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North Tyneside Council

Cabinet Extraordinary

24 January 2020

Monday, 3 February 2020 0.02 Chamber - Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY **commencing at 6.00 pm**.

Agenda Item		Page(s)
1.	**Apologies for Absence** To receive apologies for absence from the meeting.	
2.	**To Receive any Declarations of Interest and Notification of any Dispensations Granted** You are invited to **declare** any registerable and/or non-registerable interests in matters appearing on the agenda, and the nature of that interest. You are also invited to **disclose** any dispensation in relation to any registerable and/or non-registerable interests that have been granted to you in respect of any matters appearing on the agenda. Please complete the Declarations of Interests card available at the meeting and return it to the Democratic Services Officer before leaving the meeting.	
3.	**2020-2024 Financial Planning and Budget Process: Cabinet's Draft Budget and Council Tax Requirement Proposals and Final Budget proposals for the Housing Revenue Account (HRA) Business Plan and Budget** To consider a report on the 2020-2024 Financial Planning and Budget Process: to seek approval for Cabinet’s Final Proposals for 2020/21 for the General Fund Revenue budget, Dedicated Schools Grant, Housing Revenue Account (HRA) Business Plan and Council Tax Requirement	5 - 168

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Agenda Item		Page(s)
4.	**Date and Time of Next Meeting** Monday, 10 February 2020 at 6.00pm	

Circulation overleaf …

Circulated to Members of Cabinet: -

N Redfearn (Elected Mayor)
Councillor B Pickard (Deputy Mayor)
Councillor G Bell
Councillor C Burdis
Councillor S Cox
Councillor S Day
Councillor P Earley
Councillor R Glindon
Councillor C Johnson
Councillor M Hall

Young and Older People's Representatives and Partners of North Tyneside Council.

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North Tyneside Council
Report to Cabinet
Date: 3 February 2020

Title: 2020-2024 Financial Planning and Budget Process: Cabinet's Draft Budget and Council Tax Requirement Proposals and Final Budget proposals for the Housing Revenue Account (HRA) Business Plan and Budget

Portfolio(s):	**Elected Mayor**	**Cabinet Member(s):**	**Mrs Norma Redfearn**
	Finance and Resources		**Councillor Ray Glindon**
	Housing		**Councillor Steve Cox**

Report from Service Area:	**Senior Leadership Team**	
Responsible Officer:	**Janice Gillespie, Head of Resources (Chief Finance Officer)**	**Tel: 643 5701**
Wards affected:	**All**	

PART 1

1.1 Executive Summary:

1.1.1 The Government published the Provisional Local Government Finance Settlement for 2020/21 on 20 December 2019 via a written statement. The content of the Provisional Settlement was largely known in advance as it is based on a technical consultation paper published in October 2019 that set out in more detail the Government's plans for allocating the resources announced in the Spending Round 2019.

1.1.2 In the Spending Round 2019 (SR19), the Chancellor announced proposals for a £2.9 billion cash increase in local government's 'core spending power', to come from an extra £1.2 billion in social care grant funding for local authorities. The other £1.7 billion is expected to come from an increase in Council Tax (1.99% general Council Tax increase and a 2% precept for social care) and an increase in business rates baseline funding in line with inflation. These proposals remain unchanged and form the basis of the Provisional Settlement.

1.1.3 The Elected Mayor and Cabinet's draft Budget proposals therefore include for consideration a 1.99% general Council Tax increase and a 2% Adult Social Care Precept. The Medium-Term Financial Plan (MTFP) includes the cumulative impact of these increases for the subsequent financial years 2021/22 to 2023/24.

1.1.4 The draft Budget proposals for the General Fund set out in this report have been developed in the context of a refreshed Our North Tyneside Plan 2020-2024, as set out in Appendix A of this report. The Plan has been updated to reflect two key policy developments; the Council's declaration of a climate emergency and the context in which the Authority now operates as part of the North of Tyne Combined Authority.

1.1.5 At its meeting on 9 September 2019, Cabinet approved the process and timetable to be adopted for the preparation of the draft Medium-Term Financial Plan, 2020/21 revenue Budgets in respect of the General Fund, Dedicated Schools Grant (DSG) and Housing Revenue Account (HRA), the 2020-2025 Investment Plan and the 2020/21 Treasury Management Statement and Annual Investment Strategy, as part of the overall Financial Planning and Budget process for 2020-2024. Cabinet also approved the Budget Engagement Strategy as part of that report.

1.1.6 This report presents, for consideration, Cabinet's draft Budget proposals, in accordance with the timescales set out in the Authority's Constitution (Budget & Policy Framework Procedure Rules). This report presents proposals to cover a four-year planning period from 2020-2024 for the revenue Budget and a five-year planning horizon for the Investment Plan.

1.1.7 There is significant uncertainty in relation to the level of funding beyond 2021, due to the one-year settlement for 2020/21 and the anticipated changes in the local government finance system. The impact of the move to 75% Business Rates Retention, alongside the Fair Funding Review and Business Rates Reset are unknown at this stage. These increase the level of risk to financial planning, requiring current Budget forecasts to be closely monitored, and potentially refreshed more frequently than usual, as consequences become clear. The current savings requirement is estimated to be £39.574m over the period 2020-2024, before any proposals around Council Tax increases or the Adult Social Care Precept are considered.

1.1.8 There are a number of assumptions and judgements (paragraph 1.5.9) built into the figures presented that lie mainly outside the control of the Authority and need to be finalised. The estimates of amounts will therefore need to be subject to further review before they can be confirmed.

1.1.9 Cabinet, in its report of 25 November 2019, set out the estimates for all aspects of the Elected Mayor and Cabinet's proposed spending and resource plans for the Housing Revenue Account (HRA) Budget for 2020-2024 and associated Investment Plan 2020-2025 (within Annex 1). In addition, the report outlined the proposed changes to housing rent, garage rent and service charges for 2020/21.

1.1.10 Cabinet is now formally asked to approve the proposed spending and resource plans for the HRA Revenue Budget for 2020/21 in accordance with the responsibilities of Cabinet pursuant to the Local Government Act 2000. In addition, Cabinet is also asked to approve the housing element of the 2020-2025 Investment Plan, the proposed 2.7% rent increase from April 2020 (in line with Government policy), and the proposals in relation to housing service charges and garage rents for 2020/21. The proposed spending plans have been updated to reflect the 2019/20 in year monitoring position for the HRA as reported to Cabinet on 20 January 2020 and the updated balances position now anticipated for the beginning of the 2020/2021 financial year.

1.2 Recommendation(s):

1.2.1 In relation to the Elected Mayor and Cabinet's proposals for the General Fund Revenue Budget, Dedicated Schools Grant, Investment Plan and Housing Revenue Account, Cabinet is recommended to:

<u>General Fund Revenue Budget, Dedicated Schools Grant and Investment Plan</u>

(a) Note the progress made in relation to this year's Financial Planning and Budget process;

(b) Note that Cabinet's estimates of amounts in the setting of the Council Tax requirement will be submitted to full Council for its meeting on the 20 February 2020, in accordance with the Authority's Constitution and Budget and Policy Framework Procedure Rules;

(c) Note that Cabinet's proposals for the 2020-2025 Investment Plan (Appendix D (i)), including the draft Capital Investment Strategy (Appendix D (iv)) and Prudential Indicators for 2020-2025 (Appendix D (iii)), in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Framework and the proposed Minimum Revenue Provision (MRP) Policy in line with capital finance regulations, will be submitted to full Council for its meeting on 20 February 2020;

(d) Consider and agree the estimates of amounts in relation to the 2020-2025 Investment Plan, including prudential indicators for 2020-2025 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Framework and a proposed Minimum Revenue Provision (MRP) Policy in line with capital finance regulations (Appendices D (i) and D (iii));

(e) Note that all approved schemes within the 2020-2025 Investment Plan will be kept under review by the Investment Programme Board;

(f) Approve the Treasury Management Statement and Annual Investment Strategy for 2020/21 Appendix E;

(g) Note that Cabinet's proposals for the Treasury Management Statement and Annual Investment Strategy for 2020/21 will be submitted to full Council for its meeting on 20 February 2020 (Appendix E);

(h) Note that any implications that affect the information in this report arising from decisions of Cabinet on 3 and 10 February will be provided as a supplementary report to full Council on 20 February 2020;

(i) Note the outcomes from the engagement process on both the Council Plan and Budget proposals (Appendix F);

(j) Agree the formal Reserves and Balances Policy for the Authority, subject to review at least annually (Appendix G);

(k) Note the key aspects of the 2020/21 Provisional Local Government Finance Settlement announced on 20 December 2019 and how this has been incorporated into the Medium-Term Financial Plan of the Authority. In addition, Cabinet should note the outstanding information required to allow the Elected Mayor and Cabinet to finalise the proposals;

(l) Note the medium-term financial challenges and financial risks facing the Authority and agree to address these issues as part of the Efficiency Programme for the Authority, to deliver continued financial stability and prudent management of our financial resources;

(m) Consider and agree the estimates of amounts for the 2020/21 setting of the Council Tax requirement including the General Fund Revenue Budget and Dedicated Schools Grant, thereby calculating the proposed level of Council Tax to be recommended to full Council for approval, including an assessment in relation to the current year's budget monitoring information (2019/20) and indications for the Financial Plan for 2020/21;

(n) Request the Chief Finance Officer to prepare the appropriate Council Tax requirement and Budget Resolution document for full Council's consideration at its meeting on 20 February 2020;

(o) Note the conclusions of the Overview, Scrutiny and Policy Development Committee's review of the 2020/21 initial Budget proposals (Appendix I) and note any impact the recommendations may have on the General Fund Budget proposals and note that any recommendations of the Overview, Scrutiny and Policy Development Committee in relation to Cabinet's final Budget proposals will be considered by Cabinet on 10 February 2020;

(p) Note the Provisional Statement to Council by the Chief Finance Officer (Annex 1, Section 10);

(q) Authorise the Elected Mayor to make any final amendments to Cabinet's proposals in relation to any outstanding information to enable due consideration to be given to the final level of Council Tax that Cabinet proposes to full Council for approval for 2020/21;

(r) Authorise the Chief Executive, in consultation with the Elected Mayor, Deputy Mayor, Cabinet Member for Finance and Resources and the Senior Leadership Team, to manage the overall Efficiency Programme and note that decisions made under this delegated authority will be reported to Cabinet as part of the regular budget monitoring information provided; and

(s) Grant delegated Authority to the Chief Executive, in consultation with the Elected Mayor and Head of Resources, to authorise the purchase of homes, on the open market, providing value for money is demonstrated and the cost can be contained within existing financial resources of the Authority. This is to ensure the programme of delivery of affordable homes and homes at market rent is progressed in line with Cabinet's priorities.

Housing Revenue Account

(a) Consider any recommendations arising from the Overview, Scrutiny and Policy Development Committee's consideration of Cabinet's initial Budget proposals for the 2020/21 Housing Revenue Account (HRA) Business Plan and Budget proposed by Cabinet on 25 November 2019 and note any impacts that the recommendations may have on these proposals and note that any recommendations of the Overview, Scrutiny and Policy Development Committee in relation to Cabinet's final Budget proposals will be considered by Cabinet on 3 February 2020;

(b) Consider and agree the final proposals in relation to the 2020/21 Housing Revenue Account Budget and associated Business Plan;

(c) Increase individual housing rents by 2.7% as outlined in section 5 of Annex 1 to this report and in the HRA section of 25 November 2019 Cabinet report in line with the Government's policy for social rent, based on rent increases of Consumer Price Index (CPI) + 1% which was the policy prior to the introduction of 4 years of rent reductions implemented under the Welfare Reform and Work Act 2016;

(d) Increase service charges for 2020/21 in line with CPI except where reviews of services have taken place to reflect changes in actual costs; for the majority of service charges for 2020/21 the increase will be 1.7%;

(e) A review of the garage-letting process was concluded and implemented in 2019/20 which resulted in a phased approach over two years to harmonise garage rents. For 2020/21 it is recommended that garage rents will have no indexation applied whilst the new charging structure is embedded, and that from 2021/22 the rent increase will return to being based on the long-term target for CPI (2%);

(f) Note the assessment in relation to the current year's budget monitoring information (2019/20), and indications of financial plans for 2020-2024 for the Housing Revenue Account;

(g) Note the Capital Investment Strategy (Appendix D (iv)) which sets out the general principles followed by both the General Fund and HRA in relation to the Authority's approach to capital investment. This draft will be due for approval by full Council at its meeting on 20 February 2020 as part of the overall Financial Planning and Budget process. In relation to the HRA, Cabinet is asked to specifically note that the principles of the Capital Investment Strategy will apply to the updated 2020-2025 Asset Management Strategy for the HRA;

(h) Note the draft Treasury Management Statement and Annual Investment Strategy for 2020/21 (Appendix E) which sets out the general principles followed by both the General Fund and HRA in relation to the Authority's management of investments, cash flows, banking, money market and capital transactions. Cabinet is asked to specifically note the continued policy of paying off existing debt where affordable and appropriate within the HRA Business Plan, which will see an estimated £162.600m reduction in loans attributed to the HRA from the start of self-financing to the end of this 30-year plan;

(i) Agree the HRA Investment Plan 2020-2025 (Annex 1 and Appendix D (ii));

(j) To note that 2017/18 saw the end of the 5-year transitional arrangements for the use of a "proxy" for calculating a depreciation charge, and that 2020/21 will see the continuation of the current method to calculate a "true" depreciation charge; and

(k) Approve the Prudential Indicators which are specific to the Housing Revenue Account as set out in Appendix D (iii) to this report.

1.3 Forward Plan:

Twenty eight days' notice of this report has been given and it first appeared on the Forward Plan that was published on 23 December 2019.

1.4 Council Plan and policy framework:

1.4.1 The Budget and Policy Framework Procedure Rules are set out in Part 4.7 of the Authority's Constitution. The Budget is guided by paragraph 4.7.3 covering the process for the preparation, consideration and final approval of the Authority's Council Tax requirement and Council Tax level. The statutory and constitutional requirements for preparing, considering and approving these issues drive the timetable for the Financial Planning and Council Tax setting process of the Authority.

1.4.2 The development of the Financial Plan and Budget has followed the same timetable as in previous years. The proposals have been presented to Overview and Scrutiny during the course of the Budget setting process.

1.4.3 The Financial Planning and Budget process is a fundamental part of the overall governance and assurance framework of the Authority. This in turn provides assurance that is considered as part of preparing the Annual Governance Statement each year.

1.5 Information:

General Fund

1.5.1 2019/20 is the final year of the 2016 Spending Review, which had afforded local government some financial certainty with which to plan over the medium term. The Spending Round 2019 (SR19) was limited to a single year, which included headline numbers for Government spending for 2020/21 and indicative three-year allocations for schools. In addition, SR19 confirmed the Government's proposal to 'roll forward' core components of the 2019/20 Local Government Finance Settlement. The lack of a multi-year Spending Review has meant that there is a significant level of uncertainty when undertaking financial planning for the longer term.

On 7 January 2020 the Chancellor confirmed that the 2020 Budget will be announced on 11 March. Departmental allocations are due to follow in Autumn 2020 and as announced in SR19 it is expected that a multi-year spending review will be conducted for capital and resource budgets beyond 2020/21.

In addition to this, as announced in SR19, the Fair Funding and Business Rates Retention (BRR) schemes scheduled for implementation in April 2020 will now not go ahead until April 2021. Significant risks remain to the Authority's funding around the principles yet to be agreed for fair funding distribution and how the move to 75% BRR is implemented, alongside the Business Rates reset.

Both the Government's Budget, due on 6 November 2019, and the Provisional Local Government Finance Settlement, due in early December 2019, were delayed. Following the conclusion of the General Election, the Government published the Provisional Local Government Finance Settlement (PLGFS) for 2020/21 on 20 December 2019 via a written statement. The content of the Provisional Settlement was largely known in advance as it is based on a technical consultation paper published in October 2019 that set out in more detail the Government's plans for allocating the resources announced in the Spending Round 2019 (SR19). The Final Local Government Settlement is expected to be published in late January or early February.

1.5.2 The Authority's initial Budget proposals were prepared based on the assumptions included in SR19 announced in September and the detail contained within the technical consultation. This approach was recommended in a letter to local authority chief executives and chief finance officers, received from the Ministry of Housing Communities and Local Government on 5 November 2019. The letter advised that, when drawing up draft budgets for 2020/21, local authorities should take account of the proposals that the Government published in the SR19 technical consultation.

1.5.3 The Provisional Settlement was largely in line with SR19 with no material changes made to the headline funding previously announced. The Provisional Settlement provided further detail in relation to the specific funding allocations to authorities as previously included in the technical consultation. The headline announcements are included below, and further details of the Authority's specific funding allocations are included in Annex 1:

- Departmental spending to increase by 4.4% in real terms, whilst keeping within the Government's fiscal rules;
- Social care grants that local authorities received in 2019/20 will continue in 2020/21;
- The Improved Better Care Fund (IBCF) will be maintained at 2019/20 levels, as well as rolling the winter pressures grant (£240m allocated in 2019/20) into the IBCF for 2020/21;
- An additional £1 billion of grant funding will be distributed for social care in 2020/21, plus local authorities will be able to charge a further 2% Adult Social Care Precept (ASCP) (estimated at £500m);

- A real terms increase in the Public Health and Revenue Support Grant;
- Authorities will be able to increase Band D Council Tax up to 2% for the basic element in line with the referendum limit for 2020/21.
- The Settlement Funding Assessment increase will be in line with the small Business Rates multiplier, 1.7%; and
- The extension of compensation for under indexation of the Business Rates multiplier in 2020/21.

The financial impact of the Provisional Settlement for the Authority, subject to the Final Settlement confirmation is included in section 3.8 of the Annex.

The 2020/21 Provisional Settlement brings a much-needed increase in core spending power for local authorities, however, the position for future years remains uncertain. There remains no clear longer-term national funding plan beyond 2020/21, with uncertainty in a number of key funding areas, most notably, the outcome of the 2020 Spending Review (delayed from this year), the distribution of funding across local government (through the Fair Funding Review) and the impact of the anticipated Business Rates reforms and reset.

The draft Budget proposals aim to protect essential services and make sure that the Authority operates as efficiently as possible to provide value for money for local taxpayers. In addition, the proposals aim to protect essential services for the people of North Tyneside, invest in the future of the borough, grow the local economy, and create more jobs and opportunities in a borough that works better for residents.

1.5.4 With so many competing demands, the Elected Mayor and Cabinet have carefully scrutinised the Authority's finances. Whilst the additional funding from the Government announced in the Spending Round is welcomed, it is not considered sufficient to address the underlying need, particularly following the austerity measures implemented since 2010/11.

Dedicated Schools Grant

1.5.5 On 19 December 2019 the Education and Skills Funding Agency (ESFA) published the 2020/21 Dedicated Schools Grant (DSG) allocations. This is based on October 2019 school census data. The 2020/21 allocation for North Tyneside is £165.721m, which is an increase of £9.120m (5.82%) on funding received in 2019/20. This funding covers the 4 blocks of the DSG, Schools, Central Schools Services, Early Years and High Needs. Full details of the funding allocation are included in Section 6, Annex 1.

Whilst additional funding was received for Schools, Early Years and High Needs, funding for the Central Schools Services has been reduced by the DfE in relation to historical commitments by £0.311m, which represents a 20% reduction on funding received in 2019/20. The DfE had previously announced its intention to reduce the funding for the historical commitment's element of the Central Schools Services block, however, there was no indication from the DfE that a 20% reduction for 2020/21 would be applied.

1.5.6 On 20 December 2019 the Minister of State for Schools Standards confirmed the funding for Schools and Early Years. This followed the statement made by the Secretary of State for Education on 3 September 2019 confirming the three-year funding settlement for schools. The main headlines from that statement were nationally, additional funding will be £2.6 billion in 2020/21, £4.8 billion in 2021/22 and £7.1 billion in 2022/23. The statement also included the following detail in relation to 2020/21:

- An increase in per pupil funding for all schools in line with inflation in 2020/21 (1.8%) with minimum per pupil funding levels set at Primary £3,750, Key Stage 3 £4,800 and Key Stage 4 £5,300;
- Minimum rate per pupil for Primary schools rising to £4,000 in 2021/22;
- Additional funding of £780m in 2020/21 for children with special educational needs;
- Additional Early Years funding of £66m;
- Additional funding of £400m in 2020/21 for further education;
- Confirmation that the Government will continue to support additional teachers' pension costs for schools; and
- Commitment to move towards a 'hard' National Funding Formula for schools as soon as practical.

1.5.7 The Authority welcomes the announced increases in funding; however, this will only go so far in addressing the pressures that are being managed across the DSG.

Schools in North Tyneside have faced difficult financial challenges and have seen continued pressure with rising costs relating to pay awards, including the implications of the Nation Living Wage, and North Tyneside Living Wage, pension contributions, apprenticeship levy and other inflationary pressures. In addition, as has been widely publicised, school Budgets are under pressure as a consequence of national policy.

North Tyneside, like many local authorities both regionally and nationally, is experiencing an increase in the numbers of children with Special Education Needs and Disabilities (SEND). The number of children with an Education Health and Care Plan (EHCP) continues to increase and the complexity of the needs of those children and young people continues to grow. There has been a notable increase locally in the numbers of children with Autism Spectrum Disorder (ASD) and/or Social, Emotional and Mental Health difficulties, and profound and multiple learning difficulties. Responding to this increase in needs is creating pressure on the High Needs Block of the Dedicated Schools Grant. The pressure within High Needs has continued to increase in 2019/20 with a forecast in-year outturn variance of £4.533m. The Authority will receive an additional £3.309m in 2020/21 through the High Needs block of the DSG, however, it is not sufficient to address the underlying increase in need.

1.5.8 In September 2017 the Department for Education (DfE) published plans to move to a separate National Funding Formula (NFF), covering Schools, High Needs and Central School Services. The DfE initially proposed a two-year transition period to implement the NFF where local authorities would continue to set a local formula to distribute funding to individual schools. However, in July 2018, the Government confirmed that, as many local authorities had already made significant progress towards implementing the NFF in the first year, and to continue to support a smooth transition, local authorities would continue to determine local formulae in 2020/21.

As in previous years, the Authority will determine the local formula to distribute funding to mainstream schools and academies for the financial year 2020/21. The formula will apply directly to maintained schools for the financial year, and for academies it will form the basis for their funding, distributed by the ESFA, for the year starting 1 September 2020. The local formula must comply with statutory guidance, but within these confines the final decision on the formula rests with the Authority after consultation with schools and the Schools Forum.

For the financial years 2018/19 and 2019/20, in consultation with Schools Forum and the Authority's maintained schools, the Authority made the decision to maintain the existing local funding formula (LFF) in full. In North Tyneside, Secondary schools currently benefit favourably from a local ratio of total funding per pupil (1:1.42 in 2019/20), compared to the national average ratio of 1:1.29 on which the NFF has been based. The decision to maintain the LFF in full in 2018/19 and 2019/20 has afforded Secondary schools a period of financial stability whilst preparing for future changes to their funding. In addition, it has allowed the Authority to consider how the move to the NFF would affect individual schools.

During 2019/20 the Authority has worked with schools to review the LFF and model the impact of moving the LFF towards the NFF. In September 2019, Schools Forum received a report which provided the results of the review and the preferred options for consideration which would form the basis of consultation with all schools. The Authority has a duty to consult with all mainstream schools over proposed changes to the LFF. The consultation took place from 16 September to 11 October and the results were considered by Schools Forum at its meeting on 13 November 2019.

During the consultation, several engagement events were held to provide additional information on the modelling work performed and to support schools to give an informed response. The response rate increased from 38% in 2018 to 68% in 2019 with responses received from 48 schools and 3 governing bodies.

The majority view from the consultation responses received was to support a move from the current LFF, to a LFF which moves the current funding factors 50% towards the NFF factors. In addition, most respondents supported both the use of the Minimum Funding Guarantee (MFG) to minimise the losses some schools would be exposed to following the change and to let the Authority set the level of MFG, subject to affordability.

1.5.9 On 16 January 2020 Schools Forum agreed to the Authority's final proposals for the LFF. Therefore, resource allocations to schools for 2020/21 will be made on that basis.

1.5.10 At its meeting on 25 November 2019 Cabinet agreed (section 1.2.1, (f)) to authorise the Head of Resources, in consultation with the Head of Commissioning and Asset Management, the Cabinet Member for Children, Young People and Learning and the Cabinet Member for Finance and Resources, to undertake resource allocations to schools for 2020/21 in line with the school funding arrangements set out in that report. Resource allocations to schools have been submitted to the ESFA on 21 January 2020 as required by the deadline. Schools will be notified of their allocations no later than 29 February 2020.

Our North Tyneside Plan and Engagement

1.5.11 The Our North Tyneside Plan 2020 – 2024 provides the policy framework or context for the Budget proposals set out in this report. The Plan, which has been refreshed to reflect two key policy developments as agreed previously by full Council, namely the declaration of a climate emergency and the role of the North of Tyne Combined Authority, is set out in Appendix A to this report.

1.5.12 Engagement on both the refreshed Our North Tyneside Plan and the draft Budget proposals set out in this report took place from 26 November 2019 to 21 January 2020. The engagement approach was agreed by Cabinet on 9 September 2019.

External Announcements

1.5.13 Cabinet's draft Budget proposals are based upon available information and judgements at the time of the writing of this report. There are a number of assumptions and judgements built into the figures presented that are outside the control of the Authority and need to be finalised. The final Budget proposals will therefore need to be subject to further review before they can be confirmed. The information to be assessed and finalised is:

(a) The Final Local Government Finance Settlement announcements for 2020/21, including Capital announcements and Specific Grants (due no later than 31 January 2020);

(b) Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Rescue Authority Precepts (due February 2020);

(c) Levies, including the Tyne and Wear element of the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Transport Levy (The North East Combined Authority due February 2020);

(d) Tyne and Wear Joint Service Budgets (due February 2020);

(e) Consideration of the impact of the economic climate on the residents of the borough and council taxpayers;

(f) The pay award for 2020/21 has yet to be announced, the draft Budget includes provision for a 2% pay award; and

(g) The Provisional Settlement did not include information about the national total, or individual authority allocations of the Public Health Grant for 2020/21 (due February 2020).

1.5.14 Therefore, as some external announcements are still to be received, it is recommended that Cabinet authorises the Elected Mayor, in conjunction with the

Cabinet Member for Finance and Resources and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these proposals and where necessary to make any required amendments.

Housing Revenue Account

1.5.15 The HRA has faced a number of significant challenges from new legislation, particularly linked to the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016. 2019/20 saw the final year of the Government's policy to reduce rent by 1% as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI sheltered accommodation homes. 2020/21 sees the return to the Government policy of annual rent increases based on an inflation rate of, the Consumer Price Index (CPI) plus 1%, for at least 5 years giving greater certainty for longer term planning.

April 2019 saw the construction service return to direct management of the Authority. The challenge facing the Authority is to create a fit for purpose construction and maintenance operation, to best meet the needs of the Authority's tenants and residents, whilst delivering value for money. As reported to Cabinet on 25 November 2019, in the first year of operation, positive progress is being made and significant efficiencies are being delivered. The efficiencies being achieved are being re-invested in the Housing Service and are included in these budget proposals as outlined in the Annex to this report.

1.5.16 In the October 2018 Spending Review, the Government removed the HRA borrowing cap. This gives local authorities the freedom to determine the level of unsupported borrowing they undertake to fund housing spend in line with the Prudential Code. It is not proposed to increase our levels of borrowing at this stage. The Authority's position has been assessed against the levels of rental income that can be raised to support increased borrowing and against a background of no guaranteed additional grants to support new build, the availability of suitable sites, and no proposed cessation of the Right to Buy scheme or changes to the levels of discounts available to tenants. In addition, there is an existing programme of new build that has already been approved by Cabinet. Due to the efficiencies being identified within the HPC service the resources available to this existing programme have been significantly increased already. This position will be kept under review in line with the Authority's wider ambitions to increase affordable housing.

1.5.17 These challenges have been fully considered when updating the 30-year business plan, which aims to ensure the long-term viability of the HRA in line with the policy direction of the Elected Mayor and Cabinet and the needs of tenants. A four-year revenue plan has been developed to align the HRA and General Fund financial plans. Cabinet is advised that all projections after 2020/21 are indicative.

1.5.18 Housing Revenue Account tenants have been consulted on these draft proposals and the final HRA Budget is presented in the Annex to this report.

1.6 Decision options:

1.6.1 The following decision options are available for consideration by Cabinet:

Option 1

Cabinet can agree the proposals set out in this report.

Option 2

Cabinet can agree a selection of the proposals and suggest that further / different options are considered by the Senior Leadership Team before submission to full Council on 20 February 2020.

Option 3

Cabinet can disagree with the proposals.

Option 1 is the recommended option.

1.6.2 As explained in Annex 1 to the report, there is still a significant amount of externally provided information that has not yet been received by the Authority. On this basis, Cabinet is recommended to authorise the Elected Mayor, in consultation with the Cabinet Member for Finance and Resources, the Deputy Mayor and other Cabinet Members, to work with the Senior Leadership Team to continue their joint review of these draft proposals.

1.7 Reasons for recommended option:

1.7.1 Option 1 is the recommended option as the Budget proposals have been worked through with all Cabinet Members and have taken due consideration of the Budget Engagement suggestions. The reasons for recommendations are mainly legal in nature, as stated in paragraphs 2.1 and 2.2 of this report.

1.8 Appendices:

Annex 1:	2020-2024 Financial Planning and Budget Process – Cabinet's draft Budget Proposals for the General Fund and Final Budget Proposals for the Housing Revenue Account
Appendix A:	2020-2024 'Our North Tyneside' Plan
Appendix B	General Fund 2020-2024 Financial Pressures Summary
Appendix C	General Fund 2020-2024 Efficiency Savings
Appendix D (i)	2020-2025 Investment Plan Summary
Appendix D (ii)	2020-2025 HRA Investment Plan
Appendix D (iii)	Prudential Indicators 2020-2025
Appendix D (iv)	Capital Investment Strategy 2020-2025

Appendix E	2020/21 Treasury Management Statement and Annual Investment Strategy
Appendix F	Budget Engagement Summary
Appendix G	Reserves and Balances Policy
Appendix H	2020/21 Financial Planning and Budget Timetable of Key Future Decision Milestones
Appendix I	Report of the Overview, Scrutiny and Policy Development Committee
Appendix J	Glossary of Terms

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1.10 Background information:

The following background papers and research reports have been used in the compilation of this report and are available at the offices of the author:

(a) 2020-2024 Financial Planning and Budget Process: Cabinets initial Budget proposals, Cabinet 25 November 2019

https://democracy.northtyneside.gov.uk/ieDecisionDetails.aspx?ID=197

(b) 2020-2024 Financial Planning and Budget Process, incorporating the Council Plan and associated Budget Engagement Strategy, Cabinet 9 September 2019. The report items are as follows: 5b https://my.northtyneside.gov.uk/sites/default/files/meeting/related-documents/5b%20Budget%20and%20Financial%20Plan%20Process%20Report.pdf

(c) Local Government Finance Settlement, letter to Chief Executive / Chief Finance Officers from the Ministry of Housing Communities and Local Government

(d) Provisional Local Government Financial Settlement

https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2020-to-2021

(e) State of the Area Report 2019

https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/State%20of%20the%20Area%20Report%202019.pdf

(f) CIPFA local authority reserves and balances

http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/local-authority-accounting-panel/laap-bulletins/laap-99

(g) 2019/20 Financial Management Report to 30 November 2019 – Cabinet 20 January 2020. The report items are as follows: Agenda item 6, pages 7 – 66

https://democracy.northtyneside.gov.uk/documents/g372/Public%20reports%20pack%2020th-Jan-2020%2018.00%20Cabinet.pdf?T=10

(h) Local Council Tax Support Scheme 2019/20

https://my.northtyneside.gov.uk/sites/default/files/web-page-related-files/North%20Tyneside%20Council%202019-20.docx.pdf

(i) Budget Proposals

(j) General Fund Budget Summaries

(k) MHCLG's Guidance on Local Government Investments

(l) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017

(m) CIPFA Treasury Management Guidance Notes 2018

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

2.1.1 The financial implications arising from this report are appraised as part of the decisions made about what will be included in the Authority's Financial Plan, incorporating the 2020/21 Budget setting process. Decisions on the Budget in relation to the General Fund, Housing Revenue Account, Dedicated Schools Grant (DSG), Capital Investment Plan, Treasury Management Statement and Annual Investment Strategy need to be made within the overall context of the resources available to this Authority and within the legal framework for setting budgets. The Authority will need to examine closely the links with its key funding partners and their proposed financial plans, including an assessment of the impact of any grant fall-out over the proposed four-year resource planning period.

2.1.2 Cabinet and full Council need to have due regard to the Chief Finance Officer's advice in relation to the levels of reserves and balances proposed as part of the four-year Financial Plan for 2020-2024, as issued in guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in July 2014. A provisional statement to Council by the Chief Finance Officer is included in Annex 1 to this report.

2.2 Legal

2.2.1 The Local Government Finance Act 1992 (Section 32: Calculation of Budget Requirement) requires the Council to set a balanced budget in the context of the resources available, including Central Government Grants, Business Rates and Council Tax income. The Localism Act 2011 inserted a new Section 31 into the Local Government Finance Act 1992, which requires the calculation of a Council Tax requirement by billing authorities, rather than a budget requirement calculation, as previously. The Localism Act 2011 also abolished Council Tax capping in England. It instead introduced new provisions into the 1992 Act, making provision for Council Tax referendums to be held in England if an authority increases its Council Tax by an amount exceeding the principles determined by the Secretary of State. The current principles for local authorities with responsibility for social care (county and unitary authorities) provide that a referendum is required if general Council Tax is to increase by 2% or more.

2.2.2 The Local Government Act 2003 imposes duties on local authorities in relation to budget setting. The Act requires that, when an authority is deciding its annual Budget and Council Tax level, Members and officers must take into account a report from the Chief Finance Officer on the robustness of the budget and the adequacy of the authority's financial reserves. The Government has a back-up power to impose a minimum level of reserves on an authority that it considers to be making inadequate provisions.

2.2.3 The 2020-2024 Financial Planning and Budget process has been prepared to comply with the time scales required within the Budget and Policy Framework Procedure Rules contained in the Authority's Constitution and legislative requirements that the Council Tax requirement is determined before 11 March in any year.

2.2.4 Section 76 (2) of the Housing Act 1989 requires each authority to produce a Housing Revenue Account Budget in the January and February that immediately precede the financial year to which it will relate. In relation to the Housing Revenue Account (HRA) draft revenue Budget and associated Business Plan, there is a legal requirement to give all tenants four weeks' notice of any rent changes. In order to allow time for the production and delivery of the appropriate notifications, the Rent and Service Charge increase will be presented to the 3 February 2020 Cabinet meeting for approval.

2.2.5 In accordance with the above and the Local Government Act 2000 (and the Regulations made under that Act), Cabinet is responsible for considering and determining the issues raised in this report.

2.3 Consultation / Community engagement

Internal consultation

2.3.1 Each Cabinet Member has been consulted on the individual proposals put forward in this report, with regular discussions held between the Chief Executive, Head of Resources, Heads of Service, the Elected Mayor and Cabinet.

Community engagement

2.3.2 The 2020/21 Budget Engagement Strategy was agreed at Cabinet on 9 September 2019. The Authority's overall approach to engagement ensures that the public should have opportunities to have their say throughout the year. Engagement on Cabinet's initial Budget proposals and 'Our North Tyneside Plan' priorities took place from 26 November 2019 to 21 January 2020. The Budget proposals have been shaped in the context of the refreshed 'Our North Tyneside Plan' 2020-2024.

2.3.3 This engagement gave residents the opportunity to have their say online, via social media, and through face to face sessions including both through delivering drop-in sessions at Customer First Centres and at events. There have also been meetings with key groups of stakeholders, including the Residents Panel, Staff Panel, businesses, schools, young people, community and voluntary sector, Trade Unions and North Tyneside Strategic Partnership, to discuss the Budget proposals and the changes to the refreshed 'Our North Tyneside Plan' 2020-2024.

2.4 Human rights

2.4.1 All actions and spending plans contained within the Budget are fully compliant with national and international Human Rights Law. For example, Article 10 of the European Convention on Human Rights guarantees freedom of expression, including the freedom to 'hold opinions and to receive and impart information and ideas'. Article 8 of the Convention guarantees the right to respect for private and family life.

2.5 Equalities and diversity

2.5.1 In undertaking the process of the Budget setting, the Authority's aim will at all times be to secure compliance with its responsibilities under the Equality Act 2010 and in particular the Public Sector Equality Duty under that Act.

To achieve this, an Equality Impact Assessment has been carried out on the Budget Engagement process. The aim is to remove or minimise any disadvantage for people wishing to take part in the engagement programme. Specific proposals on how services will seek to meet budgetary requirements have been subject to

Equality Impact Assessments. A cumulative impact assessment (CIA) of all of these has been undertaken. It found that the proposals do not have any cumulative impact on either employees or residents with characteristics protected under the Equality Act 2010.

2.6 Risk management

2.6.1 Individual projects within the Financial Plan and Budget are subject to full risk reviews. For larger projects, individual project risk registers are / will be established as part of the Authority's agreed approach to project management. Risks will be entered into the appropriate operational, strategic, corporate or project risk registers and will be subject to ongoing management to reduce the likelihood and impact of each risk.

2.7 Crime and disorder

2.7.1 Projects within the Financial Plan and Budget will promote the reduction of crime and disorder within the Borough. Under the Crime and Disorder Act 1998, local authorities have a statutory duty to work with partners on the reduction of crime and disorder.

2.8 Environment and sustainability

2.8.1 The 'Our North Tyneside' Plan states that "We will reduce the carbon footprint of our operations and will work with partners to reduce the Borough's carbon footprint". A number of the proposals will contribute to this including those to reduce the Authority's energy consumption. The environmental and sustainability aspects of individual proposals will be assessed in detail as and when agreed and implemented.

PART 3 - SIGN OFF

• Chief Executive	X
• Head of Service	X
• Mayor/Cabinet Member(s)	X
• Chief Finance Officer	X
• Monitoring Officer	X
• Head of Corporate Strategy and Customer Service	X

2020-2024 Financial Planning and Budget Process:

General Fund Revenue Budget, Housing Revenue Account Budget, Dedicated Schools Grant, Investment Plan and Treasury Management

North Tyneside Council

WE SERVE

INDEX

1. Introduction

1.1.1. This Annex sets out North Tyneside Council's proposed General Fund and Housing Revenue Account (HRA) Budget for the financial year 2020/21, together with indicative plans for the next three years 2021/22-2023/24. This follows on from the initial Cabinet Budget proposals of 25 November 2019, which formed the basis on which Cabinet has sought the views of residents, tenants and partners.

1.1.2. The first section of the Annex sets out the engagement approach taken during December and January with the Authority's key stakeholder groups. Appendix F to this Annex summarises the outcomes of that engagement.

1.1.3. In setting the Budget for the upcoming and future financial years it is crucial that the resource allocations align with the overall vision and strategic priorities of the Elected Mayor and Cabinet. Section 3 of this Annex summarises the key strategic plans which must be considered when setting the Budget and which must form part of the development of Cabinet's Medium-Term Financial Strategy.

1.1.4. Medium-term financial planning is fundamental in order to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term. The highlights of the Provisional Local Government Finance Settlement which have been included, where appropriate, in the 2020/21 Budget proposals are detailed at the end of section 3 of this Annex.

1.1.5. Sections 4 to 7 of the Annex describe in detail the Budget proposals for the General Fund, Housing Revenue Account, Dedicated Schools Grant and 2020-2025 Investment Plan.

1.1.6. Section 8 of the Annex outlines the proposed 2020/21 Treasury Management Strategy and Annual Investment Strategy which needs to be considered and approved by Cabinet.

1.1.7. During December 2019, the Budget sub-group of the Overview, Scrutiny and Policy Development Committee considered and scrutinised Cabinet's approach to Budget engagement and Cabinet's initial Budget proposals. Section 9 of this Annex proposes how Cabinet should consider responding to any recommendations made by the sub-group in relation to the 2020/21 Budget.

1.1.8. The Council is legally required to set a balanced Budget for the General Fund for 2020/21 to meet statutory duties and provide services such as social care and environmental services. For the HRA, the Council Tax payer cannot subsidise those living in social housing and the rents and service charges paid by the tenants cannot be used to fund unrelated council services. It is also illegal for an authority to budget for a deficit in its HRA or use HRA reserves for General Fund expenditure.

1.1.9. Sections 10 and 11 of the Annex outline the duties and responsibilities imposed on local authorities through the Local Government Act 2003: the financial risks, risk assessment and actions necessary to mitigate against the risks posed within the Budget proposals. The Act requires Members and officers to take into account the

Chief Finance Officer’s report on the robustness of the Budget and the adequacy of the Authority’s financial reserves.

2. Engagement Approach

2.1.1 North Tyneside Council is committed to being an organisation that works better for residents and to ensure that it listens and cares. This commitment includes giving residents and other key stakeholders an opportunity to be involved in the Financial Planning and Budget process.

The Authority's overall approach to engagement ensures that the public have opportunities to have their say throughout the year, through a series of different methods, including engaging with the Elected Mayor, Cabinet and ward members through activities such as the Mayor Listens Events and Community Conversation activities. The Authority also offers a broad range of both on-line and face to face engagement or consultation exercises on different key issues as well as the annual Residents Survey.

2.1.2 In all its engagement activity, the Authority is committed to ensuring that residents with protected characteristics, as set out in the Equality Act 2010, can participate. In line with this an Equality Impact Assessment has been undertaken on the 2020/21 Budget Engagement Strategy and this is available on request. The engagement approach is set out below.

2.1.3 Engagement with residents and others took place between 26 November 2019 and 21 January 2020. This was done via:

- an on-line questionnaire published on the North Tyneside Council website;
- face to face sessions with the Residents Panel and other key stakeholder groups; and
- four drop-in events (one at each of the Customer First centres).

2.1.4 In the face to face discussions attendees were provided with information about the refreshed Council Plan, the Authority's Budget and Cabinet's initial Budget proposals as agreed on 25 November 2019. Attendees were asked to give their views on the proposed Council Plan and the Budget proposals.

2.1.5 At the drop-in events, officers were able to talk to residents about Cabinet's proposals and people were given the opportunity to complete the same questionnaire as was published on the website. Residents were also offered the opportunity to access information and complete the surveys in hard copy through Customer First Centres. All these engagement opportunities were publicised widely to explain how people could get involved.

2.2 <u>Target Audiences</u>

2.2.1 The engagement approach aimed to reach different sectors of the population through a targeted approach. The approach delivered both universal engagement as well as engagement with particular groups e.g. carers, people who are deaf or hard of hearing.

Specific external audiences:

- Residents of North Tyneside

- People who use our services
- Children and young people
- Older people
- The North Tyneside Strategic Partnership
- Business community
- Schools
- Voluntary and community sector (including faith groups)
- Carers
- Tenants

Internal audiences:

- Elected Members
- Staff
- Strategic Partners (Engie and Capita)
- Trade unions

Approach

2.2.2 The engagement approach aimed for maximum reach by offering a range of different opportunities for people to have their say. In line with the Authority's Engagement Strategy principles agreed by Cabinet on 9 September 2019, these opportunities were:

- Inclusive - making sure that everyone could engage in the process;
- Clear - being clear on the aims of the engagement activity at the outset and the extent to which residents and others could be involved;
- Integrated - ensuring that engagement activities were joined up with the relevant decision-making processes;
- Tailored - aiming to better understand our audience and using different methods appropriately to enable and encourage people to be involved;
- Feedback - giving feedback through agreed channels when engagement activity is completed; and
- Timely - aiming to give enough notice to make opportunities available to all and taking into account those times when it is more appropriate to engage depending on the target audience

2.2.3 Information about the Budget proposals was provided on the Authority's website www.northtyneside.gov.uk. This included information to explain the context and set out the proposals. This was accompanied by a questionnaire to provide opportunities for people to give their feedback either via the website, e-mail or through social media.

2.2.4 Members of the Residents Panel were invited to attend two sessions throughout December 2019 which provided them with further context to the Budget setting process, enabled them to listen to the proposals and provided face-to-face feedback. The sessions aimed to give residents a clearer understanding of local authority finance and Budget setting processes that enabled them to critically appraise the initial proposals and then feedback accordingly. Participants also got the opportunity to meet senior officers to have their questions answered directly.

2.2.5 Targeted events were held for key stakeholder groups including: Staff Panel, businesses, schools, young people, community and voluntary sector, trade unions and the North Tyneside Strategic Partnership.

2.2.6 Introduced this year were drop-in sessions across the four Customer First Centres. Facilitated by senior officers, these were held at different times of day and included weekends to ensure maximum opportunity for residents to attend.

2.2.7 Engagement with people who use the Authority's services, or their representatives, was via existing networks. The engagement programme was advertised via the press and social media and at key outlets and facilities including libraries, Customer First Centres, community centres and leisure centres and this year included advertising in GP surgeries.

3. Strategic Plans

3.1 Strategic Plan Considerations

3.1.1 This section of the Annex provides an overview of the strategic planning / policy documents that Cabinet must consider and be mindful of when making decisions relating to the allocation of resources. The alignment of resources to the strategic priorities of the Elected Mayor and Cabinet is a fundamental part of the Budget setting process.

3.1.2 The Medium-Term Financial Strategy (MTFS) is developed in the context of the strategic priorities and policy decisions which are made by Cabinet and ensures that the Authority's strategic plans can be delivered within the financial resources available. In addition, the MTFS ensures the Authority has a clear financial vision and direction for the medium term and that Cabinet understands the financial implications of decisions that are taken.

3.2 Our North Tyneside Plan

3.2.1 The proposed refresh of the Our North Tyneside Plan 2020 - 2024 (the Council Plan) will set out the overall vision and policy context within which the Medium-Term Financial Plan (MTFP) and Budget proposals will operate. Since 2015 North Tyneside has worked to a clear set of priorities through the Council Plan. These priorities have been regularly reviewed and updated to ensure that they continue to reflect the needs and ambitions of the Borough.

3.2.2 This vision and policy context reflect the updated priorities of the Elected Mayor and Cabinet for the next four years and the work of the North Tyneside Strategic Partnership which includes all of the organisations and sectors who work together with the Authority to deliver an improved future for the Borough and its residents.

3.2.3 The Council Plan continues to provide a clear framework for the Authority to plan its use of resources. It provides the context for all financial decisions and the operational delivery of services both at borough level but also increasingly as the Authority continues to work alongside other local authorities across the region, statutory partners and with business through the North East Local Enterprise Partnership.

3.2.4 The Council Plan has three key themes: Our People, Our Places and Our Economy. These themes are based on the Elected Mayor's priorities for her second term.

Our People will:

- Be listened to so that their experience helps the Council work better for residents;
- Be ready for school – giving our children and their families the best start in life;
- Be ready for work and life – with the right skills and abilities to achieve their full potential, economic independence and meet business needs;

- Be healthy and well – with the information, skills and opportunities to maintain and improve their health, well-being and independence, especially if they are carers;
- Be cared for, protected and supported if they become vulnerable including if they become homeless; and
- Be encouraged and enabled to, whenever possible, be more independent, to volunteer and to do more for themselves and their local communities.

Our Places will:

- Be great places to live by focusing on what is important to local people, such as by tackling the derelict properties that are blighting some of our neighbourhoods;
- Offer a good choice of quality housing appropriate to need, including affordable homes that will be available to buy or rent;
- Benefit from the council's housing stock being decent and well managed, as well as maximising the potential use of housing such as through extra care schemes;
- Recognise the climate emergency by further reducing the Borough's overall carbon footprint. This will include reducing the council's carbon footprint, along with encouraging and enabling everyone to reduce their carbon footprint;
- Provide a clean, green, healthy, attractive and safe environment;
- Have an effective transport and physical infrastructure - including our roads, pavements, street lighting, drainage and public transport;
- Continue to be regenerated as part of our 15 year 'Ambition for North Tyneside' plan. This will include the continued development of Killingworth Lake, creation of a Master Plan for North Shields, the delivery of plans for Segedunum and the Swans site in Wallsend, as well as further work to build on the success of the regeneration at the coast; and
- Be a thriving place of choice for visitors through the promotion of our award-winning parks, beaches, festivals and seasonal activities.

Our Economy will:

- Benefit from the delivery of our ambitious vision, which we created with partners in the North of Tyne Combined Authority. We will have a dynamic and more inclusive economy, which will ensure that all residents have a stake in our region's future;
- Grow by supporting new businesses and building on our strengths, including our existing world class companies, and small and growing enterprises;
- Be business friendly, ensuring the right skills and conditions are in place to support investment, and create and sustain new high-quality jobs and apprenticeships for working age people; and
- Continue to support investment in our business parks, units and town centres.

3.3 Our North Tyneside Plan Performance

3.3.1 The Our North Tyneside Plan (the Council Plan) sets out a range of measures for ensuring that our people are ready for school, ready for work and life and are cared for safeguarded and healthy if required. The following is a summary of the latest performance with delivering the plan. A full report was approved by Cabinet on 20 January 2020.

Our People

Based on an analysis of the latest data, North Tyneside has strong performance with:

Continued progress with supporting young people to be ready for school:

- 72% reached a good level of development at the Foundation Stage, which is in line with the national figure of 72%. Since 2013, North Tyneside has improved by 24% points, which is 4% points greater than the national improvement.

More young people being ‘ready for work’:

- 67% of pupils have reached the Expected Level in Reading, Writing and Mathematics in North Tyneside at Key Stage 2 (age 11). This is an improvement from 2017 and remains higher than the provisional national average. At Key Stage 4 (GCSE) North Tyneside’s overall performance in English and Maths 4+ remains in line with last year; and
- This performance is supported by the high number of North Tyneside primary and secondary schools that are rated as Good or Outstanding by Ofsted. Around 8 in 10 young people attend a school that is ranked as Good or Outstanding.

People being cared for and supported, especially if they become homeless:

- Only 52 people were accepted as homeless in 2018/19, which is down from 179 the previous year. This significant improvement is due to the changes that were introduced at the start of the year, which ensured a greater focus on prevention and triage work in order to prevent an individual becoming homeless; and
- Despite the widely reported challenges, there continues to be strong performance in supporting people through both adults’ and children’s social care. 73% of users feel that the Adult Social Care Service has made them safe, which is higher than the national position.

Our Places

Based on an analysis of the latest data, North Tyneside has strong performance with:

People being happy to live in North Tyneside:

- 79% of people are satisfied with their local area as a place to live. This is above comparator councils (which are reporting between 66% and 74%) and is in line with last year and the national LGA survey.

Delivering a clean, green, healthy, attractive, safe and sustainable environment:

- There was less than 1,000 tonnes of rubbish per household collected last year, due to a number of changes, including at the Household Waste and Recycling Centre. The amount of waste collected from households and operations has now at its lowest level. The proportion of household reuse, recycling and composting has shown improvement since the introduction of alternate weekly collections; and
- The Authority's carbon footprint has reduced by 45% since the baseline year of 2010/11 and is on course to achieve the target of a 50% reduction by 2027.

Delivery of the Authority's Affordable Homes Programme is on track to deliver 3,000 affordable homes across the Borough between 2014/15 and 2023/24:

- 1,471 Affordable homes have been completed so far. This exceeds the performance from the previous 10 years by 75%.

Promotion of parks, beaches, festivals and seasonal activities:

- Three beaches in North Tyneside are among a group of only 52 beaches in the country to win both a Blue Flag and Seaside Award. Half of the Blue Flag awards given to North East beaches were presented in respect of North Tyneside beaches. Six of the warden managed parks in North Tyneside have retained their Green Flag Awards; and
- The Authority's events and festivals programme continues to attract visitors year-round. Over 180,000 visitors attended events in the past year.

<u>Our Economy</u>

Based on an analysis of the latest data, North Tyneside has strong performance with:

Supporting new businesses and building on our strengths, including our existing world class companies, and small and growing enterprises:

- The number of registered businesses in North Tyneside has grown every year since 2011, which has led to an increase of around 15,000 jobs in the Borough since 2013. there are now 85,000 jobs;
- Ensuring that young people in North Tyneside have the right high-level skills to progress and succeed in the jobs market is key to the success of the local economy; and
- While the rate of apprenticeship starts by population has decreased from last year, in part due to national changes, North Tyneside remains in the top quintile performance band. There has also been an increase in the rate of higher (level 4) apprenticeship starts.

Taking all of this into account, the Our North Tyneside Plan has at its core, two fundamental policy aims:

First, whilst there has been success across the Plan over the last four years, there is still a need to reduce the inequalities that persist in North Tyneside. Within our Borough, the Council continues to have some of the least deprived neighbourhoods in the country but also some of the most deprived in terms of financial independence, skills, qualifications, health and well-being.

This will mean working in a very different way to ensure that resources can be more effectively targeted at the people who need them most. To ensure that all residents have a successful, healthy and safe future, no matter where they live in the Borough; and

The second is to continue to invest in the Borough's future and to create a prosperous economy that will generate income and provide the jobs and training opportunities that will be essential to successfully tackling these inequalities, the key areas of investment being:

- coastal regeneration;
- Swans/the North Bank of the Tyne;
- town centres;
- new and improved schools;
- road and other transport improvements in line with the agreed Transport Strategy;
- housing (particularly affordable homes) in line with agreed Housing Strategy;
- support for businesses; and
- marketing the Borough to secure more inward investment and generate more visitors as a tourist destination.

3.4 Cabinet Policy Priority – Poverty Intervention Fund

3.4.1 Cabinet considers it necessary to take futher action to support residents in North Tyneside who are experiencing poverty and financial hardship due to the increasing detrimental impact of Universal Credit and other Government welfare reforms. Cabinet is proposing to create a Poverty Intervention Fund aims to provide focus and direction on the priorities for improving services and opportunities for residents. This will be supported with the use of £1.000m from the Strategic Reserve which will be earmarked for this purpose. The work will be led by the Deputy Mayor and the Cabinet Member for Finance.

3.5 Local Plan

3.5.1 The Local Plan is the second key strategic element that drives the direction of resources in the Borough and was adopted by the Authority on 20 July 2017. The Local Plan, the first spatial strategy for 15 years, sets a vision for the Borough for the next 15 years. It sets out in detail how the Borough can be a thriving, prosperous and attractive place to live and work. It details how the Borough will require around 9,800 homes (in addition to about 4,700 that already have planning permission) and employment land for at least 12,700 new jobs.

The latest population projections from the Office of National Statistics estimate an increase of 15,800 people between 2014 and 2032. The population of North Tyneside in 2032 is expected to be 218,500.

3.6 Ambition for North Tyneside

3.6.1 At its meeting on the 26 November 2018, Cabinet considered and agreed the Ambition for North Tyneside. The report, which articulates the Elected Mayor and Cabinet's ambition for North Tyneside, explains in more detail the Elected Mayor and Cabinet's future ambitions for each part of the Borough. The Ambition for North Tyneside aligns with the Local Plan and aims to match the ambition for the Borough with the plans set out for the Borough.

Since agreeing the Ambition for North Tyneside, significant progress has been made by the Authority and its partners in keeping its promise and delivering a range of projects across the Borough. This includes commencing work on the second phase of the Centre for Innovation in Wallsend. New family housing has been brought forward at the coast on sites that formerly blighted the Authority's coastal visitor offer such as the former Avenue Public House. There has been investment in flood defences at Killingworth Lake as well as further investment in the Authority's housing stock, highways and schools. A full progress report was considered by Cabinet on 25 November 2019.

3.7 Medium-Term Financial Strategy

3.7.1 A Medium-Term Financial Strategy (MTFS) is critical to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term. This MTFS needs to support delivery of the refreshed Our North Tyneside Plan 2020-2024, as set out above, which is the key driver of the Authority's resource allocation. The Budget setting process helps the Authority respond appropriately to responsibilities and duties placed upon local government through legislative requirements, increasing demand, complexity of need and cost for adults' and children's services and the Government's drive to deliver savings.

Whilst decisions around Budget setting are approved on an annual basis, the Authority must demonstrate medium-term financial and resource planning. Annual Budget decisions should be taken in the context of the overall Medium-Term Financial Strategy that looks to all Authority services and takes into account the Government's local government finance agenda.

3.8 Provisional Local Government Finance Settlement

3.8.1 The Provisional Local Government Finance Settlement is a key part of annual Budget setting. It provides the annual determination of funding to local government.

3.8.2 The Provisional Local Government Finance Settlement was announced on 20 December 2019 by the Secretary of State for Housing, Communities and Local Government. Major new funding announcements were made in the Spending

Round 2019, announced on 4 September 2019 with the Provisional Settlement, subject to Final Settlement confirmation, providing details of the allocations of additional social care funding. The highlights of the Provisional Settlement are detailed below and have been included in the 2020/21 Budget proposals where appropriate:

Business Rate Retention Scheme

- The multiplier is based on the September CPI and it will increase from 49.1p to 49.9p in 2020/21, an increase of 1.7%; and
- Continuation of the compensation for under indexation of the Business Rates multiplier in 2020/21.

Council Tax thresholds

The maximum general increase in Band D will be 1.99% in 2020/21. This is lower than the maximum threshold in the two previous years (2.99% in 2018/19 and 2019/20):

- Core principle of a maximum increase of 1.99% in Band D. This applies to unitaries, county councils, London boroughs, GLA precept, and fire and rescue authorities;
- Continuation of the Adult Social Care Precept. Maximum flexibility of 2% in 2020/21;
- Shire district councils will be able to increase Band D by the higher of 1.99% or £5; and
- Police and Crime Commissioners precept has yet to be announced.

New Homes Bonus

- The national baseline for New Homes Bonus (NHB) will remain at 0.4% for 2020/21. The major change in NHB is that the new amounts earned in Year 10 will only attract an NHB reward for one year (2020/21). In the following year (2021/22), rewards will only be paid in respect of years 8 and 9, and in year 2022/23 only for year 9.

Social care grants

The social care grants announced in the 2018 Autumn Budget will continue in 2020/21. There were two elements to the funding:

- Winter Pressures Funding: £240m North Tyneside will receive £1.031m in 2020/21, this funding will be rolled into the Improved Better Care Fund with no restrictions on its use; and
- Social Care Support Grant: £410m for adults' and children's social care. North Tyneside will receive £1.761m in 2020/21. Local authorities can use this additional funding to alleviate demand on the NHS for adult social care. However, the grant can also be used to fund social care services for older people, people with disabilities and children.

As announced in the Spending Round 2019, an additional £1 billion of grant funding will be distributed for social care in 2020/21. This funding is being distributed using the Adults Relative Needs Formula and the equalisation of

£150m of Council Tax income. Subject to confirmation in the Final Settlement the Authority will receive £4.446m in 2020/21.

Rural Services Delivery Grant

- No change in funding or the methodology for 2020/21 (no impact for the Authority).

Negative Revenue Support Grant

- The elimination of negative RSG will continue in 2020/21 (no impact for the Authority).

Public Health Grant

- A real terms increase in the public health budget was announced in the Spending Round 2019. However, the Provisional Settlement did not include information about the national total, or individual authority allocations of the Public Health Grant for 2020/21.

Former Independent Living Fund Recipient Grant

- This grant will continue in 2020/21 and the Authority will receive £0.612m.

3.8.3 Table 1 below shows the movement in income and expenditure as a result of the Provisional Settlement and other Government announcements made since the November Cabinet meeting.

Table 1: Financial impact of the Provisional Settlement and other Government announcements

Movement since November Cabinet	£m
Resources	0.633
New Homes Bonus	(1.023)
S31 Grant NNDR – Indexation compensation	(1.666)
Social Care Grant	(0.146)
Total Income Movement	**(2.202)**
National Living Wage	0.590
Review of Growth	0.652
Contingency for inflation pressures	0.960
Total Expenditure Movement	**2.202**

On 31 December 2019 the Government announced that low paid workers will receive a 6.2% pay rise with a new National Living Wage of £8.72 from the start of April 2020. The impact of this increase for the Authority for 2020/21 is £0.590m, this has been included as an additional growth pressure.

The current budget monitoring position as at 30 November 2019 is a forecast pressure of £3.483m. It is important that Cabinet and Senior Managers take account of the current financial position of the Authority when considering the Budget for 2020/21. To manage the financial risk identified for 2020/21 Cabinet propose an additional £0.652m for current Budget pressures.

The Contingency Budget has been increased by £0.960m to provide for inflation risks during 2020/21.

4. General Fund

4.1 Medium-Term General Fund Position

4.1.1 2019/20 is the final year of the 2016 Spending Review, that Spending Review afforded local government some financial certainty with which to plan over the medium term. The Spending Round 2019 (SR19) was limited to a single year, which included headline numbers for Government spending for 2020/21 and indicative three-year allocations for schools. In addition, SR19 confirmed the Government's proposal to 'roll forward' core components of the 2019/20 Local Government Finance Settlement. The lack of a multi-year Spending Review has meant that there is a significant level of uncertainty when undertaking financial planning for the longer term.

In addition to this, as announced in SR19, the Fair Funding and Business Rates Retention (BRR) schemes scheduled for implementation in April 2020 will now not go ahead until April 2021. Significant risks remain to the Authority's funding around the principles yet to be agreed for fair funding distribution and how the move to 75% BRR is implemented, alongside the Business Rates reset.

Both the Government's Budget, due on 6 November 2019, and the Provisional Local Government Finance Settlement, due in early December 2019, were delayed. Following the conclusion of the General Election, the Government published the Provisional Local Government Finance Settlement (PLGFS) for 2020/21 on 20 December 2019 via a written statement. The content of the Provisional Settlement was largely known in advance as it is based on a technical consultation paper published in October 2019 that set out in more detail the Government's plans for allocating the resources announced in the Spending Round 2019 (SR19).

4.1.2 It has already been highlighted that, at a local level, there are changes in North Tyneside's demography with an increasing population and a growing number of the Authority's most vulnerable residents requiring complex health and social care support. The Authority, wherever possible, aims to manage demand as effectively as possible targeting services at those residents with greatest need. This can only contain, or at best slightly reduce, the overall size of the population in receipt of the services. However, the average cost of these services has risen due to the increased average complexity of the needs of those clients.

4.1.3 The draft Budget proposals aim to protect essential services and make sure that the Authority operates as efficiently as possible to provide excellent value for money for local taxpayers. In addition, the proposals aim to protect essential services for the people of North Tyneside, invest in the future of the Borough, grow the local economy, and create more jobs and opportunities in a borough that works better for residents.

4.1.4 With so many competing demands to pay for services, the Elected Mayor and Cabinet have carefully scrutinised the Authority's finances. Whilst the additional funding from the Government announced in the Spending Round is welcomed, it is not considered sufficient to address the underlying need, particularly following the austerity measures implemented since 2010/11. In terms of balancing the

MTFP, Cabinet continue to consider proposals that would begin to meet an estimated funding gap in the region of £39.574m over the next four financial years.

4.2 Funding social care pressures

4.2.1 Of the funding announced in SR19, subject to Final Settlement confirmation, the Provisional Settlement confirmed that the Authority will receive £4.446m of the additional £1 billion social care grant. The Government has pledged to maintain this funding for the lifetime of the parliament; therefore, the Medium-Term Financial Plan has been updated to reflect this.

As described in section 3.8.2 the social care grants announced in the 2018 Autumn Budget will continue in 2020/21, at the same level received in 2019/20 (£2.792m).

The additional funding and resources go some way to addressing the pressure being felt in the delivery of social care services across the Authority. However, like many other authorities, the Authority continues to see pressures in respect of children's social care. In terms of a sustained level of children and young people requiring appropriate support, the costly nature of this work and the scarcity of social workers are creating workforce retention issues across the region.

4.3 Council Tax

4.3.1 Council Tax Support

In 2013/14 the national Council Tax Benefit scheme came to an end, and Local Council Tax Support was introduced in its place. At the same time, funding was transferred into the Settlement Funding Assessment (SFA, comprising Revenue Support Grant and Business Rates) after being cut by over 10%. As this funding is not separately ring-fenced within the SFA, it has effectively been cut at the same rate as the Authority's SFA has been cut for each subsequent year.

This has put significant additional strain onto the General Fund Budget and resulted in the Authority, as well as many other local authorities, seeking to collect some Council Tax from working age people who previously received 100% Council Tax Benefit.

Council Tax Support under the Authority's current scheme is capped at 85% of an individual's Council Tax liability, meaning that working age people are charged 15% of their Council Tax before they receive Council Tax Support.

Pensioners are not subject to the cap referred to above and may still be awarded reductions of up to 100% of their Council Tax liability.

Cabinet are not proposing any changes to Council Tax Support in 2020/21 as stated in the Financial Planning & Budget Process report to Cabinet of 25 November 2019.

4.3.2 Council Tax Empty Homes Premium

On 16 January 2020, it was determined by full Council that from 1 April 2020 the Authority would implement an Empty Homes Premium. This is in increase in the Council Tax charge for a property and is applied when a property is empty and substantially unfurnished over a certain period of time. Over 450 properties in the Borough are currently considered to have been empty and substantially unfurnished for a period in excess of two years. This premium is being applied to encourage owners of long-term empty properties to bring them back into occupation and is in line with Government legislation. Using funding generated from this additional Premium, the Authority will work with owners to assist them to bring their empty properties back into use. The Empty Homes Premiums being applied are as follows:

- From 1 April 2020, where a property has been empty and unfurnished for two years but less than five years an additional 100% Council Tax Premium will be applied; and
- Where a property has been empty five years or more the Council Tax Premium is increased to 200%.

In addition, full Council also determined on 16 January 2020, that from April 2021, where a property has been empty for ten years or more, the Council Tax Premium would increase to 300%.

4.4 <u>Business Rates</u>

4.4.1 The level of Business Rates is set by the Government and is based on the rateable value of non-domestic properties across North Tyneside. The Authority previously had no direct financial interest in the collection of Business Rates and acted purely as an agent of the Government. However, since 2013/14 the Authority has retained 49% of the Business Rates collected and paid the other 51% over to the Government (50%) and the Tyne and Wear Fire and Rescue Authority (1%). As a result, the Authority now has a direct financial incentive to maximise the amount of Business Rates collected in North Tyneside.

North Tyneside Council was part of the North of Tyne Combined Authority Business Rates Pilot Scheme for 2019/20 (along with Newcastle City Council and Northumberland County Council). For 2019/20 only, 74% of the Business Rates collected was retained under this arrangement, with the additional income being pooled across the pilot.

For 2020/21, the retention figure for North Tyneside Council will revert back to 49% of the Business Rates collected, with the other 51% again being paid over to the Government (50%) and the Tyne & Wear Fire and Rescue Authority (1%).

4.4.2 The 2017 national revaluation of Business Rates resulted in a slight reduction in total rateable value in North Tyneside, as was also experienced across the North East region. The Government adjusts authorities' top-up grants to ensure that no authority suffers a detriment as a result of the revaluation.

The Authority, like all other authorities, remains exposed to the risk of Business Rate appeals, which are determined by the Valuation Office Agency. The Government introduced a new check, challenge and appeal process in April 2017 which appears to have improved the efficiency of the appeals process, as challenges against rateable values have significantly reduced in both 2017/18 and 2018/19. Due to the impact of appeals in previous years, it has been assumed that Business Rates income remains at the current budgeted level until confidence in the new system is assured.

4.4.3 Previous Autumn Statements and Budget events (the last budget being in October 2018) have announced a number of changes to offer additional support to businesses in reducing their Business Rates liability. These include:

- Retail Discount Scheme providing up-front support to the Business Rates system through reducing bills by one-third for retail properties with a rateable value below £51,000, for 2 years from April 2019, subject to state aid limits;
- The introduction of 100% business rate relief for all public lavatories with the aim of helping keep these amenities open; and
- Amendments to the Small Business Rate Relief Scheme, including increasing the eligibility thresholds, permanently doubling of the relief, and extension of the relief period for those ratepayers taking on an additional property.

The next Budget is due to be announced on 11 March 2020. The Conservative Government's election manifesto promised an increase in the Retail Discount Scheme from 33% relief to 50% relief for 2020/21 and some additional support for pubs.

There are currently 360 retail properties in North Tyneside benefitting from the Retail Discount Scheme with an overall cash value of £920,000 relief. If the scheme is increased to 50% relief, then this figure will reach approximately £1.38m relief throughout 2020/21. This money is fully reimbursed to local government via a payment ("section 31 grant") as set out in Section 31 of the Local Government Act 2003.

4.5 <u>Devolution</u>

4.5.1 The strength of the economic climate can impact locally in terms of impact on the Authority's residents and local businesses and can have a wider impact of growth and strength of the region as a whole. The three North of the Tyne Authorities - North Tyneside, Northumberland and Newcastle - agreed to move to a devolution deal, and the North of Tyne Combined Authority (NTCA) came into existence on 2 November 2018.

The inaugural meeting of the NTCA took place on 8 November 2018 when Cabinet agreed the Authority's vision – Home of Ambition. At that meeting, Cabinet also agreed the governance arrangements for the Authority, including the allocation of six Cabinet portfolios, and the appointment of the Chair and Statutory Officer. The portfolio areas are:

1. Economic Growth – Councillor Bruce Pickard (portfolio lead)
2. Business Competitiveness – Councillor Nick Forbes (portfolio lead)
3. Employability and Inclusion – Councillor Joyce McCarty (portfolio lead)
4. Housing and Land – Elected Mayor Norma Redfearn (portfolio lead)
5. Education Improvement – Councillor Wayne Daley (portfolio lead)
6. Place and Productivity – Councillor Peter Jackson (portfolio lead)

The 2019/20 Budget was agreed by Cabinet on 12th March 2019 and on 2nd May 2019, following Mayoral elections, Jamie Driscoll (Labour) was elected as Mayor of the North of Tyne Combined Authority.

4.6 Brexit

4.6.1 The implications of leaving the European Union (EU) are not fully known but there could be a potential impact for the Borough due to reductions in EU funding, a change in interest rates, and an increase in the cost of basic goods which could all impact on residents. There could be positive outcomes resulting from different trade opportunities. As there is still a degree of doubt the risk associated with leaving the EU is not measurable. The impact will be closely monitored, and any adverse effects considered and reported through the appropriate channels within the Authority's governance structure.

4.7 General Fund Medium-Term Financial Plan

4.7.1 As set out in the report to Cabinet on 25 November 2019, Cabinet's approach to developing the 2020/21 Budget has been to take, as far as possible, a balanced approach to developing the Budget in order to maintain those services most residents wish to access as well as investing in those services for the Authority's more vulnerable residents.

In the Spending Round 2019 (SR19), the Chancellor announced proposals for a £2.9 billion cash increase in local government's 'core spending power', to come from an extra £1.2 billion in social care grant funding for local authorities. The other £1.7 billion is expected to come from an increase in Council Tax (1.99% general Council Tax increase and a 2% precept for social care) an increase in Business Rates baseline funding in line with inflation. These proposals remain unchanged and form the basis of the Provisional Settlement.

The Elected Mayor and Cabinet's draft Budget proposals therefore include for consideration a 1.99% general Council Tax increase and an 2% Adult Social Care Precept. The Medium-Term Financial Plan (MTFP) includes the cumulative impact of these increases for the subsequent financial years 2021/22 to 2023/24.

It is important for Cabinet to note that this is in line with the general increase in Council Tax recommended by the Government. Although increases may be assumed for medium-term planning purposes, any increase in Council Tax in future years will need to be considered by Cabinet and agreed by full Council in line with current constitutional arrangements.

4.7.2 Pension Valuation

Members will be aware that the Authority has historically had a significant Pension Fund deficit that has resulted in an annual payment to the Tyne and Wear Pension Fund to cover the this.

The 2019 Actuarial Valuation reflects a significant improvement in the asset values of the Pension Fund, such that the fund is no longer in deficit. The financial implications of this is that a net General Fund Budget of £6.826m is available for realignment.

The Chief Finance Officer is recommending to Cabinet that the volatile nature of the Pension Fund valuation is such that the material use of this resource should be for one-off transactions only, as far as is reasonable. With regards to this, it is proposed that the residual Budget is realigned as follows:

Table 2: Chief Finance Officer Recommendation

	Chief Finance Officer Recommendation £m
Pension Deficit Budget	6.826
One off debt reduction / MRP Saving	(3.000)
Pay Policies	(0.250)
Budget Gap	(2.230)
Contingency	(1.346)

4.7.3 General Fund Resources

Table 3 below sets out the assumed level of resources available to fund the General Fund Budget, developed using the following assumptions:

- Revenue Support Grant, Business Rate Retention and Business Rates Top Up grant are in line with the proposed Spending Round 2019 and the move back to 49% Business Rates Retention for 2020/21;
- Inflation increase in Business Rates of CPI of 1.7%;
- Council Tax Base growth has been considered as at the end of November 2019 with assumptions for further growth based on indications from the Local Plan, with prudent consideration taken of the timing of expected delivery and potential risks of economic impacts on a slowdown of housing growth; and
- An estimated 2019/20 Council Tax surplus of £0.636m based on the year-end forecast position of the Collection Fund.

These assumptions take the overall position on resources from £155.730m in 2019/20 to an estimate of £156.148m by 2023/24 as detailed in Table 3 below.

Table 3: 2020-2024 General Fund Financial Plan Resources Assumptions, prior to Council Tax increases

	2019/20 £m		2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Council Tax	94.364		97.015	97.407	97.799	98.191
Estimated Council Tax surplus	1.365		0.636	0.000	0.000	0.000
Revenue Support Grant	0.000		11.380	11.380	11.380	11.380
Business Rates	42.582		27.955	27.044	26.564	26.072
Business Rates Top Up	17.419		20.505	20.505	20.505	20.505
Total Resources Available	**155.730**		**157.491**	**156.336**	**156.248**	**156.148**

Table 4 below sets out the impact on available resources should an increase in Council Tax and an Adult Social Care Precept (ASCP) be agreed in 2020/21. The Spending Round 2019 assumes a general Council Tax increase of up to 1.99% and an ASCP of 2% which would generate a further estimated £3.870m of resources in 2020/21, the impact of which is set out below:

Table 4: 2020-2024 General Fund Medium-Term Financial Plan resources with potential Council Tax increase and Adult Social Care Precept included

	2019/20 £m		2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Council Tax	94.364		97.015	97.407	97.799	98.191
Estimated Council Tax Surplus	1.365		0.636	0.000	0.000	0.000
General Council Tax 1.99%	0.000		1.930	1.938	1.946	1.954
Adult Social Care Precept 2%	0.000		1.940	1.948	1.956	1.964
Revenue Support Grant	0.000		11.380	11.380	11.380	11.380
Business Rates	42.582		27.955	27.044	26.564	26.072
Business Rates Top Up	17.419		20.505	20.505	20.505	20.505
Total Resources Available	**155.730**		**161.361**	**160.222**	**160.150**	**160.066**

4.8 <u>Cost pressures</u>

4.8.1 The need to find savings in 2020/21 and future years is driven by significant unfunded cost pressures arising from several sources, as well as the stagnation in resources from the Government. The Authority is experiencing the same service pressures as many other metropolitan authorities. These cost pressures arise for a number of reasons, including:

- Legislative / regulatory changes;
- Pay and price inflationary increases: increases in pay are based on an assumed 2% pay increase;
- Increasing demand for services: increased demand for social care services coupled with the complexity of individuals' needs (for example increased numbers of adults with complex learning disabilities);
- The impact of the Improved Better Care Fund (IBCF) grant announced after the 2019/20 Budget had been agreed including the additional impact for 2020/21; and
- Corporate pressures increase support to apprenticeships, changes to utilities and ICT pressures, changes to schools and an increase in contingency provision.

Further details of the cost pressures are included in Appendix B.

4.8.2 In the context of setting the Budget for 2020/21, it is also important to consider the in-year Budget monitoring position. The first report to Cabinet which detailed the forecast outturn as at May 2019 identified an in-year pressure of £5.263m. At month 8 this position has improved, and the forecast outturn pressure is now estimated to be £3.483m (as at 30 November 2019).

A number of sessions have already been held with Cabinet Members and senior management to give consideration as to the actions required to manage the financial risk identified for 2020/21, including what additional actions can be taken in line with the Authority's Efficiency Programme. Service areas have continued to develop plans to mitigate identified financial pressures. It is anticipated that the forecast outturn will continue to improve over the course of the remaining financial year as planned remedial actions impact on both expenditure and income. Therefore, there is no anticipated use of reserves required to balance the 2019/20 General Fund outturn position.

Taking the available baseline resources into account and the growth pressures identified, the gap/efficiency requirement for 2020/21 is currently estimated at £4.675m with a projected total of £39.574m to the end of 2023/24, as set out in Table 5 below:

Table 5: 2020-2024 General Fund Medium-Term Financial Plan cumulative funding gap

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Estimated General Fund Base Budget	154.726	155.730	157.491	156.336	156.248
Estimated Growth / Pressures	11.557	12.328	12.779	11.796	11.225
Estimated Resources / Carry Forward General Fund Base Budget	(155.730)	(157.491)	(156.336)	(156.248)	(156.148)
Funding Gap / Efficiencies	**10.553**	**10.567**	**13.934**	**11.884**	**11.325**
2019/20 Full year effect of business cases in future years		(1.346)	(1.262)	(0.982)	(0.000)
Revised Resources Gap		**9.221**	**12.672**	**10.902**	**11.325**
Adult Social Care Grant		(4.446)	0.000	0.000	0.000
IBCF – 2% CPI		(0.100)	0.000	0.000	0.000
Gap before Council Tax options and efficiencies		**4.675**	**12.672**	**10.902**	**11.325**
Cumulative funding gap before Council Tax and efficiencies	**10.533**	**4.675**	**17.347**	**28.249**	**39.574**

The indicative cumulative funding gap over the period of the Financial Plan is £21.003m as detailed in Table 6 below. This is after taking into consideration the potential options for Council Tax at 1.99% for 2020/21, Adult Social Care Precept at 2% and the current savings proposals which are being considered by Cabinet as part of the Budget setting process.

Table 6: 2020-2024 General Fund Medium-Term Financial Plan cumulative funding gap before Council Tax options and 2020/21 Budget proposals

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Gap before Council Tax and Adult Social Care Precept options and 2020/21 Budget proposals	4.675	12.672	10.902	11.325
Council Tax increase at 1.99% 2020/21 only	(1.930)	(1.938)	(1.946)	(1.954)
Adult Social Care Precept at 2% 2020/21 only	(1.940)	(1.948)	(1.956)	(1.964)
2020/21 savings proposals	(0.805)	(0.530)	(0.625)	(1.035)
Annual funding gap	**0.000**	**8.256**	**6.375**	**6.372**
Cumulative funding gap	**0.000**	**8.256**	**14.631**	**21.003**

4.9 Efficiency Savings

4.9.1 The Authority's approach for 2020-2024 is to achieve savings early where possible to mitigate against future financial risks. In 2020/21, the Authority will see the benefit of actions and proposals implemented during the three financial years to 2019/20 and this work will continue over the medium term.

4.9.2 Expensive services will continue to be more effectively targeted only at the people who need them, ensuring that the Authority's most vulnerable residents have a successful, healthy and safe future no matter where they live in the Borough. Cabinet has protected, wherever possible, those universal services accessed by all, such as libraries, customer service centres and sport and leisure facilities.

4.9.3 Work continues to improve understanding and management of demand, concentrating wherever possible on enabling people to help themselves. Intelligence is being used to target scarce resources to best effect, income is maximised and long-term costs reduced. Work continues in partnership to improve outcomes with an innovative use of technology.

4.9.4 The Customer Service programme is expected to undertake a series of service reviews that will focus on ensuring the Authority delivers efficient and effective services. Appendix C sets out in more detail the efficiency savings for 2020-2024, which are summarised in Table 7 below:

Table 7: Efficiency Savings 2020-2024

Efficiency Programme	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Contractual changes	(0.360)	(0.430)	(0.525)	(0.935)
Expenditure reduction	(0.028)	0.000	0.000	0.000
Income growth	(0.100)	(0.100)	(0.100)	(0.100)
Service provision – Commissioning	(0.067)	0.000	0.000	0.000
Corporate changes	(0.250)	0.000	0.000	0.000
Total 2020/21 Budget Proposals	**(0.805)**	**(0.530)**	**(0.625)**	**(1.035)**

5. Housing Revenue Account

5.1 Introduction

5.1.1 Cabinet is being asked to approve the Housing Revenue Account (HRA) Business Plan and Budget for the financial year 2020/21. This includes housing rent, garage rent and service charge changes, and the HRA elements of the Investment Plan. This Budget also includes indicative plans for the next three years in line with the Financial Planning and Budget process for the General Fund, as well as a 30-year balanced HRA Business Plan. Cabinet have sought views of residents, tenants and partners on these plans on this basis.

5.2 Background and Government Policy Context

5.2.1 North Tyneside Council is responsible for the management of just under 14,700 council houses. Council housing rents and service charges form the majority of income to the HRA. It is this income that is used to fund the management and maintenance of the housing stock. As required by law, this income and expenditure is accounted for in a ring-fenced account.

5.3 Housing Green Paper

5.3.1 The Government published the Green Paper “A New Deal for Social Housing” in August 2018, which arose from a desire to consult on changes post-Grenfell. This Green Paper sought to redress the balance between residents and landlords, tackle the stigma attached to social housing and to ensure that social housing can provide a stable base to both support people when they need it but also enable social mobility. Consultation on this paper closed on 6 November 2018 and Cabinet await the Government’s response to the outcomes of that consultation, and any resulting impact on housing policy/legislation.

5.4 Right to Buy Consultation

5.4.1 Alongside the Green Paper the Government also issued a consultation paper regarding the process that allows local authorities to use Right to Buy (RTB) receipts to deliver new homes. This consultation on this closed on 9 October 2018 and Cabinet await the outcome of this. Early assessment is the policy focus will remain a continuation of increasing home ownership opportunities and there will be minimum change for the Authority. Cabinet will be kept informed of any relevant changes that are announced.

5.5 Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016

5.5.1 The Authority continues to respond to the implications, in housing terms, resulting from the implementation of the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016. 2020/21 sees the end of the Governments policy to reduce rent by 1% for 4 years as enacted in the Welfare Reform and Work Act 2016 for all housing stock. From April 2020 the Government has announced that social rents will return to an annual increase based on Consumer Prices Index (CPI) plus 1%. This will be for at least 5 years which will allow a degree of certainty when considering longer-term business planning.

5.6 Removal of the HRA Borrowing Cap

5.6.1 In the October 2018 Spending Review, the Government removed the HRA borrowing cap. This gave local authorities the freedom to determine the level of unsupported borrowing they undertake to fund housing spend in line with the Prudential Code. The Authority's position has been assessed against the levels of rental income that can be raised to support increased borrowing, against a background of no guaranteed additional grants to support new build, the availability of suitable sites, and no proposed cessation of the Right to Buy scheme or changes to the levels of discounts available to tenants. It is not proposed to increase the level of borrowing in the HRA at this point in time. In addition, there is an existing programme of new build that has already been approved by Cabinet. Due to the efficiencies being identified within the Service the resources available to this existing programme have been significantly increased already. This position will be kept under review in line with the Authority's wider ambitions to increase affordable housing.

Since the last Budget report to Cabinet, work has been ongoing to review the approach to debt management in the HRA and at this stage it is not proposed to change the Authority's approach. It is a policy priority of the Mayor and Cabinet to deliver more affordable homes. Further work will be undertaken over the next 12 months to identify potential available sites as part of the Authority's affordable homes delivery.

5.7 Insourcing of the Kier North Tyneside Joint Venture

5.7.1 April 2019 saw the construction service return to direct management of the Authority. A key priority of the transfer of the Service from Keir North Tyneside to the Authority was to realise the potential benefits and savings and redirect them into the HRA Business Plan. As highlighted last year, many of the benefits accrue against capital schemes. These savings create opportunities to either accelerate planned investment in the existing housing stock, or to invest in new build as appropriate. As the Service has bedded in, confidence is building that the benefits will be realised, and as such, these Budget proposals contain the first set of benefits that will be accrued to the HRA. These are built into the projections for 2020-2024 and are aligned to the policy priorities of the Elected Mayor and Cabinet.

The first set of benefits see an additional £1.500m per annum in revenue savings realised and built into the HRA Business Plan. In addition, it was also forecast that £1.400m of further savings will be achieved against the Investment Plan, this has been reported to Investment Programme Board, and a decision was taken to use £0.500m of that saving in-year to undertake additional emergency works within the 2019/20 programme. Alongside these positive additions to the plan, a full review of the Authority's Housing Asset Management Plan has been undertaken, and work is underway to establish the potential for further longer-term benefits and savings, with the ultimate aim of creating a service that best meets the on-going needs of the Authority's tenants and residents whilst delivering greater efficiency and value for money.

5.8 Summary

5.8.1 These challenges continue to be considered as part of the updating of the 30-year plan which aims to ensure the long-term viability of the HRA in line with the policy direction of the Elected Mayor and Cabinet and the needs of tenants. For the purposes of the current Financial Planning and Budget process a four-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that projections beyond 2020/21 are only indicative at this stage. A five-year timeframe is being proposed for the Housing Investment Plan in line with the overall 2020-2025 Investment Plan.

5.8.2 Housing Revenue Account tenants have been consulted on these proposals and Cabinet are asked to approve the final HRA Budget, including the housing rent, garage rent and service charge changes and the Housing Investment Plan at this meeting.

5.9 Key Objectives and headline assumptions for the Housing Service

5.9.1 The over-riding objectives for the Housing Service are in line with the agreed Housing Strategy and, as far as possible within financial constraints, to:

- Ensure the application of the principles of Economy, Efficiency and Effectiveness;
- Continue to invest in the existing stock to maintain the Decent Homes Standard;
- Maintain and develop effective engagement with tenants;
- Continually monitor the impact of changes such as Universal Credit and other welfare reform on our tenants and ensure they have the appropriate support;
- Work with Private Landlords to refurbish stock where appropriate;
- Undertake environmental improvements to estates to ensure that they are clean and safe;
- Support the delivery of Affordable Homes across the Borough;
- Specifically increase the delivery of new build Council homes where practicable; and
- Create sustainable tenancies and maximise rental income collection.

5.9.2 The key headlines for the HRA Budget for 2020/21:

- 2019/20 marks the end of the Governments policy to reduce rent by 1% for 4 years as enacted in the Welfare Reform and Work Act 2016 for all housing stock including PFI Sheltered Accommodation. From April 2020, for at least the next 5 years, rent increases will return to the previous policy of being based on the Consumer Prices Index (CPI) plus 1%. The baseline for 2020/21 is the CPI rate as at September 2019 which was 1.7%. The rent increase recommended for 2020/21 in line with Government policy will be 2.7%;
- In line with rent policy, increase service charges for 2020/21 are in line with CPI except where reviews of services have taken place to reflect changes

in actual costs. For the majority of service charges for 2020/21 the increase will be 1.7%;

- A review of the garage letting process was concluded and implemented in 2019/20 which resulted in a phased approach over two years to harmonise garage rents. For 2020/21 it is recommended that garage rents will have no indexation applied whilst the new charging structure is embedded, and that from 2021/22 the rent increase will return to being based on the long-term target for CPI which is 2%;
- Benefits identified from the service returning to direct management of the Authority will be built into the HRA Business Plan base Budget, which will be £1.500m per annum initially from revenue savings;
- There will be an increased focus on sustaining rental income through additional support to tenants, £0.350m per annum;
- The Investment Plan has been refreshed based on the revised Asset Management Plan, along with revised funding identified for new build proposals; and
- There are a number of options available to Cabinet to allocate the additional resources identified and there has been a significant amount or work undertaken to look at other tenant priorities. There is also the opportunity to look at options for allocating some resource to meet some of those priorities. These options include:
    - Improved Empty Homes;
    - Additional cleansing regimes in some of our communal areas;
    - Free pest control service for our tenants (free at the point of contact, but the HRA will pay a contribution towards the costs of the service to cover this provision);
    - Property MOTs i.e. scheduled maintenance visits as opposed to reactive ones to properties identified as high maintenance;
    - Reinstatement of a shorter painting frequency; and
    - Continuation of the fencing programme beyond existing time scales.
    - In creating the HRA Business Plan a Cabinet Tenant Priority Budget has been created totalling £0.500m which would enable some of these issues to be addressed. Proposals as to how the money could be allocated will be presented to Cabinet for approval as appropriate;
    - It is recommended that the balance of the initial £1.500m of savings identified are made available for the new build programme; and
    - Sustain working HRA balances at a minimum of £2.500m.

5.10 HRA Investment Plan

5.10.1 Asset Management Strategy (AMS) and New Build Project Funding

The Asset Management Strategy (AMS) is regularly updated and refreshed to make the stock data current, to fully identify the maintenance needs of the stock over the lives of the assets and to build these into the HRA Investment Plan. The Authority's stock is now at or above the Decent Homes Standard, therefore this year's plan is mainly a refresh of key elements around stock numbers to roll the Plan forward. However, in addition the Plan has built in savings identified from the Service delivery of the Housing Investment Plan. The Plan identifies £108.564m of works to maintain the Decent Homes Standard over the next 5 years (£21.219m for 2020/21), with an estimated £24.917m available for new build over the same period (£5.643m for 2020/21 including re-programming of £3.000m from 2019/20). These figures are based on continuing Cabinet's existing approach to debt management and self-financing.

There are alternative options available to Cabinet to increase the resources available for new build, such as increasing the level of borrowing, which is linked to the Government's removal of the HRA borrowing cap. However, due to the Public Works Loans Boards decision to increase loan interest by 1%, this is a less favourable option. The Authority will continue to look at and work on alternative solutions to increase new build, but as already mentioned this will have to be looked at in the context of the wider Affordable Homes programme, available grant funding, site availability and the continuation of the Right to Buy policy which continues to reduce housing stock numbers.

5.11 Medium-Term HRA Position

5.11.1 There are a number of key drivers which underpin the HRA Business Planning Process, which are outlined briefly below, namely:

- Government Rent policy;
- Future funding for Supported and Sheltered Housing;
- The Asset Management Strategy and New Build projects as part of Cabinet's Affordable Housing ambitions;
- Right to Buy Sales;
- Treasury Management Strategy and the removal of the HRA borrowing cap;
- Self-Financing and Depreciation;
- North Tyneside Living; and
- Cessation of the Kier North Tyneside Joint Venture project from April 2019.

5.12 Rent

5.12.1 2019/20 was the final year of Central Government's 4-year 1% per annum rent reduction policy, introduced by the Welfare Reform and Work Act 2016. The rent policy will return to being based on the Consumer Prices Index (CPI) + 1% for at least 5 years starting April 2020. As already mentioned above, for 2020/21 this means that the rent increase recommended will be based on the CPI rate at September 2019 which was 1.7%, leading to a 2.7% rent increase in line with the Government formula. This confirms what most HRA Business Plans had assumed and gives some clarity in the medium term. Cabinet should also be aware of the following assumptions reflected in the HRA Budget and Financial Plan:

- The Authority will continue to move to target rent when properties become empty;
- An initial review of service charges attached to North Tyneside Living schemes has been undertaken, and service charges attached to those schemes will be increased in line with CPI i.e. 1.7%. However, as the schemes continue to become established and fully operational, the Authority is endeavouring to gather more accurate trend data, and ensure that service charges reflect actual costs as closely as possible;

- Cabinet agreed to exempt service charges from the 1% annual reduction and to freeze them until 2019/20 based on an assumption of low CPI rates. It is recommended that the policy is amended in line with the base for rent i.e. increases in line with CPI in future, excluding the additional 1%. That would mean a 1.7% increase for 2020/21 as explained above. Charges for furniture packs were revised in 2017/18 to reflect the newly procured service and these service charges are continually reviewed to ensure that the income collected adequately covers costs. The Authority also continues to monitor the impact of welfare reform changes. Members will be kept informed of any further announcements that clarify the position as soon as possible. Service charges on affordable rent properties are not exempt as the 80% of market rent calculation includes any service charges;
- Garage rents are linked purely to an assessment of demand for the asset with no link to rent policy, the plan proposes to continue the target of 2% increases per annum based on long-term Government CPI projections as being reasonable. However, the lettings policy and charges have been reviewed, and a revised charging policy was implemented which covers the two years up to March 2021, with the aim of harmonising charges across all garages. It is, therefore, recommended that there is no indexation applied for 2020/21 to enable the new charging regime to harmonise fully, with a return to CPI increases the following year;
- It is assumed that the policy previously agreed by Cabinet to protect existing North Tyneside Living tenants from rent increases will continue. All new tenancies commence at the newly calculated rents. It is estimated that this protection will cost in the region of £0.060m in 2020/21 and will continue to steadily reduce from this point; and
- From April 2018 Cabinet agreed that the Authority would move from a 50 to a 52-week rent year to enable better synchronisation with welfare reform changes and the introduction of Universal Credit. The impact of this change saw tenants' weekly rent spread over 52 weeks, although for those residents that wish to continue paying over 50 weeks this option was made available. This has resulted in an anomaly for 2019/20 which is a 53 week rent year, and those on Universal Credit could suffer financial hardship for that final week. The Government has not proposed any solution other than Council's using their own resources to fund any hardship, fortunately 53 week rent years don't occur that regularly, so this is an issue that won't affect 2020/21.

5.12.2 The implications of any issues arising from welfare reform changes including Universal Credit (UC) continue to be monitored. UC started to be rolled out for all new claimants in North Tyneside from February 2018 for both single claimants and families. It is important to ensure that tenants continue to be kept fully informed of the requirements of the new scheme, and to maintain the two-way communication process to ensure they are supported in managing the change, and to avoid people falling into arrears, which has been a significant factor in most of the pilot schemes to date. In North Tyneside early Universal Credit figures show that at the end of July 2019 in excess of 2,600 tenants were on UC, with 2,024 of those being in arrears totalling just under £1.592m. As stated earlier in the report, 2020/21 will see an increased focus on sustaining rental income through the investment in additional staff to support residents.

It is not now anticipated that the UC scheme will be fully rolled-out across all areas of the country until at least 2023. Members will continue to be updated of any significant further changes as they become clear.

5.13 Future Funding for Supported and Sheltered Housing

5.13.1 As reported last year the position with regards to funding supported housing (which includes Sheltered Accommodation) remains unchanged. Originally the Government announced an intention to fundamentally change the funding for supported housing from April 2019 to a two-tier system, linking the amount provided to cover rent and service charges through the existing welfare system to Local Housing Allowance caps.

In addition, there was to be a separate top-up grant for each area to be administered by the top tier Local Authorities to cover "support", very likely to be much along the lines of the old Supporting People system, which would have had significant resource implications for the authority. These proposals led to significant concern among the housing sector that this could have signalled the cancellation or delay of any future development of supported housing schemes in a sector which has seen ever increasing need. Following a full consultation process the Government announced that in the short-term funding for existing supported housing would remain within the housing benefit system. This helps ensure that, at least in the short-term, sheltered accommodation remains an affordable and viable alternative for our ageing population. This does mean that there may be further implications for new supported housing but at this stage there have been no further announcements.

5.14 Right to Buy (RTB) Sales

5.14.1 RTB sales have increased significantly since the start of self-financing at the end of 2011/12.

Table 8: Right to Buy Sales 2011/12 to date

Year	Total number of Properties
2011/12	30
2012/13	85
2013/14	122
2014/15	100
2015/16	135
2016/17	136
2017/18	158
2018/19	135
2019/20 to Dec	91

5.14.2 As part of changes the Government introduced back in 2012/13, the Authority signed an agreement that allows RTB receipts above the levels assumed as part of self-financing to be retained as long as they are used to fund new build homes at a 30% contribution rate within 3 years. This has seen an additional £5.563m of Capital Receipts retained to the end of 2018/19, which has helped deliver £16.996m of new build schemes to-date.

The trend in RTB sales is reflected in the 2020/21 Business Plan profile for stock numbers with circa 120 RTB sales and other disposals assumed.

5.15 Treasury Management Strategy (TMS) and the HRA Borrowing “Cap” removal

5.15.1 The HRA is an integral part of the TMS for the Authority, and decisions were taken at the point of the introduction of self financing in 2012 as to the approach to be taken to HRA debt. When self-financing was introduced, all stock retaining authorities were either given an additional allocation of debt or had some of their debt paid off, depending on an assessment of the value of their 30-year Business Plans and the amount of debt they could be expected to manage. For North Tyneside this meant raising £128.000m of additional loans through borrowing via the Public Works Loan Board to pay our allocated share of debt to the Treasury. Each Authority at that point was allocated a “cap” which represented the maximum amount of debt that could be held attributable to the HRA. The Authority at that time was one of only a handful nationally where the actual debt held was above the “cap”. The Authority’s debt was £290.825m against a calculated cap of £270.585m but the Government “flexed” our cap to match our actual debt position to enable self-financing to happen.

5.15.2 The Authority had to decide what debt and risk approach they wanted to take to fund both investment in existing stock and potentially any new-build opportunities. Cabinet agreed at this point to steer a middle course around risk, setting aside money where possible to repay debt each year to bring our overall debt holdings down below the cap. It was not the intention at that time however to repay all debt held over the initial 30 years. This debt repayment approach has created some revenue surpluses which have been utilised to fund a programme of HRA new build with HRA new build spend totalling £22.674m to the end of 2018/19. In addition, by the end of March 2019 the Authority’s actual HRA debt stood at £254.818m compared to the £290.825m “cap”, and by the end of March 2020 it is anticipated that the debt will drop further to £250.216m.

It is against this background that consideration needs to be given to the Government’s proposals to remove the HRA borrowing cap. The proposals move from utilising revenue sums to guarantee affordability of schemes to a policy of increasing borrowing to fund more new build spend and this brings with it the need to consider the following factors and risks:

- No proposed change to the RTB policy at this stage;
- No guaranteed grant-funding to support new-build spend;
- Potential additional flexibility around the use of additional RTB receipts;
- Availability of suitable land assembly for social housing new-build schemes and all related planning considerations; and
- Pace at which schemes would need to be delivered to support additional borrowing costs.

5.15.3 At this point last year, the Authority was on the verge of bringing 400 staff back from Kier, which led to the proposal to delay such considerations. In the light of the above factors it is not recommended to change the existing approach at this stage. However, continued review of the alternative approaches to raising funding for new build will be carried out and will inform future reports to Cabinet, including further fundamental review of the 30-year HRA business Plan.

5.15.4 The starting point for the 2020/21 budget setting process is to base the HRA Budget on the existing Cabinet-agreed policy approach, acknowledging that the figures beyond 2020/21 are indicative at this stage and are likely to change as a result of a number of factors, namely the Housing Investment Plan, which has been refreshed for 2020/21, and the continued implications of the construction service returning to direct management of the Authority, which via its Benefits Realisation Plan is now starting to bear fruit with the commencement of the new services.

There are a number of other important factors to consider:

The Council's overall Treasury Management Strategy:

- Any change in approach has to be considered across the whole Council, and more importantly any change to the borrowing strategy would have to be approved by full Council. The HRA limits on borrowing have been set to mirror the slow reduction in debt over time, any increase in borrowing would break the Authority's ceiling unless Council agreed to lift the ceiling;

Current PWLB interest rates and Brexit implications:

- When self-financing was introduced the Authority took advantage of historically low interest rates to borrow the funding required to buy itself out of the HRA subsidy system, those rates averaged out at just under 3.5% per annum in interest on £128.000m. Those rates have remained at or below those types of levels since that time. In light of these figures the option of increased borrowing becomes far more attractive but only if the rates stay low, and this has already been tested by the PWLB increasing loan rates by 1% unexpectedly in October 2019. Current external advice from the Authority's Treasury advisers Link Asset Management suggests that even if there was a "No Deal" Brexit and the economy went into recession, that rates would remain relatively low for at least the next 3 years and may fall further if there was a need to stimulate the economy; and

Land Assembly and Capacity:

- Cabinet would need to be sure that any attempt to increase funding for new build could be matched by both the developer capacity and the land sites available to deliver the new build schemes in the timescales necessary to generate additional rental income to sustain the business plan long-term. It is intended that any option to proceed would depend upon a realistic strategy for land assembly and delivery to be developed to match any increased funding.

5.16 <u>Self-Financing and Depreciation</u>

5.16.1 From 2017/18 the Government has required that all local authorities calculate a true depreciation charge as a true bottom line cost to the HRA. The approach developed by the Authority calculates a simple depreciation charge based on splitting investment works across a number of component elements of a building and linking that to the way the Authority's properties are valued using a number of "beacon properties" i.e. a sample of properties which represent the different standard types of properties held by the Authority. The level of depreciation calculated using this method will be able to be contained within the amounts currently budgeted in the 30-year HRA Business Plan.

5.17 Construction Project 2019

5.17.1 The resources necessary to fund the costs of the successful transformation project up to completion and sign-off in October 2019 will drop out of the business plan from 2020/21, both within the Housing Revenue Account and Investment Plans.

5.18 Summary Plans

5.18.1 The option modelled for the HRA Business Plan of continuing the current policy for 2020/21 has the following set of basic assumptions:

- Additional rental income of CPI plus 1% with a proposed rent increase for 2020/21 of 2.7%, with a longer-term assumption based on CPI target that equates to 3% per annum;
- Garage rent and service charges will settle with some minor delay for garages at increases of CPI per annum;
- Revenue savings from the Service of £1.500m per annum have been assumed and built into the plan;
- Increased focus on sustaining rental income following the roll-out of Universal Credit, investing in the region of £0.350m in additional staff to support tenants;
- A potential budget for additional Cabinet and Tenant priorities of up to £0.500m per annum would be created, with a list of costed options to be presented to Cabinet as appropriate; and
- The base Investment Plan has been refreshed based on an update of the Asset Management Plan, and includes savings anticipated from the service returning to direct management of the Authority.

The updated HRA Business Plan for 2020-2024 builds in savings to enhance the new build programme in the next few years and continues to repay some debt. Table 9 below shows the reduction in HRA debt included in the current plan.

Table 9: Impact on HRA Debt 2020-2050 of Revised Business Plan

Description	Base Case £m
Opening Self-Financing Debt	290.825
Opening HRA Debt	250.216
Closing HRA Debt after 30 Years	128.224
Debt Repaid over 30 years	121.992
Debt Repaid from start of SF	162.601

The initial Budget proposal figures in the 25 November 2019 Cabinet report start from the HRA budget monitoring position reported to the same meeting for the period to the end of September 2019, which showed projected year-end balances of £7.584m. For this report, the figures have been updated to reflect the budget monitoring position to 30 November 2019, which were reported to the 20 January 2020 meeting of Cabinet which show estimated balances improving further to

£7.592m as at 31 March 2020, with a net contribution to balances in-year of £0.289m. The revised Business Plan provides for an increase in the level of funding for new build to maintain the focus on increasing the number of Affordable Homes in the Borough. The big unknown currently is the impact Brexit could have on our debt position, and if interest rates went up considerably contradictory to external Treasury Management advice and borrowing rates shifted significantly. It is prudent that Cabinet does not look to change its borrowing policy at this stage, until more certainty can be gained over future economic trends.

Table 10 below shows the revised four-year HRA Business Plan 2020-2024, and then Table 11 splits those changes between Pressures and Growth, Efficiencies and Reserves and Contingencies. The five-year Housing Investment Plan 2020-2025 is included within Appendix D (ii).

5.18.2 A further breakdown of the movement on Reserves and Contingencies is shown in Table 12 below; this includes a contribution from reserves of £2.589m for 2020/21. It is proposed to create additional contingency budgets of £0.596m to recognise inflationary increases and a pay award.

Table 10: Housing Revenue Account (HRA) 2020-2024 (Base Case – existing debt approach)

	2019/20 Forecast Outturn	2020/21 Draft Budget	2021/22 Draft Budget	2022/23 Draft Budget	2023/24 Draft Budget
	£m	£m	£m	£m	£m
Rent, Garages and Service Charge Income	(59.193)	(60.024)	(61.470)	(63.009)	(64.609)
PFI Credits - North Tyneside Living	(7.693)	(7.693)	(7.693)	(7.693)	(7.693)
Rent from Shops, Offices etc.	(0.275)	(0.275)	(0.281)	(0.281)	(0.281)
Interest on Balances	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)
Contribution from Balances	0.000	(2.589)	(1.427)	(1.044)	0.000
Total Income	**(67.211)**	**(70.631)**	**(70.921)**	**(72.077)**	**(72.633)**
Capital Financing Charges	12.110	13.831	13.493	13.339	13.182
Management Costs	10.326	10.227	10.420	10.620	10.835
Repair and Maintenance	11.325	12.247	12.424	12.619	12.824
PFI Contract Costs – North Tyneside Living	9.641	9.690	9.736	9.786	9.836
Revenue Support to Strategic Investment	9.053	10.470	10.092	10.403	9.093
Depreciation / Major Repairs Account (MRA)	12.392	12.826	13.276	13.740	14.220
Bad Debt Provision	1.008	0.980	1.080	1.180	1.215
Transitional Protection	0.070	0.060	0.050	0.040	0.030
Management Contingency	0.150	0.300	0.350	0.350	0.350
Pension Fund Deficit Funding	0.855	0.000	0.000	0.000	0.855
Contribution to Balances	0.281	0.000	0.000	0.000	0.193
Total Expenditure	**67.211**	**70.631**	**70.921**	**72.077**	**72.633**

	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
HRA Balances	**£m**	**£m**	**£m**	**£m**	**£m**
Estimated HRA Balances B/Fwd	**(7.304)**	**(7.593)**	**(5.004)**	**(3.577)**	**(2.533)**
Contribution to/from HRA	**(0.289)**	**2.589**	**1.427**	**1.044**	**(0.193)**
Estimated HRA Balances C/Fwd	**(7.593)**	**(5.004)**	**(3.577)**	**(2.533)**	**(2.726)**

Table 11: 2020-2024 Housing Revenue Account Financial Plan

HRA Forecast Expenditure Plan	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Original Base Budget	2.331	2.589	1.427	1.044
Add:				
Pressures and Growth				
HRA Debt set aside – MRP equivalent	1.990	(0.292)	0.000	0.000
North Tyneside Living (NTL) – Unitary charge	0.104	0.106	0.109	0.111
NTL – Contributions to / from PFI Reserve & contract monitoring	(0.056)	(0.060)	(0.059)	(0.061)
Depreciation (formerly MRA)	0.434	0.449	0.465	0.481
Housing Investment Plan-revenue support	1.417	(0.378)	0.311	(1.310)
Pension Fund Deficit Funding	(0.855)	0.000	0.000	0.855
Neighbourhood and Income Management Proposed Restructure	0.310	0.000	0.000	0.000
Revenue Repairs – Inflation/Pay Award/Superannuation rate increase	0.305	0.228	0.231	0.235
General Management Pay Award & Superannuation rate increase	0.303	0.196	0.198	0.214
Repairs – Tenants Priorities Budget	0.500	0.000	0.000	0.000
Bad Debt Provision	0.200	0.100	0.100	0.035
Total - Pressures and Growth	**4.652**	**0.349**	**1.355**	**0.560**
Efficiency Savings				
Council Dwellings – Rent Increases	(1.272)	(1.372)	(1.464)	(1.523)
Rental Income – Temporary and Dispersed Accommodation	(0.006)	(0.006)	(0.006)	(0.007)
Garage & Other Rents	0.000	(0.015)	(0.009)	(0.009)
NTL – Transitional Rent Protection	(0.010)	(0.010)	(0.010)	(0.010)
Service Charges – Furniture Packs	(0.019)	(0.023)	(0.024)	(0.024)
Service Charges – Sheltered and Communal Areas	(0.030)	(0.036)	(0.036)	(0.037)
Repairs Budget Savings	(0.500)	0.000	0.000	0.000
Management Cost Savings	(1.000)	0.000	0.000	0.000
Repairs – removal of Construction Project Budget	(1.300)	0.000	0.000	0.000
Treasury Management – Existing Debt & DME	(0.214)	(0.024)	(0.104)	(0.149)
Treasury Management – New and Temporary Debt	(0.054)	(0.023)	(0.049)	(0.008)
Council Tax Empty Home Payments	(0.100)	0.000	0.000	0.000
Repairs Budget–impact of stock reductions	(0.054)	(0.068)	(0.052)	(0.047)
Total – Efficiency Savings	**(4.559)**	**(1.577)**	**(1.754)**	**(1.814)**
Reserves & Contingencies				
General Management Contingency	0.150	0.050	0.000	0.000
Price Increases	0.015	0.016	0.016	0.017
Total – Reserves & Contingencies	**0.165**	**0.066**	**0.016**	**0.017**
Revised Base Budget	**2.589**	**1.427**	**1.044**	**(0.193)**

Table 12: 2019–2023 Housing Revenue Account Reserves and Contingencies

HRA Revenue Balances	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Increase in Contingencies	0.165	0.066	0.016	0.017
Contribution to/(from) Balances	(0.258)	1.162	0.383	1.237
TOTAL	**(0.093)**	**1.228**	**0.399**	**1.254**

6. Dedicated Schools Grant (DSG)

6.1 Background

6.1.1 The Dedicated Schools Grant (DSG) can only be used for the purposes of the Schools Budget as defined in the School and Early Years Finance Regulations 2018. The DSG funds those delegated budgets allocated to individual schools, nurseries (and other Early Years settings) and, High Needs provision including special schools and alternative provision.

6.1.2 The 2020/21 allocation for North Tyneside is £165.721m, which is an increase of £9.120m (5.82%) on funding received in 2019/20. Table 13 below shows the funding allocated to each of the funding blocks.

Table 13: Dedicated Schools Grant funding allocation 2020/21

Block	2017/18 Baseline	2018/19 Allocation	2019/20 Allocation	2020/21 Allocation	Increase from 19/20
Schools	115,395,359	116,593,953	120,925,612	126,793,678	5,868,066
Central School Services	2,499,839	2,314,345	2,343,094	2,051,119	(291,975)
High Needs	18,680,303	19,291,295	19,817,842	23,126,597	3,308,755
Early Years	12,063,976	13,553,344	13,514,336	13,749,296	234,960
TOTAL	**148,639,477**	**151,752,937**	**156,600,884**	**165,720,690**	**9,119,806**
Change from 2017/18 Baseline £	-	3,113,460	7,961,407	17,081,213	
Change from 2017/18 Baseline %	-	2.09%	5.36%	11.49%	
Change per Year £	-	3,113,460	4,847,947	9,119,806	
Change per Year %	-	2.09%	3.19%	5.82%	

6.1.3 In September 2017 the Department for Education (DfE) published plans to move to a separate National Funding Formula (NFF), covering Schools, High Needs and Central School Services. The DfE initially proposed a two-year transition period to implement the NFF where local authorities would continue to set a local formula to distribute funding to individual schools. However, in July 2018, the Government confirmed that, as many local authorities had already made significant progress towards implementing the NFF in the first year, and to continue to support a smooth transition, local authorities would continue to determine local formulae in 2020/21.

As in previous years, the Authority will determine the local formula to distribute funding to mainstream schools and academies for the financial year 2020/21. The formula will apply directly to maintained schools for the financial year, and for academies it will form the basis for their funding, distributed by the ESFA, for the year starting 1 September 2020. The local formula must comply with statutory guidance, but within these confines the final decision on the formula rests with the Authority after consultation with schools and the Schools Forum.

For the financial years 2018/19 and 2019/20, in consultation with Schools Forum and the Authority's maintained schools, the Authority made the decision to maintain the existing local funding formula (LFF) in full. In North Tyneside, Secondary schools currently benefit favourably from a local ratio of total funding per pupil (1:1.42 in 2019/20), compared to the national average ratio of 1:1.29 on which the NFF has been based. The decision to maintain the LFF in full in 2018/19 and 2019/20 has afforded Secondary schools a period of financial stability whilst preparing for future changes to their funding. In addition, it has allowed the Authority to consider how the move to the NFF would affect individual schools.

During 2019/20 the Authority has worked with schools to review the LFF and model the impact of moving the LFF towards the NFF. In September 2019, Schools Forum received a report which provided the results of the review and the preferred options for consideration which would form the basis of consultation with all schools. The Authority has a has a duty to consult with all mainstream schools over proposed changes to the LFF. The consultation took place from 16 September to 11 October and the results were considered by Schools Forum at its meeting on 13 November 2019.

During the consultation, several engagement events were held to provide additional information on the modelling work performed and to support schools to give an informed response. The response rate increased from 38% in 2018 to 68% in 2019 with responses received from 48 schools and 3 governing bodies.

The majority view from the consultation responses received was to support a move from the current LFF, to a LFF which moves the current funding factors 50% towards the NFF factors. In addition, most respondents supported both the use of the Minimum Funding Guarantee (MFG) to minimise the losses some schools would be exposed to following the change and to let the Authority set the level of MFG, subject to affordability.

On 16 January 2020 Schools Forum agreed to the Authority's final proposals for the LFF. Therefore, resource allocations to schools for 2020/21 will be made on that basis.

6.1.4 At its meeting on 25 November 2019 Cabinet agreed (section 1.2.1, (f)) to authorise the Head of Resources, in consultation with the Head of Commissioning and Asset Management, the Cabinet Member for Children, Young People and Learning and the Cabinet Member for Finance and Resources, to undertake resource allocations to schools for 2020/21 in line with the school funding arrangements set out in that report. Resource allocations to schools have been submitted to the ESFA on 21 January 2020 as required by the deadline. Schools will be notified of their allocations no later than 29 February 2020.

6.1.5 The Schools NFF for 2020/21 will continue to have the same factors as at present. The Government announced its intention to implement the formula to address historic underfunding and move to a system where funding is based on need. The key aspects of the formula for 2020/21 are:

- The minimum per pupil funding levels will be set at Primary £3,750, Key Stage 3 £4,800 and Key Stage 4 £5,300. The following year, in 2021/22, the primary minimum level will rise to £4,000;

- The funding floor will be set at 1.84% per pupil, in line with forecast inflation to protect per pupil allocations for all schools in real terms. This minimum increase in 2020/21 allocations will be based on the individual school's NFF allocation in 2019/20;
- Schools that are attracting their core NFF allocations will benefit from an increase of 4% to the formula's core factors;
- There will be no gains cap in the NFF, unlike the previous two years, so that all schools attract their full core allocations under the formula;
- A technical change will be made to the mobility factor so that it allocates this funding using a formulaic approach, rather than on the basis of historic spend; and
- Growth funding will be based on the same methodology as in 2019/20, with the same transitional protection ensuring that no authority whose growth funding is unwinding will lose more than 0.5% of its 2019/20 schools block allocation.

In addition, two important restrictions will continue:

- Local authorities will continue to set a Minimum Funding Guarantee in local formulae, which in 2020/21 must be between +0.5% and +1.84%. This allows them to mirror the real terms protection in the NFF, which is the Government's expectation; and
- Local authorities can only transfer up to 0.5% of their Schools block to other blocks of the DSG, with their Schools Forum approval. To transfer more than this, or any amount without their Schools Forum approval, they will have to make a request to the DfE, even if the same amount was agreed in the past two years.

6.2 Schools Block

6.2.1 Since 2015/16 school balances have fallen by £6.038m to £1.599m (79%) in North Tyneside. Schools have faced difficult financial challenges and have seen continued pressure with rising costs relating to pay awards including the implications of the Nation Living Wage and North Tyneside Living Wage, pension contributions, apprenticeship levy and inflationary pressures on premises, equipment and materials costs. In addition, as has been widely publicised, school Budgets are under pressure as a consequence of national policy.

6.3 High Needs Block

6.3.1 North Tyneside, like many local authorities both regionally and nationally, is experiencing an increase in the numbers of children with Special Education Needs and Disabilities (SEND). The number of children with an Education Health and Care Plan (EHCP) continues to increase and the complexity of the needs of those children and young people continues to grow. There has been a notable increase locally in the numbers of children with Autism Spectrum Disorder (ASD) and/or Social, Emotional and Mental Health difficulties, and profound and multiple learning difficulties. Responding to this increase in needs is creating pressure on the High Needs Block of the Dedicated Schools Grant.

The pressure within High Needs has continued to increase in 2019/20 with a forecast in-year outturn variance of £4.533m. The Authority will receive an additional £3.309m in 2020/21 through the High Needs block of the DSG, however, it is not sufficient to address the underlying increase in need.

6.4 Early Years Block

6.4.1 On the 31 October 2019, the DfE confirmed the Early Years Funding Formula for 2020/21. The Early Years National Funding Formula sets out the funding rates that local authorities receive for the universal and extended entitlements for 3 and 4-year-olds. The funding rate received by North Tyneside for 3 and 4-year-olds has increased from £4.56 to £4.64 per hour. It was also confirmed that the 2-year-old funding rate will increase from £5.20 to £5.28.

The DfE have not yet published the expected value of the Early Years block funding. To provide illustrative values, the newly published rates have been applied to the DfE Early Years factors presented in 2018, giving a potential funding amount of £13.734m in 2020/21.

6.4.2 Local authorities are required to use a locally-determined, transparent formula to set the funding rates for the Government-funded childcare entitlements for all types of provider. This is known as the Local Early Years Funding Formula. Local authorities are required to consult providers and Schools Forum on annual changes to their LFF.

6.4.3 In November 2019 Schools Forum agreed that an Early Years sub group should make recommendations on North Tyneside's Early Funding Formula for 2020/21. A sub-group was convened on the 28 November 2019, that comprised representation from:

- Grasmere Academy
- Fieldhouse Nursery
- Sir James Knott Nursery
- Holystone Out of School Club

(Apologies were received from 3 other settings).

6.4.4 The sub-group agreed to recommend the proposed Early Years funding formula factors shown in Table 14, to Schools Forum for 2020/21. The group agreed that the funding formula should continue to comprise the base rate and statutory deprivation supplement. The group agreed not to include any of the voluntary supplements, which are rurality, flexibility, efficiency and 30 hours delivery.

The early years sub-group recommended a £0.09 per hour increase to the 3 & 4-year-old base rate and a £0.02 increase on the higher deprivation rate. The new rates apply to both the extended and universal entitlements. The sub-group recommended that the 2-year old hourly rate should increase from £5.20 to £5.26. The remaining elements of the funding formula are unchanged.

Table 14: Proposed Funding Formula – Early Years Block

		Local funding formula 2019/20	Proposed Local funding formula 2020/21
2-Year Old Base Rate		£5.20 per hour	£5.26
3- and 4-Year Old Hourly Base Rate		£4.34 per hour	£4.43
3- and 4- Year Old Hourly Deprivation Supplement –	Quartile 1	£0.12 per hour both universal and extended hours	£0.14
	Quartile 2	£0.06 per both universal and extended hours	£0.06
Early Years Pupil Premium		£0.53	£0.53
Additional Payment to Maintained Nursery School		100% pass through of Maintained Nursery School rate allocated by Department for Education	100% pass through of Maintained Nursery School rate allocated by Department for Education
SEN Inclusion Fund		£8.26 per hour	£8.26 per hour
Disability Access Fund		£615	£615

6.4.5 The new funding formula will be implemented from Summer Term 2020 onwards. In July 2019, Schools Forum were informed that a cumulative balance had accrued on the Early Years block and work would be undertaken to identify the final position. Once all outstanding charges and commitments have been accounted for, the Early Years Block has accrued a cumulative underspend of £827,276. This comprises of three elements:

- Disability Access Fund £39,655
- Special Educational Needs Funding £217,172
- 3 & 4-Year-Old Funding £267,099 & £303,350

The cumulative surplus accrued on the Disability Access Fund and SEN Inclusion Fund will be retained to support the inclusion of children and young people with special educational needs and disabilities who are seeking to accesses their Early Years entitlements.

The surplus generated on the 3 and 4-year-old funding will be returned to providers of the 3 and 4-year-old entitlement subject to a prudent retention of £100,000 to protect against potential fluctuations in future funding. The remaining surplus will be distributed to providers of 3 and 4-year-old places, which is consistent with the recommendations of the Early Years sub group. The surplus accumulated on the 3 and 4-year-old funding budgets will be distributed proportionately, according to the amount of funded 3 and 4-year-old hours (universal and extended) providers have delivered during the 2019/20 financial year. Payments will be made to Ofsted registered Early Years providers, with any outstanding balances deducted before a payment is made.

6.5 Central Schools Services Block

6.5.1 The Central Schools Services block (CSSB) provides funding for local authorities to carry out the statutory duties they hold for both maintained schools and academies in England. Schools Forum is required to approve the proposals for expenditure from this block.

Schools Forum will consider certain elements of funding that are held centrally within the funding allocations (known as centrally retained and de-delegated items) which are applied to benefit pupils across the Borough.

The 2020/21 funding for Central Schools Services has been reduced by the DfE in relation to historical commitments by £0.311m, which represents a 20% reduction on funding received in 2019/20. The DfE had previously announced its intention to reduce the funding for the historical commitment's element of the Central Schools Services block, however, there was no indication from the DfE that a 20% reduction for 2020/21 would be applied.

6.6 Timetable for Agreeing 2020/21 Distributions

6.6.1 The key dates which must be met in setting 2020/21 school Budgets are shown in Table 15 below.

Table 15: Key dates for 2020/21 school budget setting

Date	Activity
July 2019	Department for Education (DfE) guidance issued for 2020/21
October 2019	Local consultation documents issued to stakeholders
October 2019	Consultation returns received and reviewed
13 November 2019	Schools Forum considers consultation response and agrees proposals for local funding allocation formula to individual schools, de-delegated and centrally retained budgets and any transfers between funding blocks
19/20 December 2019	Provisional Local Government Finance Settlement announced including school funding amounts
16 January 2020	Additional Schools Forum meeting (if required)
21 January 2020	Deadline for submission of final local School Allocations to DfE (the Authority Proforma Tool)
29 February 2020	Deadline for confirmation of Schools Budget shares to maintained schools (in North Tyneside the intention is to issue in advance of this deadline)

7. Cabinet's draft Budget proposals for the 2020-2025 Investment Plan

7.1.1 Capital investment generally relates to spending on physical assets that have a useful life of more than one year. This can be new assets, improvements to existing assets, or loans to third parties for a capital purpose.

Investment of this nature plays an important role in ensuring the Authority meets its health and safety responsibilities, it also plays an important role in improving economic opportunities across all parts of the Borough. Whilst some investment directly contributes to economic development, all has an indirect impact by providing stimulus to the economy, creating employment opportunities, supporting skills and development or contributing to confidence.

7.1.2 The Capital Investment Strategy (Appendix D (iv)) has been developed to help support the delivery of capital investment and ensure that the investment programme builds on previous success, with a strong focus on delivery of the Our North Tyneside Plan outcomes and linking to the Our Ambition for North Tyneside report to 25 November 2019 Cabinet. The Strategy also provides a framework to enable projects to be developed with the aim of helping to deliver revenue savings to assist the Authority in managing the financial pressure it faces.

All proposals for capital investment follow a structured gateway process, and are challenged by Members and senior officers, from the initial ideas stage, through the delivery stage and finally to post implementation. All proposals are considered in terms of their strategic alignment with the Our North Tyneside Plan, Our Ambition for North Tyneside and the revised Efficiency Programme.

The Investment Programme Board (IPB) meets on a monthly basis and, as part of its monthly meetings, receives an update on all ongoing projects included in the approved Investment Plan (currently 2019-2023).

Table 16 below shows a summary of the draft 2020-2025 Investment Plan:

Table 16: Summary of the draft Investment Plan 2020-2025

Spend	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	Total £000s
General Fund	40,445	24,932	15,046	15,532	14,284	110,239
Housing	26,862	25,841	26,257	27,235	27,886	134,081
Total	**67,307**	**50,773**	**41,303**	**42,767**	**42,170**	**244,320**

A schedule of the individual projects included in the draft plan is attached as Appendix D (i). Where applicable, confirmation of external funding will also be required before projects are able to proceed.

The estimated revenue implications of these schemes have been included in the revenue Budget.

Table 17: Summary of Financing 2020-2025

Spend	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	Total £000s
General Fund						
Council contributions:						
Unsupported borrowing	26,431	15,248	6,862	7,848	7,100	63,489
Capital receipts	423	423	254	0	0	1,100
Revenue contribution	577	577	746	500	0	2,400
Use of reserves	679	0	0	0	0	679
	28,110	16,248	7,862	8,348	7,100	67,668
Grants and contributions	12,335	8,684	7,184	7,184	7,184	42,571
Total General Fund Resources	**40,445**	**24,932**	**15,046**	**15,532**	**14,284**	**110,239**
Housing – HRA						
Capital receipts	3,821	3,329	2,970	3,922	3,068	17,110
Revenue contribution	10,215	9,237	9,548	9,093	10,100	48,193
Major Repairs Reserve	12,826	13,275	13,739	14,220	14,718	68,778
Total HRA Resources	**26,862**	**25,841**	**26,257**	**27,235**	**27,886**	**134,081**
TOTAL RESOURCES	**67,307**	**50,773**	**41,303**	**42,767**	**42,170**	**244,320**

7.1.3 The draft 2020-2025 Investment Plan for the General Fund includes expenditure of £40.445m in 2020/21. Of this expenditure, £12.335m (30%) is funded through grants and other external funding contributions.

General Fund receipts (£1.100m), already received, and Housing capital receipts of £17.110m have been assumed in the financing of housing projects within the draft Investment Plan.

Across the life of the draft Investment Plan, unsupported borrowing totals £63.489m. The cost of borrowing is included within the General Fund Revenue Budget and Medium-Term Financial Plan. Included within this is a loan to Port of Tyne to facilitate the development of the Royal Quays Enterprise Park. The costs of this borrowing will be met by the Port of Tyne.

Work is ongoing to finalise these draft proposals. Included in the Investment Plan is funding for the Northern Promenade, this will support work to improve the Rendezvous Café and the carpark area during 2020/21. There are currently a number of projects progressing through the investment gateway process where bids have been made for external funding. These projects include Murton Gap infrastructure, Highway Maintenance Challenge Fund and Transforming Cities. It is planned that these projects will be added to the Investment Plan once funding is secured.

7.2 Flexible use of capital receipts

7.2.1 Guidelines issued by the Secretary of State allow for the flexible use of capital receipts subject to certain criteria being met. These guidelines cover the period up to 31 March 2022. This flexibility allows local authorities to use capital receipts to fund revenue expenditure incurred to generate ongoing savings. In order to use this flexibility, authorities are required to disclose those projects they intend to fund using capital receipts. This can be done as part of the Budget setting process.

7.3 Capital Allocations 2020/21

7.3.1 A number of capital allocations (grants) are announced by the Government as part of the Local Government Finance Settlement. These include Education Funding (Capital Maintenance and Devolved Formula Capital) (Department for Education), the Local Transport Plan (Department for the Environment) and Disabled Facilities Grants (through the Better Care Fund). Figures for 2020/21 have not yet been announced and therefore indicative figures, based on previous allocations, have been included in the draft plan. As soon as actual allocations are announced these figures will be updated and included in subsequent reports.

7.4 Annual Minimum Revenue Provision (MRP)

7.4.1 The Capital Finance Regulations require the full Council to agree an annual policy for the Minimum Revenue Provision (MRP).

The MRP is the amount that is set aside to provide for the prepayment of debt (principal repayment). The regulations require the Authority determines an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

There are no changes proposed to the existing policy. The 2020/21 policy is set out in full below:

(a) Existing assets pre-1 April 2007: MRP will be charged at 2% per annum;
(b) Supported borrowing: MRP will be charged at 2%;
(c) Unsupported borrowing: for all assets financed by unsupported borrowing, MRP will be charged over the estimated life of the assets. This may include assets financed through PFI schemes and finance leases;
(d) Lease transactions treated as “on balance sheet”: an element of the annual charge to the Authority for the lease will be treated as repayment of capital (i.e. repayment of principal and interest). The principal element is effectively the MRP charge for the year. This MRP charge will be equal to the element of the rent/service charge that goes to write down the balance sheet liability; and
(e) Loans made for capital purposes for which borrowing is taken out: MRP will be based on the actual principal repayment schedule relating to the loan provided.

In addition to repayments made under the above policy, it is proposed (see paragraph 4.7.2) that a further Voluntary Revenue Provision of £3.000m is made in 2020/21 to reduce the overall Capital Financing Requirement.

7.5 Prudential Indicators

7.5.1 The Local Government Act 2003 requires authorities to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. The Prudential Code requires authorities to develop a set of Prudential Indicators for capital as laid out in this Code. The proposed indicators for 2020-2025 have been prepared using this new guidance and are attached as Appendix D (iii).

8. 2020/21 Treasury Management Statement and Annual Investment Strategy

8.1 Background

8.1.1 The Authority is required to operate a balanced Budget, which broadly means that cash raised during the year will meet cash expenditure. A key part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority's low risk policy, providing adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Authority's investment plans. These capital plans provide a guide to the borrowing needs of the Authority, essentially the longer-term cash flow planning to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long- or short-term loans or using longer-term cash flow surpluses.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or on larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available Budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of any sums invested, as a loss of principal will in effect result in a loss to the General Fund balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

8.1.2 Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

> "The management of the local authority's investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Capital Investment Strategy which provides a longer-term focus to the capital plans is included as Appendix D (iv) to this report.

This Capital Investment Strategy is reported separately from the Treasury Management Statement (Appendix E). Non-treasury investments will also be reported separately through the Capital Investment Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercial investments usually driven by expenditure in an asset.

8.2 Treasury Management Reporting

8.2.1 In line with best practice, the Treasury Management Statement and Annual Investment Strategy (Appendix E) is considered as part of the Budget setting process.

There are two other main reports each year, which incorporate a variety of policies, estimates and actuals which are approved by Cabinet. These reports are:

A Mid-Year Treasury Management Report
This will update Members with the progress of the capital position, amending prudential indicators as necessary, and indicate whether the Authority is meeting the strategy or whether any policies require revision; and

An Annual Treasury Report
This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the Strategy.

8.3 Treasury Management Strategy for 2020/21

8.3.1 The proposed Strategy for 2020/21 in respect of the following aspects of the treasury management function is based upon treasury management officers' view on interest rates, supplemented with market forecasts provided by the Authority's treasury advisor, Link Asset Services. This strategy covers:

- The current treasury portfolio position;
- Prospects for interest rates;
- Economic outlook;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness; and
- Policy for the use of external service providers.

8.4 Training

8.4.1 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny.

8.5 Treasury management Consultants

8.5.1 The Authority uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

Whilst the Authority has external treasury management advisors it recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of its external service providers. All decisions will be undertaken with regards to all available information including, but not solely, its treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

8.6 Current Treasury Portfolio Position

8.6.1 The Authority's debt and investment position as at 31 December 2019 is set out in Table 18 below:

Table 18: Current Treasury Portfolio Position as at 31 December 2019

	Principal Outstanding	Average Rate
	£m	**%**
Fixed Rate Funding		
PWLB*	225.250	3.64
PWLB – (HRA Self Financing)	128.193	3.49
Market loans	20.000	4.35
Temporary loans	71.470	1.10
Total External Debt	**444.913**	
Less **Investments**		
DMO**	18.300	0.50
Lloyds Bank	5.000	0.70
Other local authorities	5.000	0.75
Total Investments	**28.300**	
Net Position	**416.613**	

*Public Works Loan Board
**Debt Management Office

8.7 Prospects for Interest Rates

8.7.1 The Authority has appointed Link Asset Services as its external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Table 19 below sets out Link Asset Services' professional view of interest rates:

Table 19: Link Asset Services forecast interest rates – (January 2020)

	Bank Rate %	5 year PWLB %	10 year PWLB %	25 year PWLB %	50 year PWLB %
Dec-19	0.75	2.30	2.60	3.20	3.10
Mar-20	0.75	2.40	2.70	3.30	3.20
Jun-20	0.75	2.40	2.70	3.40	3.30
Sep-20	0.75	2.50	2.70	3.40	3.30
Dec-20	0.75	2.50	2.80	3.50	3.40
Mar-21	1.00	2.60	2.90	3.60	3.50
Jun-21	1.00	2.70	3.00	3.70	3.60
Sep-21	1.00	2.80	3.10	3.70	3.60
Dec-21	1.00	2.90	3.20	3.80	3.70
Mar-22	1.00	2.90	3.20	3.90	3.80
Jun-22	1.25	3.00	3.30	4.00	3.90

8.7.2 Link Asset Services are currently forecasting the Bank of England base rate to remain unchanged until March 2021, in which the Monetary Policy Committee may vote to increase rates to 1.00%, with another possible rate rise in June 2022.

Since Link have provided the above forecast, we have seen weakening economic data leading to market sentiment deteriorating. This combined with dovish comments from the Bank of England Governor as well as other members of the MPC, markets have subsequently price in / increased the likelihood of a rate cut. The current probability of a rate cut at the next MPC meeting (30 Jan 2020) is at 59%. Therefore, we consider the forecast provided in Table 19 as optimistic.

8.7.3 From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crises, emerging market developments and sharp changes in investor sentiments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, and Money Policy Committee (MPC) decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geographical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be dependent on economic and political developments.

8.8 Investment and Borrowing Rates

- Investment returns are likely to remain low during 2020/21 but to be on a gently rising trend over the next few years;
- Borrowing interest rates have been volatile so far in 2019/20 with an overall downward trend leading to historic lows. This has resulted in long-term PWLB rates being at unprecedented and historic lows. However, on 9 October 2019 the Treasury announced an increase in the margin over gilt yields of 1.00% on top of the current margin of 0.80% for new borrowing from the PWLB. Therefore, total margin over gilt yields is 1.80%. There was no

prior-warning that this would happen, and now every local authority must reassess how to finance their external borrowing needs and the financial viability of future capital expenditure;

- The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be reviewed to avoid incurring higher borrowing costs in the future the authority may not be able to avoid new borrowing to finance capital expenditure and / or the refinancing of maturing debt; and
- There will remain a cost to carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

8.9 Borrowing Strategy

8.9.1 The Authority’s capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Authority’s reserves, balances and cash flow has been used as a temporary measure, this is referred to as ‘internal borrowing’. This strategy is prudent as investment returns have remained low and counterparty risk is relatively high.

The Authority’s borrowing strategy will give consideration to the following:

- The cheapest borrowing and lowest risk approach is internal borrowing. By continuing to maintain a relatively low level of cash balances, the risk of investment is reduced. However, in view of the overall forecast for long-term borrowing rates to increase over the next few years, consideration will also be given to weighing the short-term advantage of internal borrowing against potential long-term costs if the opportunity is missed for taking loans at long-term rates which may be higher in future years;
- Temporary borrowing from money markets or other local authorities;
- Long-term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintain an appropriate balance between PWLB and market debt in the debt portfolio;
- PWLB borrowing for periods under ten years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt; and
- PWLB borrowing for periods of longer than ten years may be explored.

8.9.2 The principal risks that impact on the Strategy are the security of the Authority’s investments and the potential for sharp changes to long- and short-term interest rates. Officers, in conjunction with the Authority’s treasury advisor, will continue to monitor the financial standing of banks and building societies and the level of interest rates, both those prevailing and forecast.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Head of Resources will monitor the interest rates in financial markets and adopt a pragmatic approach to changing circumstances, reporting any decisions to Cabinet or full Council, as appropriate, at the next available opportunity. Such circumstances include a situation where:

- If it were felt that there was a significant risk of a sharp fall in long and short-term interest rates, then long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short-term funding will be considered; or
- If it were felt there was a significant risk of a much sharper rise in long and short-term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

8.10 Policy on borrowing in advance of need

8.10.1 The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

8.11 Debt rescheduling

8.11.1 As short-term borrowing rates will be considerably cheaper than longer-term interest rates, there may be potential opportunities to generate savings by switching from long-term to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). Any position taken via rescheduling will be in accordance with the strategy position outlined above.

In order to generate the most attractive debt rescheduling opportunities, it is proposed that the strategy for 2020/21 should remain flexible. The reason for any rescheduling to take place may include:

- the generation of cash savings and / or discounted cash flow savings at minimum risk;
- to help fulfil the strategy outlined above; and
- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to Cabinet as part of the next financial management report at the meeting following its action.

8.12 Municipal Bonds Agency (MBA)

8.12.1 It has recently been announced the first bond issuance by the MBA is nearing completion. This is the first step in the evolution of the MBA, finer details of the bond issuance are still to be announced. This represents the start of the full operation of the MBA, and details of borrowing opportunities will become clearer as further bonds are issued.

The Agency hopes that the borrowing rates will be lower than those offered by the PWLB. The Authority may make use of this new source of borrowing as and when appropriate.

8.13 Annual Investment Strategy

8.13.1 Investment policy on the management of risk

The Ministry for Housing Communities and Local Government (MHCLG) and Chartered Institute of Public Finance and Accountancy (CIPFA) have extended the meaning of 'investments' to include both financial and non-financial investments. This section of the report deals solely with financial investments. Non-financial investments, essentially the purchase of income-yielding assets, are covered later in the report.

The Authority's investment policy has regard to the following publications:

- MHCLG's Guidance on Local Government Investments;
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017;
- CIPFA Treasury Management Guidance Notes 2018.

The Authority's investment priorities are:

a) the security of capital;
b) the liquidity of its investments; and
c) yield (return).

8.13.2 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are their short-term and long-term ratings;

2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings;

3. Other information sources used will include the financial press, share prices and other such information pertaining to the banking sector in order to establish a robust scrutiny process on the suitability of potential investment counterparties;

4. This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in

Appendix E under the categories of 'specified' and 'non-specified' investments:

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year; and
- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 25%;

6. Lending limits for each counterparty will be set through applying the matrix Table in Appendix E;

7. Transaction limits are set for each type of investment in Appendix E;

8. This Authority will set a limit for its investments which are invested for longer than 365 days;

9. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating;

10. This Authority has engaged external consultants to provide advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year;

11. All investments will be denominated in sterling; and

12. Following the introduction of IFRS 9 as a result of the type of investments the Authority holds, there has been no material impact on the Authority's financial statements.

    The Authority will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

    There have been no changes in risk management policy from last year, and the above criteria are unchanged.

8.14 Investment Strategy

8.14.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. Greater returns are usually obtainable by investing for longer periods. While most cash flow balances are required in order to manage day to day cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed:

- If it is thought that the Bank of England base rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as short-term or variable; or
- Conversely, if it is thought that the base rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectation

A prudent approach will be taken, with all investments being made on a short-term basis; in the current economic climate. This will primarily be achieved through investing with selected banks and funds which meet the Authority's credit rating criteria, as set out in Appendix E.

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

8.15 Creditworthiness Policy

8.15.1 The Authority applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit default swaps (CDS) spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour-coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration of investments.

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system; it does not give undue weighting/favour to one agency's ratings.

The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service:

- If a downgrade results in the counterparty no longer meeting the Authority's minimum criteria, its further uses as a new investment will be withdrawn immediately; and
- In addition to the use of credit ratings, the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via Link Asset Services 'Passport' website. Extreme market movements may result in the downgrading of an institution or removal from the Authority's lending list. Sole reliance will not be placed on the use of this external service. In addition, this

Authority will also use market data and market information on any external support for banks to help support its decision-making process.

8.17 Non-treasury investments

8.17.1 The definition of an investment covers all the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations. The definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party.

The Authority recognises that investments in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

It is recognised that the risk appetite for these activities may differ from that for treasury management.

The Authority maintains records of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

At 31 March 2019 the Authority held the following investments on its balance sheet:

Equity
Newcastle Airport Holding Company Ltd £10.886m (£10.784m 31/3/18)
North Tyneside Trading Company £5.159m (£2.980m 31/3/18)
LIFT Co £0m (£11)

Loans
High Point View £2.650m (£1.873m 31/3/18)
Aurora Properties (Sale) Ltd £2.178m (£0.978m 31/3/18)
Sub ordinated debt – Dudley and Shiremoor JSC £0.160m ((£0.160m 31/3/18)
Sub ordinated debt – Whitley Bay JSC £0.110m ((£0.110m 31/3/18)

In terms of the equity investments:

- The shares in Newcastle Airport are held primarily for economic regeneration. The cost of the original investment was £0.235m; and
- The shares in North Tyneside Trading Company relate to two subsidiaries. The first, amounting to £4.093m, relating to investment in affordable homes in line with the Cabinet's priorities using section 106 funding. The second, amounting to £1.066m, relating to investment in Aurora Properties (Sale) Ltd for the provision of housing for sale on the open market.

In terms of the loans:

- High Point View: It is anticipated that this amount will be repaid over the next few months as the properties are sold; and

- Aurora Properties (Sale) Ltd: the loans are expected to be repaid over the next 3 years upon completion of the property developments.

There are currently no losses expected on any of the Authority’s non-treasury investments or any indications that a loss may arise. However, this position is kept under constant review as market conditions are expected to remain very volatile. Over the period of the Financial Plan (2020-2024), income from these investments is expected to be over £2.000m from staff recharges, interest and dividends.

Treasury Management training was provided to Cabinet on 11 March 2019. A further session will be provided by Link Asset Services to all members involved in the investment decision-making process during 2020/21.

9. Response to the Overview, Scrutiny and Policy Development Committee Recommendations

9.1 Summary

9.1.1 This section of the Annex considers the response required by Cabinet to any recommendations made by the Overview, Scrutiny and Policy Development Committee following its scrutiny and challenge of the 2020-2024 Financial Planning and Budget process.

9.1.2 The Budget sub-group of Overview, Scrutiny and Policy Development Committee has received two presentations and updates to allow consideration of Cabinet's initial Budget proposals. This is in line with the statutory and constitutional requirements for preparing the annual Budget.

9.1.3 Cabinet must formally respond to any recommendations made by the Overview, Scrutiny and Policy Development Committee in considering its final Budget proposals. It is therefore proposed that Cabinet considers any recommendations in relation to the General Fund Budget, the 2020-2024 Investment Plan and the 2020/21 Treasury Management Statement and Annual Investment Strategy at its meeting on 3 February 2020.

9.1.4 The sub-group met on the 16 December 2019 where senior officers presented Cabinet's Initial 2020 - 2024 Budget proposals and associated business cases under the following headings:

- Effective Treasury Management/Corporate Resources Provision of School Development Services
- Commissioning and Asset Management: Application of Fees and Charges Policy
- Commissioning and Asset Management: How we are Organised
- HIF Project Management
- Materials Recycling Contract: Recycling Costs
- Trading Companies

The following Cabinet members were in also in attendance to provide further insight if/when required.

- Councillor Bruce Pickard
- Councillor Ray Glindon

9.2 Budget Sub-Group Considerations

9.2.1 The Committee noted the challenges facing Cabinet arising from a one-year spending review, the delay in the announcement of the provisional financial settlement, the uncertainty of the impact of Brexit and the General Election. The sub-group acknowledged that in light of those circumstances the inital Budget proposals are based on a number of assumptions due to elements outside the Authority's control. However, the sub-group was encouraged during the detailed explanation of all the assumptions in the presentation from officers that the outcome of the proposed 2020/21 Budget was a balanced Budget. The sub-group was reassured that there were no compulsory job losses associated to the 2020/21 Budget proposals.

9.2.2 The sub-group was encouraged that the benefits from decision to insource the Housing Property and Construction Service would realise an additional £18.4m to invest in the Service over the next 4 years (revenue) and 5 years (capital).

9.2.3 In relation to the refreshed Our North Tyneside Plan, the sub-group noted the inclusion of the two key policy developments in relation to the declaration of a climate emergency and the role of the North of Tyne Combined Authority. It also was encouraged that as part of the 15-year Our Ambition for North Tyneside Plan saw the continuation of regeneration across the Borough such as the creation of the Masterplan for North Shields.

9.2.4 Again, in relation to the priority to provide a clean, green, healthy and safe environment, the sub-group was reassured that the Authority was being proactive by responding to the Government consultation on Future Homes Standard by making suggestions to make changes to building regulations to ensure greater home insulation and the requirement to install electric charging points in new homes. As the developer in building new Council homes, it hoped that the Authority would lead the way and become an exemplar provider by including a range of energy efficient technologies that would support the reduction of carbon footprint of the Authority.

9.2.5 The sub-group was also informed that the Cabinet member responsible for Environment and Transport was with officers developing the plan to deal with the climate emergency and recommended that scrutiny officers help in the development of this plan.

9.2.6 Members of the sub-group also raised that it hoped that consideration would be made by Cabinet on further ways to generate income and savings for residents and businesses through e-advertising and methods to generate off-grid electricity. The sub-group was encouraged that the Authority was utilising its community hubs following investment and refurbishment of these hubs to bring the third sector and Police services into the Wallsend Community First Centre.

9.2.7 Cabinet are recommended to ensure that a scrutiny officer is invited to help develop the plan for climate emergency. There were no recommendations made in relation to Cabinets proposed refresh of the Council Plan, engagement approach or the initial Budget proposals for the General Fund, HRA, the 2020-2025 Investment Plan and the 2020/21 Treasury Management Statement and Annual Investment Strategy.

9.2.8 A further meeting has been arranged for the budget sub-group to reconvene and consider Cabinet's draft Budget proposals for 2020 - 2024 that will take place on Tuesday 4 February 2020, where implications of this report will be considered. Any recommendations made at this meeting that may have an impact on the final Budget proposals will be considered by Cabinet on 10 February 2020.

10. Provisional Statement to Council by the Chief Finance Officer

10.1.1 The Local Government Act 2003 imposes duties on local authorities in relation to Budget setting. The Act requires that when an authority is deciding its annual Budget and Council Tax level, Members and officers must take into account a report from the Chief Finance Officer on the robustness of the Budget and the adequacy of the Authority's financial reserves.

The Government has a back-up power to impose a minimum level of reserves on any authority that it considers is making inadequate provisions.

In making this Statement, the Chief Finance Officer necessarily places reliance on information provided to her by other officers of the Authority as part of the Financial Planning and Budget process. Due cognisance to CIPFA's guidance in relation to the adequacy of reserves and balances will also be taken into account.

The intention is to make a full Statement as part of the report to the Council meeting on 20 February 2020, when all outstanding information should be available.

Robustness of Estimates

In assessing the robustness of estimates, the Chief Finance Officer has considered the following issues*:*

- The general financial standing of the Authority;
- The underlying Budget assumptions from the Medium-Term Financial Strategy;
- Future Budget pressures and growth proposals, including the impact of prudential borrowing for the 2020-2025 Investment Plan;
- The adequacy of the Budget monitoring and financial reporting arrangements in place;
- The adequacy of the Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2018/19 Statement of Accounts, presented to full Council on 25 July 2019;
- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority; and
- The outcome of the 2019 Local Government Finance Settlement and the Spending Round 2019, which was published on 4 September 2019, and the implications for the Authority.

The level of contingencies has increased by £2.306m to £6.942m for 2020/21 as these are draft Budget proposals the level of contingencies will be finalised by Cabinet once the Final Settlement is known.

The reserves, whilst relatively low, are adequate for the risks that the Authority faces and are able to support the Efficiency Programme that is being set out for 2020/21. There remains an unprecedented level of uncertainty in relation to on-going financial support for local government and as such it is vital the Authority takes a pragmatic and prudent approach to setting the Budget for 2020/21.

The Cabinet is aware it must keep under review its Medium-Term Financial Strategy and four-year Medium-Term Financial Plan, in the context of the proposed refresh of the 2020-2024 'Our North Tyneside Plan' and known key financial risks. Future pressures need to be considered and the Authority should not take 2020/21 in isolation to future years' needs and pressures. Each year's Budget must continue to be considered within the context of the four-year Financial Plan, the five-year Investment Plan, the Medium-Term Financial Strategy and the global economic position prevailing at the time.

To ensure that the Authority continues to keep within its approved Budget and the financial integrity of the Authority is maintained, it is essential that Budget holder responsibility and accountability continues to be recognised as set down in the Authority's Financial Regulations and in the roles and responsibilities section of the Authority's Budget Management Handbook.

10.2.1 <u>Capital Investment Strategy</u>

In line with the 2017 Consultation on Proposed Changes to the Prudential Code's new requirement that the Chief Finance Officer of an Authority should report explicitly on the 'deliverability, affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions', the Authority has ensured that that all projects within the 2020-2025 Investment Plan follow the full gateway and governance procedure prior to inclusion on the Plan which ensures the deliverability, affordability and risk associated with each decision is fully understood prior to any decisions being made.

In terms of the overall investment position of the Authority, as set out above, a draft Investment Strategy has been developed to help support the delivery of capital investment and ensure that the Investment Plan builds on previous success, with a strong focus on delivery of the Council Plan outcomes.

10.3.1 <u>Adequacy of Financial Reserves</u>

<u>General Fund</u>

The 2020-2024 Medium-Term Financial Plan (MTFP) currently assumes no use of reserves to support the Budget. My view is that the current MTFP, should aim to maintain the Strategic Reserve at a minimum planned level of £10.000m over the life of the MTFP. Any unplanned use of the Strategic Reserve over the MTFP may take the level outside of this boundary and corrective action would be needed to demonstrate how the £10.000m agreed level would be restored. Table 20 below shows the reserves as at the 31 March 2019 and the projected reserve levels over the period of the MTFP:

Table 20: Reserves and balances as at 31 March 2019 and from 2019/20-2023/24

Reserves and balances	Projected Opening Balances				
	2019/20 £000s	**2020/21 £000s**	**2021/22 £000s**	**2022/23 £000s**	**2023/24 £000s**
Reserves					
General Fund ringfenced	25.318	24.113	22.876	22.175	21.624
General Fund unringfenced	19.492	18.369	18.369	18.369	18.369
General Fund grants	3.795	1.243	1.045	1.005	0.945
HRA	19.852	17.279	18.049	18.148	18.701
Reserves Sub Total	**68.457**	**61.004**	**60.339**	**59.697**	**59.639**
Balances					
General Fund	6.805	6.805	6.805	6.805	6.805
Schools	1.599	(0.201)	(2.201)	(4.201)	(6.201)
HRA	7.304	7.593	5.004	3.577	2.533
Balances Sub Total	**15.708**	**14.197**	**9.608**	**6.181**	**3.136**
Grand Total Reserves and Balances	**84.165**	**75.201**	**69.947**	**65.878**	**62.775**

Housing Revenue Account

Table 21 below sets out the movement in HRA reserves. The Budget proposals ensure that a minimum of £2.500m is retained in HRA revenue balances each financial year covering the four years of the Medium-Term Financial Plan to ensure some measure of contingency and financial stability. The proposals, as they currently stand, also balance the MTFP over the longer 30-year period, which is what the Government requires authorities to demonstrate as part of the self-financing proposals.

Table 21: 2020 -2024 Housing Revenue Account balances

HRA forecast movement on Reserves	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Opening Reserve balance	(7.304)	(7.593)	(5.004)	(3.577)	(2.533)
Add:					
Original contributions (to) / from balances	(2.331)	2.589	1.427	1.044	(0.193)
Change in contributions (to) / from balances	2.042	0.000	0.000	0.000	0.000
Predicted Reserve balance carried forward	**(7.593)**	**(5.004)**	**(3.577)**	**(2.533)**	**(2.726)**

Guidance on Local Authority Reserves and Balances is given in Local Authority Accounting Panel Bulletin 99. This states that *"balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option"*. As such, the draft 2020/21 Budget does not contradict this guidance. The Bulletin further states *that "it is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2020-2024 Medium-Term Financial Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long-term reliance on reserves.

11. Overall Financial Risk Assessment

11.1.1 Financial risks are driven by changes to Government policy and the national financial climate, issues arising throughout the year are reported as part of the financial management reporting process and those risks highlighted as part of the Authority's risk management procedures are monitored through the Authority's risk registers. As part of the monitoring process the Authority's Corporate Risk Register is monitored twice yearly by Cabinet.

Key Financial Risks

The key financial risks for the Authority, considered as part of the Financial Planning and Budget process, are set out in the Table below along with mitigating actions:

Table 22: Key Financial Risks and mitigating actions

Potential Risk	Initial Response
There is a risk that the levels of savings and income the Authority has included in the Budget proposals are not fully deliverable.	A robust challenge process has taken place to ensure proposals can be delivered. All savings and income will be monitored throughout the year to identify any areas which are not delivering savings as planned so corrective action can be taken.
There is a risk that if the Efficiency Programme is not successfully implemented the Authority may be unable to deliver improved services and meet the increased demand for services within reducing resources. This could have the financial impact of the Authority not delivering on its Budget.	An overall Budget Proposal Document and Terms of Reference are in place for all existing and new Efficiency Programme projects. This spans all service redesign projects Monthly Updates to the Senior Leadership Team are provided as part of the in-year financial management process. The Customer Service Steering Group will be sighted on the outcomes from any Service reviews undertaken during 2020/21.
There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2023/24 may be wrong, resulting in changes to the current targeted savings by 2023/24, for the General fund and for the HRA, which will be considered by Cabinet in January 2020.	Through a robust approach to financial management the authority is in a position to respond to determine actions necessary if the assumptions that have been made prove to be incorrect. The Authority work closely with national, regional and sub-regional financial networks to help ensure that the Authority is informed and aware of any national developments. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made.
There is a risk that, because of financial	The Policy Framework and Guidance for

pressures within the North Tyneside Clinical Commissioning Group (CCG), the Council does not receive a full transfer of funding from health to social care and the continuation of funding for existing services funded through the Better Care Fund (BCF) and s256 agreements. This would have a significant financial impact to the Authority.	the BCF specifically requires that funding transferred for social care should, as a minimum, be at the equivalent level as that of 2016/17 plus inflation.
There is a risk that not all growth pressures have been identified in the 2020/21 proposed Budget.	Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor.
There is a risk that demand - led pressures exceed Budget provision.	Demand-led pressures continue in areas such as adults' and children's social care and the impact of the Living Wage on our care providers (and the price for services the Authority then has to pay) have been taken into consideration as part of these initial Budget proposals.
There is a risk that specific factors arising during 2019/20 have not been fully taken into account when preparing the 2020/21 Budget.	The 2019/20 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to the Senior Leadership Team. This process ensures factors arising during the year are taken into account.
There is a risk that the in-year pressures being reported through the 2019/20 financial management process impact on the deliverability of the 2020/21 budget.	As at 30 November 2019, a pressure of £3.483m was reported against the 2019/20 Budget. All Services continue to develop and deliver actions to mitigate these financial pressures and expect the outturn forecast to improve through the year. In addition, non-essential spend continues to be minimised and a detailed review of demand-led projections aims to reduce over-commitments. Progress will be monitored through bi-monthly reporting to Cabinet and monthly reporting to the Senior Leadership Team.
There is a risk that the contingency provision included in the Financial Plan for 2020/21 is insufficient.	The review of the base Budget and the reflection of the 2019/20 pressures into 2020/21 have been considered and an increase in the Contingency Budget of £2.306m is proposed.
There is a risk that there are insufficient levels of reserves and balances.	A full review of reserves and balances is undertaken on a regular basis as part of both the in-year monitoring and planning processes.

There is a risk that the Authority will be unable to protect its housing assets and services to tenants as a consequence of reduced income to the HRA. Government policy on welfare reform is resulting in a number of direct challenges to rent collection; the spare room subsidy and the benefit cap have already had an impact.	The Budget setting process incorporates a review of the HRA Business Plan to reflect the changes. The cost and quantity of work within the 30-year Investment Plan is revised annually to help mitigate the impact of changes. In addition, the Financial Inclusion Strategy sets out how the Authority and its partners will support its residents to better manage their finances and maximise their income. The HRA budget includes proposal to increase support to tenants in managing their ability to sustain their tenancies. The Authority has representation on the MHCLG and CIPFA HRA working groups. This enables specific issues to be raised and allows the Authority to comment and influence change on HRA regulation
There is a risk that there may be a significant financial impact on school resources if the number of schools requesting deficit continues to rise at its current rate. This risk is currently driven by the number of surplus places at secondary schools.	The school deficit has been identified as a priority for the Authority, headteachers and governing bodies. A programme of work has been identified, working with schools to improve the schools deficit position. This will highlight the work that is required and through working with the schools a number of initiatives will be identified and progressed.
There is a risk that North Tyneside may be placed at a disadvantage following the decision to leave the European Union in both financial and economic growth terms. The full extent of the impact will not be clear until the Authority know the precise trade terms which will apply once the UK formally leaves the EU. This has a potentially significant financial impact due to loss of revenue grant and a potential loss of opportunities, e.g. capital grant and other revenue sources.	The potential impact from leaving the EU has been included in the Authority's Medium-Term Financial Strategy. This is helping to ensure that potential areas of impact following the EU exit are highlighted and included (where relevant) in Budget planning. The Authority is a member of various regional groups which will help it keep up to speed on progress and have the opportunity to exert any influence that the Authority can. It is inevitable that there will be some impact from the decision to leave the EU, the challenge is to manage the impact where possible.

Appendix A

2020 - 2024 Our North Tyneside Plan

The draft refresh of the Our North Tyneside Plan 2020 - 2024 (Council Plan) will set out the overall vision and policy context within which the Financial Plan and Budget proposals will operate.

Since 2015 North Tyneside has worked to a clear set of priorities through the Our North Tyneside Plan. These priorities have been regularly reviewed and updated to ensure that they continue to reflect the needs and ambitions of the borough.

The vision and policy context continue to reflect the priorities of the Elected Mayor and Cabinet. The plan has been updated to reflect two key policy developments; the Council's declaration of a Climate Emergency and the creation of the North of Tyne Combined Authority.

The plan continues to be structured in three key themes – Our People, Our Places and Our Economy.

Our People will:

- Be listened to so that their experience helps the council work better for residents.
- Be ready for school – giving our children and their families the best start in life.
- Be ready for work and life – with the right skills and abilities to achieve their full potential, economic independence and meet business needs.
- Be healthy and well – with the information, skills and opportunities to maintain and improve their health, well-being and independence, especially if they are carers.
- Be cared for, protected and supported if they become vulnerable including if they become homeless.
- Be encouraged and enabled to, whenever possible, be more independent, to volunteer and to do more for themselves and their local communities.

Our Places will:

- Be great places to live by focusing on what is important to local people, such as by tackling the derelict properties that are blighting some of our neighbourhoods.
- Offer a good choice of quality housing appropriate to need, including affordable homes that will be available to buy or rent.
- Benefit from the council's housing stock being decent and well managed, as well as maximising the potential use of housing such as through extra care schemes.

- Recognise the climate emergency by further reducing the Borough's overall carbon footprint. This will include reducing the council's carbon footprint, along with encouraging and enabling everyone to reduce their carbon footprint.

- Provide a clean, green, healthy, attractive and safe environment.

- Have an effective transport and physical infrastructure - including our roads, pavements, street lighting, drainage and public transport.

- Continue to be regenerated as part of our 15 year 'Ambition for North Tyneside' plan. This will include the continued development of Killingworth Lake, creation of a Master Plan for North Shields, the delivery of plans for Segedunum and the Swans site in Wallsend, as well as further work to build on the success of the regeneration at the coast.

- Be a thriving place of choice for visitors through the promotion of our award winning parks, beaches, festivals and seasonal activities.

Our Economy will:

- Benefit from the delivery of our ambitious vision, which we created with partners in the North of Tyne Combined Authority. We will have a dynamic and more inclusive economy, which will ensure that all residents have a stake in our region's future.

- Grow by supporting new businesses and building on our strengths, including our existing world class companies, and small and growing enterprises.

- Be business friendly, ensuring the right skills and conditions are in place to support investment, and create and sustain new high-quality jobs and apprenticeships for working age people.

- Continue to support investment in our business parks, units and Town Centres.

Appendix B – Breakdown of Financial Plan cost pressures 2020/21 to 2023/24

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Legislative / regulatory changes	**(1.577)**	**2.374**	**0.601**	**1.201**
- Grant related changes (mainly reductions in relation to Benefits Admin Subsidy, Section 31 and New Homes Bonus)	(1.577)	2.374	0.601	1.201
Inflationary changes (pay and prices)	**0.301**	**5.414**	**8.033**	**11.297**
- Pay award (Incl. pension)	(3.786)	2.000	2.000	9.105
- Waste management	0.721	1.000	3.500	0.000
- PFI Inflation	0.000	0.400	0.400	0.000
- Impact of the National Living Wage	3.343	1.927	2.045	2.103
- Increases to Fees and Charges	(0.108)	(0.050)	(0.050)	(0.050)
- Levies & Precepts	0.131	0.137	0.138	0.139
Demand led	**0.925**	**2.120**	**1.889**	**1.889**
- High Needs	0.000	1.000	1.000	1.000
- Children's Social Care	0.500	0.500	0.500	0.500
- Adults Social Care	0.425	0.620	0.389	0.389
Corporate pressures	**12.679**	**2.871**	**1.273**	**(3.162)**
- Investment cost of borrowing	3.858	0.253	0.093	(2.954)
- Corporate changes	8.821	2.618	1.180	(0.208)
TOTAL	**12.328**	**12.779**	**11.796**	**11.225**

Description (Amount)	Grant related changes ((£1.577m) in 2020/21)
How have the above amounts been calculated?	The value in 2020/21 represents the reduction in Housing Benefit Admin Subsidy £0.101m, increase in New Homes Bonus (£0.872m), and increase in S31 Grant for Under Indexation of NNDR (£0.806m)
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Changes to Central Government external funding grants.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Where savings are possible, they have been included in the savings proposals for 2020/21.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure, plus all areas of the Budget are being reviewed to find savings to contribute to the Authority's 2020/21 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Pay award ((£3.786m) in 2020/21)
How have the above amounts been calculated?	The annual pay award, £3.040m, calculation is based on an agreed pay award of 2% applied to 2019/20 staffing budgets (including salary, employer's national insurance, and employer's pension contributions). The increase anticipated in pensions, £2.022m in 2020/21, relates to the 1.7% increase to future service rate outlined in the 2019 triannual valuation is off set by the Authority's pension deficit contribution to the pension fund (£8.848m).
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Annual pay award agreed by employers as part of national pay bargaining / contractual obligation to move staff up an increment towards the top of the relevant pay scale.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Assumed public sector pay increases of 2%.
Does the activity causing the cost pressure need to continue?	Yes, staff are involved in delivering a range of statutory and discretionary services, which are being reviewed as part of the identification of savings to meet the Authority's budget gap in 2020/21.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure, plus all areas of the Budget are being reviewed to find savings to contribute to the Authority's 2020/21 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Waste Management (£0.721m in 2020/2021)
How have the above amounts been calculated?	The figures for the 2020/21 figure are based on the price increases set to be incurred following the awarding of the new Recycling contract. These price increases are reflective of the current market conditions within Waste Recycling. Growth requirements for future years are based on modelling work performed by NTC and Suez during negotiations to extend the existing Waste Disposal contract.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Price increases as a result of external market forces.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes – the Authority is obligated to source disposal of the waste it collects from households.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure, plus all areas of the Budget are being reviewed to find savings to contribute to the Authority's 2020/21 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Impact of the National Living Wage (£3.343m in 2020/21)
How have the above amounts been calculated?	This cost pressure is based on potential increases in rates payable to third party providers for 2020/21 reflecting, in particular, the impact of the National Living Wage increases.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Inflation on payments to independent sector providers.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	Any savings from greater investment in preventative services and improved partnership working were set out in separate prior year budget proposals of which the outcomes are expected to continue to take effect over the 2020-2024 period.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Cost pressure is based on likely increases in rates with third party providers. Benchmarking will be used to ensure that actual rates agreed are appropriate.
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure, plus all areas of the Budget are being reviewed to find savings to contribute to the Authority's 2020/21 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Fees and Charges ((£0.108m) in 2020/21)
How have the above amounts been calculated?	Increases in fees and charges as per the Corporate Fees and Charges Policy to meet inflationary pressures.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Inflationary price increases in the external market adds pressure to the Services provided.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Estimates based on third party evidence.
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure, plus all areas of the Budget are being reviewed to find savings to contribute to the Authority's 2020/21 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Levies & Precepts (£0.131m in 2020/21)
How have the above amounts been calculated?	These are estimates based on information provided by the third parties.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Our partners will apply inflationary price increases. The Transport Levy charge is as a result of population changes.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	Estimates based on third party evidence.
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure, plus all areas of the Budget are being reviewed to find savings to contribute to the Authority's 2020/21 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Children's Social Care (£0.500m in 2020/21)
How have the above amounts been calculated?	This is based on current projected net increased cost pressure from 2019/20
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	The cost pressure relates to the increase in complexity of cases.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	Existing work is ensuring that the number of cases is not increasing to add to the cost pressure the increased complexity of the cases is generating.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure, plus all areas of the Budget are being reviewed to find savings to contribute to the Authority's 2020/21 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Adults Social Care (£0.425m in 2020/21)
How have the above amounts been calculated?	This cost pressure is based on estimated client population growth in 2020/21 along with known growth pressures for 2019/20 including considerations for transforming care and assistive technology.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Increasing adult population (18+) with complex needs.
If the cost pressure is due to increased demand, what evidence exists to support this?	Future population projections and review of those clients or potential currently known to Adult Services.
What, if anything, can be done to mitigate the cost pressure?	Any savings from the services were set out in separate budget proposals.
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	Yes, activity is based on assessed need and is therefore a statutory duty.
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure, plus all areas of the Budget are being reviewed to find savings to contribute to the Authority's 2020/21 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Investment Cost of Borrowing (£3.858m in 2020/21)
How have the above amounts been calculated?	The cost of borrowing is calculated to reflect the interest payable to finance future capital and revenue budgets, £0.281m. A voluntary £3.000m contribution has been made to the Minimum Revenue Provision and as a result a £0.577m revenue contribution to capital can be made from the savings made.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	Interest costs to finance capital & revenue budgets.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure, plus all areas of the Budget are being reviewed to find savings to contribute to the Authority's 2020/21 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

Description (Amount)	Corporate changes (£8.821m in 2020/21)
How have the above amounts been calculated?	These are the adjustments required to remove the effects of the prior year Trading Company dividend, increase support to apprenticeships, to cover the impact of changes to utilities and ICT pressures and changes to Schools (delegated and SLA), continue supporting the Environmental Wardens, efficiency savings not expected to be achieved and an increase in the Contingency Budget.
What is the source of the cost pressure (e.g. increased demand, fall-out of external funding, contractual or other price increases)?	These are corporate changes required due to the potential impact of external market forces on utilities prices, the Authority's ICT strategy and changes within Schools finance.
If the cost pressure is due to increased demand, what evidence exists to support this?	n/a
What, if anything, can be done to mitigate the cost pressure?	n/a
If the cost pressure is due to increased inflation, what benchmark is being used to assess the price increase?	n/a
Does the activity causing the cost pressure need to continue?	n/a
Is there scope to fund this cost pressure from existing resources?	No, there are no underspends in the Budget that can absorb this pressure, plus all areas of the Budget are being reviewed to find savings to contribute to the Authority's 2020/21 savings target.
More generally, what is the impact of not agreeing funding for the cost pressure?	The Authority will overspend its budget.

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Service	Service Area	Proposals	Proposal for 2020/21 £000's	FTE Impact 2020/21
Environment Housing & Leisure	Waste	Reduced recycling costs and avoidance of operational costs	100	0
	GF Housing	Increase charges to the Trading Company	5	0
		Loan interest from Aurora Properties (Sales) Ltd	230	0
		Income arising from the project management of HIF projects	25	0
Contractual Changes Sub Total			**360**	**0**
Health, Education, Care & Safeguarding	School Improvement	Cease the use of School Development Partners	28	0
Expenditure Reduction Sub Total			**28**	**0**
Commissioning & Asset Management	Facilities & Fair Access	Increase the charge of the SLA to schools	100	0
Income Growth Sub Total			**100**	**0**
Commissioning & Asset Management	Commissioning Service & Strategic Property	Changes to service provision within Commissioning Service & Strategic Property	67	1.6
Staffing Reduction Sub Total			**67**	**1.6**
Resources	Central Items	Reduction of interest costs through effective Treasury Management	250	0
Corporate Changes Sub Total			**250**	**0**
2020/21 Efficiency Savings Grand Total			**805**	**1.6**

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2020 - 2025 Proposed Investment Plan

Theme	Project	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000	Financing Type	
General Fund									
Maintaining Our Assets									
	BS026 Asset Planned Maintenance	2,249	1,500	1,500	1,500	1,500	8,249	Council Contribution Contribution from Reserves	7,650 599
	COXXX Whitley Bay Crematorium	1,541	0	0	0	0	1,541	Council Contribution	1,541
	COXXX Sport and Leisure Facility Improvements	80	0	0	0	0	80	Contribution from Reserves	80
	ED075 Devolved Formula Capital	1,929	579	579	579	579	4,245	Education Funding Agency	4,245
	ED120 Basic Need	113	113	113	113	113	565	Education Funding Agency	565
	ED132 School Capital Allocation	3,534	3,534	3,534	3,534	3,534	17,670	Education Funding Agency	17,670
	EV034 Local Transport Plan	3,153	2,958	2,958	2,958	2,958	14,985	Dept for Transport LTP ITA Dept for Transport LTP Maint	4,790 10,195
	EV056 Additional Highways Maintenance	2,000	2,000	2,000	2,000	2,000	10,000	Council Contribution	10,000
	EV069 Vehicle Replacement	500	1,274	762	1,248	0	3,784	Council Contribution	3,784
	IT020 ICT Strategy	1,000	1,000	1,000	1,000	1,000	5,000	Council Contribution	5,000
	BS029 Wallsend CFC Community Hubs	488	0	0	0	0	488	Council Contribution	488

Theme	Project	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000	Financing Type	
	DV068 Southern Promenade	550	0	0	0	0	550	Environment Agency grant	550
Maintaining Our Assets Total		**17,137**	**12,958**	**12,446**	**12,932**	**11,684**	**67,157**		**67,157**
Corporate									
	EV076 Operational Depot Accommodation Review	6,535	0	0	0	0	6,535	Council Contribution ERDF	5,366 1,169
	GEN03 Contingencies	5,125	500	500	500	500	7,125	Council Contribution	7,125
Corporate Total		**11,660**	**500**	**500**	**500**	**500**	**13,660**		**13,660**
Education									
	EDXXX School Nursery Capital Fund	207	0	0	0	0	207	Department for Education (DfE) grant	207
Education Total		**207**	**0**	**0**	**0**	**0**	**207**		**207**
Housing General Fund									
	HS004 Disabled Facilities Grant	1,437	1,500	0	0	0	2,937	Better Care Fund	2,937
	HS051 Private Sector Empty Homes	924	0	0	0	0	924	Council Contribution Homes & Communities Grant	681 243
Housing General Fund Total		**2,361**	**1,500**	**0**	**0**	**0**	**3,861**		**3,861**

Theme	Project	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000	Financing Type	
Investments									
	DV066 Investment in North Tyneside Trading Co	2,200	0	0	0	0	2,200	Council Contribution	2,200
Investments Total		**2,200**	**0**	**0**	**0**	**0**	**2,200**		**2,200**
Regeneration									
	Ambition for North Tyneside	2,000	2,000	2,000	2,000	2,000	10,000	Council Contribution Capital receipts Revenue contribution	6,500 1,100 2,400
	DV067 Northern Promenade	250	0	0	0	0	250	Council Contribution	250
	DV064 Council Property Investment	1,457	0	0	0	0	1,457	Council Contribution	1,457
	DVXXX Royal Quays Enterprise Park	2,500	7,800	0	0	0	10,300	Council Contribution	10,300
	GEN12 Local Infrastructure	100	100	100	100	100	500	Council Contribution	500
Regeneration Total		**6,307**	**9,900**	**2,100**	**2,100**	**2,100**	**22,507**		**22,507**
Climate Emergency									
	EV083 Streetlighting LED	500	0	0	0	0	500	Council Contribution	500
	EVXXX Other initiatives	73	74	0	0	0	147	Council Contribution	147
Climate Emergency Total		**573**	**74**	**0**	**0**	**0**	**647**		**647**
General Fund Total		**40,445**	**24,932**	**15,046**	**15,532**	**14,284**	**110,239**		**110,239**

Theme	Project	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000	Financing Type	
Housing (HRA)									
	HS002 HRA schemes	26,862	25,841	26,257	27,235	27,886	134,081	Capital Receipts/House-building Fund/MRR	17,710
								Revenue Contribution	47,593
								Depreciation / Major Repairs Reserve	68,778
Housing Total		**26,862**	**25,841**	**26,257**	**27,235**	**27,886**	**134,081**		**134,081**
Total		**67,307**	**50,773**	**41,303**	**42,767**	**42,170**	**244,320**		**244,320**
Funding summary									
General Fund									
Council Contribution		26,431	15,248	6,862	7,848	7,100	63,489		
Capital receipts		423	423	254	0	0	1,100		
Revenue contribution		577	577	746	500	0	2,400		
Reserves		679	0	0	0	0	679		
Grants & Contributions		12,335	8,684	7,184	7,184	7,184	42,571		
General Fund Total		**40,445**	**24,932**	**15,046**	**15,532**	**14,284**	**110,239**		
Housing (HRA)									
Capital Receipts/House-building Fund/MRR		4,421	3,329	2,970	3,922	3,068	17,710		
Revenue Contribution		9,615	9,237	9,548	9,093	10,100	47,593		
Depreciation / Major Repairs Reserve		12,826	13,275	13,739	14,220	14,718	68,778		
General Fund Total		**26,862**	**25,841**	**26,257**	**27,235**	**27,886**	**134,081**		
Total		**67,307**	**50,773**	**41,303**	**42,767**	**42,170**	**244,320**		

Project Ref	Project Title	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	Total £000
	Housing						
HS002	HRA Schemes	**26,862**	**25,841**	**26,257**	**27,235**	**27,886**	**134,081**
	Made up of:-						
	Decency Refurbishments	13,753	15,640	15,779	16,316	16,731	**78,219**
	Disabled Adaptations	1,051	1,062	1,072	1,083	1,094	**5,362**
	Capitalisation of Major Repairs	1,245	1,257	1,270	1,283	1,296	**6,351**
	Furniture Pack Scheme	506	511	516	521	526	**2,580**
	Asbestos Works	306	309	312	315	318	**1,560**
	Energy Efficiency & Environmental Improvements	208	210	211	213	214	**1,056**
	Fencing / Walling / Offstreet parking / Landscaping	1,572	1,635	1,772	1,979	2,021	**8,979**
	Non-Traditional Properties	232	0	0	0	0	**232**
	ICT Strategy/Water Pipe Renewals/Fire Damage/Garages	320	367	329	379	386	**1,781**
	Footpaths & Communal Fire Doors	2,026	100	103	106	109	**2,444**
	Potential New Build	5,643	4,750	4,893	5,040	5,191	**25,517**
	Total: Housing	**26,862**	**25,841**	**26,257**	**27,235**	**27,886**	**134,081**
	TOTAL	**26,862**	**25,841**	**26,257**	**27,235**	**27,886**	**134,081**

FINANCING

HOUSING

	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Council Contribution						
Capital Receipts/House-building Fund/MRR	4,421	3,329	2,970	3,922	3,068	**17,710**
Government Grants	0	0	0	0	0	**0**
Revenue Contribution	9,615	9,237	9,548	9,093	10,100	**47,593**
Total Council Contribution	14,036	12,566	12,518	13,015	13,168	**65,303**
Depreciation / Major Repairs Reserve	12,826	13,275	13,739	14,220	14,718	**68,778**
TOTAL HOUSING	**26,862**	**25,841**	**26,257**	**27,235**	**27,886**	**134,081**
TOTAL	**26,862**	**25,841**	**26,257**	**27,235**	**27,886**	**134,081**

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2020-2024 Prudential Indicators

Introduction

1.0 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and produce prudential indicators. The framework established by the Prudential Code is designed to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation. In exceptional cases the Prudential Code should provide a framework which will demonstrate that there is a danger of not ensuring this, so that the local authority concerned can take timely remedial action.

1.1 The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long-term financing implications and potential risks to the authority. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt. The Capital Investment Strategy Is included as Appendix D (iii) to this report.

1.2 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Prudential Code does not include suggested indicative limits or ratios. These will be for the local authority to set itself. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Authority's underlying investment appraisal systems.

1.3 Within this overall prudential framework there is an impact on the Authority's treasury management activity as it will directly impact on borrowing and investment activity. The Treasury Management Strategy Statement and Annual Investment Strategy for 2020/21 is included within the annex to this report.

1.4 The Prudential Code requires the following matters to be taken into account when setting or revising the prudential indicators:

a) Service Objectives – e.g. strategic planning for the Authority
b) Stewardship of assets – e.g. asset management strategy
c) Value for money – e.g. options appraisal
d) Prudence and sustainability – e.g. implications of external borrowing
e) Affordability – e.g. impact on Housing rents
f) Practicality – e.g. achievability of the forward plan

1.5 Matters of affordability and prudence are primary roles for the Prudential Code.

1.6 The revenue consequences of capital expenditure relating to the HRA must to be paid for from HRA resources.

1.7 Capital expenditure can be paid for through capital receipts, grants etc, but if these resources are insufficient then any residual capital expenditure will add to the HRA's borrowing need.

1.8 The key risks to the plans are that the level of funding, such as capital receipt levels or revenue contributions may change as capital receipts are reliant on an active property market.

1.9 The indicators cover:

- Affordability;
- Prudence;
- Capital expenditure;
- External debt; and
- Treasury management.

1.10 Prudential indicators are required to be set as part of the Financial Planning and Budget process. Any revisions must be reported through the financial management process.

1.11 The prudential indicators for the forthcoming and future years must be set before the beginning of the forthcoming year. They may be revised at any time, following due processes and must be reviewed, and revised if necessary, for the current year when the prudential indicators are set for the following year.

1.12 The following sets down the draft Prudential Indicators as calculated and proposed for North Tyneside Council for 2020–2024. The indicators include those for the Housing Revenue Account.

Prudential Indicators for Affordability

1.13 The fundamental objective in considering affordability of the Authority's Investment Plan is to ensure that the total capital investment of the Authority remains within sustainable limits, and in particular to consider the impact on the "bottom line" and hence Council Tax and Housing rents. Affordability is ultimately determined by a judgement on acceptable Council Tax or housing rent levels.

1.14 In considering the affordability of its Investment Plan, the Authority is required to consider all the resources that are currently available and estimated for the future, together with the totality of the Investment Plan, revenue income and revenue expenditure forecasts for the forthcoming year and following two years (as a minimum). The Authority is also required to consider known significant variations beyond this timeframe. This requires the development of rolling revenue forecasts as well as capital expenditure plans. In line with the Financial Plan and the Investment Plan, four-year forecasts have been provided for the prudential indicators.

1.15 When considering affordability, risk is an important factor to be considered. Risk analysis and management strategies should be taken into account.

1.16 Looking ahead for a four year period, the following is a key prudential indicator of affordability:

- the ratio of financing costs to net revenue stream for both the Housing Revenue Account (HRA) and non-HRA services.

Ratio of financing costs to net revenue stream

1.17 This indicator identifies the trend in the cost of capital (predominately external interest and MRP) as a proportion of the net revenue budget for the General Fund and housing income for the HRA and is shown in Table 1 below:

Table 1: Ratio of Financing Costs to Net Revenue Stream

	2019/20	2020/21	2021/22	2022/23	2023/24
	Est.	Est.	Est.	Est.	Est.
General Fund	15.84%	23.62%	20.07%	19.57%	19.42%
HRA	28.07%	29.24%	28.64%	27.97%	27.54%

1.18 The above indicator shows costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes and leases. The new accounting standard for leasing (IFRS16) comes into force for Local Authorities from 1 April 2020. This means that leases that have previously been treated as operating leases and expensed to the revenue account on an annual basis, are now required to be added to the authority's balance sheet. An initial estimate of the impact of this change (£4m pa) to the cost of capital has been added to the above calculation. Work is ongoing to calculate the actual impact of this change on the cost of borrowing. This will be reported through the Financial Management reports to Cabinet. It should be noted that there is not expected to be a bottom line impact to the revenue budget.

To enhance the information available for decision-making we have also provided a local indicator to show the proportion of the budget that is spent on unsupported borrowing. This is shown in Table 2 below:

Table 2: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream

	2019/20	2020/21	2021/22	2022/23	2023/24
	Est.	Est.	Est.	Est.	Est.
General Fund	10.16%	12.52%	11.28%	11.15%	10.83%
HRA	4.45%	7.07%	6.45%	6.17%	5.95%

1.19 The cost of capital related to past and current capital programmes has been estimated in accordance with proper practices. Actual costs will depend on the phasing of capital expenditure and prevailing interest rates, and will be closely managed and monitored on an ongoing basis. Any reprogramming in the Investment Plan, whether planned or unplanned, may delay the impacts of debt financing costs to future years.

Prudential Indicators for Prudence

1.20 A key indicator of prudence is that, over the medium term, gross debt will only be used for a capital purpose. Under the Code the underlying need to borrow for a capital purpose is measured by the Capital Financing Requirement (CFR). Gross debt includes external borrowing and also other liabilities including PFI schemes and Finance Leases.

Gross debt and Capital Financing Requirement (CFR)

1.21 This key indicator shows that gross debt is not expected to exceed the total CFR including additional capital requirements for 2019/20 to 2023/24.

Table 3: Gross external debt compared to CFR

	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Est.	**Est.**	**Est.**	**Est.**	**Est.**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
External Borrowing	461,312	480,721	477,116	467,325	463,922
Other Liabilities (including PFI and Finance Leases)	117,385	189,136	185,783	182,319	181,347
Total Gross debt	578,697	669,857	662,900	649,644	645,268
Capital Financing requirement	**643,531**	**719,320**	**712,453**	**696,955**	**684,798**

Prudential Indicators for Capital Expenditure

Estimate of capital expenditure

1.22 This indicator requires reasonable estimates of the total capital expenditure to be incurred during the current financial year and at least the following three financial years.

1.23 The Investment Plan for 2020-2024 is included in the annex to the report and the figures below are based on that report. A full breakdown of individual projects is shown in Appendix D (i).

Table 4: Capital Expenditure

	2019/20 Est. £000s	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s
General Fund	41,972	40,445	24,932	15,046	15,532
HRA	23,430	26,862	25,841	26,257	27,235
Total	**65,402**	**67,307**	**50,773**	**41,303**	**42,767**

1.24 There is a risk of cost variations to planned expenditure against the Investment Plan, arising for a variety of reasons, including tenders coming in over/under budget, changes to specifications, slowdown/acceleration of project phasing. There is also the possibility of needing to bring urgent and unplanned capital works into the Investment Plan. These risks are managed by project officers on an ongoing basis, by means of active financial and project monitoring, they will be overseen by the Investment Programme Board and any changes will be made in accordance with Financial Regulations.

1.25 The availability of financing from capital receipts, grants and external contributions also carry significant risks. These risks are particularly relevant to capital receipts, where market conditions are a key driver to the flow of funds, causing problems in depressed or fluctuating market conditions. There is a much reduced reliance on capital receipts in the proposed plan.

Estimate of Capital Financing Requirement (CFR)

1.26 The CFR can be understood as the Authority's underlying need to borrow money long term for a capital purpose. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The CFR will increase annually by the amount of capital expenditure which is not immediately paid for by grants, contributions, direct revenue funding or capital receipts. The General Fund CFR will also be reduced each year by the amount of Minimum Revenue Provision (MRP) that is set aside in the revenue budget. In addition, the CFR may be reduced by additional voluntary contributions in the form of capital receipts or revenue contributions. The HRA business plan includes provision to reduce the HRA CFR in this way.

1.27 The CFR also includes any other long term liabilities eg PFI schemes and finance leases. As outlined in paragraph 1.18 above the new accounting standard for leasing (IFRS16) comes into force for Local Authorities from 1 April 2020. This means that leases that have previously been treated as operating leases and expensed to the revenue account on an annual basis, are now required to be added to the authority's balance sheet. An initial estimate of the impact of this change (£75m) has been added to the CFR. Work is ongoing to calculate the actual impact of this change on the CFR. This will be reported through the Financial Management reports to Cabinet.

1.28 In accordance with best professional practice the Authority does not associate borrowing with particular items or types of expenditure. The Authority has a number of daily cash flows, both positive and negative, and manages its treasury position in terms of its borrowing and investments in accordance with the approved Treasury Management Strategy. In day to day cash management no distinction can be made between revenue cash and capital cash. Over the long term external borrowing may only be incurred for capital purposes.

Table 5: Capital Financing Requirement

	2019/20 Est. £000s	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s
General Fund	318,757	400,587	399,576	390,047	383,980
HRA	324,774	318,733	312,877	306,908	300,818
Total	**643,531**	**719,320**	**712,453**	**696,955**	**684,798**

1.29 The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 6 below:

Table 6: Capital Financing Requirement for Unsupported Borrowing

	2019/20 Est. £000s	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s
General Fund	177,632	196,078	188,238	183,101	178,818
HRA	22,922	15,915	16,207	11,907	7,607
Total	**200,554**	**211,993**	**204,445**	**195,008**	**186,425**

Prudential Indicators for External Debt

Authorised limit for total external debt

1.30 For the purposes of this indicator the authorised limit for external debt is defined as the authorised limit for borrowing plus the authorised limit for other long term liabilities.

1.31 This indicator requires the Authority to set, for the forthcoming financial year and following years, an authorised limit for total external debt, separately identifying borrowing from other long term liabilities such as PFI and Finance Leases.

1.32 The authorised limit represents the maximum amount the Authority may borrow at any point in time in the year. It has to be set at a level the Authority considers is “prudent” and has to be consistent with the plans for capital expenditure and financing.

1.33 This limit is based on the estimate of the most likely, but not worse case, scenario with additional headroom to allow for operational management, for example unusual cash movements.

1.34 As outlined in paragraphs 1.18 and 1.27 above the new accounting standard for leasing (IFRS16) comes into force for Local Authorities from 1 April 2020. An uplift has been applied to the external and operational boundaries to allow for this change. Work is ongoing to calculate the actual impact of the change. This will be reported through the Financial Management reports to Cabinet.

1.35 Full Council will be requested to approve these limits and to delegate authority to the Chief Finance Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities, in accordance with option appraisal and best value for money for the Authority.

1.36 Any such changes made will be reported to the Cabinet at its next meeting following the change.

Table 7: Authorised Limit for External Debt

	2019/20 Est. £000s	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s
Borrowing	1,100,000	1,080,000	1,070,000	1,040,000	1,020,000
Other Long Term Liabilities	150,000	270,000	270,000	270,000	270,000
Total	**1,250,000**	**1,350,000**	**1,340,000**	**1,310,000**	**1,290,000**

1.37 The Chief Finance Officer reports that these Authorised Limits are consistent with the Authority's current commitments, existing plans and the proposals in this 2020/21 budget report for capital expenditure and financing, and in accordance with its approved Treasury Management Policy Statement and Practices.

Operational Boundary for total external debt

1.38 The proposed operational boundary is based on the same estimates as the authorised limit. However, it excludes the additional headroom which allows for unusual cash movements.

1.39 The operational boundary represents a key management tool for in year monitoring by the Chief Finance Officer. Within the operational boundary, figures for borrowing and other long term liabilities are identified separately. Full Council will be requested to delegate authority to the Chief Finance Officer, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the Authorised Limit.

1.40 Any such changes will be reported to the Cabinet at its next meeting following the change.

Table 8: Operational Boundary for External Debt

	2019/20 Est. £000s	2020/21 Est. £000s	2021/22 Est. £000s	2022/23 Est. £000s	2023/24 Est. £000s
Borrowing	550,000	540,000	535,000	520,000	510,000
Other Long Term Liabilities	130,000	220,000	220,000	220,000	220,000
Total	**680,000**	**760,000**	**755,000**	**740,000**	**730,000**

Prudential Indicators for Treasury Management

Adoption of the CIPFA Code of Practice for Treasury Management

1.41 The Authority has an integrated Treasury Management Strategy and has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. North Tyneside Council has, at any point in time, a number of cash flows, both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved Treasury Management Strategy and Practices.

Upper limits on interest rate exposure 2020 to 2024

1.42 Full Council will be requested to set an upper limit on its fixed interest rate exposures for 2020/21, 2021/22, 2022/23 and 2023/24 of 100% of its net outstanding principal sums.

1.43 Full Council will be requested to set an upper limit on its variable interest rate exposures for 2020/21, 2021/22, 2022/23 and 2023/24 of 50% of its net outstanding principal sums.

1.44 The proposals to set upper and lower limits for the maturity structure of the Authority's borrowings are as follows:

Table 9: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate

	Upper Limit	Lower Limit
Under 12 months	50%	0%
12 months to 2 years	50%	0%
2 years to 5 years	50%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	25%
20 years to 30 years	100%	25%
30 years to 40 years	100%	25%
40 years to 50 years	100%	25%

Table 10: Upper limit for total principal sums invested for over 365 days

	2020/21	2021/22	2022/23	2023/24
% of Investments with Maturity over 364 days	25%	25%	25%	25%

1.45 The above indicator sets the exposure of investments in excess of 365 days at no more than 25% of the portfolio.

NORTH TYNESIDE COUNCIL

CAPITAL INVESTMENT STRATEGY

2020-2025

CONTENTS

1. Introduction

The Investment Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Authority's services and informs decisions on capital spending priorities within the Authority's Investment Plan.

Investment Priorities are considered in the context of the strategic objectives of the Our North Tyneside Plan and other key strategies and plans that support the delivery of Our North Tyneside Plan (Appendix 1) and "Our Ambition for North Tyneside" strategy.

Principles for Capital Investment:

1. Investment must be strategically aligned to deliver the Our North Tyneside plan priorities (see below);
2. The Authority will work within a borrowing ceiling in terms of both value and revenue cost, reviewed annually;
3. Whole life costs are considered as part of a capital investment appraisal; including provision to ensure the asset is maintained;
4. For every potential scheme the Authority will explore all possible funding and delivery options; and,
5. Unsupported (prudential) borrowing is funding of the last resort.

Our Investment Plan priorities are as follows:

- Policy priorities;
- Maintaining existing assets;
- Income generating projects;
- Invest to save projects; and,
- Regeneration and key infrastructure enhancements.

Capital investment is technically described as "Expenditure on the acquisition, creation, or enhancement of 'non-current assets". This is items of land, property and plant which have a useful life of more than one year. A fuller definition is attached at Appendix 2. Expenditure outside this definition will be revenue expenditure.

Most non-current assets are properties that are used in service delivery. As at 31 March 2019 the Authority's land, buildings and infrastructure asset base of over 450 properties has a current use Balance Sheet value of approximately £251 million, approximately 945 kilometres of highways and 235 bridges, subways, culverts and other structures with a historic value of £168 million, council housing stock comprising nearly 15,000 properties with a balance sheet value of £654 million and ICT and other equipment with a balance sheet value of £16m. In addition the Authority has an interest in assets of companies in which the Authority has a financial interest in terms of equity and loans.

Although this Strategy focuses on the Authority's management of its own investment in assets, a wider view of capital investment throughout the Borough by both the public and private sectors will have a major influence on meeting the Authority's aims and objectives. The Authority works in close partnership with its partners including the NHS, Schools, Highways England, the Environment Agency, NEXUS and Northumbrian Water.

The Investment Strategy is presented to Council as a Policy Framework document, and links with both the Treasury Management Strategy and the Corporate Asset Management Plan. Links to both documents are shown in Appendix 1.

In considering the principles, the Authority needs a balance between guidance and prescription to allow a flexible approach to be taken. This Strategy focuses on the key policies for the allocation of capital resources to schemes in line with Authority's priorities and statutory responsibilities.

The management of the Investment Plan is supported by the Authority's approved Financial Regulations and capital governance process through the Investment Programme Board (see Appendix 4) and the Strategic Property Group.

2. Guiding Principles

2.1 Prioritisation and Approval

Delivery of the "Our North Tyneside Plan" sets the challenge of meeting competing priorities against limited financial resources.

A 'scoring matrix' has been developed to help inform priority schemes and evaluate competing projects for inclusion in the Investment Plan.

The matrix is an aid to evaluate priorities between often very disparate schemes; the overall value of council contribution to capital is ultimately a full Council decision.

All schemes bidding for inclusion on the Investment Plan must follow the approved Investment Plan Gateway process (attached as Appendix 4) and will be subject to a process of prioritisation using the capital scoring matrix (attached as Appendix 3). This process will take place as a minimum on an annual basis. Any bids outside this timescale should be by exception only and will follow the same process.

All schemes will be required to develop a robust business case detailing full capital costs and full life revenue costs, including provision for ensuring that assets are maintained. This will be provided as part of the Gateway 2 submission to the Investment Programme Board for approval prior to commencement of the scheme.

Where funding has been allocated to a programme without individual schemes being identified at the time of approval, (such as a general allocation to a regeneration project, Local Transport Plan, schools for capital maintenance projects), individual schemes within that allocation are subject to each individual scheme being approved by the Investment Programme Board.

2.2 Alternative Funding and Delivery Opportunities

For every potential scheme the Authority will explore all funding options. As capital funding is reduced the Authority will continue to consider alternative methods of supporting capital expenditure within the Authority, using alternative funding, such as social investment, private sector finance and third sector funding or by other bodies delivering capital schemes instead of the Authority.

The Authority can use its assets to support schemes or aim to maximise funding from any source possible, such as Heritage Lottery or Local Enterprise Partnership funding.
The Authority will continue to bid for additional external funding and/or work with other bodies to secure capital investment or consider use of its own assets in a development, but restricts schemes to those which support corporate priorities or statutory service objectives.

Investments on projects should demonstrate sustainability and any requirements for match-funding and future revenue consequences have been considered and approved along with an assessment of the opportunity costs of alternative options. All bids are to be agreed by the Investment Programme Board prior to submission.

The Authority receives capital grant funding from government and is able to bid for grant funding direct to particular government departments or from other grant awarding bodies.

Any un-ring fenced capital grants received, even where these are allocated with service intentions of the identified government body awarding the grant, will be required to be approved by the Authority. Consequently once capital grants have been allocated to a specific service by the Authority, individual schemes within that allocation are subject to each individual scheme being approved by the Investment Programme Board.

2.3 Capital Receipts and Capital Contributions

The Authority receives capital receipts and capital contributions from:

- Asset disposals
- Right to Buy Clawback
- Section 106 and Community Infrastructure Levy (CIL)
- Section 278
- Repayment of loans for a capital purpose

Asset disposals

The proposed disposal of land and buildings is reported to Cabinet for approval and receipts from the sale of all assets sold are used to support the Investment Plan in line with funding the Authority's priorities. An asset disposal will be deemed to occur when the Authority transfers the freehold or a long lease (usually over 40 years).

The Authority will aim to ensure best value when disposing of assets, by enhancing the land prior to disposal, where appropriate; e.g. by obtaining planning permission or providing a development plan. As appropriate the Authority may dispose of assets by tender or by public auction.

The Authority will consider exceptions to this policy where rationalisation of assets used for service delivery is undertaken and in respect of school sites where the Secretary of State has approved the disposal – such exceptions will require a Cabinet decision.

Asset disposals at nil consideration or below market value

The disposal of an asset at below Market Value requires Cabinet approval.

In considering asset disposals, the Authority also needs to take into account the policy on Community Asset Transfers where the Authority will consider, on a case by case basis, the potential transfer of assets to an alternative provider after a full assessment of the long term (full life) risks and rewards of the transfer, including the achievement of best value including potential market value, linked to the Authority's aims and objectives.

The Localism Act 2011 introduced the "Community Right to Bid" and placed a duty upon local authorities in England to maintain a list of assets of community value. Once an asset is "Listed" any disposal will be under the Community Asset Transfer policy or for market value by tender/auction.

Where the Authority proposes to dispose of, or grant a long lease, at nil consideration or at a value below market value this is required to be approved by Cabinet. This will also apply where the disposal is for a community or service benefit.

There may be circumstances, such as the transfer of community school assets under the Academies Act, where assets will also be disposed of at nil consideration.

Right-to-Buy Clawback

In line with statutory regulations, 100% of these receipts are currently used to support the provision of the housing function.

Section 106 contributions and Community Infrastructure Levy (CIL)

Section 106 (S106) monies come from developer contributions through the planning system. There are specific conditions attached to the use of the S106 and the monies are used accordingly to support the Authority's priorities.

Any monies received from the Community Infrastructure Levy (CIL) will be allocated under the CIL arrangements ("the Regulation 123 List") in line with the Authority's investment priorities including any specific funding requirements.

Section 278 Contributions

Funding can be made available under Section 278 (S278) of the Highways Act 1980 whereby a developer may be required to contribute to the provision, alteration or improvement to highways in order to facilitate development.

Repayment of loans for a capital purpose

Where the Authority provides a loan for a capital purpose this will be approved and accounted for as capital expenditure. The repayment of a loan by the borrower will be treated as a capital receipt; however any receipts of this nature will be specifically applied to reduce the value of the outstanding loan.

2.4 Flexible use of Capital Receipts

In December 2015 the Secretary of State published guidelines confirming the criteria for the Flexible Use of Capital Receipts. The initial guidance covered the period 1 April 2016 to 31 March 2019. This was subsequently extended in December 2017 to cover the period up to 31 March 2022. This flexibility allows Local Authorities to use capital receipts to fund revenue expenditure incurred to generate ongoing savings. This flexibility is subject to a Strategy for the use of capital receipts being approved by full Council. By approving this document Council will be approving this flexibility to be used as appropriate with any use reported to Cabinet.

Potential uses for capital receipts, (subject to the capital receipts being received and Cabinet approval of the use of receipts), would be to support any implementation costs for the Authority's efficiency programme including redundancy costs.

2.5 Revenue and Reserves

The Authority is able to use revenue funding and reserves for capital schemes. However, as a result of competing revenue budget pressures and the continued reduction in government support for revenue expenditure the Authority' does not generally budget to use revenue or reserve funds to directly fund capital projects, within the General Fund, after the feasibility stage. This policy is reviewed on an annual basis.

The Housing Revenue Account business plan recognises revenue contributions to the HRA investment plan through the Major Repairs Reserve and other general revenue contributions.

2.6 Approach to Borrowing

In line with the Treasury Management Strategy, the Authority is able to borrow money on the money market or from the Public Works Loans Board to fund capital schemes or, use its own internal resources (i.e. cash flow). However for all schemes funded from borrowing, the Authority must fund the repayment and interest costs as since 2011 any central government "supported borrowing" allocations and related revenue support ceased. There is an intention that a cap is placed on the overall level of borrowing and that over a 10 year cycle the level of borrowing should reduce. The policy governing the repayment of this borrowing for the General Fund, the Minimum Revenue Provision (MRP) policy, is approved annually by full Council. Repayment of Housing Revenue Account borrowing is laid out in the 30 year Business Plan.

The Authority is only able to borrow for "unsupported borrowing" (also known as Prudential Borrowing) under the guidance contained in the CIPFA Prudential Code whereby, in summary, the Authority is required to ensure that all borrowing is both prudent, sustainable and affordable. Under the Prudential Code a number of indicators showing ratios of costs and levels of borrowing, are required to be considered and approved by full Council. All schemes funded from prudential borrowing are approved by full Council or Cabinet and are in line with Financial Regulations.

The Authority's Treasury Management Strategy recognises the need to take borrowing to support a number of capital projects, included within the Investment Plan approved by full Council, and reduce the level of internal borrowing. Based on current projected Public Works Board Lending rates, the cost of 1.5-3.5% should be assumed for new borrowing in 2020/21.

The Authority takes a prudent approach to new borrowing, paying particular regard to the robustness of the business case to include forward predictions of affordability, with the aim that projects should be self-funding (i.e. create a revenue stream so that the cost of borrowing is cost neutral on Council Tax). It is essential that any new proposals for a self-funding or invest to save scheme supported by borrowing has a robust business case that is presented to the Investment Programme Board prior to approval by Council or Cabinet.

To support its revenue budget the Authority will continue to evaluate any capital investment projects either acting alone or with partners that will produce an on-going revenue income stream for the Authority. This is one of the scoring criteria now adopted by the Authority when assessing competing capital projects.

There may be the need for borrowing that has no identifiable future revenue stream, for example, to repair or construct key infrastructure assets. Here a broader view can be taken of the value of repairing the asset to the overall economy of the Authority. The cost of such borrowing falls on the tax payer through payments of debt interest on the Authority's General Fund revenue account and repayment of debt over a specified period of time. There may still be a need for such borrowing but each proposal should be reviewed on a case by case basis, using the Gateway and prioritisation process, with the project evaluation clearly stating how the borrowing is to be afforded.

2.7 Investment Opportunities (including capital loans)

The Authority will consider, if the opportunities arise, the purchase of land and property as an investment – to both generate an on-going income stream or to realise an increased capital value in the future. This could include the purchase of land or property or the purchase of “shares” in a property fund. Depending on the capital funding proposed the appropriate approvals will be requested at that time. Loans for a capital purpose can also be approved subject to a business case and due diligence on the borrower including, as appropriate, guarantees and bonds to secure the repayment of the loan. Any such opportunities would be considered in the first instance by the Investment Programme Board and Cabinet for approval in accordance with Financial Regulations.

Appendix 1 – Key Strategies and Plans linked to the Investment Strategy

Our North Tyneside Plan

People	Place	Economy	Partners	Organisation
Joint Strategic Needs Assessment	Local Plan and Master Plans • Community Infrastructure Levy Schedule (Regulation 123 List)	Strategic Economic Plan	Plans appropriate to each theme	ICT- Digital Strategy
Health and Wellbeing Strategy	Transport Strategy • Highways Asset Management Plan (HAMP) • Parking	Employment and Skills Strategy		Human Resources- Workforce Strategy
	Housing Strategy • Strategic Housing Market Assessment (SHMA) • Strategic Housing Land Availability Assessment (SHLAA) • HRA business plan • HRA Asset Management Plan			Financial Strategy
		Estates Strategy		Asset Management Plan
		Our Ambition for North Tyneside		Treasury Management Strategy Statement
				Minimum Revenue Provision Policy
				Prudential Indicators

Appendix 2 – Definition of Capital Expenditure

Capital investment is simply described as:

> ***Expenditure on the acquisition, creation or enhancement of "non-current assets"***
>
> ***(non-current assets are items of land and property which have a useful life of more than 1 year)***

This definition of capital expenditure that the Authority has to comply with for the classification and, therefore, the funding of capital expenditure in linked to International Financial Reporting Standards. "Qualifying Capital Expenditure" under s25 of Local Government Act 2003 is defined when:

> "The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with "<u>proper practices</u>""

"Proper Practice" (from 1 April 2010) is under International Financial Reporting Standards (IFRS) rules. The relevant standard is IAS16 which has the following definition of capital expenditure:

> "Expenses that are <u>directly attributable</u> to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management".

"Directly attributable" means that, for example, if building a school, it is the costs linked to the actual construction of the building, not temporary accommodation, moving people around etc.

Subsequent Capital Expenditure on an asset is defined as:

> "Expenses that make it probable that <u>future economic benefits</u> will flow to the authority and whose cost can be measured reliably" subject to "if the expenditure is to replace a component, the old component must be written out of the balance sheet".

Future economic benefits means that it is not necessary for the expenditure to improve the condition of the asset beyond its previously assessed standard of performance. The measurement is against the actual standard of performance at the date of expenditure; e.g. if service potential or asset life is increased.

Appendix 3 – Capital Scoring Matrix

Capital Projects Assessment Criteria

Possible Weightings

1. **Council Plan Priorities**

	Specifically identified in Council Plan		PASS/FAIL
	Identified as a key Project/Activity in the Council Plan or directly supports a number of specific outcomes		
	Generally supports specific Actions or outcomes		
	Will not deliver any identified outcomes		

2. **Potential to generate future revenue savings and/or investment return**

3 points	Considerable additional net revenue saving and/or income stream meets both £100k pa and > 25% of project cost)	factor = x	**5**
2 points	Moderate additional net revenue saving and/or income stream (meets both £50k - £100k pa and 10-25% of project cost)	Max score	**15**
1 point	Small additional net revenue saving and/or income stream (meets both <£50k pa and < 10% of project cost)		
0 points	No potential net revenue income		
-2 points	Additional on-going resources required over existing budgets		

3. **Specific External resources to support scheme (including Regional funding)**

3 points	Specific (ring fenced) funding requires no additional Council funds (capital or revenue)	factor = x	**4**
2 points	Specific (ring fenced) funding and requires Council funds of both 10% match funding or up to £250k (capital or revenue)	Max score	**12**
1 point	Specific (ring fenced) funding and requires Council funds of both 50% match funding or between £250-500k (capital or revenue)		
0 points	Specific (ring fenced) funding but requires Council funds of both 75% match funding or > £500k (capital or revenue)		

4. **Statutory Status: includes support of a statutory service requirement**

3 points	Meets a specific immediate or forthcoming statutory requirement	factor = x	**4**
2 points	Meets an underlying statutory duty	Max score	**12**
1 point	Meets a discretionary requirement		
0 points	no indication of status		

5. Risk to Community of NOT doing (i.e. identified in Risk Register)

3 points	High risk (9-16)	factor = x	**2**
2 points	Medium risk (5-8)	Max score	**6**
1 point	Low risk (1-4)		
0 points	no risk identified		

6. Risk of doing (can project be delivered?) - achievability, timescale, resources required

3 points	Low risk (1-4)	factor = x	**2**
2 points	Medium risk (5-8)	Max score	**6**
1 point	High risk (9-16) with mitigation		
0 points	High risk (9-16) with no mitigation		

7. Condition, health and safety risk and strategic importance of asset issues

3 points	Expenditure on asset will reduce impact of 3 issues	factor = x	**1**
2 points	Expenditure on asset will reduce impact of at least 1 issue	Max score	**3**
1 point	Expenditure will have a possibility of reduced impact in at least 1 issue		
0 points	No demonstrated impact on any issues		

8. Outcomes, added value, cross-service benefit

3 points	Good - Large number of beneficiaries / target groups (>25,000)	factor = x	**1**
2 points	Satisfactory - Significant number of beneficiaries / target groups (10,000-25,000)	Max score	**3**
1 point	Fair - Reasonable number of beneficiaries / target groups (1,000-10,000)		
0 points	Poor - Few beneficiaries / target groups (<1,000)		

Max score	**57**

Appendix 4 – Investment Plan Gateway Process

Investment Programme Board
Governance arrangements for Capital Projects

The purpose of the Gateway process is to ensure that all necessary approvals are secured at all key stages of any Capital project.
Project Officers are responsible for the completion and submission of all Gateway Forms to the Strategic Investment and Property Team (FAO Iain Betham / Fiona Lucas). The team will then ensure that all Gateway Forms are presented to IPB as required.

Regional Projects

All regional projects come through the IPB Governance arrangements, even if they have already passed regional Gateways. North Tyneside Council to sign off and govern its involvement. All proposals come through Gateway 0—go out to the regional processes—the outputs from that and all necessary information then come back into Gateway 1.

Gateway 0 Strategic Fit

Purpose: Information contained in this submission should be brief but sufficient to demonstrate that a mandate exists, the project or programme has been prioritised and an outline business case has been developed. There is also a requirement to convey how far the idea has been developed in terms of feasibility.

Role: The submission will be scrutinised by the IPB in terms of strategic fit, corporate priorities, available capital resources and estimated revenue implications. This allows the Project Officer to commence the feasibility stage.

Available options: Approve or advise / refer back / reject

Associated Form—Gateway 0

Gateway 1 Feasibility

Purpose: This document constitutes a formal bid for capital investment including inclusion in the Investment Plan. It should provide sufficient information to enable effective financial and technical scrutiny ahead of further review at strategic and member level. Figures on cost and funding should be as accurate as possible. At Gateway 1 there is a focus on viability, affordability, procurement and delivery. The initial submission of the Gateway 1 form will be considered by a sub group of IPB as part of the new scoring matrix. This will ensure that all projects are aligned to the Council's Our North Tyneside Plan and that any financial or other implications are addressed prior to consideration by the full IPB Board

Role: The IPB will scrutinise the bid in terms of its financial and technical viability and management of risk. The IPB will be briefed on outcomes and recommended actions and may wish to prioritise, amend or modify the submission in light of these comments. The IPB provide recommendations to Cabinet to form part of the budget setting and financial management processes, if required.

Available options: Approve or advise / refer back / reject

Associated Form—Gateway 1

Gateway 2 Approval and Delivery

- **Purpose:** Spending approval at Gateway 2 must be secured before any capital expenditure is incurred on a programme / project. This template brings together all the information needed for an appraisal and approval to be given. If the request varies from the budget either in terms of expenditure, funding or both you must explain this variance in Section A8. **In addition this Gateway Form MUST provide information on the spend profile which will be monitored as part of the overall investment plan.** Part A is normally completed by the Programme / Project Manager in consultation with the Finance Link Officer. Part B should be completed by the Programme / Project Manager
- **Role:** Officers in both the Strategic Investment & Property Team and the Client Finance Team will complete final checks to confirm that relevant information has been submitted correctly in Part A & relevant sections of Part C.

Available options: Approve or advise / refer back / reject

Associated Form—Gateway 2

Gateway 3 Exception Report

Purpose: Information contained in this submission should provide the IPB with information on the project & the specific issues as to why the matter has been escalated to the IPB. This could cover project delays, financial concerns or new information that may now have an impact on the project. **In addition this Gateway Form MUST provide information on the spend profile which will be monitored as part of the overall investment plan.** A Gateway 3 submission may be required on more than 1 occasion subject to the issues / matters that may / may not be raised regarding a particular project. **The relevant Project Officer responsible for the project will be expected to attend the IPB to present the Gateway 3 submission.**

Role: The submission will be scrutinised by the IPB in terms of the wider strategic fit, corporate priorities together with the associated implications for capital resources and revenue budgets, prior to submission to Cabinet or Council as required.

Available options: Approve or advise / refer back / reject

Associated Form – Gateway 3

Gateway 4 Project Close

Purpose of Document: The purpose of this document is to confirm financial completion, transfer or the abandonment of a project and to report on the status of associated records. Responsibility for completion of this template should be identified in the follow-on actions and handover plan. Completion of all relevant sections is mandatory to enable consolidated reporting on the Investment Plan.

Scrutiny and Review: The Investment Programme Board will review this submission including for capital accounting and financial closure purposes.

Available options: Approve or request additional information

Associated Form – Gateway 4

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2020/21

Investment Instruments and Credit Criteria

Investment instruments used for the prudent investment of the Authority's cash balances are listed below under the 'Specified' and 'Non-Specified' Investment categories.

Specified Investments – are those investments offering high security and liquidity. All such investments will be in sterling, with a maximum maturity of one year, meeting the minimum 'high' rating criteria where applicable. Table 1 below shows the credit rating criteria used to select with whom the Authority will place funds:

Table 1: Specified Investments and Credit Criteria

The minimum credit ratings criteria the Authority use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available or other market information, to support their use.

	Credit Criteria	Maximum Deposit	Maximum Period
UK Government Debt Management Office (DMADF)	N/A	£75m	6 months
UK Local Authorities	N/A	£10m each	1 year
UK Government Treasury Bills	UK Sovereign Rating	£10m	1 year
Term deposits with individual bank or building society entity	Blue /Orange Red Green No Colour	£5m each	12 months 6 months 100 days Not for use
Certificate of Deposits with banks and building societies	Blue /Orange Red Green No Colour	£5m each	12 months 6 months 100 days Not for use
Money Market Funds *(CNAV, LVNAV,VNAV)	AAA	£5m each	Liquid

*CNAV- Constant Net Asset Value
LVNAV- Low Volatility Net Asset Value
VNAV- Variable net Asset Value

Group Limit – A group limit is the maximum exposure that can be held in total across a group of entities which fall within a single parent. For example, Bank of Scotland PLC falls within the group of Lloyds Bank PLC, therefore no more than £10m can be invested across the group. A Group limit of £10m will not be exceeded.

Non-specified Investments - are all sterling denominated, with maturities in excess of one year. A maximum of 25% may be held in aggregate in non-specified investments. Table 2 below shows the counterparties with whom the Authority will place funds:

Table 2: Non-Specified Investments

	Credit Criteria	Maximum Deposit	Maximum Period
UK Local Authorities	N/A	£5m each	3 years

Council Plan and Budget Engagement

Approach

Engagement with residents and others took place between 26 November 2019 and 21 January 2020. This was done via:

- an on-line questionnaire published on the North Tyneside Council website
- face to face sessions with the Residents Panel and other key stakeholder groups
- four drop in events (one at each of the Customer First centres)

In the face to face discussions attendees were provided with information about the refreshed Council Plan, the Authority's Budget and Cabinet's initial Budget proposals as agreed on 25 November 2019. Attendees were asked to give their views on the proposed Council Plan and the Budget proposals.

At the drop-in events, officers were able to talk to residents about Cabinet's proposals and people were given the opportunity to complete the same questionnaire as was published on the website.

Residents were also offered the opportunity to access information and complete the surveys in hard copy through Customer First Centres.

All of these engagement opportunities were publicised widely to explain how people could get involved.

Outcomes from the Engagement Activity

Around 250 people took part in the engagement process. This is an increase compared to last year.

The vast majority of the feedback for both the Council Plan and initial budget proposals was positive. There was very strong support that the Council Plan included the right priorities for North Tyneside and that the package of budget proposals was the right approach.

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Reserves and Balances Policy

Date: 3 February 2020 **Version:** V1 **Author:** Janice Gillespie

The Reserves and Balances Policy represents good financial management and should be followed as part of the annual Financial Planning and Budget process, Budget Monitoring and Final Accounts.

2 Application

The general principles set out in this Reserves and Balances Policy apply to North Tyneside Council's General Fund and to the Housing Revenue Account.

3 The Existing Legislative/Regulatory Framework

The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

The Local Government Finance Act 1992 and Local Government Act 2003 set out a range of safeguards to mitigate against local authorities over-committing themselves financially. These include:

- the balanced budget requirement;
- Chief Finance Officers' section 114 powers;
- the external auditors' responsibility to review and report on financial standing;
- the requirement for the Chief Finance Officer to report to full Council on the robustness of budget estimates and the adequacy of reserves in the Authority balance sheet; and
- the requirement for the Authority to regularly monitor its budget.

Generally, the balanced budget requirement is sufficient discipline for the majority of local authorities. This requirement is reinforced by section 114 of the Local Government Finance Act 1988 which requires the Chief Finance Officer in England and Wales to report to all the authority's councilors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice by the Chief Finance Officer cannot be taken lightly and has serious operational implications. Indeed, the authority's full council must meet within 21 days to consider the section 114 notice and during that period the authority is prohibited from entering into new agreements involving the incurring of expenditure.

Local Authority Accounting Practice (LAAP) Bulletin 99 (released July 2014) sets out guidance to local authority chief finance officers on the establishment and maintenance of reserves and balances. The Bulletin states that its guidance "represents good financial management and should be followed as a matter of course". The guidance covers the legislative and regulatory framework relating to reserves; types of reserves; the principles to be used to assess the adequacy of reserves and the Chief Finance Officer's advice to full Council.

Guidance on specific levels of reserves and balances is not given in statute, the published guidance or by the Chartered Institute of Public Finance and Accountancy (CIPFA) (the recognised accountancy body for local government finance) or the

Audit Commission. There is no statutory minimum level of reserves. It is up to local authorities themselves to set their own level of reserves and balances on the advice of the Chief Finance Officer.

4 The Role of the Head of Finance (Chief Finance Officer)
Within the existing statutory and regulatory framework, it is the responsibility of the Head of Finance (in her role as Chief Finance Officer) to advise the Authority about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.

The authority then, acting on the advice of the Chief Finance Officer, must make its own judgements on the level of reserves and balances taking into account all the relevant local circumstances. These include the operational and financial risks, and the arrangements in place to manage them, including adequate and effective systems of internal control. The duties of the Chief Finance Officer in relation to the level of reserves are covered by the legislative framework described in 3 above. Under the Local Government Act 2003, the Chief Finance Officer must report to the full Council on the adequacy of reserves (section 27) and reserve transactions must be taken account of within the required budget monitoring arrangements (section 28).

5 Types of Reserves
Reserves can be held for four main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities; and
- A reserve in respect of grants.

In addition, since 2003/04 the Authority has held a Strategic Reserve in its balance sheet. This has been used to manage significant financial pressures which can arise in year, or between years, for example to manage the significant pressures arising from equal pay settlements and costs of non statutory redundancy payments. The reserve has also been used to support the General Revenue budget in periods where the Authority's finances are in transition.

The Authority also holds a pensions reserve as required under International Accounting Standard 19 – Employee Benefits. This is a specific accounting mechanism used to recognise the Authority's share of pension fund liabilities in its balance sheet. As this is a reserve which arises from an accounting standard it is not available to finance expenditure of the Authority.

For each reserve held by the Authority there should be a clear protocol setting out:

- the reason for/purpose of the reserve;
- how and when the reserve can be used;
- procedures for the reserve's management and control; and,

- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

This Reserves and Balances Policy ensures that when establishing reserves, North Tyneside Council complies with the Code of Practice on Local Authority Accounting in the United Kingdom (The Code) and in particular the need to distinguish between reserves and provisions.

6 Policy and Principles to Assess the Adequacy of Reserves
The principles used by the Chief Finance Officer to assess the adequacy of unallocated general reserves when setting the budget ensure that account is taken of the strategic, operational and financial risks facing the authority.

Setting the level of reserves is just one of several related decisions in the formulation of the financial strategy and the budget for a particular year. This is carried out as part of the Authority's Financial Planning and Budget Process. Account is taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors are considered:

- The treatment of inflation and interest rates;
- Estimates of the level and timing of capital receipts;
- The treatment of demand led pressures;
- The treatment of planned efficiency savings / productivity gains;
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital investment developments;
- The availability of other funds to deal with major contingencies and the adequacy of provisions; and
- The general financial and economic climate in which the Authority operates.

The Authority holds two types of reserves

- General unearmarked reserves (the Authority's General Fund Balances)
- Earmarked reserves held for specific purposes

It is the current policy of North Tyneside Council for the *General Fund unearmarked reserves* (the General Fund Balances) to be held at a level of at least £10.000m. This is reviewed at least annually, during the setting of the budget. Factors which are taken into account during the review include; the level of balances as a percentage of the net revenue requirement, budget management and monitoring procedures, risk levels and financial projections for future years.

The level of each *earmarked reserve* is assessed separately with reference to the specific liabilities that the reserve represents. This is done in consultation with relevant officers. Individual earmarked reserves are assessed to ensure their adequacy in relation to factors that have become known since the previous year. It is the policy of North Tyneside Council to ensure that the Financial Planning and Budget Process takes account of any need to increase particular reserves due to factors which may arise and to fully account for these factors.

As one of the Authority's earmarked reserves*, the Strategic Reserve* is a significant part of the Authority's strategic financial management, often used to finance large pressures which can arise outside of the Authority's regular budget setting and financial management processes. As such, it has been used to address major spending issues and it is therefore the objective of the Authority to maintain the Strategic Reserve at a level of £10.000m over the medium term.

The use of the Strategic Reserve to balance budgets (either revenue or capital) should be very closely considered in line with LAAP (Local Authority Accounting Practice note) 99, which states that, although "balancing the annual budget by drawing on general reserves may be viewed as a legitimate short term option. It is not normally prudent for reserves to be deployed to finance recurrent expenditure". In principle, although the Strategic Reserve may, under certain circumstances, be used to balance the budget of the Authority, it should not be used as a year on year measure to support ongoing revenue spend. The level of the Strategic Reserve and the potential calls against it will therefore be reviewed on a continuous basis, and in the context of the overall financial planning process of the Authority.

Unless expressly agreed by Cabinet as part of the Budget process, the level of balances and reserves will be reviewed by the Chief Finance Officer and Deputy Chief Finance Officer during the final accounts process in consultation with the Elected Mayor, Cabinet Member for Finance and Resources and relevant officers. In addition, the regular budget monitoring process carried out by the Authority throughout the year will report on any changes in the level of balances or reserves. In-year and year-end transfers either into or out of a reserve must be authorised by the Chief Finance Officer and Deputy Chief Finance Officer in consultation with the Elected Mayor and Cabinet Member for Finance and Resources. Full documentation should be retained for all movements into and out of the reserves and balances.

The Reserves and Balances Policy is set in the context of the Authority's Financial Planning and Budget Process and does not focus exclusively on short-term considerations. Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, in the longer term it is not prudent for reserves to be deployed to finance recurrent expenditure: and where such action is being taken this will be made explicit and an explanation given as to how the recurrent expenditure will be funded in the longer term. Advice will be given by the Chief Finance Officer on the adequacy of reserves over the lifetime of the financial plan. This is addressed in the Financial Planning and Budget Process.

7 The Reporting Framework

The Chief Finance Officer has a fiduciary duty to local taxpayers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds. Compliance with this Reserves and Balances Policy assists in allowing the Chief Finance Officer to be satisfied that there is proper stewardship of public funds.

The level and utilisation of reserves is determined formally by the full Council at its meetings to approve the annual budget and the final accounts. These decisions are informed by the advice and judgement of the Chief Finance Officer.

The Reporting Policy of North Tyneside Council is:

- The Financial Planning and Budget process report to the full Council, which sets the Authority budget for the following year, includes a statement showing the proposed use of, or contribution to, general and earmarked reserves for the year ahead. Reference should be made as to the extent to which such reserves are to be used to finance recurrent expenditure.

- In addition, as part of the budget report to full Council the Local Government Act 2003 requires the Chief Finance Officer to make a statement to full Council on the robustness of the budget estimates and the adequacy of reserves in relation to the forthcoming financial year and the period of the authority's financial strategy (the two year Financial Planning and Budget Process). Where reserves are being used to finance recurrent expenditure this will be made explicit and an explanation given as to how such expenditure will be funded in the medium to long term. Advice should be given on the adequacy of, and expected need for, reserves over the lifetime of the financial strategy.

- The Authority's annual statement of accounts includes a required note on the level of reserves in the balance sheet, showing opening balance, net movement in year and year-end balance. Significant reserve movements are explained in the Chief Finance Officer's foreword to the accounts and the covering report to full Council which accompanies the presentation of the accounts. In addition, the financial management out turn report for the year, which is presented to Cabinet for approval, and subsequently to the Finance Sub Committee, includes a full listing of all reserves and an explanation of any significant movements in individual reserves.

- The regular in-year financial management reports to Cabinet and Finance Sub Committee include details of any transactions affecting the Authority's reserves.

8 Good Governance
It is essential that the Authority takes responsibility for ensuring the adequacy of reserves and provisions when they set the budget. This will be subject to the advice of the Chief Finance Officer and the arrangements for reviewing and reporting on the level of reserves and balances as set out above

Appendix H

2020-2024 Financial Planning and Budget Process

Timetable of Key Milestones for 2020/21

Date / Meeting	Detail
9 September 2019 **Cabinet**	Cabinet approves the 2020-2024 Financial Planning and Budget process, incorporating the associated Engagement Strategy.
9 September 2019 **Cabinet**	Cabinet agrees the 2020/21 Council Tax Support Scheme for consultation.
10 September 2019 to 28 October 2019	Public consultation period on the 2020/21 Local Council Tax Support Scheme.
25 November 2019 **Cabinet**	Cabinet considers its 2020-2024 initial Budget proposals in relation to General Fund, Schools, Housing Revenue Account & Investment Plan for 2020-2024.
25 November 2019 **Cabinet**	Cabinet considers the outcomes of the consultation on the 2020/21 Council Tax Support Scheme and proposes a scheme for Council to consider on 16 January 2020.
26 November 2019	Notice of Objection process for the 2020/21 Budget commences.
26 November 2019	Budget and Council Plan engagement process begins. Ends in January 2020.
December 2019 **Scrutiny Process**	Scrutiny of the 2020-2024 Financial Planning and Budget process.
Mid-late December 2019	Estimated timing of the 2020/21 Provisional Local Government Finance Settlement.

Date / Meeting	Detail
16 January 2020 **Council**	Council considers the proposed 2020/21 Local Council Tax Support Scheme from Cabinet and agrees or amends the scheme for 2020/21.
20 January 2020 **Cabinet**	2020/21 Council Tax Base agreed by Cabinet.
21 January 2020 **Overview, Scrutiny and Policy Development Committee**	Overview, Scrutiny and Policy Development Committee/Budget Study Group as appropriate considers Cabinet's final Budget proposals.
3 February 2020 **Cabinet**	Cabinet approves the final proposals in relation to the 2020/21 Housing Revenue Account budget and associated Business Plan, including an assessment in relation to the current year's budget monitoring information (2019/20). In addition, Cabinet will agree the Annual Housing Rent policy for 2020/21.
3 February 2020 **Cabinet**	Cabinet considers its Budget proposals for 2020-2024 in relation to General Fund Revenue, Schools and Investment Plan, taking into account feedback received as part of Budget Engagement.
4 February 2020 **Overview, Scrutiny and Policy Development Committee**	Overview, Scrutiny and Policy Development Committee considers the results of its review of the 2020-2024 Financial Planning and Budget and Council Plan process.
10 February 2020 **Cabinet**	Cabinet meeting to consider any recommendations of the Overview and Scrutiny Budget Study Group following its review of the Cabinets 2020/21 Budget and Council Tax proposals.
18 February 2020	4pm deadline for responses to the Authority's Notice of Objection
20 February 2020 **Council**	Reconvened Council meeting to consider Cabinet's estimates of amounts for the 2020-2024 Financial Planning and Budget process and Council Tax levels. Consideration of any responses to the Notice of Objection.
24 February 2020 (if required) **Cabinet**	Cabinet Meeting to consider any objections to Cabinet's Budget and Council Plan proposals.

	The Cabinet meeting on 24 February 2020 is now a scheduled meeting with other items of business and will proceed even where no objections are approved.
5 March 2020 (if required) **Council**	Council meeting to agree the Budget for 2020/21, the Council Tax level for 2020/21 and the Investment Plan for 2020-2024

* This timetable may change as a result of the current review of the Authority's Constitution, including the annual Budget approval process.

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Appendix I

Overview, Scrutiny & Policy Development Committee

13 January 2020

Budget Sub - group report

Author: **Budget Sub-group** Tel: 0191 643 5318

Wards: **All**

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1 Purpose of Report

To inform Overview, Scrutiny & Policy Development Committee of the work undertaken by the Budget Sub-group in scrutinising the 2020/24 Financial Planning and Budget Process: Cabinets Initial Budget proposals.

2 Recommendations

1. The Overview, Scrutiny & Policy Development Committee is recommended to refer the report with its recommendations and views of the Budget Sub-group, as set out in the report to Cabinet for consideration as part of the 2020/24 budget setting process.

2. That the Budget Sub-group be delegated to make any further recommendations and/or views on behalf of the Overview, Scrutiny & Policy Development Committee to Cabinet at its meeting on the 10 February 2020.

3 Background

The Council's constitution places a duty on the Overview, Scrutiny and Policy Development Committee to examine and contribute to the formulation of the Cabinet's budget and strategic planning proposals.

Invitations were extended to all non executive members of the Council to seek volunteers to serve on the Budget sub group.

The following Members served on the group:

Councillor Sandra Graham	Councillor John O'Shea
Councillor Jim Allan	Councillor Paul Richardson
Councillor Ken Barrie	Councillor Willie Samuel
Councillor Debbie Cox	Councillor John Stirling
Councillor Janice Mole	Councillor Judith Wallace

The group met on the 16 December where Senior Officers presented 2020/24 Cabinets Initial Budget proposals and associated Business Cases under the following headings:

- Effective Treasury Management/Corporate Resources
- Provision of School Development Services
- Commissioning and Asset Management – Application of Fees and Charges Policy
- Commissioning and Asset Management – How we are Organised
- HIF Project Management
- Materials Recycling Contract: Recycling Costs
- Trading Companies

The following Cabinet Members were in also in attendance to provide further insight if/when required.

Councillor B Pickard
Councillor Ray Glindon

A further meeting has been arranged for the Budget Sub-group to reconvene and consider Cabinet Final Budget Proposals for 2020/24 that will take place on Tuesday 4 February 2020.

4 Council Plan

The Our North Tyneside Plan 2020 – 2024 provides the policy framework or context for the Budget proposals.

The Plan continues to be structured in three key themes – Our People, Our Places and Our Economy, however, the refreshed Plan now includes two key policy developments as agreed previously by full Council. These are in relation to the declaration of a climate emergency and the role of the North of Tyne Combined Authority.

Our Places will - recognise the climate emergency by further reducing the Borough's overall carbon footprint. This will include reducing the council's carbon footprint, along with encouraging and enabling everyone to reduce their carbon footprint.

Our Economy will - benefit from the delivery of our ambitious vision, which we created with partners in the North of Tyne Combined Authority. We will have a dynamic and more inclusive economy, which will ensure that all residents have a stake in our region's future.

5 Budget Proposals

The Government's Budget Statement was due to be announced on 6 November 2019, and the Provisional Local Government Finance Settlement were due to be announced on 5 December 2019, however, because of the calling of a General Election the Budget Statement had been delayed.

The delay created significant uncertainty for the Authority when considering its Budget proposals for 2020/21 and further uncertainty when planning for the medium term.

Therefore, the approach taken when planning for 2020/21, was to use the Spending Round announcement delivered to Parliament on 4 September 2019 as recommended by the Ministry of Housing Communities and Local Government in a letter on 5 November 2019.

The initial Budget proposals for the General Fund had been developed in the context of a refreshed Our North Tyneside Plan 2020-2024, in where the Council Plan had been updated to reflect two key policy developments; the Council's declaration of a climate emergency and the context in which the Council now operates as part of the North of Tyne Combined Authority.

The budget proposals covered a four-year planning period from 2020-2024 for the revenue Budget and a five-year planning horizon for the Investment Plan.

Due to the significant uncertainty in relation to the level of funding beyond 2021 due to the changes in the local government finance system. The impact of the move to 75% Business Rates Retention, alongside the Fair Funding Review and Business Rates Reset were still unknown to the Authority at the time of the scrutiny meeting.

This increases the level of risk to financial planning, requiring current Budget forecasts to be closely monitored, and potentially refreshed more frequently than usual, as consequences become clear. The current savings requirement was estimated to be £41.822m over the period 2020-2024, before any proposals around Council Tax increases or the Adult Social Care Precept could be considered.

It was emphasised that the proposals had been developed following several years of cumulative effort to respond to reducing resources and rising costs and cover greater cumulative risk and required close attention to ensure delivery.

In the Spending Round 2019, the Chancellor announced proposals for a £2.9 billion cash increase in local government 'core spending power'. This would come from an extra £1.2 billion in social care grant funding for local authorities. The other £1.8 billion was expected to come from increases in Council Tax (1.99% general Council Tax increase, and a 2% precept for social care) and increases in business rates baseline funding in line with inflation.

The initial Budget proposals included the impact of the nationally recommended 1.99% general Council Tax increase and 2% Adult Social Care Precept, however, this would be finalised following the conclusion of the consultation process and confirmation on the Local Government Finance Settlement.

General Fund

<u>Medium-Term General Fund Position</u>

The 2019/20 financial year was the final year of the 2016 Spending Review, which had afforded local government some financial certainty with which to plan over the medium term. It was noted that the lack of a multi-year Spending Review presented a significant level of uncertainty when undertaking financial planning for the longer term.

This along with Brexit being delayed until 31 January 2020 and delays for major funding announcements due to the December 2019 General Election

In addition to this, as announced in the Spending Round 2019, the Fair Funding and Business Rates Retention (BRR) schemes scheduled for implementation in April 2020 will now not go ahead until April 2021. Therefore, significant risks remain to the Authority's funding around the principles to be agreed for fair funding distribution and how the move to 75% BRR is implemented.

The Chancellor announced the proposed Spending Round 2019 (SR19) on 4 September 2019 and as anticipated SR19 was limited to a single year, which included headline numbers for Government spending for 2020/21 and indicative three-year allocations for schools.

In addition, SR19 confirmed the Government's proposal to 'roll forward' the 2019/20 Local Government Finance Settlement. The main headlines announced in SR19 included:

- Departmental spending to increase by 4.1% in real terms, whilst keeping within the Government's fiscal rules;
- Social care grants that local authorities received in 2019/20 will continue in 2020/21;
- The Improved Better Care Fund (IBCF) will be maintained at 2019/20 levels, as well as rolling the Winter Pressures Grant (£240m allocated in 2019/20) into the IBCF for 2020/21;
- An additional £1bn of grant funding will be distributed for social care in 2020/21, plus local authorities will be able to charge a further 2% Adult Social Care Precept (ASCP) (estimated at £500m);
- A real term increase in the Public Health and Revenue Support Grant; and
- Authorities will be able to increase Band D Council Tax up to 2% for the basic element in line with the referendum limit for 2020/21.

Consultation with Government was underway based on distribution of the additional social care grant. However, initial indications are that the Authority would receive additional social care funding of £4.300m in 2020/21.

The Authority is experiencing an incredibly difficult period and it is faced with relentless pressure on reduced budgets and the aim of the proposals presented were to protect essential services and make sure that the Authority operates as efficiently as possible to provide excellent value for money for local taxpayers.

The Sub-group acknowledged that it was a difficult activity to draft a budget based on many assumptions due to elements outside the Authority's control. However, it was encouraged during the detailed explanation of all the assumptions in presentation that the outcome of the proposed 2020/21 Budget was predicted to be a balanced Budget.

Housing Revenue Account

Through the information presented the sub-group was reminded that the Housing Revenue Account (HRA) was a ring-fenced account and that all the rent and charges collected must be spent on managing and maintaining the housing stock.

As of 1 April 2019, there were 14,637 Council homes, 800 leasehold properties and circa 1,600 garages.

The sub-group was informed that following the changes in 2012 when Central Government transferred HRA debt to Local Government, North Tyneside debt levels rose from £162m to £290m. At this time this was £20m over the debt cap and the Authority was granted special provision to exceed the debt cap. It was noted that the Cabinet had agreed to repay a proportion of the debt to bring the overall debt below the level of the cap which was anticipated to be £250.216m at the end of March 2020.

The Government removed the HRA borrowing cap, in its October 2018 Spending review, that allows Authority to determine the level of unsupported borrowing it wishes to undertake to fund new build, in line with the Prudential Code. It was noted that work had been underway to review the approach to debt management in the HRA and at this stage it was not proposed for the Authority's approach to be changed at this stage.

The Authority continues work on the implications of the significant challenges in housing terms from the Welfare Reform and Work Act 2016, particularly Universal Credit. The big change for 2020/21 is to the Government policy to reduce rent by 1% for 4 years will end for all housing stock and from April 2020 social rents will return to the previous policy of being based on Consumer Prices Index (CPI) plus 1% for at least 5 years.

On 1 April 2019 the Housing Property and Construction Service within Environment, Housing and Leisure was established and as part of the project to return the service to the Authority a Benefits Realisation plan identifying and capturing the key benefits and savings arising was set up.

Savings from the return of the service would provide opportunities to either accelerate planned investment in the existing stock, or to invest in new stock as appropriate.

The budget proposals contained the first set of benefits to be accrued to the HRA, with the first set of benefits seeing an additional £1.500m per annum in revenue savings realised and built into the HRA Business Plan.

It is also forecast that £1.400m of further savings would be achieved in Investment Plan spend.

A full review of the Authority's Housing Asset Management Plan had been undertaken and further work was also being undertaken to establish the potential for further longer-term benefits and savings.

It was noted that there is uncertainty around what the impact Brexit might have on the debt position especially if interest rates went up considerably contradictory to external Treasury Management advice and borrowing rates shifted significantly.

The sub-group agreed that it was prudent that Cabinet monitors the economic trend and give consideration to change its borrowing policy if sensible to do so.

Efficiency Savings

The sub-group received business cases that detailed the efficiency saving proposals for 2020/21:

Business Case	Value £000's	FTE Impact 20/21
Contractual Changes	**-360**	**0**
Reduced recycling costs and avoidance of operational costs	**-100**	**0**
Increase charges to the Trading Company	**-5**	**0**
Loan interest from Aurora Properties (Sales) Ltd	**-230**	**0**
Income arising from the project management of HIF projects	**-25**	**0**
Expenditure Reduction	**-28**	**0**
Cease the use of School Development Partners	**-28**	**0**
Income growth	**-100**	**0**
Increase the charge of SLA to schools	**-100**	**0**
Service Provision – Commissioning	**-67**	**-1.6**
Changes to service provision within Commissioning Service & Strategic Property	**-67**	**-1.6**
Corporate	**-250**	**0**
Reduction of interest costs through effective Treasury Management	**-250**	**0**
Grand Total	**-805**	**-1.6**

6 Business Cases

The sub-group considered the Business Cases in detail, that were proposed would deliver the required efficiencies.

6.1 Effective Treasury Management/Corporate Resources (saving £250k)

This proposal would generate savings by continued review of the maturity structure of Authority debt

By ensuring the Authority's Treasury functions are effective new debt and taking the most advantageous new debt would be taken for a term that would deliver most saving over various terms ranging from 1 and 50 years.

6.2 Provision of School Development Services (£28k)

This proposal involved ending the contracting of external School Development Partners to carry out specific school development projects.

Projects would be delivered by a skilled team of staff from within the Authority with differing backgrounds and who will offer a range of effective interventions and would provide a universal offer for schools and a more bespoke offer to individual schools depending on their needs.

6.3 Commissioning and Asset Management – Application of Fees and Charges Policy (£100k)

This proposal was to increase the Service Level Agreement charges in line with the Fees and Charges Policy by £100k for Catering and Cleaning Services.

The increase was in line with staff and food cost increases and the service would aim to secure additional new business in both catering and cleaning services inside and outside of the Authority to support the target saving.

6.4 Commissioning and Asset Management – How we are Organised (£67k)

This proposal was a direct saving as a change in service a resource reduction as a result of the organisation restructures. The savings would be realised through the voluntary reduction of 1 FTE post on Strategic Property and 0.6 FTE on the Commissioning Service.

6.5 HIF Project Management (£25k)

This proposal would realise income arising from project management of HIF (Housing Infrastructure Fund) projects at the Killingworth Moor and Murton Gap.

6.6 Materials Recycling Contract: Recycling Costs (£100k)

As part of the responsibility of providing householder refuse kerbside collection in the Borough. This proposal outlined new contract arrangements that would realise savings in the separation of recycling materials and finding markets to secure value for it.

The Authority would work with the new contractor to extend the types of material that can be recycled to minimise waste. There would be no impact for customers.

6.7 Trading Companies (£235k)

This proposal saw the intention to increase charges made by the authority to the Trading Companies in respect to Technical and Project Management Services by 2.5% above annual inflation.

It would also see Interest income from loans made by the Authority to Aurora Properties (Sales) Ltd to enable the construction of properties and outright market sale.

6.8 Budget Engagement

North Tyneside Council had made the commitment to include residents and other key stakeholders an opportunity to be involved in helping to shape decision making in relation to the Financial Planning and Budget process.

The overall approach gave the public the opportunities to have their say throughout the year, through a series of different methods, including engaging with the Elected Mayor, Cabinet and ward members through the Mayor's Listening Events and Community Conversations as well as a broad range of both on-line and face to face engagement or consultation exercises on different key issues such as the Resident's Survey.

Budget engagement activity for the 2020/21 Budget undertaken provided clear information about the Financial Planning and Budget process in Autumn edition of the Our North Tyneside magazine.

Information about Cabinet's initial budget proposals in November 2019 was published online via the Council's website and at front line locations including the Community Conversation corners in the four Customer First centres. This was accompanied by a questionnaire to provide opportunities for people to give their feedback either via the website, e-mail or through social media.

Face to face engagement sessions with lead officers during November/December 2019, with four drop-in events (one at each of the Customer First Centres) and Members of the Residents Panel were invited to attend 3 sessions throughout December 2019 which provided a number of them with further context to the budget setting process, enable them to listen to the proposals and to provide feedback.

Targeted events were held for key stakeholder groups including: Staff Panel, businesses, schools, young people, community and voluntary sector, Trade Unions, North Tyneside Strategic Partnership, older people and carers.

6.9 Investment Plan

The initial draft 2020/25 Investment Plan for the General Fund included expenditure of £30.180m in 2020/21, of which £11.527m (38%) was to be funded through grants and other external funding contributions.

There were several projects that were going through the investment gateway process and where bids had been made for external funding. These included Murton Gap infrastructure, Highway Maintenance Challenge Fund and Transforming Cities. The projects would be added to the plan once external funding was secured.

7 Conclusions

The risk and uncertainty to have final budget proposals due to delay in the spending review, financial settlement, Brexit and General Election only increases difficulty for Local Government to plan effectively.

The Sub-group acknowledged that it was a difficult activity to draft a budget based on many assumptions due to elements outside the Authority's control. However, it was encouraged during the detailed explanation of all the assumptions in presentation from officers that the outcome of the proposed 2020/21 Budget was a balanced Budget.

The Sub-group was reassured that there were no compulsory job losses associated to the 2020/21 budget proposals.

The Sub-group was encouraged that the benefits from decision to insource the Housing Property and Construction Service would realise an additional £18.4m to invest in the service over the next 4 years (revenue) and 5 years (capital).

In relation to the refreshed Our North Tyneside Plan the sub-group noted the inclusion of the two key policy developments in relation to the declaration of a climate emergency and the role of the North of Tyne Combined Authority. It also was encouraged that as part of the 15-year Ambition for North Tyneside" Plan saw the continuation of regeneration across the Borough such as the creation of the Master Plan for North Shields.

Again, in relation to the priority to provide a clean, green, healthy and safe environment the sub-group was reassured that the Council was being proactive by responding to the Government Consultation on Future Homes Standard by making suggestions to make changes to building regulations to ensure greater home insultation and the requirement to install electric charging points in new homes.

As the developer in building new Council homes it hoped that the Authority would lead the way and become an exemplar provider by including a range of energy efficient technologies that would support the reduction of carbon footprint of the Authority.

The sub-group were also informed that the Cabinet Member responsible for Environment and Transport was with officers developing of the plan to deal with the climate emergency and recommends that scrutiny offers its help in the development of the plan.

Members of the sub-group also raised that it hoped that consideration would be made by Cabinet on further ways to generate income and savings for residents and businesses through e-advertising and methods to generate off grid electricity production.

The sub-group was encouraged that the Councils was utilising its community hubs by investing and refurbishing the hubs to bring the third sector and Police services into the Wallsend Community First Centre.

8 Presenting Officers

The following officers presented to the sub-group:

Claire Emmerson - Senior Manager Financial Planning and Strategy
Jacqueline Laughton - Head of Corporate Strategy and Customer Service
Mark Longstaff - Head of Commissioning and Asset Management
Philip Scott - Head of Environment, Housing & Leisure
David Griffiths - Interim Assistant Director for Education, Learning & Skills

9 Background Information

The following documents have been used in the compilation of this report and may be inspected at the offices of the author:

2020-2024 Financial Planning and Budget Process: Cabinet's Initial Budget proposals

The group met on the 19 December where Senior Officers presented the 2020/24 Business Cases under the headings of:

1. Effective Treasury Management/Corporate Resources
2. Provision of School Development Services
3. Commissioning and Asset Management – Application of Fees and Charges Policy
4. Commissioning and Asset Management – How we are Organised
5. HIF Project Management
6. Materials Recycling Contract: Recycling Costs
7. Trading Companies

Glossary of Terms

Asset Management Strategy	Asset Management Strategy is a high-level document that guides the overall investment in existing and new assets within an organisation. Being a strategy, it explores long term issues and ensures that the overall plan is linked to the key "strategic" priorities of the organisation.
Authorised Limit	Borrowing is prohibited beyond this limit. This limit reflects the level of borrowing that, while not desired or sustainable, could be required with some headroom for unexpected cash flow movements. It includes both temporary borrowing for cash flow purposes and long-term borrowing to finance capital expenditure.
Balances	The reserves of the Authority, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short-term interest rates in the money markets.
Better Care Fund (BCF)	A pooled Budget arrangement between the Authority and the local Clinical Commissioning Group, which aims to bring greater integration between health and social care.
B/Fwd	The balance in the Statement of Accounts that has been brought forward from the previous period, normally the previous financial year.
Borrowing	Refers to external borrowing.
Brexit	The potential departure of the United Kingdom from the European Union.
Budget	A plan of expected expenditure and income over a set period of time for example the Authority's revenue Budget covers a financial year.
Budget Holder	A nominated officer in a Service area who has responsibility for the control and monitoring of a particular Budget.
Budget Manager	A nominated officer in a Service area who has responsibility for the control and monitoring of the budgets within a service area.
Budget Monitoring	The analysis and reporting of expenditure/ income against budget. Budget monitoring is carried out by Service area alongside the Finance Service on a monthly basis.
Budgetary Control	The use of budget monitoring information to manage the Budget and bring spend in on target for the year.
Business Rates	Business Rates also known as Non Domestic Rates (NDR) is a charge levied upon all non-domestic properties. The rateable value of non-domestic premises is determined by the Valuation Office Agency (part of the Inland Revenue). This rateable value is multiplied by a national multiplier (set each year by central Government) to arrive at the gross annual amount each business must pay. This can be reduced by reliefs, dependent on the size and circumstances of the business, to arrive at the net amount payable. Business Rate Retention Regulations were introduced in April 2013. These determine the proportion of Business Rates retained by Local Authorities and its preceptors, or transferred to Central Government.
Capital Financing	The resources required to fund capital payments e.g. • borrowing • the application of useable capital receipts • a direct charge to revenue

	• the application of a capital grant or contribution.
Capital Financing Requirement (CFR)	This measures the Authority's underlying need to borrow for a capital purpose. It is a calculation of capital costs less funding from capital receipts, grants and contributions to give the balance to be funded by borrowing. The Authority needs to ensure that over the medium-term net borrowing does not exceed the CFR. The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code.
Capital Investment / Expenditure	The total amount spent on capital including all those items capitalised under statute e.g. equal pay and grants to third parties.
C/Fwd	The balance in the Statement of Accounts that is "carried forward" to a future period, normally the next financial year.
CIPFA	Chartered Institute of Public Finance and Accountancy, which is the leading accountancy body for public services.
CCG	Clinical Commissioning Group – an NHS body which commissions community and hospital-based healthcare for a local area.
Consumer Price Index (CPI)	The index has been designed as a macro-economic measure of consumer price inflation. The official measure is calculated each month by taking a sample of goods and services that a typical household might buy, including food, heating, household goods and travel costs. It forms the basis for the Government's inflation target, which the Bank of England's Monetary Policy Committee is required to achieve.
Contingencies	Sums set aside as a provision for liabilities which may arise in the future, but which cannot be determined in advance.
Cost Centre	A code created in General Ledger to record expenditure and income for a particular activity. For example, a library or a school.
Council Tax	The main source of local taxation for local authorities. It is a banded property tax (using 1 April 1991 property values), which is levied on households within its area by the billing authority and is set annually for the properties in its area. Council Tax income is paid into the billing authority's Collection Fund for distribution to precepting authorities and for use by the billing authority's own General Fund.
Counterparty	The organisations responsible for repaying the Authority's investment upon maturity and for making interest payments.
Credit Default Swap (CDS)	These contracts reflect the market perception of an institution's credit quality unlike credit ratings, which often focus on a longer-term view. CDS contracts can be compared with insurance, as a buyer of a CDS pays a premium insuring against a debt default.
Credit Rating	This is a scoring system that lenders use and publish to determine how credit worthy individuals and businesses are.
DCLG	Department for Communities and Local Government.
Debt	The sum of borrowing and other long-term liabilities.
Debt Management Office (DMO)	Debt Management Office (DMO) is the executive agency responsible for carrying out UK Government's debt management.
Depreciation	The gradual conversion of the cost of an asset into an operational expense over the asset's estimated useful life. Depreciation reflects a reduction in the book value of the asset due to obsolescence or wear and tear and it spreads the purchase cost proportionately over a fixed period to match the income generated by the asset.
DfE	Department for Education.

DWP	Department for Work and Pensions.
External debt	All borrowing, whether for capital or revenue purposes.
Fees and Charges	Income arising from the provision of a service.
Financial Regulations	Rules that set out the financial policies of the Authority and help to ensure that the assets of the Authority are protected and properly deployed.
Financial Year	1 April to 31 March.
Forecast Out-turn	A prediction of the final income and expenditure based at the year-end.
General Ledger (GL)	The prime financial record for the Authority. The General Ledger records all the expenditure incurred and all the income generated by the Authority.
Gilts	The UK Government issues gilts in order to finance public expenditure. They are generally issued for a set period and pay a fixed rate of interest for this period.
Holding Accounts	These are accounts within the General Ledger relating to a specific building or service (internal to the Authority) where costs are collected then shared out to the users of the building or service.
Housing Revenue Account (HRA)	Those authorities with a council-owned housing stock have a duty to maintain an additional account called the Housing Revenue Account (HRA).The HRA specifically accounts for spending and income relating to the management and maintenance of the council-owned housing stock. By law it must be kept separate from other Authority accounts.
IFRS	International Financial Reporting Standards – the basis on which the Authority's accounts are prepared from 2010/11 onwards.
IBCF	Improved Better Care Fund is a Grant paid directly to Local Authorities to support Adult Social Care in ways, which also benefit Health. This was paid for the first time in 2017/18 and continues into 2020/21.
Journal Transfer	A journal transfer is used to correct miscoded transactions or to allocate costs/income within or across Service areas in the General Ledger.
Lenders Option Borrowers Option (LOBOs)	A form of long-term borrowing where loans run at a fixed rate of interest for a fixed period, after which the Lender has the option to ask for repayment or change the interest rate on pre-determined dates. If the Lender decides to exercise the option to change the interest rate, the borrower can then decide whether to accept the new terms or repay the loan.
LGPS	Local Government Pension Scheme.
Local Government Finance Settlement	The Local Government Finance Settlement is the annual distribution of funding determined by the Government and debated by Parliament. It has two key elements: 1. A Provisional Local Government Finance settlement, which is normally received in December. This is then subject to a specific Government Consultation. 2. A Final Local Government Finance settlement that is normally received in late January / early February after the Government has had time to consider the representations made to the Provisional Local Government Finance Settlement.

Long Stop Control	The Secretary of State may, by direction, set limits in relation to the level of borrowing of money by a particular local authority to ensure that the authority does not borrow more than it can afford.
Long term	A period of one year or more.
Major Repair Allowance (MRA)	Before Self Financing was introduced in April 2012, the rent payable across to Central Government as part of subsidy was calculated taking into account several factors including a major repairs allowance, which was intended to ensure that councils retained sufficient money to be able to maintain their housing assets.
Maturity	The date when an investment or loan is repaid, or the period covered by a fixed term investment or loan.
MHCLG	Ministry of Housing, Communities and Local Government
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation within plus or minus 1% of a central target of 2% in two years' time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Money Market	This is where financial instruments are traded. Participants use it as a means for borrowing and lending in the short term, with maturities that usually range from overnight to just under a year.
Minimum Revenue Provision (MRP)	Minimum Revenue Provision (MRP) is statutory requirement to make a charge to the Council's General Fund to make provision for the repayment of the Council's past capital debt and other credit liabilities
National Living Wage	The National Living Wage is an obligatory minimum wage payable to workers in the United Kingdom aged over 25, which came into effect on 1 April 2016.
Net Revenue Stream	This is the net revenue Budget.
Operational Boundary	This is the most likely, prudent view of the level of gross external indebtedness. External debt includes both borrowing and long-term liabilities (e.g. finance leases and PFI), with separate boundaries having to be identified for each of these. It encompasses all borrowing, whether for capital or revenue purposes.
Other Long Term Liabilities	The sum of the amounts on the face of the Balance Sheet that are classified as liabilities and are for periods in excess of 12 months, other than borrowing repayable within a period in excess of 12 months e.g. finance leases, PFI and Longbenton transferred debt.
"Pay to stay"	Pay to Stay was the name of a government policy in the United Kingdom whereby council tenants earning £30,000 (£40,000 in London) would have to pay "market or near market rents".
PFI	The private finance initiative is a way of creating "public–private partnerships" by funding public infrastructure projects with private capital.
Precept	The levy determined by precepting authorities on billing authorities. It requires the billing authority to collect income from council taxpayers on their behalf. In the case of North Tyneside Council, the precepting authorities are the Police and Crime Commissioner for Northumbria and the Tyne and Wear Fire and Rescue Authority.

Profiling	A method by which budgets are spread across the year to reflect patterns of spend.
Projections	A forecast of expenditure and income to the year-end based on known commitments and trends.
Prudential Borrowing	See Unsupported borrowing.
Prudential Code	The current system of financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate within.
Public Works Loan Board (PWLB)	Part of the Government's Debt Management Office, making long-term funds available to local authorities on prescribed terms and conditions.
Quantitative Easing	The printing of money by the country's central bank in order to increase the supply of money.
Reprogramming	Refers to changes to the timing of projects in the Investment Plan between years.
Reserves	Amounts which are set aside in the accounts to meet expenditure which the Authority may decide to incur in a future period, but which are not allocated to specific liabilities that are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as 'balances', and usually arise as unplanned surpluses of income over expenditure. This will include the House Building Fund, Strategic Reserve, Insurance Reserve and the Support Change Fund Programme.
Revenue Expenditure	Expenditure on the day-to-day running costs of a service for example employees and transport.
Revenue Support Grant (RSG)	A central government grant paid to each local authority to help to finance its general expenditure, as opposed to specific grants.
Right to Buy	The Right to Buy scheme is a policy in the United Kingdom (with the exception of Scotland since August 1st 2016) which gives secure tenants of councils and some housing associations the legal right to buy, at a large discount, the council house they are living in
RPI – Retail Price Index	The Retail Price Index (RPI) is published on a monthly basis and it shows the changes in the cost of living. It reflects the movement of prices in a representative sample of goods and services used regularly, such as food, housing, clothing, household goods and transport. Items considered the most important are given a higher weighting in the overall index.
S256 agreements	Legal agreements that allow Health to transfer money to Local authorities using powers listed under Section 256 (s256) of the Health & Social Care Act
Self-Financing	Housing Revenue Account (HRA) self-financing commenced in April 2012. Local housing authorities from this date were able to fully retain the money they received in rent in order to plan and provide services to their current and future tenants and in return took on a level of historical debt.
SEN	The term 'special educational needs' has a legal definition, referring to children who have learning problems or disabilities that make it harder for them to learn than most children of the same age.
Service Area	Groups of related cost centres.
Settlement Funding Assessment	For individual local authorities, this comprises of the Revenue Support Grant for the year in question and the Baseline Funding Level.

Short-term	A period of less than one year.
SLT	Senior Leadership Team – this includes the Chief and Deputy Chief Executive and all Heads of Service.
Subjective	A subjective is a code within the General Ledger that indicates the type of expenditure incurred, for example basic pay. A subjective can also be used to record the type of income generated, for example rents and fees.
Supported Borrowing	This is borrowing to fund expenditure in the Investment Plan where the annual financing costs of such borrowing are supported by government through formula grant. No new supported borrowing has been awarded since 2010/11.
Trading Account	These accounts within the General Ledger hold the values of both the cost and income of a traded or recharged service e.g. cleaning or transport. Customers can be internal or external to the Authority.
Transitional Protection	North Tyneside agreed that for those tenants who were already residents of an NTC sheltered property at the point of the Sheltered Housing PFI works would have their rent held at the level they paid before the investment.
Treasury Management	The management of the Authority’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
Unitary charge	A PFI contract bundles the payment to the private sector as a single ('unitary') charge for both the initial capital spend and the ongoing maintenance and operation costs.
Universal Credit	Universal Credit is a social security benefit in the United Kingdom introduced in 2013 to replace six means-tested benefits and tax credits: income based Jobseeker's Allowance, Housing Benefit, Working Tax Credit, Child Tax Credit, income based Employment and Support Allowance and Income Support.
Unsupported Borrowing	This relates to borrowing to fund expenditure where the annual financing costs have to be met from the Authority’s own revenue resources. This is also known as prudential borrowing.
Variance	The difference between net budgeted expenditure and income compared to net actual expenditure and income i.e. the actual or predicted overspend or underspend against Budget.
Virement	A transfer of budgets from one area of the Budget to another.
Yield	Return on an investor’s capital investment.
Yield Curve	Graph plotting the yield of all bonds of the same credit quality with maturities ranging from the shortest to the longest available. If the resulting curve shows that short-term yields are lower than longer-term yields then it is called a positive yield curve. If short-term yields are higher than longer-term yields it is called an inverted yield curve. If there is little difference between short and long-term yields, then it is a flat yield curve.