage in respect of the amendments to the Discretionary Rates Relief policy, as the amendments seek to extend and enhance current arrangements in line with Government policy, with regards to the increased Retail Relief and the extension of Transitional Relief for a two year period

Accommodation – None specific within this report.

Crime and Disorder – None specific within this report.

Human Rights – Any human rights issues will be considered for any detailed MTFP(6) and Council Plan proposals as they are developed and decisions made to take these forward.

Consultation – The approach to consultation on MTFP(6) is detailed in the report.

Procurement – None specific within this report.

Disability Issues – All requirements will be considered as part of the equalities considerations outlined in the main body of the report.

Legal Implications – Section 47 of the Local Government Finance Act 1988 and subsequent amending legislation provides the provisions and criteria for awarding discretionary rate relief. The Localism Act 2011 amended Section 47 Clause 69, of the Local Government Finance Act 1988 to allow local authorities to reduce the business rates of any local ratepayer (not just those who can currently be granted discretionary relief), via a local discount scheme.

Statutory guidance states that any discretionary rate relief or local discount scheme must be in the interests of the wider council taxpayer.

The proposals set out in this report only seek to amend / extend current policy arrangements to take account of changes in Government policy / funding arrangements. The amendments have been actioned under a delegated decision by the Corporate Director Resources, in consultation with the Deputy Leader and Cabinet Portfolio Holder for Finance but requires Cabinet approval.

Appendix 2:

Medium Term Financial Plan - MTFP (6) 2016/17 - 2018/19 Model			
	2016/17	2017/18	2018/19
	£'000	£'000	£'000
Government Funding			
Government RSG Funding Reduction	15,000	30,000	25,000
Reduction in Public Health Grant	3,300	0	0
Town and Parish Council RSG Adjustment for LCTRS funding	-100	-190	-173
Business Rates - RPI increase (1%/2%/2%)	-535	-1,090	-1,110
Top Up Grant - RPI increase (1%/2%/2%)	-605	-1,240	-1,270
Other Funding Sources			
Council Tax Increase (2% per annum)	-3,440	-3,510	-3,580
New Homes Bonus	-1,250	0	0
Council Tax/Business Rate Tax Base increase	-4,140	-750	0
Business Rates 2014/15 Collection Fund Surplus	500	0	0
NHS Funding - Social Care Transformation	-4,432	0	0
Estimated Variance in Resource Base	4,298	23,220	18,867
Pay inflation (1.5% - 1.5% - 1.5%)	3,300	3,200	3,100
Price Inflation (1.5% - 1.5% - 1.5%)	2,500	2,400	2,300
Corporate Risk Contingency Budget	0	-3,000	0
Base Budget Pressures			
Employer National Insurance increase - State Pension changes	4,700	0	0
Costs Associated with National Living Wage	3,000	5,000	5,000
Single Status Implementation	4,500	0	0
Additional Employer Pension Contributions	940	3,000	1,000
Energy Price Increases	0	500	500
Concessionary Fares	0	100	100
Pension Fund Auto Enrolment	100	550	550
CAS Demographic and Hyper Inflationary Pressures	1,000	1,000	1,000
Use of Earmarked Reserve in CAS	4,150	0	0
Prudential Borrowing to fund new Capital Projects	2,000	2,000	2,000
TOTAL PRESSURES	26,190	14,750	15,550
SUM REQUIRED TO BALANCE BUDGET	30,488	37,970	34,417
Savings to be identified	-27,188	-37,970	-34,417
Public Health Savings	-3,300	0	0
TOTAL SAVINGS REQUIRED	-30,488	-37,970	-34,417